

**NASSAU HEALTH CARE CORPORATION  
& SUBSIDIARIES**

**Report on Operations**

**FISCAL YEAR ENDED DECEMBER 31, 2010**

The Nassau Health Care Corporation (NHCC) produced its first ever operating surplus of \$804,000 for calendar year ending December 31, 2009. This outstanding result for NHCC was achieved through an extensive list of revenue cycle initiatives, supply chain initiatives, staffing efficiencies, information technology upgrades, faculty practice plan realignment, and various program enhancements for a prospective annual impact in excess of \$271 million over the last nine years.

NHCC's 2010 operating budget called for an operating deficit of approximately \$8.5 million and management's current projection is an operating deficit of approximately \$8.9 million. The 2011 operating budget is expected to produce similar results to 2010 in spite of continued pension increases of approximately \$8 million and health insurance premium increases of approximately \$5 million.

NHCC has made tremendous strides during 2010 in improving its operations in both the inpatient and ambulatory arenas. For example, a hospitalist program commenced July 1, 2010 and is having a significant positive impact in average daily census, length of stay, discharge volumes, medical record documentation and coding, and Part B physician billing improvements. NHCC also secured a full-time neurosurgeon during 2010, whose inpatient and ambulatory cases are extremely profitable for NHCC. NHCC entered into an arrangement with North American Partners in Anesthesia (NAPA, an independent, Long Island based, 300+ physician group). This arrangement has been very successful, has improved efficiencies in the operating rooms and has improved reimbursement significantly. A new arrangement with Long Island Plastic Surgery (LIPS, an independent, Long Island based plastic surgery group) was executed which has resulted in improved volume in plastic surgery, both Inpatient and Ambulatory, including: hyperbaric, wound care and burn volume. Cardiology has been completely restructured through an arrangement with NS/LIJ and has shown continued growth in the latter part of 2010.

On the ambulatory side, NHCC received Federally Qualified Health Center "look alike" status in June of 2010 for its four Community Health Centers in Hempstead, Roosevelt, Elmont and Westbury. This Federal designation has significant reimbursement improvement for its Medicaid and Medicare population. Additionally, it is a significant asset NHCC is using to attract community physicians with robust private practices. Finally, NHCC replaced its Hempstead and

Freeport locations with expanded state-of-the-art facilities to accommodate enhanced patient experience, quality and volume.

Revenue cycle improvements are an ongoing initiative and NHCC has made improvements in its charge master inclusiveness and denial management. Similarly, information technology enhancements are an ongoing and continuous process and NHCC has made tremendous strides in 2010 in automating its ambulatory and emergency room department medical record and financial systems through a contract it entered into with Allscripts/Eclipsys. This automation complements the Eclipsys and Siemens products on the inpatient side and prepares NHCC for Medicare's meaningful use definition and qualifies NHCC for enhanced reimbursement for both Medicare and Medicaid in 2011.

To summarize the financial impact of these operational and financial improvements, the 2011 budget includes the following:

	<u>(\$ Millions)</u>
Medicare HIT funding	7.1
Hospitalist Program	7.8
Neurosurgery	4.8
Plastics, Burn, Hyberbaric, Wound Care	1.0
Cardiology	2.2
NAPA	1.2
Reimbursement Appeals	2.0
Charge Master Improvements	3.0
Denial Management	3.0
Dialysis Expansion	<u>2.0</u>
Total Revenue Improvements	34.1

With regard to A. Holly Patterson Extended Care Facility (AHP), Certificate of Need (CON) approval was received in 2008. Management has been working on financing vehicles to fund the \$105 million replacement project and expects to receive Housing and Urban Development (HUD) ninety percent financing by the end of 2010. The remaining ten percent has been allocated and internally restricted from the tobacco proceeds secured in the 2007 Successor Agreement with Nassau County.

NHCC's projected \$8.8 million deficit for 2011, before "Other Operating Items" is comprised of net income (loss); NUMC (\$9.9) million; AHP (\$0.4) million; Community Health Centers \$0.6 million and NHCC, Ltd \$0.9 million.

The 2010 budget ("budget"), after trending revenues and expenses accordingly and assuming relatively consistent patient volumes compared to 2010 results in a baseline deficit of approximately \$46.9 million ("the baseline gap."). Management has identified approximately \$38.1 million of gap closing revenue and expense initiatives to essentially produce an \$8.8 million budget deficit for 2011.

Historically, NHCC management was successful in achieving approximately \$271 million of its previous year's initiatives, which have cumulatively yielded ongoing bottom line improvement. The values of these past initiatives by year are: \$36 million in 2001, \$26 million in 2002, \$40 million in 2003, \$51 million in 2004, \$18 million in 2005, \$15 million in 2006, \$24 million in 2007, \$21 million in 2008 and \$29 million in 2009 and \$11 million in 2010.

NHCC is budgeted to produce a consolidated baseline net loss of \$46.9 million during fiscal year 2011 before revenue and expense initiatives, and \$8.8 million deficit after the successful implementation of such initiatives (before non-cash items including: 1) change in fair value of derivative instruments and 2) amortization of refunding loss and 3) other post-employment benefits. This consolidated deficit is divided among the enterprises as follows: Nassau University Medical Center ("NUMC"), A. Holly Patterson Extended Care Facility ("AHPECF"), the Community Health Centers ("CHC's") and NHCC, Ltd. ("LTD") are projected to produce net income (losses) of (\$9.9) million, (\$0.4) million, \$0.6 million, and \$0.9 million, respectively.

Consolidated cash flow from operations is budgeted at positive \$10.8 million. Investment income is projected to generate \$0.2 million, and budgeted capital expenditures from operations are projected at \$10 million, resulting in a projected ending unrestricted cash balance of \$9 million.

The 2011 budget will be an ongoing process and is presented as a working document. Management will be continually reviewing areas of possible expense reduction and revenue enhancement throughout the year. To assure fiscal responsibility and accountability on behalf of NHCC, all expenditures and staffing requirements as presented in this budget will be subject to the review, evaluation and approval of management.