

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

**Basic Financial Statements, Required Supplementary Information,
and Supplementary Information**
For the Year Ended December 31, 2019
With Independent Auditor's Report



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
Year Ended December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Nassau Health Care Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Nassau Health Care Corporation (Corporation), a component unit of the County of Nassau, New York as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in 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.

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Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Going Concern Uncertainty

The accompanying financial statements have been prepared assuming that the entity will continue as a going concern. As discussed in Note 1 to the financial statements, the entity has suffered recurring losses from operations, a working capital deficit, and a total negative net position, and has stated that substantial doubt exists about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Adoption of New Accounting Pronouncements

As discussed in Note 2 to the financial statements, as of December 31, 2019, the Corporation adopted Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations* and GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Proportionate Share of Net Pension Liability-Last 10 Years, the Schedule of Employer Contributions-Last 10 Years, and the Schedule of Changes in the Net OPEB Liability and Related Ratios, on pages 4 through 8 and pages 50 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of



the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The combining statement of net position and combining statement of revenues expenses and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statement of net position and combining statement of revenues expenses and changes in net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining statement of net position and combining statement of revenues expenses and changes in net position are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Mitchell Titus, LLP

June 26, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
December 31, 2019
Management's Discussion and Analysis (Unaudited)

INTRODUCTION

This Management's Discussion and Analysis (MD&A) of Nassau Health Care Corporation (the Corporation or NHCC) introduces the basic financial statements for the year ended December 31, 2019. 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.

The basic financial statements (Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows, and the Notes to the Financial Statements) present the financial position of NHCC at December 31, 2019, and the changes in its financial position for the year then ended. These financial statements report information about NHCC using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of NHCC's assets and liabilities. The Statement of Revenues, Expenses, and Changes in Net Position reflect the 2019 activities on the accrual basis of accounting, where revenues and expenses are recorded when services are provided or obligations are incurred, not when cash is received or paid. The financial statements also report NHCC's net position (the difference between assets and liabilities) and how that has changed. Net position is one way to measure financial health or condition. The Statement of Cash Flows provide relevant information about the year's cash receipts and cash payments and classify them as operating, noncapital financing, capital and related financing and investing activities. The notes to the financial statements explain information in the financial statements and provide more detailed data.

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
December 31, 2019
Management's Discussion and Analysis (Unaudited) *(continued)*
(in thousands)

CONDENSED FINANCIAL INFORMATION

Net Position

| | <u>2019</u> | <u>2018</u> | <u>2019-2018 Dollar Change</u> | <u>2019-2018 Percentage Change</u> |
|---------------------------------------|---------------------|---------------------|--|--|
| ASSETS | | | | |
| Current assets | \$ 277,251 | \$ 257,027 | \$ 20,224 | 8 % |
| Capital assets, net | 150,881 | 153,772 | (2,891) | (2)% |
| Other assets | 39,926 | 42,262 | (2,336) | (6)% |
| Total assets | <u>\$ 468,058</u> | <u>\$ 453,061</u> | <u>\$ 14,997</u> | 3 % |
| DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 65,805</u> | <u>\$ 81,846</u> | <u>\$ (16,041)</u> | (20)% |
| LIABILITIES | | | | |
| Current liabilities | \$ 297,913 | \$ 193,179 | \$ 104,734 | 54 % |
| Long-term portion of debt | 156,905 | 172,518 | (15,613) | (9)% |
| Other long-term liabilities | 810,542 | 870,555 | (60,013) | (7)% |
| Total liabilities | <u>\$ 1,265,360</u> | <u>\$ 1,236,252</u> | <u>\$ 29,108</u> | 2 % |
| DEFERRED INFLOWS OF RESOURCES | <u>\$ 79,255</u> | <u>\$ 45,622</u> | <u>\$ 33,633</u> | 74 % |
| NET POSITION | | | | |
| Net investment in capital assets | \$ 96,326 | \$ 99,179 | \$ (2,853) | (3)% |
| Restricted | 1,511 | 1,335 | 176 | 13 % |
| Unrestricted | (908,589) | (847,481) | (61,108) | 7 % |
| Total net position | <u>\$ (810,752)</u> | <u>\$ (746,967)</u> | <u>\$ (63,785)</u> | 9 % |

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
December 31, 2019
Management's Discussion and Analysis (Unaudited) *(continued)*
(in thousands)

CONDENSED FINANCIAL INFORMATION *(continued)*

Revenues, Expenses, and Changes in Net Position

| | <u>2019</u> | <u>2018</u> | <u>2019-2018 Dollar Change</u> | <u>2019-2018 Percentage Change</u> |
|--|---------------------|---------------------|--|--|
| OPERATING REVENUE | | | | |
| Net patient service revenue | \$ 457,486 | \$ 471,608 | \$ (14,122) | (3)% |
| Other revenue | <u>117,561</u> | <u>116,005</u> | <u>1,556</u> | 1 % |
| Total operating revenue | <u>575,047</u> | <u>587,613</u> | <u>(12,566)</u> | (2)% |
| OPERATING EXPENSES | | | | |
| Salaries | 273,622 | 267,964 | 5,658 | 2 % |
| Employee benefits | 139,042 | 138,493 | 549 | 0 % |
| Supplies and other expenses | 165,232 | 177,595 | (12,363) | (7)% |
| Depreciation | <u>17,888</u> | <u>18,303</u> | <u>(415)</u> | (2)% |
| | <u>595,784</u> | <u>602,355</u> | <u>(6,571)</u> | (1)% |
| (Loss) income before OPEB expense, NYS actuarial pension adjustment | (20,737) | (14,742) | (5,995) | 41 % |
| Employee benefits - OPEB | (39,463) | (33,915) | (5,548) | 16 % |
| NYS actuarial pension adjustment - GASB 68 | <u>(3,773)</u> | <u>2,052</u> | <u>(5,825)</u> | (284)% |
| Operating loss | (63,973) | (46,605) | (17,368) | 37 % |
| Nonoperating activities, net | (6,517) | (11,413) | 4,896 | (43)% |
| Capital contributions | <u>6,705</u> | <u>4,767</u> | <u>1,938</u> | 41 % |
| Decrease in net position | (63,785) | (53,251) | (10,534) | 20 % |
| NET POSITION | | | | |
| Beginning of year | (746,967) | (561,782) | (185,185) | 33 % |
| GASB 75 adoption adjustment - January 1, 2018 | <u>-</u> | <u>(131,934)</u> | <u>131,934</u> | (100)% |
| End of year | <u>\$ (810,752)</u> | <u>\$ (746,967)</u> | <u>\$ (63,785)</u> | 9 % |

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

December 31, 2019

Management's Discussion and Analysis (Unaudited) *(continued)*
(in thousands)

FINANCIAL ANALYSIS OF THE CORPORATION

For the years ended December 31, 2019 and 2018, the NHCC generated losses before other postemployment benefits (OPEB) and NYS actuarial pension adjustment of \$20,737 and \$14,742, respectively. Operating revenue decreased by \$12,566 to \$575,047, primarily due to a decrease in disproportionate share payments, which is funded through the inter-government transfers (IGT), and adjustments to prior-year reimbursement rates. Operating expenses decreased by \$6,571 to \$595,784, primarily due to a decrease in professional liability insurance, offset by an increase in payroll expense due to a 1% collective bargaining agreement increase and additional hiring at A. Holly Patterson Extended Care Facility.

GOING CONCERN

NHCC has experienced recurring operating losses, a working capital deficit and has a total negative net position of \$810,752 at December 31, 2019, and is dependent on the continuation of federal, state and local subsidies, certain of which are scheduled to end or be reduced. These matters raise substantial doubt about NHCC's ability to continue as a going concern. Additionally, in 2020, the COVID-19 health crisis has added further uncertainty regarding the operations of NHCC, as well as the healthcare system in general. NHCC is continuously striving to improve its operating results by continuing to progress with collecting on patient accounts, through cash flows provided by government subsidies for the funding of capital projects and by participating in the Delivery System Reform Incentive Program and certain other value-based payment programs. NHCC has also undertaken a number of initiatives, including the renegotiation of commercial managed care contracts, changes to medical management practices, improved supply chain, inventory management, rightsizing of personnel and further cost reductions. Nassau Interim Finance Authority (NIFA) currently has oversight of the operations of NHCC and in that capacity, reviews certain operational aspects of the Corporation.

OPERATING ACTIVITIES

Net Patient Service Revenue

Total net patient service revenue was \$457,486 and \$471,608 for the years ended December 31, 2019 and 2018, respectively, a decrease of \$14,122 in 2019. IGT revenue in 2019 was \$74,832, which was \$9,741 less than the 2018 amount of \$84,573.

Other Operating Revenue

Other operating revenue of \$117,561 and \$116,005 in 2019 and 2018, respectively, represents an increase of \$1,556. This increase resulted from value-based payment/quality improvement program revenues (VBP/QIP) of \$13,500. This increase was offset by a decrease in Delivery System Reform Incentive Payment (DSRIP) revenue of \$11,399 and miscellaneous revenue.

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
December 31, 2019
Management's Discussion and Analysis (Unaudited) *(continued)*
(in thousands)

OPERATING ACTIVITIES *(continued)*

Expenses

Total operating expenses before OPEB and NYS actuarial pension adjustment were \$595,784 and \$602,355 for the years ended December 31, 2019 and 2018, respectively. Expenses decreased from 2018 to 2019 by \$6,571. A description of the component categories follows.

Salaries in 2019 of \$273,622 increased \$5,658 from the 2018 salary expense of \$267,964. The increase was the result of an increase in FTEs for services at A. Holly Patterson Extended Care Facility and a 1% increase in union salaries.

Employee benefit costs, before OPEB and NYS actuarial pension adjustment expenses were \$139,042 and \$138,493 in 2019 and 2018, respectively.

Supplies and other expenses were \$165,232 and \$177,595 in 2019 and 2018, respectively, a decrease of \$12,363. The decrease was due to a decrease in self-insurance liability costs and reduced temporary agency personnel cost at A. Holly Patterson Extended Care Facility as a result of hiring personnel.

Pension and OPEB

In 2019, the Corporation recorded a NYS actuarial pension adjustment—GASB No. 68 of \$3,773 compared to a credit of \$2,052 in 2018. The Corporation also recorded an unfunded other postemployment benefit expense of \$39,463 and \$33,915 in 2019 and 2018, respectively. The costs for these plans are actuarially calculated based on plan benefits that current and retired employees have accrued as a result of their respective years of employment service.

Capital Assets

During the years ended 2019 and 2018, the Corporation purchased \$14,998 and \$19,337 in capital assets, respectively, and incurred \$17,888 and \$18,303 in depreciation expense.

Debt

During the years ended 2019 and 2018, the Corporation made principal and interest payments of \$21,988 and \$25,227, respectively.

Contacting the Corporation's Financial Management

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

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
Statement of Net Position
December 31, 2019
(In thousands)

ASSETS

Current assets

| | |
|---|----------------|
| Cash and cash equivalents | \$ 16,631 |
| Patient accounts receivable, net | 31,475 |
| Inventories | 8,806 |
| Prepaid expenses | 1,091 |
| Other receivables | 65,590 |
| Due from third-party payors | 7,314 |
| Assets restricted as to use, required for current liabilities | 116,344 |
| Due from Nassau County, net | 30,000 |
| Total current assets | 277,251 |

| | |
|----------------------------------|-------------------|
| Assets restricted as to use, net | 6,766 |
| Capital assets - net | 150,881 |
| Other assets | 33,160 |
| Total assets | \$ 468,058 |

DEFERRED OUTFLOWS OF RESOURCES

| | |
|--|------------------|
| Deferred change in fair value of interest rate swaps | \$ 376 |
| Deferred charge on refunding | 26,765 |
| Pension and OPEB related | 38,664 |
| Total deferred outflows of resources | \$ 65,805 |

LIABILITIES

Current liabilities

| | |
|---|-------------------|
| Current portion of long-term debt | \$ 16,082 |
| Accounts payable and accrued expenses | 170,969 |
| Accrued salaries and related withholdings | 20,813 |
| Current portion of postemployment health insurance liability | 14,974 |
| Current portion of vacation and sick leave | 7,315 |
| Current portion of estimated self-insurance liability | 10,689 |
| Current portion of accrued pension benefits | 16,018 |
| Current portion of estimated liability to third-party payors, net | 32,542 |
| Other current liabilities | 8,023 |
| Accrued interest payable | 488 |
| Total current liabilities | \$ 297,913 |

| | |
|---|---------------------|
| Long-term debt | \$ 156,905 |
| Estimated liability to third-party payors, net | 34,237 |
| Estimated postemployment health insurance liability | 550,107 |
| Estimated self-insurance liability | 71,753 |
| Estimated fair value of interest rate swap agreements | 18,623 |
| Accrued vacation and sick leave | 65,833 |
| Accrued pension benefits | 69,989 |
| Total liabilities | \$ 1,265,360 |

DEFERRED INFLOWS OF RESOURCES

| | |
|--|------------------|
| Pension and OPEB related | \$ 79,255 |
| Total deferred inflows of resources | \$ 79,255 |

COMMITMENTS AND CONTINGENCIES

Net position

| | |
|----------------------------------|---------------------|
| Net investment in capital assets | \$ 96,326 |
| Restricted | 1,511 |
| Unrestricted | (908,589) |
| Total net position | \$ (810,752) |

The accompanying notes are an integral part of these 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
Year Ended December 31, 2019
(In thousands)

OPERATING REVENUE

| | |
|--|----------------|
| Net patient service revenue (net of the provision for bad debts of \$56,041) | \$ 457,486 |
| Other revenue | 117,561 |
| | <hr/> |
| Total operating revenue | <u>575,047</u> |

OPERATING EXPENSES

| | |
|--------------------------------------|----------------|
| Salaries | 273,622 |
| Employee benefits - pension | 30,996 |
| Employee benefits - health and other | 108,046 |
| Supplies and other expenses | 165,232 |
| Depreciation and amortization | 17,888 |
| | <hr/> |
| | <u>595,784</u> |

| | |
|--|----------|
| Loss before OPEB expenses and NYS actuarial pension adjustment | (20,737) |
|--|----------|

| | |
|--|----------|
| Employee benefits - OPEB expenses | (39,463) |
| NYS actuarial pension adjustment - GASB No. 68 | (3,773) |
| | <hr/> |

| | |
|----------------|-----------------|
| Operating loss | <u>(63,973)</u> |
|----------------|-----------------|

NONOPERATING ACTIVITIES

| | |
|------------------|---------|
| Interest income | 1,759 |
| Interest expense | (8,276) |
| | <hr/> |

| | |
|------------------------------------|----------------|
| Total nonoperating activities, net | <u>(6,517)</u> |
|------------------------------------|----------------|

| | |
|-----------------------|-------|
| Capital contributions | 6,705 |
|-----------------------|-------|

| | |
|--------------------------|----------|
| Decrease in net position | (63,785) |
|--------------------------|----------|

| | |
|-------------------|------------------|
| Beginning of year | <u>(746,967)</u> |
|-------------------|------------------|

| | |
|--------------------|----------------------------|
| End of year | <u><u>\$ (810,752)</u></u> |
|--------------------|----------------------------|

The accompanying notes are an integral part of these financial statements.

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
Statement of Cash Flows
Year Ended December 31, 2019
(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|------------|
| Cash received from patients, third-party payors and other related payments | \$ 495,014 |
| Cash received from other operating revenue | 100,846 |
| Cash paid to employees | (413,111) |
| Cash paid to suppliers | (111,083) |
| | <hr/> |
| Net cash from operating activities | 71,666 |

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|----------|
| Cash paid for interest | (4,580) |
| Payment of debt | (14,989) |
| Payment of other liabilities | 4,930 |
| | <hr/> |
| Net cash used in noncapital and related financing activities | (14,639) |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|----------|
| Purchases of capital assets | (15,033) |
| Cash paid for interest, net of amounts capitalized | (2,332) |
| Grants for capital asset acquisitions | 6,705 |
| | <hr/> |
| Net cash used in capital and related financing activities | (10,660) |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---------------------------------------|-------|
| Cash received from interest | 1,759 |
| | <hr/> |
| Net cash used in investing activities | 1,759 |

| | |
|---|------------|
| Net increase in cash and cash equivalents | 48,126 |
| Cash and cash equivalents, beginning of year | 5,478 |
| Assets limited as to use, beginning of year | 86,137 |
| | <hr/> |
| Total cash and restricted cash, beginning of year | 91,615 |
| Cash and cash equivalents, end of year | 16,631 |
| Assets limited as to use, end of year | 123,110 |
| | <hr/> |
| Total cash and restricted cash, end of year | \$ 139,741 |

The accompanying notes are an integral part of these financial statements.

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
Statement of Cash Flows *(continued)*
Year Ended December 31, 2019
(In thousands)

**RECONCILIATION OF OPERATING LOSS TO NET CASH FROM
OPERATING ACTIVITIES**

| | |
|---|------------------|
| Operating loss | \$ (63,978) |
| Depreciation and amortization | 17,888 |
| <i>Changes in operating assets and liabilities</i> | |
| Patient accounts receivable | 7,060 |
| Prepaid expenses and inventories | 667 |
| Other receivables and assets | 19,919 |
| Due from Nassau County | (584) |
| Accounts payable and accrued expenses | 66,823 |
| Accrued salaries, withholding, pensions, vacation, sick pay and other | 77,168 |
| Due to/from third-party payors, net | (6,167) |
| Estimated self-insurance liability | (12,753) |
| Postemployment health insurance liability | (34,377) |
| | <hr/> |
| Net cash from operating activities | \$ 71,666 |

The accompanying notes are an integral part of these financial statements.

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
Notes to Financial Statements
Year Ended December 31, 2019
(In thousands)

NOTE 1 ORGANIZATION

The Nassau Health Care Corporation (d/b/a NuHealth) (NHCC, or the Corporation) is a public benefit corporation created pursuant to Public Authorities Law 3401, *et. seq.* (PAL) by New York State (State) in 1996 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 15 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. Nassau University Medical Center (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) six treatment centers and two school-based clinics.

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 having an interdependent relationship.

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
Notes to Financial Statements
Year Ended December 31, 2019
(In thousands)

NOTE 1 ORGANIZATION *(continued)*

- *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's 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 revenue and maintains discretionary funds that can be used by the Chairman of each NHCC department for educational and mission-related purposes. In March 2011, NHCF applied to the Department of Labor to obtain status as a Professional Employer Organization (PEO) pursuant to the New York Professional Employer Act of 2003. As a result of this action, NHCF officially became a co-employer of certain NHCC employees as of May 18, 2011. Effective December 2019, NHCC discontinued its PEO status.
- *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 and general liability 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 as a 501(c)(3) on May 22, 2009 for the purpose of becoming the licensed operator of a 150-bed Medicaid Assisted Living Program (ALP) and a related Licensed Home Services Agency (LHCSA). The ALP will be a primary component of a State mandated rightsizing of AHP. The New York State Department of Health (NYSDOH) has approved NewCo's application for a license to operate an ALP at an expanded 200-bed size, and approved a LHCSA for this purpose in a building, which previously served as the Hempstead General Hospital, situated at 820 Front Street, Hempstead (Nassau County), New York 11550 (the Site). NewCo has had no operating activities since its formation.

NASSAU HEALTH CARE CORPORATION
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Notes to Financial Statements
Year Ended December 31, 2019
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NOTE 1 ORGANIZATION *(continued)*

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 was established by NYSDOH on June 15, 2010, as a co-operator of the six treatment centers and two school-based clinics that were 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, 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.

Going Concern

NHCC has experienced recurring operating losses, a working capital deficit and has a total negative net position of \$810,752 at December 31, 2019, and is dependent on the continuation of federal, state and local subsidies, certain of which are scheduled to end or be reduced. These matters raise substantial doubt about NHCC's ability to continue as a going concern. NHCC is continuously striving to improve its operating results by continuing to progress with collecting on patient accounts 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 12). NHCC has also undertaken a number of initiatives, including the renegotiation of commercial managed care contracts, changes to medical management practices, improved supply chain, inventory management, rightsizing of personnel and further cost reductions. Nassau County Interim Finance Authority (NIFA) currently has oversight of the operations of Nassau Health Care Corporation and in that capacity reviews certain operational aspects of the Corporation.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact activities of the Corporation. Other financial implications could occur though such potential impact is unknown at this time. No adjustments or provisions were made in these financial statements related to COVID-19.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Net Position

The 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 NHCF 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 meet the definition of previous net position components.

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
Notes to Financial Statements
Year Ended December 31, 2019
(In thousands)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 postemployment 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. NHCC's cash and cash equivalents policies are governed by state statutes. Cash and cash equivalents consist primarily 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.

Cash and cash equivalents in the statement of cash flows consist of cash and cash equivalents and assets limited as to use (see Note 3) on the statement of net position.

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.

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

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Net Patient Service Revenue and Accounts Receivable for Services to Patients
(continued)

Medicare Reimbursement

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

Non-Medicare Reimbursement

In New York State, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payers are billed at the 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. 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 as those years are final settled.

NASSAU HEALTH CARE CORPORATION
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Notes to Financial Statements
Year Ended December 31, 2019
(In thousands)

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Net Patient Service Revenue and Accounts Receivable for Services to Patients
(continued)

Non-Medicare Reimbursement (continued)

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 2016. Other years remain open for audit and settlement as are numerous issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained. The current Medicaid, Medicare and other third-party payer programs are based upon extremely complex laws and regulations that are subject to interpretation. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Corporation is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying financial statements and believes that it is in compliance with all applicable laws and regulations.

There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the Federal and State governments, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Corporation.

Additionally, certain payers' payment rates for various years have been appealed by the Corporation. If the appeals are successful, additional income applicable to those years might be realized. No amounts have been recorded in regards to these appeals.

NASSAU HEALTH CARE CORPORATION
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Notes to Financial Statements
Year Ended December 31, 2019
(In thousands)

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Net Patient Service Revenue and Accounts Receivable for Services to Patients
(continued)

Non-Medicare Reimbursement (continued)

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 New York State Universal Settlement with nursing homes resulted in the settlement of this case, as well as all other pending reimbursement appeals by AHP, in exchange for an allocation of Universal Settlement proceeds to AHP in the total amount of \$13,895, of which \$11,500 was allocated to this case. Under the terms of the Universal Settlement, payments were made in installments over five years and as of December 31, 2019, no amounts are outstanding under the settlement.

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 \$32,303 for the year ended December 31, 2019. The cost of charity care was estimated using a ratio of cost-to-gross charges, which totaled \$9,218 for the year ended December 31, 2019.

Intergovernmental Transfers

The 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.

NASSAU HEALTH CARE CORPORATION
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NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Intergovernmental Transfers *(continued)*

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 2019 was approximately \$74,834. Under the Affordable Care Act (the Act), DSH was to be decreased significantly over time for all DSH-qualified hospitals in the country. However, since the passage of the Act in 2010, Congress has consistently delayed the DSH reductions. The reductions are now scheduled to begin in May 2020, unless further delayed by Congress at that time. It is uncertain whether Congress will enact another delay.

During 2019, NHCC received approximately \$23,622 from the NYSDOH relating to additional DSH payments applicable to 2015, 2016 and 2017. However, NUMC has determined that a portion of the amounts received were overpaid due to an issue relating to the calculation of the payments. NUMC is in the process of quantifying the overpayment but cannot reasonably estimate the amount of the overpayment at this time. Accordingly, the additional DSH payments are included in long-term, estimated liability to third-party payors at December 31, 2019.

Delivery System Reform Incentive Program and VBP QIP Program

The Corporation is leading one of the 25 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 and is scheduled to end March 31, 2020, subject to the satisfaction of program milestones that are measured at various stages of the DSRIP Program. In 2019, the Corporation recognized \$27,061, which is included in other operating revenue in the accompanying statement of revenues, expenses and changes in net position. At December 31, 2019, \$11,966 related to DSRIP was accrued in other current receivables. 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.

In connection with the State of New York Value-Based Payment (VBP) and Quality Incentive Payment (QIP) Program, the Corporation recognized a net amount of \$13,500 for its participation in the program for 2019. The Corporation had other current receivables of \$20,000 at December 31, 2019, which was received in 2020. 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 VBP and QIP initiatives.

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NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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, HMOs and commercial insurance policies).

The significant concentrations of accounts receivable for services to patients at December 31, 2019 are as follow:

| | |
|--------------------|-------------|
| Medicare | 10% |
| Medicaid | 14% |
| Commercial | 19% |
| Commercial HMO | 16% |
| Medicare HMO | 9% |
| Medicaid HMO | 18% |
| Self-pay and other | 14% |
| | <u>100%</u> |

The components of net patient service revenue consisted of the following for the year ended December 31, 2019:

| | |
|--|-------------------|
| Services provided to patients (net of contractual allowances of approximately \$1,021,942), respectively | \$ 438,694 |
| Intergovernmental transfer | 74,834 |
| Provision for bad debts | <u>(56,041)</u> |
| | <u>\$ 457,487</u> |

The Corporation is paid by third-party payors for patient services rendered generally at negotiated or otherwise predetermined amounts established by the applicable coverage program. For the year ended December 31, 2019, revenue from Medicaid and Medicare programs accounted for approximately 62% of net revenue for services provided to patients.

Assets Restricted as to Use

Assets restricted as to use consist of cash and money market funds. These may include amounts held by the NHCF and the Captive, restricted for capital and internally designated for capital, payment of professional and other insurance liabilities, pension liabilities, debt service and amounts held by the Faculty Practice Plan. 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.

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NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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 using the American Hospital Association's Guide – Estimated Useful Life of Depreciable Hospital Assets. 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, the amounts recorded in connection with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* and the amounts recorded in connection with GASB Statement No. 75, *Financial Reporting for Postemployment Benefits other than Pension*. 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 expenses related to vested vacation, sick pay and compensation time based on pay rates in effect at year end.

NASSAU HEALTH CARE CORPORATION
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(In thousands)

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Professional and Other Insurance Liabilities

Professional and other insurance liabilities, including loss adjustment expenses, represent management's best estimate using case basis evaluations and actuarial analysis. The estimate is based on the ultimate settlement cost of all unpaid losses and loss adjustment expenses incurred through December 31 of each policy year. 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 that are reported at fair value. The change in fair value of hedging 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, 2019, the Corporation's equity interest in the LLC is \$18,987 and is recorded in other assets in the statement of net position. In 2019, the Corporation received distributions of \$1,889 and recorded an increase in its equity interest in the LLC of approximately \$3,675 which is included in other revenue in the statement of revenues, expenses and changes in net position for the year ended December 31, 2019. The LLC is a non-governmental organization and its separate financial statements are not publicly available.

In addition, \$11,259 is included in other assets at December 31, 2019, which is related to retained payments due from the LLC.

NASSAU HEALTH CARE CORPORATION
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NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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

Adopted and Recent Accounting Pronouncements

Effective January 1, 2018, NHCC adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB No. 75 improved accounting and financial reporting by the state and local governments for postemployment benefits other than pensions (other postemployment benefits). GASB No. 75 requires the liability of employers for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of the projected benefit payments to be provided to active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The effect of the adoption of GASB No. 75 was a \$131,934 reduction of net position.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB No. 83). GASB No. 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 No. 83. The requirements of GASB No. 83 are effective for reporting periods beginning after June 15, 2018. NHCC adopted GASB No. 83 in 2019; however, it did not have a material impact on its financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities* (GASB No. 84). The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions in GASB No. 84 are effective for fiscal years beginning after December 15, 2019 and earlier application is encouraged. The Corporation is reviewing GASB No. 84 for possible implications.

NASSAU HEALTH CARE CORPORATION
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(In thousands)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Adopted and Recent Accounting Pronouncements *(continued)*

In June 2017, the GASB issued Statement No. 87, *Leases* (GASB No. 87). The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB No. 87 are effective for reporting periods beginning after December 15, 2019. NHCC has not evaluated the effect of GASB No. 87 on its financial statements.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt* (GASB No. 88). The objective of this Statement is to improve the consistency of information presented in the footnotes to the financial statements with respect to long-term debt, and to distinguish it from other long-term liabilities in applying disclosure requirements. In addition to defining debt as a liability that arises from a contractual obligation to make payments to settle an amount that is fixed at the date the contractual obligation is established, the Statement also requires disclosure of unused lines of credit, assets pledged as collateral and information related to default or termination events. The requirements of GASB No. 88 are effective for reporting periods beginning after June 15, 2018. NHCC adopted GASB No. 88 in 2019; however, it did not have a material impact on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting/or Interest Cost Incurred Before the End of a Construction Period* (GASB No. 89). This Statement improves financial reporting by providing users with more relevant information about capital assets and costs of borrowing. For NHCC, the Statement will no longer permit interest to be capitalized before the end of a construction period but instead, will require that interest costs be recognized as an expense in the period incurred. The requirements of GASB No. 89 are effective for reporting periods beginning after December 15, 2019. NHCC has not evaluated the effect of GASB No. 89 on its financial statements.

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Year Ended December 31, 2019
(In thousands)

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Adopted and Recent Accounting Pronouncements *(continued)*

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests—an Amendment of GASB Statements No. 14 and No. 61* (GASB No. 90). The intent of this Statement is to improve consistency and comparability of reporting major equity interests in legally separate organizations. The Statement defines an equity interest as a financial interest in a legally separate organization through ownership of shares of the organization or by having explicit, measurable rights to the net resources of that organization. Equity interests meeting the definition of an investment, as defined by GASB No. 72, shall be accounted for using the equity method. Equity interests not meeting the definition of an investment are to be reported as a component unit. The requirements of GASB No. 90 are effective for reporting periods beginning after December 15, 2019. NHCC has not evaluated the effect of GASB No. 90 on its financial statements.

In May 2017, the GASB issued GASB Statement No. 91, *Conduit Debt Obligations* (GASB No. 91). The objective of GASB No. 91 is to provide a single method for government issuers to report conduit debt obligations and related commitments. The enhanced guidance is designed to eliminate diversity in practice associated with these issues. GASB No. 91 clarifies the definition of conduit debt obligation, provides clarified guidance on the recording and reporting of conduit debt obligations, and enhances footnote disclosures. The provisions of GASB No. 91 are effective for reporting periods beginning after December 15, 2021. The Corporation is currently evaluating the impact of GASB No. 91 on its financial statements and related footnote disclosures.

In January 2020, the GASB issued GASB Statement No. 92, *Omnibus 2020* (GASB No. 92). GASB No. 92 includes guidance addressing various accounting and financial reporting issues identified during the implementation and application of certain GASB pronouncements. The provisions of GASB No. 92 are effective at various dates. GASB No. 92 is applicable to the Corporation and the Corporation is currently evaluating the impact of GASB No. 92 on its financial statements and related footnote disclosures.

In March 2020, the GASB issued GASB Statement No. 93, *Replacement of Interbank Offered Rates* (GASB No. 93). GASB No. 93 assists state and local governments in the transition away from existing interbank offered rates (IBORs) to other reference rates. GASB No. 93 also addresses those and other accounting and financial reporting implications of the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of GASB No. 93 are effective for reporting periods beginning after June 15, 2021, with earlier application encouraged. The Corporation is currently evaluating the impact of GASB No. 93 on its financial statements and related footnote disclosures.

NASSAU HEALTH CARE CORPORATION
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(In thousands)

NOTE 3 ASSETS RESTRICTED AS TO USE

Assets restricted as to use at December 31, 2019 consisted of the following:

| | |
|---------------------------|--------------------------|
| Cash and cash equivalents | \$ 118,165 |
| Certificates of deposit | 3,764 |
| U.S. Treasury bills | <u>1,181</u> |
| Total | <u>\$ 123,110</u> |

Investment income on cash and cash equivalents and restricted cash and cash equivalents consist of interest income of \$1,747 for the year ended December 31, 2019 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 active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Cash and cash equivalents are categorized as Level 1 and are reflected at carrying value, which approximates fair value. U.S. Treasury bills are categorized as Level 2, and are reflected at fair value based on prices on inactive markets. The Corporation holds non-negotiable certificates of deposit which are carried at amortized cost.

At December 31, 2019, NHCC's assets restricted as to use measured at fair value were categorized between Levels 1, 2 and 3 as follows:

| <u>Description</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Total</u> |
|---------------------------|---|--|--------------------------|
| Cash and cash equivalents | \$ 118,165 | \$ - | \$ 118,165 |
| U.S. Treasury bills | <u>-</u> | <u>1,181</u> | <u>1,181</u> |
| | <u>\$ 118,165</u> | <u>\$ 1,181</u> | 119,346 |
| Certificates of deposit* | | | <u>3,764</u> |
| | | | <u>\$ 123,110</u> |

* These are non-negotiable certificates of deposit and as such, are not required to be leveled.

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NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 is as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Transfers/ Disposals</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|---------------------------------|---------------------------|
| <i>Capital assets, not being depreciated</i> | | | | |
| Land | \$ 12,498 | \$ - | \$ - | \$ 12,498 |
| Construction in process | 17,636 | 10,197 | (16,694) | 11,138 |
| <i>Capital assets, being depreciated</i> | | | | |
| Building and improvements | 250,451 | 4,676 | - | 255,127 |
| Fixed equipment | 111,656 | 7,925 | - | 119,580 |
| Land improvements | 17,130 | - | - | 17,130 |
| Moveable equipment | <u>211,608</u> | <u>8,929</u> | <u>-</u> | <u>220,537</u> |
| Total capital assets being depreciated | <u>620,979</u> | <u>31,727</u> | <u>(16,694)</u> | <u>636,011</u> |
| <i>Less: Accumulated depreciation for</i> | | | | |
| Building and improvements | (164,896) | (7,477) | - | (172,373) |
| Fixed equipment | (107,548) | (935) | - | (108,483) |
| Land improvements | (13,785) | (245) | - | (14,030) |
| Moveable equipment | <u>(180,978)</u> | <u>(9,231)</u> | <u>(35)</u> | <u>(190,244)</u> |
| Total accumulated depreciation | <u>(467,207)</u> | <u>(17,888)</u> | <u>(35)</u> | <u>(485,130)</u> |
| Carrying value of all capital assets, net | <u>\$ 153,772</u> | <u>\$ 13,839</u> | <u>\$ (16,729)</u> | <u>\$ 150,881</u> |

Net interest capitalized for the year ended December 31, 2019 was approximately \$835.

NOTE 5 LONG-TERM DEBT

Long-term debt at December 31, 2019 consisted 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 2.20% at December 31, 2019 | \$ 9,730 |
| 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 1.46% at December 31, 2019 | 162,570 |
| Other | <u>687</u> |
| | 172,987 |
| Current portion | <u>16,082</u> |
| Long-term portion | <u>\$ 156,905</u> |

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NOTE 5 LONG-TERM DEBT *(continued)*

In April 2009, Series 2009 A (taxable), B, C and D Bonds were issued as variable-rate demand bonds (VRDBs) secured by letters of credit (LOCs) to redeem the 2004 Series A and 2004 Series C outstanding bank bonds. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the Corporation's remarketing agent. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. Under irrevocable LOCs issued by Bank of America 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 2009A, B, C, or D bonds that are "put" on the earlier of the 91st day or the expiration date, the Corporation has reimbursement agreements with the letter of credit provider 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 | Base Interest Rate | Interest Rate on LOC Draws | Maximum Loan Period (Years) | Loan Interest Rate | Annual Fee |
|----------------------------|-----------------|--------------------------------|---|---|-----------------------------|--|-----------------|
| Bank of America - Series A | 9/25/2020 | \$9,730 | Greater of Prime Rate plus 1%, Fed Funds Rate plus 2%, and 7% | Days 1-90 = Base Rate Days 91-thereafter = Base Rate plus 1% | 2 | Same terms as interest rate on LOC draws | 50 basis points |
| Bank of America - Series B | 9/25/2020 | \$61,780 | Greater of Prime Rate plus 1%, Fed Funds Rate plus 2%, and 7% | Days 1-90 = Base Rate Days 91-thereafter = Base Rate plus 1% | 3 | Same terms as interest rate on LOC draws | 50 basis points |
| Bank of America - Series C | 9/25/2020 | \$53,540 | Greater of Prime Rate plus 1%, Fed Funds Rate plus 2%, and 7% | Days 1-90 = Base Rate Days 91-thereafter = Base Rate plus 1% | 3 | Same terms as interest rate on LOC draws | 50 basis points |
| Bank of America - Series D | 9/25/2020 | \$47,250 | Greater of Prime Rate plus 1%, Fed Funds Rate plus 2%, and 7% | Days 1-90 = Base Rate Days 91-thereafter = Base Rate plus 1% | 3 | Same terms as interest rate on LOC draws | 50 basis points |

If the reimbursement agreements were to be exercised because the entire series of demand bonds were "put" on September 1, 2020 and not remarketed before the expiration date, the Corporation would be required to pay the following estimated annual amounts (principal and interest) using the LOC banks' interest rates and terms in effect on December 31, 2019:

| | BAML | |
|------|-------------------------|----------------|
| | Series 2009 | |
| | A, B, C, & D | |
| 2020 | \$ | 27,678 |
| 2021 | | 58,116 |
| 2022 | | 53,445 |
| 2023 | | 35,878 |
| | \$ | 175,117 |

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NOTE 5 **LONG-TERM DEBT** *(continued)*

The Corporation is required to pay the providers an annual commitment fee for the LOC as stated above per annum on the outstanding facility amount. Total LOC fees paid in 2019 approximated \$1,459.

The bonds are secured by payments made to NHCC by the County under a guaranty issued by the County pursuant to an ordinance adopted by the County dated March 1, 2009. In addition, the bonds are secured by a letter of credit issued by Bank of America that expires on September 25, 2020.

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 guaranty cannot be amended without the consent of the trustee (on behalf of the holders of the Bonds) and the LOC providers.

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 \$1,649 for the year ended December 31, 2019.

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.

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NOTE 5 **LONG-TERM DEBT** *(continued)*

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 contemplated as part of the current interest rate swap agreements, and the initial assumed synthetic fixed rate of interest of 4.61% for series 2009A under its prior swap agreement. Payments applicable to long-term debt for years subsequent to December 31, 2019 are as follows:

| | <u>Principal</u> | <u>Estimated Interest</u> |
|--------------|-------------------|-------------------------------|
| 2020 | \$ 16,082 | \$ 6,069 |
| 2021 | 16,565 | 5,484 |
| 2022 | 17,725 | 4,874 |
| 2023 | 16,185 | 4,221 |
| 2024 | 16,595 | 3,661 |
| 2025 to 2029 | 89,320 | 9,413 |
| Other | 515 | - |
| | <u>\$ 172,987</u> | <u>\$ 33,722</u> |

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 No. 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 No. 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.

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NOTE 5 **LONG-TERM DEBT** *(continued)*

Interest Rate Swap Agreements *(continued)*

In April 2009, the Corporation undertook a current refunding of the 2004 Series C bonds. As part of the refunding, the three interest rate swap agreements (Swaps) were re-assigned to the new underlying 2009 Series B, C and D bonds with essentially 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, 2019.

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 \$3,102 for the year ended December 31, 2019.

The Corporation's hedging derivative instruments at December 31, 2019 are as follows:

| <u>Swap ID</u> | <u>Fair Value December 31, 2019</u> | <u>Net Change in Fair Value</u> | <u>Type of Hedge</u> | <u>Financial Statement Classification for Changes in Fair Value</u> |
|----------------|-------------------------------------|---------------------------------|----------------------|---|
| 1 | \$ (6,302) | \$ (943) | Cash flow | Deferred outflow |
| 2 | (6,292) | (916) | Cash flow | Deferred outflow |
| 3 | (6,292) | (916) | Cash flow | Deferred outflow |
| | <u>\$ (18,886)</u> | <u>\$ (2,775)</u> | | |

The terms of the Corporation's financial derivative instruments that were outstanding at December 31, 2019 are summarized in the table below:

| <u>Counterparty</u> | <u>Effective Date</u> | <u>Termination Date</u> | <u>NHCC Pays</u> | <u>NHCC Receives</u> | <u>Outstanding Swap Notional (000s)</u> |
|---------------------|-----------------------|-------------------------|------------------|------------------------------|---|
| JPMorgan Chase | October 14, 2004 | August 1, 2029 | 3.4570% | 62.6% of 1-Month LIBOR +.23% | \$55,233 |
| Merrill Lynch | October 14, 2004 | August 1, 2029 | 3.4570% | 62.6% of 1-Month LIBOR +.23% | \$55,113 |
| UBS AG | October 14, 2004 | August 1, 2029 | 3.4570% | 62.6% of 1-Month LIBOR +.23% | \$55,113 |

The amount of outstanding debt covered by the three interest rate swap agreements totaled \$165,459 as of December 31, 2019 and matures on August 1, 2029. The interest rate swap agreements are reflected at fair value and categorized as Level 3.

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NOTE 5 LONG-TERM DEBT *(continued)*

Interest Rate Swap Agreements *(continued)*

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

Credit Risk - This is the risk that a counterparty will not fulfill its obligations. As of December 31, 2019, 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 (All Moody's and A+ S&P) to \$0 (Baal Moody's BBB+ S&P or lower).

The unsecured long-term debt credit ratings for the counterparties at December 31, 2019 were as follows.

| <u>Counterparty</u> | <u>Moody's</u> | <u>Standard & Poor's</u> | <u>Fitch</u> |
|---------------------------------|----------------|--------------------------------------|--------------|
| JPMorgan Chase | Aa2 | A+ | AA |
| Merrill Lynch (Bank of America) | A3 | A- | A+ |
| UBS AG | Aa3 | A+ | AA- |

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 diverge, 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.

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NOTE 5 **LONG-TERM DEBT** *(continued)*

Interest Rate Swap Agreements *(continued)*

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 & 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 & Poor's and Nassau County is rated below A3 by Moody's or below A- by Standard & Poor's or 2) Nassau County is rated below Baa2 by Moody's or below BBB by Standard & 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.

NOTE 6 **TRANSACTIONS WITH THE COUNTY OF NASSAU**

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.

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NOTE 6 TRANSACTIONS WITH THE COUNTY OF NASSAU *(continued)*

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, 2019:

| | |
|---|-----------------------|
| <i>Revenue earned from the County</i> | |
| Patient care | \$ 1,336 |
| Space charges | 1,606 |
| Non-patient care | 30,977 |
| Health insurance for retiree charges | <u>13,158</u> |
| | 47,077 |
| <i>County pass-through transactions</i> | |
| Amounts paid on behalf of the County | 1,389 |
| State aid and other amounts collected by the County | <u>1,343</u> |
| Total transactions with the County | <u>\$ 49,809</u> |

Non-patient care charges include nursing salaries and fringe benefits to provide medical assessment and case management services for Nassau County residents receiving benefits through the Department of Social Services. For 2019, it also includes approximately \$20,613 in charges for administrative and operating costs to manage on-site medical services for inmates at the Nassau County Correctional Center, pursuant to a contract between NHCC and Nassau County effective September 1, 2017. Payments from the County for patient care 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.

NOTE 7 RETIREMENT PLANS

Benefit Plans

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

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NOTE 7 RETIREMENT PLANS *(continued)*

Benefit Plans *(continued)*

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

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

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 contribution rate for the fiscal year ended March 31, 2019 ranged from 9.3% to 21.4% of payroll, according to tiers. 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 10 years of service or membership, are required to contribute 3% 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.

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NOTE 7 RETIREMENT PLANS *(continued)*

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 No. 68 are reflective of ERS's published financial statements and actuarial valuations as of March 31, 2019 (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, 2019 are as follows:

| | |
|---|------------|
| <i>Proportionate share of the net pension liability</i> | |
| Amount | \$ 50,342 |
| Percentage | 0.7105167% |
| Prior-year percentage | 0.7208838% |
| Deferred outflows of resources | \$ 28,815 |
| Deferred inflows of resources | \$ 17,350 |
| Net pension expense | \$ 35,075 |

NHCC's proportionate share of ERS's net pension liability is calculated 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:

| | |
|---|------------------|
| <i>Deferred outflows of resources</i> | |
| Differences between expected and actual experience | \$ 9,914 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 6,247 |
| Change in assumptions | 12,654 |
| Total | \$ 28,815 |
| <i>Deferred inflows of resources</i> | |
| Differences between expected and actual experience | \$ 3,379 |
| Net difference between projected and actual investment earnings on pension plan investments | 12,921 |
| Changes in proportion and difference between employer contributions and proportionate share of contributions | 1,050 |
| Total | \$ 17,350 |

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NOTE 7 RETIREMENT PLANS *(continued)*

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

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be reflected as pension expense or reduction of pension expense, in the statement of revenues, expenses, and changes in net position as follows:

| | | |
|---|-----------|----------------------|
| 2020 | \$ | 12,089 |
| 2021 | | (8,177) |
| 2022 | | 187 |
| 2023 | | 7,366 |
| | | <u>7,366</u> |
| Net of deferred outflows and inflows - amortized | \$ | <u>11,465</u> |

Actuarial Assumptions

NHCC's net pension liability at the Measurement Date was determined by using an actuarial valuation as of April 1, 2018, with update procedures used to roll forward the total pension liability to March 31, 2019. The 2019 actuarial valuation used the following actuarial assumptions:

| | |
|--|--|
| Actuarial cost method | Entry Age Normal |
| Inflation rate | 2.5% |
| Salary increases | 4.2% 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 |

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NOTE 7 RETIREMENT PLANS *(continued)*

Actuarial Assumptions *(continued)*

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 | 36.00% | 4.55% |
| International equity | 14.00% | 6.35 |
| Private equity | 10.00% | 7.50 |
| Real estate | 10.00% | 5.55 |
| Absolute return strategies | 2.00% | 3.75 |
| Opportunistic portfolio | 3.00% | 5.68 |
| Real assets | 3.00% | 5.29 |
| Bonds and mortgages | 17.00% | 1.31 |
| Cash | 1.00% | (0.25) |
| Inflation-indexed bonds | 4.00% | 1.25 |
| | <u>100.00%</u> | |

The 2019 real rate of return is net of the long-term inflation assumption of 2.5%.

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NOTE 7 RETIREMENT PLANS *(continued)*

Actuarial Assumptions *(continued)*

Discount Rate

The discount rate used to calculate the total pension liability was 7.0% at December 31, 2019. 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:

| | <u>Rate</u> | <u>Amount</u> |
|-----------------------|-------------|---------------|
| 1% decrease | 6.00% | \$ 220,104 |
| Current discount rate | 7.00% | 50,342 |
| 1% increase | 8.00% | (92,270) |

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 2.85% (2018), 2.33% (2017), 3.21% (2016), 3.15% (2015), 3.67% (2014) and 3.00% (2013) interest, the portion of their annual bill that exceeded 14.9%, 15.1 %, 14.5%, 13.5%, 12.5% and 11.5% of payroll for its 2018, 2017, 2016, 2015, 2014 and 2013 pension bills, respectively. There was no deferral of pension contributions in 2019. Total amount due at December 31, 2019 related to these deferred pension contributions is approximately \$36,042, of which \$5,191 is included in current liabilities and \$30,851 included as part of other long-term liabilities (see Note 13).

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
 Notes to Financial Statements
 Year Ended December 31, 2019
 (In thousands)

NOTE 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, 2019, expenses related to health insurance benefits for active and retired employees totaled approximately \$81,093.

NOTE 9 POSTEMPLOYMENT RETIREMENT HEALTHCARE BENEFIT PLAN

Substantially all employees are eligible for health insurance benefits upon retirement from the Corporation, subject to years of service requirements. Eligible 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 OPEB other than pension expenses on an accrual basis.

There are no postemployment employee contributions required for the NYSHIP plan. The Corporation contributes 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. Subsequent to the date of the actuarial valuation (December 31, 2018), the Corporation paid approximately \$15,070 during 2019, relative to these benefits, which have been reflected as employee benefits in the accompanying statement of revenues, expenses and changes in net position at December 31, 2019.

The following employees were covered by the benefit terms at the measurement date as of December 31, 2018:

| | |
|-------------------|----------|
| Retired employees | \$ 1,620 |
| Active employees | 2,494 |
| | <hr/> |
| | \$ 4,114 |

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
Notes to Financial Statements
Year Ended December 31, 2019
(In thousands)

NOTE 9 POSTEMPLOYMENT RETIREMENT HEALTHCARE BENEFIT PLAN
(continued)

Total OPEB Liability

The Corporation's total OPEB liability at the measurement date was determined by using an actuarial valuation as of December 31, 2018, using the following actuarial assumptions:

| | |
|-----------------------------|---|
| Inflation rate | 3.50% per year |
| Salary increases | 3.50% per year |
| Discount rate | 4.10% per year |
| Healthcare cost trend rates | Pre-Medicare: 2.75% to 3.50%; Medicare: - 6.84% to 3.50% |
| Rate of Mortality | MP-2014 Factor |

There were no significant changes in actuarial assumptions or other inputs, as of the December 31, 2018 measurement date described above, which affected the measurement of the total OPEB liability since the prior measurement date as of December 31, 2017 other than the change in liability valuation method from Projected Unit Credit to Entry Age Normal to reflect GASB No. 75 requirements.

In accordance with GASB No. 75, the actuarial valuation of OPEB also includes the value of sick leave that will be converted to reduce the retiree's share of health insurance premiums.

The following table shows the components of the Corporation's annual OPEB cost for the year ended December 31, 2019, the amount actually contributed to the plan, and changes in the net OPEB obligation.

| | |
|--------------------------------------|--------------------------|
| Balance, at December 31, 2018 | \$ 599,460 |
| <i>Changes for the year</i> | |
| Service cost | 28,313 |
| Interest cost | 21,350 |
| Changes in assumptions | (69,643) |
| Benefit payments | <u>(14,399)</u> |
| Net change | <u>(34,379)</u> |
| Balance, at December 31, 2019 | <u>\$ 565,081</u> |

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
Notes to Financial Statements
Year Ended December 31, 2019
(In thousands)

NOTE 9 POSTEMPLOYMENT RETIREMENT HEALTHCARE BENEFIT PLAN
(continued)

Discount Rate

The discount rate used to calculate the total post retirement liability was 4.10% for the year ended December 31, 2019. The discount rate was based upon the 20-year bond buyer rate as published by the Bond Buyer 20-Bond GO Index.

Discount Rate Sensitivity

The Corporation's total OPEB liability calculated using the current discount rate, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate as of December 31, 2019 follows:

| | <u>Rate</u> | <u>Amount</u> |
|-----------------------|-------------|---------------|
| 1% decrease | 3.10% | \$ 654,990 |
| Current discount rate | 4.10% | 565,082 |
| 1% increase | 5.10% | 492,118 |

Healthcare Cost Trend Rate Sensitivity

The Corporation's total OPEB liability calculated using the current discount rate, as well as what the OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate as of December 31, 2019 is as follows:

| | <u>Rate</u> | <u>Amount</u> |
|----------------------------|-------------|---------------|
| 1% decrease | (1.00)% | \$ 479,335 |
| Healthcare cost trend rate | 0.00% | 565,082 |
| 1% increase | 1.00% | 673,742 |

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
Notes to Financial Statements
Year Ended December 31, 2019
(In thousands)

NOTE 9 POSTEMPLOYMENT RETIREMENT HEALTHCARE BENEFIT PLAN
(continued)

OPEB Expense and Deferred Inflows of Resources

For the year ended December 31, 2019, the Corporation recognized OPEB expense of \$39,463. The components of post retirement related deferred outflows of resources and deferred inflows of resources at the measurement dates are as follows:

| | |
|--|------------------|
| <i>Deferred outflows of resources</i> | |
| Changes in assumptions | \$ 9,849 |
| | <u>\$ 9,849</u> |
| <i>Deferred inflows of resources</i> | |
| Differences between expected and actual experience | \$ 3,864 |
| Changes in assumptions | 58,041 |
| | <u>\$ 61,905</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized as a reduction in OPEB expense as follows:

| | |
|------|-------------|
| 2020 | \$ (10,200) |
| 2021 | (10,200) |
| 2022 | (10,200) |
| 2023 | (9,815) |
| 2024 | (11,641) |

NOTE 10 PROFESSIONAL AND OTHER INSURANCE LIABILITIES

For the policy years ended September 29, 2007 to 2019, the Captive issued hospital professional and employee benefits policies on a claims-made basis and commercial general liability policies on an occurrence basis. The Captive's liability on the hospital professional and employee benefits policies is \$7,000 per person (\$10,000 for policy years prior to 2008) with no aggregate limit and \$1,000 per claim up to an aggregate of \$1,000, respectively. An excess buffer limit of \$3,000 per person/\$3,000 in the aggregate was introduced above the \$7,000 per person primary limit on the hospital professional policy for the September 29, 2012 renewal. During 2015, the Captive entered into a commutable agreement with the Corporation, initiating a \$1,000 deductible limit on all open claims as of December 31, 2015. The liability on commercial general policies is \$1,000 per occurrence, except for fire damages, where the limit is \$50 for any one fire, and medical payment, where the limit is \$5 for any one person, up to an aggregate of \$3,000.

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
Notes to Financial Statements
Year Ended December 31, 2019
(In thousands)

NOTE 10 PROFESSIONAL AND OTHER INSURANCE LIABILITIES *(continued)*

At December 31, 2019, the Captive was in compliance with its minimum capital requirement.

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

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

| | |
|--------------------------------------|------------------------------|
| Balance, at beginning of year | <u>\$ 41,295</u> |
| <i>Incurred related to</i> | |
| Current year | <u>(1,078)</u> |
| Total incurred | (1,078) |
| <i>Paid related to</i> | |
| Prior years | <u>(4,250)</u> |
| Balance, at end of year | <u><u>\$ 35,967</u></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, are recorded on an undiscounted basis at December 31, 2019.

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, 2019, insurance expense totaled \$954.

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
Notes to Financial Statements
Year Ended December 31, 2019
(In thousands)

NOTE 11 COMMITMENTS AND CONTINGENCIES

Collective Bargaining Agreement

Substantially all of the Corporation's employees are union employees who are covered under the terms of the collective bargaining agreement with the Civil Service Employees Association. A contract was ratified in November 2019, effective January 1, 2019, and expires on December 31, 2022.

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.

NOTE 12 OTHER OPERATING REVENUE

Other operating revenue consists of the following for the year ended December 31, 2019:

| | | |
|---|-----------|----------------|
| Other non-patient related County billings | \$ | 38,121 |
| Grant Funding | | 4,674 |
| Health Center - LIFQHC staffing reimbursement | | 7,969 |
| Medical staff housing | | 1,127 |
| Equity investment in LLC | | 3,675 |
| Cafeteria | | 744 |
| Parking | | 576 |
| Clerkship fees | | 2,002 |
| DSRIP | | 27,061 |
| VBP/QIP | | 20,000 |
| Anesthesia staffing reimbursement | | 1,433 |
| Other miscellaneous revenue | | 10,179 |
| | \$ | 117,561 |

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
Notes to Financial Statements
Year Ended December 31, 2019
(In thousands)

NOTE 13 LONG-TERM LIABILITIES

A schedule of changes in the Corporation's long-term liabilities for 2019 follows:

| | Balance | | | Balance | Amounts Due |
|-------------------------------------|---------------------|------------------|---------------------|---------------------|--------------------|
| | December 31, | Additions | Deductions | December 31, | Within |
| | 2018 | | | 2019 | One Year |
| Long-term debt | \$ 187,976 | \$ 301 | \$ (15,290) | \$ 172,987 | \$ 16,082 |
| Self-insurance liability | 95,195 | 6,660 | (19,413) | 82,442 | 10,689 |
| Accrued vacation and sick leave | 69,261 | 27,902 | (24,015) | 73,148 | 7,315 |
| Third-party liabilities | 76,341 | - | (9,562) | 66,779 | 32,542 |
| Postemployment health insurance | 599,460 | - | (34,379) | 565,081 | 14,974 |
| Accrued pension benefits | 65,598 | 51,643 | (31,234) | 86,007 | 16,018 |
| Interest rate swap agreements | 16,111 | 2,512 | - | 18,623 | - |
| Total noncurrent liabilities | \$ 1,109,942 | \$ 89,018 | \$ (133,893) | \$ 1,065,067 | \$ 97,620 |

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
Schedule of Changes in Net OPEB Liability and Related Ratios
Required Supplementary Information (Unaudited)
Year Ended December 31, 2019
(In thousands)

The schedule that follows is required supplementary information and is presented as of and for the Corporation's fiscal year ended December 31, 2019, using a measurement date of December 31, 2018:

As of and for the Year Ended December 31, 2019

| | |
|--|--------------------------|
| <i>Total OPEB liability</i> | |
| Service cost | \$ 28,313 |
| Interest | 21,350 |
| Changes of assumptions | (69,641) |
| Benefit payments | <u>(14,399)</u> |
| Net change in total OPEB liability | (34,377) |
| Total OPEB liability, beginning | <u>599,459</u> |
| Total OPEB liability, ending | <u>\$ 565,082</u> |
| | |
| Plan net position as a percentage of OPEB liability | 0.00% |
| Covered employee payroll | \$ 180,513 |
| Net OPEB liability as a percentage of covered employee payroll | 313.04% |

Changes in benefit terms: There were no significant legislative changes in benefits for December 31, 2019.

The "Schedule of Changes in Net OPEB Liability and Related Ratios" presented above is to illustrate the required 10-year trend of information. However, until we can compile a full 10-year trend of information, we are presenting the information for which information was available.

NASSAU HEALTH CARE CORPORATION

(A Component Unit of the County of Nassau, New York)

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

December 31, 2019

(In thousands)

| 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% |
| 2017 (2017) | 0.730% | \$ 68,606 | \$ 217,123 | 31.60% | 94.70% |
| 2018 (2018) | 0.721% | \$ 23,266 | \$ 220,450 | 10.55% | 98.24% |
| 2019 (2019) | 0.711% | \$ 50,342 | \$ 221,503 | 22.73% | 96.27% |

Schedule of Employer Contributions - Last 10 Years* (Unaudited)

| 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 |
|-----------------------|-------------------------------------|--|----------------------------------|--|---|
| 2015 | \$ 37,630 | \$ 30,890 | \$ 6,740 | \$ 197,147 | 15.67% |
| 2016 | \$ 37,232 | \$ 33,979 | \$ 3,253 | \$ 209,773 | 16.20% |
| 2017 | \$ 37,785 | \$ 34,897 | \$ 2,888 | \$ 217,123 | 16.07% |
| 2018 | \$ 37,550 | \$ 36,711 | \$ 839 | \$ 220,450 | 16.65% |
| 2019 | \$ 37,318 | \$ - | \$ - | \$ 221,503 | 16.85% |

* 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, 2019
(In thousands)

| | Operational Divisions | | | Blended Component Units | | | Eliminations | Total |
|---|-----------------------|----------|--------|-------------------------|------------------------------------|--------------------------------------|--------------|-----------|
| | NUMC | AHP | FPP | NHCC, Ltd. | Nassau Healthcare Foundation | Long Island Medical Foundation | | |
| ASSETS | | | | | | | | |
| <i>Current assets</i> | | | | | | | | |
| Cash and cash equivalents | \$ 22,452 | \$ 3,099 | \$ - | \$ - | \$ - | \$ - | \$ (8,920) | \$ 16,631 |
| Patient accounts receivable, net | 18,796 | 8,217 | 4,462 | - | - | - | - | 31,475 |
| Inventories | 8,664 | 142 | - | - | - | - | - | 8,806 |
| Prepaid expenses | 973 | 108 | - | 10 | - | - | - | 1,091 |
| Other receivables | 64,784 | 806 | - | - | - | - | - | 65,590 |
| Due from third-party payors | 5,645 | 1,669 | - | - | - | - | - | 7,314 |
| Assets restricted as to use, required for current liabilities | 56,439 | 11,690 | 194 | 48,021 | - | - | - | 116,344 |
| Due from Nassau County | 28,959 | 1,041 | - | - | - | - | - | 30,000 |
| Due from other funds, net | (26,472) | 17,914 | 5,881 | - | - | - | 2,677 | - |
| Total current assets | 180,240 | 44,686 | 10,537 | 48,031 | - | - | (6,243) | 277,251 |
| Assets whose use is limited, net of current portion | - | - | - | - | 5,255 | 1,511 | - | 6,766 |
| Capital assets - net | 135,180 | 15,696 | - | - | 5 | - | - | 150,881 |
| Other assets | 33,080 | - | - | - | 80 | - | - | 33,160 |
| Total assets | 348,500 | 60,382 | 10,537 | 48,031 | 5,340 | 1,511 | (6,243) | 468,058 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | | | |
| Deferred change in fair value of swaps | 312 | 64 | - | - | - | - | - | 376 |
| Deferred charge on refunding | 22,275 | 4,490 | - | - | - | - | - | 26,765 |
| Pension and OPEB related | 31,942 | 6,722 | - | - | - | - | - | 38,664 |
| Total deferred outflows of resources | 54,529 | 11,276 | - | - | - | - | - | 65,805 |

NASSAU HEALTH CARE CORPORATION
(A Component Unit of the County of Nassau, New York)
Combining Statement of Net Position *(continued)*
As of December 31, 2019
(In thousands)

| | Operational Divisions | | | Blended Component Units | | | | Total |
|--|-----------------------|---------------------|-----------------|-------------------------|------------------------------------|--------------------------------------|-------------------|---------------------|
| | NUMC | AHP | FPP | NHCC, Ltd. | Nassau Healthcare Foundation | Long Island Medical Foundation | Eliminations | |
| LIABILITIES | | | | | | | | |
| <i>Current liabilities</i> | | | | | | | | |
| Current portion of long-term debt | \$ 12,691 | \$ 3,391 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 16,082 |
| Accounts payable and accrued expenses | 143,429 | 27,411 | 13 | 116 | - | - | - | 170,969 |
| Accrued salaries and related withholdings | 14,897 | 2,524 | 3,392 | - | - | - | - | 20,813 |
| Current portion of postemployment health insurance liability | 12,415 | 2,559 | - | - | - | - | - | 14,974 |
| Current portion of vacation and sick leave | 5,684 | 1,631 | - | - | - | - | - | 7,315 |
| Current portion of estimated self-insurance liability | 10,689 | - | - | - | - | - | - | 10,689 |
| Current portion of accrued pension benefits | 13,689 | 2,329 | - | - | - | - | - | 16,018 |
| Current portion of estimated liability to third-party payors | 32,542 | - | - | - | - | - | - | 32,542 |
| Other current liabilities | 19,829 | (12,025) | - | (2,377) | (3) | - | 2,599 | 8,023 |
| Interest payable | 404 | 107 | - | (23) | - | - | - | 488 |
| Total current liabilities | 266,269 | 27,927 | 3,405 | (2,284) | (3) | - | 2,599 | 297,913 |
| <i>Noncurrent liabilities</i> | | | | | | | | |
| Long-term debt | 124,029 | 32,876 | - | - | - | - | - | 156,905 |
| Estimated liability to third-party payors, net | 28,848 | 4,889 | 500 | - | - | - | - | 34,237 |
| Estimated postemployment health insurance liability | 456,083 | 94,024 | - | - | - | - | - | 550,107 |
| Estimated self-insurance liability | 35,786 | - | - | 35,967 | - | - | - | 71,753 |
| Estimated fair value of interest rate swap agreements | 15,498 | 3,125 | - | - | - | - | - | 18,623 |
| Accrued vacation and sick leave | 51,154 | 14,679 | - | - | - | - | - | 65,833 |
| Accrued pension benefits | 59,811 | 10,178 | - | - | - | - | - | 69,989 |
| Total liabilities | 1,037,478 | 187,698 | 3,905 | 33,683 | (3) | - | 2,599 | 1,265,360 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | | |
| Pension and OPEB related | 65,695 | 13,560 | - | - | - | - | - | 79,255 |
| Total deferred inflows of resources | 65,695 | 13,560 | - | - | - | - | - | 79,255 |
| NET POSITION | | | | | | | | |
| Net investment in capital assets | 86,961 | 9,365 | - | 8,920 | - | - | (8,920) | 96,326 |
| Restricted | - | - | - | - | - | 1,511 | - | 1,511 |
| Unrestricted | (787,105) | (138,965) | 6,632 | 5,428 | 5,343 | - | 78 | (908,589) |
| Total net position | \$ (700,144) | \$ (129,600) | \$ 6,632 | \$ 14,348 | \$ 5,343 | \$ 1,511 | \$ (8,842) | \$ (810,752) |

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, 2019
(In thousands)

| | Operational Divisions | | | Blended Component Units | | | | Total |
|---|-----------------------|---------------------|-----------------|-------------------------|------------------------------------|--------------------------------------|-------------------|---------------------|
| | NUMC | AHP | FPP | NHCC, Ltd. | Nassau Healthcare Foundation | Long Island Medical Foundation | Eliminations | |
| OPERATING REVENUE | | | | | | | | |
| Net patient service revenue | \$ 390,356 | \$ 52,168 | \$ 27,460 | \$ - | \$ - | \$ - | \$ (12,498) | \$ 457,486 |
| Other revenue | 118,250 | 677 | - | 6,054 | 1,788 | 601 | (9,809) | 117,561 |
| Total operating revenue | 508,606 | 52,845 | 27,460 | 6,054 | 1,788 | 601 | (22,307) | 575,047 |
| OPERATING EXPENSES | | | | | | | | |
| Salaries | 223,052 | 35,919 | 13,238 | - | 1,325 | 88 | - | 273,622 |
| Employee benefits - pension | 27,575 | 3,409 | - | - | 12 | - | - | 30,996 |
| Employee benefits - other | 89,929 | 17,378 | 517 | - | 214 | 8 | - | 108,046 |
| Supplies and other expenses | 157,008 | 11,895 | 13,855 | (1,400) | 5,851 | 330 | (22,307) | 165,232 |
| Depreciation and amortization | 17,144 | 742 | - | - | 2 | - | - | 17,888 |
| | 514,708 | 69,343 | 27,610 | (1,400) | 7,404 | 426 | (22,307) | 595,784 |
| Income (loss) before OPEB expense and NYS actuarial pension adjustment - GASB No. 68 | (6,102) | (16,498) | (150) | 7,454 | (5,616) | 175 | - | (20,737) |
| Employee benefits - OPEB | (32,754) | (6,709) | - | - | - | - | - | (39,463) |
| NYS actuarial pension adjustment - GASB No. 68 | (3,113) | (660) | - | - | - | - | - | (3,773) |
| Operating (loss) income | (41,969) | (23,867) | (150) | 7,454 | (5,616) | 175 | - | (63,973) |
| NONOPERATING ACTIVITIES | | | | | | | | |
| Interest income | 858 | 107 | - | 673 | 120 | 1 | - | 1,759 |
| Interest expense | (5,382) | (2,894) | - | - | - | - | - | (8,276) |
| Total nonoperating activities, net | (4,524) | (2,787) | - | 673 | 120 | 1 | - | (6,517) |
| Capital contributions | 6,705 | - | - | - | - | - | - | 6,705 |
| Change in net position | (39,788) | (26,654) | (150) | 8,127 | (5,496) | 176 | - | (63,785) |
| Net position, beginning of year | (660,356) | (102,946) | 6,782 | 6,221 | 10,839 | 1,335 | (8,842) | (746,967) |
| Net position, end of year | \$ (700,144) | \$ (129,600) | \$ 6,632 | \$ 14,348 | \$ 5,343 | \$ 1,511 | \$ (8,842) | \$ (810,752) |

