



Basic Financial Statements,
Supplementary Schedules (with
Management's Discussion and
Analysis) and Report of Independent
Certified Public Accountants

Westchester County Health Care Corporation

December 31, 2019 and 2018

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors
Westchester County Health Care Corporation

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Westchester County Health Care Corporation ("WCHCC"), as of and for the years ended December 31, 2019 and 2018, 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 an opinion 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 \$190,050,000 and \$168,761,000 and total liabilities constituting \$83,137,000 and \$80,915,000 as of December 31, 2019 and 2018, 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 discretely presented component unit, which statements reflect total assets constituting \$28,977,000 and \$20,856,000 and total liabilities constituting \$23,063,000 and \$19,572,000 as of December 31, 2019 and 2018, 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, is 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. 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 WCHCC'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 WCHCC'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, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 and the required supplementary information on pages 50 through 52 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.



Westchester County Health Care Corporation
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2019 and 2018

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's ("WCHCC") annual financial report presents WCHCC's financial performance during the years ended December 31, 2019, 2018 and 2017. 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 (Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, Statements of Cash Flows, and the Notes to Financial Statements) present on a comparative basis the financial position of WCHCC at December 31, 2019, 2018 and 2017 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 years' 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 provides relevant information about the years' cash receipts and cash payments and classifies them as operating, noncapital financing, capital and related financing and investing activities. The Notes to 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 Mercy Health Inc. ("BSMH"), 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. BSMH holds a 40% economic interest in Charity and, together with SOC, appoints 40% of the Charity Board of Directors.

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. On October 21, 2019, WCHCC became the sole member of HealthAlliance.

Management's Discussion and Analysis includes the activities of WCHCC and excludes the activities of Charity.

Westchester County Health Care Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

December 31, 2019, 2018 and 2017

(amounts in thousands)

Financial Analysis
Summary of Assets, Liabilities, and Net Position
December 31, 2019, 2018, and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019-2018 Percentage Change</u>
Assets				
Current assets	\$ 593,681	\$ 595,274	\$ 517,145	(0.3)%
Capital assets, net	816,680	643,598	564,879	26.9
Other assets	45,596	64,184	161,928	(29.0)
Total assets	<u>\$ 1,455,957</u>	<u>\$ 1,303,056</u>	<u>\$ 1,243,952</u>	<u>11.7%</u>
Deferred outflows of resources	<u>\$ 58,385</u>	<u>\$ 103,741</u>	<u>\$ 72,315</u>	<u>(43.7)%</u>
Liabilities				
Current liabilities	\$ 472,226	\$ 395,078	\$ 323,106	19.5%
Long-term portion of debt, net	710,293	707,945	713,167	0.3
Other long-term liabilities	611,001	524,831	574,953	16.4
Total liabilities	<u>\$ 1,793,520</u>	<u>\$ 1,627,854</u>	<u>\$ 1,611,226</u>	<u>10.2%</u>
Deferred inflows of resources	<u>\$ 28,670</u>	<u>\$ 99,326</u>	<u>\$ 15,356</u>	<u>(71.1)%</u>
Net position				
Restricted	\$ 14,909	\$ 13,525	\$ 13,072	10.2%
Unrestricted	<u>(322,757)</u>	<u>(333,908)</u>	<u>(323,387)</u>	<u>(3.3)%</u>
Total net position	<u>\$ (307,848)</u>	<u>\$ (320,383)</u>	<u>\$ (310,315)</u>	<u>(3.9)%</u>

Westchester County Health Care Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

December 31, 2019, 2018 and 2017

(amounts in thousands)

Financial Analysis

*Summary of Revenues, Expenses, and Changes in Net Position
Years ended December 31, 2019, 2018, and 2017*

	2019	2018	2017	2019-2018 Percentage Change
Operating revenues				
Net patient service revenue	\$ 1,586,830	\$ 1,514,835	\$ 1,435,287	4.8%
Other revenue	132,144	127,054	116,149	4.0
Total operating revenues	<u>1,718,974</u>	<u>1,641,889</u>	<u>1,551,436</u>	<u>4.7</u>
Operating expenses				
Salaries and benefits	942,177	891,433	827,559	5.7
Supplies and other expenses	634,972	624,932	618,140	1.6
Depreciation and amortization	69,220	66,445	69,514	4.2
Total operating expenses	<u>1,646,369</u>	<u>1,582,810</u>	<u>1,515,213</u>	<u>4.0</u>
Operating income before OPEB and pension expenses	72,605	59,079	36,223	22.9
Salaries and benefits - OPEB expenses	15,918	17,037	16,246	(6.6)
Salaries and benefits - NYS pension expense	32,113	32,115	32,116	(0.0)
Operating income (loss) before NYS pension adjustment	24,574	9,927	(12,139)	147.5
NYS pension adjustment	9,466	4,055	15,000	133.4
Operating income (loss)	<u>15,108</u>	<u>5,872</u>	<u>(27,139)</u>	<u>157.3</u>
Nonoperating activities, net				
Investment income	14,272	9,903	6,267	44.1
Unrealized gains (losses) on marketable securities, net	7,612	(7,944)	5,363	(195.8)
Interest expense	(33,513)	(27,370)	(27,454)	22.4
Other nonoperating activities, net	412	9,471	1,789	(95.6)
Total nonoperating activities, net	<u>(11,217)</u>	<u>(15,940)</u>	<u>(14,035)</u>	<u>(29.6)</u>
Income (loss) before other additions and deductions	3,891	(10,068)	(41,174)	(138.6)
Other additions				
NYS Capital Restructuring Financing Program Grant Award	8,644	-	-	-
Total other additions	<u>8,644</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	12,535	(10,068)	(41,174)	(224.5)
Net position				
Beginning of year	<u>(320,383)</u>	<u>(310,315)</u>	<u>(269,141)</u>	<u>3.2</u>
End of year	<u>\$ (307,848)</u>	<u>\$ (320,383)</u>	<u>\$ (310,315)</u>	<u>(3.9)%</u>

Westchester County Health Care Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

December 31, 2019 and 2018

Overall Financial Position and Operations

WCHCC reported operating income of \$15.1 million and \$5.9 million and an operating loss of \$27.1 million for the years ended December 31, 2019, 2018, and 2017, respectively. WCHCC's net position increased \$12.5 million from December 31, 2018 to December 31, 2019 and decreased \$10.1 million from December 31, 2017 to December 31, 2018.

Significant financial indicators are as follows:

	2019	2018	2017
Operating income (loss) (in millions)	\$ 15.1	\$ 5.9	\$ (27.1)
Current ratio	1.3	1.5	1.6
Quick ratio	1.2	1.4	1.5
Days cash on hand	53.4	55.9	65.3

Analysis of Financial Position

In this section, WCHCC's management provides its analysis of December 31, 2019 financial amounts compared to December 31, 2018 financial amounts and, where appropriate, December 31, 2018 financial amounts compared to December 31, 2017 financial amounts.

Assets and Liabilities

Cash and Cash Equivalents

The cash position decreased \$15.6 million at December 31, 2019 compared to December 31, 2018, primarily due to capital purchases and other statement of net position changes. The cash position decreased \$31.7 million at December 31, 2018 compared to December 31, 2017, primarily due to HealthAlliance operating losses, capital purchases and other statement of net position changes.

Investments

Investments increased \$14.2 million at December 31, 2019 compared to December 31, 2018, primarily due to purchases of new investments with available cash and favorable market performance. Investments increased \$2.2 million at December 31, 2018 compared to December 31, 2017, primarily due to purchases of new investments with available cash, partially offset by an unfavorable market performance.

Patient Accounts Receivable, net

Patient accounts receivable reflected days outstanding of 48.4, 46.6, and 46.5 at December 31, 2019, 2018 and 2017, respectively. Days outstanding at December 31, 2019 compared to December 31, 2018 increased due to higher reimbursement rates and increased volume, and days outstanding at December 31, 2018 compared to December 31, 2017 were relatively consistent.

Other Current Assets

Other current assets increased \$5.3 million from December 31, 2018 to December 31, 2019 due to an increase in other receivables and other statement of net position changes and increased \$78.2 million from December 31, 2017 to December 31, 2018, primarily due to an increase in third party receivables.

Westchester County Health Care Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

December 31, 2019 and 2018

Assets Restricted as to Use

Assets restricted as to use decreased \$40.6 million from December 31, 2018 to December 31, 2019 and decreased \$76.0 million from December 31, 2017 to December 31, 2018, primarily due to the release of construction funds used for the Ambulatory Care Pavilion ("ACP") project. The ACP project was placed in service during July 2019.

Other Assets, net

Other assets decreased \$400,000 from December 31, 2018 to December 31, 2019 and decreased \$2.9 million from December 31, 2017 to December 31, 2018 due to various statement of net position changes.

Capital Assets, net

Capital assets increased \$173.1 million from December 31, 2018 to December 31, 2019 and capital assets increased \$78.7 million from December 31, 2017 to December 31, 2018, primarily due to capital expenditures for the ACP, new electronic health record ("EHR") project, and other capital acquisitions net of depreciation and amortization.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses increased \$25.2 million from December 31, 2018 to December 31, 2019 and \$32.1 million from December 31, 2017 to December 31, 2018 due to timing of payments, and increased patient care supplies and other costs.

Accrued Salaries and Related Withholdings

Accrued salaries and related withholdings increased \$6.8 million from December 31, 2018 to December 31, 2019 and increased \$4.7 million from December 31, 2017 to December 31, 2018 due to increases in salaries and the timing of payrolls.

Current Portion of Other Long-Term Liabilities

Other current liabilities increased \$42.1 million from December 31, 2018 to December 31, 2019, primarily due to increases in deferred payments for the EHR project and ACP project. Other current liabilities increased \$35.8 million from December 31, 2017 to December 31, 2018, primarily due to deferred revenue and increase in other liabilities.

Long-Term Debt

Long-term debt increased \$5.4 million from December 31, 2018 to December 31, 2019, due to new capital leases of \$23.2 million and new debt of \$10.0 million partially offset by principal payments and amortization of bond premiums and discounts of \$27.8 million.

Long-term debt decreased \$5.8 million from December 31, 2017 to December 31, 2018, due to principal payments and amortization of bond premiums and discounts of \$24.4 million, partially offset by new capital leases of \$16.0 million and new debt of \$2.6 million.

Other Long-Term Liabilities

Other long-term liabilities increased \$86.2 million from December 31, 2018 to December 31, 2019, due to increases of \$33.6 million for the New York State ("NYS") pension liability, increases in deferred payments for the EHR project and capital purchases of \$58.6 million, partially offset by \$6.0 million via reduction in all other liabilities.

Westchester County Health Care Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

December 31, 2019 and 2018

Other long-term liabilities decreased \$50.1 million from December 31, 2017 to December 31, 2018, due to decreases of \$51.2 million for the NYS pension liability offset by \$1.1 million for all other activities.

Deferred Outflows and Inflows of Resources

Deferred Outflows

Deferred outflows decreased approximately \$45.4 million from December 31, 2018 to December 31, 2019 primarily due to decreases in deferred pension outflows and increased \$31.4 million from December 31, 2017 to December 31, 2018, due to increases in deferred pension outflows.

Deferred Inflows

Deferred inflows decreased \$70.7 million from December 31, 2018 to December 31, 2019 due to deferred pension inflows of \$73.1 million partially offset by deferred post-retirement inflows of \$2.4 million and increased \$84.0 million from December 31, 2017 to December 31, 2018, due to deferred pension inflows of \$81.1 million and deferred post-retirement inflows of \$2.9 million.

Revenues and Expenses

Net Patient Service Revenue

Net patient service revenue increased \$72.0 million from 2018 to 2019, and \$79.5 million from 2017 to 2018. The increases are the result of increases in volume, rates and revenue cycle initiatives.

Other Revenue

Other revenue increased \$5.1 million from 2018 to 2019, primarily due to increases in Value Based Payment Quality Improvement Program ("VBP-QIP") revenue, partially offset by a decrease in income earned by the WMCHHealth Performing Provider System ("WMCHHealth PPS"), and increased \$10.9 million from 2017 to 2018 primarily due to an increase in VBP-QIP funding and increases in other activities.

Salaries and Benefits

Salaries and benefits increased \$55.0 million from 2018 to 2019 and \$53.7 million from 2017 to 2018, primarily due to salaries related to new physicians and related support staff and contractual salary increases.

Supplies and Other Expenses

Supplies and other expenses increased approximately \$10.0 million from 2018 to 2019, primarily due to:

- Increase in medical supplies of \$6.5 million.
- Increase in contractual services of \$4.5 million
- Decrease in other expenses of \$600,000

Supplies and other expenses increased approximately \$6.8 million from 2017 to 2018, primarily due to:

- Increase in medical supplies of \$5.7 million.
- Increase in contractual services of \$2.0 million
- Decrease in other expenses of \$900,000

Westchester County Health Care Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

December 31, 2019 and 2018

Depreciation and Amortization Expense

Depreciation and amortization expense increased \$2.8 million from 2018 to 2019 due to capital asset additions in 2019, and the opening of the ACP. Depreciation and amortization decreased \$3.1 million from 2017 to 2018 due to updated useful lives for buildings and equipment based on actual experience, partially offset by capital asset additions in 2018.

Nonoperating Activities, net

Nonoperating activities, net decreased \$4.7 million from 2017 to 2018, primarily due to increased interest income and realized/unrealized gains on investments partially offset by an increase in interest expense.

Nonoperating activities, net decreased \$1.9 million from 2017 to 2018, primarily due to unrealized losses on investments, partially offset by a gain on sale of insurance company interest and increased interest income.

Net Position

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

- Restricted
- Unrestricted

Restricted

Increased \$1.4 million and \$500,000 from December 31, 2018 to December 31, 2019, and December 31, 2017 to December 31, 2018, respectively, primarily due to increased restricted and endowment contributions.

Unrestricted

Unrestricted net deficit decreased by \$11.1 million to (\$322.8) million at December 31, 2019 from (\$333.9) million at December 31, 2018, primarily due to the financial results for the year ended December 31, 2019.

Unrestricted net deficit increased by \$10.5 million to (\$333.9) million at December 31, 2018 from (\$323.4) million at December 31, 2017, primarily due to the financial results for the year ended December 31, 2018.

Westchester County Health Care Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

December 31, 2019 and 2018

Capital Assets and Long-Term Debt Activity

Capital Assets, net

At December 31, 2019, WCHCC had capital assets, net of accumulated depreciation of \$816.7 million, compared to \$643.6 million at December 31, 2018 and \$564.9 million at December 31, 2017. Major categories of capital assets, net are set forth in the table below (amounts in thousands):

	2019	2018	2017
Land and land improvements	\$ 12,385	\$ 12,028	\$ 10,380
Buildings and building improvements	470,626	286,783	281,597
Equipment	235,836	177,827	186,022
Construction in progress	97,833	166,960	86,880
	\$ 816,680	\$ 643,598	\$ 564,879

Capital assets, net increased in 2019 by \$173.1 million, consisting of additions to the ACP and various other capital projects and medical equipment purchases of \$242.3 million, offset by depreciation expense of \$69.2 million. Capital assets, net increased in 2018 by \$78.7 million, primarily due to capital expenditures for the ACP, new EHR project, and other capital acquisitions net of depreciation and amortization. During 2018, the Westchester Medical Center updated the estimated useful lives for buildings and equipment based on actual experience. The impact of this change would have resulted in a decrease to depreciation expense of \$6.9 million in the Statement of Revenue, Expenses and Changes in Net Position for the year ended December 31, 2017, if implemented in the prior year. More detailed information about WCHCC's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At December 31, 2019, WCHCC had \$740.5 million in total long-term debt outstanding, as follows with comparative amounts at December 31, 2018 and December 31, 2017 (amounts in thousands):

	2019	2018	2017
2000 Series Bonds	\$ 108,170	\$ 108,170	\$ 108,170
2010 Series Bonds	142,810	153,805	165,630
2011 Series Bonds	62,570	63,580	63,680
2014 Series Bonds	25,077	25,578	26,055
2015 Series Bonds	22,305	22,971	23,610
2016 Series Bonds	280,810	282,955	283,120
HealthAlliance debt, net	27,884	20,410	20,254
Bond premium/discount	22,504	23,387	24,270
Capital leases	48,330	34,222	26,137
	\$ 740,460	\$ 735,078	\$ 740,926

Long-term debt increased \$5.4 million from December 31, 2018 to December 31, 2019 due to new capital leases and new debt partially offset by principal payments and amortization of bond premiums and discounts and decreased \$5.8 million from December 31, 2017 to December 31, 2018 due to principal payments and amortization of bond premiums and discounts, partially offset by new capital leases and new debt for HealthAlliance.

Westchester County Health Care Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

December 31, 2019 and 2018

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, 2019 and 2018

(amounts in thousands)

	2019		2018	
	WCHCC	Bon Secours Charity	WCHCC	Bon Secours Charity
Assets				
Current assets:				
Cash and cash equivalents	\$ 96,538	\$ 41,627	\$ 112,132	\$ 57,027
Investments	142,439	18,499	128,217	16,724
Total cash, cash equivalents and investments	238,977	60,126	240,349	73,751
Patient accounts receivable, net	210,290	70,795	193,343	62,706
Assets restricted as to use, required for current liabilities	15,211	5,670	37,663	281
Other current assets	129,203	20,425	123,919	17,774
Total current assets	593,681	157,016	595,274	154,512
Assets restricted as to use, net	36,467	4,703	54,624	4,709
Capital assets, net	816,680	122,645	643,598	121,664
Other assets, net	9,129	3,009	9,560	2,167
Total assets	1,455,957	287,373	1,303,056	283,052
Deferred Outflows of Resources				
Pension, OPEB and bond related	58,385	241	103,741	215
Liabilities				
Current liabilities:				
Current portion of long-term debt	30,167	2,547	27,133	1,829
Accounts payable and accrued expenses	234,135	43,351	208,925	33,240
Accrued salaries and related withholdings	84,591	33,316	77,759	29,599
Current portion of other long-term liabilities	123,333	17,230	81,261	8,769
Total current liabilities	472,226	96,444	395,078	73,437
Long-term debt, net	710,293	125,910	707,945	126,050
Other long-term liabilities, net	611,001	30,539	524,831	31,763
Total liabilities	1,793,520	252,893	1,627,854	231,250
Deferred Inflows of Resources				
Pension and OPEB related	28,670	-	99,326	-
Commitments and contingencies				
Net Position				
Restricted				
Expendable for capital acquisitions	1,217	1,682	1,249	2,238
Expendable for specific operating activities	8,656	3,639	8,331	3,131
Nonexpendable for endowment	5,036	664	3,945	664
Total restricted	14,909	5,985	13,525	6,033
Unrestricted				
Net investment in capital assets	146,066	116,930	84,041	116,108
Unrestricted	(468,823)	(88,194)	(417,949)	(70,124)
Total unrestricted	(322,757)	28,736	(333,908)	45,984
Total net position	\$ (307,848)	\$ 34,721	\$ (320,383)	\$ 52,017

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, 2019 and 2018

(amounts in thousands)

	2019		2018	
	WCHCC	Bon Secours Charity	WCHCC	Bon Secours Charity
Operating revenues				
Net patient service revenue (net of provision for bad debts of \$81,289 and \$39,074 in 2019 and \$49,670 and \$53,415 in 2018, respectively)	\$ 1,586,830	\$ 564,139	\$ 1,514,835	\$ 559,797
Other revenue	132,144	13,701	127,054	20,270
Total operating revenues	1,718,974	577,840	1,641,889	580,067
Operating expenses				
Salaries and benefits	942,177	326,080	891,433	315,294
Supplies and other expenses	634,972	242,979	624,932	231,254
Depreciation and amortization	69,220	24,649	66,445	25,160
Total operating expenses	1,646,369	593,708	1,582,810	571,708
Operating income before OPEB and pension expense	72,605	(15,868)	59,079	8,359
Salaries and benefits - OPEB expenses	15,918	-	17,037	-
Salaries and benefits - NYS pension expenses	32,113	-	32,115	-
Operating income (loss) before NYS pension adjustment	24,574	(15,868)	9,927	8,359
NYS pension adjustment	9,466	-	4,055	-
Operating income (loss)	15,108	(15,868)	5,872	8,359
Nonoperating activities				
Investment income	14,272	554	9,903	326
Unrealized gains (losses) on marketable securities, net	7,612	1,516	(7,944)	(652)
Interest expense	(33,513)	(7,523)	(27,370)	(7,567)
Other nonoperating activities, net	412	827	9,471	818
Total nonoperating activities, net	(11,217)	(4,626)	(15,940)	(7,075)
Increase (decrease) in net position before other changes	3,891	(20,494)	(10,068)	1,284
Other changes in net position				
NYS Capital Restructuring Financing Program Grant Award	8,644	3,198	-	1,211
Total other changes in net position	8,644	3,198	-	1,211
Increase (decrease) in net position	12,535	(17,296)	(10,068)	2,495
Net position				
Beginning of year	(320,383)	52,017	(310,315)	49,522
End of year	\$ (307,848)	\$ 34,721	\$ (320,383)	\$ 52,017

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

Westchester County Health Care Corporation

STATEMENTS OF CASH FLOWS

Years ended December 31, 2019 and 2018

(amounts in thousands)

	2019		2018	
	WCHCC	Bon Secours Charity	WCHCC	Bon Secours Charity
Cash flows from operating activities:				
Cash received from patients and third-party payors	\$ 1,585,507	\$ 560,614	\$ 1,450,329	\$ 557,015
Other receipts	140,065	12,227	125,869	18,965
Cash paid to employees for salaries and benefits	(992,344)	(324,833)	(937,432)	(319,084)
Cash paid for supplies and other expenses	(534,025)	(229,770)	(578,790)	(228,553)
Net cash provided by operating activities	<u>199,203</u>	<u>18,238</u>	<u>59,976</u>	<u>28,343</u>
Cash flows from noncapital financing activities:				
Proceeds from contributions restricted for specific operating activities	6,141	-	7,477	-
Proceeds from issuance of long-term debt	8,500	-	2,200	-
Net cash receipts for nonoperating items	35	2,190	2,188	165
Repayments of principal on long-term debt	(983)	-	(548)	-
Interest paid	-	(7,252)	-	(7,259)
Net cash provided by (used in) noncapital financing activities	<u>13,693</u>	<u>(5,062)</u>	<u>11,317</u>	<u>(7,094)</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(221,572)	(23,074)	(131,040)	(18,422)
Proceeds from sale of assets	216	-	47	-
Proceeds from issuance of long-term debt	1,500	-	109	-
Proceeds from line of credit	35,000	-	-	-
Repayment of line of credit	(35,000)	-	-	-
Repayments of principal on long-term debt	(26,804)	(1,979)	(23,960)	(1,457)
State appropriations restricted for capital purposes	-	3,198	-	1,211
Interest paid	(32,694)	(270)	(27,209)	(307)
NYS Capital Restructuring Financing Program Grant Award	8,644	-	-	-
Net cash used in capital and related financing activities	<u>(270,710)</u>	<u>(22,125)</u>	<u>(182,053)</u>	<u>(18,975)</u>
Cash flows from investing activities:				
Purchase of investments and assets restricted as to use	(56,953)	(14,535)	(36,257)	(16,330)
Sale of investments and assets restricted as to use	84,674	7,377	96,835	13,057
Proceeds from gain on sale of investment in insurance company	40	-	8,685	-
Interest received	14,459	707	9,831	326
Net cash provided by (used in) investing activities	<u>42,220</u>	<u>(6,451)</u>	<u>79,094</u>	<u>(2,947)</u>
Net decrease in cash and cash equivalents	<u>(15,594)</u>	<u>(15,400)</u>	<u>(31,666)</u>	<u>(673)</u>
Cash and cash equivalents				
Beginning of year	<u>112,132</u>	<u>57,027</u>	<u>143,798</u>	<u>57,700</u>
End of year	<u>\$ 96,538</u>	<u>\$ 41,627</u>	<u>\$ 112,132</u>	<u>\$ 57,027</u>

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

Westchester County Health Care Corporation
STATEMENTS OF CASH FLOWS - CONTINUED
Years ended December 31, 2019 and 2018
(amounts in thousands)

	2019		2018	
	WCHCC	Bon Secours Charity	WCHCC	Bon Secours Charity
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 15,108	\$ (15,868)	\$ 5,872	\$ 8,359
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	69,220	24,649	66,445	25,160
Provision for bad debts, net	81,289	39,075	49,670	53,415
Deferred inflows and outflows, net	(25,780)	(26)	52,064	(29)
Changes in assets and liabilities:				
Patient accounts receivable	(98,236)	(47,164)	(60,129)	(56,081)
Other assets	(1,469)	(3,493)	(57,563)	2,388
Accounts payable and accrued expenses	27,654	10,111	34,023	(2,234)
Accrued salaries and related withholdings	6,832	3,717	4,661	(1,410)
Other liabilities	124,585	7,237	(35,067)	(1,225)
Net cash provided by operating activities	<u>\$ 199,203</u>	<u>\$ 18,238</u>	<u>\$ 59,976</u>	<u>\$ 28,343</u>
Supplemental disclosure of cash flow information				
Change in amounts accrued for purchase of capital assets	<u>\$ 203</u>	<u>\$ -</u>	<u>\$ 1,901</u>	<u>\$ -</u>
Assets acquired under capital leases	<u>\$ (23,191)</u>	<u>\$ (2,556)</u>	<u>\$ (16,151)</u>	<u>\$ (355)</u>

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

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 1 - ORGANIZATION

The State of New York enacted legislation 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 (the “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”)
- NorthEast Provider Solutions, Inc. (“NorthEast Provider”)
- WMC - Health Network - Ulster, Inc. (“WMC - Ulster”)
- WMC - Health Network - Rockland, Inc. (“WMC - Rockland”)

HealthAlliance:

- HealthAlliance, Inc. (“HealthAlliance”)
- 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”) (dissolved May 17, 2019)
- Margaretville Hospital (“Margaretville”)
- Margaretville Nursing Home (the “Nursing Home”)
- Margaretville Health Foundation (“MHF”)
- Mid-Hudson Physicians, P.C. (“Mid-Hudson Physicians”)
- HealthAlliance Physician Network IPA, LLC (“HAPN”)
- Kingston Insurance (Barbados) Limited (“Kingston”), effective January 31, 2020, operations were relocated to the Cayman Islands
- HealthAlliance Foundation (“HAF”)

WCHCC is party to an Affiliation Agreement with HealthAlliance and WMC - Ulster, in which WMC - Ulster is the sole member of HealthAlliance. On October 21, 2019, WCHCC 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, 2019 and 2018 includes an emphasis of matter paragraph relating to the uncertainty regarding HealthAlliance’s ability to continue as a going concern due to HealthAlliance’s working capital deficit, recurring operating losses, and noncompliance with certain financial debt covenant requirements. Total assets for HealthAlliance were approximately \$84.4 million and \$81.2 million as of December 31, 2019 and 2018, respectively, and operating revenues were approximately \$210.8 million and \$189.8 million for the years then ended, respectively. The ongoing financial viability of HealthAlliance is not guaranteed by WCHCC.

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

WCHCC is party to an Affiliation Agreement with Bon Secours Mercy Health, Inc. (“BSMH”), 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. BSMH 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 16.

The 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. WCHCC Network provides patient care, teaching and community services.

NOTE 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 16.

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.

Revisions to previously recorded estimates of net patient accounts receivable, third-party payor liabilities and insurance reserves and settlements for the year ended December 31, 2019 and net patient accounts receivable, third-party payor liabilities, and accrued salaries for the year ended December 31, 2018 resulted in an increase in operating income of approximately \$83.2 million and \$19.4 million, respectively.

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

Patient Accounts Receivable and Net Patient Service Revenue

Accounts receivable from patients and third-party payors at December 31, 2019 and 2018 was comprised of Medicare, 22% and 19%, Medicaid, 20% and 23%, and commercial insurance, health maintenance organizations and others, 58% and 58%, respectively. Patient accounts receivable are recorded net of allowances for estimated uncollectible accounts of approximately \$104.9 million and \$76.7 million at December 31, 2019 and 2018, 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 patient 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 patient service 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, 2015, with the exception of December 31, 2004, and HealthAlliance's three cost reports through December 31, 2016 for Broadway, December 31, 2015 for Mary's Ave and December 31, 2017 for Margaretville.

Assets Restricted as to Use

Assets restricted as to use include certain 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 of Directors.

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.

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

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, 2019 and 2018, net contributions and grants receivable of approximately \$4.5 million and \$3.8 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, 2019 and 2018, 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 72% and 79% of cash and cash equivalents reside with a major financial institution at December 31, 2019 and 2018, respectively.

Investments

WCHCC's investments consist primarily of equities and fixed income holdings, 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 - CONTINUED

December 31, 2019 and 2018

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

	Estimated useful lives	
	Medical Center	HealthAlliance
Land improvements	10 years	2 to 30 years
Buildings and building improvements	5 to 60 years	3 to 60 years
Equipment	10 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 and Medicaid amounts less than established rates ("Charity Care"). 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, 2019 and 2018, at approximately \$196.7 million and \$188.6 million, respectively.

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

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 Internal Revenue Code (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, NorthEast Provider, Mid-Hudson Physicians, 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 withholdings 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 required to be recorded for the years ended December 31, 2019 and 2018.

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 interest rates.

Adopted Accounting Pronouncement

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 GASB 83. The requirements of GASB 83 are effective for reporting periods beginning after June 15, 2018. WCHCC has evaluated the effect of GASB 83 and determined that its adoption had no material impact on its financial statements.

Westchester County Health Care Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Relevant Pending Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*, (“GASB 87”). GASB 87 will increase the usefulness of governments’ financial statements by requiring the reporting of certain lease related assets, liabilities and deferred inflows of resources on the statement of net position that currently are not reported on that statement. It will also enhance the comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. GASB 87 is intended to enhance the decision-making usefulness of the information provided to financial statement users by requiring notes to the financial statements to include the timing, significance, and purpose of a government’s leasing arrangements.

On January 1, 2020, WCHCC adopted the new standard. Financial information will not be updated and the disclosures required under the standard will not be provided for dates and periods before January 1, 2020.

The new standard will have an effect on WCHCC’s statement of net position. The most significant effects of adoption relate to the recognition of intangible right-to-use lease assets and lease liabilities for existing real estate and equipment operating leases where WCHCC is the lessee, the recognition of lease receivables and deferred inflows of resources for existing real estate leases where WCHCC is the lessor, and providing new disclosures about leasing activities.

The impact on the statement of net position upon adoption is as follows:

- Recognize intangible right-to-use assets and lease liabilities of approximately \$119.4 million based on the present value of the remaining minimum rental payments for existing leases where WCHCC is the lessee.
- Recognize lease receivables and deferred inflows of resources of approximately \$9.2 million based on the present value of the remaining minimum rental payments for existing leases where WCHCC is the lessor.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, (“GASB 89”). GASB 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred, and no longer be included in the historical cost of a capital asset reported in a business-type activity. The requirements of GASB 89 are effective for financial statements for periods beginning after December 15, 2019. The requirements of GASB 89 will be applied prospectively beginning January 1, 2020.

Westchester County Health Care Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits and investments consist of the following at December 31, 2019 and 2018 (amounts in thousands):

	2019	2018
Description		
Bank deposits	\$ 97,743	\$ 134,668
Money market accounts	14,233	9,263
Equity mutual funds	4,676	3,583
Equities	47,414	37,091
Fixed income mutual funds	5,615	5,067
Other	1,313	1,242
Fixed income:		
US Treasury securities	68,873	94,681
Corporate bonds	49,250	45,414
	\$ 289,117	\$ 331,009
Description on Statement of Net Position		
Cash and cash equivalents	\$ 96,538	\$ 112,132
Investments	142,439	128,217
Assets restricted as to use, required for current liabilities	14,863	37,412
Assets restricted as to use, net	35,277	53,248
	\$ 289,117	\$ 331,009
Investment maturities of fixed income securities		
One year or less	\$ 31,128	\$ 66,208
After one through five years	55,662	52,794
After five through ten years	31,333	21,093
	\$ 118,123	\$ 140,095

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

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, 2019 and 2018, 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 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, 2019 and 2018, 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. Accordingly, WCHCC's investment policy does not address custodial credit risk for investments.

Westchester County Health Care Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Concentration of credit risk - is the risk of loss attributed to the magnitude of WCHCC's investment in a single issuer. There is no limit on the amount WCHCC may invest in any 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 seven 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 allows for up to 10% of investments in Baa/BBB Bonds.

NOTE 4 - ASSETS RESTRICTED AS TO USE

Assets restricted as to use consist of the following at December 31, 2019 and 2018 (amounts in thousands):

	2019	2018
Time and purpose restricted		
The Westchester Medical Center Foundation, Inc.	\$ 14,344	\$ 12,906
Other purposes	7,843	23,895
	22,187	36,801
 Under debt agreements		
Debt service reserve funds	25,090	25,011
Construction funds	-	26,142
Other	4,401	4,333
	29,491	55,486
	51,678	92,287
Less portion required for current liabilities	15,211	37,663
Assets restricted as to use, net	\$ 36,467	\$ 54,624

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

WCHCC's assets restricted as to use are reported at fair value, as described in Note C. At December 31, 2019 and 2018, the composition of assets restricted as to use consisted of the following (amounts in thousands):

	2019	2018
Bank deposits	\$ 8,740	\$ 26,320
Money market accounts	5,474	4,289
Equity mutual funds	3,075	2,326
Equities	2,179	1,502
Fixed income mutual funds	395	331
Other	1,827	1,856
Fixed income:		
US Treasury securities	26,347	52,373
Other	3,641	3,290
	\$ 51,678	\$ 92,287

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.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2019 and 2018 was as follows (amounts in thousands):

	2019			
	Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Capital assets, not being depreciated:				
Land	\$ 3,251	\$ -	\$ -	\$ 3,251
Construction in process	166,690	(69,065)	(62)	97,833
Capital assets, being depreciated:				
Building and improvements	732,606	210,312	242	943,160
Equipment	821,162	100,142	(227)	921,077
Land improvements	20,054	913	17	20,984
Total capital assets	1,744,033	400,756	(30)	1,986,305
Less accumulated depreciation and amortization for:				
Building and improvements	(445,823)	(26,711)	-	(472,534)
Equipment	(643,335)	(41,936)	30	(685,241)
Land improvements	(11,277)	(573)	-	(11,850)
Total accumulated depreciation and amortization	(1,100,435)	(69,220)	30	(1,169,625)
Carrying value of all capital assets, net	\$ 643,598	\$ 173,082	\$ -	\$ 816,680

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

	2018			
	Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Capital assets, not being depreciated:				
Land	\$ 3,235	\$ 16	\$ -	\$ 3,251
Construction in process	86,880	101,513	(21,433)	166,960
Capital assets, being depreciated:				
Building and improvements	703,283	29,323	-	732,606
Equipment	787,372	33,631	159	821,162
Land improvements	17,940	2,114	-	20,054
Total capital assets	1,598,710	166,597	(21,274)	1,744,033
Less accumulated depreciation and amortization for:				
Building and improvements	(421,686)	(24,137)	-	(445,823)
Equipment	(601,350)	(41,826)	(159)	(643,335)
Land improvements	(10,795)	(482)	-	(11,277)
Total accumulated depreciation and amortization	(1,033,831)	(66,445)	(159)	(1,100,435)
Carrying value of all capital assets, net	\$ 564,879	\$ 100,152	\$ (21,433)	\$ 643,598

Included in construction in progress are costs associated with HealthAlliance's plan to transition its Broadway and Mary's Ave campuses into a single campus located at the Mary's Ave campus and to redevelop the Broadway campus into a "medical village." In March 2016, HealthAlliance was awarded approximately \$88.8 million from the New York State Capital Restructuring Financing Program ("CRFP"). This award will be used for capital expenditures related to the strategic plan. A Certificate of Need ("CON") was filed for the transition to the Mary's Ave campus. In June 2019, HealthAlliance received final approval for the CON. In October 2019, HealthAlliance received \$8.6 million of CRFP funds related to expenditures for the transition to the Mary's Ave. campus. This amount has been recognized in 2019 as other changes in net position in the Statement of Revenues, Expenses, and Changes in Net Position. The single campus project is projected to cost approximately \$92.9 million of which \$74.1 million is expected to be funded by proceeds from an approximate \$88.8 million CRFP grant. At December 31, 2019, WCHCC was committed to non-cancelable construction contracts related to capital projects of approximately \$30.7 million, \$3.0 million of which is related to the St. Mary's Ave campus project.

Included in capital assets is capitalized interest, net of accumulated amortization, of approximately \$36.2 million and \$32.9 million at December 31, 2019 and 2018, respectively. Interest capitalized during the years ended December 31, 2019 and 2018 was \$4.6 million and \$8.5 million, respectively.

The net book value of capital assets held under capitalized lease obligations, included in equipment, was approximately \$41.9 million and \$26.9 million at December 31, 2019 and 2018, respectively.

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

NOTE 6 - LONG-TERM DEBT

Long-term debt activity as of December 31, 2019 and 2018 was as follows (amounts in thousands):

	December 31, 2018	Additions	Reductions	December 31, 2019	Amounts due within one year
2000 Series Bonds ^(a)	\$ 108,170	\$ -	\$ -	\$ 108,170	\$ -
2010 Series Bonds ^(b)	153,805	-	(10,995)	142,810	10,310
2011 Series Bonds ^(c)	63,580	-	(1,010)	62,570	2,010
2014 Series Bonds ^(d)	25,578	-	(501)	25,077	526
2015 Series Bonds ^(e)	22,971	-	(666)	22,305	691
2016 Series Bonds ^(f)	282,955	-	(2,145)	280,810	2,255
Other ^(g)	20,410	10,000	(2,526)	27,884	2,121
Bond premium/discount	23,387	-	(883)	22,504	883
Capital leases ^(h)	34,222	23,191	(9,083)	48,330	11,371
	<u>\$ 735,078</u>	<u>\$ 33,191</u>	<u>\$ (27,809)</u>	<u>\$ 740,460</u>	<u>\$ 30,167</u>

	December 31, 2017	Additions	Reductions	December 31, 2018	Amounts due within one year
2000 Series Bonds ^(a)	\$ 108,170	\$ -	\$ -	\$ 108,170	\$ -
2010 Series Bonds ^(b)	165,630	-	(11,825)	153,805	10,995
2011 Series Bonds ^(c)	63,680	-	(100)	63,580	1,010
2014 Series Bonds ^(d)	26,055	-	(477)	25,578	501
2015 Series Bonds ^(e)	23,610	-	(639)	22,971	666
2016 Series Bonds ^(f)	283,120	-	(165)	282,955	2,145
Other ^(g)	20,254	2,509	(2,353)	20,410	3,063
Bond premium/discount	24,270	-	(883)	23,387	883
Capital leases ^(h)	26,137	16,151	(8,066)	34,222	7,870
	<u>\$ 740,926</u>	<u>\$ 18,660</u>	<u>\$ (24,508)</u>	<u>\$ 735,078</u>	<u>\$ 27,133</u>

^(a) At December 31, 2019, the balance of WCHCC Series 2000 Bonds have interest rates varying from 4.50% to 5.00% and mature 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, 2019 and 2018 (see Note 4).

Interest expense relating to the Series 2000 Revenue Bonds was approximately \$5.3 million in 2019 and 2018.

^(b) At December 31, 2019, the outstanding WCHCC Revenue Bonds, Series 2010, Senior Lien consists of \$37.4 million Series 2010A (Federally Taxable - Direct Payment - Build America Bonds) bonds with an interest rate of 8.57% and maturing on November 1, 2040; \$13.0 million Series 2010B (Tax-Exempt) bonds with interest rates varying from 4.00% to 6.13% and maturing through November 1, 2020, November 1, 2030 and November 1, 2037; \$31.5 million Series 2010C-1 (Federally Taxable - Direct Payment - Build America Bonds) bonds with an interest rate of 8.57% maturing on November 1, 2040;

Westchester County Health Care Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

and \$3.6 million Series 2010C-2 (Tax Exempt) bonds with an interest rate of 6.13% maturing on November 1, 2037.

WCHCC also has \$57.3 million of WCHCC Revenue Bonds, Series 2010D, Senior Lien (Taxable) bonds outstanding bearing interest under a Weekly Interest Rate, such rate being 1.62% and 2.40% at December 31, 2019 and 2018, respectively, maturing November 1, 2034. The Series 2010D 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. The LOC will expire on December 21, 2022.

WCHCC has granted a collateral interest in its gross receipts, as well as pledged all funds and accounts established with respect to the various Series 2010 Bonds, including a debt service reserve fund of approximately \$12.0 million and \$11.9 million as of December 31, 2019 and 2018, respectively (see Note 4).

Interest expense relating to the various Series 2010 Bonds was approximately \$8.5 million and \$9.0 million in 2019 and 2018, respectively.

- (c) At December 31, 2019, the WCHCC Revenue Bonds, Series 2011, Senior Lien consists of \$47.3 million Series 2011A (Tax-Exempt) bonds with interest rates varying from 2.00% to 5.32%, maturing annually through November 1, 2026, November 1, 2032 and November 1, 2041 and \$15.3 million Series 2011B (Tax-Exempt) bonds with an interest rate of 5.32%, 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 as of December 31, 2019 and 2018 (see Note 4).

Interest expense relating to the Series 2011 Bonds was approximately \$3.1 million in 2019 and 2018.

- (d) At December 31, 2019, the balance of WCHCC Revenue Bonds, Series 2014A, Senior Lien with an interest rate of 5.0% and maturing November 1, 2044 was outstanding.

Interest expense relating to the Series 2014 Bonds was approximately \$1.3 million in 2019 and 2018.

- (e) At December 31, 2019, the balance of a private placement bond offering relating to Dutchess County Local Development Corporation Revenue Bonds, Series 2015, consists \$18.0 million Series 2015A (Tax-Exempt) with an interest rate of 3.75%, maturing August 1, 2030, and \$4.3 million Series 2015B (Taxable) with an interest rate of 5.95% maturing August 1, 2030.

Interest expense relating to the Series 2015 Bonds was approximately \$958,000 and \$1.0 million in 2019 and 2018, respectively.

- (f) At December 31, 2019, \$280.8 million of Westchester County Local Development Corporation Revenue Bonds, Series 2016 (Westchester Medical Center Obligated Group Project) (Series 2016 Bonds), Tax Exempt bonds with interest rates varying from 3.0% to 5.0% and maturing annually November 1, through 2034, November 1, 2037 and November 1, 2046 are outstanding.

The proceeds of the Series 2016 Bonds, together with other available funds, (i) were used to fund the construction of the ACP at the Medical Center's Valhalla campus; (ii) were used to finance certain capital projects at WCHCC; (iii) were used to advance refund a portion of WCHCC's outstanding Series 2010B Bonds and Series 2010C-2 Bonds; (iv) were used to fund capitalized interest on the Series 2016 Bonds through 2018 and (v) were used to pay costs related to the issuance of the aforementioned bonds.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

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 \$8.9 million and \$5.2 million in 2019 and 2018, respectively.

- (9) On November 6, 2019, WCHCC purchased a building for \$2.0 million from the Board of Education of the Spackenkill Union Free School District (“the District”). At closing, \$1.5 million was financed through a non-interest bearing note payable provided by the District, due in four equal annual installments of \$375,000 through 2023.

HealthAlliance has the following debt obligations:

DASNY Capital Loan

On January 22, 2016, HealthAlliance entered into a reimbursement agreement for approximately \$4.4 million with the Dormitory Authority of the State of New York (“DASNY”) to finance certain capital projects at Broadway and Mary’s Ave.

DASNY Operating Loans

On December 14, 2016, June 14, 2017, July 25, 2018, April 3, 2019, and May 15, 2019, HealthAlliance entered into reimbursement agreements for \$5.0 million, \$4.0 million, \$2.2 million, \$2.0 million, and \$1.5 million, respectively, with DASNY to finance operations at Broadway and Mary’s Ave. The loans, along with existing DASNY capital and operating loans were consolidated into one repayment agreement which was initially scheduled to mature on July 1, 2020. In March 2020, the maturity date was extended to July 1, 2022. The interest rate is 2.00% with monthly principal and interest payments of \$25,000 from January through March 2020 and \$30,000 from April 2020 through July 2022, at which point all remaining outstanding principal and interest is due. HealthAlliance and DASNY will enter into discussions to amend the reimbursement agreement prior to the maturity date. On January 23, 2019, HealthAlliance entered into an agreement with DASNY for an additional loan facility of \$5.0 million with an interest rate of 2.00%. In October 2019, HealthAlliance repaid \$1.0 million. The agreement requires repayments of \$1.0 million on each of the following dates: December 31, 2021; December 31, 2023; December 21, 2024; and December 21, 2025. All DASNY loans are collateralized by a lien on certain properties owned by HealthAlliance.

Series 2006 Revenue Bonds

At December 31, 2019, the balance of the Ulster County Industrial Development Agency, Series 2006A (“Series 2006 Revenue Bonds”) related to the payoff of certain other notes and capital lease obligations was outstanding. The Series 2006 Revenue Bonds carry interest rates varying from 5.00% to 6.15% maturing November 1, 2021. The Series 2006 Revenue Bonds are collateralized by the balances in the assets restricted as to use, a mortgage lien on real property and a pledge of gross revenues, including revenues from joint ventures.

Under the Master Trust Indenture associated with the Series 2006 Revenue Bonds, Mary’s Ave is required to maintain certain financial covenants and comply with certain financial reporting requirements. As of December 31, 2019 and 2018, Mary’s Ave did not meet certain of its required 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, 2019 and 2018.

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December 31, 2019 and 2018

Series 2010A Revenue Bonds

At December 31, 2019, the balance of Ulster County Capital Resource Corporation Series 2010A Tax Exempt Multi-Mode Revenue Bonds (“Series 2010A Revenue Bonds”) related to the refinancing of previous bonds and the establishment of a Project Fund bearing an interest rate of 4.40% maturing February 1, 2020 was outstanding.

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. As of December 31, 2019 and 2018, Broadway did not meet certain of its required financial covenants, which is an event of default under the Master Trust Indenture. Accordingly, the entire Series 2010 Revenue bonds are classified as a current liability at December 31, 2019 and 2018.

Interest expense for all HealthAlliance debt was approximately \$1.2 million and \$900,000 in 2019 and 2018, respectively.

(h) WCHCC has entered into certain capital lease agreements that are collateralized by the underlying assets and bear interest at rates between 2.49% and 6.28%. The interest expense under these leases was approximately \$2.3 million and \$1.1 million in 2019 and 2018, 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 Bond series. During the years ended December 31, 2019 and 2018, WCHCC met the required Long-Term Debt Service Coverage Ratio.

Future Principal and Interest Payments

The following is a schedule by year of future contractual principal and interest (based on interest rates at December 31, 2019) payments on the bonds and other long-term debt at December 31, 2019 (amounts in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 17,913	\$ 32,435	\$ 50,348
2021	16,833	31,510	48,343
2022	33,858	30,824	64,682
2023	18,225	29,742	47,967
2024	18,620	28,978	47,598
2025-2029	102,612	131,167	233,779
2030-2034	126,151	105,033	231,184
2035-2039	132,956	81,257	214,213
2040-2044	139,688	37,355	177,043
2045-2046	62,770	4,746	67,516
	<u>\$ 669,626</u>	<u>\$ 513,047</u>	<u>\$ 1,182,673</u>

Included in deferred outflows of resources as of December 31, 2019 and 2018 are \$8,604 and \$9,085 deferred outflows related to the early redemption of the 2010B and 2010C bond issuances.

Westchester County Health Care Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

The future minimum lease payments under the capital lease obligations, together with the present value of the minimum lease payments at December 31, 2019 are as follows (amounts in thousands):

	Amount
2020	\$ 13,813
2021	13,357
2022	12,082
2023	9,315
2024	5,352
2025-2029	711
	54,630
Less: amount representing interest	6,300
	48,330
Present value of net minimum lease payments	
Less: current portion	11,371
	\$ 36,959

NOTE 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.

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 NYS 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 NYS fiscal years ended March 31, 2019 and 2018 were approximately 14.9% and 15.3%, 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

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

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 \$9.5 million and \$4.0 million for the years ended December 31, 2019 and 2018, respectively, 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 reflect ERS' published financial statements and actuarial valuations as of March 31, 2018 and 2017 (the "Measurement Dates").

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, 2019 and 2018, are as follows (amounts in thousands):

	2019	2018
Proportionate share of the net pension liability		
Amount	\$ 63,349	\$ 29,752
Percentage	0.89%	0.922%
Deferred outflows of resources	31,409	76,700
Deferred inflows of resources	22,804	95,123
Net pension expense		
Salaries and benefits - NYS pension expenses	\$ 32,113	\$ 32,115
NYS pension adjustment	9,466	4,055
Total net pension expense	\$ 41,579	\$ 36,170

WCHCC's proportionate share of ERS' 2019 and 2018 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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

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

	2019	2018
Deferred outflows of resources		
Differences between expected and actual experience	\$ 12,475	\$ 10,612
Changes of assumptions	15,923	19,728
Net difference between projected and actual investment earnings on pension plan investments	-	43,212
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,011	3,148
	\$ 31,409	\$ 76,700
Deferred inflows of resources		
Differences between expected and actual experience	\$ 4,252	\$ 8,769
Net difference between projected and actual investment earnings on pension plan investments	16,259	85,297
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,573	1,057
	\$ 22,084	\$ 95,123

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):

	2019
2020	\$ 13,698
2021	(12,081)
2022	(669)
2023	8,377
	\$ 9,325

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

Actuarial Assumptions

WCHCC's net pension liabilities at the Measurement Dates were determined by using an actuarial valuation as of April 1, 2018 and 2017, with update procedures used to roll forward the total pension liability to March 31, 2019 and 2018, respectively. The actuarial valuations used the following actuarial assumptions:

Inflation rate	2.50%
Salary increases	4.20%
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:

Asset class	2019		2018	
	Target allocation	Long-term expected real rate of return	Target allocation	Long-term expected real rate of return
Domestic equity	36%	4.55%	36%	4.55%
International equity	14%	6.35%	14%	6.35%
Private equity	10%	7.50%	10%	7.50%
Real estate	10%	5.55%	10%	5.55%
Absolute return strategies	2%	3.75%	2%	3.75%
Opportunistic portfolio	3%	5.68%	3%	5.68%
Real assets	3%	5.29%	3%	5.29%
Bonds and mortgages	17%	1.31%	17%	1.31%
Cash	1%	-0.25%	1%	-0.25%
Inflation-Indexed Bonds	4%	1.25%	4%	1.25%
	100%		100%	

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

Discount Rate

The discount rate used to calculate the total pension liability at March 31, 2019 and 2018 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 determined. Based upon those assumptions, ERS' 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, 2019 and 2018 are as follows (amounts in thousands):

	2019		2018	
	Rate	Amount	Rate	Amount
1% decrease	6.00%	\$ 276,969	6.00%	\$ 225,111
Current discount rate	7.00%	63,348	7.00%	29,752
1% increase	8.00%	(116,108)	8.00%	(135,514)

Deferred Pension Contributions

NYSRSSL Chapter 57 of the Laws of 2010 authorized the NYS and local employers to amortize over ten years, at 3.21% (2016), 3.15% (2015), 3.67% (2014), 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, 2019 and 2018 related to these deferred pension contributions are approximately \$26.2 million and \$31.4 million, respectively, and are included as part of other long-term liabilities (Note 10) in the accompanying Statements of Net Position.

Defined Contribution Pension Plan

WCHCC provides the WMCHHealth Network Affiliated Employers 401(k) Plan (the "WMCHHealth Network 401(k) Plan") for employees of WMC Advanced Physician Services, NorthEast Provider, WMC New York, and employees of MidHudson Valley Staffco LLC. WMCHHealth Network 401(k) Plan is a defined contribution plan open to eligible participants. Employees are eligible to contribute to the WMCHHealth Network 401(k) Plan upon hire and vest immediately. Eligible employees will receive employer contributions of 4% of gross salary matching contribution up to the Internal Revenue Code limit. As of December 31, 2019 and 2018, there were approximately 3,703 and 3,239 participants, respectively, in the WMCHHealth Network 401(k) Plan. For the years ended December 31, 2019 and 2018, the WMCHHealth Network 401(k) Plan had total payroll expense of approximately \$332.5 million and \$287.9 million of which approximately \$268.3 million and \$231.3 million, respectively, was covered by the WMCHHealth Network 401(k) Plan. Total employer contributions to the WMCHHealth Network 401(k) Plan for December 31, 2019 and 2018 were approximately \$7.7 million and \$6.3 million, respectively.

HealthAlliance also sponsors various defined contribution retirement plans for eligible participants. Total employer contributions for HealthAlliance were approximately \$1.5 million and \$1.4 million for the years ended December 31, 2019 and 2018, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

NOTE 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 certain 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, 2019 and 2018.

The following employees were covered by the benefit terms at the measurement date as of January 1, 2019 and 2018:

	2019	2018
Retired employees	\$ 1,759	\$ 1,784
Active employees	5,137	5,206
	\$ 6,896	\$ 6,990

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, 2019 and 2018 and reported actuarial accrued liabilities of \$331.8 million and \$333.7 million, respectively, which are funded on a current basis.

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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Total OPEB Liability

WCHCC's total OPEB liabilities at the measurement date were determined by using an actuarial valuation as of January 1, 2019 and 2018. The actuarial valuations used the following actuarial assumptions:

Inflation rate	3.00% annually
Salary increases	3.00% annually
Discount rate	4.10% per annum (2019); 3.44% per annum (2018)
Healthcare cost trend rates	Pre-Medicare: 7.04% grading down to 3.85% over 16 years Medicare: 5.78% grading down to 4.18% over 16 years
Mortality improvement	NYSNA and CSEA: SOA RPH-2014 Adjusted to 2006 Blue Collar Headcount-weighted Mortality (adjusted (1.15)) with MP 2016 improvement scale adjusted NonRep: SOA RPH-2014 Adjusted to 2006 total Dataset Headcount-weighted Mortality (adjusted (1.15)) with MP 2016 improvement scale adjusted

The following table shows the components of WCHCC's annual OPEB cost for the years ended December 31, 2019 and 2018, the amount actually contributed to the plan, and changes in WCHCC's net OPEB obligation (amounts in thousands).

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 333,675	\$ 331,855
Changes for the year:		
Service cost	5,099	4,952
Interest cost	11,415	12,447
Changes of benefits	1,242	-
Differences between expected and actual experience	(235)	(4,734)
Changes in assumptions	<u>(5,392)</u>	<u>4,372</u>
Benefit payments	<u>12,129</u> <u>(14,053)</u>	<u>17,037</u> <u>(15,217)</u>
Net changes	<u>(1,924)</u>	<u>1,820</u>
Ending balance	<u>\$ 331,751</u>	<u>\$ 333,675</u>

Discount Rate

The discount rate used to calculate the total post-retirement liability was 4.10% and 3.44% for the years ended December 31, 2019 and 2018, respectively. The discount rate was based upon the 20-year high-quality municipal bond index at the measurement dates.

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

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, 2019 and 2018 are as follows (amounts in thousands):

	2019		2018	
	Rate	Amount	Rate	Amount
1% decrease	3.10%	\$ 369,658	2.44%	\$ 379,022
Current discount rate	4.10%	331,751	3.44%	333,675
1% increase	5.10%	289,557	4.44%	296,171

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, 2019 and 2018 are as follows (amounts in thousands):

	2019		2018	
	Rate	Amount	Rate	Amount
1% decrease	1.00%	\$ 283,841	1.00%	\$ 292,326
Healthcare cost trend rate	0.00%	331,751	0.00%	333,675
1% increase	1.00%	373,182	1.00%	384,438

OPEB Expense and Deferred Inflows of Resources

For the years ended December 31, 2019 and 2018, WCHCC recognized OPEB expense, including related changes in deferred inflows and outflows, of approximately \$15.9 million and \$17.0 million, respectively. The components of post-retirement related deferred outflows of resources and deferred inflows of resources at the measurement dates are as follows (amounts in thousands):

	2019	2018
Deferred outflows of resources		
Changes in assumptions	\$ 2,497	\$ 3,903
Contributions subsequent to measurement date	15,896	14,053
	<u>\$ 18,393</u>	<u>\$ 17,956</u>
Deferred inflows of resources		
Differences between expected and actual experience	\$ 2,542	\$ 3,550
Changes in assumptions	4,044	653
	<u>\$ 6,586</u>	<u>\$ 4,203</u>

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

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):

2020	\$	(1,496)
2021		(1,406)
		(2,902)
	\$	(2,902)

HealthAlliance also sponsors frozen unfunded OPEB plans for certain employees. The liability for these plans was \$1,870 and \$2,005 as of December 31, 2019 and 2018, respectively.

NOTE 9 - SELF-INSURANCE LIABILITY

The following is the activity of the self-insurance liability for the years ended December 31, 2019 and 2018 (amounts in thousands):

	<u>December 31, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2019</u>	<u>Amounts due within one year</u>
Workers' compensation self-insurance ^(a)	\$ 25,082	\$ 3,580	\$ (4,042)	\$ 24,620	\$ 4,500
Malpractice self-insurance ^(b)	80,958	12,408	(10,175)	83,191	9,998
Health insurance ^(c)	7,491	119,884	(119,321)	8,054	8,054
Other self-insurance ^(d)	3,047	3,065	(922)	5,190	1,880
	<u>\$ 116,578</u>	<u>\$ 138,937</u>	<u>\$ (134,460)</u>	<u>\$ 121,055</u>	<u>\$ 24,432</u>
	<u>December 31, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2018</u>	<u>Amounts due within one year</u>
Workers' compensation self-insurance ^(a)	\$ 20,353	\$ 11,918	\$ (7,189)	\$ 25,082	\$ 4,500
Malpractice self-insurance ^(b)	85,889	8,876	(13,807)	80,958	6,980
Health insurance ^(c)	4,985	109,459	(106,953)	7,491	7,491
Other self-insurance ^(d)	1,925	1,997	(875)	3,047	897
	<u>\$ 113,152</u>	<u>\$ 132,250</u>	<u>\$ (128,824)</u>	<u>\$ 116,578</u>	<u>\$ 19,868</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.

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

The following represents information as it relates to the Medical Center's workers' compensation self-insurance plan as of December 31, 2019 and 2018 (amounts in thousands):

	2019		2018
Gross self-insurance liability	\$ 21,981	\$	22,502
Present value of self-insurance liability	21,304		21,837
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.

The following represents information as it relates to Mid-Hudson Valley Staffco's workers' compensation self-insurance plan as of December 31, 2019 and 2018 (amounts in thousands):

	2019		2018
Gross self-insurance liability	\$ 2,713	\$	2,655
Present value of self-insurance liability	3,316		3,245
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 employed physicians' professional liability ("PPL"). Employed physicians not insured by WCHCC Bermuda maintain malpractice insurance coverage through commercial insurance carriers.

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, 2019 and 2018.

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, 2019 and 2018, WCHCC Bermuda was required to maintain a minimum statutory capital and surplus (net position) of approximately \$8.1 million and \$8.0 million, respectively. As of December 31, 2019 and 2018, actual statutory capital and surplus (net position), which is included as part of net position - unrestricted on the Statements of Net Position, was approximately \$101.6 million and \$87.8 million, respectively.

HPL coverage is provided on an occurrence basis with a self-insured retention ("SIR") of \$12.0 million in 2019 and 2018, for each and every claim with no aggregate limit. Excess commercial liability insurance policies attach above the SIR.

HealthAlliance purchases primary medical malpractice insurance coverage through a commercial carrier. Effective January 1, 2017, Kingston began operations serving as an off-shore captive insurance company for HealthAlliance. Operations of the captive for 2019 and 2018 were not deemed significant.

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

Excess commercial insurance policies attach above the captive self-insured retention. 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, 2019 and 2018 and, as such, liabilities have 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 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.

During 2018, a mutual malpractice insurance plan that HealthAlliance held a policy with was sold. In connection with the sale, HealthAlliance received proceeds of approximately \$8.7 million, which is reflected as gain on sale of investment in insurance company included in nonoperating activities in the 2018 Statement of Revenues, Expenses and Changes in Net Position.

NOTE 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, 2019 and 2018 (amounts in thousands):

	December 31, 2018	Additions	Reductions	December 31, 2019	Amounts due within one year
Self-insurance liabilities (Note 9)	\$ 116,578	\$ 138,937	\$ (134,460)	\$ 121,055	\$ 22,432
Third-party liabilities, net (Note 14)	56,884	51,912	(43,014)	65,782	35,554
Post-retirement health insurance (Note 8)	335,680	17,756	(19,815)	333,621	-
Net pension liability (Note 7)	29,752	69,327	(35,730)	63,349	-
Other liabilities	35,839	491,920	(403,401)	124,358	57,982
Deferred pension contributions (Note 7)	31,359	-	(5,190)	26,169	5,365
Total other long-term liabilities	\$ 606,092	\$ 769,852	\$ (641,610)	\$ 734,334	\$ 123,333

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

	December 31, 2017	Additions	Reductions	December 31, 2018	Amounts due within one year
Self-insurance liabilities (Note 9)	\$ 113,152	\$ 132,250	\$ (128,824)	\$ 116,578	\$ 19,868
Third-party liabilities, net (Note 14)	36,618	36,135	(15,869)	56,884	28,220
Post-retirement health insurance (Note 8)	334,009	21,771	(20,100)	335,680	-
Net pension liability (Note 7)	80,974	-	(51,222)	29,752	-
Other liabilities	19,265	211,405	(194,831)	35,839	27,983
Deferred pension contributions (Note 7)	36,381	-	(5,022)	31,359	5,190
Total other long-term liabilities	\$ 620,399	\$ 401,561	\$ (415,868)	\$ 606,092	\$ 81,261

NOTE 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, 2019 and 2018, the College was paid approximately \$14.7 million and \$15.6 million, respectively, which is included in supplies and other expenses in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. The affiliation agreement terminates in 2029, and automatically renews for an additional twelve year term.

NOTE 12 - OPERATING LEASES

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

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, 2019 that have initial or remaining lease terms in excess of one year (amounts in thousands):

	Rent expense	Rent income
2020	\$ 14,923	\$ 1,727
2021	12,404	1,428
2022	10,227	1,428
2023	7,253	1,099
2024	7,017	1,024
Thereafter	136,953	4,687

Total rental expense in 2019 and 2018 for all operating leases was approximately \$20.7 million and \$19.2 million, respectively. Total rental income in 2019 and 2018 for all operating leases was approximately \$3.1 million and \$3.3 million, respectively.

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

NOTE 13 - WESTCHESTER COUNTY RELATIONSHIP

In 1997, the State of New York 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 agreement. Subsequently, an Amended and Restated Lease Agreement (the "Lease") was consummated. The Lease is a 60 year (term ends 2058) real property lease for land and facilities with an option for extension.

During 2019 and 2018, WCHCC purchased services from the County of approximately \$8.4 million and \$9.1 million, respectively, which are included in supplies and other expenses in the accompanying Statements of Revenues, Expenses, and Changes in Net Position.

NOTE 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, 2019 and 2018 were approximately \$65.8 million and \$56.9 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").

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. WCHCC is eligible to receive certain Disproportionate Share ("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.

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.

NYS 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, 2019 and 2018, WCHCC received distributions of approximately \$50.4 million and \$30.9 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.

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

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 NYS 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.

WCHCC receives payments related to Medicaid services, including 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, 2019 and 2018 and, therefore, have only been recognized as revenue when uncertainties over these amounts are mitigated.

Revenue from the Medicare and Medicaid (including DSH) programs accounted for approximately 26% and 25% (7% DSH), and 27% and 25% (8% DSH), respectively, of WCHCC's net patient service revenue for the years ended December 31, 2019 and 2018. 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:

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, 2019 and 2018 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

Westchester County Health Care Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

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.

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 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.

Delivery System Reform Incentive Program

WCHCC is leading one of the Performing Provider Systems ("PPS") in New York State that has implemented the Delivery System Reform Incentive Program ("DSRIP"). WCHCC recorded approximately \$38.7 million and \$48.4 million, for the years ended December 31, 2019 and 2018, respectively, under 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.

The DSRIP program is scheduled to terminate on March 31, 2020.

Westchester County Health Care Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

NOTE 15 - LINE OF CREDIT

WCHCC has a working capital revolving line of credit from a financial institution. The funds available for the line of credit are in the amount of \$70.0 million and \$35.0 million at December 2019 and 2018, respectively. The line of credit extends through October 24, 2020 and may be renewed. Any outstanding balance may be converted to a three-year term loan. There was no outstanding line of credit balance as of December 31, 2019 and 2018.

NOTE 16 - 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.

At December 31, 2019 and 2018, Charity had bonds outstanding of \$122.3 million related to the 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 BSMH.

On January 19, 2018, Charity obtained a \$20.0 million line of credit for general corporate purposes from a financial institution. The line of credit extends through January 15, 2021. Charity did not draw on the line of credit during the years ended December 31, 2019 and 2018. WCHCC guarantees the debt service on the Charity line of credit.

During the years ended December 31, 2019 and 2018, Charity incurred approximately \$24.4 million and \$23.5 million of expenses to WCHCC, respectively, for services provided under a management service agreement and for other contracted services.

NOTE 17 - SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Management is closely monitoring the financial implications that may impact WCHCC. Due to the many uncertainties associated with the disease, management has been unable to determine the financial impact.

REQUIRED SUPPLEMENTARY INFORMATION

Westchester County Health Care Corporation

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**December 31, 2019 and 2018
(amounts in thousands)**

Schedule of Proportionate Share of the Net Pension Liability*

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
	%	\$			
2019 (2019)	0.890%	\$ 63,348	\$ 285,948	22.15%	96.27%
2018 (2018)	0.922%	\$ 29,752	\$ 285,990	10.40%	98.24%
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
2019	\$ 35,730	\$ 35,730	\$ -	\$ 285,948	12.50%
2018	\$ 36,422	\$ 36,422	\$ -	\$ 285,990	12.74%
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 (OPEB)**

**December 31, 2019 and 2018
(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)
01/01/19	\$ -	\$ 331,751	\$ 331,751	0.0%	\$ 227,408	145.8%
01/01/18	\$ -	\$ 333,675	\$ 333,675	0.0%	\$ 219,100	152.3%
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, 2019 and 2018
(amounts in thousands)**

	2019	2018	2017	2016
Total OPEB Liability				
Service cost	\$ 5,099	\$ 4,952	\$ 4,940	\$ 4,705
Interest	11,415	12,447	11,647	11,598
Change of benefit terms	1,242	-	-	-
Differences between expected and actual experience	(235)	(4,734)	-	-
Changes in assumptions	(5,392)	4,372	1,250	(2,615)
	12,129	17,037	17,837	13,688
Benefit payments	(14,053)	(15,217)	(14,446)	(12,480)
	(1,924)	1,820	3,391	1,208
Net change in total OPEB liability				
Total OPEB liability - beginning	333,675	331,855	328,464	327,256
Total OPEB liability - ending	\$ 331,751	\$ 333,675	\$ 331,855	\$ 328,464
Covered payroll	\$ 227,408	\$ 219,100	\$ 210,755	\$ 199,375
Total OPEB liability as a percentage of covered-employee payroll	145.88%	152.59%	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:

2019	4.10%
2018	3.44%
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.