

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, 2016

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

TABLE OF CONTENTS

	Page(s)
Report of Independent Certified Public Accountants	1 - 2
Management's Discussion and Analysis (Unaudited)	3 - 7
Financial Statements	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11 - 38
Required Supplementary Information (Unaudited)	
Schedule of Funding Progress - Other Postemployment Benefits	40
Schedule of Proportionate Share of the Net Pension Liability - Last 10 years	41
Schedule of Employer Contributions - Last 10 Years	41
Supplementary Information	
Combining Statement of Net Position	43 - 44
Combining Statement of Revenues, Expenses and Changes in Net Position	45



Grant Thornton LLP
757 Third Avenue, 9th Floor
New York, NY 10017
T 212.599.0100
F 212.370.4520
GrantThornton.com
[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/grantthorntonus)
twitter.com/GrantThorntonUS

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, 2016, 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, 2016, 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.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 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 43 through 45 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
July 13, 2017

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Management's Discussions and Analysis
Year ended December 31, 2016
(In thousands)

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, 2016, with selected comparative information for the year ended December 31, 2015. 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.

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Management's Discussions and Analysis
Year ended December 31, 2016
(In thousands)

Condensed Financial Information - Net Position

	2016	2015	2016-2015 Dollar Change	2015-2014 Percentage Change
Assets				
Current assets	\$ 210,020	\$ 160,027	\$ 49,993	31 %
Capital assets, net	169,429	181,278	(11,849)	(7)%
Other assets	<u>74,924</u>	<u>64,327</u>	<u>10,597</u>	16 %
Total assets	<u>\$ 454,373</u>	<u>\$ 405,632</u>	<u>\$ 48,741</u>	12 %
Deferred outflows of resources	<u>\$ 141,044</u>	<u>\$ 53,176</u>	<u>\$ 87,868</u>	165 %
Liabilities				
Current liabilities	\$ 228,374	\$ 180,430	\$ 47,944	27 %
Long-term portion of debt	202,285	216,235	(13,950)	(6)%
Other long-term liabilities	<u>672,763</u>	<u>553,935</u>	<u>118,828</u>	21 %
Total liabilities	<u>\$ 1,103,422</u>	<u>\$ 950,600</u>	<u>\$ 152,822</u>	16 %
Deferred inflows of resources	<u>\$ 14,869</u>	<u>\$ -</u>	<u>\$ 14,869</u>	100 %
Net position				
Net investment in capital assets	\$ 106,965	\$ 115,215	\$ (8,250)	(7)%
Restricted	1,338	1,096	242	22 %
Unrestricted	<u>(631,177)</u>	<u>(608,273)</u>	<u>(22,904)</u>	4 %
Total net position	<u>\$ (522,874)</u>	<u>\$ (491,962)</u>	<u>\$ (30,912)</u>	6 %

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Management's Discussions and Analysis
Year ended December 31, 2016
(In thousands)

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

	2016	2015	2016-2015 Dollar Change	2016-2015 Percentage Change
Operating revenues				
Net patient service revenue	\$ 455,360	\$ 430,565	\$ 24,795	6 %
Other revenue	<u>111,507</u>	<u>76,296</u>	<u>35,211</u>	46 %
Total operating revenues	<u>566,867</u>	<u>506,861</u>	<u>60,006</u>	12 %
Operating expenses				
Salaries	256,435	250,612	5,823	2 %
Employee benefits	134,218	109,809	24,409	22 %
Supplies and other expenses	153,759	149,513	4,246	3 %
Depreciation	<u>21,155</u>	<u>21,352</u>	<u>(197)</u>	(1)%
	<u>565,567</u>	<u>531,286</u>	<u>34,281</u>	6 %
Income before OPEB expense	<u>1,300</u>	<u>(24,425)</u>	<u>25,725</u>	(105)%
Employee benefits - OPEB	<u>(32,463)</u>	<u>(34,045)</u>	<u>(1,582)</u>	(5)%
Operating loss	(31,163)	(58,470)	27,307	(47)%
Nonoperating activities, net	(12,749)	(13,406)	657	(5)%
Capital contributions	<u>13,000</u>	<u>1,081</u>	<u>11,919</u>	1103 %
Decrease in net position	(30,912)	(70,795)	39,883	(56)%
Net position				
Beginning of year	(491,962)	(416,213)	(75,749)	18 %
GASB 68 adoption adjustment - January 1, 2016	<u>-</u>	<u>(4,954)</u>	<u>(4,954)</u>	-
End of year	<u>\$ (522,874)</u>	<u>\$ (491,962)</u>	<u>\$ (30,912)</u>	6 %

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Management's Discussions and Analysis
Year ended December 31, 2016
(In thousands)

Financial Analysis of the Corporation (in thousands of dollars)

For the year ended December 31, 2016, the Nassau Health Care Corporation (NHCC) generated Income before Other Postemployment Benefits (OPEB) of \$1,300. The profit is a result of increases in state aid offset by a number of negative adjustments.

Negative adjustments were made to record an increase in the estimate for professional liabilities and for the recognition of additional pension liabilities pursuant to Governmental Accounting Standards Board ("GASB") Statement Number 68 – "Accounting and Financial Reporting for Pensions". These negative adjustments were offset, in part, by increases in revenue related to settlements of prior year reimbursement matters as well as increases in State Aid.

Following is an explanation for these items.

For 2016, the NHCC actuary recommended that the Corporation increase its estimate for self-insurance liability. NHCC determined that the increase should be \$12,618 over the prior year amount. The increase was primarily due to current settlements above historical reserves. Estimates going forward have been adjusted accordingly.

In 2015, the NHCC was required to implement GASB 68. For 2016, GASB 68 had the effect of increasing pension expense by \$9,313, net of the changes in deferred outflows and inflows. The added expense was not required to be paid currently, but represents a future liability which includes the difference between pension system actuarial projections and actual results.

During 2016, Indigent Care revenues were reduced by \$4,999 as compared to the prior year. Additionally, patient service revenues relating to special services were reduced by \$4,845 as compared to the prior year.

During 2016, an additional \$20,727 of Delivery System Reform Incentive Payment (DSRIP) funding was recognized as revenue as compared to the prior year. The DSRIP program is a five year New York State program, to address critical issues throughout the state and allow for comprehensive reform, specifically with a goal to achieve a 25 percent reduction in avoidable hospital use over five years. 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. In 2016, NHCC also recognized \$15,000 of Value Based Purchasing-Quality Incentive Program (VBP-QIP) grant revenues. NHCC did not participate in the VBP-QIP program during 2015.

The 2016 Operating Income before OPEB Expenses was \$1,300. After the inclusion of OPEB expense, the Corporation's operating loss was \$33,163. OPEB reflects the future liability for retirees' health insurance and is presented separately from day-to-day operations.

Operating Activities

Net Patient Service Revenue

Total net patient service revenue of \$455,360 for the year ended December 31, 2016 increased \$24,795 (6%) from the prior year. This increase primarily related to the Upper Payment Limit (UPL) reimbursements for the A Holly Patterson Extended Care Facility that resulted in \$11,799 of additional revenues and \$6,820 relating to the reduction of a liability related to the New York State Universal Settlement with nursing homes.

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Management's Discussions and Analysis
Year ended December 31, 2016
(In thousands)

Other Operating Revenue

Other operating revenue of \$111,507 for the year increased \$35,211 (46%) from the prior year. This increase reflects the increase in State Aid during 2016, including a \$20,727 increase in DSRIP revenues and \$15,000 for VBP-QIP funding.

Expenses

Total operating expenses before OPEB expense of \$565,567 for the year ended December 31, 2016 increased \$34,281 (6%) from the prior year. A description of the component categories follows.

Salaries of \$256,435 increased \$5,823, (2%) due to an increase in FTE's and contractual salary obligations. Employee health insurance cost increases and pension expense required by GASB 68 primarily drove the \$24,409 (22%) increase in employee benefits, which totaled \$134,218. Supplies and other expenses increased \$4,246.

OPEB

The Corporation recorded unfunded other postemployment benefit expense of \$32,463 and \$34,045 in 2016 and 2015, 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 2016, the Corporation purchased \$9,490 in capital assets and incurred \$21,155 in depreciation expense. In 2016, the Corporation received \$13,000 of grants, which were restricted for the repayment of capital debt.

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.

Debt

During 2016 and 2015, the Corporation made principal and interest payments of approximately \$24,418 and \$25,333, 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
As of December 31, 2016
(In thousands)

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 3,985
Patient accounts receivable, net	34,875
Inventories	7,642
Prepaid expenses	1,736
Other receivables	107,252
Assets restricted as to use, required for current liabilities	41,648
Due from Nassau County	<u>12,882</u>
Total current assets	210,020

Assets restricted as to use, net	46,975
Capital Assets - net	169,429
Other assets	<u>27,949</u>
Total assets	<u>\$ 454,373</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred change in fair value of interest rate swaps	\$ 6,269
Deferred charge on refunding	32,681
Pension related	<u>102,094</u>
Total deferred outflows of resources	<u>\$ 141,044</u>

LIABILITIES

CURRENT LIABILITIES

Current portion of long-term debt	\$ 14,115
Accounts payable and accrued expenses	83,002
Accrued salaries and related withholdings	14,658
Current portion of post retirement health insurance liability	10,083
Current portion of vacation and sick leave	6,465
Current portion of estimated self-insurance liability	18,260
Current portion of accrued pension benefits	27,762
Current portion of estimated liability to third-party payors, net	7,504
RAN and other current liabilities	45,555
Accrued interest payable	<u>970</u>
Total current liabilities	228,374

Long-term debt	202,285
Estimated liability to third-party payors, net	27,021
Estimated post retirement health insurance liability	370,433
Estimated self-insurance liability	61,026
Estimated fair value of interest rate swap agreements	25,101
Accrued vacation and sick leave	58,177
Accrued pension benefits	<u>131,005</u>
Total liabilities	<u>\$ 1,103,422</u>

DEFERRED INFLOWS OF RESOURCES

Pension related	\$ 14,869
Total deferred outflows of resources	<u>\$ 14,869</u>

Commitments and contingencies

Net position	
Net investment in capital assets	\$ 106,965
Restricted	1,338
Unrestricted	<u>(631,177)</u>
Total net position	<u>\$ (522,874)</u>

See accompanying notes to the basic financial statements.

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Statement of Revenues, Expenses and Changes in Net Position
For the year ended December 31, 2016
(In thousands)

OPERATING REVENUE

Net patient service revenue (net of the provision for bad debts of (\$56,028))	\$ 455,360
Other revenue	<u>111,507</u>
Total operating revenues	<u>566,867</u>

OPERATING EXPENSES

Salaries	256,435
Employee benefits - pension	41,637
Employee benefits - other	92,581
Supplies and other expenses	153,759
Depreciation and amortization	<u>21,155</u>
	<u>565,567</u>

Income before OPEB expenses	<u>1,300</u>
-----------------------------	--------------

Employee benefits - OPEB expenses	<u>(32,463)</u>
-----------------------------------	-----------------

Operating loss	<u>(31,163)</u>
----------------	-----------------

NONOPERATING ACTIVITIES

Interest income	162
Interest expense	<u>(12,911)</u>

Total nonoperating activities, net	(12,749)
------------------------------------	----------

Capital contributions	<u>13,000</u>
-----------------------	---------------

Decrease in net position	(30,912)
--------------------------	----------

Beginning of year	<u>(491,962)</u>
-------------------	------------------

End of year	<u>\$ (522,874)</u>
-------------	---------------------

See accompanying notes to the basic financial statements.

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Statement of Cash Flows
For the year ended December 31, 2016
(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from patients and third-party payers	\$ 458,154
Cash received from other operating revenue	44,816
Cash paid to employees	(372,795)
Cash paid to suppliers	(118,883)
Net cash from operating activities	<u>11,292</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Cash paid for interest	(7,176)
Payment of debt	(13,545)
Proceeds from revenue anticipation notes	40,000
Repayment of revenue anticipation notes	(40,000)
Revenue anticipation notes and other current liabilities	(1,935)
Net cash used in noncapital and related financing activities	<u>(22,656)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(9,490)
Cash paid for interest, net of amounts capitalized	(3,697)
Grants for capital asset acquisitions	13,000
Net cash used in capital and related financing activities	<u>(187)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net change in restricted cash and cash equivalents	(16,342)
Cash received from interest	162
Net cash used in investing activities	<u>(16,180)</u>
Net decrease in cash and cash equivalents	(27,731)
Cash and cash equivalents, beginning of year	<u>31,716</u>
Cash and cash equivalents, end of year	<u>\$ 3,985</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH	
FROM OPERATING ACTIVITIES:	
Operating loss	\$ (31,163)
Depreciation and amortization	21,155
Changes in operating assets and liabilities	
Patient accounts receivable	8,241
Prepaid expenses and inventories	(646)
Other receivables and assets	(66,691)
Due from County of Nassau, New York, net	(20,882)
Accounts payable and accrued expenses	41,528
Accrued salaries, withholding, pensions, vacation and sick pay	17,684
Due to/from third-party payers, net	(3,190)
Professional and other insurance liabilities	12,618
Postemployment health insurance liability	32,638
Net cash from operating activities	<u>\$ 11,292</u>

See accompanying notes to the basic financial statements.

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

1. ORGANIZATION

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

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

NHCC 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
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

- 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).
- 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 LCHSA for this purpose in a building, which previously served as the Hempstead General Hospital, situated at 820 Front Street, Hempstead (Nassau County), New York 11550 (the “Site”). NewCo received 501(c)(3) status as of August 10, 2010. NewCo’s tax exempt status was revoked in 2012 for the failure to file required documentation. A letter requesting the retroactive reinstatement of NewCo’s 501(c)(3) status was submitted to 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.

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 “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.

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

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, 2016, the Corporation had a deficit in its total net position of \$522,874 and a decrease in net position during 2016 of \$30,912. The decrease in net position during 2016 was due to the loss from operations, the postemployment benefits other than pension liability obligation (see Note 9), and an adjustment to increase the pension liability pursuant to Governmental Accounting Standards Board (“GASB”) 68. 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 and by participating in the Delivery System Reform Incentive Program and the VPB-QIP Program (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. 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 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.

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 net position 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 net position consists of remaining resources that are available to meet any of the Corporation’s ongoing obligations that do not

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

meet the definition of previous net position components. The Corporation had a deficit in unrestricted net position at December 31, 2016.

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, and 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 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.

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

Non-Medicare Reimbursement

In New York State, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payers are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the New York State Department of Health ("NYSDOH"). Effective December 1, 2009, the New York State payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments; prior to December 1, 2009, the payment system provided for retroactive adjustments to payment rates, using a prospective payment formula. Outpatient services also are paid based on a statewide prospective system that was 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.

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. The recent New York State Universal Settlement with nursing homes resulted in settlement of this case, as well as all other pending reimbursement appeals by A. Holly Patterson, in exchange for an allocation of Universal Settlement proceeds to A. Holly Patterson in the total amount of \$13,895, of which \$11,500 was

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

allocated to this case. Under the terms of the universal settlement, payments will be made in five installments over the next four to five years. As a result of this settlement, the Corporation increased net patient service revenues by \$6,820 during 2016.

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 \$54,087 for the year ended December 31, 2016. The estimated cost of charity care, estimated using a ratio of cost to gross charges, totaled \$21,094 for the year ended December 31, 2016.

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 2016, was approximately \$60,326.

The Corporation received IGT payments of approximately \$44,080 in 2016 and has recorded an IGT receivable of approximately \$61,640 within other receivables as of December 31, 2016. 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 2017.

Delivery System Reform Incentive Program and VBP QIP 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 2016, the Corporation recognized \$30,726 in Other Revenue in the accompanying Statement of Revenues, Expenses and Changes in Net Position. At December 31, 2016, \$17,974 related to DSRIP was accrued in other current receivables, all of which was collected in 2017. 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.

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

In connection with the state of New York VBP QIP Program, the Corporation was awarded a net amount of \$20 million for its participation in the program, applicable to the award year April 1, 2016 through March 31, 2017. Accordingly, in 2016, the Corporation recognized in Other Revenue and Other Current Receivables \$15 million related to this program. The VBP QIP program assists New York hospitals in financial distress and enables these facilities to maintain operations and vital services while they work toward longer-term sustainability, improved quality, and alignment with the state's Value Based Payment (VBP) and Quality Incentive Payment (QIP) initiatives. Under this program, the Corporation will also be eligible for an additional \$20 million applicable to the award year April 1, 2017 through March 31, 2017, provided certain performance and deliverable based program criteria are met.

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, 2016 are as follow:

Medicare	13 %
Medicaid	20 %
Commercial	19 %
Commercial HMO	20 %
Medicare HMO	7 %
Medicaid HMO	10 %
Self-pay and other	<u>11 %</u>
	<u>100 %</u>

The components of net patient service revenue consist of the following for the year ended December 31, 2016:

Services provided to patients (net of contractual allowances of approximately \$751,352)	\$ 452,022
Intergovernmental transfer - Federal	59,366
Provision for bad debts	<u>(56,028)</u>
	<u>\$ 455,360</u>

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, 2016, revenue from the Medicaid and Medicare programs accounted for approximately 76% of net revenue for services provided to patients.

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

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 and Inflows 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. Deferred inflows of resources represent an acquisition of a net position that applies to future periods and will not be recognized as an inflow of resources until that time. 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 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.

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

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

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, 2016, the Corporation's equity interest in the LLC is \$16,164 and is recorded in other assets in the statement of net position. The Corporation received distributions of \$1,797 and recorded an increase in its equity interest in the LLC of approximately \$1,176 in other revenues in the statement of revenues, expenses and changes in net position, for the year ended December 31, 2016. 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 restricted for capital asset acquisitions or debt service, \$13,000 in 2016, 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.

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.

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

Adopted and Recent Accounting Pronouncements

Effective January 1, 2016, NHCC adopted GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 enhances the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The adoption of GASB 72 increased the level of disclosure related to NHCC's assets restricted as to use.

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 the 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.

Effective January 1, 2016, NHCC adopted GASB issued Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14* (GASB 80). GASB 80 amended the blending requirements for the financial statement presentation of component units. GASB 80 added the criterion requiring the blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The adoption of GASB 80 had no impact on the financial position or disclosures of NHCC.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statement No. 67, No. 68, and No. 73*. GASB 82 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. NHCC has not evaluated the effect of GAB 82 on its financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). GASB 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in GASB 83. The requirements of GASB 83 are effective for reporting periods beginning after June 15, 2018. NHCC has not evaluated the effect of GASB 83 on its financial statements.

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

3. ASSETS RESTRICTED TO USE

Assets restricted to use at December 31, 2016, consist of the following:

Cash and cash equivalents	\$ 82,730
Certificates of deposit	2,351
Mutual funds - U.S. securities	1,547
U.S. Treasury bills	<u>1,995</u>
Total	<u>\$ 88,623</u>

Investment income on cash and cash equivalents and restricted cash and cash equivalents consists of interest and dividend income of \$162 for the year ended December 31, 2016, and is included in nonoperating activities.

NHCC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in advance markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. At December 31, 2016, NHCC's financial instruments measured at fair value were categorized between Levels 1, 2 and 3 as follows:

2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 82,730	\$ -	\$ -	\$ 82,730
Certificates of Deposit	-	2,351	-	2,351
Mutual Funds-U.S. Securities	-	1,547	-	1,547
U.S. Treasury bills	<u>-</u>	<u>1,995</u>	<u>-</u>	<u>1,995</u>
	<u>\$ 82,730</u>	<u>\$ 5,893</u>	<u>\$ -</u>	<u>\$ 88,623</u>

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 is as follows:

	2016			
	Beginning Balance	Additions	Transfers	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 12,498	\$ -	\$ -	\$ 12,498
Construction in process	22,795	6,307	(3,255)	25,847
Capital assets, being depreciated:				
Building and improvements	238,387	34	-	238,421
Fixed equipment	110,998	69	-	111,067
Land improvements	17,130	-	-	17,130
Moveable equipment	188,485	3,080	3,255	194,820
Total capital assets being depreciated	<u>590,293</u>	<u>9,490</u>	<u>-</u>	<u>599,783</u>
Less accumulated depreciation for:				
Building and improvements	(141,452)	(7,897)	-	(149,349)
Fixed equipment	(105,427)	(733)	-	(106,160)
Land improvements	(12,897)	(348)	-	(13,245)
Moveable equipment	(149,423)	(12,177)	-	(161,600)
Total accumulated depreciation	<u>(409,199)</u>	<u>(21,155)</u>	<u>-</u>	<u>(430,354)</u>
Carrying value of all capital assets, net	<u>\$ 181,094</u>	<u>\$ (11,665)</u>	<u>\$ -</u>	<u>\$ 169,429</u>

Net interest capitalized for the year ended December 31, 2016 was approximately \$1,014.

5. LONG-TERM DEBT

Long-term debt at December 31, 2016 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 0.53% at December 31, 2016	\$ 17,660
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 0.41% at December 31, 2016	<u>198,740</u>
	216,400
Current portion	<u>(14,115)</u>
Long-term portion	<u>\$ 202,285</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

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

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 Series 2009B or Series 2009C bonds that are “put” after 180 days (Well Fargo and TD Bank LOCs) or 9 months for Series 2009A (JP Morgan LOC) or 13 months for Series 2009D (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.

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 - Series C	7/6/2018	\$ 65,820	Greater of Providers bank prime rate plus 2% or Federal Funds rate plus 3% or 8%	Days 1-30 = Base Rate Days 31-180 = Base Rate plus 1%	3.5	Base Rate plus 2%	90 basis points
TD Bank - Series B	6/30/2018	\$ 75,525	Greater of WSJ Prime Rate of 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%	5.5	Greater of base rate plus 2% or 6%	70 basis points
JP Morgan - Series D	5/15/2017	\$ 57,395	Greater of Prime Rate or 1-month LIBOR plus 2.5% or 7.5%	Days 1-60 = Base Rate plus 1% Days 61 - thereafter = Base Rate plus 2%	4	Same terms as interest rate on LOC draws	108 basis points
JP Morgan - Series A	5/15/2017	\$ 17,660	Greater of Prime Rate plus 2% or Federal Funds Rate plus 3% or 7.5%	Days 1-30 = Base Rate Days 31-90 = Base Rate plus 1% Days 91 - thereafter = Base Rate plus 2%	3.25	Same terms as interest rate on LOC draws	108 basis points

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

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 9 or 13 months with respect to the Series A & D bonds respectfully, 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, 2016:

	Wells Fargo Series 2009 C	TD Bank Series 2009 B	J.P. Morgan Series 2009 A & D	Total
2017	\$ 1,340	\$ 1,067	\$ 1,480	\$ 3,887
2018	21,742	17,506	15,152	54,400
2019	21,651	16,693	27,930	66,274
2020	19,884	15,880	25,786	61,550
2021	9,279	15,067	14,174	38,520
2022	-	14,255	-	14,255
2023	-	3,437	-	3,437
	<u>\$ 73,896</u>	<u>\$ 83,904</u>	<u>\$ 84,523</u>	<u>\$ 242,323</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 2016 approximated \$2,116.

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 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 \$2,021 for the year ended December 31, 2016.

Pursuant to the Stabilization Agreement and, subsequently, the Successor Agreement, 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 of 3.457% for series 2009B, C and D and 4.61% for series 2009A

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

contemplated as part of the interest rate swap agreements. Payments applicable to long-term debt for years subsequent to December 31, 2016 are as follows:

	<u>Principal</u>	<u>Estimated Interest</u>
2017	\$ 14,115	\$ 7,685
2018	14,695	7,168
2019	15,290	6,630
2020	15,910	6,069
2021	16,565	5,484
2022 to 2025	67,515	15,844
2026 to 2029	<u>72,310</u>	<u>6,325</u>
	<u>\$ 216,400</u>	<u>\$ 55,204</u>

In January 2016, the Corporation issued \$40,000 of taxable 2016 Revenue Anticipation Notes (“2016 RANs”) that were due in January 2017 and secured by scheduled IGT payments and other New York State payments. The 2016 RANs were repaid in full in January 2017 (see Note 14).

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.

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.

GASB 72, addresses the accounting and financial reporting issues related to fair value measurements. GASB 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between swap counterparties at the measurement date, which includes the nonperformance risk (the mark-to-market value excludes the risk of nonperformance). As noted above, the Corporation adopted GASB 72 beginning fiscal year ended 2016.

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

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

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, 2016.

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 \$6,100 for the year ended December 31, 2016.

The Corporation's hedging derivative instruments at December 31, 2016 are as follows:

Swap ID	Fair Value December 31, 2016	Fair Value Net Change in	Fair Value December 31, 2015	Type of Hedge	Financial Statement Classification for Changes in Fair Value
1	\$ (8,379)	\$ 1,695	\$ (10,074)	Cash Flow	Deferred outflow
2	(8,361)	1,691	(10,052)	Cash Flow	Deferred outflow
3	(8,361)	1,691	(10,052)	Cash Flow	Deferred outflow
	<u>\$ (25,101)</u>	<u>\$ 5,077</u>	<u>\$ (30,178)</u>		

The terms of the Corporation's financial derivative instruments that were outstanding at December 31, 2016 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%	\$ 66,593
Merrill Lynch	October 14, 2004	August 1, 2029	3.4570%	62.6% of 1-Month LIBOR + .23%	\$ 66,408
UBS AG	October 14, 2004	August 1, 2029	3.4570%	62.6% of 1-Month LIBOR + .23%	\$ 66,408

The amount of outstanding debt covered by the three interest rate swap agreements totals \$198,740 and mature on August 1, 2029.

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.

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

Credit Risk - This is the risk that a counterparty will not fulfill its obligations. As of December 31, 2016, the Corporation has zero credit risk, because the mark-to-market of the swaps are all negative. 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 International Swap Dealers Association 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, 2016 were as follows.

Counterparty	Moody's	Standard and Poors	Fitch
JPMorgan Chase	Aa3	A+	AA-
Merrill Lynch (Bank of America)	Baa1	BBB+	A
UBS AG	A1	A	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 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.

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

6. TRANSACTIONS WITH THE COUNTY OF NASSAU

The following amounts are included in the accompanying statement of revenues, expenses and changes in net position, and represent transactions that occurred between the County and the Corporation during the year ended December 31, 2016:

Revenue earned from the County:	
Patient care	\$ 2,300
Space charges	1,528
Non-patient care	4,759
Health insurance for retiree charges	<u>12,048</u>
	20,635
County pass-through transactions:	
Amounts paid on behalf of the County	1,041
State aid and other amounts collected by the County	<u>990</u>
Total transactions with the County	<u>\$ 22,666</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.

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

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

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.

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, 2016 was approximately 18.2% 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, 2016 (Measurement Date).

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, 2016, are as follows:

Proportionate share of the net pension liability	
2016 - Amount	\$ 115,578
2016 - Percentage	0.7200978%
2015 - Percentage	0.7745457%
Deferred outflows of resources	\$ 102,094
Deferred inflows of resources	\$ 14,869
Net pension expense	\$ 41,637

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

NHCC's proportionate share of ERS's 2016 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	\$ 584
Net difference between projected and actual investment earnings on pension plan investments	68,567
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,122
Change in assumptions	<u>30,821</u>
Total	<u>\$ 102,094</u>

Deferred inflows of resources	
Differences between expected and actual experience	\$ 13,700
Changes in proportion and difference between employer contributions and proportionate share of contributions	<u>1,169</u>
Total	<u>\$ 14,869</u>

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:

2017	\$ 21,806
2018	21,806
2019	21,806
2020	<u>21,807</u>
Net of deferred outflows and inflows - amortized	<u>\$ 87,225</u>

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

Actuarial Assumptions

NHCC's net pension liability at the Measurement Date was determined by using an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to March 31, 2016. The actuarial valuation used the following actuarial assumptions:

Actuarial cost method	Aggregate Cost Method
Inflation rate	2.50%
Salary increases	3.8% indexed by service
Investment rate of return, including inflation	7% compounded annually, net of investment expenses
Cost of living adjustments	1.3% annually
Decrements	Developed from the 2015 experience study for the period April 1, 2010 through March 31, 2015
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 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>	

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

Discount Rate

The discount rate used to calculate the total pension liability was 7%. 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	6.00%	\$ 260,619
Current discount rate	7.00%	115,578
1% increase	8.00%	(6,976)

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 3.21% (2016), 3.15% (2015), 3.67% (2014) and 3.00% (2013) interest, the portion of their annual bill that exceeded 14.5%, 13.5%, 12.5%, and 11.5% of payroll for its 2016, 2015, 2014 and 2013 pension bills respectively. Total amount due at December 31, 2016 related to these deferred pension contributions is approximately \$43,189 which \$4,190 is included in current liabilities and \$39,000 is included as part of other long-term liabilities (See 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, 2016, expenses related to health insurance benefits for active and retired employees totaled approximately \$67,386.

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

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 \$10,153 for the year ended December 31, 2016.

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.

The NYSHIP plan’s annual OPEB cost and the related information at December 31, 2016 are as follows:

	<u>2016</u>
Annual required contribution	\$ 41,622
Interest on net OPEB obligation	13,922
Adjustment to ARC	(12,928)
Contributions made (reported in employee benefits - other)	<u>(10,153)</u>
Increase in net OPEB obligation	32,463
Net OPEB obligation - beginning of year	<u>348,053</u>
Net OPEB obligation - end of year	<u>\$ 380,516</u>

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

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

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2016	\$ 42,616	23.8 %	\$ 380,516
December 31, 2015	42,773	20.4 %	348,053
December 31, 2014	41,310	19.3 %	347,330

As of December 31, 2016, the actuarial accrued liability for benefits was \$458,704, all of which was unfunded. As of December 31, 2016, the covered payroll (annual payroll of active employees covered by the NYSHIP plan) was \$165,687, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 277%.

The actuarial valuation date is January 1, 2016. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information provides multi-year trend information for the actuarial accrued liability for benefits.

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

For the December 31, 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% discount rate in 2016 and an annual health care cost trend rate of 5.46% in 2016 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, 2007 to 2016, 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

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

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.

In 2006, the Captive loaned the Corporation \$10,000. The loan is repayable on demand and has been renewed until December 31, 2017. The loan bears interest at a rate of 5% per annum, payable semiannually. At December 31, 2016, 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, 2017. The loan bears interest at a rate of 4% per annum and is payable semiannually. At December 31, 2016, the full loan amount of \$10,000 remains outstanding. The full amount of the loans eliminate in consolidation.

Additionally, the Corporation maintains a revolving credit demand note (the "Revolving Credit Note") with the Captive. Under the terms of the Revolving Credit Note, the Captive may lend principal of up to 100% of its cash balance to the Corporation. No interest is earned under the Revolving Credit Note if principal amounts are repaid within five business days. During 2016, the Corporation borrowed \$20,000 from the Captive under the Revolving Credit Note in order to pay short-term cash obligations related to certain intergovernmental transfers. As at December 31, 2016, no amounts were outstanding under the Revolving Credit Note. No interest was earned under the terms of the Revolving Credit Note in 2016, as all repayments were made within five business days.

The Captive entered into a promissory note agreement with the Corporation in the amount of \$5,500, amended effective December 31, 2006 ("Promissory Note"). During the year ended December 31, 2015, the Corporation contributed \$2,750 to additional paid-in-capital and reduced the promissory note to \$2,750 as of December 31, 2016. The Promissory Note is unsecured, non-interest bearing and has no specific terms of repayment. The Captive may cancel the Promissory Note at any time. As of December 31, 2016, the promissory note was fully repaid by the Corporation.

At December 31, 2016, the Captive was in compliance with its minimum capital requirement.

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.

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

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

	<u>2016</u>
Balance at beginning of year	\$ 31,698
Incurred related to:	
Current year	-
Prior years	<u>752</u>
Total incurred	752
Paid relating to:	
Current year	-
Prior years	<u>(2,750)</u>
Total paid	<u>(2,750)</u>
Balance at end of year	<u>\$ 29,700</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, 2016 and 2015.

In addition to the insurance coverage purchased from the Captive, the Corporation purchases umbrella and other coverage from commercial insurers. For the year ended December 31, 2016, insurance expense totaled \$939.

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 July 2016, effective January 1, 2016, and expires on December 31, 2018.

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

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

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.

12. OTHER OPERATING REVENUE

Other operating revenue consists of the following for the year ended December 31, 2016:

Other non-patient related County billings	\$ 18,246
State Aid	19,243
Health Center - LIFQHC staffing reimbursement	9,670
Medical staff housing	964
Equity in investment in LLC	1,176
Cafeteria	593
Rotating residents	652
Parking	527
Clerkship fees	1,934
DSRIP	30,726
VBP/QIP	15,000
Anesthesia staffing reimbursement	1,718
Other miscellaneous revenue	11,058
	<u>\$ 111,507</u>

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Notes to Financial Statements
December 31, 2016
(In thousands)

13. LONG-TERM LIABILITIES

A schedule of changes in the Corporation's long-term liabilities for 2016 follows:

	Balance			Balance	Amounts Due
	December 31,	Additions	Deductions	December 31,	Within One
	2015			2016	Year
Long-term debt	\$ 229,945	\$ -	\$ (13,545)	\$ 216,400	\$ 14,115
Self-insurance liability	66,668	24,176	(11,558)	79,286	18,260
Accrued vacation and sick leave	61,460	33,785	(30,603)	64,642	6,465
Third party liabilities	37,715	3,630	-	41,345	7,504
Postemployment health insurance	348,053	32,463	-	380,516	10,083
Accrued pension benefits	67,154	91,613	-	158,767	27,762
Interest rate swap agreements	<u>30,178</u>	<u>-</u>	<u>(5,077)</u>	<u>25,101</u>	<u>-</u>
Total noncurrent liabilities	<u>\$ 841,173</u>	<u>\$ 185,667</u>	<u>\$ (60,783)</u>	<u>\$ 966,057</u>	<u>\$ 84,189</u>

14. SUBSEQUENT EVENTS

In January 2017, the 2016 RANs (\$40,000) were repaid.

In January 2017, the Corporation issued \$42,000 of taxable 2017 Revenue Anticipation Notes ("2017 RANs") due in January 2018. The 2017 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 2017 RANs.

REQUIRED SUPPLEMENTARY INFORMATION

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Required Supplementary Information (Unaudited)
December 31, 2016
(In thousands)

Schedule of Funding Progress - Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Level Dollar (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2016	-	\$ 458,704	\$ 458,704	-	\$ 165,687	277%
January 1, 2015	-	446,364	446,364	-	160,084	279%
January 1, 2014	-	402,121	402,121	-	166,344	242%

NASSAU HEALTH CARE CORPORATION
(A Component Unit Of The County of Nassau, New York)
Required Supplementary Information (Unaudited)
December 31, 2016
(In thousands)

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

Reporting Fiscal Year (Measurement Date, March 31,)	Corporation's Proportion of the Net Pension Liability		Corporation's Covered Employee Payroll	Corporation's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
	%	\$			
2015 (2015)	0.775%	\$ 26,166	\$ 197,147	13.27%	97.90%
2016 (2016)	0.720%	\$ 115,578	\$ 209,773	55.10%	90.70%

Schedule of Employer Contributions - Last 10 Years*

Reporting Fiscal Year	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution		Contribution Deficiency (Excess)	Corporation's Covered Employee Payroll	Contributions as a Percentage of Employee Covered Payroll
		Contractually Required Contribution	Contractually Required Contribution			
2015	\$ 37,630	\$ 30,890	\$ 6,740	\$ 197,147	15.67%	
2016	\$ 37,232	\$ 33,979	\$ 3,253	\$ 209,773	16.20%	

**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
As of December 31, 2016
(In thousands)

	Operational Divisions				Blended Component Units				Total
	NUMC	AHP	FPP	NHCC, Ltd.	Nassau Healthcare Foundation	Long Island Medical Foundation	Nassau Medical Associates	Eliminations	
ASSETS									
CURRENT ASSETS									
Cash and cash equivalents	\$ 31,927	\$ 978	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (28,920)	\$ 3,985
Patients accounts receivable, net	20,176	8,472	6,227	-	-	-	-	-	34,875
Inventories	7,425	217	-	-	-	-	-	-	7,642
Prepaid expenses	250	140	-	1,346	-	-	-	-	1,736
Other receivables	86,132	21,120	-	-	-	-	-	-	107,252
Assets restricted to use, required for current liabilities	32,320	6,517	2,811	-	-	-	-	-	41,648
Due from Nassau County	10,626	2,256	-	-	-	-	-	-	12,882
Due from other funds, net	(42,578)	35,051	1,067	-	-	-	-	6,460	-
Total current assets	146,278	74,751	10,105	1,346	-	-	-	(22,460)	210,020
Assets whose use is limited, net of current portion	-	-	-	39,573	6,064	1,338	-	-	46,975
Capital Assets - net	146,430	22,999	-	-	-	-	-	-	169,429
Other assets	27,949	-	-	-	-	-	-	-	27,949
Total assets	320,657	97,750	10,105	40,919	6,064	1,338	-	(22,460)	454,373
DEFERRED OUTFLOWS OF RESOURCES									
Deferred change in fair value of swaps	5,217	1,052	-	-	-	-	-	-	6,269
Deferred charge on refunding	27,197	5,484	-	-	-	-	-	-	32,681
Pension related	84,223	17,871	-	-	-	-	-	-	102,094
Total deferred outflows of resources	116,637	24,407	-	-	-	-	-	-	141,044

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
As of December 31, 2016
(In thousands)

	Operational Divisions				Blended Component Units				Eliminations	Total
	NUMC	AHP	FPP	NHCC, Ltd.	Nassau Healthcare Foundation	Long Island Medical Foundation	Nassau Medical Associates			
LIABILITIES										
CURRENT LIABILITIES										
Current portion of long-term debt	\$ 11,148	\$ 2,967	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,115
Accounts payable and accrued expenses	76,174	6,771	12	71	(26)	-	-	-	-	83,002
Accrued salaries and related withholdings	10,134	1,713	2,811	-	-	-	-	-	-	14,658
Current portion of post retirement health insurance liability	8,360	1,723	-	-	-	-	-	-	-	10,083
Current portion of vacation and sick leave	4,939	1,526	-	-	-	-	-	-	-	6,465
Current portion of self-insurance liability	10,772	-	-	7,488	-	-	-	-	-	18,260
Current portion of accrued pension benefits	23,042	4,720	-	-	-	-	-	-	-	27,762
Current portion of estimated liability to third-party payors	7,504	-	-	-	-	-	-	-	-	7,504
RAN and other current liabilities	79,174	(13,621)	-	(25,158)	-	-	-	5,160	-	45,555
Interest payable	2,584	209	-	(1,823)	-	-	-	-	-	970
Total current liabilities	<u>233,831</u>	<u>6,008</u>	<u>2,823</u>	<u>(19,422)</u>	<u>(26)</u>	<u>-</u>	<u>-</u>	<u>5,160</u>	<u>-</u>	<u>228,374</u>
NONCURRENT LIABILITIES										
Long-term debt	159,808	42,477	-	-	-	-	-	-	-	202,285
Estimated liability to third-party payors	19,353	7,168	500	-	-	-	-	-	-	27,021
Estimated postemployment health insurance liability	307,126	63,307	-	-	-	-	-	-	-	370,433
Estimated self-insurance liability	36,064	-	-	24,962	-	-	-	-	-	61,026
Estimated fair value of interest rate swap agreements	20,889	4,212	-	-	-	-	-	-	-	25,101
Accrued vacation and sick leave	44,447	13,730	-	-	-	-	-	-	-	58,177
Accrued pension benefits	108,733	22,272	-	-	-	-	-	-	-	131,005
Total liabilities	<u>930,251</u>	<u>159,174</u>	<u>3,323</u>	<u>5,540</u>	<u>(26)</u>	<u>-</u>	<u>-</u>	<u>5,160</u>	<u>-</u>	<u>1,103,422</u>
DEFERRED INFLOWS OF RESOURCES										
Pension related	12,267	2,602	-	-	-	-	-	-	-	14,869
Total deferred inflows of resources	<u>12,267</u>	<u>2,602</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,869</u>
NET POSITION										
Net investment in capital assets	97,083	9,882	-	28,920	-	-	-	(28,920)	-	106,965
Restricted	-	-	-	-	-	1,338	-	-	-	1,338
Unrestricted	<u>(602,307)</u>	<u>(49,501)</u>	<u>6,782</u>	<u>6,459</u>	<u>6,090</u>	<u>-</u>	<u>-</u>	<u>1,300</u>	<u>-</u>	<u>(631,177)</u>
Total net position	<u>\$ (505,224)</u>	<u>\$ (39,619)</u>	<u>\$ 6,782</u>	<u>\$ 35,379</u>	<u>\$ 6,090</u>	<u>\$ 1,338</u>	<u>\$ -</u>	<u>\$ (27,620)</u>	<u>\$ -</u>	<u>\$ (522,874)</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
For the year ended December 31, 2016
(In thousands)

	Operational Divisions				Blended Component Units				Total
	NUMC	AHP	FPP	NHCC, Ltd.	Nassau Healthcare Foundation	Long Island Medical Foundation	Nassau Medical Associates	Eliminations	
OPERATING REVENUE									
Net patient service revenue	\$ 356,850	\$ 85,338	\$ 25,244	\$ -	\$ -	\$ -	\$ -	\$ (12,072)	\$ 455,360
Other revenue	101,889	573	-	7,668	7,076	635	-	(6,334)	111,507
Total operating revenues	458,739	85,911	25,244	7,668	7,076	635	-	(18,406)	566,867
OPERATING EXPENSES									
Salaries	209,559	32,344	11,042	-	3,428	62	-	-	256,435
Employee benefits - pension	36,218	5,419	-	-	-	-	-	-	41,637
Employee benefits - other	76,778	15,201	393	-	204	5	-	-	92,581
Supplies and other expenses	143,128	12,370	13,803	1,004	1,534	326	-	(18,406)	153,759
Depreciation and amortization	20,309	841	-	-	5	-	-	-	21,155
	485,992	66,175	25,238	1,004	5,171	393	-	(18,406)	565,567
Income (loss) before OPEB expense	(27,253)	19,736	6	6,664	1,905	242	-	-	1,300
Employee benefits - OPEB	(26,915)	(5,548)	-	-	-	-	-	-	(32,463)
Operating (loss) Income	(54,168)	14,188	6	6,664	1,905	242	-	-	(31,163)
NONOPERATING ACTIVITIES									
Interest income	10	1	-	151	-	-	-	-	162
Interest expense	(11,821)	(1,990)	-	900	-	-	-	-	(12,911)
Total nonoperating activities, net	(11,811)	(1,989)	-	1,051	-	-	-	-	(12,749)
Capital contributions	13,000	-	-	2,750	-	-	-	(2,750)	13,000
Change in net position	(52,979)	12,199	6	10,465	1,905	242	-	(2,750)	(30,912)
Net position, beginning of year	(452,245)	(51,818)	6,776	24,914	4,185	1,096	-	(24,870)	(491,962)
Net position, end of year	\$ (505,224)	\$ (39,619)	\$ 6,782	\$ 35,379	\$ 6,090	\$ 1,338	\$ -	\$ (27,620)	\$ (522,874)

See accompanying report of independent certified public accountants.