

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, 2009 and 2008  
With Report of Independent Auditors

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, 2009 and 2008

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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, 2009 and 2008, 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. 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 opinion.

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, 2009 and 2008, 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.

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*

June 8, 2010

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

Management's Discussion and Analysis

Year Ended December 31, 2009

**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, 2009, 2008 and 2007. 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 Sheets; Statements of Revenues, Expenses and Changes in Net Assets (Deficiency); and Statements 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, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Current assets and other	\$ 253,076	\$ 228,813	\$ 213,496
Capital assets	150,908	135,056	119,900
Total assets	<u>\$ 403,984</u>	<u>\$ 363,869</u>	<u>\$ 333,396</u>
Long-term liabilities outstanding	\$ 410,876	\$ 393,142	\$ 338,458
Other liabilities	118,145	103,989	116,118
Total liabilities	<u>\$ 529,021</u>	<u>\$ 497,131</u>	<u>\$ 454,576</u>
Net assets (deficiency):			
Invested in capital assets, net of related debt	\$ 68,908	\$ 53,056	\$ 37,900
Restricted for specific operating purposes by donors	1,675	1,651	-
Unrestricted	(195,620)	(187,969)	(159,080)
Total net assets (deficiency)	<u>\$ (125,037)</u>	<u>\$ (133,262)</u>	<u>\$ (121,180)</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, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Operating revenue:			
Net patient service revenue (net of the provision for bad debts of \$46,044 in 2009, \$50,900 in 2008 and \$50,624 in 2007)	\$ 459,237	\$ 427,327	\$ 408,523
Other operating revenue	47,459	43,400	33,208
Investment income	563	2,396	4,709
Total operating revenue before other operating items	<u>507,259</u>	<u>473,123</u>	<u>446,440</u>
Operating expenses:			
Salaries and wages	260,142	253,114	229,099
Employee benefits	89,314	85,363	81,916
Supplies and other	126,473	128,575	115,048
Interest and amortization	12,592	13,178	11,101
Depreciation	17,934	16,523	15,712
Total operating expenses before other operating items	<u>506,455</u>	<u>496,753</u>	<u>452,876</u>
Excess (deficiency) of operating revenue over operating expenses before other operating items	804	(23,630)	(6,436)
Other operating items:			
Employee benefits expense (unfunded postemployment benefits other than pensions)	(39,370)	(38,313)	(40,908)
Change in fair value of derivative instruments	21,912	(33,616)	(7,181)
Amortization of refunding loss (interest expense)	(2,317)	(2,308)	(2,334)
Third-party retroactive rate adjustment	(15,572)	10,286	-
Deficiency of operating revenue over operating expenses	<u>(34,543)</u>	<u>(87,581)</u>	<u>(56,859)</u>
Grants for capital asset acquisitions and retirement of long-term debt	42,768	71,888	20,773
Contribution of net assets of the Foundation	-	3,611	-
Increase (decrease) in net assets	8,225	(12,082)	(36,086)
Net assets (deficiency), beginning of year	(133,262)	(121,180)	(85,094)
Net assets (deficiency), end of year	<u>\$ (125,037)</u>	<u>\$ (133,262)</u>	<u>\$ (121,180)</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 (deficiency) of operating revenue over operating expenses before other operating items increased by \$24,434 from 2008 to 2009. Deficiency of operating revenue over operating expenses before other operating items increased by \$17,194 from 2007 to 2008.
- Net patient service revenue increased by \$31,910, or 7.5% from 2008 to 2009. Net patient service revenue increased by \$18,804, or 4.6% from 2007 to 2008.
- Other operating revenue increased by \$4,059, or 9.4% from 2008 to 2009. Other operating revenue increased by \$10,192, or 30.7% from 2007 to 2008.
- Salaries and wages increased by \$7,028, or 2.8% from 2008 to 2009. Salaries and wages increased by \$24,015, or 10.5% from 2007 to 2008.
- Employee benefits increased by \$3,951, or 4.6% from 2008 to 2009. Employee benefits increased by \$3,447, or 4.2% from 2007 to 2008.
- Postemployment benefits expense other than pensions (unfunded) decreased net assets by \$39,370 and \$38,313 in 2009 and 2008, respectively.
- Grants for capital asset acquisitions and retirement of long-term debt increased net assets by \$42,768 and \$71,888 in 2009 and 2008, respectively.
- Total net assets (deficiency) changed by \$8,225 or 6.2% from 2008 to 2009. Total net assets (deficiency) changed by \$12,082 or 10.0% from 2007 to 2008.

**Operating Activities**

**General**

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. For the year ended December 31, 2008, the excess (deficiency) of operating revenue over operating expenses before other operating items decreased by \$17,194 from the prior year due to an increase in salary and benefits and malpractice expense.

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 \$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.

Total net patient service revenue of \$427,327 for the year ended December 31, 2008 increased \$18,804 (4.6%) from the prior year. Net patient service revenue increased primarily as a result of an increase in the intergovernmental transfer program subsidy and Department of Health rate enhancements for Nassau University Medical Center psychiatric services.

**Other Operating Revenue**

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. Other operating revenue of \$43,400 for the year ended December 31, 2008 increased \$10,192 (30.7%) from the prior year. The increase consists primarily of an increase in non-patient related Nassau County billings.

**Expenses**

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. Total operating expenses of \$496,753 for the year ended December 31, 2008 increased 9.7% from the prior year.

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. Salaries and wages of \$253,114 increased \$24,015 (10.5%) from 2007 to 2008. The increase is primarily due to the additional employees and 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 \$89,314 increased \$3,951 (4.6%) from 2008 to 2009. The increase is attributable mostly to an increase in health insurance. Employee benefits of \$85,363 increased \$3,447 (4.2%) from 2007 to 2008. The increase is attributable mostly to an increase in health insurance.

The Corporation recorded unfunded postemployment benefit expense of \$39,370, \$38,313 and \$40,908 in 2009, 2008 and 2007, 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 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.

During 2008, the Corporation purchased \$31,679 in capital assets and incurred \$16,523 in depreciation expense.

**Debt**

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.

During 2008, the Corporation made principal and interest payments on its Series 2004 Bonds of approximately \$46,000, of which \$34,000 was a grant award received in 2008 to redeem a portion of the 2004 Series A bonds.

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	
	2009	2008
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 18,528	\$ 4,978
Assets whose use is limited, current portion	22,685	18,246
Patient accounts receivable – net of estimated uncollectibles of \$221,603 in 2009 and \$217,806 in 2008	107,330	109,190
Inventories	5,585	5,579
Prepaid expenses	7,112	7,627
Other receivables	6,320	4,823
Due from third-party payers	–	8,095
Due from County of Nassau – net	1,228	–
Total current assets	168,788	158,538
Assets whose use is limited, net of current portion	73,311	58,149
Capital assets – net (depreciable)	138,410	122,558
Capital assets (non-depreciable)	12,498	12,498
Deferred bond issuance costs	1,339	3,782
Other assets	9,638	8,344
Total assets	\$ 403,984	\$ 363,869
<b>Liabilities and net assets (deficiency)</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 27,514	\$ 32,834
Accrued salaries, wages and payroll taxes	19,065	17,487
Accrued vacation and sick pay	41,571	37,224
Accrued pension	901	1,052
Interest payable	1,712	1,923
Due to County of Nassau – net	–	3,417
Due to third-party payers	16,962	–
Current portion of professional and other insurance liabilities and postemployment benefits other than pensions	8,000	7,987
Current portion of long-term debt	2,420	2,065
Total current liabilities	118,145	103,989
Long-term debt	230,325	232,864
Professional and other insurance liabilities	32,500	38,356
Postemployment benefits other than pensions	115,091	75,734
Derivative instruments	17,597	39,509
Other long-term liabilities	15,363	6,679
Total liabilities	529,021	497,131
Commitments and contingencies		
Net assets (deficiency):		
Invested in capital assets, net of related debt	68,908	53,056
Restricted for specific operating purposes by donors	1,675	1,651
Unrestricted	(195,620)	(187,969)
Total net assets (deficiency)	(125,037)	(133,262)
Total liabilities and net assets (deficiency)	\$ 403,984	\$ 363,869

*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)

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Operating revenue:		
Net patient service revenue (net of the provision for bad debts of \$46,044 in 2009 and \$50,900 in 2008)	<b>\$ 459,237</b>	\$ 427,327
Other operating revenue	<b>47,459</b>	43,400
Investment income	<b>563</b>	2,396
Total operating revenue before other operating items	<b>507,259</b>	473,123
Operating expenses:		
Salaries and wages	<b>260,142</b>	253,114
Employee benefits	<b>89,314</b>	85,363
Supplies and other	<b>126,473</b>	128,575
Interest and amortization	<b>12,592</b>	13,178
Depreciation	<b>17,934</b>	16,523
Total operating expenses before other operating items	<b>506,455</b>	496,753
Excess (deficiency) of operating revenue over operating expenses before other operating items	<b>804</b>	(23,630)
Other operating items:		
Employee benefits expense (unfunded portion of postemployment benefits other than pensions)	<b>(39,370)</b>	(38,313)
Change in fair value of derivative instruments	<b>21,912</b>	(33,616)
Amortization of deferred loss on refunding (interest expense)	<b>(2,317)</b>	(2,308)
Third-party retroactive rate adjustment	<b>(15,572)</b>	10,286
Deficiency of operating revenue over operating expenses	<b>(34,543)</b>	(87,581)
Grants for capital asset acquisitions and retirement of long-term debt	<b>42,768</b>	71,888
Contribution of net assets of the Foundation	<b>—</b>	3,611
Increase (decrease) in net assets	<b>8,225</b>	(12,082)
Net assets (deficiency), beginning of year	<b>(133,262)</b>	(121,180)
Net assets (deficiency), end of year	<b>\$ (125,037)</b>	\$ (133,262)

*See accompanying notes.*

Nassau Health Care Corporation and Subsidiaries  
(component unit of Nassau County)

Consolidated Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
<b>Cash flows from operating activities</b>		
Cash received from patients and third-party payers	\$ 477,972	\$ 420,601
Cash received from other operating revenue	46,525	48,559
Cash paid to employees	(343,681)	(344,560)
Cash paid to suppliers	(141,686)	(125,803)
Net cash provided by (used in) operating activities	<u>39,130</u>	<u>(1,203)</u>
<b>Cash flows from noncapital and related financing activities</b>		
Cash paid for interest	(8,544)	(8,243)
Proceeds from new borrowings	246,835	–
Payment of debt	(247,450)	(34,090)
Payment of financing costs	(1,450)	(300)
Net cash used in noncapital and related financing activities	<u>(10,609)</u>	<u>(42,633)</u>
<b>Cash flows from capital and related financing activities</b>		
Purchases of capital assets	(33,786)	(31,679)
Cash paid for interest, net of amounts capitalized	(4,352)	(4,199)
Grants for capital asset acquisitions and retirement of long-term debt	42,768	71,888
Net cash provided by capital and related financing activities	<u>4,630</u>	<u>36,010</u>
<b>Cash flows from investing activities</b>		
Net change in assets whose use is limited	(19,601)	7,068
Net cash (used in) provided by investing activities	<u>(19,601)</u>	<u>7,068</u>
Net increase (decrease) in cash and cash equivalents	13,550	(758)
Cash and cash equivalents, beginning of year	4,978	5,736
Cash and cash equivalents, end of year	<u>\$ 18,528</u>	<u>\$ 4,978</u>
<b>Reconciliation of deficiency of operating revenue over operating expenses to net cash provided by (used in) operating activities</b>		
Deficiency of operating revenue over operating expenses	\$ (34,543)	\$ (87,581)
Interest paid, net of amounts capitalized	12,896	12,442
Depreciation	17,934	16,523
Amortization, including refunding loss	2,411	2,351
Change in fair value of derivative instruments	(21,912)	33,616
Changes in operating assets and liabilities:		
Patient accounts receivable	1,860	(12,061)
Accounts payable and accrued expenses, accrued salaries, wages and payroll taxes and accrued vacation and sick pay	394	8,812
Due from County of Nassau – net	(4,645)	6,379
Due to/from third-party payers	37,003	(11,431)
Professional and other insurance liabilities	(5,856)	695
Postemployment benefits other than pensions	39,370	38,313
Net change in all other operating assets and liabilities	(5,782)	(9,261)
Net cash provided by (used in) operating activities	<u>\$ 39,130</u>	<u>\$ (1,203)</u>

*See accompanying notes.*

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

Notes to Consolidated Financial Statements

December 31, 2009  
*(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)**

In March 2008, the Corporation received approval from the New York State Department of State to amend the Foundation's certificate of incorporation such that the Foundation's purpose was restated to be limited to supporting, maintaining, benefiting and being responsive to the needs and objectives of the Corporation. Consequently, in 2008, the Corporation included the Foundation in its consolidated financial statements, which increased the net assets by \$3,611.

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, 2009 and 2008, the Corporation had a total net assets deficiency of \$125,037 and \$133,262, 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 reduce its operating losses and 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.

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**

### **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 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* are noncapital net assets that must be used for a particular purpose, as specified by contributors external to the Corporation. *Unrestricted net assets* 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*.

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)**

**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.

**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.

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)**

*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.

*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

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)**

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.

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 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 decreased by approximately \$5,437 and increased by approximately \$4,449 for the years ended December 31, 2009 and 2008, respectively, for settlements related to prior years and changes in estimates made by management related to third-party payer accounts.

In 2008, the Corporation reduced liabilities by approximately \$10.3 million relating to a potential Medicaid rate adjustment for the years 1996 through 2005. The liability was reduced based on correspondence from the NYSDOH. On March 30, 2010, the Corporation was notified that the NYSDOH was issuing rate revisions dating back to 1996 for the related 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. These amounts are reported as other operating items in 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)*

**2. Summary of Significant Accounting Policies (continued)**

**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 \$50,368 in 2009 and \$53,577 in 2008.

**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 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 half of the IGT amount and the County funds the other half. 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 IGT amount received in 2008 was approximately \$79,551, of which \$41,663 was recognized as net patient service revenue and \$37,888 was restricted for capital expansion and recognized as grants for capital asset acquisitions.

The Corporation recognizes IGT assets when all applicable eligibility requirements are met or resources are received, whichever is first, and revenues are recognized when all 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, 2009 and 2008 are as follows:

	<b>2009</b>	<b>2008</b>
Medicare	<b>16%</b>	13%
Medicaid	<b>45</b>	44
Blue Cross	<b>9</b>	9
Commercial	<b>10</b>	9
HMO and other	<b>20</b>	25
	<b>100%</b>	100%

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

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
Services provided to patients (net of contractual allowances of approximately \$343,854 in 2009 and \$297,210 in 2008)	<b>\$ 408,114</b>	\$ 408,913
Intergovernmental transfer – Federal	<b>61,132</b>	41,663
Intergovernmental transfer – County	<b>22,410</b>	–
Historical mission payments – County	–	13,000
Article VI health center subsidies – County	<b>5,000</b>	5,000
Federal and state grants	<b>8,625</b>	9,651
Provision for bad debts	<b>(46,044)</b>	(50,900)
	<b>\$ 459,237</b>	\$ 427,327

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, 2009 and 2008, 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  
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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, 2009 and 2008, the Corporation recorded its equity in the income of the LLC of \$1,545 and \$1,404, 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:

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
Health care services	<b>\$ 456,828</b>	\$ 443,258
General and administrative	<b>49,627</b>	53,495
	<b>\$ 506,455</b>	\$ 496,753

**Reclassifications**

For purposes of comparison, reclassifications have been made to the accompanying 2008 consolidated financial statements to conform to the 2009 presentation. The reclassifications relate to approximately \$2.4 million of other postemployment benefit (“OPEB”) contributions included in operating expenses, previously reported within other operating items, and approximately \$10.3 million of a third-party liability adjustment previously included in net patient service revenue, now reported separately within other operating items. In addition, approximately \$3.5 million representing the current portion of postemployment benefits other

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

*(In Thousands)*

**2. Summary of Significant Accounting Policies (continued)**

than pensions was reclassified to current liabilities. These reclassifications have no impact on the change in net assets previously reported.

**Grants and Subsidies**

Grants that represent deficit financing of specific patient-related programs are recorded as net patient service revenue (\$8,625 and \$9,651 in 2009 and 2008, respectively). Grants for specific operating purposes are recorded as other operating revenue in the period in which qualified expenditures are made (see Note 12).

**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.

**Recent Accounting Pronouncement**

In June 2008, the GASB issued an accounting standard on the accounting and reporting of derivative instruments, which should be implemented beginning for years beginning after June 15, 2009, although early application is encouraged. This standard addresses the recognition, measurement and disclosure of information regarding derivative instruments. The Corporation has determined that the effect on its consolidated financial statements will not be significant.

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, 2009 and 2008, consist of the following:

	<u>2009</u>	<u>2008</u>
Construction fund	\$ 43,079	\$ 31,266
Malpractice fund	23,703	23,565
Loans from Captive (see Note 10)	10,000	10,000
FPP-related expenditures	2,185	2,454
Pension contribution and health insurance	10,500	3,400
Debt service	—	2,400
Assets held by Foundation	3,344	3,310
Funds held in escrow for capital assets	3,185	—
	<u>95,996</u>	<u>76,395</u>
Less current portion	22,685	18,246
Total	<u>\$ 73,311</u>	<u>\$ 58,149</u>

In connection with the Corporation's purchase of a building in 2009, approximately \$3.2 million was required to be held in escrow at closing.

Investment income on cash and cash equivalents and assets whose use is limited consist of interest and dividend income of \$563 and \$2,396 for the years ended December 31, 2009 and 2008, respectively.

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

Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

**4. Capital Assets**

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>

Capital asset activity for the year ended December 31, 2008 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	138,972	605	—	20,903	160,480
Fixed equipment	106,885	744	—	—	107,629
Movable equipment	141,427	8,760	(18,433)	6,352	138,106
Construction-in-progress	17,937	21,570	—	(27,255)	12,252
	<u>430,294</u>	<u>31,679</u>	<u>(18,433)</u>	<u>—</u>	<u>443,540</u>
Less accumulated depreciation	310,394	16,523	(18,433)	—	308,484
Total	<u>\$ 119,900</u>	<u>\$ 15,156</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 135,056</u>

The Corporation wrote off approximately \$314 and \$18,433 of fully depreciated assets in 2009 and 2008, respectively. Net interest capitalized for the years ended December 31, 2009 and 2008 was approximately \$821 and \$1,186, respectively.

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

*(In Thousands)*

**5. Long-term Debt**

Long-term debt at December 31, 2009 and 2008 consists of the following:

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
2004 Series A term bonds	\$ —	\$ 25,775
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%	<b>14,670</b>	16,735
2004 Series C term bonds	—	219,610
2009 Series A bonds payable at varying dates through August 1, 2022; variable rate demand bonds bearing interest at taxable variable rates with an average of approximately 4.61% in 2009	<b>25,995</b>	—
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 average of approximately 3.46% in 2009	<b>220,840</b>	—
	<b>261,505</b>	262,120
Deferred loss on refunding	<b>(29,232)</b>	(27,860)
Net unamortized bond premium	472	669
Current portion	<b>(2,420)</b>	(2,065)
	<b>\$ 230,325</b>	<b>\$ 232,864</b>

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

*(In Thousands)*

**5. Long-term Debt (continued)**

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 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 2011 and 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.

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

*(In Thousands)*

**5. Long-term Debt (continued)**

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 \$2,317 and \$2,308 for the years ended December 31, 2009 and 2008, respectively.

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.

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

*(In Thousands)*

**5. Long-term Debt (continued)**

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 \$17,597 and \$39,509 at December 31, 2009 and 2008, 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 amortization schedules. Payments applicable to long-term debt for years subsequent to December 31, 2009 are as follows:

	<b>Principal</b>	<b>Estimated Interest</b>
2010	\$ 2,420	\$ 10,183
2011	2,440	10,062
2012	4,815	9,940
2013	4,360	9,700
2014	4,520	9,484
2015 to 2019	70,650	41,013
2020 to 2024	82,980	26,050
2025 to 2029	89,320	10,093
	\$ 261,505	\$ 126,525

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, 2009 and 2008:

	<b>2009</b>	<b>2008</b>
Revenue earned from the County:		
Patient care	\$ 7,283	\$ 6,902
Space charges	1,851	1,788
Non-patient care	24,427	24,101
Health insurance for retiree charges	7,492	7,170
Intergovernmental transfer – County	22,410	–
Grants for capital asset acquisitions – IGT	33,745	37,888
Subsidy for historical mission services	–	13,000
Article VI health center subsidies	5,000	5,000
	<b>102,208</b>	<b>95,849</b>
County pass-through transactions:		
Amounts paid on behalf of the County	2,693	3,246
State aid and other amounts collected by the County	870	849
Total transactions with the County	<b>\$ 105,771</b>	<b>\$ 99,944</b>

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, historical mission services 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 2009 and 2008 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 cash contributions to the Retirement Systems for the years ended December 31, 2009 and 2008 were approximately \$22,388 and \$23,099, respectively. For the years ended December 31, 2009 and 2008, pension expense was approximately \$16,982 and \$17,657, 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, 2009 and 2008, expenses related to health insurance benefits totaled \$48,762 and \$46,174, 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 \$3,487 and \$2,395 for the years ended December 31, 2009 and 2008, 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.

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 NYSHIP plan's annual OPEB cost and the related information at December 31, 2009 and 2008 are as follows:

	<b>2009</b>	<b>2008</b>
Annual required contribution	\$ 44,211	\$ 41,378
Interest on net OPEB obligation	3,367	1,841
Adjustment to ARC	(4,721)	(2,511)
Contributions made (reported in operating expenses)	(3,487)	(2,395)
Increase in net OPEB obligation (reported as other operating item)	39,370	38,313
Net OPEB obligation – beginning of year	79,221	40,908
Net OPEB obligation – end of year	118,591	79,221
Current portion	(3,500)	(3,487)
	<b>\$ 115,091</b>	<b>\$ 75,734</b>

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:

	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
December 31, 2009	\$ 42,857	8.1%	\$ 118,591
December 31, 2008	\$ 40,708	5.9%	\$ 79,221

As of December 31, 2009 and 2008, the actuarial accrued liability for benefits was \$328,353 and \$305,375, respectively, all of which was unfunded. As of December 31, 2009 and 2008, the covered payroll (annual payroll of active employees covered by the NYSHIP plan) was \$185,986 and \$175,358, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 176.5% and 174.1%, 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, 2009. 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, 2009 and 2008 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.25% (4.50% in 2008) discount rate and an annual healthcare cost trend rate of 8.00% (8.75% in 2008) 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, 2009 was 27 years.

**10. Professional and Other Insurance Liabilities**

For the policy years ended (or ending) September 29, 2007 to 2010, the Captive issued hospital professional and employee benefits policies on a claims-made basis and commercial general policies on an occurrence basis. The Captive's liability on the hospital professional and employee benefits policies is \$7,000 per person (\$10,000 for policy years prior to 2008) with no aggregate limit and \$1,000 per claim up to an aggregate of \$1,000, respectively. 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, 2009 and 2008, 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, 2009 and 2008, 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:

	<b>2009</b>	<b>2008</b>
Balance at beginning of year	\$ 42,856	\$ 42,161
Incurred related to:		
Current year	11,448	10,756
Prior years	(2,126)	3,575
Total incurred	9,322	14,331
Paid relating to:		
Current year	751	655
Prior years	14,427	12,981
Total paid	15,178	13,636
	<b>37,000</b>	42,856
Current portion	(4,500)	(4,500)
Long-term portion	\$ 32,500	\$ 38,356

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

*(In Thousands)*

**10. Professional and Other Insurance Liabilities (continued)**

During 2009 and 2008, losses and loss adjustment expenses for incurred claims for prior years reflect the changes in estimates of the ultimate settlement of such losses. In 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 2009 and 2008.

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, 2009 and 2008, insurance expense totaled \$13,243 and \$18,614, 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 \$1,043 and \$1,018 in 2009 and 2008, 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:	
2010	\$ 867
2011	888
2012	835
2013	721
2014	429
Thereafter	770
	<u>\$ 4,510</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. During 2010, the Corporation began the process of securing financing to begin the construction of the new nursing home. To date, 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:

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
Other non-patient related County billings	\$ 34,640	\$ 33,883
Federal and state grants	1,391	-
Medical staff housing	1,880	1,485
Equity in investment in LLC	1,545	1,404
Gain on termination swap agreement	-	450
Cafeteria	466	762
Rotating residents	3,838	2,422
Parking	417	382
Other miscellaneous revenue	3,282	2,612
	<b>\$ 47,459</b>	<b>\$ 43,400</b>

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

Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

**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 2009 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 2009 and 2008 follows:

	<b>Balance December 31, 2008</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31, 2009</b>	<b>Amounts Due Within One Year</b>
Long-term debt (see Note 5):					
2004 Series A Bonds	\$ 25,775	\$ —	\$ (25,775)	\$ —	\$ —
2004 Series B Bonds	16,735	—	(2,065)	14,670	2,420
2004 Series C Bonds	219,610	—	(219,610)	—	—
2009 Series A Bonds	—	25,995	—	25,995	—
2009 Series B-D Bonds	—	220,840	—	220,840	—
Deferred loss on refunding	(27,860)	2,317	(3,689)	(29,232)	—
Bond premium	669	—	(197)	472	—
Current portion	(2,065)	—	(355)	(2,420)	—
Total long-term debt	232,864	249,152	(251,691)	230,325	2,420
Other long-term liabilities:					
Professional and other insurance liabilities (see Note 10)	42,856	9,322	(15,178)	37,000	4,500
Postemployment benefits other than pensions (see Note 9)	79,221	47,578	(8,208)	118,591	3,500
Derivative instruments	39,509	—	(21,912)	17,597	—
Other long-term liabilities	6,679	8,684	—	15,363	—
Current portion	(7,987)	—	(13)	(8,000)	—
Total noncurrent liabilities	\$ 393,142	\$ 314,736	\$ (297,002)	\$ 410,876	\$ 10,420

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

Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

**15. Subsequent Events**

In June 2010, the Corporation issued \$50.3 million of taxable 2010 Revenue Anticipation Notes (“2010 RANs”) to be due in December 2010. The 2010 RANs were issued in anticipation of receipt by the Corporation of Federal IGT payments. The Corporation has pledged its 2010 Federal IGT payments for the payment of the principal of and interest on the 2010 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)*

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Level Dollar (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll (b-a)/c</b>
January 1, 2009	–	\$328,353	\$328,353	0%	\$185,986	176.5%
January 1, 2008	–	305,375	305,375	0%	175,358	174.1%
January 1, 2007	–	247,023	247,023	0%	175,358	140.9%

## Other Financial Information

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>							
<b>Assets</b>								
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
<b>Liabilities and net assets (deficiency)</b>								
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 Balance Sheet

December 31, 2008

	NUMC	AHP	Health Centers	FPP	NHCC, Ltd.	Foundation	Eliminations	Total
	<i>(In Thousands)</i>							
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 3,714	\$ 1,107	\$ 157	\$ -	\$ -	\$ -	\$ -	\$ 4,978
Assets whose use is limited, current portion	12,598	2,650	545	2,453	-	-	-	18,246
Patients accounts receivable, net	90,884	10,069	1,863	6,374	-	-	-	109,190
Inventories	5,433	146	-	-	-	-	-	5,579
Prepaid expenses	6,443	919	249	-	16	-	-	7,627
Other receivables	4,388	(13)	448	-	-	-	-	4,823
Due from third-party payers	11,788	(5,156)	1,463	-	-	-	-	8,095
Investment in NHCC, Ltd.	13,620	-	-	-	-	-	(13,620)	-
Due from other funds - net	-	47,177	-	3,085	22,567	-	(72,829)	-
Total current assets	148,868	56,899	4,725	11,912	22,583	-	(86,449)	158,538
Assets whose use is limited, net of current portion	27,025	3,524	725	-	23,564	3,311	-	58,149
Capital assets - net (depreciable)	108,552	11,829	1,960	-	-	217	-	122,558
Capital assets (non-depreciable)	98	12,400	-	-	-	-	-	12,498
Deferred bond issuance costs	3,017	635	130	-	-	-	-	3,782
Other assets	8,340	-	-	-	375	4	(375)	8,344
Total assets	\$ 295,900	\$ 85,287	\$ 7,540	\$ 11,912	\$ 46,522	\$ 3,532	\$ (86,824)	\$ 363,869
<b>Liabilities and net assets (deficiency)</b>								
Current liabilities:								
Accounts payable and accrued expenses	\$ 25,959	\$ 5,157	\$ 1,094	\$ 539	\$ 85	\$ -	\$ -	\$ 32,834
Accrued salaries, wages and payroll taxes	12,894	1,888	252	2,453	-	-	-	17,487
Accrued vacation and sick pay	26,181	9,961	1,082	-	-	-	-	37,224
Accrued pension	734	258	60	-	-	-	-	1,052
Interest payable	1,909	323	66	-	-	-	(375)	1,923
Due to County of Nassau - net	3,563	(146)	-	-	-	-	-	3,417
Due to other funds - net	50,800	-	14,907	-	-	-	(65,707)	-
Current portion of professional and other insurance liabilities and postemployment benefits other than pensions	2,781	595	111	-	4,500	-	-	7,987
Current portion of long-term debt	1,579	434	52	-	-	-	-	2,065
Total current liabilities	126,400	18,470	17,624	2,992	4,585	-	(66,082)	103,989
Long-term debt	178,059	48,894	5,911	-	-	-	-	232,864
Professional and other insurance liabilities	-	-	-	-	38,356	-	-	38,356
Postemployment benefits other than pensions	60,421	12,944	2,369	-	-	-	-	75,734
Derivative instruments	31,516	6,630	1,363	-	-	-	-	39,509
Other long-term liabilities	6,587	76	16	-	7,122	-	(7,122)	6,679
Total liabilities	402,983	87,014	27,283	2,992	50,063	-	(73,204)	497,131
Net assets (deficiency):								
Invested in capital assets, net of related debt	48,170	2,709	1,960	-	-	217	-	53,056
Restricted for specific operating purposes by donors	-	-	-	-	-	1,651	-	1,651
Unrestricted	(155,253)	(4,436)	(21,703)	8,920	(3,541)	1,664	(13,620)	(187,969)
Total net assets (deficiency)	(107,083)	(1,727)	(19,743)	8,920	(3,541)	3,532	(13,620)	(133,262)
Total liabilities and net assets (deficiency)	\$ 295,900	\$ 85,287	\$ 7,540	\$ 11,912	\$ 46,522	\$ 3,532	\$ (86,824)	\$ 363,869

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	<u>412,252</u>	<u>68,838</u>	<u>12,644</u>	<u>21,390</u>	<u>10,028</u>	<u>3,186</u>	<u>(21,079)</u>	<u>507,259</u>
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	<u>412,599</u>	<u>64,168</u>	<u>16,614</u>	<u>21,390</u>	<u>9,551</u>	<u>3,212</u>	<u>(21,079)</u>	<u>506,455</u>
(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 refunding loss (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	<u>(17,257)</u>	<u>(13,122)</u>	<u>(4,615)</u>	<u>-</u>	<u>477</u>	<u>(26)</u>	<u>-</u>	<u>(34,543)</u>
Grants for capital asset acquisitions and retirement of long-term debt	44,963	(2,195)	-	-	-	-	-	42,768
(Decrease) increase in net assets (deficiency)	<u>27,706</u>	<u>(15,317)</u>	<u>(4,615)</u>	<u>-</u>	<u>477</u>	<u>(26)</u>	<u>-</u>	<u>8,225</u>
Net assets (deficiency), beginning of year	<u>(107,083)</u>	<u>(1,727)</u>	<u>(19,743)</u>	<u>8,920</u>	<u>(3,541)</u>	<u>3,532</u>	<u>(13,620)</u>	<u>(133,262)</u>
Net assets (deficiency), end of year	<u>\$ (79,377)</u>	<u>\$ (17,044)</u>	<u>\$ (24,358)</u>	<u>\$ 8,920</u>	<u>\$ (3,064)</u>	<u>\$ 3,506</u>	<u>\$ (13,620)</u>	<u>\$ (125,037)</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, 2008

	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)	\$ 316,528	\$ 87,692	\$ 11,464	\$ 19,143	\$ –	\$ –	\$ (7,500)	\$ 427,327
Other operating revenue	41,184	612	–	–	8,945	2,673	(10,014)	43,400
Investment income	1,268	323	42	135	1,034	94	(500)	2,396
Total operating revenue before other operating items	358,980	88,627	11,506	19,278	9,979	2,767	(18,014)	473,123
Operating expenses:								
Salaries and wages	201,218	31,453	9,735	8,998	–	1,710	–	253,114
Employee benefits	67,246	14,360	3,312	303	–	142	–	85,363
Supplies and other	105,577	11,542	3,489	9,977	14,582	922	(17,514)	128,575
Interest and amortization	9,943	3,304	431	–	–	–	(500)	13,178
Depreciation	15,013	1,383	55	–	–	72	–	16,523
Total operating expenses before other operating items	398,997	62,042	17,022	19,278	14,582	2,846	(18,014)	496,753
(Deficiency) excess of operating revenue over operating expenses before other operating items	(40,017)	26,585	(5,516)	–	(4,603)	(79)	–	(23,630)
Other operating items:								
Employee benefits expense (unfunded portion of postemployment benefits other than pensions)	(30,704)	(6,406)	(1,203)	–	–	–	–	(38,313)
Change in fair value of derivative instruments	(24,748)	(7,869)	(999)	–	–	–	–	(33,616)
Amortization of refunding loss (interest expense)	(1,708)	(531)	(69)	–	–	–	–	(2,308)
Third-party retroactive rate adjustment	10,286	–	–	–	–	–	–	10,286
(Deficiency) excess of operating revenue over operating expenses	(86,891)	11,779	(7,787)	–	(4,603)	(79)	–	(87,581)
Grants for capital asset acquisitions and retirement of long-term debt	47,583	24,305	–	–	–	–	–	71,888
Contributed capital	–	–	–	–	7,400	–	(7,400)	–
Contribution of net assets of the Foundation	–	–	–	–	–	3,611	–	3,611
(Decrease) increase in net assets (deficiency)	(39,308)	36,084	(7,787)	–	2,797	3,532	(7,400)	(12,082)
Net assets (deficiency), beginning of year	(67,775)	(37,811)	(11,956)	8,920	(6,338)	–	(6,220)	(121,180)
Net assets (deficiency), end of year	\$ (107,083)	\$ (1,727)	\$ (19,743)	\$ 8,920	\$ (3,541)	\$ 3,532	\$ (13,620)	\$ (133,262)