

Basic Financial Statements, Supplementary Schedules and  
Report of Independent Certified Public Accountants  
(With Management's Discussion and Analysis)

**NASSAU HEALTH CARE CORPORATION**  
(A Component Unit of the County of Nassau, New York)

December 31, 2015

**NASSAU HEALTH CARE CORPORATION**  
**(A Component Unit Of The County of Nassau, New York)**

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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Directors

### **Nassau Health Care Corporation**

We have audited the accompanying financial statements of Nassau Health Care Corporation (“NHCC”), a component unit of the County of Nassau, New York, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise NHCC’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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nassau Health Care Corporation as of December 31, 2015, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 2 to the financial statements, in 2015, NHCC adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

### **Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and the required supplementary information on pages 40 and 41 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. These limited procedures 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.

### **Supplemental Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise NHCC's basic financial statements. The accompanying combining information included on the supplemental schedules on pages 42 through 44 are presented for purposes of additional analysis and are not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.



New York, New York  
June 14, 2016

**NASSAU HEALTH CARE CORPORATION**  
**(A Component Unit Of The County of Nassau, New York)**  
**Management's Discussion and Analysis (Unaudited)**  
**Year ended December 31, 2015**  
**(In thousands)**

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This Management's Discussion and Analysis (MD&A) of Nassau Health Care Corporation (the "Corporation" or "NHCC") provides an introduction to the basic financial statements for the year ended December 31, 2015, with selected comparative information for the year ended December 31, 2014. Management prepared this MD&A, which is intended to look at the Corporation's financial performance as a whole. It 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 year. The Corporation's net position can be thought of as the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources and is one way to measure the Corporation's financial health. Net position is displayed in three components: net investment in capital assets, restricted and unrestricted.

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**Condensed Financial Information - Net Position**

	<u>2015</u>	<u>2014</u>	<u>2015-2014 Dollar Change</u>	<u>2015-2014 Percentage Change</u>
<b>Assets</b>				
Current assets	\$ 160,027	\$ 173,918	\$ (13,891)	(8)%
Capital assets	181,278	187,374	(6,096)	(3)
Other assets	<u>64,327</u>	<u>51,026</u>	<u>13,301</u>	<u>26</u>
Total assets	<u>\$ 405,632</u>	<u>\$ 412,318</u>	<u>\$ (6,686)</u>	<u>(2)%</u>
<b>Deferred outflows of resources</b>	<u>\$ 53,176</u>	<u>\$ 50,169</u>	<u>\$ 3,007</u>	<u>6 %</u>
<b>Liabilities</b>				
Current liabilities	\$ 180,430	\$ 135,715	\$ 44,715	33 %
Long-term portion of debt	216,235	229,945	(13,710)	(6)
Other long-term liabilities	<u>553,935</u>	<u>512,870</u>	<u>41,065</u>	<u>8</u>
Total liabilities	<u>\$ 950,600</u>	<u>\$ 878,530</u>	<u>\$ 72,070</u>	<u>8 %</u>
<b>Net position</b>				
Net investment in capital assets	\$ 115,215	\$ 118,841	\$ (3,626)	(3)%
Restricted	1,096	2,936	(1,840)	(63)
Unrestricted	<u>(608,103)</u>	<u>(537,820)</u>	<u>(70,283)</u>	<u>(13)</u>
Total net position	<u>\$ (491,792)</u>	<u>\$ (416,043)</u>	<u>\$ (75,749)</u>	<u>(18)%</u>

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**(A Component Unit Of The County of Nassau, New York)**  
**Management's Discussion and Analysis (Unaudited)**  
**Year ended December 31, 2015**  
**(In thousands)**

**Condensed Financial Information (continued) - Revenues, Expenses, and Changes in Net Position**

	<u>2015</u>	<u>2014</u>	<u>2015-2014 Dollar Change</u>	<u>2015-2014 Percentage Change</u>
<b>Operating revenues</b>				
Net patient service revenue	\$ 440,790	\$ 490,047	\$ (49,257)	(10)%
Other revenue	<u>55,096</u>	<u>54,988</u>	<u>108</u>	<u>-</u>
Total operating revenues	<u>495,886</u>	<u>545,035</u>	<u>(49,149)</u>	<u>(9)%</u>
<b>Operating expenses</b>				
Salaries	250,612	242,514	8,098	3 %
Employee benefits	109,809	122,380	(12,571)	(10)
Supplies and other expenses	138,538	143,748	(5,210)	(4)
Depreciation	<u>21,352</u>	<u>20,632</u>	<u>720</u>	<u>3</u>
	<u>520,311</u>	<u>529,274</u>	<u>(8,963)</u>	<u>(2)</u>
(Loss) income before OPEB expense	<u>(24,425)</u>	<u>15,761</u>	<u>(40,186)</u>	<u>(255)</u>
Employee benefits - OPEB	<u>34,045</u>	<u>33,189</u>	<u>856</u>	<u>3</u>
Operating loss	(58,470)	(17,428)	(41,042)	(235)
<b>Nonoperating activities, net</b>	(13,406)	(12,243)	(1,163)	(9)
<b>Capital contributions</b>	<u>1,081</u>	<u>593</u>	<u>488</u>	<u>82</u>
Decrease in net position	(70,795)	(29,078)	(41,717)	(143)
<b>Net position</b>				
Beginning of year	(416,043)	(386,965)	(29,078)	(8)
GASB 68 adoption adjustment - January 1, 2015	<u>(4,954)</u>	<u>-</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ (491,792)</u>	<u>\$ (416,043)</u>	<u>\$ (75,749)</u>	<u>(18)%</u>

**NASSAU HEALTH CARE CORPORATION**  
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**Management's Discussion and Analysis (Unaudited)**  
**Year ended December 31, 2015**  
**(In thousands)**

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**Financial Analysis of the Corporation (in thousands of dollars)**

During 2015, the Nassau Healthcare Corporation generated an Operating Loss before OPEB of approximately \$24,425.

The Corporation's finances were negatively impacted by year-over-year funding reductions that totaled \$42,500. This total was comprised of: a \$14,200 reduction in the Intergovernmental Transfer Payment ("IGT") for the NYS Disproportionate Share Hospital Program ("DSH") and the Indigent Care Adjustment ("ICA"); the termination of the \$13,000 mission payment from Nassau County; expiration of \$10,300 of the Healthcare Efficiency and Affordability Law ("HEAL") grant from New York State; and a \$5,000 reduction of combined Interim Access Assurance Funding ("IAAF") and Delivery System Reform Incentive Payment ("DSRIP") funding from New York State. A significant portion of the IGT DSH reduction was attributable to a negative adjustment for payments received during 2012.

IAAF funding was granted to assist with sustaining key health services during the development of proposals for systems of integrated services delivery to be implemented under the five-year DSRIP program. DSRIP is a mechanism for states to distribute Medicaid funds to hospitals, intended to transform the state's healthcare system in order to assure continued access to quality care. During 2014, \$26,000 of IAAF funding was recognized as revenue by NHCC. During 2015, \$11,000 of additional IAAF revenue, as well as \$10,000 of first-time DSRIP funds, was recorded. The ultimate amount of DSRIP funding received by NHCC is dependent on certain regulatory approvals as well as the ability of the Nassau Queens Performing Provider System ("NQP"), of which NHCC is the lead organization, to meet certain program benchmarks on a quarterly basis over the life of the program.

Delays in opening a new Primary Care Clinic at the Nassau University Medical Center and a significant reduction in the number of residents at the A. Holly Patterson Extended Care Facility contributed to the Corporation's financial challenges during 2015. The Primary Care Clinic ultimately opened in April 2016 and efforts are currently underway to increase the number of residents served by the extended care facility.

The \$42,500 of losses described above had a significant impact on NHCC's financial results in 2015. However, corrective actions taken by the Corporation, as well as required changes to accounting for pension expense, resulted in a loss before OPEB that was significantly less than the full amount of lost revenues described above.

The 2015 operating loss before OPEB expenses was \$24,425. After the inclusion of OPEB expenses, the Corporation's operating loss was \$58,470. OPEB reflects the future liability for retirees' health insurance and is presented separately from day-to-day operations.

During 2015, the Corporation was required to implement Governmental Accounting Standards Board ("GASB") Statement Number 68 - "Accounting and Financial Reporting for Pensions." Implementing the requirements of GASB 68 had the effect of reducing the beginning 2015 Net Position and reducing 2015 pension expense for a cumulative increase to Net Position (see Notes 2 and 7 to the financial statements).



**NASSAU HEALTH CARE CORPORATION**  
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**Management's Discussion and Analysis (Unaudited)**  
**Year ended December 31, 2015**  
**(In thousands)**

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**Operating Activities**

**Net Patient Service Revenue**

Total net patient service revenue of \$440,790 for the year ended December 31, 2015 decreased \$49,257 (10%) from the prior year. This decrease primarily resulted from the funding reductions described above.

**Other Operating Revenue**

Other operating revenue of \$55,096 for the year ended December 31, 2015 was unchanged from the prior year.

**Expenses**

Total operating expenses before OPEB expense of \$520,311 for the year ended December 31, 2015 decreased \$8,963 from the prior year.

Accounting changes required by GASB 68 drove the \$12,571 decrease in employee benefits. Supplies and other expenses decreased \$5,210. These decreases more than offset the \$8,098 increase in salaries which resulted from the four percent contractual salary increase for union employees effective January 1, 2015.

The Corporation recorded unfunded other postemployment benefit expense of \$34,045 and \$33,189 in 2015 and 2014, 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 2015, the Corporation purchased \$15,258 in capital assets and incurred \$21,352 in depreciation expense. In 2015, the Corporation received \$1,081 of capital grants, which are restricted for capital projects.

During 2014, the Corporation purchased \$19,366 in capital assets, incurred \$20,632 in depreciation expense and received \$593 of capital grants.

**Debt**

During 2015 and 2014, the Corporation made principal and interest payments on its outstanding bonds of approximately \$25,300 and \$16,800, 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, New York 11554.

**NASSAU HEALTH CARE CORPORATION**  
**(A Component Unit Of The County of Nassau, New York)**  
**Statement of Net Position**  
**December 31, 2015**  
**(In thousands)**

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**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 31,716
Patient accounts receivable, net	43,116
Inventories	7,355
Prepaid expenses	1,377
Other receivables	43,675
Assets restricted as to use, required for current liabilities	<u>32,788</u>
Total current assets	160,027

Assets restricted as to use, net	39,493
Capital assets, net	181,278
Other assets	<u>24,834</u>
Total assets	<u>\$ 405,632</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred change in fair value of interest rate swaps	\$ 9,849
Deferred charge on refunding	36,200
Pension related	<u>7,127</u>
Total deferred outflows of resources	<u>\$ 53,176</u>

**LIABILITIES**

**CURRENT LIABILITIES**

Due to County	\$ 8,000
Current portion of long-term debt	13,710
Accounts payable and accrued expenses	41,474
Accrued salaries and related withholdings	11,667
Current portion of post retirement health insurance liability	8,727
Current portion of vacation and sick leave	6,145
Current portion of estimated self-insurance liability	8,000
Current portion of accrued pension benefits	29,244
Current portion of estimated liability to third-party payors, net	5,002
RAN and other current liabilities	47,643
Accrued interest payable	<u>818</u>
Total current liabilities	180,430

Long-term debt	216,235
Estimated liability to third-party payors, net	32,713
Estimated post retirement health insurance liability	339,151
Estimated self-insurance liability	58,668
Estimated fair value of interest rate swap agreements	30,178
Accrued vacation and sick leave	55,315
Accrued pension benefits	<u>37,910</u>
Total liabilities	<u>\$ 950,600</u>

**Commitments and contingencies**

Net position	
Net investment in capital assets	115,215
Restricted	1,096
Unrestricted	<u>(608,103)</u>
Total net position	<u>\$ (491,792)</u>

*The accompanying notes are an integral part of this financial statement.*

**NASSAU HEALTH CARE CORPORATION**  
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**Statement of Revenues, Expenses and Changes in Net Position**  
**December 31, 2015**  
**(In thousands)**

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OPERATING REVENUE	
Net patient service revenue (net of the provision for bad debts of \$37,059)	\$ 440,790
Other revenue	<u>55,096</u>
Total operating revenues	<u>495,886</u>
OPERATING EXPENSES	
Salaries	250,612
Employee benefits - pension	24,114
Employee benefits - other	85,695
Supplies and other expenses	138,538
Depreciation and amortization	<u>21,352</u>
	<u>520,311</u>
Loss before OPEB expenses	<u>(24,425)</u>
Employee benefits - OPEB expenses	<u>34,045</u>
Operating loss	<u>(58,470)</u>
NONOPERATING ACTIVITIES	
Interest income	1,058
Interest expense	<u>(14,464)</u>
Total nonoperating activities, net	(13,406)
Capital contributions	<u>1,081</u>
Decrease in net position	(70,795)
Beginning of year	(416,043)
GASB 68 adoption adjustment - January 1, 2015	<u>(4,954)</u>
End of year	<u>\$ (491,792)</u>

*The accompanying notes are an integral part of this financial statement.*

**NASSAU HEALTH CARE CORPORATION**  
**(A Component Unit Of The County of Nassau, New York)**  
**Statement of Cash Flows**  
**Year ended December 31, 2015**  
**(In thousands)**

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from patients and third-party payers	\$ 444,620
Cash received from other operating revenue	16,688
Cash paid to employees	(368,126)
Cash paid to suppliers	<u>(114,433)</u>
Net cash used in operating activities	<u>(21,251)</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Cash paid for interest	(8,136)
Payment of debt	(13,005)
Revenue anticipation notes and other current liabilities	<u>48,461</u>
Net cash provided by noncapital and related financing activities	<u>27,320</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	(15,258)
Cash paid for interest, net of amounts capitalized	(4,192)
Grants for capital asset acquisitions	<u>1,081</u>
Net cash used in capital and related financing activities	<u>(18,369)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Net change in restricted cash and cash equivalents	(41,259)
Cash received from interest	<u>1,058</u>
Net cash used in investing activities	<u>(40,201)</u>
Net decrease in cash and cash equivalents	(52,501)
Cash and cash equivalents, beginning of year	<u>84,217</u>
Cash and cash equivalents, end of year	<u>\$ 31,716</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</b>	
Operating loss	\$ (58,470)
Depreciation and amortization	21,352
Changes in operating assets and liabilities	
Patient accounts receivable	10,302
Prepaid expenses and inventories	883
Other receivables and assets	(38,409)
Due from County of Nassau, New York, net	16,232
Accounts payable and accrued expenses	(3,334)
Accrued salaries, withholding, pensions, vacation and sick pay	(7,532)
Due to/from third-party payers, net	5,237
Professional and other insurance liabilities	10,324
Postemployment health insurance liability	33,872
Unearned revenue	<u>(11,708)</u>
Net cash used in operating activities	<u>\$ (21,251)</u>

*The accompanying notes are an integral part of this financial statement.*

**NASSAU HEALTH CARE CORPORATION**  
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**Notes to Financial Statements**  
**December 31, 2015**  
**(In thousands)**

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**1. ORGANIZATION**

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

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

NHCC 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; a Faculty Practice Plan (“FPP”), and co-operates with Long Island FQHC, Inc. (“LIFQHC”), five treatment centers and one school-based clinic.

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

- Nassau Health Care Foundation, Inc. (“NHCF”): NHCF was incorporated on June 24, 1964 as a type B membership corporation under the N-PCL. Prior to December 2014, the members of the Board of Directors of NHCC were automatically members of the NHCF Board of Directors. In December 2014, the NHCC Board members resigned and new independent NHCF Board members were appointed. The purpose of NHCF is to support, maintain and otherwise benefit and be responsive to the needs and objectives of the hospital, skilled nursing facility and related facilities operated by NHCC. In accordance with its mission, NHCF has been supplying non-permanent employees to NHCC through a series of agreements that reimburse NHCF for the cost of such employees. NHCF also receives support from NHCC Medical Faculty Practice Plan revenues and maintains discretionary funds that can be used by the Chairman of each NHCC department for educational and mission-related purposes. In March of 2011, NHCF applied to the Department of Labor to obtain status as a Professional Employer Organization (“PEO”) pursuant to the New York Professional Employer Act of 2003. As a result of this action, NHCF officially became a co-employer of certain NHCC employees as of May 18, 2011.

**NASSAU HEALTH CARE CORPORATION**  
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**Notes to Financial Statements**  
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**(In thousands)**

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- 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. LIMF 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 one employee. 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. Historically, NuHealth has operated NUMC and its health care centers almost exclusively with its employed physicians. An employed physician model aligns physician and health system incentives. However, as a PC, NMA can employ physicians working in community practice sites. NHCC has entered into agreements with NMA to advance funds to support the start-up and operations of NMA, subject to repayment when funds are available.
- Newco ALP, Inc. (“NewCo”): NewCo was formed on May 22, 2009 for the purpose of becoming the licensed operator of a 150-bed Medicaid Assisted Living Program (“ALP”) and a related Licensed Home Services Agency (“LHCSA”). The ALP will be a primary component of a State mandated rightsizing of AHP (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. NewCo has had no operating activities since its formation.

The financial reporting entity which results from blending NHCC and the above entities is collectively referred to as the “Corporation”

LIFQHC is an independent not-for-profit corporation formed on May 14, 2009 and established by NYSDOH on June 15, 2010, as a co-operator of the four treatment centers and a school-based clinic, previously operated solely by NHCC. LIFQHC is not considered a component unit of NHCC and accordingly, is not included in the accompanying financial statements.

**NASSAU HEALTH CARE CORPORATION**  
**(A Component Unit Of The County of Nassau, New York)**  
**Notes to Financial Statements**  
**December 31, 2015**  
**(In thousands)**

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The Corporation is considered to be a component unit of the County and is included as a discretely presented component unit in the financial statements of the County. The County provides the Corporation Article VI service payments, payments for certain health services, inter-governmental transfer (“IGT”) and various other payments throughout each year. Additionally, the County is the direct-pay guarantor of the Corporation’s Series 2009 Bonds, as well as guarantor to its swap counterparties. It is not possible to predict the effect, if any, the County’s current or future operations will have on the financial statements of the Corporation, taken as a whole.

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

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

At December 31, 2015, the Corporation had a deficit in its total net position of \$491,792 and a decrease in net position during 2015 of \$70,795. The decrease in net position during 2015 was due to the loss from operations and the postemployment benefits other than pension liability obligation (see Note 9), as well as a result of reduced funding from Nassau County and the State of New York. The Corporation is continuously striving to improve its net position by achieving profitability from income before other postemployment benefit (OPEB) expense, by continuing to progress with collecting on patient accounts, and through cash flows provided by government subsidies for the funding of capital projects (see Notes 2 and 6). The Corporation has undertaken a number of initiatives including renegotiation of commercial managed care contracts, changes to medical management practices, improved supply chain, inventory management, rightsizing of personnel and further cost reductions. During 2015, the Corporation also recognized \$11,200 from the State of New York Interim Access Assurance Fund and \$10,000 of first year DSRIP funds (see Note 2). In addition to the Corporation’s initiatives, the County is the direct-pay guarantor of the Corporation’s bonds, as well as guarantor to its swap counterparties.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Accounting**

The Corporation is considered a special-purpose government entity engaged only in business-type activities. The Corporation’s financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus and are based on accounting principles applicable to governmental units as established by the Governmental Accounting Standards Board (“GASB”) and the provisions of the American Institute of Certified Public Accountants “Audit and Accounting Guide, Health Care Entities,” to the extent that they do not conflict with GASB.

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For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and operating expenses. All other activities are reported as non-operating activities.

The accompanying basic financial statements include the Corporation's operating divisions (NUMC, AHP, and FPP) and its blended component units (NHCF, LIMF, NMA, NHCC, Ltd., and NewCo). All intercompany transactions and balances have been eliminated in combination.

**Net Position**

Net position of the Corporation is composed of three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted consists of non-capital 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. Lastly, 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, 2015.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The Corporation's significant estimates include the allowance for estimated uncollectible patient accounts receivable, estimated third-party contractual allowances, estimated third-party payor receivables and payables, self-insurance liabilities, workers' compensation liabilities, pension and post-retirement health insurance liabilities. Actual results may differ 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 restricted as to use. NHCC's cash and cash equivalents policies are governed by state statutes. 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 NHCC's third-party trustee or the pledging financial institution's trust department in the name of the NHCC, 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



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future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Patient accounts receivable result from the health care services provided by the Corporation and physicians of the clinical practices. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators.

*Medicare Reimbursement*

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

*Non-Medicare Reimbursement*

In New York State, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payers are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the NYSDOH. Effective December 1, 2009, the New York State payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments; prior to December 1, 2009, the payment system provided for retroactive adjustments to payment rates, using a prospective payment formula. Outpatient services also 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 2011. 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. Non-compliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Corporation is not aware of any allegations of non-compliance 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.

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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. No amounts have been recorded in regards to these appeals.

On March 30, 2010, the Corporation was notified that the NYSDOH was issuing rate revisions dating back to 1996 for rate issues associated with the A. Holly Patterson skilled nursing facility. 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 a liability for this matter has been recorded and included within amounts due third party payors.

**Charity Care**

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The Corporation maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for the Corporation's services and supplies furnished under its charity care policy aggregated \$58,190 for the year ended December 31, 2015. The estimated cost of charity care, estimated using a ratio of cost to gross charges, totaled \$23,433 for the year ended December 31, 2015.

**Intergovernmental Transfers**

The intergovernmental transfer ("IGT") program is a federal and locally sponsored funding mechanism to assist certain public benefit hospitals in fulfilling their mission of providing health care services to the Medicaid and the uninsured population.

The disproportionate share calculation ("DSH") is funded through IGT. The 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 recognized in net patient service revenue in 2015, exclusive of IAAF, was approximately \$39,294.

The IGT mechanism was also used to fund the Interim Access Assurance Fund ("IAAF"). In 2014 NHCC received IAAF funds in the net amount of \$37,200, of which \$11,200 was recognized in 2015.

The Corporation received IGT payments of approximately \$7,419 in 2015 and has recorded an IGT receivable of approximately \$45,394 within other receivables as of December 31, 2015. 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. The IGT receivable was realized in 2016.

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**Delivery System Reform Incentive Program**

The Corporation is leading one of the twenty-five Performing Provider Systems (“PPS”) in New York State that are implementing the Delivery System Reform Incentive Program (“DSRIP”). This PPS, known as the Nassau Queens Performing Provider System, LLC (“NQP”), was established and is owned by the Corporation and two other New York health systems. NQP is expected to receive up to \$536 million over the five year life of the DSRIP Program, which commenced April 1, 2015, subject to the satisfaction of program milestones that are measured at various stages of the DSRIP Program. In 2015, NQP received approximately \$36 million in DSRIP funds of which the Corporation recognized \$10 million in Net Patient Service Revenue in the accompanying Statement of Revenues, Expenses and Changes in Net Position. The DSRIP Program goals include more efficient and effective delivery of care to Medicaid recipients and the reduction of unnecessary emergency room visits, hospitalizations and readmissions.

**Concentration of Credit Risk**

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, 2015 are as follow:

Medicare	18 %
Medicaid	22 %
Commercial	21 %
Commercial HMO	13 %
Medicare HMO	5 %
Medicaid HMO	10 %
Self-pay and other	11 %
	<u>100 %</u>

The components of net patient service revenue consist of the following for the year ended December 31, 2015:

Services provided to patients (net of contractual allowances of approximately \$666,801)	\$ 409,337
Intergovernmental transfer - Federal	58,512
DSRIP	10,000
Provision for bad debts	<u>(37,059)</u>
	<u>\$ 440,790</u>

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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, 2015, revenue from the Medicaid and Medicare programs accounted for approximately 76% of net revenue for services provided to patients.

**Assets Restricted as to Use**

Assets restricted as to use 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, which are prepaid supplies, are carried at the lower of cost or market. Cost is determined by the first-in, first-out valuation 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 that have useful lives of more than one year. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets ranging from three to forty years. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is recorded. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

**Deferred Outflows of Resources**

Deferred outflows of resources represent the consumption of net position that applies to a future period(s) and, as such will not be recognized as an outflow of resources (expense) until then. The Corporation's items that qualify for reporting in this category include: the deferred change in fair value of the interest rate swaps resulting from the accumulated changes in the fair value of a derivative instrument (i.e., interest rate swap) that qualifies for hedge accounting as the derivative instrument is determined to be effective, and the amounts recorded in connection with the adoption of GASB Statement No. 68, Accounting and Financial reporting for Pensions - an amendment of GASB Statement No. 27. Under hedge accounting, the change in the fair value of a hedging derivative instrument is reported as a deferred inflow or deferred outflow of resources. The deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**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.

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**Professional and Other Insurance Liabilities**

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

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

**Interest Rate Swap Agreements**

The Corporation's interest rate swap agreements are considered to be derivative instruments and are reported at fair value. The change in fair value of derivative instruments is included in the accompanying statement of net position as a deferred outflow of resources (see Note 5).

**Equity Interest in Joint Venture**

The Corporation has an ongoing 6% equity interest in HealthFirst, LLC ("LLC"), a not-for-profit managed care organization sponsored by New York State hospitals. At December 31, 2015, the Corporation's equity interest in the LLC is \$16,785 and is recorded in other assets in the statement of net position. The Corporation recorded the distributions received and the increase in its equity interest in the LLC of approximately \$3,060 in other revenues in the statement of revenues, expenses and changes in net position, for the year ended December 31, 2015. The LLC is a non-governmental organization and its separate financial statements are not publically available.

**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 non-operating activities in the accompanying statement of revenues, expenses and changes in net position.

**Income Taxes**

NHCC is a public benefit corporation of the State of New York and is exempt from Federal income taxes under Section 115 of the Code. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

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NHCC's component units are exempt from income tax under Section 501(c)(3) of the Code, except NHCC's for-profit blended component unit, NMA and the Captive. Income taxes of NMA are not material to the 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.

**Adopted and Recent Accounting Pronouncements**

Effective January 1, 2015, NHCC adopted GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* an amendment of GASB Statement No. 27 and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date* - an amendment of GASB Statement No. 68 (collectively GASB 68). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. GASB 68 also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

The effect of the adoption of GASB 68 was approximately a \$4,954 reduction in net position (see note 7).

In February of 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"). This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015 and the Corporation will adopt GASB 72 for its year ending December 31, 2016.

In June of 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"). The primary objective of GASB 75 is to improve accounting and financial reporting for postemployment benefits other than pensions and replaces the requirement of GASB Statement No. 45. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. GASB 75 also identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefits payments to their actuarial present value, and attribute that present value to periods of employee service. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017 and the Corporation will adopt GASB 75 for its year ending December 31, 2018. The Corporation has not completed the process of evaluating the impact of GASB 75 on its financial statements.

In June of 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"). The objective of GASB 76 is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles. The hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles and the framework for selecting those principles. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015 and

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the Corporation will adopt GASB 76 for its year ending December 31, 2016. The Corporation has not completed the process of evaluating the impact of GASB 76 on its financial statements.

In March 2016, GASB issued Statement No. 82, Pension Issues - an amendment of GASB Statement No. 67, No. 68, and No. 73. This statement addresses issues regarding the presentation of payroll related measures, the selection of assumptions and classification of payments made by employers. The provisions of this statement are effective for reporting periods beginning after June 15, 2016 and NHCC will adopt GASB 82 for its year ending December 31, 2017.

**3. ASSETS RESTRICTED TO USE**

Assets restricted to use at December 31, 2015, consist of the following:

Cash and cash equivalents	\$ 68,278
Certificates of deposit	1,845
Mutual funds - U.S. securities	711
U.S. Treasury bills	<u>1,447</u>
Total	<u>\$ 72,281</u>

Investment income on cash and cash equivalents and restricted cash and cash equivalents consists of interest and dividend income of \$1,058 for the year ended December 31, 2015, and is included in nonoperating activities.

**4. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015 is as follows:

	2015			
	Beginning Balance	Additions	Transfers	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 12,498	\$ -	\$ -	\$ 12,498
Construction in process	25,192	10,365	(12,762)	22,795
Capital assets, being depreciated:				
Building and improvements	229,219	10	9,158	238,387
Fixed equipment	110,896	102	-	110,998
Land improvements	17,033	-	97	17,130
Moveable equipment	<u>181,510</u>	<u>4,781</u>	<u>3,507</u>	<u>189,798</u>
Total capital assets being depreciated	<u>576,348</u>	<u>15,258</u>	<u>-</u>	<u>591,606</u>
Less accumulated depreciation for:				
Building and improvements	(133,655)	(7,797)	-	(141,452)
Fixed equipment	(104,638)	(790)	-	(105,428)
Land improvements	(12,548)	(350)	-	(12,898)
Moveable equipment	<u>(138,133)</u>	<u>(12,417)</u>	<u>-</u>	<u>(150,550)</u>
Total accumulated depreciation	<u>(388,974)</u>	<u>(21,354)</u>	<u>-</u>	<u>(410,328)</u>
Carrying value of all capital assets, net	<u>\$ 187,374</u>	<u>\$ (6,096)</u>	<u>\$ -</u>	<u>\$ 181,278</u>

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Net interest capitalized for the years ended December 31, 2015 was approximately \$1,033.

**5. LONG-TERM DEBT**

Long-term debt at December 31, 2015 consists of the following:

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 0.15% at December 31, 2015	\$ 19,960
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 0.04% at December 31, 2015	209,985
	<u>229,945</u>
Current portion	<u>(13,710)</u>
Long-term portion	<u>\$ 216,235</u>

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 bonds. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days’ notice and delivery to the Corporation’s remarketing agent. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. Under irrevocable letters of credit issued by JPMorgan Chase Bank, N.A., Wells Fargo Bank, N.A. and TD Bank, N.A. the trustee or the remarketing agent is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. If the remarketing agent is unable to resell any bonds that are “put” after 180 days (Well Fargo and TD Bank LOCs) or 13 months (JP Morgan LOC) of the “put” date, the Corporation has reimbursement agreements with the letter of credit providers to convert the bonds to an installment loan payable over a certain period bearing an adjustable interest rate.



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Significant terms of the LOCs and reimbursement agreements are below.

Provider	Expiration Date	Principal Amount Covered Under Facility	Base Interest Rate	Interest Rate on LOC Draws	Maximum Loan Period (Years)	Loan Interest Rate	Annual Fee
Wells Fargo	July 6, 2018	\$ 73,205	Greater of Providers bank prime rate plus 2% or Federal Fund rate plus 2% or 8%	Days 1-30 = Base Rate Days 31-180 = Base Rate plus 1%	2.5	Base rate plus 2%	90 basis points
TD Bank	June 30, 2018	\$ 83,000	Greater of WSJ Prime Rate or Federal Funds Rate plus 2%	Days 1-45 = Base Rate Days 46-90 = Base Rate plus 1% Days 91-135 = Base Rate plus 1.25% Days 136-180 = Base Rate plus 1.5% However, rate may never be below 6%	5	Greater of base rate plus 2% or 6%	70 basis points
JPMorgan	May 15, 2017	\$ 86,745	Greater of Prime Rate or 1-month LIBOR plus 2.5% or 7.5%	For A Series Bonds: Day 1-120 = Base Day 121 - thereafter = Base plus 1% For D Series Bonds: Day 1-60 = Base plus 1% Day 60 - thereafter = Base plus 2%	4	Same terms as interest rate on LOC draws	108 basis points

If the reimbursement agreement were to be exercised because the entire series of demand bonds were “put” and not remarketed before 180 days with respect to the Series B & C bonds, or 13 months with respect to the Series A & D bonds, the Corporation would be required to pay the following estimated annual amounts (principal and interest) assuming the interest rates that would be in effect at December 31, 2015:

	Wells Fargo Series 2009 C	TD Bank Series 2009 B	J.P. Morgan Series 2009 A & D	Total
2016	\$ 27,688	\$ 21,185	\$ 12,035	\$ 60,908
2017	27,282	20,153	30,523	77,958
2018	24,960	18,996	28,205	72,161
2019	-	17,839	19,633	37,472
2020	-	16,682	-	16,682
	<u>\$ 79,930</u>	<u>\$ 94,855</u>	<u>\$ 90,396</u>	<u>\$ 265,181</u>

The Corporation is required to pay to the providers an annual commitment fee for the letter of credit as stated above per annum of the outstanding facility amount. Total letter of credit fees paid in 2015 approximated \$2,196.

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 2009 Bonds for the entire term of these bond series. The

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County has not been called upon to make any payments under the guaranty. The County guaranty may be amended without consent of the bond owners.

In connection with the issuance of the 2009 Bonds, the Corporation incurred a loss of approximately \$31,500. The loss on refunding (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. Amortization of the deferred loss is \$2,136 for the year ended December 31, 2015.

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.

Principal payments on long-term debt are due annually on August 1. Interest payments are due monthly, on the first business day of each month. Estimated future interest payments are calculated using the assumed synthetic fixed rate of interest (3.457%) contemplated as part of the interest rate swap agreements. Payments applicable to long-term debt for years subsequent to December 31, 2015 are as follows:

	<u>Principal</u>	<u>Estimated Interest</u>
2016	\$ 13,710	\$ 8,179
2017	14,115	7,685
2018	14,695	7,168
2019	15,290	6,630
2020	15,910	6,068
2021 to 2025	84,080	21,328
2026 to 2029	<u>72,145</u>	<u>6,325</u>
	<u>\$ 229,945</u>	<u>\$ 63,383</u>

In January 2015, the Corporation issued \$40,000 of taxable 2015 Revenue Anticipation Notes (“2015 RANs”) that were due in January 2016 and secured by scheduled IGT payments and other New York State payments. The 2015 RANs were repaid in full in January 2016.

**Interest Rate Swap Agreements**

The Corporation uses derivative financial instruments to attempt to manage the cash flow impact of interest rate changes on its cash flows and net position and to mitigate its exposure to certain market risks associated with operations and does not use derivative instruments for trading or speculative purposes.

The Corporation derivative contract was evaluated pursuant to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (“GASB 53”) to determine whether it met the definition of a derivative instrument, and if so, whether it effectively hedges the expected cash flows associated with interest rate risk exposures.

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The Corporation applies hedge accounting for derivative instruments that are deemed effective hedges and under GASB 53 are referred to as hedging derivative instruments. Under hedge accounting, changes in the fair value of a hedging derivative instrument are reported as a deferred inflow or deferred outflow on the statement of net position until the contract is settled or terminated.

In April of 2009, the Corporation undertook a current refunding of the 2004 Series C bonds. As part of the refunding, the three interest rate swap agreements (“Swaps”) were re-assigned to the new underlying 2009 Series B, C and D bonds with essential identical terms except for a change in the interest rate mode from auction rate to weekly variable rate demand bonds. The three Swaps associated with the 2004 Series C bonds were determined to be an effective hedging relationship and, as such, the changes in the fair value of the swap through the refunding date totaling \$30,000 were included in the deferred loss on refunding calculation and amortized over the life of the new bonds. The new association of the three Swaps and the 2009 Series B, C and D bonds are considered an effective hedging relationship at December 31, 2015.

All settlement payments or receipts for hedging derivative instruments are recorded as a component of interest expense in the period settled and amounted to approximately \$6,700 for the year ended December 31, 2015.

The Corporation’s hedging derivative instruments at December 31, 2015 are as follows:

Swap ID	Fair Value December 31, 2015	Net Change in Fair Value	Fair Value December 31, 2014	Type of Hedge	Financial Statement Classification for Changes in Fair Value
1	\$ (10,074)	\$ 664	\$ (10,738)	Cash Flow	Deferred outflow
2	(10,052)	660	(10,712)	Cash Flow	Deferred outflow
3	(10,052)	660	(10,712)	Cash Flow	Deferred outflow
	<u>\$ (30,178)</u>	<u>\$ 1,984</u>	<u>\$ (32,162)</u>		

The terms of the Corporation’s financial derivative instrument that was outstanding at December 31, 2015 are summarized in the table below:

Counterparty	Effective Date	Termination Date	NHCC Pays	NHCC Receives	Outstanding Swap Notional (000s)
JPMorgan Chase	October 14, 2004	August 1, 2029	3.4570%	62.6% of 1-Month LIBOR + .23%	\$ 70,050
Merrill Lynch	October 14, 2004	August 1, 2029	3.4570%	62.6% of 1-Month LIBOR + .23%	\$ 69,845
UBS AG	October 14, 2004	August 1, 2029	3.4570%	62.6% of 1-Month LIBOR + .23%	\$ 69,845

The amount of outstanding debt covered by the three interest rate swap agreements totals \$209,985 and mature on August 1, 2029.

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*Fair Values* - The fair value of the swap is estimated using the zero-coupon method and also reflects the effect of nonperformance risk. This method calculates the future net settlement payments required by the agreements, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rate implied by the current relevant yield curve that incorporates the risk of nonperformance of the Corporation, as applicable, on the date of each future net settlement on the agreements.

*Credit Risk* - As of December 31, 2015, the Corporation was not exposed to credit risk on the swaps with a \$30,178 negative fair value. Since changes in interest rates affect the fair value of the swap agreement, it is possible that the swap agreement with a negative fair value becomes positive which would expose the Corporation to credit risk. Should the fair value of the swap become positive, to minimize its exposure to loss related to credit risk, the Corporation has collateral posting provisions included in the Credit Support Annex to the ISDA Agreements. The terms require that the Counterparties post collateral for an amount by which the swap fair value exceeds collateral credit threshold levels which range from \$50 million (A1 Moody's and A+ S& P) to \$0 (Baa1 Moody's BBB+ S & P or lower).

The unsecured long term debt credit ratings for the Counterparties at December 31, 2015 were as follows.

<u>Counterparty</u>	<u>Moody's</u>	<u>Standard and Poors</u>
JPMorgan Chase	Aa3	A+
Merrill Lynch (Bank of America)	Baa1	A
UBS AG	A2	A

*Basis Risk* - The Corporation is exposed to basis risk on its pay-fixed interest rate swap because the variable-rate payment received by the Corporation (a percent of LIBOR) on these hedging derivative instruments are based on indexes other than the actual interest rates the Corporation pays on its hedged variable rate debt. Should the relationship between LIBOR and the actual variable rate interest payments on the bonds converge, the expected cost savings may not materialize. The terms of the related hedging fixed rate swap transactions are summarized in the table on the preceding page.

*Termination Risk* - The Corporation uses the International Swap Dealers Association Master Agreement (Master Agreement), which includes standard termination events, such as failure to pay and bankruptcy. The Corporation or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The Corporation may also terminate the swaps at its option. Further, a termination event occurs if the Counterparties credit ratings fall below Baa1 by Moody's and BBB+ by Standard and Poor's or the Counterparties have their ratings withdrawn or suspended. A Swap termination is also triggered if: 1) the swap insurer is rated below A3 by Moody's or below A- by Standard and Poor's and Nassau County is rated below A3 by Moody's or below A- by Standard and Poor's or 2) Nassau County is rated below Baa2 by Moody's or below BBB by Standard and Poor's. If the swap is terminated, the variable-rate mortgage note would no longer carry a synthetic fixed interest rate and the Corporation's interest payment will be based solely upon the rate required by the related debt as issued. When a termination event occurs, a mark-to-market (or fair market value) calculation is performed to determine

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whether the Corporation is owed money or must pay money to close out a swap position. A negative fair value means the Corporation would incur a loss and need to make a termination payment to settle the swap position. A positive fair value means the Corporation would realize a gain and receive a termination payment to settle the swap position.

**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, 2015:

Revenue earned from the County:	
Patient care	\$ 1,516
Space charges	1,525
Non-patient care	4,451
Health insurance for retiree charges	<u>11,296</u>
	18,788
County pass-through transactions:	
Amounts paid on behalf of the County	1,010
State aid and other amounts collected by the County	<u>990</u>
Total transactions with the County	<u>\$ 20,788</u>

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 historic mission 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.

**7. RETIREMENT PLANS**

**Defined Benefit Plans**

The New York State Comptroller's Office administers the New York State and Local Employers' Retirement System ("ERS") for which NHCC is a participating employer. The net position of ERS is held in the New York State Common Retirement Fund (the "Fund"), which was established to hold all assets and record changes in fiduciary net position allocated to ERS.

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The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of ERS. ERS benefits are established under the provisions of the New York State Retirement and Social Security Law (“RSSL”). Once a public employer elects to participate in ERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute.

ERS is a cost-sharing, multiple employer defined benefit pension plan. ERS is included in the New York State financial statements as a pension trust fund. The Public Employees’ Group Life Insurance Plan (“GLIP”) provides death benefits in the form of life insurance. Amounts related to GLIP have been apportioned to ERS. Separately issued financial statements for ERS can be accessed on the State Comptroller’s website at [www.osc.state.ny.us/pension/CAFR.htm](http://www.osc.state.ny.us/pension/CAFR.htm).

ERS offers a wide range of programs and benefits. ERS benefits vary based on the date of membership, years of credited service and final average salary, vesting of retirement benefits, death and disability benefits, and optional methods of benefit payments. The plan provides a permanent annual cost-of-living increase to both current and future retired members meeting certain eligibility requirements. Participating employers are required under law to contribute to ERS on an actuarially determined rate which is determined annually by the State Comptroller and the average contribution rate for the fiscal year ended March 31, 2015 was approximately 20.1% of payroll. ERS provides retirement benefits as well as death and disability benefits. For those members joining prior to January 1, 2010 benefits generally vest after five years of credited service. For those joining after January 1, 2010, benefits generally vest after 10 years of credited service. The RSSL provides that all participants in ERS are jointly and severally liable for any actuarial unfunded amounts. Such amounts are collected through annual billings to all participating employers. Employees who joined ERS after July 27, 1976 and before January 1, 2010, and have less than ten years of service or membership are required to contribute 3 percent of their salary. Those joining on or after January 1, 2010 and before April 1, 2012 are required to contribute 3.5% of their annual salary for their entire working career. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career. Employee contributions are deducted from their salaries and remitted on a current basis to ERS.

**Net Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions**

Net pension liabilities, pension expense, deferred outflows of resources, and deferred inflows of resources amounts recorded to reflect the provisions of GASB 68 are reflective of ERS’s published financial statements and actuarial valuations as of March 31, 2015 (Measurement Date).

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NHCC's respective net pension liability, deferred outflows of resources, deferred inflows of resources and net pension expense related to ERS as of and for the year ended December 31, 2015, are as follows:

Proportionate share of the net pension liability	
2015 - Amount	\$ 26,166
2015 - Percentage	0.7745457%
2014 - Percentage	0.7745457%
Deferred outflows of resources	\$ 7,127
Deferred inflows of resources	\$ -
Net pension expense	\$ 24,117

NHCC's proportionate share of ERS's 2015 net pension liability is consistent with the manner in which contributions to ERS are determined. ERS computed each employer's projected long-term contribution effort to ERS as compared to the total projected long-term contribution of all employers to ERS.

The components of pension related deferred outflows of resources and deferred inflows of resources at the Measurement Date are as follows:

Deferred outflows of resources	
Differences between expected and actual experience	\$ 837
Net difference between projected and actual investment earnings on pension plan investments	1,745
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>4,545</u>
Total	<u>\$ 7,127</u>
Deferred inflows of resources	
Changes in proportion and difference between employer contributions and proportionate share of contributions	<u>\$ -</u>
Total	<u>\$ -</u>

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Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be reflected in other non-operating activities, net, as revenues or (expenses), in the statement of revenues, expenses, and changes in net position as follows:

2016	\$ 1,782
2017	1,782
2018	1,782
2019	<u>1,781</u>
Net of deferred outflows and inflows - amortized	<u>\$ 7,127</u>

*Pension Expense*

Pension expense amounted to \$24,117 and \$39,792 in 2015 and 2014, respectively.

*Actuarial Assumptions*

NHCC's net pension liability at the Measurement Date was determined by using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liability to March 31, 2015. The actuarial valuation used the following actuarial assumptions:

Actuarial cost method	Entry age normal
Inflation rate	2.70%
Salary increases	4.9% indexed by service
Investment rate of return, including inflation	7.5% compounded annually, net of investment expenses
Cost of living adjustments	1.4% annually
Decrement	Developed from the 2010 experience study for the period April 1, 2005 through March 31, 2010
Mortality improvement	Society of Actuaries Scale MP-2014

*Long Term Expected Rate of Return*

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice ("ASOP") No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical



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investment data and plan performance. Best estimates of arithmetic real rates of return for each major asset class including target asset allocation at the Measurement Date are summarized below:

<u>Asset Class</u>	<u>ERS</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	38 %	7.30 %
International equity	13	8.55
Private equity	10	11.00
Real estate	8	8.25
Absolute return strategies	3	6.75
Opportunistic portfolio	3	8.60
Real assets	3	8.65
Bonds and mortgages	18	4.00
Cash	2	2.25
Inflation-Indexed Bonds	<u>2</u>	4.00
	<u>100 %</u>	

*Discount Rate*

The discount rate used to calculate the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, ERS's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Discount Rate Sensitivity*

NHCC's proportionate share of the net pension liability calculated using the respective discount rate, as well as what NHCC's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate are as follows (amounts in thousands):

	<u>Rate</u>	<u>Amount</u>
1% decrease	6.50%	\$ 174,408
Current discount rate	7.50%	26,166
1% increase	8.50%	(98,987)

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**Deferred Pension Contributions**

NYSRSSL Chapter 57 of the Laws of 2010 authorized the New York State and local employers to amortize over ten years, at 3.15% (2015), 3.67% (2014), 3.00% (2013) and 3.75% (2012) interest, the portion of their annual bill that exceeded 13.5%, 12.5%, 11.5% and 10.5% of payroll for its 2015, 2014, 2013 and 2012 pension bills respectively. Total amount due at December 31, 2015 related to these deferred pension contributions is approximately \$40,988 of which \$3,078 is included in current liabilities and \$37,910 is included as part of other long-term liabilities (note 13).

**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, 2015, expenses related to health insurance benefits for active and retired employees totaled approximately \$62,610.

**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 \$8,728 for the year ended December 31, 2015.

**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 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

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The NYSHIP plan's annual OPEB cost and the related information at December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 41,876	\$ 40,057
Interest on net OPEB obligation	12,386	11,935
Adjustment to ARC	(11,663)	(10,815)
Contributions made (reported in employee benefits - other)	<u>(8,728)</u>	<u>(7,988)</u>
Increase in net OPEB obligation	33,871	33,189
Net OPEB obligation - beginning of year	<u>314,007</u>	<u>280,818</u>
Net OPEB obligation - end of year	<u>\$ 347,878</u>	<u>\$ 314,007</u>

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

	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2015	\$ 42,599	20.4 %	\$ 347,878
December 31, 2014	41,177	19.4 %	314,007
December 31, 2013	40,340	17.5 %	280,818

As of December 31, 2015 and 2014, the actuarial accrued liability for benefits was \$446,364 and \$402,121, respectively, all of which was unfunded. As of December 31, 2015 and 2014, the covered payroll (annual payroll of active employees covered by the NYSHIP plan) was \$160,084 and \$166,344, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 279% and 242%, respectively.

The actuarial valuation date is January 1, 2015. 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

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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, 2015 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% discount rate in 2015 and an annual health care cost trend rate of 5.46% in 2015 and grading down to an ultimate rate of 4.25%. 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 September 29, 2008 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. During 2015, the Captive entered into a commutable agreement with the Corporation, initiating a \$1,000 deductible limit on all open claims as of December 31, 2015. The liability on commercial general policies is \$1,000 per occurrence, except for fire damages, where the limit is \$50 for any one fire, and medical payment, where the limit is \$5 for any one person, up to an aggregate of \$3,000.

The Captive is subject to minimum capital requirements as established by the Cayman Islands Monetary Authority (the "Monetary Authority"). The Corporation has committed to fund any shortfalls of capital relative to the minimum statutory requirements and to provide any necessary financial support to the Captive as may be deemed necessary. The Captive's ability to operate is dependent upon such support. In April 2015, the Corporation funded approximately \$6,250 to meet the Captive's minimum capital requirements at December 31, 2015.

In 2006, the Captive loaned the Corporation \$10,000. The loan is re-payable on demand and has been renewed until December 31, 2015. The loan bears interest at a rate of 5% per annum, payable semiannually. At December 31, 2015, the full loan amount of \$10,000 remains outstanding. Additionally, in January 2012, the Captive loaned the Corporation an additional \$10,000. The loan is repayable on demand and matures on December 31, 2015. The loan bears interest at a rate of 4% per annum and is payable semiannually. At December 31, 2015, the full loan amount of \$10,000 remains outstanding. The full amount of the loans eliminate in consolidation.

The Captive entered into a note agreement with the Corporation in the amount of \$5,500 ("Note"). The Note is partially funded at December 31, 2015, in the amount of \$2,750. As of March 31, 2016, the Note was paid in full. At December 31, 2015, the Captive was in compliance with its minimum capital requirement.

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In April of 2016, the respective boards of NHCC and NHCC, Ltd., the Captive, agreed to make certain changes to the Insurance Program as follows: NHCC would have, retain and be responsible for the first \$1,000 of losses for all hospital professional liability claims made from 1999 to the present, and would have, retain and be responsible for the first \$1,000 of losses for all hospital professional liability claims on a going forward basis. NHCC Ltd., would be responsible for reimbursing NHCC under the terms and conditions of hospital's professional liability excess coverage attaching at \$1,000 for all open claims from 1999 and forward.

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

	<u>2015</u>	<u>2014</u>
<b>Balance at beginning of year</b>	\$ 54,347	\$ 46,649
Incurred related to:		
Current year	10,170	9,927
Prior years	<u>(24,699)</u>	<u>1,851</u>
Total incurred	(14,529)	11,778
Paid relating to:		
Current year	(153)	(198)
Prior years	<u>(7,967)</u>	<u>(3,882)</u>
Total paid	<u>(8,120)</u>	<u>(4,080)</u>
<b>Balance at end of year</b>	<u>\$ 31,698</u>	<u>\$ 54,347</u>

Losses and loss adjustment expenses for incurred claims for prior years reflect changes in estimates of the ultimate settlement of such losses.

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% at December 31, 2015 and 2014.

The Corporation maintains a revolving credit demand note with the Captive. No interest is charged if principal amounts are repaid within 5 business days. No amounts are outstanding under the note at December 31, 2015.

In addition to the insurance coverage purchased from the Captive, the Corporation purchases umbrella and other coverage from commercial insurers. For the years ended December 31, 2015 and 2014, insurance expense totaled \$9,531 and \$10,156, respectively.

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**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 ratified in February 2013, effective January 1, 2010. The contract contained no retroactive adjustments to years prior to 2013 and expired on December 31, 2015. The negotiation of a new contract is currently ongoing.

**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 right-size 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 non-institutional services be added. NUMC has complied with the Berger Commission recommendation to downsize its certified bed capacity from 631 to 530 beds, inclusive of the addition of 73 behavioral health beds.

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

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**12. OTHER OPERATING REVENUE**

Other operating revenue consists of the following for the year ended December 31, 2015:

Other non-patient related County billings	\$ 16,707
State Aid	6,130
Health Center - LIFQHC staffing reimbursement	11,577
Medical staff housing	951
Equity in investment in LLC	3,059
Cafeteria	576
Rotating residents	661
Parking	413
Clerkship fees	1,807
Anesthesia staffing reimbursement	1,718
Other miscellaneous revenue	<u>11,497</u>
	<u>\$ 55,096</u>

**13. LONG-TERM LIABILITIES**

A schedule of changes in the Corporation's long-term liabilities for 2015 follows:

	<b>Balance</b>			<b>Balance</b>	<b>Amounts Due</b>
	<b>December 31,</b>			<b>December 31,</b>	<b>Within One</b>
	<b>2014</b>	<b>Additions</b>	<b>Deductions</b>	<b>2015</b>	<b>Year</b>
Long-term debt	\$ 242,950	\$ -	\$ (13,005)	\$ 229,945	\$ 13,710
Self-insurance liability	56,344	18,445	(8,121)	66,668	8,000
Accrued vacation and sick leave	57,541	25,160	(27,386)	55,315	6,145
Third party liabilities	40,817	-	(3,102)	37,715	5,002
Postemployment health insurance	314,007	42,599	(8,728)	347,878	8,727
Accrued pension benefits	60,267	36,182	(29,295)	67,154	29,244
Interest rate swap agreements	<u>32,162</u>	<u>-</u>	<u>(1,984)</u>	<u>30,178</u>	<u>-</u>
Total noncurrent liabilities	<u>\$ 804,088</u>	<u>\$ 122,386</u>	<u>\$ (91,621)</u>	<u>\$ 834,853</u>	<u>\$ 70,828</u>

**14. SUBSEQUENT EVENTS**

In January 2016, the Corporation issued \$40,000 of taxable 2016 Revenue Anticipation Notes ("2016 RANs") due in January 2017. The 2016 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 2016 RANs.

**REQUIRED SUPPLEMENTARY INFORMATION**



**NASSAU HEALTH CARE CORPORATION**  
**(A Component Unit Of The County of Nassau, New York)**  
**Required Supplementary Information (Unaudited)**  
**December 31, 2015**  
**(In thousands)**

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**Schedule of Funding Progress - Other Postemployment Benefits**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Level Dollar (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
January 1, 2015	-	\$ 446,364	\$ 446,364	-	\$ 160,084	279%
January 1, 2014	-	402,121	402,121	-	166,344	242%
January 1, 2013	-	368,433	368,433	-	161,738	228%

**NASSAU HEALTH CARE CORPORATION**  
**(A Component Unit Of The County of Nassau, New York)**  
**Required Supplementary Information (Unaudited)**  
**December 31, 2015**  
**(In thousands)**

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**Schedule of Proportionate Share of the Net Pension Liability - Last 10 Years\***

<b>Reporting Fiscal Year (Measurement Date, March 31,)</b>	<b>Corporation's Proportion of the Net Pension Liability</b>		<b>Corporation's Covered Employee Payroll</b>	<b>Corporation's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
	<b>%</b>	<b>\$</b>			
2015 (2015)	0.775%	\$ 26,166	\$ 197,147	13.27%	97.90%

**Schedule of Employer Contributions - Last 10 Years\***

<b>Reporting Fiscal Year</b>	<b>Contractually Required Contribution</b>	<b>Contributions in Relation to the Contractually Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Corporation's Covered Employee Payroll</b>	<b>Contributions as a Percentage of Employee Covered Payroll</b>
2015	\$ 37,630	\$ 30,890	\$ 6,740	\$ 197,147	15.67%

*\*These schedules are intended to show information for 10 years. Additional years will be displayed as they become available.*

**SUPPLEMENTARY INFORMATION**

**NASSAU HEALTH CARE CORPORATION**  
**(A Component Unit Of The County of Nassau, New York)**  
**Combining Statement of Net Position**  
**December 31, 2015**  
**(In thousands)**

	Operational Divisions			Blended Component Units					Total
	NUMC	AHP	FPP	NHCC, Ltd.	Nassau Healthcare Foundation	Long Island Medical Foundation	Nassau Medical Associates	Eliminations	
<b>ASSETS</b>									
<b>CURRENT ASSETS</b>									
Cash and cash equivalents	\$ 41,083	\$ 7,723	\$ -	\$ 2,751	\$ -	\$ -	\$ 29	\$ (19,870)	\$ 31,716
Patients accounts receivable, net	26,796	8,196	8,124	-	-	-	-	-	43,116
Inventories	7,001	354	-	-	-	-	-	-	7,355
Prepaid expenses	1,252	125	-	-	-	-	-	-	1,377
Other receivables	29,685	13,990	-	-	-	-	-	-	43,675
Assets restricted to use, required for current liabilities	27,431	3,041	2,316	-	-	-	-	-	32,788
Due from other funds, net	(25,641)	32,526	(705)	(7,750)	-	-	-	1,570	-
Total current assets	<u>107,607</u>	<u>65,955</u>	<u>9,735</u>	<u>(4,999)</u>	<u>-</u>	<u>-</u>	<u>29</u>	<u>(18,300)</u>	<u>160,027</u>
Assets restricted to use, net	-	-	-	34,234	4,163	1,096	-	-	39,493
Capital assets, net	157,705	23,383	-	-	-	-	190	-	181,278
Other assets	24,834	-	-	-	-	-	-	-	24,834
Total assets	<u>290,146</u>	<u>89,338</u>	<u>9,735</u>	<u>29,235</u>	<u>4,163</u>	<u>1,096</u>	<u>219</u>	<u>(18,300)</u>	<u>405,632</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>									
Deferred change in fair value of swaps	8,196	1,653	-	-	-	-	-	-	9,849
Deferred charge on refunding	30,126	6,074	-	-	-	-	-	-	36,200
Pension related	5,876	1,251	-	-	-	-	-	-	7,127
Total deferred outflows of resources	<u>44,198</u>	<u>8,978</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,176</u>

See accompanying report of independent certified public accountants.

**NASSAU HEALTH CARE CORPORATION**  
**(A Component Unit Of The County of Nassau, New York)**  
**Combining Statement of Net Position**  
**December 31, 2015**  
**(In thousands)**

	Operational Divisions			Blended Component Units					Total
	NUMC	AHP	FPP	NHCC, Ltd.	Nassau Healthcare Foundation	Long Island Medical Foundation	Nassau Medical Associates	Eliminations	
<b>LIABILITIES</b>									
<b>CURRENT LIABILITIES</b>									
Due to county	\$ 8,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,000
Current portion of long-term debt	10,831	2,879	-	-	-	-	-	-	13,710
Accounts payable and accrued expenses	35,868	5,342	143	95	(22)	-	48	-	41,474
Accrued salaries and related withholdings	8,009	1,342	2,316	-	-	-	-	-	11,667
Current portion of post retirement health insurance liability	7,236	1,491	-	-	-	-	-	-	8,727
Current portion of vacation and sick leave	4,669	1,476	-	-	-	-	-	-	6,145
Current portion of self-insurance liability	239	-	-	7,761	-	-	-	-	8,000
Current portion of accrued pension benefits	24,108	5,136	-	-	-	-	-	-	29,244
Current portion of estimated liability to third-party payors	5,002	-	-	-	-	-	-	-	5,002
RAN and other current liabilities	81,696	(14,053)	-	(21,570)	-	-	-	1,570	47,643
Interest payable	1,548	172	-	(902)	-	-	-	-	818
Total current liabilities	<u>187,206</u>	<u>3,785</u>	<u>2,459</u>	<u>(14,616)</u>	<u>(22)</u>	<u>-</u>	<u>48</u>	<u>1,570</u>	<u>180,430</u>
<b>NONCURRENT LIABILITIES</b>									
Long-term debt	170,826	45,409	-	-	-	-	-	-	216,235
Estimated liability to third-party payors	14,274	17,939	500	-	-	-	-	-	32,713
Estimated postemployment health insurance liability	281,160	57,991	-	-	-	-	-	-	339,151
Estimated self-insurance liability	34,731	-	-	23,937	-	-	-	-	58,668
Estimated fair value of interest rate swap agreements	25,114	5,064	-	-	-	-	-	-	30,178
Accrued vacation and sick leave	42,028	13,287	-	-	-	-	-	-	55,315
Accrued pension benefits	31,251	6,659	-	-	-	-	-	-	37,910
Total liabilities	<u>786,590</u>	<u>150,134</u>	<u>2,959</u>	<u>9,321</u>	<u>(22)</u>	<u>-</u>	<u>48</u>	<u>1,570</u>	<u>950,600</u>
<b>NET POSITION</b>									
Net investment in capital assets	105,666	9,550	-	19,870	-	-	-	(19,870)	115,216
Restricted	-	-	-	-	-	1,096	-	-	1,096
Unrestricted	(557,911)	(61,369)	6,776	44	4,185	-	171	-	(608,104)
Total net position	<u>\$ (452,245)</u>	<u>\$ (51,819)</u>	<u>\$ 6,776</u>	<u>\$ 19,914</u>	<u>\$ 4,185</u>	<u>\$ 1,096</u>	<u>\$ 171</u>	<u>\$ (19,870)</u>	<u>\$ (491,792)</u>

See accompanying report of independent certified public accountants.

**NASSAU HEALTH CARE CORPORATION**  
**(A Component Unit Of The County of Nassau, New York)**  
**Combining Statement of Revenues, Expenses and Changes in Net Position**  
**December 31, 2015**  
**(In thousands)**

	Operational Divisions			Blended Component Units					Eliminations	Total
	NUMC	AHP	FPP	NHCC, Ltd.	Nassau Healthcare Foundation	Long Island Medical Foundation	Nassau Medical Associates			
<b>OPERATING REVENUE</b>										
Net patient service revenue	\$ 374,366	\$ 65,479	\$ 11,920	\$ -	\$ -	\$ -	\$ -	\$ (10,975)	\$ 440,790	
Other revenue	44,030	549	-	8,337	6,193	402	880	(5,295)	55,096	
Total operating revenues	<u>418,396</u>	<u>66,028</u>	<u>11,920</u>	<u>8,337</u>	<u>6,193</u>	<u>402</u>	<u>880</u>	<u>(16,270)</u>	<u>495,886</u>	
<b>OPERATING EXPENSES</b>										
Salaries	204,452	30,940	9,570	-	4,612	13	1,025	-	250,612	
Employee benefits - pension	21,047	3,054	-	-	-	-	13	-	24,114	
Employee benefits - other	71,265	13,759	388	-	252	2	29	-	85,695	
Supplies and other expenses	152,272	12,623	1,962	(14,326)	1,036	263	978	(16,270)	138,538	
Depreciation and amortization	20,462	852	-	-	9	-	29	-	21,352	
	<u>469,498</u>	<u>61,228</u>	<u>11,920</u>	<u>(14,326)</u>	<u>5,909</u>	<u>278</u>	<u>2,074</u>	<u>(16,270)</u>	<u>520,311</u>	
Income (loss) before OPEB expense	(51,102)	4,800	-	22,663	284	124	(1,194)	-	(24,425)	
Employee benefits - OPEB	28,227	5,818	-	-	-	-	-	-	34,045	
Operating loss	(79,329)	(1,018)	-	22,663	284	124	(1,194)	-	(58,470)	
<b>NONOPERATING ACTIVITIES</b>										
Interest income	136	17	-	5	-	-	-	900	1,058	
Interest expense	(12,590)	(1,874)	-	900	-	-	-	(900)	(14,464)	
Total nonoperating activities, net	(12,454)	(1,857)	-	905	-	-	-	-	(13,406)	
Capital contributions	-	-	-	6,250	-	-	1,081	(6,250)	1,081	
Change in net position	(91,783)	(2,875)	-	29,818	284	124	(113)	(6,250)	(70,795)	
Net position, beginning of year	(355,508)	(48,944)	6,776	(9,904)	3,901	972	284	(13,620)	(416,043)	
GASB 68 adoption adjustment - January 1, 2015	(4,954)	-	-	-	-	-	-	-	(4,954)	
Net position, end of year	<u>\$ (452,245)</u>	<u>\$ (51,819)</u>	<u>\$ 6,776</u>	<u>\$ 19,914</u>	<u>\$ 4,185</u>	<u>\$ 1,096</u>	<u>\$ 171</u>	<u>\$ (19,870)</u>	<u>\$ (491,792)</u>	

*See accompanying report of independent certified public accountants.*