



**Westchester County
Health Care Corporation**
Basic Financial Statements and
Supplementary Schedules
(with Management's Discussion and Analysis)
December 31, 2017 and 2016
(with Report of Independent Certified Public Accountants)

Westchester County Health Care Corporation
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December 31, 2017 and 2016

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors

Westchester County Health Care Corporation

We have audited the accompanying financial statements of the business-type activities and discreetly presented component unit of Westchester County Health Care Corporation (“WCHCC”), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise WCHCC’s basic financial statements as listed in the table of contents.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of WCHCC (Bermuda), Limited, a wholly owned subsidiary of WMC-New York, Inc., which is a blended component unit of WCHCC, which statements reflect total assets constituting \$169,880,000 and \$150,999,000 and total liabilities constituting \$85,844,000 and \$88,926,000 as of December 31, 2017 and 2016, respectively. We did not audit the financial statements of Hudson River West Insurance (Barbados) Limited, which is a wholly owned subsidiary of Bon Secours Charity Health System, Inc. and a blended component unit of WCHCC’s discreetly presented component unit, which statements reflect total assets constituting \$16,767,000 and \$10,940,000 and total liabilities constituting \$14,784,000 and \$9,466,000 as of December 31, 2017 and 2016, respectively. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for WCHCC (Bermuda), Limited and Hudson River West Insurance (Barbados) Limited, are based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the net position of the business-type activities and discretely presented component unit of Westchester County Health Care Corporation as of December 31, 2017 and 2016, and the changes in financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and the required supplementary information on pages 47 through 49 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Grant Thornton LLP

New York, New York
April 5, 2018

Westchester County Health Care Corporation

Management's Discussion and Analysis (Unaudited)

December 31, 2017 and 2016

Overview

This annual report consists of four parts - management's discussion and analysis, the basic financial statements, required supplementary schedules and supplementary information.

Management's discussion and analysis of the Westchester County Health Care Corporation ("WCHCC") annual financial report presents WCHCC's financial performance during the years ended December 31, 2017 and 2016. The purpose is to provide an objective analysis of the financial activities of WCHCC based on currently known facts, decisions, and conditions. Please read it in conjunction with the basic financial statements, which follow this section.

The basic financial statements (Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows, and the Notes to the Financial Statements) present on a comparative basis the financial position of WCHCC at December 31, 2017 and 2016 and the changes in its financial position and cash flows for the years then ended. These financial statements report information about WCHCC using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of WCHCC's assets and liabilities. The Statement of Revenues, Expenses, and Changes in Net Position reflect the year's activities on the accrual basis of accounting, where revenues and expenses are recorded when services are provided or obligations are incurred, not when cash is received or paid. The financial statements also report WCHCC's net position (the difference between assets and liabilities) and how that has changed. Net position is one way to measure financial health or condition. The Statement of Cash Flows provide relevant information about the year's cash receipts and cash payments and classifies them as operating, noncapital financing, capital and related financing and investing activities. The notes to the financial statements explain information in the financial statements and provide more detailed data.

On May 19, 2015, Bon Secours Charity Health System, Inc. ("Charity"), Bon Secours Health System, Inc. ("BSHSI"), and the Sisters of Charity of Saint Elizabeth ("SOC") entered into an affiliation agreement with WCHCC and WMC Health Network - Rockland, Inc. ("WMC - Rockland", a subsidiary of WCHCC), in which WMC - Rockland became the majority member of Charity, holding 60% of the economic interest in Charity and appointing 60% of the Charity Board of Directors. BSHSI holds a 40% economic interest in Charity and, together with SOC, appoints 40% of the Charity Board of Directors. More detailed information about the agreement is presented in Note 1 to the financial statements.

On March 30, 2016, WCHCC entered into an Affiliation Agreement with HealthAlliance, Inc., ("HealthAlliance") and WMC Health Network - Ulster, Inc. ("WMC - Ulster", a subsidiary of WCHCC), in which WMC - Ulster became the sole member of HealthAlliance. More detailed information about the Agreement is presented in Note 1 to the financial Statements.

Management's discussion and analysis includes the activities of HealthAlliance and excludes the activities of Charity.

Westchester County Health Care Corporation
Management's Discussion and Analysis (Unaudited)
December 31, 2017 and 2016
(amounts in thousands)

Financial Analysis
Summary of Assets, Liabilities, and Net Position
December 31, 2017, 2016 and 2015

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2017-2016 Percentage Change</u> |
|---------------------------------------|---------------------|---------------------|--------------------|--|
| Assets | | | | |
| Current assets | \$ 517,145 | \$ 548,756 | \$ 487,196 | (5.8)% |
| Capital assets, net | 564,879 | 494,321 | 430,616 | 14.3 |
| Other assets | <u>161,928</u> | <u>231,794</u> | <u>39,934</u> | <u>(30.1)</u> |
| Total assets | <u>\$ 1,243,952</u> | <u>\$ 1,274,871</u> | <u>\$ 957,746</u> | <u>(2.4)%</u> |
| Deferred outflows of resources | <u>\$ 72,315</u> | <u>\$ 147,699</u> | <u>\$ 6,177</u> | <u>(51.0)%</u> |
| Liabilities | | | | |
| Current liabilities | \$ 323,106 | \$ 309,421 | \$ 265,578 | 4.4% |
| Long-term portion of debt | 713,167 | 717,966 | 458,646 | (0.7) |
| Other long-term liabilities | <u>574,953</u> | <u>643,948</u> | <u>250,145</u> | <u>(10.7)</u> |
| Total liabilities | <u>\$ 1,611,226</u> | <u>\$ 1,671,335</u> | <u>\$ 974,369</u> | <u>(3.6)%</u> |
| Deferred inflows of resources | <u>\$ 15,356</u> | <u>\$ 20,376</u> | <u>\$ 1,980</u> | <u>(24.6)%</u> |
| Net position | | | | |
| Restricted | \$ 13,072 | \$ 13,524 | \$ 9,181 | (3.3)% |
| Unrestricted | <u>(323,387)</u> | <u>(282,665)</u> | <u>(21,607)</u> | <u>14.4</u> |
| Total net position | <u>\$ (310,315)</u> | <u>\$ (269,141)</u> | <u>\$ (12,426)</u> | <u>15.3%</u> |

Westchester County Health Care Corporation
Management's Discussion and Analysis (Unaudited)
December 31, 2017 and 2016
(amounts in thousands)

Financial Analysis
Summary of Revenues, Expenses, and Changes in Net Position
Years ended December 31, 2017, 2016 and 2015

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2017-2016 Percentage Change</u> |
|--|---------------------|---------------------|--------------------|--|
| Operating revenues | | | | |
| Net patient service revenue | \$ 1,435,287 | \$ 1,391,263 | \$ 1,163,472 | 3.2% |
| Other revenue | 116,149 | 90,811 | 64,311 | 27.9 |
| Total operating revenues | <u>1,551,436</u> | <u>1,482,074</u> | <u>1,227,783</u> | <u>4.7</u> |
| Operating expenses | | | | |
| Salaries and benefits | 827,559 | 765,873 | 609,929 | 8.1 |
| Supplies and other expenses | 618,140 | 577,703 | 492,627 | 7.0 |
| Depreciation and amortization | 69,514 | 68,416 | 53,000 | 1.6 |
| Total operating expenses | <u>1,515,213</u> | <u>1,411,992</u> | <u>1,155,556</u> | <u>7.3</u> |
| Operating income before OPEB and pension expenses | 36,223 | 70,082 | 72,227 | (48.3) |
| Salaries and benefits - OPEB expenses | 16,246 | 15,747 | 15,138 | 3.2 |
| Salaries and benefits - NYS pension expense | 32,116 | 35,219 | 26,664 | (8.8) |
| Operating (loss) income before NYSNA retroactive settlement and NYS pension adjustment | (12,139) | 19,116 | 30,425 | (163.5) |
| NYSNA retroactive settlement | - | 15,708 | - | (100.0) |
| NYS pension adjustment | 15,000 | 15,000 | - | - |
| Operating (loss) income | <u>(27,139)</u> | <u>(11,592)</u> | <u>30,425</u> | <u>134.1</u> |
| Nonoperating activities, net | | | | |
| Investment income | 6,267 | 3,729 | 3,065 | 68.1 |
| Unrealized gains (losses) on marketable securities, net | 5,363 | 3,089 | (1,644) | 73.6 |
| Interest expense | (27,454) | (27,210) | (25,477) | 0.9 |
| Cost of bond issuance | - | (5,170) | - | (100.0) |
| Other nonoperating activities, net | 1,789 | (1,508) | 853 | (218.6) |
| Total nonoperating activities, net | <u>(14,035)</u> | <u>(27,070)</u> | <u>(23,203)</u> | <u>(48.2)</u> |
| (Loss) income before other additions and deductions | <u>(41,174)</u> | <u>(38,662)</u> | <u>7,222</u> | <u>6.5</u> |
| Other additions | | | | |
| Disposition of HealthAlliance Senior Living Corporation | - | 78,876 | - | (100.0) |
| Total other additions | <u>-</u> | <u>78,876</u> | <u>-</u> | <u>(100.0)</u> |
| (Decrease) increase in net position | <u>(41,174)</u> | <u>40,214</u> | <u>7,222</u> | <u>(202.4)</u> |
| Net position | | | | |
| Beginning of year | (269,141) | (12,426) | (10,230) | 2,066.0 |
| Addition of HealthAlliance | - | (59,673) | - | (100.0) |
| GASB 75 adoption adjustment - January 1, 2016 | - | (237,256) | - | (100.0) |
| GASB 68 adoption adjustment - January 1, 2015 | - | - | (9,418) | - |
| End of year | <u>\$ (310,315)</u> | <u>\$ (269,141)</u> | <u>\$ (12,426)</u> | <u>15.3%</u> |

Westchester County Health Care Corporation
Management’s Discussion and Analysis (Unaudited)
December 31, 2017 and 2016

Overall Financial Position and Operations

WCHCC reported operating losses of \$27.1 million and \$11.6 million, and operating income of \$30.4 million for the years ended December 31, 2017, 2016, and 2015, respectively. WCHCC’s net position decreased \$41.2 million from December 31, 2016 to December 31, 2017. WCHCC’s net position, after a (\$237.3) million adjustment for Government Accounting Standards Board (“GASB”) 75 and the (\$59.7) million addition of HealthAlliance, improved \$40.2 million from December 31, 2015 to December 31, 2016.

Significant financial indicators are as follows:

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---------------------------------------|-------------|-------------|-------------|
| Operating (loss) income (in millions) | \$ (27.1) | \$ (11.6) | \$ 30.4 |
| Current ratio | 1.6 | 1.8 | 1.8 |
| Quick ratio | 1.5 | 1.7 | 1.7 |
| Days cash on hand | 65.3 | 66.3 | 72.7 |

Analysis of Financial Position

In this section, WCHCC management provides its analysis of December 31, 2017 financial amounts, compared to December 31, 2016 financial amounts, and, where appropriate, December 31, 2016 financial amounts, compared to December 31, 2015 financial amounts.

Assets and Liabilities

Cash and Cash Equivalents

The cash position decreased \$2.2 million at December 31, 2017 compared to December 31, 2016, primarily due to the operating loss partially offset by increased collections associated with patient service revenue. The cash position increased \$24.5 million at December 31, 2016 compared to December 31, 2015, primarily due to increased collections associated with net patient service revenue, financing certain prior year capital spending through the 2016 bond offering and the addition of the HealthAlliance cash balance of \$6.6 million.

Investments

Investments increased \$13.8 million at December 31, 2017 compared to December 31, 2016, primarily due to funding WCHCC’s insurance captive and related market performance combined with the increase in The Westchester Medical Center Foundation’s (“WMC Foundation”) investments. Investments increased \$5.0 million at December 31, 2016 compared to December 31, 2015, primarily due funding the insurance captive and related market performance.

Patient Accounts Receivable, Net

Patient accounts receivable reflected days outstanding of 46.5, 45.6 and 48.3 at December 31, 2017, 2016 and 2015, respectively. The increase in days outstanding at December 31, 2017, compared to December 31, 2016, is the result of increased patient rates in 2017, and the decrease in days outstanding at December 31, 2016, compared to December 31, 2015, is the result of improved collection efforts in 2016.

Other Current Assets

Other current assets decreased \$61.7 million from December 31, 2016 to December 31, 2017, primarily due to the receipt of 2016 Disproportionate Share (“DSH”) payments, and increased \$10.7 million from December 31, 2015 to December 31, 2016, primarily due to an increase in DSH receivables.

Westchester County Health Care Corporation
Management's Discussion and Analysis (Unaudited)
December 31, 2017 and 2016

Assets Restricted as to Use

Assets restricted as to use decreased \$61.4 million from December 31, 2016 to December 31, 2017, primarily due to construction funds used for the Ambulatory Care Pavilion (the "ACP") project and other capital acquisitions of \$63.1 million less other activities.

Assets restricted as to use increased \$187.6 million from December 31, 2015 to December 31, 2016, primarily due to the 2016 bond offering, which resulted in an increase in construction funds available under bond indenture of \$169.2 million and an increase in capitalized interest under bond indenture of \$15.3 million. In addition, there was an increase in restricted cash and contributions of \$3.5 million and an increase in restricted funds for HealthAlliance of \$6.2 million, partially offset by a decrease in debt service reserve funds required under bond indentures of \$6.6 million.

Other Assets, net

Other assets remained consistent from December 31, 2016 to December 31, 2017, and increased \$6.3 million from December 31, 2015 to December 31, 2016, primarily due to the addition of HealthAlliance.

Capital Assets, net

Capital assets increased \$70.6 million from December 31, 2016 to December 31, 2017, primarily due to capital expenditures in 2017 for the ACP and other capital acquisitions. Capital assets increased \$63.7 million from December 31, 2015 to December 31, 2016, primarily due to the addition of HealthAlliance capital assets and capital expenditures in 2016 for the ACP and other capital acquisitions.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses increased \$27.6 million from December 31, 2016 to December 31, 2017 due to the timing and payment for increased supply costs and increased patient volume, and increased \$17.0 million from December 31, 2015 to December 31, 2016, primarily due to the addition of HealthAlliance.

Accrued Salaries and Related Withholdings

Accrued salaries and related withholdings decreased \$8.1 million from December 31, 2016 to December 31, 2017 due to the payment of the New York State Nursing Association ("NYSNA") contract settlement, partially offset by the increase in salary accruals, and increased \$26.0 million from December 31, 2015 to December 31, 2016 due to the accrual for retroactive payments for the NYSNA contract settlement and the addition of HealthAlliance.

Current Portion of Other Long-Term Liabilities

Other current liabilities decreased \$4.1 million from December 31, 2016 to December 31, 2017, primarily due to decreases in the current portion of self-insurance liabilities, and decreased \$11.2 million from December 31, 2015 to December 31, 2016, primarily due to decreases in current deferred revenue, post-retirement health and self-insurance liabilities, partially offset by an increase in third-party payor liabilities and the addition of HealthAlliance.

Long-Term Debt

Long-term debt decreased \$6.6 million from December 31, 2016 to December 31, 2017 due to principal payments of \$24.0 million and amortization of bonds premiums and discounts of \$800,000, partially offset by new capital leases of \$14.2 million and new debt of \$4.0 million.

Westchester County Health Care Corporation
Management's Discussion and Analysis (Unaudited)
December 31, 2017 and 2016

Long-term debt increased \$271.5 million from December 31, 2015 to December 31, 2016 due to the 2016 bond offering of \$283.6 million including bond premium of \$24.6 million, new capital leases of \$3.5 million and the addition of HealthAlliance debt of \$27.4 million partially offset by bond refunding of \$49.3 million, bond principal payments of \$11.6 million, capital lease payments of \$5.9 million and bond premium amortization of \$900,000.

Other Long-Term Liabilities

Other long-term liabilities decreased approximately \$69.0 million from December 31, 2016 to December 31, 2017 due to decreases of \$60.5 million for the New York State pension liability and \$8.5 million for all other activities.

Other long-term liabilities increased approximately \$393.8 million from December 31, 2015 to December 31, 2016 due to increases of \$263.9 million for post-retirement health insurance liability, as a result of the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("OPEB") ("GASB 75"), \$111.5 million for the New York State pension liability, \$1.2 million for deferred pensions, \$14.0 million for self-insurance liabilities and \$18.3 million for HealthAlliance, partially offset by a decrease of \$15.1 million in third party payor liabilities.

Deferred Outflows and Inflows of Resources

Deferred Outflows

Deferred outflows decreased approximately \$75.4 million from December 31, 2016 to December 31, 2017 due to decreases in deferred pension outflows of \$76.6 million partially offset by other activities.

Deferred outflows increased approximately \$141.5 million from December 31, 2015 to December 31, 2016 due to deferred pension outflows of \$117.0 million, deferred OPEB outflows of \$14.4 million and deferred bond refunding outflows of \$10.1 million.

Deferred Inflows

Deferred inflows decreased \$5.0 million from December 31, 2016 to December 31, 2017 due to deferred pension inflows of \$4.4 million and deferred post retirement inflows of \$600,000, and increased \$18.4 million from December 31, 2015 to December 31, 2016 due to deferred pension inflows of \$16.4 million and deferred post retirement inflows of \$2.0 million.

Revenues and Expenses

Net Patient Service Revenue

Net patient service revenue increased \$44.0 million from 2016 to 2017. The increase was the result of increases in rates and revenue cycle initiatives.

Net patient service revenue increased \$227.8 million from 2015 to 2016. The increase was the result of the addition of HealthAlliance of \$159.5 million, increased rates at the Valhalla and MidHudson hospital campuses of \$60.8 million, primarily due to higher inpatient and outpatient rates and revenue cycle initiatives.

Other Revenue

Other revenue increased \$25.3 million from 2016 to 2017 primarily due to income earned by the WMCHHealth Performing Provider System ("WMCHHealth PPS") and increases in service fees, and increased \$26.5 million from 2015 to 2016, primarily due to income from the WMCHHealth PPS, increases in service fees and contributions and the addition of HealthAlliance.

Westchester County Health Care Corporation
Management's Discussion and Analysis (Unaudited)
December 31, 2017 and 2016

Salaries and Benefits

Salaries and benefits increased \$43.4 million from 2016 to 2017. The increase was primarily in salaries for the Valhalla campus related to new physicians and related support staff.

Salaries and benefits increased \$195.8 million from 2015 to 2016. The increase consists of \$106.5 million due to the addition of HealthAlliance, \$50.1 million in salaries primarily for the Valhalla campus related to new physicians and related support staff, \$39.2 million in benefit increases related to the increased salaries as well as increases in expenses for the New York State and Local Retirement System ("NYSLRS").

Supplies and Other Expenses

Supplies and other expenses increased approximately \$40.4 million from 2016 to 2017, primarily due to:

- Increase in medical supplies of \$31.0 million
- Increase in technical services of \$14.6 million
- Decrease in equipment service and repairs and other expenses of \$5.2 million

Supplies and other expenses increased approximately \$85.1 million from 2015 to 2016, primarily due to:

- Increase due to HealthAlliance of \$71.6 million
- Increase in medical supplies of \$3.6 million
- Increase in technical services of \$7.7 million
- Increase in contractual services of \$2.5 million
- Decrease in other expenses of \$300,000

Depreciation and Amortization Expense

Depreciation and amortization expense increased \$1.1 million from 2016 to 2017 due to capital asset additions in 2016 partially offset by fully depreciated assets requiring no further depreciation and increased \$5.4 million from 2015 to 2016 due to capital asset additions and the addition of HealthAlliance in 2016.

Nonoperating Activities, Net

Nonoperating activities, net decreased \$13.0 million from 2016 to 2017, primarily due to increased interest income and realized/unrealized gains on investments and no current year costs of issuance expense.

Nonoperating activities, net increased \$3.9 million from 2015 to 2016, primarily due to increased interest expense due to the costs of issuance for a new bond offering and the addition of HealthAlliance.

Westchester County Health Care Corporation
Management’s Discussion and Analysis (Unaudited)
December 31, 2017 and 2016

Net Position

As shown in the Statements of Net Position, WCHCC’s net position has the following components:

- Restricted
- Unrestricted

Restricted

Decreased \$500,000 from December 31, 2016 to December 31, 2017, primarily due to capital purchases from restricted funds partially offset by increased restricted and endowment contributions and increased \$4.3 million from December 31, 2015 to December 31, 2016, primarily due to increased restricted contributions and the addition of HealthAlliance partially offset by capital purchases from restricted funds.

Unrestricted

Unrestricted net deficit increased by \$40.7 million, to (\$323.4) million at December 31, 2017 from (\$282.7) million at December 31, 2016. Negative unrestricted net position increased due to an operating loss of (\$27.1) million, nonoperating activities, net of (\$14.0) million and a decrease in restricted net position of \$400,000.

Unrestricted net deficit increased by \$261.1 million, to (\$282.7) million at December 31, 2016 from (\$21.6) million at December 31, 2015. Negative unrestricted net position increased for the Medical Center due to the cumulative effect of GASB 75 of (\$236.8) million, an operating loss of (\$1.6) million, nonoperating activities, net of (\$24.5) million and an increase in restricted net position of (\$3.6) million, partially offset by the addition of HealthAlliance net activity of \$5.4 million.

Capital Assets and Long-Term Debt Activity

Capital Assets, net

At December 31, 2017, WCHCC had capital assets, net of accumulated depreciation, of \$564.9 million, compared to \$494.3 million at December 31, 2016 and \$430.6 million at December 31, 2015. Major categories of capital assets, net are set forth in the table below (amounts in thousands):

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|-------------------------------------|-------------------|-------------------|-------------------|
| Land and land improvements | \$ 10,380 | \$ 9,603 | \$ 4,523 |
| Buildings and building improvements | 281,597 | 281,857 | 241,788 |
| Equipment | 186,022 | 173,149 | 161,362 |
| Construction in progress | 86,880 | 29,712 | 22,943 |
| | <u>\$ 564,879</u> | <u>\$ 494,321</u> | <u>\$ 430,616</u> |

Capital assets, net increased in 2017 by \$70.6 million, consisting of additions to the ACP and various other capital projects and medical equipment purchases of \$140.1 million, offset by depreciation expense of \$69.5 million. Capital assets, net increased in 2016 by \$213.8 million, consisting of the addition of HealthAlliance of \$124.5 million and additions to various capital projects and medical equipment purchases of \$89.3 million, offset by depreciation expense of \$68.4 million and the separation of HealthAlliance Senior Living Corporation capital assets of \$81.7 million. More detailed information about WCHCC’s capital assets is presented in Note 5 to the financial statements.

Westchester County Health Care Corporation
Management’s Discussion and Analysis (Unaudited)
December 31, 2017 and 2016

Long-Term Debt

At December 31, 2017, WCHCC had \$740.9 million in total long-term debt outstanding, as follows with comparative amounts at December 31, 2016 and December 31, 2015 (amounts in thousands):

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|-----------------------|-------------------|-------------------|-------------------|
| 2000 Series Bonds | \$ 108,170 | \$ 108,170 | \$ 108,170 |
| 2010 Series Bonds | 165,630 | 176,880 | 236,910 |
| 2011 Series Bonds | 63,680 | 63,780 | 63,880 |
| 2014 Series Bonds | 26,055 | 26,509 | 26,941 |
| 2015 Series Bonds | 23,610 | 24,223 | 24,809 |
| 2016 Series Bonds | 283,120 | 283,280 | - |
| HealthAlliance debt | 20,254 | 19,590 | - |
| Bond Premium/Discount | 24,270 | 25,152 | 896 |
| Capital Leases | 26,137 | 19,956 | 14,482 |
| | <u>\$ 740,926</u> | <u>\$ 747,540</u> | <u>\$ 476,088</u> |

Long-term debt decreased \$6.6 million from December 31, 2016 to December 31, 2017 due to principal payments on bonds, mortgages, notes payable and capital leases partially offset by new capital leases and an increase in a loan for HealthAlliance and increased \$271.5 million from December 31, 2015 to December 31, 2016 due to the 2016 bond offering, new capital leases and the addition of HealthAlliance’s related debt partially offset by principal payments on bonds and capital leases, and a partial refunding of certain bond issues.

More detailed information about WCHCC’s long-term debt is presented in Note 6 to the financial statements.

Contacting WCHCC’s Financial Management

This financial report provides a general overview of WCHCC’s finances and operations. If you have questions about this report or need additional financial information, please contact Gary F. Brudnicki, Senior Executive Vice President, Westchester County Health Care Corporation, Executive Offices, Valhalla, New York 10595.

Westchester County Health Care Corporation
Statements of Net Position
December 31, 2017 and 2016
(amounts in thousands)

| | 2017 | | 2016 | |
|--|--------------|------------------------|--------------|------------------------|
| | WCHCC | Bon Secours Charity | WCHCC | Bon Secours Charity |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 143,798 | \$ 57,700 | \$ 145,975 | \$ 61,752 |
| Investments | 126,021 | 13,992 | 112,208 | - |
| Patient accounts receivable, net | 182,884 | 60,040 | 173,346 | 67,018 |
| Assets restricted as to use, required for current liabilities | 18,747 | 267 | 9,870 | 213 |
| Other current assets | 45,695 | 17,661 | 107,357 | 17,895 |
| Total current assets | 517,145 | 149,660 | 548,756 | 146,878 |
| Assets restricted as to use, net | 149,511 | 4,182 | 219,782 | 3,610 |
| Capital assets, net | 564,879 | 128,402 | 494,321 | 130,973 |
| Other assets, net | 12,417 | 4,668 | 12,012 | 7,582 |
| Total assets | 1,243,952 | 286,912 | 1,274,871 | 289,043 |
| Deferred Outflows of Resources | | | | |
| Pension, OPEB and bond related | 72,315 | 186 | 147,699 | 201 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Current portion of long-term debt | 27,759 | 1,759 | 29,574 | 2,125 |
| Accounts payable and accrued expenses | 176,803 | 35,504 | 149,161 | 42,382 |
| Accrued salaries and related withholdings | 73,098 | 31,009 | 81,165 | 36,496 |
| Current portion of other long-term liabilities | 45,446 | 8,032 | 49,521 | 5,940 |
| Total current liabilities | 323,106 | 76,304 | 309,421 | 86,943 |
| Long-term debt, net | 713,167 | 127,577 | 717,966 | 125,576 |
| Other long-term liabilities, net | 574,953 | 33,695 | 643,948 | 29,011 |
| Total liabilities | 1,611,226 | 237,576 | 1,671,335 | 241,530 |
| Deferred Inflows of Resources | | | | |
| Pension and OPEB related | 15,356 | - | 20,376 | - |
| Commitments and contingencies | | | | |
| Net Position | | | | |
| Restricted | | | | |
| Expendable for capital acquisitions | 1,115 | 1,513 | 2,644 | 2,108 |
| Expendable for specific operating activities | 8,271 | 3,052 | 7,596 | 2,060 |
| Nonexpendable for endowment | 3,686 | 666 | 3,284 | 666 |
| Total restricted | 13,072 | 5,231 | 13,524 | 4,834 |
| Unrestricted | | | | |
| Net investment in capital assets | 75,506 | 121,389 | 59,582 | 125,609 |
| Unrestricted | (398,893) | (77,098) | (342,247) | (82,729) |
| Total unrestricted | (323,387) | 44,291 | (282,665) | 42,880 |
| Total net position | \$ (310,315) | \$ 49,522 | \$ (269,141) | \$ 47,714 |

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

Westchester County Health Care Corporation
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2017 and 2016
(amounts in thousands)

| | 2017 | | 2016 | |
|--|---------------------|------------------------|---------------------|------------------------|
| | WCHCC | Bon Secours Charity | WCHCC | Bon Secours Charity |
| Operating revenues | | | | |
| Net patient service revenue (net of provision for bad debts of \$94,965 and \$43,054 in 2017 and \$113,385 and \$46,994 in 2016, respectively) | \$ 1,435,287 | \$ 518,016 | \$ 1,391,263 | \$ 504,896 |
| Other revenue | 116,149 | 16,931 | 90,811 | 21,919 |
| Total operating revenues | <u>1,551,436</u> | <u>534,947</u> | <u>1,482,074</u> | <u>526,815</u> |
| Operating expenses | | | | |
| Salaries and benefits | 827,559 | 297,867 | 765,873 | 288,202 |
| Supplies and other expenses | 618,140 | 205,589 | 577,703 | 202,298 |
| Depreciation and amortization | 69,514 | 24,868 | 68,416 | 23,315 |
| Total operating expenses | <u>1,515,213</u> | <u>528,324</u> | <u>1,411,992</u> | <u>513,815</u> |
| Operating income before OPEB and pension expenses | 36,223 | 6,623 | 70,082 | 13,000 |
| Salaries and benefits - OPEB expenses | 16,246 | - | 15,747 | 72 |
| Salaries and benefits - NYS pension expenses | 32,116 | - | 35,219 | - |
| Operating (loss) income before NYSNA retroactive settlement and NYS pension adjustment | (12,139) | 6,623 | 19,116 | 12,928 |
| NYSNA retroactive settlement | - | - | 15,708 | - |
| NYS pension adjustment | 15,000 | - | 15,000 | - |
| Operating (loss) income | <u>(27,139)</u> | <u>6,623</u> | <u>(11,592)</u> | <u>12,928</u> |
| Nonoperating activities | | | | |
| Investment income | 6,267 | 358 | 3,729 | 56 |
| Unrealized gains on marketable securities, net | 5,363 | - | 3,089 | - |
| Interest expense | (27,454) | (7,691) | (27,210) | (7,669) |
| Cost of bond issuance | - | - | (5,170) | - |
| Other nonoperating activities, net | 1,789 | 2,518 | (1,508) | 90 |
| Total nonoperating activities, net | <u>(14,035)</u> | <u>(4,815)</u> | <u>(27,070)</u> | <u>(7,523)</u> |
| (Loss) income before other additions and deductions | <u>(41,174)</u> | <u>1,808</u> | <u>(38,662)</u> | <u>5,405</u> |
| Other additions | | | | |
| Disposition of HealthAlliance Senior Living Corporation | - | - | 78,876 | - |
| Total other additions | <u>-</u> | <u>-</u> | <u>78,876</u> | <u>-</u> |
| (Decrease) increase in net position | <u>(41,174)</u> | <u>1,808</u> | <u>40,214</u> | <u>5,405</u> |
| Net position | | | | |
| Beginning of year | (269,141) | 47,714 | (72,099) | 42,309 |
| GASB 75 adoption adjustment - January 1, 2016 | <u>-</u> | <u>-</u> | <u>(237,256)</u> | <u>-</u> |
| End of year | <u>\$ (310,315)</u> | <u>\$ 49,522</u> | <u>\$ (269,141)</u> | <u>\$ 47,714</u> |

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

Westchester County Health Care Corporation
Statements of Cash Flows
Years Ended December 31, 2017 and 2016
(amounts in thousands)

| | 2017 | | 2016 | |
|---|--------------|------------------------|--------------|------------------------|
| | WCHCC | Bon Secours Charity | WCHCC | Bon Secours Charity |
| Cash flows from operating activities | | | | |
| Cash received from patients and third-party payors | \$ 1,476,411 | \$ 532,635 | \$ 1,382,325 | \$ 502,079 |
| Other receipts | 123,079 | 18,012 | 88,059 | 23,474 |
| Cash paid to employees for salaries and benefits | (884,634) | (305,630) | (807,778) | (277,760) |
| Cash paid for supplies and other expenses | (616,913) | (208,974) | (604,874) | (190,767) |
| Net cash provided by operating activities | 97,943 | 36,043 | 57,732 | 57,026 |
| Cash flows from noncapital financing activities | | | | |
| Proceeds from contributions restricted for specific operating activities | 7,958 | - | 10,233 | - |
| Proceeds from issuance of long-term debt | 4,000 | - | 5,000 | - |
| Net cash receipts for nonoperating items | 1,618 | 2,504 | 294 | 77 |
| Cash transferred as a result of the discontinued operations | - | - | (2,481) | - |
| Interest paid | (442) | (7,259) | - | (7,266) |
| Net cash provided by (used in) noncapital financing activities | 13,134 | (4,755) | 13,046 | (7,189) |
| Cash flows from capital and related financing activities | | | | |
| Purchase of capital assets | (113,273) | (17,911) | (67,068) | (11,229) |
| Proceeds from sale of assets | 78 | - | 174 | - |
| Proceeds from issuance of long-term debt | 193 | - | 312,617 | - |
| Refunding of bonds | - | - | (10,403) | - |
| Payment of costs of bond issuance | - | - | (5,170) | - |
| Repayments of principal on long-term debt | (24,591) | (2,737) | (73,127) | (2,295) |
| Interest paid | (26,686) | (432) | (24,665) | (402) |
| Net cash provided by (used in) capital and related financing activities | (164,279) | (21,080) | 132,358 | (13,926) |
| Cash flows from investing activities | | | | |
| Purchase of investments and assets restricted as to use | (43,271) | (23,836) | (233,883) | (5,113) |
| Sale of investments and assets restricted as to use | 87,996 | 9,218 | 38,279 | 4,312 |
| Interest received | 6,300 | 358 | 6,726 | 56 |
| Net cash provided by (used in) investing activities | 51,025 | (14,260) | (188,878) | (745) |
| Net decrease in cash and cash equivalents | (2,177) | (4,052) | 14,258 | 35,166 |
| Cash and cash equivalents | | | | |
| Beginning of year | 145,975 | 61,752 | 131,717 | 26,586 |
| End of year | \$ 143,798 | \$ 57,700 | \$ 145,975 | \$ 61,752 |
| Reconciliation of operating (loss) income to net cash provided by operating activities | | | | |
| Operating (loss) income | \$ (27,139) | \$ 6,623 | \$ (11,592) | \$ 12,928 |
| Adjustments to reconcile operating (loss) income to net cash provided by operating activities | | | | |
| Depreciation and amortization | 69,514 | 24,868 | 68,416 | 23,315 |
| Provision for bad debts, net | 94,965 | 43,054 | 113,385 | 46,994 |
| Deferred inflows and outflows, net | 70,656 | 15 | (100,602) | (26) |
| Changes in assets and liabilities | | | | |
| Patient accounts receivable | (104,503) | (36,076) | (115,834) | (50,204) |
| Other assets | 61,511 | 3,149 | (2,382) | 2,995 |
| Accounts payable and accrued expenses | 13,983 | (6,878) | (20,076) | 5,240 |
| Accrued salaries and related withholdings | (8,068) | (5,488) | 16,908 | 14,901 |
| Other liabilities | (72,976) | 6,776 | 109,509 | 883 |
| Net cash provided by operating activities | \$ 97,943 | \$ 36,043 | \$ 57,732 | \$ 57,026 |

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

Westchester County Health Care Corporation
Statement of Cash Flows (continued)
Years Ended December 31, 2017 and 2016
(amounts in thousands)

| | 2017 | | 2016 | |
|--|------------|------------------------|-------------|------------------------|
| | WCHCC | Bon Secours Charity | WCHCC | Bon Secours Charity |
| Supplemental disclosure of cash flow information | | | | |
| Change in amounts accrued for purchase of capital assets | \$ (8,184) | \$ - | \$ (3,711) | \$ - |
| Assets acquired under capital leases | \$ 14,418 | \$ 4,302 | \$ 3,848 | \$ 4,819 |
| Disposition of discontinued operations assets and liabilities: | | | \$ 481 | |
| Patient accounts receivable, net | | | 4,130 | |
| Other assets, net | | | 7,594 | |
| Assets restricted as to use | | | 78,254 | |
| Capital assets, net | | | (939) | |
| Accounts payable and accrued expenses | | | (387) | |
| Accrued salaries and related withholdings | | | (76,474) | |
| Long-term debt | | | (95,320) | |
| Other long-term liabilities | | | \$ (82,661) | |

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

Westchester County Health Care Corporation

Notes to Financial Statements

December 31, 2017 and 2016

1. Organization

The State of New York enacted legislation in January 1997, effective January 1, 1998, to authorize the creation of the Westchester County Health Care Corporation (“WCHCC”) in response to the efforts of Westchester County (the “County”) to provide a form of governance for Westchester Medical Center with the flexibility to cope with the rapidly changing health care environment, to become more competitive, and to provide the County and area residents with quality health care in an efficient and effective manner.

The accompanying financial statements include the accounts of the following component units, entities for which WCHCC is considered to be financially accountable. All significant inter-entity accounts and activities have been eliminated in consolidation.

Medical Center:

- Westchester County Health Care Corporation (d/b/a Westchester Medical Center)
- The Westchester Medical Center Foundation, Inc. (“WMC Foundation”)
- Mid-Hudson Valley Early Education Center (“Early Education Center”)
- North Road LHCSA, Inc. (“LHCSA”)
- WMC New York Inc. (“WMC New York”)
- WCHCC (Bermuda), Limited (“WCHCC Bermuda”)
- Mid-Hudson Valley Staffco, LLC (“Mid-Hudson Valley Staffco”)
- Center for Regional Healthcare Innovation, LLC (“CRHI”)
- Hudson Valley Property Holdings, LLC (“HVPH”)
- Westchester Medical Center Advanced Physician Services, P.C. (“WMC Advanced Physician Services”)
- Westchester Medical Regional Physician Services, P.C. (“WM Regional Physician Services”) - (1)
- NorthEast Provider Solutions, Inc. (“NorthEast Provider”)
- WMC - Health Network - Ulster, Inc. (“WMC - Ulster”)
- WMC - Health Network - Rockland, Inc. (“WMC - Rockland”)

HealthAlliance:

- Health Alliance, Inc.
- HealthAlliance Hospital: Broadway Campus (“Broadway”)
- HealthAlliance Hospital: Mary’s Ave Campus (“Mary’s Ave”)
- Kingston Regional Health Care Enterprises, Inc. (“Enterprises”)
- Foxhall Ambulatory Surgery Center Foundation (“FASC Foundation”)
- Multi-Provider Support Services, LLC (“MPSS”)
- Margaretville Hospital (“Margaretville”)
- Margaretville Nursing Home (the “Nursing Home”)
- Margaretville Hospital Foundation (“MHF”)
- Mid-Hudson Physicians, P.C. (“Medical Practice”)
- HealthAlliance Physician Network IPA, LLC (“HAPN”)
- Kingston Insurance (Barbados) Limited (“Kingston”)

- (1) On January 1, 2017 the operations of WM Regional Physician Services were merged into WMC Advanced Physician Services.

On March 30, 2016, WCHCC entered into an Affiliation Agreement with HealthAlliance and WMC - Ulster, in which WMC - Ulster became the sole member of HealthAlliance. The auditor’s opinion on the stand-alone audited financial statements of HealthAlliance for the years ended December 31, 2017 and 2016 includes an emphasis of matter paragraph relating to the uncertainty regarding HealthAlliance’s ability to continue as a going concern due to HealthAlliance’ working capital deficit, recurring operating losses, and noncompliance with certain financial debt covenant requirements. Total assets for HealthAlliance were approximately \$86.9 million and \$96.8 million as of December 31, 2017

Westchester County Health Care Corporation

Notes to Financial Statements

December 31, 2017 and 2016

and 2016, respectively and operating revenues were approximately \$193.3 million and \$179.4 million for the years then ended, respectively. The ongoing financial viability of HealthAlliance is not guaranteed by WCHCC.

On May 19, 2015, WCHCC entered into an Affiliation Agreement with Bon Secours Health System, Inc. (“BSHSI”), the Sisters of Charity of Saint Elizabeth (“SOC”), Bon Secours Charity Health System, Inc. (“Bon Secours Charity” or “Charity”) and WMC Health Network - Rockland, Inc. (“WMC Rockland”, a subsidiary of WCHCC), in which WMC - Rockland became the majority member of Charity, holding 60% of the economic interest in Charity and appointing 60% of the Charity Board of Directors. BSHSI holds a 40% economic interest in Charity and, together with SOC, appoints 40% of the Charity Board of Directors. WCHCC provides management services to Charity pursuant to a Department of Health-approved exclusive management agreement between WCHCC and Charity. Charity is shown as a discretely presented component unit in WCHCC’s audited financial statements. More detailed information about Charity is presented in Note 17.

The Westchester Medical Center, HealthAlliance and Charity and their controlled organizations (collectively, referred to as the “WCHCC Network”) comprise an integrated health care delivery network. The facilities are located in Westchester, Rockland, Orange, Putnam, Dutchess, Ulster, Sullivan and Delaware counties in New York. The WCHCC Network provides patient care, teaching and community services.

2. Significant Accounting Policies

Basis of Presentation

WCHCC is considered a special-purpose government entity engaged only in business-type activities. WCHCC’s financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus and are based on accounting principles applicable to governmental units as established by the Governmental Accounting Standards Board (“GASB”) and the provisions of the American Institute of Certified Public Accountants “*Audit and Accounting Guide, Health Care Entities*,” to the extent that they do not conflict with GASB.

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and operating expenses. All other activities are reported as nonoperating activities.

The notes to the financial statements present financial information for WCHCC and its blended component units and do not include Charity, except for Note 17.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. WCHCC’s significant estimates include the allowance for estimated uncollectible patient accounts receivable, estimated third-party contractual allowances, estimated third-party payor receivables and payables, pension liabilities, self-insurance liabilities, workers’ compensation liabilities and post-retirement health insurance liabilities. Actual results may differ from those estimates.

Westchester County Health Care Corporation
Notes to Financial Statements
December 31, 2017 and 2016

Revisions to previously recorded estimates of net patient accounts receivable, third party payor liabilities and other accrued salaries for the year ended December 31, 2017 and net patient accounts receivable, third party payor liabilities, inventory, capital assets and retroactive salary contracts for the year ended December 31, 2016 resulted in an increase in operating income of approximately \$8.2 million and \$6.4 million, respectively.

Patient Accounts Receivable and Net Patient Service Revenue

Accounts receivable from patients and third-party payors at December 31, 2017 and 2016, was comprised of Medicare, 24% and 18%, Medicaid, 23% and 26%; and commercial insurance, health maintenance organizations and others, 53% and 56%, respectively. Patient accounts receivable are recorded net of allowances for estimated uncollectible accounts of approximately \$84.7 million and \$74.7 million at December 31, 2017 and 2016, respectively. Most of WCHCC's net patient service revenues are derived from third-party payment programs, including Medicare and Medicaid.

Patient accounts receivable are recorded at the reimbursable or contracted amounts and do not bear interest. The allowance for uncollectible accounts is WCHCC's estimate of the amount of probable credit losses in WCHCC's accounts receivable. WCHCC determines the allowance based on historical write-off experience. WCHCC evaluates its allowance for uncollectible accounts periodically. Past due balances are evaluated individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Net operating revenues are recognized in the period services are performed. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive revenue adjustments due to audits, reviews, and investigations. Third-party contractual adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

WCHCC has payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to WCHCC under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

There are various proposals at the federal and state levels that could, among other things, reduce payment rates and increase managed care penetration, including Medicaid. The ultimate outcome of these proposals and other market changes cannot presently be determined. The Medical Center's cost reports have been audited and finalized by its Medicare fiscal intermediary through December 31, 2012, with the exception of the December 31, 2010, 2009 and 2004 cost reports, and HealthAlliance's three cost reports through December 31, 2015 for Broadway with the exception of December 31, 2010, December 31, 2014 for Mary's Ave and December 31, 2013 for Margaretville.

Assets Restricted as to Use

Assets restricted as to use include the assets of the WMC Foundation, the proceeds of indebtedness held by the trustees under debt agreements, assets restricted for the purchase of capital assets and assets restricted by donors and amounts designated by the Board.

Westchester County Health Care Corporation
Notes to Financial Statements
December 31, 2017 and 2016

Donor-restricted assets represent contributions to provide health care services and for capital acquisitions. Resources restricted by donors for plant replacement and expansion are added to the net position-net investment in capital assets balance to the extent expended within the period. Resources restricted by donors or grantors for specific operating activities are reported as other revenue to the extent used within the period. WCHCC generally utilizes donor-restricted resources for expenses incurred before utilizing available unrestricted assets.

Grants and Contributions

From time to time, WCHCC receives grants from the local, state and federal government as well as contributions from individuals, foundations and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as other revenue. At December 31, 2017 and 2016, net contributions and grants receivable of approximately \$5.8 million and \$5.7 million, respectively are included in other assets in the accompanying Statements of Net Position.

Cash and Cash Equivalents

WCHCC's cash and cash equivalents policies are governed by state statutes. Funds must be deposited in Federal Deposit Insurance Corporation ("FDIC") insured commercial banks or trust companies located within the state. Certain funds deposited with banking institutions exceed FDIC limits; however, WCHCC has a collateralization agreement with its depository institutions which management believes reduces the risks related to these balances to a minimal level. WCHCC's cash balances are collateralized under a third party custodian agreement.

At December 31, 2017 and 2016, cash and cash equivalents consist of cash and all highly liquid instruments with maturities of three months or less at the date of purchase. Approximately 89% and 90% of cash and cash equivalents reside with a major financial institution at December 31, 2017 and 2016, respectively.

Investments

WCHCC's investments consists primarily of equity mutual funds, equity exchange traded funds and fixed income mutual funds, which are stated at fair value in the Statements of Net Position.

Inventories

Inventories, included in other current assets, are primarily prepaid supplies that are carried at the lower of cost, principally on a first-in, first-out ("FIFO") basis, or market.

Capital Assets

In connection with the establishment of the public benefit corporation in 1997, WCHCC recorded buildings, fixed equipment, and land received from the County at book value. Capital assets acquired subsequent to the establishment of the public benefit corporation are recorded at cost. Assets with a purchase price of \$1,000 or more that have an economic life greater than one year are capitalized and assets with a purchase price of less than \$1,000 are expensed.

Gifts of long-lived assets such as land, buildings, and equipment are recorded at fair value at the date of the contribution and are excluded from operating income.

Westchester County Health Care Corporation
Notes to Financial Statements
December 31, 2017 and 2016

Depreciation is recorded using the straight-line method over the estimated useful life of each class of depreciable assets.

| | <u>Estimated Useful Lives</u> | |
|-------------------------------------|-------------------------------|-----------------------|
| | Medical Center | HealthAlliance |
| Land improvements | 10 years | 2 to 30 years |
| Buildings and building improvements | 5 to 40 years | 3 to 60 years |
| Equipment | 5 to 20 years | 2 to 28 years |

Equipment under capitalized lease obligations are amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the leased equipment. Such amortization is included in depreciation and amortization expense in the financial statements. Interest cost, net of interest earned on those funds, incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the costs of construction.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources until then. In addition to the liabilities, the Statement of Net Position includes deferred inflows of resources which represent an acquisition of a net position that applies to future periods and will not be recognized as an inflow of resources until that time.

Net Position

Unrestricted net position has no external restrictions as to use or purpose and is distinguished from net position restricted externally for specific purposes. Restricted net positions relate primarily to Federal and state grants for research and community programs and restricted contributions and endowments received from donors. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and trustee held assets for capital projects reduced by the outstanding balances of debt attributable to those assets.

Concentrations of Credit Risk

WCHCC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. WCHCC generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of patients' benefits under their health insurance policies.

Charity Care

WCHCC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because WCHCC does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

WCHCC maintains records identifying and monitoring the level of charity care it provides. WCHCC estimates the cost of charity care for the years ended December 31, 2017 and 2016, at approximately \$15.1 million and \$13.7 million, respectively.

Westchester County Health Care Corporation

Notes to Financial Statements

December 31, 2017 and 2016

Taxation

The Medical Center is a public benefit corporation of the State of New York and is exempt from Federal income taxes under Section 115 of the Code. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

WCHCC's component units are exempt from income tax under Section 501(c)(3) of the Code, except for WCHCC's for-profit blended component units, WMC Advanced Physician Services, WM Regional Physician Services, NorthEast Provider, the Medical Practice, MPSS, HAPN and Enterprises. Income taxes of WCHCC's for-profit blended component unit are not material to the financial statements.

Compensated Absences

WCHCC employees earn paid time off at varying rates depending on years of service, union affiliation and affiliated entity. Eligible paid time off accumulates and certain days are payable upon separation or retirement. The estimated amount of paid time off and related taxes payable as separation payments or upon retirement is recorded as part of accrued salaries and related benefits in the accompanying Statements of Net Position.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment if circumstances suggest that there is a significant, unexpected decline in the service utility of a long-lived asset. The service utility of a long-lived asset is the usable capacity that at acquisition was expected to be used to provide service. An assessment of recoverability is performed prior to any write-down of assets and an impairment charge is recorded on those assets for which the estimated fair value is below its carrying amount. No impairment charges to long-lived assets were recorded for the years ended December 31, 2017 and 2016.

Fair Value of Financial Instruments

Fair value of financial instruments disclosure authoritative guidance defines fair value of a financial instrument as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. WCHCC's assets restricted as to use consist primarily of cash and cash equivalents, United States Treasury Obligations and United States Government Agency Securities, which are stated at fair value in the Statements of Net Position. The carrying amounts reported in the Statements of Net Position for cash and cash equivalents, patient accounts receivable, accounts payable and accrued expenses, and estimated payables and receivables due to and from third-party payors approximate their fair value. The carrying amounts of WCHCC's bonds and notes payable approximates fair value based upon their variable interest rates.

Relevant Pending Accounting Pronouncements

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations* ("GASB 83"). GASB 83 addresses accounting and financial reporting for certain asset retirement obligations ("AROs"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. WCHCC is evaluating the effect of GASB 83 on its financial statements.

In June 2017, GASB issued Statement No. 87, *Leases* ("GASB 87"). GASB 87 will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. GASB 87 also will enhance the

Westchester County Health Care Corporation
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decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The requirements of GASB 87 are effective for financial statements for periods beginning after December 15, 2019. WCHCC is evaluating the effect of GASB 87 on its financial statements.

Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

3. Deposits and Investments

Deposits and investments consist of the following at December 31, 2017 and 2016 (amounts in thousands):

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Description | | |
| Bank deposits | \$ 159,612 | \$ 157,196 |
| Money market accounts | 10,369 | 4,346 |
| Equity mutual funds | 1,265 | 472 |
| Equities | 40,844 | 33,430 |
| Inflation hedges exchange-traded funds | 149 | - |
| Fixed income: | | |
| US Treasury securities | 176,704 | 246,116 |
| Corporate bonds | 45,358 | 43,414 |
| Federal Home Loan bonds | 701 | 700 |
| Fixed income exchange-traded funds | 103 | 146 |
| Fixed income mutual funds | 1,667 | 200 |
| | <u>\$ 436,772</u> | <u>\$ 486,020</u> |
| Description on Statement of Net Position | | |
| Cash and cash equivalents | \$ 143,798 | \$ 145,975 |
| Investments | 126,021 | 112,208 |
| Assets restricted as to use, required for current liabilities | 18,538 | 9,451 |
| Assets restricted as to use, net | <u>148,415</u> | <u>218,386</u> |
| | <u>\$ 436,772</u> | <u>\$ 486,020</u> |
| Investment Maturities of Fixed Income Securities | | |
| One year or less | \$ 145,408 | \$ 223,269 |
| After one through five years | 55,835 | 46,518 |
| After five through ten years | 22,716 | 20,779 |
| More than ten years | 574 | 10 |
| | <u>\$ 224,533</u> | <u>\$ 290,576</u> |

Estimated fair values have been determined by WCHCC using appropriate valuation methodologies by third parties, quoted market prices, and information available to management.

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WCHCC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in advance markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. At December 31, 2017 and 2016, all of WCHCC's financial instruments measured at fair value were categorized as Level 1.

Custodial credit risk - investments - is the risk that, in the event of the failure of a counterparty, WCHCC will not be able to recover the value of the investments that are in that counterparty's possession. WCHCC's investment policy does not address custodial credit risk for investments. WCHCC's investment securities are exposed to custodial credit risk if the securities are uninsured and unregistered and held by the counterparty, or by its trust department or agent, but not in WCHCC's name. At December 31, 2017 and 2016, all investments are either insured or held by WCHCC or its agent in WCHCC's name and, therefore, are not exposed to custodial credit risk.

Concentration of credit risk - is the risk of loss attributed to the magnitude of WCHCC's investment in a single issuer. WCHCC's investments are diversified and are not currently exposed to this risk.

Interest rate risk - is the risk that changes in interest rates will adversely affect the fair market value of an investment. WCHCC invests in fixed-rate debt and US Treasury securities with primarily one to ten year maturities.

Credit risk - is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. WCHCC's investment policy places no limitation on the ratings for debt instruments. WCHCC's fixed income investments are rated AAA to B.

4. Assets Restricted as to Use

Assets restricted as to use consist of the following at December 31, 2017 and 2016 (amounts in thousands):

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Time and purpose restricted | | |
| The Westchester Medical Center Foundation, Inc. | \$ 12,282 | \$ 12,734 |
| Other purposes | 14,099 | 3,064 |
| | <u>26,381</u> | <u>15,798</u> |
| Under debt agreements | | |
| Debt service reserve funds | 25,027 | 25,216 |
| Construction funds | 106,065 | 169,204 |
| Other | 10,785 | 19,434 |
| | <u>141,877</u> | <u>213,854</u> |
| | 168,258 | 229,652 |
| Less portion required for current liabilities | 18,747 | 9,870 |
| Assets restricted as to use, net | <u>\$ 149,511</u> | <u>\$ 219,782</u> |

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WCHCC's assets restricted as to use are reported at fair value, as described in Note 3. At December 31, 2017 and 2016, the composition of assets restricted as to use consisted of the following (amounts in thousands):

| | <u>2017</u> | <u>2016</u> |
|---------------------------|-------------------|-------------------|
| Cash and cash equivalents | \$ 15,650 | \$ 11,289 |
| Money market accounts | 9,519 | 4,308 |
| US Treasury securities | 138,708 | 210,752 |
| Equity mutual funds | 782 | 442 |
| Equities | 511 | - |
| Fixed income | 1,709 | 1,046 |
| Inflation hedges ETF | 74 | - |
| Other | 1,305 | 1,815 |
| | <u>\$ 168,258</u> | <u>\$ 229,652</u> |

WCHCC's assets restricted as to use reported under debt agreements represent insured or registered funds, or securities held by WCHCC or its agent in WCHCC's name.

5. Capital Assets

Capital asset activity for the years ended December 31, 2017 and 2016 was as follows (amounts in thousands):

| | <u>2017</u> | | | |
|---|------------------------------|------------------------------------|--------------------------------------|---------------------------|
| | <u>Beginning balance</u> | <u>Additions and transfers</u> | <u>Retirements and transfers</u> | <u>Ending balance</u> |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 3,235 | \$ - | \$ - | \$ 3,235 |
| Construction in process | 29,712 | 62,676 | (5,508) | 86,880 |
| Capital assets, being depreciated: | | | | |
| Building and improvements | 678,433 | 24,509 | 341 | 703,283 |
| Equipment | 730,529 | 56,812 | 31 | 787,372 |
| Land improvements | 16,746 | 1,194 | - | 17,940 |
| Total capital assets | <u>1,458,655</u> | <u>145,191</u> | <u>(5,136)</u> | <u>1,598,710</u> |
| Less accumulated depreciation for: | | | | |
| Building and improvements | (396,576) | (25,110) | - | (421,686) |
| Equipment | (557,380) | (43,987) | 17 | (601,350) |
| Land improvements | (10,378) | (417) | - | (10,795) |
| Total accumulated depreciation | <u>(964,334)</u> | <u>(69,514)</u> | <u>17</u> | <u>(1,033,831)</u> |
| Carrying value of all capital assets, net | <u>\$ 494,321</u> | <u>\$ 75,677</u> | <u>\$ (5,119)</u> | <u>\$ 564,879</u> |

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| | 2016 | | | |
|---|----------------------|----------------------------|------------------------------|-------------------|
| | Beginning balance | Additions and transfers | Retirements and transfers | Ending balance |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 8,757 | \$ - | \$ (5,522) | \$ 3,235 |
| Construction in process | 29,003 | 16,237 | (15,528) | 29,712 |
| Capital assets, being depreciated: | | | | |
| Building and improvements | 746,352 | 28,331 | (96,250) | 678,433 |
| Equipment | 687,760 | 43,561 | (792) | 730,529 |
| Land improvements | 15,567 | 1,179 | - | 16,746 |
| Total capital assets | <u>1,487,439</u> | <u>89,308</u> | <u>(118,092)</u> | <u>1,458,655</u> |
| Less accumulated depreciation for: | | | | |
| Building and improvements | (396,105) | (25,273) | 24,802 | (396,576) |
| Equipment | (515,040) | (42,854) | 514 | (557,380) |
| Land improvements | (10,161) | (289) | 72 | (10,378) |
| Total accumulated depreciation | <u>(921,306)</u> | <u>(68,416)</u> | <u>25,388</u> | <u>(964,334)</u> |
| Carrying value of all capital assets, net | <u>\$ 566,133</u> | <u>\$ 20,892</u> | <u>\$ (92,704)</u> | <u>\$ 494,321</u> |

Construction in progress relates to the Ambulatory Care Pavilion (“ACP”) and various other capital projects. At December 31, 2017, WCHCC was committed to noncancelable construction contracts related to capital projects of approximately \$97.8 million. The proceeds from the 2016 bond offering are being used to fund the ACP and other capital projects.

Included in capital assets is capitalized interest, net of accumulated amortization, of approximately \$25.5 million and \$18.0 million at December 31, 2017 and 2016, respectively. The net book value of capital assets held under lease obligations, included in equipment, was approximately \$22.5 million and \$21.1 million at December 31, 2017 and 2016, respectively.

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6. Long-Term Debt

Long-term debt activity as of December 31, 2017 and 2016 was as follows (amounts in thousands):

| | December 31, | | | December 31, | | |
|-----------------------|-------------------|------------------|--------------------|-------------------|-----------------------------------|--|
| | 2016 | Additions | Reductions | 2017 | Amounts due Within One Year | |
| 2000 Series Bonds (a) | \$ 108,170 | \$ - | \$ - | \$ 108,170 | \$ - | |
| 2010 Series Bonds (b) | 176,880 | - | (11,250) | 165,630 | 11,825 | |
| 2011 Series Bonds (c) | 63,780 | - | (100) | 63,680 | 100 | |
| 2014 Series Bonds (d) | 26,509 | - | (454) | 26,055 | 477 | |
| 2015 Series Bonds (e) | 24,223 | - | (613) | 23,610 | 639 | |
| 2016 Series Bonds (f) | 283,280 | - | (160) | 283,120 | 165 | |
| Other (g) | 19,590 | 4,000 | (3,336) | 20,254 | 5,701 | |
| Bond Premium/Discount | 25,152 | - | (882) | 24,270 | 883 | |
| Capital leases (h) | 19,956 | 14,418 | (8,237) | 26,137 | 7,969 | |
| | <u>\$ 747,540</u> | <u>\$ 18,418</u> | <u>\$ (25,032)</u> | <u>\$ 740,926</u> | <u>\$ 27,759</u> | |

| | December 31, | | | December 31, | | |
|-----------------------|-------------------|-------------------|--------------------|-------------------|-----------------------------------|--|
| | 2015 | Additions | Reductions | 2016 | Amounts due Within One Year | |
| 2000 Series Bonds (a) | \$ 108,170 | \$ - | \$ - | \$ 108,170 | \$ - | |
| 2010 Series Bonds (b) | 236,910 | - | (60,030) | 176,880 | 11,250 | |
| 2011 Series Bonds (c) | 63,880 | - | (100) | 63,780 | 100 | |
| 2014 Series Bonds (d) | 26,941 | - | (432) | 26,509 | 454 | |
| 2015 Series Bonds (e) | 24,809 | - | (586) | 24,223 | 613 | |
| 2016 Series Bonds (f) | - | 283,580 | (300) | 283,280 | 160 | |
| Other (g) | 13,270 | 9,400 | (3,080) | 19,590 | 8,434 | |
| Bond Premium/Discount | 896 | 24,940 | (684) | 25,152 | 883 | |
| Capital leases (h) | 24,326 | 3,847 | (8,217) | 19,956 | 7,680 | |
| | <u>\$ 499,202</u> | <u>\$ 321,767</u> | <u>\$ (73,429)</u> | <u>\$ 747,540</u> | <u>\$ 29,574</u> | |

- a. In 2000, WCHCC participated in a bond offering relating to \$255.1 million Westchester County Health Care Corporation Series 2000 Revenue Bonds consisting of \$113.2 million Series 2000A Senior Lien (“Series 2000A Bonds”) with interest varying from 5.875% to 6%. In December 2011, WCHCC participated in a bond remarketing of the Series 2000A Bonds with interest rates varying from 4.50% to 5.00% maturing annually on November 1, 2021 through 2030.

WCHCC has granted a collateral interest in its gross receipts as well as pledged all funds and accounts established with respect to the Series 2000 Bonds, including a debt service reserve fund of approximately \$10.8 million as of December 31, 2017 and 2016 (see Note 4).

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Interest expense relating to the Series 2000 Revenue Bonds was approximately \$5.3 million in 2017 and 2016.

- b. In December 2010, WCHCC participated in a bond offering relating to \$226.1 million Westchester County Health Care Corporation Revenue Bonds, Series 2010, Senior Lien consisting of \$37.4 million Series 2010A (Federally Taxable - Direct Payment - Build America Bonds) with an interest rate of 8.572% and maturing on November 1, 2040; \$124.9 million Series 2010B (Tax-Exempt) with interest rates varying from 4.0% to 6.125% and maturing November 1, 2011 through November 1, 2020, November 1, 2030 and November 1, 2037; \$31.5 million Series 2010C-1 (Federally Taxable - Direct Payment - Build America Bonds) with an interest rate of 8.572% maturing on November 1, 2040; and \$32.4 million Series 2010C-2 (Tax Exempt) with an interest rate of 6.125% maturing on November 1, 2037.

In December 2010, WCHCC also participated in a bond offering relating to \$57.3 million Westchester County Health Care Corporation Revenue Bonds, Series 2010D, Senior Lien (Taxable) bearing interest under a Weekly Interest Rate, such rate being 1.93% and 0.79% at December 31, 2017 and 2016, respectively, maturing November 1, 2034. The 2010D series consist of variable rate demand bonds (VRDBs). WCHCC has entered into an irrevocable letter of credit ("LOC") with a financial institution to secure bond repayment and interest obligations associated with its VRDBs. If the VRDBs are unable to be remarketed, the trustee for the VRDBs will request purchase under the LOC scheduled repayment terms. Based on the existing terms of the underlying LOC, the LOC will expire on December 21, 2020.

WCHCC has granted a collateral interest in its gross receipts, as well as pledged all funds and accounts established with respect to the Series 2010 Bonds and Series 2010D Bonds, including a debt service reserve fund of approximately \$11.9 million and \$12.0 million as of December 31, 2017 and 2016, respectively (see Note 4).

Interest expense relating to the Series 2010 Bonds and Series 2010D Bonds was approximately \$9.2 million and \$9.8 million in 2017 and 2016, respectively.

- c. In December 2011, WCHCC participated in a bond offering relating to \$64.3 million Westchester County Health Care Corporation Revenue Bonds, Series 2011, Senior Lien consisting of \$49.0 million Series 2011A (Tax-Exempt) with an interest rates varying from 2.0% to 5.32% and maturing November 1, 2012 through November 1, 2026, November 1, 2032 and November 1, 2041 and \$15.3 million Series 2011B (Tax-Exempt) with an interest rate of 5.32% and maturing November 1, 2041.

WCHCC has granted a collateral interest in its gross receipts, as well as pledged all funds and accounts established with respect to the Series 2011 Bonds, including a debt service reserve fund of approximately \$2.3 million and \$2.4 million as of December 31, 2017 and 2016, respectively (see Note 4).

Interest expense relating to the Series 2011 Bonds was approximately \$3.1 million in 2017 and 2016.

- d. In May 2014, WCHCC participated in a bond offering relating to \$27.4 million Westchester County Health Care Corporation Revenue Bonds, Series 2014A, Senior Lien with an interest rate of 5.0% and maturing November 1, 2044.

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Interest expense relating to the Series 2014 Bonds was approximately \$1.3 million and \$1.4 million in 2017 and 2016, respectively.

- e. In July 2015, WCHCC participated in a private placement bond offering relating to \$25.0 million Dutchess County Local Development Corporation Revenue Bonds, Series 2015, consisting of \$20.3 million Series 2015A (Tax-Exempt) with an interest rate of 3.75% and maturing August 1, 2030, and \$4.7 million Series 2015B (Taxable) with an interest rate of 5.95% and maturing August 1, 2030.

Interest expense relating to the Series 2015 Bonds was approximately \$1.0 million in 2017 and 2016.

- f. In March 2016, WCHCC participated in a bond offering related to \$283.6 million Westchester County Local Development Corporation Revenue Bonds, Series 2016 (Westchester Medical Center Obligated Group Project) (Series 2016 Bonds), Tax Exempt with an interest rates varying from 3.0% to 5.0% and maturing annually November 1, through 2034, November 1, 2037 and November 1, 2046.

The proceeds of the Series 2016 Bonds, together with other available funds, (i) are being used to finance certain capital projects at WCHCC facilities; (ii) were used to advance refund a portion of WCHCC's outstanding Series 2010B Bonds and Series 2010C-2 Bonds; (iii) are being used to fund capitalized interest on the Series 2016 Bonds and (iv) were used to pay costs related to the issuance of the aforementioned bonds.

WCHCC has granted a collateral interest in its gross receipts as well as pledged all funds and accounts established with respect to the Series 2016 Bonds.

Interest expense, net of capitalized interest, relating to the Series 2016 Bonds was approximately \$5.0 million and \$3.4 million in 2017 and 2016, respectively.

- g. HealthAlliance has the following debt obligations:

DASNY Capital Loan and DASNY Operating Loans

On January 22, 2016, HealthAlliance entered into a reimbursement agreement for \$4.4 million with the Dormitory Authority of the State of New York ("DASNY") to finance certain capital projects of Broadway and Mary's Ave. On December 14, 2016 and June 14, 2017, HealthAlliance entered into reimbursement agreements for \$5.0 million and \$4.0 million, respectively, with DASNY to finance operations at Broadway and Mary's Ave. On November 1, 2017, all three DASNY loans were consolidated into one repayment agreement which matures on October 1, 2023. The interest rate is 1.00% with monthly principal and interest payments of \$100,000 through April 1, 2020. Beginning May 1, 2020, monthly payments increase to \$250,000 through October 1, 2023.

Series 2006 Revenue Bonds

During 2006, Mary's Ave settled its obligations under the 1999 IDA Bonds and paid off certain other notes and capital lease obligations through the issuance of the Series 2006 Revenue Bonds. The bonds were issued through the Ulster County Industrial Development Agency, Series 2006A and Series 2006B ("Series 2006 Revenue Bonds") and carry interest rates varying from 5.00% to 9.00% maturing November 1, 2036. The bonds are collateralized by the balances in the assets

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restricted as to use, a mortgage lien on real property and a pledge of gross revenues, including revenues from joint ventures.

In accordance with the Master Trust Indenture dated November 3, 2006 between Mary's Ave and Wells Fargo Bank, NA, the Trustee, Mary's Ave is required to maintain certain financial covenants and comply with certain financial reporting requirements. As of December 31, 2017 and 2016, Mary's Ave did not meet its required debt service coverage ratio and days' cash on hand financial covenants, which is an event of default under the Master Trust Indenture. Accordingly, the entire Series 2006 Revenue Bonds are classified as a current liability at December 31, 2017 and 2016.

Series 2010A Revenue Bonds

During 2010, Broadway entered into an agreement with M&T Bank, as purchaser of Ulster County Capital Resource Corporation Series 2010A Tax Exempt Multi-Mode Revenue Bonds ("Series 2010A Revenue Bonds") in the amount of \$12.5 million with an interest rate of 5.00% maturing on January 1, 2026. The primary purpose was to refinance the Series 1999 Revenue Bonds and fund a Project Fund which has been used as required.

Under the Master Trust Indenture associated with the Series 2010A Revenue Bonds, Broadway is required to meet a debt service coverage ratio, minimum days' cash on hand and other certain financial covenants. At December 31, 2017 and 2016, Broadway was not in compliance with these financial covenants, which is an event of default under the Master Trust Indenture. Accordingly, the entire Series 2010A Revenue Bonds are classified as a current liability at December 31, 2017 and 2016.

- h. WCHCC has entered into certain capital lease agreements that are collateralized by the underlying equipment or real estate and bear interest at rates between 2.35% and 7.36%. The interest expense under these leases was approximately \$1.1 million in 2017 and \$1.2 million in 2016, respectively.

Long-Term Debt Service Coverage Ratio

Under Section 6.13(a) of the Series 2000 Bonds Master Trust Indenture ("MTI") between WCHCC and Deutsche Bank as the Master Trustee, the Obligated Group, which is defined as the operating unit of Westchester County Health Care Corporation (the "Medical Center"), must maintain a Long-Term Debt Service Coverage Ratio, tested on a semiannual basis in accordance with the provisions of the MTI, of at least 1.25 for all series of Bonds. During the years ended December 31, 2017 and 2016, WCHCC met the required Long-Term Debt Service Coverage Ratio.

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Future Principal and Interest Payments

The following is a schedule by year of future principal and interest payments on the bonds and other long-term debt (amounts in thousands):

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|-------------------|-------------------|--------------------|
| 2018 | \$ 15,747 | \$ 33,758 | \$ 49,505 |
| 2019 | 18,146 | 33,018 | 51,164 |
| 2020 | 18,901 | 32,213 | 51,114 |
| 2021 | 18,819 | 31,347 | 50,166 |
| 2022 | 19,031 | 30,526 | 49,557 |
| 2023-2027 | 94,832 | 140,341 | 235,173 |
| 2028-2032 | 123,273 | 114,991 | 238,264 |
| 2033-2037 | 121,756 | 92,541 | 214,297 |
| 2038-2042 | 140,312 | 55,061 | 195,373 |
| 2043-2046 | 119,702 | 15,328 | 135,030 |
| | <u>\$ 690,519</u> | <u>\$ 579,124</u> | <u>\$1,269,643</u> |

The future minimum lease payments under the capital lease obligations, together with the present value of the minimum lease payments at December 31, 2017 are as follows (amounts in thousands):

| Year | <u>Amount</u> |
|---|----------------------|
| 2018 | \$ 9,193 |
| 2019 | 5,805 |
| 2020 | 5,012 |
| 2021 | 4,415 |
| 2022 | 3,245 |
| 2023-2026 | 2,112 |
| | <u>29,782</u> |
| Less: Amount representing interest | <u>3,645</u> |
| Present value of net minimum lease payments | 26,137 |
| Less: Current portion | <u>7,969</u> |
| | <u>\$ 18,168</u> |

7. Retirement Plans

Defined Benefit Plans

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

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

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

ERS offers a wide range of programs and benefits. ERS benefits vary based on the date of membership, years of credited service and final average salary, vesting of retirement benefits, death and disability benefits, and optional methods of benefit payments. Both plans provide a permanent annual cost-of-living increase to both current and future retired members meeting certain eligibility requirements. Participating employers are required under law to contribute to ERS on an actuarially determined rate which is determined annually by the State Comptroller and the average contribution rates for the New York State fiscal years ended March 31, 2017 and March 31, 2016 were approximately 15.5% and 18.2%, respectively, of payroll. ERS provides retirement benefits as well as death and disability benefits. For those members joining prior to January 1, 2010, benefits generally vest after five years of credited service. For those joining after January 1, 2010, benefits generally vest after 10 years of credited service. The RSSL provides that all participants in ERS are jointly and severally liable for any actuarial unfunded amounts. Such amounts are collected through annual billings to all participating employers. Employees who joined ERS after July 27, 1976 and before January 1, 2010, and have less than ten years of service or membership are required to contribute 3% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012 are required to contribute 3.5% of their annual salary for their entire working career. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career. Employee contributions are deducted from their salaries and remitted on a current basis to ERS. The NYS pension adjustment of \$15.0 million for years ended December 31, 2017 and 2016 in the Statements of Revenues, Expenses and Changes in Net Position represents the difference between the actuarial expense and the required calculated funding.

Net pension liabilities, pension expense, deferred outflows of resources, and deferred inflows of resources related to pensions

Net pension liabilities, pension expense, deferred outflows of resources, and deferred inflows of resources amounts recorded to reflect the provisions of GASB 68 are reflective of ERS’s published financial statements and actuarial valuations as of March 31, 2017 and 2016 (the “Measurement Dates”).

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WCHCC's respective net pension liability, deferred outflows of resources, deferred inflows of resources and net pension expense related to ERS as of and for the years ended December 31, 2017 and 2016, are as follows (amounts in thousands):

| | <u>2017</u> | <u>2016</u> |
|--|-------------|-------------|
| Proportionate share of the net pension liability | | |
| Amount | \$ 80,974 | \$ 141,496 |
| Percentage | 0.860% | 0.880% |
| Deferred outflows of resources | \$ 46,596 | \$ 123,208 |
| Deferred inflows of resources | \$ 14,049 | \$ 18,415 |
| Net pension expense | \$ 45,908 | \$ 50,219 |

WCHCC's proportionate share of ERS's 2017 and 2016 net pension liability is consistent with the manner in which contributions to ERS are determined. ERS computed each employer's projected long-term contribution effort to ERS as compared to the total projected long-term contribution of all employers to ERS.

The components of pension related deferred outflows of resources and deferred inflows of resources at the Measurement Dates are as follows (amounts in thousands):

| | <u>2017</u> | <u>2016</u> |
|---|------------------|-------------------|
| Deferred outflows of resources | | |
| Differences between expected and actual experience | \$ 2,029 | \$ 715 |
| Changes of assumptions | 27,663 | 37,733 |
| Net difference between projected and actual investment earnings on pension plan investments | 16,174 | 83,943 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 730 | 817 |
| | <u>\$ 46,596</u> | <u>\$ 123,208</u> |

Deferred inflows of resources

| | | |
|--|------------------|------------------|
| Differences between expected and actual experience | \$ 12,296 | \$ 16,772 |
| Changes in proportion and difference between employer contributions and proportionate share of contributions | 1,753 | 1,643 |
| | <u>\$ 14,049</u> | <u>\$ 18,415</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be reflected in salaries and benefits, as revenues or (expenses), in the Statements of Revenues, Expenses, and Changes in Net Position as follows (amounts in thousands):

| | |
|------|------------------|
| 2018 | \$ 14,851 |
| 2019 | 14,851 |
| 2020 | 13,849 |
| 2021 | (11,004) |
| | <u>\$ 32,547</u> |

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Actuarial Assumptions

WCHCC's net pension liabilities at the Measurement Dates were determined by using an actuarial valuation as of April 1, 2016 and 2015, with update procedures used to roll forward the total pension liability to March 31, 2017 and 2016, respectively. The actuarial valuations used the following actuarial assumptions:

| | |
|---|---|
| Inflation rate | 2.50% |
| Salary increases | 3.80% |
| Investment rate of return, including inflation | 7.0% net of investment expenses, including inflation |
| Cost of living adjustments | 1.30% |
| Decrements | Actuarial assumptions based on the results of an experience study for the period April 1, 2010 through March 31, 2015 |
| Mortality improvement | Society of Actuaries Scale MP-2014 |

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class including target asset allocation at the Measurement Dates are summarized below:

| <u>Asset Class</u> | <u>2017</u> | | <u>2016</u> | |
|----------------------------|--------------------------|---|--------------------------|---|
| | <u>Target Allocation</u> | <u>Long-term expected real rate of return</u> | <u>Target Allocation</u> | <u>Long-term expected real rate of return</u> |
| Domestic equity | 36% | 4.55% | 38% | 7.30% |
| International equity | 14% | 6.35% | 13% | 8.55% |
| Private equity | 10% | 7.75% | 10% | 11.00% |
| Real estate | 10% | 5.80% | 8% | 8.25% |
| Absolute return strategies | 2% | 4.00% | 3% | 6.75% |
| Opportunistic portfolio | 3% | 5.89% | 3% | 8.60% |
| Real assets | 3% | 5.54% | 3% | 8.65% |
| Bonds and mortgages | 17% | 1.31% | 18% | 4.00% |
| Cash | 1% | -0.25% | 2% | 2.25% |
| Inflation-Indexed Bonds | 4% | 1.50% | 2% | 4.00% |
| | <u>100%</u> | | <u>100%</u> | |

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Discount Rate

The discount rate used to calculate the total pension liability for 2017 and 2016 was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, ERS’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity

WCHCC’s proportionate share of the net pension liability calculated using the respective discount rate, as well as what WCHCC’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate as of December 31, 2017 and 2016 are as follows (amounts in thousands):

| | 2017 | | 2016 | |
|-----------------------|-------|------------|-------|------------|
| | Rate | Amount | Rate | Amount |
| 1% decrease | 6.00% | \$ 258,083 | 6.00% | \$ 318,491 |
| Current discount rate | 7.00% | 80,974 | 7.00% | 141,496 |
| 1% increase | 8.00% | (69) | 8.00% | (8,525) |

Deferred Pension Contributions

NYSRSSL Chapter 57 of the Laws of 2010 authorized the New York State and local employers to amortize over ten years, at 3.21% (2016), 3.15% (2015), 3.67% (2014) and 3.00% (2013) and 3.75% (2012) interest, the portion of their annual bill that exceeded 14.5%, 13.5%, 12.5%, 11.5% and 10.5% of payroll for its 2016, 2015, 2014, 2013 and 2012 pension bills respectively. Total amounts due at December 31, 2017 and 2016 related to these deferred pension contributions are approximately \$36.4 million and \$41.2 million, respectively and are include as part of other long-term liabilities (Note 10) in the accompanying Statements of Net Position.

Defined Contribution Pension Plan

WCHCC provides the Westchester County Healthcare Corporation Affiliated Employers 401(k) Plan (the “WCHC Plan”) for employees of WMC Advanced Physician Services, NorthEast Provider and WMC New York, and as of January 1, 2017, employees of MidHudson Valley Staffco LLC. The WCHC Plan is a defined contribution plan open to eligible participants. Employees are eligible to contribute to the WCHC Plan upon hire and vest immediately. Employer contributions begin upon the employee reaching two years of service. Eligible employees will receive employer contributions of 4% of gross salary matching contribution up to the Internal Revenue Service limit. Employees vest in employer contributions immediately upon earning the contributions. As of December 31, 2017 and 2016, there were approximately 2,900 and 600 participants, respectively, in the WCHC Plan. For the years ended December 31, 2017 and 2016 the WCHC Plan had total payroll expense of approximately \$255.6 million

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and \$132.4 million of which approximately \$198.1 million and \$110.8 million, respectively, was covered by the WCHC Plan. Total employer contributions to the WCHC Plan for December 31, 2017 and 2016 were approximately \$5.7 million and \$2.7 million, respectively.

WCHCC also provided the Regional 401(k) Plan (the “Plan”) for employees of MidHudson Valley Staffco LLC and employees of Westchester Medical Regional Services PC. Effective December 31, 2016, the Plan was terminated and the assets were rolled into the WCHC Plan. The Plan was a defined contribution plan open to eligible participants who had attained the age of 21 years. Employees were eligible to contribute to the Plan upon hire and vest immediately. Employer contributions began upon the employee reaching two years of service. Eligible employees would receive employer contributions of 4% of gross salary matching contribution up to the Internal Revenue Service limit. Employees vested in employer contributions immediately upon earning the contributions. As of December 31, 2016, there were approximately 1,100 participants in the Plan. For the year ended December 31, 2016, the Plan had total payroll expense of approximately \$95.6 million of which approximately \$86.3 million was covered by the Plan. Total employer contributions to the Plan for December 31, 2016 were approximately \$2.2 million.

HealthAlliance also sponsors various defined contribution retirement plans for eligible participants. Total employer contributions for HealthAlliance were approximately \$1.7 million and \$1.4 million for the years ended December 31, 2017 and 2016, respectively.

8. Other Postemployment Benefits

WCHCC provides Other Postemployment Benefits (“OPEB”) that provides basic medical and hospitalization plan coverage to eligible retirees through a single employer defined benefit plan. The plan does not issue its own stand-alone financial statements. Eligible retirees may only be covered under the indemnity plan of WCHCC. To qualify, employees and retirees hired before January 1, 2007 must (i) have at least five years of paid service with WCHCC (service prior to January 1, 1998 with the County counts towards the five-year requirement) and (ii) be eligible to receive a retirement allowance from a retirement system administered by the State of New York or one of its civil divisions. Employees hired on or after January 1, 2007 require 20 years of service to qualify for a post-retirement health benefit. Individual coverage is provided to retirees at no cost. Subsequent to December 31, 2014, certain retirees are required to contribute to the cost of this coverage. Retirees may elect family coverage at a cost of 20% of the difference between the premium equivalent cost of family and individual coverage. Approximately 76% of the participants have elected individual coverage as of December 31, 2017 and 2016.

The following employees were covered by the benefit terms at the measurement date as of January 1, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|-------------------|--------------|--------------|
| Retired employees | 1,703 | 1,621 |
| Active employees | 5,353 | 5,353 |
| | <u>7,056</u> | <u>6,974</u> |

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Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, including assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. WCHCC's actuarial evaluations were performed on January 1, 2017 and 2016 and reported actuarial accrued liabilities of \$331.9 million and \$328.5 million, respectively, which are not funded.

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Total OPEB Liability

WCHCC's total OPEB liabilities at the measurement date were determined by using an actuarial valuation as of January 1, 2017 and 2016. The actuarial valuations used the following actuarial assumptions:

| | |
|-----------------------------|---|
| Inflation rate | 3.00% annually |
| Salary increases | 3.00% annually |
| Discount rate | 3.78% per annum (2017); 3.57% per annum (2016) |
| Healthcare cost trend rates | Pre-Medicare: 6.87% grading down to 3.82% over 16 years Medicare: 5.88% grading down to 3.79% over 16 years |
| Mortality improvement | NYSNA and CSEA: SOA RPH-2014 Adjusted to 2016 Blue Collar Headcount-weighted Mortality (adjusted (1.15) with MP 2016 improvement scale adjusted NonRep: SOA RPH-2014 Adjusted to 20016 total Dataset Headcount-weighted Mortality (adjusted (1.15) with MP 2016 improvement scale adjusted (2017) Based on RP-2000 Combined male and female mortality tables projected forward 15 years by Scale AA (2016) |

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The following table shows the components of WCHCC's annual OPEB cost for the years ended December 31, 2017 and 2016, the amount actually contributed to the plan, and changes in WCHCC's net OPEB obligation (amounts in thousands).

| | |
|------------------------------|-------------------|
| Balance at December 31, 2015 | \$ 327,256 |
| Changes for the year: | |
| Service cost | 4,705 |
| Interest cost | 11,598 |
| Changes in assumptions | (2,615) |
| Benefit payments | (12,480) |
| Net changes | <u>1,208</u> |
| Balance at December 31, 2016 | 328,464 |
| Changes for the year: | |
| Service cost | 4,940 |
| Interest cost | 11,647 |
| Changes in assumptions | 1,250 |
| Benefit payments | (14,446) |
| Net changes | <u>3,391</u> |
| Balance at December 31, 2017 | <u>\$ 331,855</u> |

Discount Rate

The discount rate used to calculate the total post retirement liability was 3.78% and 3.57% for the years ended December 31, 2017 and 2016, respectively. The discount rate was based upon the 20-year high quality municipal bond index at the measurement date.

Discount Rate Sensitivity

WCHCC's total OPEB liability calculated using the respective discount rate, as well as what WCHCC's OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate as of December 31, 2017 and 2016 are as follows (amounts in thousands):

| | <u>2017</u> | | <u>2016</u> | |
|-----------------------|-------------|---------------|-------------|---------------|
| | <u>Rate</u> | <u>Amount</u> | <u>Rate</u> | <u>Amount</u> |
| 1% decrease | 2.78% | \$ 377,273 | 2.57% | \$ 374,664 |
| Current discount rate | 3.78% | 331,855 | 3.57% | 328,464 |
| 1% increase | 4.78% | 294,427 | 4.57% | 290,364 |

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Healthcare Cost Trend Rate Sensitivity

WCHCC's total OPEB liability calculated using the respective discount rate, as well as what WCHCC's OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate as of December 31, 2017 and 2016 are as follows (amounts in thousands):

| | 2017 | | 2016 | |
|----------------------------|-------------|---------------|-------------|---------------|
| | Rate | Amount | Rate | Amount |
| 1% decrease | 1.00% | \$ 290,702 | 1.00% | \$ 283,828 |
| Healthcare cost trend rate | 0.00% | 331,855 | 0.00% | 328,464 |
| 1% increase | 1.00% | 382,450 | 1.00% | 383,864 |

OPEB Expense and Deferred Inflows of Resources

For the years ended December 31, 2017 and 2016, WCHCC recognized OPEB expense of approximately \$16.2 million and \$15.7 million, respectively. The components of post retirement related deferred outflows of resources and deferred inflows of resources at the measurement date are as follows (amounts in thousands):

| | 2017 | 2016 |
|--|------------------|------------------|
| Deferred outflows of resources | | |
| Changes in assumptions | \$ 937 | \$ - |
| Contributions subsequent to measurement date | 15,217 | 14,446 |
| | <u>\$ 16,154</u> | <u>\$ 14,446</u> |
| Deferred inflows of resources | | |
| Changes in assumptions | \$ 1,307 | \$ 1,961 |
| | <u>\$ 1,307</u> | <u>\$ 1,961</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be reflected in salaries and benefits expense in the Statements of Revenues, Expenses, and Changes in Net Position as follows (amounts in thousands):

| | |
|------|-----------------|
| 2017 | \$ (341) |
| 2018 | (340) |
| 2019 | 311 |
| | <u>\$ (370)</u> |

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9. Self-Insurance Liability

The following is the activity of the self-insurance liability for the years ended December 31, 2017 and 2016 (amounts in thousands):

| | December 31, | | | December 31, | |
|--------------------------------|-------------------|------------------|--------------------|-------------------|-----------------------------|
| | 2016 | Additions | Reductions | 2017 | Amounts Due Within One Year |
| Workers' compensation | | | | | |
| self-insurance (a) | \$ 24,673 | \$ 1,912 | \$ (6,232) | \$ 20,353 | \$ 4,500 |
| Malpractice self-insurance (b) | 88,926 | 1,792 | (4,829) | 85,889 | 7,075 |
| Health insurance (c) | 4,993 | 71,935 | (71,943) | 4,985 | 4,986 |
| Other self-insurance (d) | 1,830 | 925 | (830) | 1,925 | 800 |
| | <u>\$ 120,422</u> | <u>\$ 76,564</u> | <u>\$ (83,834)</u> | <u>\$ 113,152</u> | <u>\$ 17,361</u> |

| | December 31, | | | December 31, | |
|--------------------------------|-------------------|------------------|--------------------|-------------------|-----------------------------|
| | 2015 | Additions | Reductions | 2016 | Amounts Due Within One Year |
| Workers' compensation | | | | | |
| self-insurance (a) | \$ 19,680 | \$ 12,412 | \$ (7,419) | \$ 24,673 | \$ 6,168 |
| Malpractice self-insurance (b) | 89,241 | 4,831 | (5,146) | 88,926 | 10,000 |
| Health insurance (c) | 3,500 | 66,037 | (64,544) | 4,993 | 4,993 |
| Other self-insurance (d) | 2,275 | 1,105 | (1,550) | 1,830 | 1,380 |
| | <u>\$ 114,696</u> | <u>\$ 84,385</u> | <u>\$ (78,659)</u> | <u>\$ 120,422</u> | <u>\$ 22,541</u> |

- a. The Medical Center is self-insured for workers' compensation and has excess insurance coverage that attaches at \$750,000 per occurrence with \$1.0 million in annual aggregate coverage. As part of the Medical Center's workers' compensation self-insurance plan, the Medical Center obtains a semi-annual actuarial valuation to determine its self-insurance liabilities, including amounts for claims incurred but not reported. Such valuation is based on the Medical Center's specific and industry-wide data.

The following represents information as it relates to the Medical Center's workers' compensation self-insurance plan as of December 31, 2017 and 2016 (amounts in thousands):

| | 2017 | 2016 |
|---|-----------|-----------|
| Gross self-insurance liability | \$ 18,265 | \$ 22,306 |
| Present value of self-insurance liability | 17,753 | 21,599 |
| Discount factor | 3.5% | 3.5% |

As part of Mid-Hudson Valley Staffco's workers' compensation self-insurance plan, Mid-Hudson Valley Staffco obtains a semi-annual actuarial valuation to determine its self-insurance liabilities, including amounts for claims incurred but not reported. Such valuation is based on Mid-Hudson Valley Staffco's specific and industry-wide data.

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The following represents information as it relates to Mid-Hudson Valley Staffco’s workers’ compensation self-insurance plan as of December 31, 2017 and 2016 (amounts in thousands):

| | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|
| Gross self-insurance liability | \$ 2,889 | \$ 3,408 |
| Present value of self-insurance liability | 2,600 | 3,074 |
| Discount factor | 3.5% | 3.5% |

All other Medical Center entities have workers’ compensation coverage provided by a commercial insurance carrier under a claims-made basis and with no excess insurance coverage purchased.

HealthAlliance is insured under a retrospective premium policy through a commercial carrier.

- b. WCHCC Bermuda, a WCHCC captive insurance company, provides the Medical Center with professional liability insurance (“HPL”) and general liability insurance (“GL”), and insures and/or reinsures certain physicians’ professional liability (“PPL”). The remaining physicians’ not insured by WCHCC Bermuda maintain malpractice insurance coverage through a commercial insurance carrier.

Outstanding projected liabilities are comprised of estimates of the ultimate case value (indemnity and expenses) established by an independent case adjuster, plus a provision for losses incurred, but not reported, based on the recommendations of an independent actuary using historical and industry data. WCHCC Bermuda’s actuarial liabilities have been discounted at 3.5% at December 31, 2017 and 2016.

WCHCC Bermuda is required by its license to maintain capital and surplus greater than a minimum statutory amount determined as the greater of a percentage of outstanding losses or a given fraction of net written premiums. At December 31, 2017 and 2016, WCHCC Bermuda was required to maintain a minimum statutory capital and surplus of approximately \$8.5 million and \$8.8 million, respectively. As of December 31, 2017 and 2016, actual statutory capital and surplus was approximately \$84.0 million and \$62.0 million, respectively.

HPL coverage is provided on an occurrence basis with coverage of \$12.0 million in 2017 and 2016, for each and every claim with no aggregate limit for the Medical Center and its employed physicians. The excess liability insurance policy attaches above the HPL and GL for the Medical Center and each employed physician coverage limits.

HealthAlliance purchases medical malpractice insurance coverage through a commercial carrier. Effective January 1, 2017, Kingston began operations serving as an off-shore insurance company for HealthAlliance. Operations of the captive for 2017 were not deemed significant. Claims in excess of insurance coverage have not been asserted against HealthAlliance.

- c. WCHCC is self-insured for health insurance for all its employees. Claims which have been incurred, and incurred but not reported represent a liability to WCHCC at December 31, 2017 and 2016 and, as such, a liability has been included in the accompanying Statements of Net Position.
- d. Professional and general liability claims have been asserted against WCHCC by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. The outcome of these actions cannot be predicted with certainty by management or by legal counsel to

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WCHCC or by the respective insurance companies handling such matters. There are known incidents that may result in the assertion of additional claims, and other claims may arise. It is the opinion of management, in consultation with WCHCC's legal counsel, that the final disposition of such claims will not have a material adverse effect on WCHCC's financial position, results of operations, or liquidity.

10. Other Long-Term Liabilities

The following is the composition and activity of WCHCC's other long-term liabilities for the years ended December 31, 2017 and 2016 (amounts in thousands):

| | <u>December 31,</u> <u>2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>December 31,</u> <u>2017</u> | <u>Within One</u> <u>Year</u> |
|---|------------------------------------|-------------------|---------------------|------------------------------------|----------------------------------|
| Self insurance liabilities (Note 9) | \$ 120,422 | \$ 76,564 | \$ (83,834) | \$ 113,152 | \$ 17,361 |
| Third party liabilities, net (Note 14) | 40,838 | 7,348 | (11,568) | 36,618 | 11,821 |
| Post retirement health insurance (Note 8) | 330,688 | 19,647 | (16,326) | 334,009 | - |
| Net pension liability (Note 7) | 141,496 | - | (60,522) | 80,974 | - |
| Other liabilities | 18,785 | 155,676 | (155,196) | 19,265 | 11,243 |
| Deferred pension contributions (Note 7) | 41,240 | - | (4,859) | 36,381 | 5,021 |
| Total other long-term liabilities | <u>\$ 693,469</u> | <u>\$ 259,235</u> | <u>\$ (332,305)</u> | <u>\$ 620,399</u> | <u>\$ 45,446</u> |

| | <u>December 31,</u> <u>2015</u> | <u>Additions</u> | <u>Reductions</u> | <u>December 31,</u> <u>2016</u> | <u>Amounts Due</u> <u>Within One</u> <u>Year</u> |
|---|------------------------------------|-------------------|---------------------|------------------------------------|--|
| Self insurance liabilities (Note 9) | \$ 114,696 | \$ 84,385 | \$ (78,659) | \$ 120,422 | \$ 22,541 |
| Third party liabilities, net (Note 14) | 46,847 | 13,710 | (19,719) | 40,838 | 11,958 |
| Post retirement health insurance (Note 8) | 334,469 | 14,313 | (18,094) | 330,688 | - |
| Net pension liability (Note 7) | 30,029 | 150,815 | (39,348) | 141,496 | - |
| Other liabilities | 20,453 | 59,326 | (60,994) | 18,785 | 10,163 |
| Deferred pension contributions (Note 7) | 39,486 | 6,091 | (4,337) | 41,240 | 4,859 |
| Total other long-term liabilities | <u>\$ 585,980</u> | <u>\$ 328,640</u> | <u>\$ (221,151)</u> | <u>\$ 693,469</u> | <u>\$ 49,521</u> |

11. Affiliation Agreement

WCHCC has an affiliation agreement with New York Medical College (the "College"), under the terms of which WCHCC pays the College for services. For the years ended December 31, 2017 and 2016, the College was paid approximately \$19.1 million and \$20.9 million, respectively, which is included in supplies and other expenses in the accompanying Statements of Revenues, Expenses, and Changes in Net Position.

12. Operating Leases

WCHCC leases various equipment and facilities under operating leases expiring at various dates.

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The following is a schedule by year for the next five years of future minimum lease payments and lease rental income under noncancelable operating leases as of December 31, 2017 and 2016 that have initial or remaining lease terms in excess of one year (amounts in thousands):

| | <u>Rent Expense</u> | <u>Rent Income</u> |
|------|---------------------|--------------------|
| 2018 | \$ 14,003 | \$ 2,606 |
| 2019 | 7,120 | 2,409 |
| 2020 | 5,388 | 2,147 |
| 2021 | 3,568 | 1,170 |
| 2022 | 1,615 | 1,172 |

Total rental expense in 2017 and 2016 for all operating leases was approximately \$17.1 million and \$21.2 million, respectively. Total rental income in 2017 and 2016 for all operating leases was approximately \$2.7 million and \$3.4 million, respectively.

13. Westchester County Relationship

In 1997, the State adopted legislation that created WCHCC as a New York public benefit corporation effective January 1, 1998. At that time, the facilities and operations of WCHCC were transferred from the County to WCHCC pursuant to a long-term lease and operating agreement. Subsequently, a Transition Agreement and an Amended and Restated Lease Agreement (the “Lease”) were consummated. The Lease is a 60-year real property lease for land and facilities with an option for extension. The Transition Agreement was replaced with a Cooperation Agreement that terminated on December 31, 2017.

During 2017 and 2016, WCHCC purchased services from the County of approximately \$9.2 million and \$8.3 million, respectively, which are included in supplies and other expenses in the accompanying Statements of Revenues, Expenses, and Changes in Net Position.

14. Commitment and Contingencies

Hospital Reimbursement

WCHCC has agreements with third-party payors that provide for payments to WCHCC at amounts different from its established rates. Estimated third-party-payor liabilities at December 31, 2017 and 2016 were approximately \$36.6 million and \$40.8 million, respectively and were included in other long-term liabilities (Note 10). A summary of the payment arrangements follows:

Hospital Reimbursement - Medicare

Under the Medicare program, WCHCC receives reimbursement under a prospective payment system (“PPS”) for inpatient and outpatient services. Under inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient’s assigned diagnosis-related group (“DRG”). When the estimated cost of treatment for certain patients is higher than the average, providers typically will receive additional outlier payments. Under outpatient PPS, services are paid based on service groups called ambulatory payment classifications (“APCs”).

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Hospital Reimbursement - Medicaid and Other Third-Party Payors

Medicaid, workers' compensation and no fault payors pay rates that are promulgated by the New York State Department of Health ("Department of Health"). Fixed payment amounts per inpatient discharge are established based on the patient's assigned case mix intensity similar to a Medicare DRG.

All other third-party payors, principally Blue Cross, other private insurance companies, Health Maintenance Organizations ("HMOs"), Preferred Provider Organizations ("PPOs"), and other managed care plans, negotiate payment rates directly with WCHCC. Such arrangements vary from DRG-based payment systems, per diems, case rates, and percentage of billed charges. If such rates are not negotiated, then the payors are billed at WCHCC's established charges.

New York State regulations provide for the distribution of funds from an indigent care pool which is intended to partially offset the cost of services provided to the uninsured. The funds are distributed to the hospitals based on each hospital's level of bad debts and charity care in relation to all other hospitals. During the years ended December 31, 2017 and 2016, WCHCC received distributions of approximately \$17.4 million and \$29.8 million, respectively from the indigent care pool, which are included in net patient service revenue in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Both federal and New York state regulations provide for certain adjustments to current and prior years' payment rates and indigent care pool distributions based on industry-wide and hospital-specific data. WCHCC has established estimates based on information presently available of the amounts due to or from Medicare, Medicaid, workers' compensation, and no-fault payors, and amounts due from the indigent care pool for such adjustments.

There are various proposals at the federal and New York state levels that could, among other things, reduce reimbursement rates, modify reimbursement methods, and increase managed care penetration, including Medicare and Medicaid. The ultimate outcome of these proposals and other market changes cannot presently be determined.

Revenue from the Medicare and Medicaid programs accounted for approximately 23% and 7%, and 22% and 10%, respectively, of WCHCC's net patient service revenue for the years ended December 31, 2017 and 2016. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. WCHCC believes that it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties, and exclusion from the Medicare and Medicaid programs.

Nursing Home Reimbursement

The Nursing Home has agreements with third-party payors, which provide for reimbursement to the Nursing Home at amounts different from its established charges for its skilled nursing unit. A summary of the basis of reimbursement with significant payors is as follows:

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Medicaid

Net patient service revenue under the Medicaid program is based on a modified pricing system using the resource utilization group's patient classification system. Under this methodology, the Nursing Home is reimbursed at a predetermined rate depending on the intensity of the services rendered to residents regardless of the cost of delivering those services. Medicaid's predetermined rate is computed using cost report data from the facility's designated base year and elements from annual cost report filings. Management believes that its final Medicaid rates for the years ended December 31, 2017 and 2016 will not be significantly different from those recorded in the accompanying financial statements.

Medicare

Reimbursement for resident services under Part A of the Medicare program is based on the skilled nursing facility PPS. Under a PPS, the Nursing Home is paid a single per diem rate depending on the intensity of the services rendered to residents regardless of the cost of delivering those services that covers all routine, ancillary, and capital-related costs. The per diem payment is adjusted for each Medicare beneficiary based on his or her care needs as measured by the minimum data set assessment form. The Nursing Home also receives reimbursement for certain ancillary services provided to its residents through Part B of the Medicare program.

Other Matters

A health care entity's revenues may be subject to adjustment as a result of examination by government agencies or contractors. The audit process and the resolution of significant related matters often are not finalized until several years after the services were rendered. Reasonable estimates of such adjustments are made to third-party revenue recognition in order to not recognize revenue that may not ultimately be realized. The delay between rendering services and reaching final settlement, as well as the complexities and ambiguities of billing and reimbursement regulations, makes it difficult to estimate net realizable third-party revenues. Actual results may differ significantly from those estimates.

Management recognizes revenues relating to third-party settlements and patient service revenues when the realization of such amounts are reasonably assured. Management makes a reasonable estimate of amounts that ultimately will be realized, considering, among other things, adjustments associated with regulatory reviews, audits, billing reviews, investigations, or other proceedings.

WCHCC has received payments related to Medicaid services and settlement, Disproportionate Share ("DSH") and other Medicare related reimbursements. Due to the fact that certain of these revenues may be subject to adjustment as a result of examination by government agencies, management has determined that not all of these receipts are realizable as of December 31, 2017 and 2016 and therefore have not been recognized as revenue given uncertainties and the fact that they are subject to further adjustment.

The operation of WCHCC's patient care services business is subject to federal and state laws prohibiting fraud by healthcare providers, including laws containing criminal provisions, which prohibit filing false claims or making false statements in order to receive payment or obtain certification under Medicare and Medicaid programs, or failing to refund overpayments or improper payments. Violation of these criminal provisions is a felony punishable by imprisonment and/or fines. WCHCC should also be subject to fines and treble damage claims if WCHCC knowingly filed a false claim or knowingly used false statements to obtain payment. State and federal governments are devoting increased attention and resources to anti-fraud initiatives against healthcare providers. The Health Insurance Portability and Accountability Act of 1996 and the Balanced Budget Act of 1997 expanded the penalties for healthcare fraud, including broader provisions for the exclusion of providers from the Medicare and Medicaid

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programs. WCHCC has policies and procedures that it believes are sufficient to ensure that it operates in substantial compliance with these anti-fraud and abuse requirements.

Various suits and claims arising in the normal course of operations are pending. While the outcome of these suits and claims cannot be determined at this time, management believes that such suits and claims are either specifically covered by insurance or the final disposition of such claims will not have a material effect on WCHCC's financial position, results of operations or liquidity.

Disproportionate Share

WCHCC is eligible to receive certain DSH payments in recognition of the costs associated with the provision of care to uninsured patients. Funding for these payments is provided by local and federal sources. WCHCC includes these payments in net patient service revenue in the accompanying Statements of Revenues, Expenses and Changes in Net Position. In 2017 and 2016, WCHCC recorded approximately \$38.0 million and \$65.0 million, respectively of net DSH revenue. Amounts recognized as revenue represent amounts received for which all required federal and state approvals have been received.

Delivery System Reform Incentive Program

WCHCC is leading one of the twenty-five Performing Provider Systems ("PPS") in New York State that are implementing the Delivery System Reform Incentive Program ("DSRIP"). In 2017 and 2016, WCHCC received approximately \$53.5 million and \$16.6 million, respectively in WMCHHealth DSRIP funds. WCHCC records WMCHHealth DSRIP in other operating revenue in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

The WMCHHealth PPS involves partnerships with over 200 organizations throughout its primary and secondary service areas. These include other hospitals, physician groups, community health centers, behavioral health providers, county health and mental health departments and community-based organizations. The DSRIP Program goals include more efficient and effective delivery of care to Medicaid recipients and the reduction of unnecessary emergency room visits, hospitalizations and readmissions.

15. Line of Credit

WCHCC has a \$35.0 million working capital revolving line of credit from a financial institution. The line of credit matures on October 26, 2018, and may be renewed with the approval of the financial institution or converted to a three year term loan. WCHCC did not draw down on the line of credit during the years ended December 31, 2017 and 2016.

16. Disposition of HealthAlliance Senior Living Corporation - Discontinued Operations

Kingston Community Services Corporation ("KCSC") was the sole corporate member of Kingston Regional Senior Living Corp. d/b/a Woodland Pond at New Paltz ("KRSLC"). In 2012, KCSC was dissolved. KRSLC was renamed HealthAlliance Senior Living Corporation ("HASLC") and HealthAlliance, Inc. became the sole corporate member. HASLC was created to construct and operate a continuing care retirement community (the "CCRC") named Woodland Pond at New Paltz ("Woodland Pond"), under Article 46 of New York State Public Health Law.

Effective March 24, 2016, HASLC became a self-sponsored CCRC renamed Woodland Pond, Inc. and the relationship with HealthAlliance, Inc. as the former sole corporate member of HASLC was

Westchester County Health Care Corporation
Notes to Financial Statements
December 31, 2017 and 2016

terminated with no consideration provided by either party. All powers previously held by the officers of the Board of Directors of HealthAlliance, Inc. have been transferred to Woodland Pond, Inc.'s Board of Directors. The change in ownership required the unanimous approval of the Boards of Directors of HealthAlliance, Inc. and Woodland Pond, Inc. as well as the New York State Department of Health, Ulster County Industrial Development Agency, Ulster County Capital Resource Corporation, and bondholders.

The approval for the change in membership of HASLC required the amendment and restatement of the loan agreement between HealthAlliance, Inc. and HASLC, for which HealthAlliance has a non-interest bearing note with a face value amount of \$1.6 million with a final maturity of September 2024. The non-interest bearing note has been discounted to its net present value of approximately \$750,000 and \$800,000 as of December 31, 2017 and 2016, respectively, using an implied interest rate of 7.50% and is recorded as a receivable in other assets in the accompanying Statements of Net Position.

Through March 24, 2016, HASLC incurred operating revenues of approximately \$4.7 million, operating expenses of approximately \$4.7 million and net non-operating activity of losses of approximately \$1.3 million which has been netted and included in the accompanying Statements of Revenues, Expenses and Changes in Net Position as a component of other nonoperating activities, net of approximately \$1.3 million. On the same date, HASLC disposed of its assets and liabilities (a net deficit of approximately \$80.3 million) and was removed from the financial statements as another addition in the Statements of Revenues, Expenses and Changes in Net Position.

17. Bon Secours Charity

Charity is a discretely presented component unit of WCHCC. Charity's financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus and are based on accounting principles applicable to governmental units as established by GASB and the provisions of the American Institute of Certified Public Accountants "*Audit and Accounting Guide, Health Care Entities*," to the extent that they do not conflict with GASB.

In May of 2015, Charity participated in a bond offering dated May 14, 2015 relating to \$122.3 million Bon Secours Charity Health System, Inc. Taxable Bonds, Series 2015, consisting of \$38.6 million Bonds with an interest rate of 5.25% and maturing on November 1, 2025 and \$83.7 million Bonds with an interest rate of 6.25% and maturing on November 1, 2035. WCHCC guarantees the scheduled payments of principal and interest on the Charity Series 2015 Bonds. The proceeds of the bonds were used to repay \$120.0 million in amounts due to BSHSI for intercompany indebtedness prior to May 19, 2015 and certain issuance costs.

On January 19, 2018, Charity obtained a \$20.0 million line of credit for general corporate purposes from a financial institution maturing on January 18, 2019. This line of credit replaces the line of credit dated October 28, 2015 which expired on October 28, 2017. Charity did not draw on the line of credit during the years ended December 31, 2017 and 2016. WCHCC guarantees the Charity line of credit.

During the year ended December 31, 2017, the services provided to Charity increased. Accordingly, payments of approximately \$15.6 million and \$7.4 million were made in 2017 and 2016, respectively by Charity to WCHCC for services provided under a management service agreement and for other contracted services.

Westchester County Health Care Corporation
Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of Net Pension Liability and Schedule of Employer Contributions
December 31, 2017 and 2016
(amounts in thousands)

Schedule of Proportionate Share of the Net Pension Liability*udited

| Reporting fiscal year (Measurement Date, March 31,) | WCHCC's proportion of the net pension liability | | WCHCC's covered employee payroll | WCHCC's proportionate share of the net pension liability as a percentage of its covered employee payroll | Plan fiduciary net position as a percentage of the total pension liability |
|--|---|------------|----------------------------------|--|--|
| | % | \$ | | | |
| 2017 (2017) | 0.860% | \$ 80,974 | \$ 292,341 | 27.70% | 94.70% |
| 2016 (2016) | 0.880% | \$ 141,496 | \$ 259,948 | 54.43% | 90.70% |
| 2015 (2015) | 0.890% | \$ 30,029 | \$ 249,512 | 12.04% | 97.90% |

Schedule of Employer Contributions*

| Reporting fiscal year | Contractually required contribution | Contributions in relation to the contractually required contribution | Contribution deficiency (excess) | WCHCC's covered employee payroll | Contributions as a percentage of employee covered payroll |
|-----------------------|-------------------------------------|--|----------------------------------|----------------------------------|---|
| 2017 | \$ 34,183 | \$ 34,183 | \$ - | \$ 292,341 | 11.69% |
| 2016 | \$ 39,349 | \$ 39,349 | \$ - | \$ 259,948 | 15.14% |
| 2015 | \$ 41,017 | \$ 41,017 | \$ - | \$ 249,512 | 16.44% |

* These schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

Westchester County Health Care Corporation
Required Supplementary Information (Unaudited)
Schedule of Funding Progress - Other Postemployment Benefits
December 31, 2017 and 2016
(amounts in thousands)

Schedule of Funding Progress - Other Postemployment Benefits

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrual Liability (AAL) Initial Entry Age (b) | Unfunded (AAL) (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | (UAAL) As a Percentage of Covered Payroll ((b-a)/c) |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 01/01/17 | \$ - | \$ 331,855 | \$ 331,855 | 0.0% | \$ 210,755 | 157.5% |
| 01/01/16 | \$ - | \$ 328,464 | \$ 328,464 | 0.0% | \$ 199,357 | 164.8% |
| 01/01/15 | \$ - | \$ 300,216 | \$ 300,216 | 0.0% | \$ 188,736 | 159.1% |
| 01/01/14 | \$ - | \$ 297,146 | \$ 297,146 | 0.0% | \$ 179,466 | 165.6% |
| 01/01/13 | \$ - | \$ 276,824 | \$ 276,824 | 0.0% | \$ 174,737 | 158.4% |
| 01/01/12 | \$ - | \$ 281,128 | \$ 281,128 | 0.0% | \$ 184,522 | 152.4% |

The above represents the valuation of the plan as of January 1.

Westchester County Health Care Corporation
Required Supplementary Information (Unaudited)
Schedule of Changes in Total OPEB Liability and Related Ratios
December 31, 2017 and 2016
(amounts in thousands)

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Total OPEB Liability | | |
| Service cost | \$ 4,940 | \$ 4,705 |
| Interest | 11,647 | 11,598 |
| Changes in assumptions | 1,250 | (2,615) |
| Benefit payments | (14,446) | (12,480) |
| Net change in total OPEB liability | <u>3,391</u> | <u>1,208</u> |
| Total OPEB liability - beginning | <u>328,464</u> | <u>327,256</u> |
| Total OPEB liability - ending | <u>\$ 331,855</u> | <u>\$ 328,464</u> |
| Covered Payroll | \$ 210,755 | \$ 199,357 |
| Total OPEB Liability as a percentage of covered-employee payroll | 157.46% | 164.76% |

Notes to Schedules:

Changes to benefit terms: No changes to the terms of the benefits provided.

Changes of assumptions: The following are the discount rates for each period presented above:

| | |
|------|-------|
| 2017 | 3.78% |
| 2016 | 3.57% |

These schedules are intended to show information for 10 years. Additional years will be displayed as they become available.