



CONSOLIDATED FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION
AND OTHER FINANCIAL INFORMATION

Nassau Health Care Corporation and Subsidiaries
(Component Unit of Nassau County)
Years Ended December 31, 2010 and 2009
With Reports of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

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

Consolidated Financial Statements,
Required Supplementary Information
and Other Financial Information

Years Ended December 31, 2010 and 2009

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Report of Independent Auditors

The Board of Directors
Nassau Health Care Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Nassau Health Care Corporation and Subsidiaries (component unit of Nassau County) (the “Corporation”) as of December 31, 2010 and 2009, and the related consolidated statements of revenues, expenses and changes in net assets (deficiency), and cash flows for the years then ended. These financial statements are the responsibility of the Corporation’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Corporation’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nassau Health Care Corporation and Subsidiaries as of December 31, 2010 and 2009, and the consolidated results of their operations, changes in their net assets (deficiency) and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2011 on our consideration of the Corporation’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages three through eight and the schedule of funding progress on page 42 are not a required part of the consolidated financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying other financial information on pages 43 through 46 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst + Young LLP

May 26, 2011

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

Management's Discussion and Analysis

Year Ended December 31, 2010

Introduction

This section of the Nassau Health Care Corporation and Subsidiaries' (the "Corporation") annual financial report presents management's discussion and analysis of the Corporation's financial performance during the years ended December 31, 2010, 2009 and 2008. It should be read in conjunction with the consolidated financial statements and accompanying notes, which follow this section.

Overview of the Consolidated Financial Statements

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. The Basic Financial Statements for an Enterprise Fund include: Balance Sheet; Statement of Revenues, Expenses and Changes in Net Assets (Deficiency); and Statement of Cash Flows. These consolidated financial statements provide, respectively, a view of the Corporation's consolidated financial position as of the end of the year, a description of the financial activity during the year, and a description of the cash activity during the year. The Corporation operates in a manner similar to a private business.

Condensed Financial Information

The following table represents the condensed balance sheets as of December 31, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Current assets and other	\$ 285,191	\$ 253,076	\$ 228,813
Capital assets	176,550	150,908	135,056
Total assets	<u>\$ 461,741</u>	<u>\$ 403,984</u>	<u>\$ 363,869</u>
Long-term liabilities outstanding	\$ 462,413	\$ 410,876	\$ 393,142
Other liabilities	162,569	118,145	103,989
Total liabilities	<u>\$ 624,982</u>	<u>\$ 529,021</u>	<u>\$ 497,131</u>
Net assets (deficiency):			
Invested in capital assets, net of related debt	\$ 94,550	\$ 68,908	\$ 53,056
Restricted for specific operating purposes by donors	1,964	1,675	1,651
Unrestricted	(259,755)	(195,620)	(187,969)
Total net assets (deficiency)	<u>\$ (163,241)</u>	<u>\$ (125,037)</u>	<u>\$ (133,262)</u>

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

Management's Discussion and Analysis (continued)

Condensed Financial Information (continued)

The following table represents the revenues, expenses and net assets (deficiency) for the years ended December 31, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Operating revenue:			
Net patient service revenue (net of the provision for bad debts of \$43,873 in 2010, \$46,044 in 2009 and \$50,900 in 2008)	\$ 472,867	\$ 459,237	\$ 427,327
Other operating revenue	48,500	47,459	43,400
Investment income	536	563	2,396
Total operating revenue before other operating items	<u>521,903</u>	<u>507,259</u>	<u>473,123</u>
Operating expenses:			
Salaries and wages	257,569	260,142	253,114
Employee benefits	95,056	89,314	85,363
Supplies and other	138,365	126,473	128,575
Interest and amortization	11,546	12,592	13,178
Depreciation	18,721	17,934	16,523
Total operating expenses before other operating items	<u>521,257</u>	<u>506,455</u>	<u>496,753</u>
Excess (deficiency) of operating revenue over operating expenses before other operating items	646	804	(23,630)
Other operating items:			
Employee benefits expense (unfunded postemployment benefits other than pensions)	(42,585)	(39,370)	(38,313)
Change in fair value of derivative instruments	(7,758)	21,912	(33,616)
Amortization of refunding loss (interest expense)	(2,301)	(2,317)	(2,308)
Third-party retroactive rate adjustment	-	(15,572)	10,286
Deficiency of operating revenue over operating expenses	<u>(51,998)</u>	<u>(34,543)</u>	<u>(87,581)</u>
Grants for capital asset acquisitions and retirement of long-term debt	13,794	42,768	71,888
Contribution of net assets of the Foundation	-	-	3,611
(Decrease) increase in net assets	<u>(38,204)</u>	<u>8,225</u>	<u>(12,082)</u>
Net assets (deficiency), beginning of year	<u>(125,037)</u>	<u>(133,262)</u>	<u>(121,180)</u>
Net assets (deficiency), end of year	<u>\$ (163,241)</u>	<u>\$ (125,037)</u>	<u>\$ (133,262)</u>

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

Management's Discussion and Analysis (continued)

Financial Analysis of the Corporation (in thousands of dollars)

Financial Highlights

- Excess of operating revenue over operating expenses before other operating items decreased by \$158 from 2009 to 2010. Deficiency of operating revenue over operating expenses before other operating items decreased by \$24,434 from 2008 to 2009.
- Net patient service revenue increased by \$13,630, or 3.0% from 2009 to 2010. Net patient service revenue increased by \$31,910 or 7.5% from 2008 to 2009.
- Other operating revenue increased by \$1,041, or 2.2% from 2009 to 2010. Other operating revenue increased by \$4,059, or 9.4% from 2008 to 2009.
- Salaries and wages decreased by \$2,573 or 1.0% from 2009 to 2010. Salaries and wages increased by \$7,028, or 2.8% from 2008 to 2009.
- Employee benefits increased by \$5,742, or 6.4% from 2009 to 2010. Employee benefits increased by \$3,951, or 4.6% from 2008 to 2009.
- Employee benefits expense (unfunded portion of postemployment benefits other than pensions) decreased net assets by \$42,585, \$39,370 and \$38,313 in 2010, 2009 and 2008, respectively.
- Grants for capital asset acquisitions and retirement of long-term debt increased net assets by \$13,794, \$42,768 and \$71,888 in 2010, 2009 and 2008, respectively.
- Total net assets (deficiency) changed by (\$38,204) or (30.6%) from 2009 to 2010. Total net assets (deficiency) changed by \$8,225 or 6.2% from 2008 to 2009.

Operating Activities

General

For the year ended December 31, 2010, the excess of operating revenue over operating expenses before other operating items decreased by \$158 from the prior year. For the year ended December 31, 2009, the excess (deficiency) of operating revenue over operating expenses before other operating items increased by \$24,434 from the prior year due primarily to an increase in the intergovernmental transfer program subsidy.

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

Management's Discussion and Analysis (continued)

Operating Activities (continued)

Net Patient Service Revenue

Total net patient service revenue of \$472,867 for the year ended December 31, 2010 increased \$13,630 (3.0%) from the prior year. Net patient service revenue increased primarily as a result of an increase in services provided to patients and a decrease in the provision for bad debts. Total net patient service revenue of \$459,237 for the year ended December 31, 2009 increased \$31,910 (7.5%) from the prior year. Net patient service revenue increased primarily as a result of an increase in the intergovernmental transfer program subsidy.

Other Operating Revenue

Other operating revenue of \$48,500 for the year ended December 31, 2010 increased \$1,041 (2.2%) from the prior year. The increase consists primarily of the medical resident tax recovery. Other operating revenue of \$47,459 for the year ended December 31, 2009 increased \$4,059 (9.4%) from the prior year. The increase consists primarily of an increase in federal and state grants, rotating resident revenue and other miscellaneous revenue.

Expenses

Total operating expenses before other operating items (including interest, amortization and depreciation) of \$521,257 for the year ended December 31, 2010 increased 2.9% from the prior year. Total operating expenses before other operating items (including interest, amortization and depreciation) of \$506,455 for the year ended December 31, 2009 increased 2.0% from the prior year.

Salaries and wages of \$257,569 decreased \$2,573 (1.0%) from 2009 to 2010. The decrease is primarily due to a decrease in the accrual for sick pay. Salaries and wages of \$260,142 increased \$7,028 (2.8%) from 2008 to 2009. The increase is primarily due to cost of living adjustments.

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

Management's Discussion and Analysis (continued)

Operating Activities (continued)

Employee benefits of \$95,056 increased \$5,742 (6.4%) from 2009 to 2010. The increase is attributable mostly to an increase in health insurance. Employee benefits of \$89,314 increased \$3,951 (4.6%) from 2008 to 2009. The increase is attributable mostly to an increase in health insurance.

The Corporation recorded unfunded postemployment benefit expense of \$42,585, \$39,370 and \$38,313 in 2010, 2009 and 2008, respectively. The cost is actuarially calculated based on plan benefits (other than pensions) that current and retired employees have accrued as a result of their respective years of employment service.

Capital Assets

During 2010, the Corporation purchased \$44,363 in capital assets and incurred \$18,721 in depreciation expense. In 2010, the Corporation received \$13,794 of grants, which are restricted for capital projects.

During 2009, the Corporation purchased \$33,786 in capital assets and incurred \$17,934 in depreciation expense. In 2009, the Corporation received \$42,768 of grants, which are restricted for capital projects.

Debt

During 2010, the Corporation made principal and interest payments on its outstanding bonds of approximately \$2,420.

In April 2009, \$220,840 of the Series 2009 and \$25,995 of the Series 2009 A variable rate demand bonds were issued to redeem the 2004 Series A and 2004 Series C outstanding bonds. Scheduled repayments of the Series 2009 bonds do not differ from the repayments that were due on the previously outstanding bonds for the years 2009 through 2012. During 2009, the Corporation made principal and interest payments on its outstanding bonds of approximately \$2,065, excluding the 2004 bond redemption.

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

Management's Discussion and Analysis (continued)

Operating Activities (continued)

Contacting the Corporation's Financial Management

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

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

Consolidated Balance Sheets

	December 31	
	2010	2009
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,368	\$ 18,528
Assets whose use is limited, current portion	42,276	22,685
Patient accounts receivable – net of estimated uncollectibles of \$220,073 in 2010 and \$219,401 in 2009	103,684	107,330
Inventories	5,542	5,585
Prepaid expenses	2,700	7,112
Other receivables	38,155	6,320
Due from third-party payers	5,719	–
Due from County of Nassau – net	11,745	1,228
Total current assets	214,189	168,788
Assets whose use is limited, net of current portion	56,614	73,311
Capital assets – net (depreciable)	164,052	138,410
Capital assets (non-depreciable)	12,498	12,498
Deferred bond issuance costs	1,227	1,339
Other assets	13,161	9,638
Total assets	\$ 461,741	\$ 403,984
Liabilities and net assets (deficiency)		
Current liabilities:		
Accounts payable and accrued expenses	\$ 42,115	\$ 27,514
Accrued salaries, wages and payroll taxes	20,656	19,065
Accrued vacation and sick pay	43,265	41,571
Accrued pension	19,822	901
Interest payable	1,458	1,712
Due to third-party payers	24,415	16,962
Current portion of professional and other insurance liabilities and postemployment benefits other than pensions	8,400	8,000
Current portion of long-term debt	2,438	2,420
Total current liabilities	162,569	118,145
Long-term debt	230,014	230,325
Professional and other insurance liabilities	36,000	32,500
Postemployment benefits other than pensions	157,276	115,091
Derivative instruments	25,355	17,597
Other long-term liabilities	13,768	15,363
Total liabilities	624,982	529,021
Commitments and contingencies		
Net assets (deficiency):		
Invested in capital assets, net of related debt	94,550	68,908
Restricted for specific operating purposes by donors	1,964	1,675
Unrestricted	(259,755)	(195,620)
Total net assets (deficiency)	(163,241)	(125,037)
Total liabilities and net assets (deficiency)	\$ 461,741	\$ 403,984

See accompanying notes.

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

Consolidated Statements of Revenues, Expenses
and Changes in Net Assets (Deficiency)

	Year Ended December 31	
	2010	2009
	<i>(In Thousands)</i>	
Operating revenue:		
Net patient service revenue (net of the provision for bad debts of \$43,873 in 2010 and \$46,044 in 2009)	\$ 472,867	\$ 459,237
Other operating revenue	48,500	47,459
Investment income	536	563
Total operating revenue before other operating items	521,903	507,259
Operating expenses:		
Salaries and wages	257,569	260,142
Employee benefits	95,056	89,314
Supplies and other	138,365	126,473
Interest and amortization	11,546	12,592
Depreciation	18,721	17,934
Total operating expenses before other operating items	521,257	506,455
Excess of operating revenue over operating expenses before other operating items	646	804
Other operating items:		
Employee benefits expense (unfunded portion of postemployment benefits other than pensions)	(42,585)	(39,370)
Change in fair value of derivative instruments	(7,758)	21,912
Amortization of deferred loss on refunding (interest expense)	(2,301)	(2,317)
Third-party retroactive rate adjustment	–	(15,572)
Deficiency of operating revenue over operating expenses	(51,998)	(34,543)
Grants for capital asset acquisitions	13,794	42,768
(Decrease) increase in net assets	(38,204)	8,225
Net assets (deficiency), beginning of year	(125,037)	(133,262)
Net assets (deficiency), end of year	\$ (163,241)	\$ (125,037)

See accompanying notes.

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

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2010	2009
	<i>(In Thousands)</i>	
Cash flows from operating activities		
Cash received from patients and third-party payers	\$ 476,233	\$ 478,699
Cash received from other operating revenue	14,097	45,798
Cash paid to employees	(330,819)	(343,681)
Cash paid to suppliers	(125,926)	(141,686)
Net cash provided by operating activities	<u>33,585</u>	<u>39,130</u>
Cash flows from noncapital and related financing activities		
Cash paid for interest	(7,859)	(8,544)
Proceeds from new borrowings	–	246,835
Payment of debt	(2,420)	(247,450)
Payment of financing costs	–	(1,450)
Net cash used in noncapital and related financing activities	<u>(10,279)</u>	<u>(10,609)</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(44,363)	(33,786)
Cash paid for interest, net of amounts capitalized	(4,003)	(4,352)
Grants for capital asset acquisitions and retirement of long-term debt	13,794	42,768
Net cash (used in) provided by capital and related financing activities	<u>(34,572)</u>	<u>4,630</u>
Cash flows from investing activities		
Net change in assets whose use is limited	(2,894)	(19,601)
Net cash used in investing activities	<u>(2,894)</u>	<u>(19,601)</u>
Net (decrease) increase in cash and cash equivalents	(14,160)	13,550
Cash and cash equivalents, beginning of year	18,528	4,978
Cash and cash equivalents, end of year	<u>\$ 4,368</u>	<u>\$ 18,528</u>
Reconciliation of deficiency of operating revenue over operating expenses to net cash provided by operating activities		
Deficiency of operating revenue over operating expenses	\$ (51,998)	\$ (34,543)
Interest paid, net of amounts capitalized	11,862	12,896
Depreciation	18,721	17,934
Amortization, including refunding loss	2,239	2,411
Change in fair value of derivative instruments	7,758	(21,912)
Changes in operating assets and liabilities:		
Patient accounts receivable	3,646	1,860
Accounts payable and accrued expenses, accrued salaries, wages and payroll taxes and accrued vacation and sick pay	17,632	394
Due from County of Nassau – net	(10,517)	(4,645)
Due to/from third-party payers	1,734	37,003
Professional and other insurance liabilities	8,000	(5,856)
Postemployment benefits other than pensions	38,085	39,370
Net change in all other operating assets and liabilities	(13,577)	(5,782)
Net cash provided by operating activities	<u>\$ 33,585</u>	<u>\$ 39,130</u>

See accompanying notes.

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

Notes to Consolidated Financial Statements

December 31, 2010

(In Thousands)

1. Organization

Nassau Health Care Corporation (the “Corporation”) is a public benefit corporation created in 1997 by an act of the New York State Legislature for the purpose of acquiring and operating the health facilities of Nassau County, State of New York (the “County”). Effective September 29, 1999, a transaction (the “Acquisition Agreement”) was executed whereby the Corporation acquired the following:

- Nassau University Medical Center (“NUMC”)
- A. Holly Patterson Extended Care Facility (“AHP”)
- Faculty Practice Plan (“FPP”)
- Nassau Health Care Foundation, Inc. (“Foundation”)
- Health Centers, including:
 - Elmont Health Center
 - Freeport-Roosevelt Health Center
 - Inwood-Lawrence Health Center
 - Long Beach Health Center
 - Hempstead Health Center
 - New Cassell-Westbury Health Center
 - Roosevelt School-Based Programs

Concurrent with the Acquisition Agreement, \$259,735 of Nassau Health Care Corporation Health System Revenue Bonds, Series 1999 (the “Series 1999 Revenue Bonds”), were issued. Of the proceeds received from the issuance of the Series 1999 Revenue Bonds, \$82,000 was used to fund the Corporation’s above-mentioned purchase. On October 8, 2004, \$303,355 of Nassau Health Care Corporation Bonds, Series 2004 (the “Series 2004 Bonds”) were issued to refund the Corporation’s Series 1999 Revenue Bonds, fund certain capital projects and provide working capital. In 2009, a portion of the Series 2004 Bonds were redeemed with the issuance of Series 2009 bonds (see Note 5).

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

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

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Organization (continued)

The Corporation is considered to be a component unit of the County and is included as a discretely presented component unit in the general purpose financial statements of the County. The Board of Directors of the Corporation is authorized to consist of fifteen voting and three nonvoting directors. Eight voting directors are appointed by the Governor, four by the County Legislature and three by the County Executive. The County Executive selects one of the voting directors as Chairman of the Board.

The nonvoting directors are the Chief Executive Officer of the Corporation, one individual appointed by the County Executive and one individual appointed by the County Legislature. The directors serve varying initial terms of two to four years and will serve five-year terms after the expiration of the initial terms.

At December 31, 2010 and 2009, the Corporation had a total net assets deficiency of \$163,241 and \$125,037, respectively. The deficiency arose from operating losses and the postemployment benefits other than pension liability (see Note 9). The Corporation plans to reduce its net assets deficiency by achieving profitability, continuing to progress with collecting on patient accounts, especially those accounts eligible for Medicaid that are being processed by the Department of Social Services, and cash flow provided by government subsidies and funding of capital projects (see Notes 2 and 6). The Corporation has undertaken a number of initiatives to sustain positive cash flows. Such actions include continued revenue cycle enhancements, changes to medical management practices, improved supply chain, inventory management and further cost reductions and a major modernization program. The modernization program includes significant investments in real estate consolidation, facility improvements, clinical equipment and information technology, the replacement (rebuilding) of the nursing home and enhancements to the community health centers.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accounts of the Corporation are maintained on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles.

In its accounting and financial reporting, the Corporation follows the pronouncements of the Governmental Accounting Standards Board (“GASB”). In addition, the Corporation has elected

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (“FASB”), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of NUMC, AHP, FPP, Health Centers, Foundation and NHCC, Ltd., a wholly-owned subsidiary of the Corporation. All intercompany transactions and balances have been eliminated in consolidation.

NHCC, Ltd. (the “Captive”) was incorporated as an exempted company on September 24, 1999 under laws of the Cayman Islands and operates under the terms of an unrestricted Cayman Islands Class B Insurer’s license. The license allows the Captive to conduct insurance business, other than domestic business, from the Cayman Islands.

Net Assets

Net assets of the Corporation are classified into three components. *Net assets invested in capital assets, net of related debt* consist 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 for specific operating purposes by donors* are noncapital net assets that must be used for a particular purpose, as specified by contributors external to the Corporation. *Unrestricted* are remaining net assets that do not meet the definition of *invested in capital assets, net of related debt* or *restricted for specific operating purposes by donors*.

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including estimated uncollectibles and allowances for accounts receivable, receivables from and payables to third-party payers, estimated professional and other insurance liabilities and postemployment benefits other than pensions, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates.

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Corporation considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents, except for assets whose use is limited. Cash and cash equivalents consist of cash and money market funds. All cash and cash equivalents are insured through Federal Deposit Insurance Corporation insurance or collateralized by U.S. government securities held by the Corporation's third-party trustee or the pledging financial institution's trust department in the name of the Corporation, to the full extent of the deposits.

Net Patient Service Revenue and Accounts Receivable for Services to Patients

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payers and others for services rendered, and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are provided and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

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

Medicare Reimbursement

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

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Non-Medicare Reimbursement

In New York State, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payers are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the New York State Department of Health ("NYSDOH"). Effective December 1, 2009, the New York State payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments; prior to December 1, 2009, the payment system provided for retroactive adjustments to payment rates, using a prospective payment formula. Outpatient services also are paid based on a statewide prospective system that was effective December 1, 2008. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services ("CMS"), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Corporation is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payers will continue to be made in future years.

The Corporation has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payers for adjustments to current and prior years' payment rates, based on industry-wide and Corporation-specific data. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through 2006. 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 consolidated financial statements and believes that it is in compliance with all applicable laws and regulations.

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

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 Government, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Corporation. Additionally, certain payers' payment rates for various years have been appealed by the Corporation. If the appeals are successful, additional income applicable to those years might be realized. Net patient service revenue increased by approximately \$3,364 and increased by approximately \$5,437 for the years ended December 31, 2010 and 2009, respectively, for settlements related to prior years and changes in estimates made by management related to third-party payer accounts.

On March 30, 2010, the Corporation was notified that the NYSDOH was issuing rate revisions dating back to 1996 for certain Medicaid issues. The amount of the retroactive recovery was approximately \$15.6 million and was recorded as a liability in 2009. The Corporation filed a legal affidavit on May 12, 2010 protesting the recovery for the periods 1996 through 2002, although the outcome is uncertain. The accrual of the liability is reported as an other operating item in the 2009 consolidated statement of revenues, expenses and changes in net assets (deficiency).

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 \$48,133 in 2010 and \$50,368 in 2009.

Intergovernmental Transfers

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

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

formula that calculates losses on Medicaid and the uninsured from the Corporation's cost report each year, referred to as the disproportionate share calculation. The Federal government funds a portion of the IGT amount with the remainder funded locally. The IGT amount recorded in 2010 was approximately \$85,098, which was recognized as net patient service revenue. The Corporation received IGT payments of approximately \$50,745 in 2010 and has recorded an IGT receivable of approximately \$34,353 within other receivables as of December 31, 2010. The amount of IGT revenue recognized by the Corporation in 2010 specific to AHP, which is approximately \$18,013, is estimated based upon New York State Public Health Law, which increased Upper Payment Limit ("UPL") funding for nursing homes from \$150,000 to \$300,000 for the New York State ("NYS") fiscal year beginning April 1, 2009. However, as of May 26, 2011, final resolution regarding actual UPL funding for nursing homes by NYS has not yet been determined. The Corporation has established its estimate based upon the latest information available and communicated to it; however, there is at least a reasonable possibility that the recorded estimate will change by a material amount.

The IGT amount received in 2009 was approximately \$117,287, of which \$83,542 was recognized as net patient service revenue and \$33,745 was restricted for capital expansion and recognized as grants for capital asset acquisitions.

The Corporation recognizes IGT assets when all of its applicable eligibility requirements are met or resources are received, whichever is first, and revenues are recognized when all of its applicable eligibility requirements or similar conditions are met.

Concentration of Credit Risk

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

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

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

The significant concentrations of accounts receivable for services to patients at December 31, 2010 and 2009 are as follows:

	2010	2009
Medicare	19%	16%
Medicaid	40	45
Blue Cross	10	9
Commercial	9	10
HMO and other	22	20
	100%	100%

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

	Year Ended December 31	
	2010	2009
Services provided to patients (net of contractual allowances of approximately \$323,005 in 2010 and \$322,840 in 2009)	\$ 420,409	\$ 408,114
Intergovernmental transfer – Federal	72,098	61,132
Intergovernmental transfer – County	13,000	22,410
Article VI health center subsidies – County	5,000	5,000
Federal and state grants	6,233	8,625
Provision for bad debts	(43,873)	(46,044)
	\$ 472,867	\$ 459,237

The Corporation is paid by third-party payers for patient services rendered generally at negotiated or otherwise predetermined amounts established by the applicable coverage program. For each of the years ended December 31, 2010 and 2009, revenue from the Medicaid and Medicare programs accounted for approximately 79% of net revenue for services provided to patients.

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Assets Whose Use is Limited

Assets whose use is limited consists of cash and money market funds. These assets include amounts held by the Foundation, restricted for capital and internally-designated for capital, payment of professional and other insurance liabilities, pension liabilities, debt service, and amounts held by FPP for FPP-related expenditures. The Board of Directors may authorize the use of internally-designated amounts for other purposes. Amounts required to meet current liabilities are reported as current assets.

Inventories

Inventories are carried at the lower of cost or market. Cost is determined by the first-in, first-out method.

Capital Assets

Capital assets are stated at cost, less accumulated depreciation. Depreciation is computed by the straight-line method based upon the estimated useful lives of the assets ranging from three to forty years. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Deferred Bond Issuance Costs

Deferred bond issuance costs consist principally of debt acquisition costs. Amortization of these costs is provided over the term of the applicable indebtedness using the effective interest method.

Deferred Loss on Refunding

The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred loss amount is reported as a reduction of long-term debt in the accompanying consolidated balance sheets and is amortized over the life of the debt using the effective interest method.

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Accrued Vacation and Sick Pay

The Corporation's employees are permitted to accumulate unused vacation time, sick pay and compensation time up to certain maximum amounts as established by employment contracts. The Corporation accrues the expense related to vested vacation, sick pay and compensation time based on pay rates in effect at year-end.

Professional and Other Insurance Liabilities

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

The ultimate settlement costs of all unpaid losses and loss adjustment expenses are necessarily subject to the impact of future changes in loss severity and other factors.

Management believes the liability for losses and loss adjustment expenses is adequate and recognizes the variability inherent in the data used in determining the liabilities. However, there is an absence of a significant amount of experience as to whether the actual incurred losses and loss adjustment expenses will conform to the assumptions inherent in the determination of the liability. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary significantly from the estimated amounts included in the accompanying consolidated 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.

Derivative Instruments

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

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Investment in Limited Liability Company

The Corporation accounts for its investment in a limited liability company (“LLC”) using the equity method of accounting. For the years ended December 31, 2010 and 2009, the Corporation recorded its equity in the income of the LLC of \$3,727 and \$1,545, respectively.

Consolidated Statements of Revenues, Expenses and Changes in Net Assets (Deficiency)

The accompanying consolidated statements of revenues, expenses and changes in net assets (deficiency) includes deficiency of operating revenue over operating expenses as the performance indicator. The postemployment benefits other than pensions, change in fair value of derivative instruments, third-party retroactive rate adjustment and amortization of deferred loss on refunding are presented as other operating items included within the performance indicator.

The Corporation provides health care services to residents primarily within its geographic area. Expenses, excluding other operating items and bad debt expense, related to providing these services relate to the following functional categories:

	Year Ended December 31	
	2010	2009
Health care services	\$ 469,132	\$ 456,828
General and administrative	52,125	49,627
	<u>\$ 521,257</u>	<u>\$ 506,455</u>

Reclassifications

For purposes of comparison, reclassifications have been made to the accompanying 2009 consolidated financial statements to conform to the 2010 presentation.

Grants and Subsidies

Grants that represent deficit financing of specific patient-related programs are recorded as net patient service revenue (\$6,233 and \$8,625 in 2010 and 2009, respectively). Grants for specific operating purposes are recorded as other operating revenue in the period in which qualified expenditures are made (see Note 12).

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Income Taxes

The Corporation and each of its subsidiaries are exempt from Federal income taxes on income related to their tax-exempt purposes because of the Corporation's status as a public benefit corporation.

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

Events Subsequent to December 31, 2010

Subsequent events have been evaluated through May 26, 2011, which is the date the consolidated financial statements were issued. No subsequent events have occurred except as discussed in Note 15, that require disclosure in or adjustment to the consolidated financial statements.

New Accounting Pronouncements

In August 2010, the FASB issued Accounting Standards Update No. 2010-23, *Measuring Charity Care for Disclosure* ("ASU 2010-23"). ASU 2010-23 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. ASU 2010-23 also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. ASU 2010-23 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Corporation is evaluating the effects of ASU 2010-23 on its consolidated financial statement disclosures.

In August 2010, the FASB issued amended guidance related to the presentation of insurance claims and related insurance recoveries. Under the new guidance, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities will be presented separately on the consolidated balance sheets. The guidance is effective for fiscal years beginning after December 15, 2010. The Corporation is evaluating the effects of this guidance on its financial reporting.

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

3. Assets Whose Use is Limited

Assets whose use is limited, held in cash and cash equivalents, at December 31, 2010 and 2009, consist of the following:

	2010	2009
Construction fund	\$ 27,603	\$ 43,079
Malpractice fund	27,037	23,703
Loans from Captive (see Note 10)	10,000	10,000
FPP-related expenditures	2,276	2,185
Pension contribution and health insurance	25,500	10,500
Assets held by Foundation	3,523	3,344
Funds held in escrow for capital assets	2,951	3,185
	98,890	95,996
Less current portion	42,276	22,685
Total	\$ 56,614	\$ 73,311

In connection with the Corporation's purchase of a building in 2009, certain funds were required to be held in escrow at closing. In 2011, these funds were released from escrow and are no longer limited as to use.

Investment income on cash and cash equivalents and assets whose use is limited consist of interest and dividend income of \$536 and \$563 for the years ended December 31, 2010 and 2009, respectively.

4. Capital Assets

Capital asset activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Additions	Write-offs and Disposals	Transfers	Ending Balance
Land (non-depreciable)	\$ 12,498	\$ -	\$ -	\$ -	\$ 12,498
Land improvements	12,575	71	-	-	12,646
Buildings and improvements	169,364	4,834	-	10,205	184,403
Fixed equipment	107,998	374	(56)	672	108,988
Movable equipment	152,267	5,380	(173)	11,357	168,831
Construction-in-progress	22,310	33,704	-	(22,234)	33,780
	477,012	44,363	(229)	-	521,146
Less accumulated depreciation	326,104	18,721	(229)	-	344,596
Total	\$ 150,908	\$ 25,642	\$ -	\$ -	\$ 176,550

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

4. Capital Assets (continued)

Capital asset activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Additions	Write-offs and Disposals	Transfers	Ending Balance
Land (non-depreciable)	\$ 12,498	\$ –	\$ –	\$ –	\$ 12,498
Land improvements	12,575	–	–	–	12,575
Buildings and improvements	160,480	1,355	–	7,529	169,364
Fixed equipment	107,629	425	(56)	–	107,998
Movable equipment	138,106	9,254	(258)	5,165	152,267
Construction-in-progress	12,252	22,752	–	(12,694)	22,310
	<u>443,540</u>	<u>33,786</u>	<u>(314)</u>	<u>–</u>	<u>477,012</u>
Less accumulated depreciation	308,484	17,934	(314)	–	326,104
Total	<u>\$ 135,056</u>	<u>\$ 15,852</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 150,908</u>

The Corporation wrote off approximately \$229 and \$314 of fully depreciated assets in 2010 and 2009, respectively. Net interest capitalized for the years ended December 31, 2010 and 2009 was approximately \$1,507 and \$821, respectively.

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

5. Long-term Debt

Long-term debt at December 31, 2010 and 2009 consists of the following:

	December 31	
	2010	2009
2004 Series B bonds payable at varying dates through August 1, 2014, bearing interest at tax-exempt, fixed interest rates ranging from 3.0% to 5.0%	\$ 12,250	\$ 14,670
2009 Series A bonds payable at varying dates through August 1, 2022; variable rate demand bonds bearing interest at taxable variable rates with an effective average of approximately 4.61% in 2010	25,995	25,995
2009 Series B, C and D bonds payable at varying dates through August 1, 2029; variable rate demand bonds bearing interest at tax-exempt variable rates with an effective average of approximately 3.46% in 2010	220,840	220,840
	259,085	261,505
Deferred loss on refunding	(26,931)	(29,232)
Net unamortized bond premium	298	472
Current portion	(2,438)	(2,420)
	\$ 230,014	\$ 230,325

In October 2004, the Series 2004 Bonds were issued to refund the Corporation's Series 1999 Revenue Bonds, finance capital projects and pay the costs of issuance, including the required premium of the Bond Insurer. The transaction resulted in the Corporation receiving approximately \$41,000 of cash, of which \$26,000 was available for working capital and \$15,000 for new capital project financing. The net present value savings from lower debt service payment requirements was approximately \$22,000. The refunded Series 1999 Revenue Bonds outstanding at December 31, 2008 was approximately \$242,157. The remaining amount outstanding was fully redeemed in 2009.

In 2008, the Corporation received a \$37,000 grant award from the Health Care Efficiency and Affordability Law for New Yorkers Capital Grant Program ("HEAL NY"), as established pursuant to Section 2818 of the Public Health Law. In June 2008, a portion of the HEAL NY

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

5. Long-term Debt (continued)

grant award was used by the Corporation to redeem approximately \$33,700 of the 2004 Series A (taxable) auction rate securities, terminate a portion of the taxable swap outstanding, and pay transaction costs. The HEAL NY grant award was recognized as a grant for capital asset acquisitions and retirement of long-term debt.

In September 2008, a portion of the Series 2004 Series A and 2004 Series C bonds were not remarketed and the Corporation was required to draw on its Standby Purchase Agreement to purchase the bonds, at which time they became bank term bonds, which were outstanding at December 31, 2008. The potential for this conversion transaction was provided for in the original financing agreements.

In April 2009, Series 2009 A (taxable), B, C and D bonds were issued as variable rate demand bonds (“VRDBs”) backed by new letters of credit (“LOCs”) to redeem the 2004 Series A and 2004 Series C outstanding bank term bonds. The LOCs are scheduled to expire in April 2012. If the Corporation draws on the LOCs to purchase the Series 2009 bonds, the VRDBs will convert to bank term bonds and repayment will commence no earlier than 270 days from the drawing date. Principal amounts related to the Series 2009 A bonds mature annually each August 1, beginning in fiscal 2013 through fiscal 2022. Principal amounts related to the Series 2009 B, C, and D bonds mature annually each August 1, beginning in fiscal 2015 through fiscal 2029.

The County guarantees to the Trustee and the owners of Series 2009 Bonds the full and prompt payment of the principal and interest of the Series 2004 and Series 2009 Bonds. The County guaranty may be amended without consent of the bond owners.

In connection with the issuance of the Series 2004 and 2009 Bonds, the Corporation incurred a loss of approximately \$38,000 and \$3,700, respectively. The loss (the difference between the reacquisition price and the net carrying amount of the old debt) is carried as a deferred item, net in long-term debt in the accompanying consolidated balance sheets. The total deferred loss to be amortized has not been adjusted for the prepayment in 2008 of a portion of outstanding debt and the issuance of the Series 2009 Bonds; however, future amortization of the deferred loss was so adjusted. Amortization of the deferred loss is \$2,301 and \$2,317 for the years ended December 31, 2010 and 2009, respectively.

Nassau Health Care Corporation and Subsidiaries
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Notes to Consolidated Financial Statements (continued)

(In Thousands)

5. Long-term Debt (continued)

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

In connection with the issuance of the Series 2004 Bonds, the Corporation entered into interest rate swap agreements with commercial banks to effectively convert interest payments on the variable interest rate Series C Bonds to a fixed interest rate based on a total initial notional amount of \$220,000 that declines as debt is repaid. The fixed interest rate paid by the Corporation under the swap agreements is 3.46% and the variable rate received is based on LIBOR. The swap agreements remain in place for the Series 2009 bonds and expire on August 1, 2029.

The Corporation also entered into a cancelable swap agreement with a commercial bank to effectively convert interest payments on the variable interest rate for the Series 2004 A Bonds to a fixed interest rate based on an initial notional amount of \$65,000 that declines as debt is repaid. The fixed interest rate paid by the Corporation under the swap agreement is 4.61% and the variable rate received is based on LIBOR. The swap agreement remains in place for the Series 2009 bonds and expires on August 1, 2012.

The swap agreements expose the Corporation to market risk, in the event of changes in interest rates, and credit risk, in the event of nonperformance by the counterparty. However, the Corporation believes that the risk of a material impact to its consolidated financial condition arising from such events is low. The County guarantees payments to the swap contract counterparties. The fair value of the derivative instruments was a liability of approximately \$25,355 and \$17,597 at December 31, 2010 and 2009, respectively.

Principal payments on long-term debt are due annually on August 1. Interest payments are due semiannually on February 1 and August 1. Estimated interest is based on the original

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

5. Long-term Debt (continued)

amortization schedules. Payments applicable to long-term debt for years subsequent to December 31, 2010 are as follows:

	Principal	Estimated Interest
2011	\$ 2,438	\$ 10,062
2012	4,815	9,940
2013	4,360	9,700
2014	4,520	9,484
2015	13,005	9,261
2016 to 2020	73,555	38,252
2021 to 2025	84,080	22,862
2026 to 2029	72,312	6,782
	\$ 259,085	\$ 116,343

In June 2010, the Corporation issued \$50.3 million of taxable 2010 Revenue Anticipation Notes (“2010 RANs”) that were due in December 2010. The 2010 RANs were repaid in full in December 2010.

Nassau Health Care Corporation and Subsidiaries
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Notes to Consolidated Financial Statements (continued)

(In Thousands)

6. Transactions with the County of Nassau

The following amounts are included in the accompanying consolidated statements of revenues, expenses and changes in net assets (deficiency), and represent transactions that occurred between the County and the Corporation during the years ended December 31, 2010 and 2009:

	2010	2009
Revenue earned from the County:		
Patient care	\$ 7,626	\$ 7,283
Space charges	1,857	1,851
Non-patient care	22,089	24,427
Health insurance for retiree charges	8,237	7,492
Intergovernmental transfer – County	13,000	22,410
Grants for capital asset acquisitions – IGT	–	33,745
Article VI health center subsidies	5,000	5,000
	57,809	102,208
County pass-through transactions:		
Amounts paid on behalf of the County	2,949	2,693
State aid and other amounts collected by the County	1,541	870
Total transactions with the County	\$ 62,299	\$ 105,771

Payments from the County for patient care, space charges, health insurance for retirees and non-patient care are made to the Corporation through quarterly advances. Payments from the County for patient care, IGT and Article VI health center subsidies are recorded as net patient service revenue in the accompanying consolidated financial statements. Payments from the County for space charges, health insurance for retirees and non-patient care are recorded as other operating revenue.

Grants for capital asset acquisitions, restricted for purposes of capital expansion, are reported after the performance indicator in the consolidated statements of revenues, expenses and changes in net assets (deficiency).

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

6. Transactions with the County of Nassau (continued)

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.

The Corporation received \$5,000 in 2010 and 2009 from the County for consideration of Article VI services as defined by the New York State Public Health Law.

Effective November 2007, the Stabilization Agreement was superseded by a Successor Agreement, which is in effect until 2029. The Successor Agreement clarifies the services provided by the Corporation to the County and establishes the mechanism for payments to the Corporation by the County. The Successor Agreement also provides the Corporation with capital funding and is in effect until 2029.

7. Retirement Plans

Retirement Plan Descriptions

Substantially all employees are covered by retirement plans of the New York State and Local Employees' Retirement System and the Public Employees' Group Life Insurance Plan (the "Retirement Systems"). These are cost-sharing, multi-employer defined benefit retirement plans. The Retirement Systems provide retirement, death and disability benefits. Obligations of employers and employees to contribute, and benefits to employees, are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). As set forth in the NYSRSSL, the Comptroller of the State of New York (the "Comptroller") serves as sole trustee and administrative head of the Retirement Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Retirement Systems and for the custody and control of their funds. The Retirement Systems issue publicly available financial reports that include financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

Nassau Health Care Corporation and Subsidiaries
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Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Retirement Plans (continued)

Retirement Plans Funding Policy

The Retirement Systems are noncontributory, except for those employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salaries. The State Legislature passed legislation in 2000 that suspended the 3% contribution for employees who have attained ten years or more of credited service. In addition, members who meet certain eligibility requirements will receive one month's additional service credit for each completed year of service up to a maximum of two additional years of service credit. Under the authority of the NYSRSSL, the Comptroller shall annually certify the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by the employers to the pension accumulation fund.

The Corporation did not make any contribution to the Retirement Systems in 2010. The cash contribution to the Retirement Systems for the year ended December 31, 2009 was approximately \$22,388. For the years ended December 31, 2010 and 2009, pension expense was approximately \$23,108 and \$16,982, respectively.

8. Health Insurance Plan

Employees of the Corporation are provided health care benefits in accordance with New York State Health Insurance Rules and Regulations administered by the New York State Department of Civil Service (the "NYSHIP plan"). The Corporation's union contract and ordinances require the Corporation to provide all eligible enrollees with either the NYSHIP plan or other equivalent health insurance. The plan offers comprehensive benefits through an indemnity insurance plan with managed care features, consisting of hospital, medical, health, substance abuse and prescription drug programs. For the years ended December 31, 2010 and 2009, expenses related to health insurance benefits totaled approximately \$47,437 and \$48,762, respectively.

Nassau Health Care Corporation and Subsidiaries
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Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Postemployment Retirement Healthcare Benefit Plan

Plan Description

Substantially all employees are eligible for health insurance benefits upon retirement from the Corporation. Retirees of the Corporation are provided health care benefits in accordance with the NYSHIP plan. The New York State Department of Civil Service administers the plan and has the authority to establish and amend the benefit provisions offered. The NYSHIP plan, considered an agent multiple-employer defined benefit plan, is not a separate entity or trust and does not issue stand-alone financial statements. The Corporation recognizes OPEB expenses on an accrual basis.

Funding Policy

There are no employee contributions required for the NYSHIP plan. The Corporation contributes, through the County, a proportionate amount of the health insurance premiums for all employees who retire. The Corporation's responsibility is based on the proportion of time the individual was employed by the Corporation compared to the time employed by the County. The Corporation funds such expenditures as incurred. Amounts paid relative to these benefits amounted to approximately \$3,891 and \$3,487 for the years ended December 31, 2010 and 2009, respectively.

Annual OPEB Cost

The Corporation's annual OPEB cost for the NYSHIP plan is calculated based on the annual required contribution ("ARC"), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

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Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Postemployment Retirement Healthcare Benefit Plan (continued)

The NYSHIP plan's annual OPEB cost and the related information at December 31, 2010 and 2009 are as follows:

	2010	2009
Annual required contribution	\$ 48,504	\$ 44,211
Interest on net OPEB obligation	5,040	3,367
Adjustment to ARC	(7,068)	(4,721)
Contributions made (reported in operating expenses)	(3,891)	(3,487)
Increase in net OPEB obligation (reported as other operating item)	42,585	39,370
Net OPEB obligation – beginning of year	118,591	79,221
Net OPEB obligation – end of year	161,176	118,591
Current portion	(3,900)	(3,500)
	\$ 157,276	\$ 115,091

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

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	\$ 46,476	8.4%	\$ 161,176
December 31, 2009	\$ 42,857	8.1%	\$ 118,591

As of December 31, 2010 and 2009, the actuarial accrued liability for benefits was \$374,779 and \$328,353, respectively, all of which was unfunded. As of December 31, 2010 and 2009, the covered payroll (annual payroll of active employees covered by the NYSHIP plan) was \$178,943 and \$185,986, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 209.4% and 176.5%, respectively.

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Postemployment Retirement Healthcare Benefit Plan (continued)

The actuarial valuation date is January 1, 2010. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information provides multi-year trend information for the actuarial accrued liability for benefits.

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

For the December 31, 2010 and 2009 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.25% (4.25% in 2009) discount rate and an annual healthcare cost trend rate of 8.00% (8.00% in 2009) medical and grading down to an ultimate rate of 5%. The unfunded actuarial accrued liability is being amortized over 30 years as a level dollar amount. The remaining amortization period at December 31, 2010 was 26 years.

10. Professional and Other Insurance Liabilities

For the policy years ended (or ending) September 29, 2008 to 2011, the Captive issued hospital professional and employee benefits policies on a claims-made basis and commercial general policies on an occurrence basis. The Captive's liability on the hospital professional and employee benefits policies is \$7,000 per person (\$10,000 for policy years prior to 2009) with no aggregate limit and \$1,000 per claim up to an aggregate of \$1,000, respectively. The liability on commercial general policies is \$1,000 per occurrence, except for fire damages, where the limit is \$50 for any one fire, and medical payment, where the limit is \$5 for any one person, up to an aggregate of \$3,000.

The Captive is subject to minimum capital requirements as established by the Cayman Islands Monetary Authority (the "Monetary Authority"). The Corporation has committed to fund any shortfalls of capital relative to the minimum statutory requirements and to provide any necessary financial support to the Captive as may be deemed necessary. The Captive's ability to operate is dependent upon such support.

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Professional and Other Insurance Liabilities (continued)

In 2006, the Captive loaned the Corporation \$10,000. The loan was re-payable on demand and has been renewed until December 31, 2010. The loan bears interest at a rate of 5% per annum, payable semi-annually. At December 31, 2010 and 2009, the full loan amount of \$10,000 remained outstanding.

The Captive has entered into a note agreement with the Corporation in the amount of \$5,500 (the "Note"). The Note is unfunded. The Note is unsecured, non-interest bearing and has no specific terms of repayment. The Captive may cancel the Note at any time. In order to support the ability for the Captive to continue operations, the Captive may call the Note to provide cash flow as the loss reserves develop. The ability of the Captive to receive payment under the Note is dependent on the Corporation's financial strength. The Monetary Authority has confirmed that it recognizes the Note as funds available to meet the Captive's minimum statutory requirements for net worth in the Cayman Islands. At December 31, 2010 and 2009, the Captive was in compliance with its minimum capital requirement.

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

	2010	2009
Balance at beginning of year	\$ 37,000	\$ 42,856
Incurred related to:		
Current year	10,525	11,448
Prior years	(1,378)	(2,126)
Total incurred	9,147	9,322
Paid relating to:		
Current year	702	751
Prior years	4,945	14,427
Total paid	5,647	15,178
	40,500	37,000
Current portion	(4,500)	(4,500)
Long-term portion	\$ 36,000	\$ 32,500

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

10. Professional and Other Insurance Liabilities (continued)

During 2010 and 2009, losses and loss adjustment expenses for incurred claims for prior years reflect the changes in estimates of the ultimate settlement of such losses. In 2010 and 2009, the Captive experienced favorable loss development where the actual settlements were better than expected for claims that occurred during the last three years.

Insurance reserves and the related insurance losses and loss adjustment expenses, recorded through the Captive, have been discounted based on an assumed interest rate of 4% in 2010 and 2009.

In addition to the insurance coverage purchased from the Captive, the Corporation purchases umbrella and other coverage from commercial insurers. For the years ended December 31, 2010 and 2009, insurance expense totaled \$12,955 and \$13,243, respectively.

11. Commitments and Contingencies

Operating Leases

The Corporation leases certain facility space under operating leases that have initial or remaining non-cancelable terms in excess of one year. Rent expense under such leases was \$926 and \$1,043 in 2010 and 2009, respectively, and is included in supplies and other expenses in the accompanying consolidated statements of revenues, expenses and changes in net assets (deficiency).

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

Year ending December 31:	
2011	\$ 978
2012	875
2013	526
2014	537
2015	235
Thereafter	470
	<u>\$ 3,621</u>

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

11. Commitments and Contingencies (continued)

Collective Bargaining Agreements

Substantially all of the Corporation's employees are union employees who are covered under the terms of a collective bargaining agreement with the Civil Service Employees Association. A contract was executed, effective January 1, 2005, and expired on December 31, 2009. The Corporation is currently negotiating a new contract with the Union.

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 consolidated financial statements.

Berger Commission

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

The Corporation intends to comply with the remainder of the Berger Commission's recommendations, and management continues to work closely with the NYSDOH to provide for their cost-effective implementation. To begin the implementation of the recommendations of the Berger Commission, the Corporation's Board of Directors authorized an initial surrender of 309 skilled nursing facility beds at AHP, while authorizing the surrender of 101 certified inpatient beds at NUMC. The Corporation also filed Certificate of Need Applications ("CONs") with

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

11. Commitments and Contingencies (continued)

NYSDOH to construct a new facility to replace AHP and to pour the three empty floors at NUMC. To date, the Corporation has begun the process of securing financing to begin the construction of the new nursing home and has poured the three empty floors at NUMC. In addition, NYSDOH has accepted the surrender of 300 skilled nursing facility beds at AHP, reducing its total licensed bed capacity from 889 to 589 skilled nursing facility beds, and 101 certified inpatient beds at NUMC. However, NYSDOH has made no decision regarding the authorized surrender of nine additional beds at AHP or any of the CONs filed by the Corporation that are associated with the Berger Commission’s recommendations. The ultimate effect of these matters on the Corporation’s consolidated financial statements cannot be estimated presently.

12. Other Operating Revenue

Other operating revenue consists of the following:

	Year Ended December 31	
	2010	2009
Other non-patient related County billings	\$ 33,239	\$ 34,640
Federal and state grants	–	1,391
Medical staff housing	1,918	1,880
Equity in investment in LLC	3,727	1,545
Cafeteria	253	466
Rotating residents	2,076	3,838
Parking	370	417
Medical resident tax recovery	1,254	–
Other miscellaneous revenue	5,663	3,282
	\$ 48,500	\$ 47,459

In March 2010, the Internal Revenue Service (“IRS”) announced that for periods ending before April 1, 2005, medical residents would be eligible for the student exception of Federal Insurance Contributions Act (“FICA”) taxes. As a result, organizations that had filed timely FICA refund claims covering periods up through that date are eligible for refunds of both the employer and employee portions of FICA taxes paid, plus statutory interest. As a result of the decision made by the IRS, the Corporation recorded estimated net revenue of approximately \$1.2 million presented as medical resident tax recovery for the year ended December 31, 2010. The Corporation has

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

12. Other Operating Revenue (continued)

established its estimate based on information presently available; the estimate is subject to change as the IRS adjudicates the claims.

13. County of Nassau, New York, Financial Situation

The County provides the Corporation historic mission subsidies, Article VI service payments, payments for inmate health services, IGT and various other payments throughout each fiscal year. Additionally, the County is the direct-pay guarantor of the Corporation's Series 2010 Bonds, as well as payments 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 consolidated financial statements of the Corporation, taken as a whole.

14. Long-Term Debt and Other Noncurrent Liabilities

A schedule of changes in the Corporation's long-term debt and noncurrent liabilities for 2010 follows:

	Balance December 31, 2009	Additions	Deductions	Balance December 31, 2010	Amounts Due Within One Year
Long-term debt (see Note 5):					
2004 Series B Bonds	\$ 14,670	\$ –	\$ (2,420)	\$ 12,250	\$ 2,438
2009 Series A Bonds	25,995	–	–	25,995	–
2009 Series B-D Bonds	220,840	–	–	220,840	–
Deferred loss on refunding	(29,232)	–	2,301	(26,931)	–
Bond premium	472	–	(174)	298	–
Current portion	(2,420)	(18)	–	(2,438)	–
Total long-term debt	230,325	(18)	(293)	230,014	2,438
Other long-term liabilities:					
Professional and other insurance liabilities (see Note 10)	37,000	3,500	–	40,500	4,500
Postemployment benefits other than pensions (see Note 9)	118,591	42,585	–	161,176	3,900
Derivative instruments	17,597	7,758	–	25,355	–
Other long-term liabilities	15,363	–	(1,595)	13,768	–
Current portion	(8,000)	(400)	–	(8,400)	–
Total noncurrent liabilities	\$ 410,876	\$ 53,425	\$ (1,888)	\$ 462,413	\$ 10,838

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

Notes to Consolidated Financial Statements (continued)

(In Thousands)

15. Subsequent Events

In March 2011, the Corporation issued \$55.0 million of taxable 2011 Revenue Anticipation Notes (“2011 RANs”) due in December 2011. The 2011 RANs were issued in anticipation of receipt by the Corporation of Federal IGT payments. The Corporation has pledged its 2011 Federal IGT payments for the payment of the principal and interest on the 2011 RANs.

Required Supplementary Information

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

Schedule of Funding Progress for the Postemployment Retiree Healthcare Plan

(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Level Dollar (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
January 1, 2010	–	\$ 374,779	\$ 374,779	0%	\$ 178,943	209.4%
January 1, 2009	–	328,353	328,353	0%	185,986	176.5%
January 1, 2008	–	305,375	305,375	0%	175,358	174.1%

Report on Internal Control Over Financial
Reporting and on Compliance
and Other Matters Based on an Audit of the
Financial Statements
Performed in Accordance with
Government Auditing Standards

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Nassau Health Care Corporation and Subsidiaries

We have audited the consolidated financial statements of Nassau Health Care Corporation and Subsidiaries (component unit of Nassau County) (the “Corporation”) as of and for the year ended December 31, 2010, and have issued our report thereon dated May 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

In planning and performing our audit, we considered the Corporation’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity and Nassau County is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

May 26, 2011

Other Financial Information

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

Consolidating Balance Sheet

December 31, 2010

	NUMC	AHP	Health Centers	FPP	NHCC, Ltd.	Foundation	Eliminations	Total
	<i>(In Thousands)</i>							
Assets								
Current assets:								
Cash and cash equivalents	\$ 3,142	\$ 1,041	\$ 185	\$ -	\$ -	\$ -	\$ -	\$ 4,368
Assets whose use is limited, current portion	28,316	5,956	1,224	2,280	4,500	-	-	42,276
Patients accounts receivable, net	83,373	12,249	996	7,066	-	-	-	103,684
Inventories	5,388	154	-	-	-	-	-	5,542
Prepaid expenses	2,635	-	54	-	11	-	-	2,700
Other receivables	19,439	18,043	673	-	-	-	-	38,155
Due from third-party payers	1,452	-	4,267	-	-	-	-	5,719
Investment in NHCC, Ltd.	13,620	-	-	-	-	-	(13,620)	-
Due from County of Nassau – net	10,494	1	1,250	-	-	-	-	11,745
Due from other funds – net	-	43,096	-	2,803	17,868	-	(63,767)	-
Total current assets	167,859	80,540	8,649	12,149	22,379	-	(77,387)	214,189
Assets whose use is limited, net of current portion	22,020	4,631	3,903	-	22,537	3,523	-	56,614
Capital assets – net (depreciable)	138,637	12,575	12,721	-	-	119	-	164,052
Capital assets (non-depreciable)	98	12,400	-	-	-	-	-	12,498
Deferred bond issuance costs	979	206	42	-	-	-	-	1,227
Other assets	13,161	-	-	-	-	-	-	13,161
Total assets	\$ 342,754	\$ 110,352	\$ 25,315	\$ 12,149	\$ 44,916	\$ 3,642	\$ (77,387)	\$ 461,741
Liabilities and net assets (deficiency)								
Current liabilities:								
Accounts payable and accrued expenses	\$ 33,828	\$ 6,414	\$ 825	\$ 949	\$ 99	\$ -	\$ -	\$ 42,115
Accrued salaries, wages and payroll taxes	15,893	2,239	244	2,280	-	-	-	20,656
Accrued vacation and sick pay	30,845	11,152	1,268	-	-	-	-	43,265
Accrued pension	15,532	3,474	816	-	-	-	-	19,822
Interest payable	1,164	244	50	-	-	-	-	1,458
Due to third-party payers	-	24,415	-	-	-	-	-	24,415
Due to other funds – net	22,100	-	34,671	-	-	-	(56,771)	-
Current portion of professional and other insurance liabilities and postemployment benefits other than pensions	3,111	667	122	-	4,500	-	-	8,400
Current portion of long-term debt	1,865	512	61	-	-	-	-	2,438
Total current liabilities	124,338	49,117	38,057	3,229	4,599	-	(56,771)	162,569
Long-term debt	175,880	48,296	5,838	-	-	-	-	230,014
Professional and other insurance liabilities	-	-	-	-	36,000	-	-	36,000
Postemployment benefits other than pensions	125,475	26,878	4,923	-	-	-	-	157,276
Derivative instruments	20,226	4,254	875	-	-	-	-	25,355
Other long-term liabilities	10,817	-	2,951	-	6,996	-	(6,996)	13,768
Total liabilities	456,736	128,545	52,644	3,229	47,595	-	(63,767)	624,982
Net assets (deficiency):								
Invested in capital assets, net of related debt	78,055	3,655	12,721	-	-	119	-	94,550
Restricted for specific operating purposes by donors	-	-	-	-	-	1,964	-	1,964
Unrestricted	(192,037)	(21,848)	(40,050)	8,920	(2,679)	1,559	(13,620)	(259,255)
Total net assets (deficiency)	(113,982)	(18,193)	(27,329)	8,920	(2,679)	3,642	(13,620)	(163,241)
Total liabilities and net assets (deficiency)	\$ 342,754	\$ 110,352	\$ 25,315	\$ 12,149	\$ 44,916	\$ 3,642	\$ (77,387)	\$ 461,741

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

Consolidating Balance Sheet

December 31, 2009

	NUMC	AHP	Health Centers	FPP	NHCC, Ltd.	Foundation	Eliminations	Total
	<i>(In Thousands)</i>							
Assets								
Current assets:								
Cash and cash equivalents	\$ 14,488	\$ 3,417	\$ 623	\$ -	\$ -	\$ -	\$ -	\$ 18,528
Assets whose use is limited, current portion	16,353	3,439	707	2,186	-	-	-	22,685
Patients accounts receivable, net	86,731	12,498	1,246	6,855	-	-	-	107,330
Inventories	5,437	148	-	-	-	-	-	5,585
Prepaid expenses	6,008	852	250	-	2	-	-	7,112
Other receivables	2,547	3,182	591	-	-	-	-	6,320
Investment in NHCC, Ltd.	13,620	-	-	-	-	-	(13,620)	-
Due from County of Nassau - net	1,162	66	-	-	-	-	-	1,228
Due from other funds - net	-	38,513	-	3,334	16,789	-	(58,636)	-
Total current assets	146,346	62,115	3,417	12,375	16,791	-	(72,256)	168,788
Assets whose use is limited, net of current portion	34,364	7,229	4,671	-	23,703	3,344	-	73,311
Capital assets - net (depreciable)	114,560	12,616	11,072	-	-	162	-	138,410
Capital assets (non-depreciable)	98	12,400	-	-	-	-	-	12,498
Deferred bond issuance costs	1,068	225	46	-	-	-	-	1,339
Other assets	9,638	-	-	-	375	-	(375)	9,638
Total assets	\$ 306,074	\$ 94,585	\$ 19,206	\$ 12,375	\$ 40,869	\$ 3,506	\$ (72,631)	\$ 403,984
Liabilities and net assets (deficiency)								
Current liabilities:								
Accounts payable and accrued expenses	\$ 21,198	\$ 3,919	\$ 1,029	\$ 1,269	\$ 99	\$ -	\$ -	\$ 27,514
Accrued salaries, wages and payroll taxes	14,418	2,235	226	2,186	-	-	-	19,065
Accrued vacation and sick pay	29,492	10,865	1,214	-	-	-	-	41,571
Accrued pension	583	258	60	-	-	-	-	901
Interest payable	1,741	287	59	-	-	-	(375)	1,712
Due to third-party payers	(1,934)	20,061	(1,165)	-	-	-	-	16,962
Due to other funds - net	23,073	-	28,729	-	-	-	(51,802)	-
Current portion of professional and other insurance liabilities and postemployment benefits other than pensions	2,800	595	105	-	4,500	-	-	8,000
Current portion of long-term debt	1,850	508	62	-	-	-	-	2,420
Total current liabilities	93,221	38,728	30,319	3,455	4,599	-	(52,177)	118,145
Long-term debt	176,118	48,361	5,846	-	-	-	-	230,325
Professional and other insurance liabilities	-	-	-	-	32,500	-	-	32,500
Postemployment benefits other than pensions	91,812	19,672	3,607	-	-	-	-	115,091
Derivative instruments	14,037	2,953	607	-	-	-	-	17,597
Other long-term liabilities	10,263	1,915	3,185	-	6,834	-	(6,834)	15,363
Total liabilities	385,451	111,629	43,564	3,455	43,933	-	(59,011)	529,021
Net assets (deficiency):								
Invested in capital assets, net of related debt	54,178	3,496	11,072	-	-	162	-	68,908
Restricted for specific operating purposes by donors	-	-	-	-	-	1,675	-	1,675
Unrestricted	(133,555)	(20,540)	(35,430)	8,920	(3,064)	1,669	(13,620)	(195,620)
Total net assets (deficiency)	(79,377)	(17,044)	(24,358)	8,920	(3,064)	3,506	(13,620)	(125,037)
Total liabilities and net assets (deficiency)	\$ 306,074	\$ 94,585	\$ 19,206	\$ 12,375	\$ 40,869	\$ 3,506	\$ (72,631)	\$ 403,984

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

Consolidating Statement of Revenues, Expenses and Changes in Net Assets (Deficiency)

Year Ended December 31, 2010

	NUMC	AHP	Health Centers	FPP	NHCC, Ltd.	Foundation	Eliminations	Total
	<i>(In Thousands)</i>							
Operating revenue:								
Net patient service revenue (net of the provision for bad debts)	\$ 375,297	\$ 71,908	\$ 14,343	\$ 23,237	\$ –	\$ –	\$ (11,918)	\$ 472,867
Other operating revenue	44,177	832	50	–	9,235	3,441	(9,235)	48,500
Investment income	280	107	15	108	515	11	(500)	536
Total operating revenue before other operating items	<u>419,754</u>	<u>72,847</u>	<u>14,408</u>	<u>23,345</u>	<u>9,750</u>	<u>3,452</u>	<u>(21,653)</u>	<u>521,903</u>
Operating expenses:								
Salaries and wages	207,437	30,656	8,609	8,613	–	2,254	–	257,569
Employee benefits	76,907	14,499	3,108	338	–	204	–	95,056
Supplies and other	117,418	14,281	3,260	14,394	9,365	800	(21,153)	138,365
Interest and amortization	8,134	3,541	371	–	–	–	(500)	11,546
Depreciation	16,835	1,432	396	–	–	58	–	18,721
Total operating expenses before other operating items	<u>426,731</u>	<u>64,409</u>	<u>15,744</u>	<u>23,345</u>	<u>9,365</u>	<u>3,316</u>	<u>(21,653)</u>	<u>521,257</u>
(Deficiency) excess of operating revenue over operating expenses before other operating items	(6,977)	8,438	(1,336)	–	385	136	–	646
Other operating items:								
Employee benefits expense (unfunded portion of postemployment benefits other than pensions)	(33,974)	(7,278)	(1,333)	–	–	–	–	(42,585)
Change in fair value of derivative instruments	(5,741)	(1,784)	(233)	–	–	–	–	(7,758)
Amortization of deferred loss on refunding (interest expense)	(1,707)	(525)	(69)	–	–	–	–	(2,301)
(Deficiency) excess of operating revenue over operating expenses	<u>(48,399)</u>	<u>(1,149)</u>	<u>(2,971)</u>	<u>–</u>	<u>385</u>	<u>136</u>	<u>–</u>	<u>(51,998)</u>
Grants for capital asset acquisitions	13,794	–	–	–	–	–	–	13,794
(Decrease) increase in net assets (deficiency)	(34,605)	(1,149)	(2,971)	–	385	136	–	(38,204)
Net assets (deficiency), beginning of year	(79,377)	(17,044)	(24,358)	8,920	(3,064)	3,506	(13,620)	(125,037)
Net assets (deficiency), end of year	<u>\$ (113,982)</u>	<u>\$ (18,193)</u>	<u>\$ (27,329)</u>	<u>\$ 8,920</u>	<u>\$ (2,679)</u>	<u>\$ 3,642</u>	<u>\$ (13,620)</u>	<u>\$ (163,241)</u>

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

Consolidating Statement of Revenues, Expenses and Changes in Net Assets (Deficiency)

Year Ended December 31, 2009

	NUMC	AHP	Health Centers	FPP	NHCC, Ltd.	Foundation	Eliminations	Total
	<i>(In Thousands)</i>							
Operating revenue:								
Net patient service revenue (net of the provision for bad debts)	\$ 366,757	\$ 68,061	\$ 12,634	\$ 21,275	\$ –	\$ –	\$ (9,490)	\$ 459,237
Other operating revenue	45,236	707	–	–	9,468	3,137	(11,089)	47,459
Investment income	259	70	10	115	560	49	(500)	563
Total operating revenue before other operating items	412,252	68,838	12,644	21,390	10,028	3,186	(21,079)	507,259
Operating expenses:								
Salaries and wages	206,594	32,947	9,534	8,926	–	2,141	–	260,142
Employee benefits	71,572	13,948	3,244	350	–	200	–	89,314
Supplies and other	108,464	12,756	3,362	12,114	9,551	805	(20,579)	126,473
Interest and amortization	9,605	3,085	402	–	–	–	(500)	12,592
Depreciation	16,364	1,432	72	–	–	66	–	17,934
Total operating expenses before other operating items	412,599	64,168	16,614	21,390	9,551	3,212	(21,079)	506,455
(Deficiency) excess of operating revenue over operating expenses before other operating items	(347)	4,670	(3,970)	–	477	(26)	–	804
Other operating items:								
Employee benefits expense (unfunded portion of postemployment benefits other than pensions)	(31,410)	(6,728)	(1,232)	–	–	–	–	(39,370)
Change in fair value of derivative instruments	16,215	5,040	657	–	–	–	–	21,912
Amortization of deferred loss on refunding (interest expense)	(1,715)	(532)	(70)	–	–	–	–	(2,317)
Third-party retroactive rate adjustment	–	(15,572)	–	–	–	–	–	(15,572)
(Deficiency) excess of operating revenue over operating expenses	(17,257)	(13,122)	(4,615)	–	477	(26)	–	(34,543)
Grants for capital asset acquisitions	44,963	(2,195)	–	–	–	–	–	42,768
(Decrease) increase in net assets (deficiency)	27,706	(15,317)	(4,615)	–	477	(26)	–	8,225
Net assets (deficiency), beginning of year	(107,083)	(1,727)	(19,743)	8,920	(3,541)	3,532	(13,620)	(133,262)
Net assets (deficiency), end of year	\$ (79,377)	\$ (17,044)	\$ (24,358)	\$ 8,920	\$ (3,064)	\$ 3,506	\$ (13,620)	\$ (125,037)