KPMG

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

(A Component Unit of The City of New York)

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors’ Reports Thereon)

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)

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KPMG LLP
345 Park Avenue
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Independent Auditors' Report

The Board of Directors
New York City Health and Hospitals Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of New York City Health and Hospitals Corporation (the Corporation), a component unit of The City of New York, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of MetroPlus Health Plan, Inc., a discretely presented component unit, and HHC Insurance Company, Inc., a blended component unit, were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of New York City Health and Hospitals Corporation as of June 30, 2014 and 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note 1 to the financial statements, in 2014, the Corporation adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 14 and the Schedule of the Corporation's Contributions and the Schedule of the Corporation's Proportionate Share of the Net Pension Liability on pages 59 and 60, respectively, be presented to supplement the basic financial statements. Such information, although not a 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 an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2014 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

KPMG LLP

October 29, 2014

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)

Management's Discussion and Analysis (Unaudited)

June 30, 2014 and 2013

Financial Analysis

Summary of Assets, Liabilities, and Net Position

June 30, 2014, 2013, and 2012

(In thousands)

		2014 Business-type Activities – HHC	2013 Business-type Activities – HHC (As adjusted)	2012 Business-type Activities – HHC (As adjusted)
Assets:				
Current assets	$	2,655,164	2,420,374	2,132,378
Capital assets, net		3,506,375	3,366,456	3,003,356
Other assets		131,927	169,524	248,484
Total assets		6,293,466	5,956,354	5,384,218
Deferred outflows:				
Unamortized refunding cost		18,240	22,437	20,493
Liabilities:				
Current liabilities		3,058,724	2,663,946	1,839,216
Long-term debt, net of current installments		941,289	1,003,650	1,046,018
Pension, net of current portion		2,045,366	2,734,690	2,999,478
Postemployment benefits obligation, other than pension, net of current portion		4,667,962	4,574,865	4,382,843
Total liabilities		10,713,341	10,977,151	10,267,555
Deferred inflows:				
Net differences between projected and actual earnings on pension plan investments		708,343	218,450	—
Net position:				
Net investment in capital assets		2,550,656	2,393,938	2,052,614
Restricted		150,112	146,786	169,771
Unrestricted		(7,810,746)	(7,757,534)	(7,106,212)
Total net deficit position	$	(5,109,978)	(5,216,810)	(4,883,827)

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)

Management's Discussion and Analysis (Unaudited)

June 30, 2014 and 2013

Financial Analysis

Summary of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014, 2013, and 2012

(In thousands)

		2014 Business-type Activities – HHC	**2013 Business-type Activities – HHC (As adjusted)**	**2012 Business-type Activities – HHC (As adjusted)**
Operating revenues:				
Net patient service revenue	$	5,653,009	5,233,985	5,615,776
Appropriations from (remittances to) City of New York, net		399,165	(583)	(9,140)
Grants revenue		285,763	566,019	249,252
Other revenue		51,110	45,915	71,239
Total operating revenues		6,389,047	5,845,336	5,927,127
Operating expenses:				
Personal services, fringes benefits, and employer payroll taxes		3,305,159	3,160,507	3,502,717
Other than personal services		1,527,445	1,443,697	1,410,017
Pension		224,500	370,370	3,426,889
Postemployment benefits, other than pension		198,991	293,745	299,850
Affiliation contracted services		922,773	915,581	884,436
Depreciation		302,859	282,345	259,045
Total operating expenses		6,481,727	6,466,245	9,782,954
Operating loss		(92,680)	(620,909)	(3,855,827)
Nonoperating expenses, net		(114,392)	(107,252)	(85,969)
Loss before other changes in net position		(207,072)	(728,161)	(3,941,796)
Other changes in net position:				
Capital contributions		313,904	395,178	174,977
Increase (decrease) in net position		106,832	(332,983)	(3,766,819)
Net position at beginning of year		(5,216,810)	(4,883,827)	(1,117,008)
Net position at end of year	$	(5,109,978)	(5,216,810)	(4,883,827)

This section of New York City Health and Hospitals Corporation's (the Corporation) annual financial report presents management's discussion and analysis of the financial performance during the years ended June 30, 2014 and 2013. The purpose is to provide an objective analysis of the financial activities of the Corporation based on currently known facts, decisions, and conditions. Please read it in conjunction with the financial statements, which follow this section.

The financial statements of MetroPlus Health Plan, Inc. (MetroPlus), a component unit of the Corporation, are presented discretely from the Corporation; however, the MD&A focuses primarily on the Corporation.

Overview of the Financial Statements

This annual report consists of two parts – management's discussion and analysis and the basic financial statements.

The basic financial statements include statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to financial statements. These statements present, on a comparative basis, the financial position of the Corporation for the fiscal year at June 30, 2014 and 2013, and the changes in net position and its financial activities for each of the years then ended. The statements of net position include all of the Corporation's assets and liabilities in accordance with U.S. generally accepted accounting principles. The statements of revenues, expenses, and changes in net position present each year's activities on the accrual basis of accounting, that is, when services are provided or obligations are incurred, not when cash is received or bills are paid. The financial statements also report the Corporation's net position and how they have changed. Net position, or the difference between assets and liabilities, deferred inflows and deferred outflows, is a way to measure the Corporation's financial health or position. The statements of cash flows provide relevant information about each year's cash receipts and cash payments and classify them as to operating, noncapital financing, capital and related financing, and investing activities. Notes to financial statements explain information in the statements and provide more detailed data.

Overall Financial Position and Operations

The Corporation's total net deficit position decreased by $106.8 million from June 30, 2013 to June 30, 2014; it had increased by $333.0 million from June 30, 2012 to June 30, 2013. Net investment in capital assets increased by $156.7 million and $341.3 million in 2014 and 2013, respectively, as the Corporation continued to upgrade its facilities and pay down debt. The Corporation's unrestricted net deficit position increased to $7.824 billion at June 30, 2014 from $7.760 billion at June 30, 2013. The Corporation incurred an operating loss of $103.0 million in 2014 compared with $623.4 million in 2013. The Corporation's net deficit position benefited from $303.0 million and $391.8 million in capital contributions from The City of New York (The City) in 2014 and 2013, respectively.

Significant financial ratios are as follows:

	2014	**2013**	**2012**
Current ratio	0.87	0.91	1.16
Quick ratio	0.34	0.42	0.64
Days cash on hand	19.50	21.41	30.28
Net days revenue in patient receivables	71.91	81.28	66.11

The current ratio, quick ratio, and days cash on hand are common liquidity indicators. The net days revenue in patient receivables is an indicator of how quickly the Corporation collects its patient receivables.

Super Storm Sandy

The Corporation underwent a major effort to prepare for Super Storm Sandy (the Super Storm). Each of the HHC hospitals and the Corporation staffed and maintained command centers throughout the period beginning Friday, October 26, 2012, 3 days prior to the Super Storm, and maintained these centers until after the subsequent nor'easter. During the Super Storm, patients were evacuated from Coney Island Hospital (Coney Island) and Bellevue Hospital (Bellevue). Medically fragile residents at the Coler campus of the Coler-Goldwater Specialty Hospital and Nursing Facility (Coler) were moved to the Goldwater campus. Several facilities were forced to rely on generators for power and steam.

Bellevue, Coney Island, and Coler experienced major storm surge damage in basement, mechanical spaces and, in the case of Coney Island, first floor areas resulting in catastrophic failure of electric, heat, domestic cold and hot water, ventilation, information technology (IT), and communication systems. In addition, electrical distribution systems, electrical switches, network IT switches, oxygen and other medical gas distribution systems, medical vacuum systems, fuel pumps, steam pipe ejector pumps, domestic water pumps, circulatory heating pumps, air handling units, medical and surgical supplies, equipment, motors, life safety systems, vehicles, and emergency generators were severely damaged or destroyed. Furthermore, other essential systems were disabled including nearly 40 elevators. Ida Israel, an offsite clinic of Coney Island Hospital, had its building flooded and appears to be irrecoverable.

Bellevue's basement housed the electrical, mechanical, medical gases, domestic water, pumps, and elevators in addition to serving as a major facility and supporting critical services such as labs and mortuary. Accordingly, when the basement was flooded in excess of 10 feet of water, all of these systems failed requiring evacuation. In addition, valuable contents were destroyed.

Flood waters washed through the entire first floor of Coney Island Hospital, requiring the removal of saturated sheetrock around the entire perimeter of the first floor and destroying a great deal of equipment, which shut down the emergency department, imaging, pediatrics, and laboratory services. Moreover, Coney Island lost their electrical capacity, which resulted in disabling the rest of the hospital.

Limited critical care services were opened at Bellevue in the middle of December and at Coney Island in the beginning of January. Coney Island began to accept new inpatients through the community in the middle of January. Bellevue was fully reopened in February 2013, while Coney Island was mostly reopened by July 2013.

(Continued)

Metropolitan Hospital's main building experienced basement flooding and the basement of Draper Hall, an administrative services building, was submerged, destroying the electrical and other systems that supported that building. Additionally, Harlem Hospital had roof damage, Queens Hospital had broken glass in its atrium and damage to revolving doors, Roberto Clemente, an offsite clinic of Gouverneur, sustained flood damage, and Neponsit, a building which is used by Elmhurst Hospital was severely damaged as well. Jacobi Medical Center also had downed trees, façade damage, and roadway debris, while North Central Bronx Hospital sustained blown out windows and damage to the doors. Also, a rental facility in the Rockaways, which housed the Neponsit Adult Day Care program was destroyed including contents. Central Office divisions, MetroPlus, and Home Care offices were displaced and required temporary housing for an extended period.

Immediately following the storm, New York City appropriated $300 million, which was later increased to $710 million to ensure that the Corporation would have the cash flow needed as it processes its application for public assistance through the Federal Emergency Management Agency (FEMA). The New York City appropriations of $300 million has not been recognized as revenue by the Corporation and these appropriations are not considered "Appropriations from The City of New York" as reported in these financial statements. In addition, New York City allocated $183 million in Community Development Block Grant funds to support operational expenses not covered by FEMA.

FEMA public assistance is expected to cover the costs to repair or replace facilities to pre-storm conditions and to make improvements to meet codes and standards. The FEMA 406 mitigation program will further fund mitigation measures that would prevent further damage if those measures are proven to be cost effective. FEMA has obligated funds of $142 million, of which $62 million in cash was advanced to the Corporation as of June 30, 2013. The FEMA application process is ongoing and is extremely detailed and time consuming.

Variances in Financial Statements

In this section, the Corporation explains the reasons for certain financial statement items with variances relating to 2014 amounts compared to 2013 and, where appropriate, 2013 amounts compared to 2012.

As discussed in note 1 to the financial statements, in 2014, the Corporation adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Statements of Net Position

Cash and cash equivalents – Decreased $17.4 million from June 30, 2013 to June 30, 2014 to maintain vendor payables at reasonable levels. Cash and cash equivalents decreased $134.9 million from June 30, 2012 to June 30, 2013 due to reduced cash receipts from temporary hospital closures due to Super Storm Sandy and decreased patient volume.

Patient accounts receivable, net – Decreased $67.4 million from 2013 to 2014 due to increased collection efforts. Patient accounts receivable, net increased $80.9 million from 2012 to 2013 due to an increase in the MetroPlus risk pool receivable of $104.2 million.

Estimated third-party payor settlements, receivable – Increased $539.4 million from June 30, 2013 to June 30, 2014 due to the delay of $539.4 million of State Fiscal Year Upper Payment Limit (UPL) payments. Estimated third-party payor settlements, net increased $266.0 million from 2012 to 2013 due to the timing of receipt of $434.2 million of State Fiscal Year 2012 inpatient UPL during 2012 and no cash received during 2013.

Grants receivable – Decreased $222.9 million from June 30, 2013 to June 30, 2014 primarily due to the receipt of Community Development Block Grant (CDBG) grant funds of $183 million that were recorded as a receivable in the prior year and $20.0 million in Interim Access Assurance Fund (IAAF) funds received during 2014 for 2015. Grants receivable increased $193.0 million from 2012 to 2013 due to an accrual of $194.4 million in FEMA and CDBG revenues related to expenses incurred in the restoration of facilities after Super Storm Sandy.

Assets restricted as to use – Decreased $28.0 million from June 30, 2013 to June 30, 2014 due to use of the Construction Fund for various capital projects. Assets restricted as to use decreased $106.5 million from June 30, 2012 to June 30, 2013 as $83.5 million of the Construction Fund was used for capital projects and the capital reserve fund decreased as a result of the 2013 bond refunding.

Other current assets – Decreased $7.2 million from June 30, 2013 to June 30, 2014 primarily due to a decrease in the amounts owed under affiliation agreements in the amount of $11 million. Other current assets decreased $74.2 million from June 30, 2012 to June 30, 2013, as HHC received FICA refunds due to medical residents during 2013.

Capital assets, net – Increased $139.9 million from 2013 to 2014 and $363.1 million from 2012 to 2013. This was due to major modernization projects at Harlem Hospital Center and Gouverneur Healthcare Services, as well as construction on the Henry J. Carter Center property (note 7(h) to the financial statements).

Accrued salaries, fringe benefits, and payroll taxes – Increased $104.8 million from June 30, 2013 to June 30, 2014 due to an accrual of collective bargaining settlements. Accrued salaries, fringe benefits, and payroll taxes were consistent from June 30, 2012 to June 30, 2013, with the prior year.

Accounts payable and accrued expenses – Increased $23.4 million from June 30, 2013 to June 30, 2014 primarily due to increases in vendors payable due to cash flow. Accounts payable and accrued expenses increased $41.5 million from June 30, 2012 to June 30, 2013 due to the increase in accrued expenses related to Super Storm Sandy.

Estimated third-party payor settlement, payable – Decreased by $40.2 million due to a re-estimation of third party anticipated take backs for Medicaid and Medicare rate changes.

Estimated pools receivable (payable), net – Estimated pools payable, net, increased $414.7 million and remained a payable from June 30, 2013 to June 30, 2014 primarily due to the receipt of State Fiscal Years' 2015 Disproportionate Share Hospital (DSH), DSH Max, and Supplemental SLIPA allocations. Estimated pools receivable, net, decreased $529.7 million and changed from a receivable to a payable from June 30, 2012 to June 30, 2013 primarily due to the receipt of State Fiscal Years' 2014 DSH and DSH Max and the remainder of the State Fiscal Year 2013 receivable.

Due to City of New York – Decreased $103.7 million from June 30, 2013 to June 30, 2014 as The City agreed to fund collective bargaining settlements in the amount of $114.0 million. Due to The City increased $264.9 million from June 30, 2012 to June 30, 2013 due to a delay of payments. (note 8 to the financial statement)

Long-term debt – Decreased $52.3 million from June 30, 2013 to June 30, 2014 due to scheduled principal payments during fiscal year 2014 (note 7 to the financial statements). Long-term debt decreased $61.8 million from June 30, 2012 to June 30, 2013 primarily due to scheduled principal payments during fiscal year 2013.

Pension (current and long-term) – Decreased $691.7 million as the Corporation recognized its annual pension costs and payments towards its liability as determined by the New York City Office of the Actuary (note 9 to the financial statements).

Postemployment benefits obligation, other than pension – Increased $98.0 million from June 30, 2013 to June 30, 2014 and increased $196.7 million from June 30, 2012 to June 30, 2013 as the Corporation recognized its annual OPEB costs as determined by the New York City Office of the Actuary (note 10 to the financial statements).

Other current liabilities – Decreased $16.8 million June 30, 2013 to June 30, 2014 and decreased $14.2 million from June 30, 2012 to June 30, 2013 for FICA refunds paid to medical residents due to FICA refunds paid to medical residents.

Changes in Components of Net Position

Net investment in capital assets – Increased $156.7 million from June 30, 2013 to June 30, 2014 as capital assets, net, increased by $139.9 million, related assets restricted as to use decreased by $31.3 million, and related debt and deferred outflows decreased by $16.8 million. Invested in capital assets, net of related debt increased $341.3 million from June 30, 2012 to June 30, 2013 as capital assets, net, increased by $363.1 million, related assets restricted as to use decreased by $83.5 million, and related debt and deferred outflows decreased by $61.8 million.

Restricted – Increased $3.3 million from June 30, 2013 to June 30, 2014 due to a $2.7 million increase in the revenue fund under bond resolution. Restricted net assets decreased $23.0 million from June 30, 2012 to June 30, 2013 as a result of a current refunding of debt during 2013.

Unrestricted – Net position activities, other than those mentioned above, resulted in decreases of $53.2 million and $653.8 million for years 2014 and 2013, respectively. Please see the statements of revenues, expenses, and changes in net position.

Capital Assets, Net and Long-Term Debt Activity

Capital Assets, Net

At June 30, 2014, the Corporation had capital assets, net of accumulated depreciation, of $3.506 billion compared to $3.366 billion at June 30, 2013 and $3.003 billion at June 30, 2012, representing an increase of 4.2% from 2013 to 2014 and 12.1% from 2012 to 2013, as shown in the table below (in thousands of dollars):

		2014	2013	2012
Land and land improvements	$	29,187	28,460	24,160
Buildings and leasehold improvements		2,369,694	2,021,122	1,601,186
Equipment		867,101	699,942	703,728
Construction in progress		240,393	616,932	674,282
Total	$	3,506,375	3,366,456	3,003,356

2014's major capital asset additions included:

- Construction continued on the major modernization of Gouverneur Healthcare Services, with additional spending of approximately $41.8 million in 2014
- Construction continued on the major modernization of Harlem Hospital Center, with additional spending of approximately $12.5 million in 2014
- Construction continued on the major modernization of Henry J. Carter Center, with additional spending of approximately $82.2 million in 2014
- Developing the electronic medical record system with spending of approximately $22 million in 2014.

2013's major capital asset additions included:

- Construction continued on the major modernization of Gouverneur Healthcare Services, with additional spending of approximately $45.7 million in 2013
- Construction continued on the major modernization of Harlem Hospital Center, with additional spending of approximately $44.1 million in 2013
- Construction continued on the major modernization of Henry J. Carter Center, with additional spending of approximately $143.0 million in 2013
- Restoration and reconstruction as a result of damage sustained from the storm at Bellevue Hospital Center, Coney Island Hospital, and Coler-Goldwater Memorial Hospital, with spending of approximately $153.0 million in 2013

2012's major capital asset additions included:

- Construction continued on the major modernization of Gouverneur Healthcare Services, with additional spending of approximately $36.9 million in 2012
- Construction continued on the major modernization of Harlem Hospital Center, with additional spending of approximately $42.4 million in 2012
- Construction on the major modernization of Henry J. Carter Center with approximate spending of $28.2 million in 2012 and entering into a capital lease in the amount of $48.3 million

The Corporation's 2015 capital budget projects spending of $142.5 million, which includes continuation of work on the major construction and electronic medical record system mentioned above. The 2015 capital budget is expected to be primarily financed by the Corporation's 2010 Series A bonds mentioned in note 7 to the financial statements, City General Obligation and Transitional Finance Authority Bonds, and other City funding.

In December of 2013, the Corporation surrendered the property formerly known as the Goldwater Specialty Hospital and Nursing Facility located on Roosevelt Island, New York to The City of New York. The surrender of property to The City is consistent with the Corporation's bylaws, which empowers the Corporation to surrender real estate to The City of New York when such property is no longer utilized for its corporate purpose. The Corporation recorded a loss on disposal of assets for the related land improvements, buildings, and fixtures in the amount of $19.3 million and movable equipment in the amount of $3.4 million in 2014, which is included in depreciation expense on the statements of revenues, expenses, and changes in net position.

During 2013, the Corporation incurred significant physical damage to Bellevue Hospital Center and Coney Island Hospital as a result of Super Storm Sandy. The hospitals were unable to service patients, and as such, there was a temporary loss of service utility. Using the restoration cost approach, the Corporation recorded a loss from impairment of assets of approximately $12.0 million to recognize a service utility loss in 2013. No such loss was incurred in 2014.

More detailed information about the Corporation's capital assets is presented in note 5 to the financial statements.

Long-Term Debt

At June 30, 2014, the Corporation has approximately $992 million in long-term debt financing relating to its capital assets, as shown with comparative amounts at June 30, 2013 and 2012 (in thousands of dollars):

		2014	2013	2012
Bonds payable	$	925,325	974,226	1,044,878
Capital lease obligation		—	—	75
New York Power Authority (NYPA) financing		844	1,465	2,101
Equipment and renovation financing		540	998	1,923
Clinical bed financing		2,291	4,637	6,866
Henry J. Carter capital lease obligation		48,258	48,258	48,258
New Market Tax Credit		14,700	14,700	—
Total	$	991,958	1,044,284	1,104,101

At June 30, 2014, the Corporation's debt is 81.4% uninsured fixed and 18.6% variable secured by letters of credit. The Corporation is rated Aa3, A+, and A+ by Moody's, S&P's, and Fitch, respectively. As of August 26, 2014, the variable rate bonds are secured by TD Bank's and JPMorgan Chase Bank's letters of credit. The Moody's, S&P's, and Fitch long-term/short-term ratings for TD Bank and JPMorgan Chase Bank are Aa3/P-1, AA-/A-1+, and AA-/F1+ and Aa3/P-1, A+/A-1, and A+/F1, respectively. There are no statutory debt limitations that may affect the Corporation's financing of planned facilities or services.

On March 28, 2013, the Corporation issued $112,045,000 of tax-exempt fixed rate Health System Bonds, 2013 Series A bonds (the 2013 Bonds). This issuance generated a premium of $21,422,488. This bond issue included $112,045,000 of 3.0% to 5.0% uninsured serial bonds, due February 15, 2016 through February 15, 2023 with interest payable on February 15 and August 15. The overall weighted average interest rate was 2.44%.

Proceeds of the 2013 Bonds and residual funds from the 2008 Series A bonds were used (i) to refund and redeem all of the Corporation's 2003 Series A bonds; (ii) to refund and defease a portion of the Corporation's 2008 Series A bonds; and (iii) to pay cost of issuance.

The Corporation completed the current refunding of the 2003 Series A bonds and the advance refunding of the 2008 Series A bonds to reduce its total debt service payments over the next 10 years by $23,026,587 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $21,904,183.

More detailed information about the Corporation's long-term debt is presented in note 7 to the financial statements.

Statements of Revenues, Expenses, and Changes in Net Position

Net patient service revenue – Increased $419.0 million from June 30, 2013 to June 30, 2014 reflecting full year operations for Bellevue Hospital Center and Coney Island Hospital after temporary closings following Super Storm Sandy during fiscal year 2013. The following also contributed to the increase in net patient service revenue 1) increased UPL revenue of $76 million; 2) increased DSH Maximization of $103.9 million; and 3) patient service revenue increases from third parties of $114.0 million, and 4) other third-party retroactive settlement accruals of $120 million. Net patient service revenue decreased $381.8 million from June 30, 2012 to June 30, 2013 reflecting the revenue impact from the temporary closing of Bellevue Hospital Center ($153.9 million) and Coney Island Hospital ($110.7 million) and revenue losses associated with reduced inpatient census and outpatient visits for the remaining facilities of $152.9 million. Additional UPL revenue of $28.8 million was also recognized.

Appropriations from (remittances to) City of New York, net – Increased $399.7 million from June 30, 2013 to June 30, 2014 mainly due to an agreement with The City that the Corporation would not reimburse the 2013 malpractice and debt service of $121.5 million and $150.4 million, respectively, and The City's agreement to fund collective bargaining settlements in the amount of $114.0 million. These were offset by an increase of $17.2 million in interest expense paid by The City for HHC. Appropriations from (remittances to) City of New York increased $8.6 million from June 30, 2012 to June 30, 2013 due to an increase of $6.4 million in debt service payable to The City offset by an increase of $18.2 million in interest expense paid by The City for HHC.

Grants revenue – Decreased $280.3 million from June 30, 2013 to June 30, 2014 due to the recording, in 2013, of FEMA and CDBG revenue in the amount of $256 million for Super Storm Sandy expenses. No additional FEMA and CDBG revenue has been recorded during 2014. Additional revenue for IAAF was accrued for during 2014 in the amount of $15.5 million. Grants revenue increased $316.8 million from June 30, 2012 to June 30, 2013 due to $57.2 million in federal and state incentive payments for meaningful use of certified electronic health record technology and $194.4 million in FEMA and CDBG revenue for Super Storm Sandy expenses.

Other revenue – Remained consistent from June 30, 2013 to June 30, 2014. Other revenue decreased $25.3 million from June 30, 2012 to June 30, 2013 due to non-recurrence of interest earned on the medical resident FICA refunds recorded in 2012.

Personal services – Increased $129.5 million, or approximately 5.4%, from June 30, 2013 to June 30, 2014 due to increase in collective bargaining estimates for 2014. Personal services increased $22.5 million, or approximately 0.1%, from June 30, 2012 to June 30, 2013 due to reductions of 932 employee full-time equivalents (FTEs) or 2.6% and the reduction to prior year collective bargaining estimates in 2012.

Other-than-personal services – Increased $83.7 million, or 5.8%, from June 30, 2013 to June 30, 2014 due to costs related to increased pharmaceutical expenses of $19 million and increased use of temporary workers, including nursing of $32 million. Increased pollution remediation accruals of $9.1 million contribute to the increase from 2013. Other-than-personal services increased $33.7 million, or 2.4%, from June 30, 2012 to June 30, 2013 due to the costs related to restoration services after Super Storm Sandy.

Fringe benefits and employer payroll taxes – Increased $15.1 million from June 30, 2013 to June 30, 2014 primarily for FICA of $9.8 million or 7.1% for collective bargaining agreements. Fringe benefits and employer payroll taxes increased $52.8 million from June 30, 2012 to June 30, 2013 due to the non-recurrence of $30.5 million of medical resident FICA refunds and increases in health benefit costs of $36.6 million or 7.4%.

Pension – Decreased $145.9 million from June 30, 2013 to June 30, 2014 as determined by the New York City Office of the Actuary.

Postemployment benefits, other than pension – Decreased $94.8 million from June 30, 2013 to June 30, 2014 and decreased $6.1 million from June 30, 2012 to June 30, 2013 as determined by the New York City Office of the Actuary, and is mainly due to assumptions for healthcare actuarial gain experience, cost trends being updated to reflect recent past experience, and anticipated future experience, including the enactment of National Health Care Reform (note 10 to the financial statements).

Affiliation contracted services – Increased $7.2 million or 0.8% from June 30, 2013 to June 30, 2014 and increased $31.1 million or 3.5% from June 30, 2012 to June 30, 2013 due to market adjustments and enhanced services.

Investment income – Increased $1.4 million from June 30, 2013 to June 30, 2014 as the Corporation recognized the market value adjustment of the bonds. Investment income decreased $9.4 million from June 30, 2012 to June 30, 2013 as the Corporation recognized the market value of the 2003 bond reserve fund decrease.

Capital contributions funded by City of New York – Decreased $88.7 million from June 30, 2013 to June 30, 2014 due to fewer continuing major modernization projects. Capital contributions funded by City of New York increased $218.1 million from June 30, 2012 to June 30, 2013 for continuing major modernization projects.

Corporation Issues and Challenges

The Corporation continues to adapt to the ever-increasing fiscal challenges placed on healthcare institutions in the New York City area. Specifically, these challenges include:

- Reduced Medicaid and Medicare reimbursements due to state and federal budget cuts
- Ability of New York City to increase capital and expense funding
- Implementation of the new Health Care Exchanges and its effect on the uninsured
- Continued penetration of managed care and accountable care in the market place

The Corporation has responded to these challenges by continuing to pursue cost reduction strategies that include 1) contracting for the management of dietary, environmental, plant maintenance, and biomedical engineering services; 2) entering into a strategic partnership with another health system to provide laboratory services; and 3) centralizing procurement. Also, the Corporation has engaged in restructuring activities to consolidate long-term care services, convert the designation of its diagnostic and treatment centers into federally qualified health center look-alike status, and further regionalize services. Additionally, the Corporation has created an Accountable Care Organization, which is participating in the Medicare shared savings program and the Corporation is in the process of installing a new electronic medical record (EMR) – the EPIC system. All these changes are designed to assist the Corporation to compete in a more difficult environment.

Contacting the Corporation's Financial Management

This financial report provides the citizens of The City, HHC's patients, bondholders, and creditors with a general overview of the Corporation's finances and operations. If you have questions about this report or need additional financial information, please contact Ms. Marlene Zurack, Senior Vice President – Finance, New York City Health and Hospitals Corporation, 160 Water Street, Room 1014, New York, New York 10038.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)

Statements of Net Position

June 30, 2014 and 2013

(In thousands)

	2014				2013 (As Adjusted)			
Assets	**Business-type Activities – HHC**	**Discretely Presented Component Unit-MetroPlus**	**Eliminations**	**Total**	**Business-type Activities – HHC**	**Discretely Presented Component Unit-MetroPlus**	**Eliminations**	**Total**
Current assets:								
Cash and cash equivalents (note 2)	$ 343,188	780,320	—	1,123,508	360,579	703,306	—	1,063,885
U.S. government securities (note 15)	—	71,396	—	71,396	—	81,671	—	81,671
Patient accounts receivable, net (notes 4 and 11)	693,151	—	(272,538)	420,613	760,513	—	(309,043)	451,470
Premiums receivable	—	168,518	(1,528)	166,990	—	103,418	(1,299)	102,119
Estimated third-party payor settlements, receivable (notes 4 and 11)	1,430,200	—	(110,830)	1,319,370	890,800	—	(58,275)	832,525
Grants receivable (note 13)	82,547	—	—	82,547	305,479	—	—	305,479
Supplies	19,796	—	—	19,796	19,116	—	—	19,116
Assets restricted as to use and required for current liabilities (notes 6 and 7)	46,873	—	—	46,873	37,283	—	—	37,283
Other current assets	39,409	9,190	—	48,599	46,604	3,234	—	49,838
Total current assets	2,655,164	1,029,424	(384,896)	3,299,692	2,420,374	891,629	(368,617)	2,943,386
Assets restricted as to use, net of current portion (notes 6 and 15)	121,266	87,883	—	209,149	158,863	84,345	—	243,208
U.S. government securities (note 15)	—	43,010	—	43,010	—	32,372	—	32,372
Other receivable	10,661	—	—	10,661	10,661	—	—	10,661
Capital assets, net (note 5)	3,506,375	5,923	—	3,512,298	3,366,456	7,485	—	3,373,941
Total assets	6,293,466	1,166,240	(384,896)	7,074,810	5,956,354	1,015,831	(368,617)	6,603,568
Deferred Outflows of Resources								
Unamortized refunding cost	18,240	—	—	18,240	22,437	—	—	22,437
	$ 6,311,706	1,166,240	(384,896)	7,093,050	5,978,791	1,015,831	(368,617)	6,626,005
Liabilities								
Current liabilities:								
Current installments of long-term debt (note 7)	$ 50,669	—	—	50,669	40,634	—	—	40,634
Accrued salaries, fringe benefits, and payroll taxes	834,475	14,555	(1,528)	847,502	729,681	10,081	(1,299)	738,463
Accounts payable and accrued expenses (notes 12 and 15)	409,347	583,562	(383,368)	609,541	385,904	512,721	(367,318)	531,307
Estimated third-party payor settlement, payable (notes 4 and 11)	182,500	—	—	182,500	222,700	—	—	222,700
Estimated pools payable, net (notes 4 and 11)	711,600	—	—	711,600	296,900	—	—	296,900
Due to City of New York, net (note 8)	332,941	(4,041)	—	328,900	436,591	—	—	436,591
Current portion of pension (note 9)	424,268	9,322	—	433,590	426,659	9,019	—	435,678
Current portion of postemployment benefits obligation, other than pension (note 10)	107,863	2,199	—	110,062	103,003	2,177	—	105,180
Other current liabilities	5,061	—	—	5,061	21,874	—	—	21,874
Total current liabilities	3,058,724	605,597	(384,896)	3,279,425	2,663,946	533,998	(368,617)	2,829,327
Long-term debt, net of current installments (note 7)	941,289	—	—	941,289	1,003,650	—	—	1,003,650
Long-term pension, net of current portion (note 9)	2,045,366	42,120	—	2,087,486	2,734,690	57,805	—	2,792,495
Postemployment benefits obligation, other than pension, net of current portion (note 10)	4,667,962	46,761	—	4,714,723	4,574,865	43,489	—	4,618,354
Total liabilities	10,713,341	694,478	(384,896)	11,022,923	10,977,151	635,292	(368,617)	11,243,826
Deferred Inflows of Resources								
Net differences between projected and actual earnings on pension plan investments	708,343	15,564	—	723,907	218,450	4,617	—	223,067
	11,421,684	710,042	(384,896)	11,746,830	11,195,601	639,909	(368,617)	11,466,893
Commitments and contingencies (note 11)								
Net position								
Net investment in capital assets	2,550,656	5,946	—	2,556,602	2,393,938	7,514	—	2,401,452
Restricted:								
For debt service	137,469	—	—	137,469	134,776	—	—	134,776
Expendable for specific operating activities	11,715	—	—	11,715	11,082	—	—	11,082
Nonexpendable permanent endowments	928	—	—	928	928	—	—	928
For statutory reserve requirements	—	87,883	—	87,883	—	84,345	—	84,345
Unrestricted	(7,810,746)	362,369	—	(7,448,377)	(7,757,534)	284,063	—	(7,473,471)
Total net deficit position	(5,109,978)	456,198	—	(4,653,780)	(5,216,810)	375,922	—	(4,840,888)
	$ 6,311,706	1,166,240	(384,896)	7,093,050	5,978,791	1,015,831	(368,617)	6,626,005

See accompanying notes to financial statements.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

(In thousands)

	2014				2013 (As Adjusted)			
	Business-type Activities – HHC	**Discretely Presented Component Unit – Metroplus**	**Eliminations**	**Total**	**Business-type Activities – HHC**	**Discretely Presented Component Unit – Metroplus**	**Eliminations**	**Total**
Operating revenues:								
Net patient service revenue (notes 4 and 11)	$ 5,653,009	—	(704,482)	4,948,527	5,233,985	—	(742,199)	4,491,786
Appropriations from (remittances to) City of New York, net (notes 1 and 11)	399,165	4,041	—	403,206	(583)	—	—	(583)
Premium revenue (note 13)	—	2,334,727	(19,129)	2,315,598	—	2,201,790	(17,217)	2,184,573
Grants revenue (note 13)	285,763	—	—	285,763	566,019	—	—	566,019
Other revenue	51,110	6	—	51,116	45,915	5	—	45,920
Total operating revenues	6,389,047	2,338,774	(723,611)	8,004,210	5,845,336	2,201,795	(759,416)	7,287,715
Operating expenses:								
Personal services	2,539,432	60,752	—	2,600,184	2,409,926	53,956	—	2,463,882
Other than personal services	1,527,445	2,169,538	(704,482)	2,992,501	1,443,697	2,006,799	(742,199)	2,708,297
Fringe benefits and employer payroll taxes	765,727	17,883	(19,129)	764,481	750,581	16,004	(17,217)	749,368
Pension	224,500	4,932	—	229,432	370,370	10,329	—	380,699
Postemployment benefits, other than pension (note 10)	198,991	4,548	—	203,539	293,745	6,212	—	299,957
Affiliation contracted services	922,773	—	—	922,773	915,581	—	—	915,581
Depreciation (note 5)	302,859	2,606	—	305,465	282,345	2,341	—	284,686
Total operating expenses	6,481,727	2,260,259	(723,611)	8,018,375	6,466,245	2,095,641	(759,416)	7,802,470
Operating (loss) income	(92,680)	78,515	—	(14,165)	(620,909)	106,154	—	(514,755)
Nonoperating revenues (expenses):								
Investment income	2,536	1,761	—	4,297	1,088	1,367	—	2,455
Interest expense	(117,735)	—	—	(117,735)	(110,412)	—	—	(110,412)
Contributions restricted for specific operating activities	807	—	—	807	2,072	—	—	2,072
Total nonoperating (expenses) revenues, net	(114,392)	1,761	—	(112,631)	(107,252)	1,367	—	(105,885)
(Loss) income before other changes in net position	(207,072)	80,276	—	(126,796)	(728,161)	107,521	—	(620,640)
Other changes in net position:								
Capital contributions funded by City of New York	303,007	—	—	303,007	391,754	4	—	391,758
Capital contributions funded by grantors and donors	10,897	—	—	10,897	3,424	—	—	3,424
Total other changes in net position	313,904	—	—	313,904	395,178	4	—	395,182
(Decrease) increase in net position	106,832	80,276	—	187,108	(332,983)	107,525	—	(225,458)
Net deficit position at beginning of year (as adjusted)	(5,216,810)	375,922	—	(4,840,888)	(4,883,827)	268,397	—	(4,615,430)
Net deficit position at end of year	$ (5,109,978)	456,198	—	(4,653,780)	(5,216,810)	375,922	—	(4,840,888)

See accompanying notes to financial statements.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

		2014 Business-type Activities – HHC	2013 Business-type Activities – HHC
Cash flows from operating activities:			
Cash received from patients and third-party payors	$	5,565,689	5,416,794
Cash appropriations received from City of New York		322,176	299,629
Cash appropriations remitted to City of New York		—	(127,271)
Receipts from grants		508,696	373,059
Other receipts		63,409	122,836
Cash paid for personal services, fringe benefits, and employer payroll taxes		(3,323,160)	(3,271,585)
Cash paid for pension		(435,678)	(417,277)
Cash paid for other than personal services		(1,521,736)	(1,293,332)
Cash paid for affiliation contracted services		(933,394)	(924,984)
Net cash provided by operating activities		246,002	177,869
Cash flows from noncapital financing activity:			
Proceeds from contributions restricted for specific operating activities		808	2,072
Net cash provided by noncapital financing activity		808	2,072
Cash flows from capital and related financing activities:			
Purchase of capital assets		(442,120)	(617,864)
Capital contributions by grantors and donors		10,897	3,424
Capital contributions by City of New York		303,007	391,754
Cash paid for retainage and construction accounts payable		(947)	(1,458)
Payments of long-term debt		(40,633)	(67,443)
Proceeds from issuance of long-term debt		—	148,167
Refunding of long-term debt		—	(142,485)
Cash paid for deferred financing costs		—	(1,131)
Interest paid		(125,104)	(134,378)
Net cash used in capital and related financing activities		(294,900)	(421,414)
Cash flows from investing activities:			
Purchases of assets restricted as to use		(4,690)	(106,104)
Sales of assets restricted as to use		32,064	204,422
Interest received		3,325	8,267
Net cash provided by investing activities		30,699	106,585
Net decrease in cash and cash equivalents		(17,391)	(134,888)
Cash and cash equivalents at beginning of year		360,579	495,467
Cash and cash equivalents at end of year	$	343,188	360,579
Supplemental disclosure:			
Change in fair value of assets restricted as to use	$	(302)	(2,730)

See accompanying notes to financial statements.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

		2014 Business-type Activities – HHC	2013 Business-type Activities – HHC (As adjusted)
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(92,680)	(620,909)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation		302,859	282,345
Provision for bad debts		636,517	329,416
Changes in assets and liabilities:			
Patient accounts receivable, net		(569,155)	(410,307)
Estimated third-party payor settlements, net		(579,600)	(266,000)
Estimated pools receivable (payable), net		414,700	529,700
Grants receivable		222,932	(192,960)
Supplies and other current assets		6,520	79,304
Accrued salaries, fringe benefits, and payroll taxes		104,794	5,456
Pension		(201,822)	(47,090)
Accounts payable and accrued expenses		23,443	41,477
Due to City of New York		(103,650)	264,938
Other liabilities		(16,813)	(14,241)
Postemployment benefits obligation, other than pension		97,957	196,740
Net cash provided by operating activities	$	246,002	177,869

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

Organization

On July 1, 1970, the New York City Health and Hospitals Corporation (the Corporation), a New York State (the State) public benefit corporation created by Chapter 1016 of the Laws of 1969, assumed responsibility for the operation of the municipal hospital system of The City of New York (The City) pursuant to an agreement with The City dated June 16, 1970 (the Agreement). As a main element of its core mission, the Corporation provides, on behalf of The City, comprehensive medical and mental health services to City residents regardless of ability to pay. The Corporation operates eleven acute care hospitals, five long-term care facilities, five freestanding diagnostic and treatment centers, many hospital-based and neighborhood clinics, a certified home health agency, and MetroPlus Health Plan, Inc. (MetroPlus), a prepaid health services provider (PHSP). The Corporation's facilities are organized into seven vertically integrated healthcare networks that provide the full continuum of care – primary and specialty care, inpatient acute, outpatient, long-term care, and home health services – under a single medical and financial management structure. The networks were established to improve efficiencies through interfacility coordination.

The Corporation is a component unit of The City, and accordingly, its financial statements are included in The City's Comprehensive Annual Financial Report.

The accompanying financial statements include the operation of the following component units, which are blended with the accounts of the Corporation:

- HHC Capital Corporation (HHC Capital) was created by the Corporation as a public benefit corporation, of which the Corporation is the sole member, in 1993 in order to secure its 1993 Series A bonds. The sole purpose of HHC Capital is to accept all payments assigned to it by the Corporation and its providers and remit monthly, from such assigned payments, amounts required for debt service on the 2008, 2010, and 2013 Bond issues to the bond trustee, with the balance transferred to the Corporation.

- HHC Insurance Company, Inc. (HHC Insurance) was created by the Corporation as a public benefit corporation, of which the Corporation is the sole member, in 2003. HHC Insurance is a domestic captive insurance company that underwrites medical malpractice insurance for the Corporation's attending physicians practicing in the areas of Neurosurgery, Obstetrics, and Gynecology. HHC Insurance also provides excess insurance coverage through the New York State Excess Liability Pool (State Pool). HHC Insurance obtained its license from the New York State Department of Insurance to commence operations on December 15, 2004.

  HHC Insurance commenced operations on January 1, 2005. HHC Insurance provides the insured with indemnity insurance coverage on a claims-made basis for the first \$1.3 million per incident and \$3.9 million in the aggregate. With the existence of this insurance coverage, the insured is able to access \$1.0 million per incident and \$3.0 million in the aggregate of excess insurance coverage provided by the Medical Malpractice Insurance Pool of New York (MMIP) for each claim greater than \$1.3 million per incident and \$3.9 million in the aggregate. During 2007, HHC Insurance began participation in MMIP. MMIP is the insurer of last resort for medical malpractice coverage in the State and is a joint underwriting facility, not a separate legal entity. The members of MMIP are all the licensed medical malpractice carriers in New York State. As an MMIP member, HHC Insurance recognizes its allocable share of the premium, loss, underwriting expense, and administrative expense activities of MMIP.

- During 2003, the HHC Physicians Purchasing Group, Inc. (HHC Physicians), a public benefit corporation, was formed to purchase medical malpractice insurance for the Corporation's physicians from HHC Insurance. The Corporation is the sole member of HHC Physicians. HHC Physicians was registered and approved for operations by the New York State Department of Insurance on August 31, 2005.
- HHC Risk Services Corporation (HHC Risk), a public benefit corporation, was granted a license on December 30, 2003 to operate by the Vermont Department of Banking, Insurance, Securities, and Health Care Administration. The Corporation is the sole member of HHC Risk. HHC Risk is inactive.

  The creation of HHC Insurance, HHC Physicians, and HHC Risk by the Corporation does not alter the indemnification by The City of the Corporation's malpractice settlements under the Agreement (note 11(b)).
- During June 2012, HHC ACO Inc., a public benefit corporation of HHC, was formed as an Accountable Care Organization (ACO) for purposes of applying to the federal Centers for Medicare and Medicaid Services (CMS) to participate in the Medicare Shared Savings Program (MSSP).

  An ACO is a healthcare reform model authorized in the Patient Protection and Affordable Care Act of 2010, involving groups of doctors, hospitals, and other healthcare providers to collaboratively coordinate high-quality care to the patients they serve. When an ACO succeeds in delivering high-quality care at lower cost, it will share in the savings it achieves for the Medicare program, which savings are then distributed among the ACO participants. The MSSP (also authorized by the Patient Protection and Affordable Care Act) is a three-year program in which ACOs will be responsible for the care of a defined group of Medicare Fee-For-Service beneficiaries.
- In October 2012, the Corporation formed the HHC Assistance Corporation (HHCAC), which is a not-for-profit corporation that is closely affiliated with the Corporation. All members of HHCAC's board of directors are officers of the Corporation. The HHCAC's purpose is to perform activities that are helpful to the Corporation in the fulfillment of its statutory purposes. During 2012, the HHCAC facilitated the Corporation's participation in a New Market Tax Credit supplementary financing transaction to be used for the construction of certain new facilities at the Harlem Hospital Center (note 7(i).

The Corporation is the sole corporate member and appoints a voting majority of the governing board of each of the blended component units. Each of the blended component units provide services exclusively or almost exclusively to the Corporation.

The financial statements also include MetroPlus, which is presented as a discretely presented component unit. MetroPlus is a public benefit corporation created by the Corporation. Supplementary disclosures for MetroPlus are presented beginning with note 15 of the financial statements. The Corporation is the sole member and appoints a voting majority of the governing board of MetroPlus. MetroPlus contracts primarily with Corporation facilities for the purpose of providing managed healthcare services on a prepaid basis and establishing and operating organized healthcare maintenance and delivery systems. MetroPlus has contractual agreements with the New York State Department of Health (DOH) to provide comprehensive medical services to Medicaid, Child Health Plus (CHP), Family Health Plus (FHP), HIV Special Needs Plan recipients (members), and managed long-term care services under a partial capitation contract with the DOH. MetroPlus has contracted with CMS and the DOH to offer Medicare coverage to individuals, including those who are dually eligible for benefits under Medicare and New York State Medicaid. Beneficiaries have the option of selecting MetroPlus or the state of New York as their Medicaid coverage provider. In October 2013, MetroPlus began offering Qualified Health Plans with coverage beginning on or after January 1, 2014, also under a contract with the DOH. Such plans are the result of the Patient Protection and Affordable Care Act (ACA) signed into law in March 2010. Additionally, Corporation employees can elect MetroPlus healthcare coverage as part of their employee benefits.

MetroPlus and HHC Insurance issue separate statutory annual financial statements as of December 31, which are available through the Office of the Corporate Comptroller, 160 Water Street, Room 636, New York, New York 10038.

The Corporation's significant accounting policies are as follows:

(a) Basis of Presentation

All significant intercompany balances and transactions between the Corporation and the blended component units have been eliminated within the business-type activities column. All significant intercompany balances and transactions between the Corporation and MetroPlus have been eliminated in the eliminations column.

Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

(b) Assets Restricted as to Use

Assets restricted as to use primarily include assets held by a trustee under bond resolutions and statutory reserve investments. Amounts required to meet current liabilities of the Corporation have been classified as current assets in the statement of net position at June 30, 2014 and 2013. Assets restricted as to use are stated at fair value, with unrealized gains and losses included in investment income.

Donor-restricted net positions are used to differentiate resources, the use of which is restricted by donors, from resources of unrestricted assets on which donors or grantors place no restriction or that arise as a result of the operations of the Corporation for its stated purposes. Donor-restricted net positions represent contributions to provide healthcare services, of which $928,000 are held in perpetuity, as nonexpendable permanent endowments, at June 30, 2014 and 2013. Resources restricted by donors for plant replacement and expansion are recognized as capital contributions and are added to the net investment in capital assets, net position balance to the extent expended within the period. Resources restricted by donors for specific operating activities are reported as nonoperating revenue. The Corporation utilizes available donor-restricted assets before utilizing unrestricted resources for expenses incurred.

(Continued)

(c) Charity Care

The Corporation provides care to patients who meet certain criteria under its charity care policy at amounts less than its charges or established rates. The Corporation does not pursue collection of amounts determined to qualify as charity care, and they are not reported as revenue (note 3).

(d) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Included in net patient service revenue are adjustments to prior year estimated third-party payor settlements and estimated pools receivable that were originally recorded in the period the related services were rendered. The adjustments to prior year estimates and other third-party reimbursement receipts or recoveries that relate to prior years resulted in an increase to net patient service revenue of $172.8 million and a decrease of $28.2 million for the years ended June 30, 2014 and 2013, respectively.

(e) Statements of Revenues, Expenses, and Changes in Net Position

All transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are considered to be operating activities and are reported as operating revenues and operating expenses. Investment income, interest expense, and peripheral or incidental transactions are reported as nonoperating revenues and expenses. Other changes in net position, which are excluded from income or loss before other changes in net position, consist of contributions of capital assets funded by The City, grantors, and donors.

(f) Patient Accounts Receivable and Net Patient Service Revenue

The Corporation has agreements with certain third-party payors that provide for payments at amounts different from its charges or established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated third-party payor settlements resulting from audits, reviews, and investigations. These estimated third-party payor settlements are accrued in the period the related services are rendered and adjusted in future periods as revised information becomes known or as years are no longer subject to such audits, reviews, and investigations. Net patient service revenue is reported net of the provision for bad debts of $636.5 million in 2014 and $329.4 million in 2013.

The allowance for doubtful patient accounts is the Corporation's estimate of the amount of probable credit losses in its patient accounts receivable. The Corporation determines the allowance based on collection studies and historical write-off experience. Past-due balances are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for estimated doubtful accounts at June 30, 2014 and 2013 was approximately $658.2 million and $512.3 million, respectively.

(g) Appropriations from (Remittances to) City of New York, net

Funds appropriated from The City are direct or indirect payments made by The City on behalf of the Corporation for:

- Settlements of claims for medical malpractice, negligence, other torts, and alleged breach of contracts, and payments by The City (note 11(e))
- Patient care rendered to prisoners, uniformed city employees, and various discretely funded facility-specific programs.
- Interest on City General Obligation debt that funded Corporation capital acquisitions; interest on New York State Housing Finance Agency (HFA) debt on Corporation assets acquired through lease purchase agreements prior to April 1, 1993; and interest on Dormitory Authority of the State of New York (DASNY) debt and Transitional Finance Authority (TFA) debt on assets acquired through lease purchase agreements, other than amounts capitalized during construction (note 5).
- Funding for collective bargaining agreements.

The Corporation considers appropriations from (remittances to) The City to be ongoing and central to the provision of healthcare services and, accordingly, classifies them as operating revenues. Reimbursement by the Corporation is negotiated annually with The City and has agreed to reimburse the 2014 portion of the related City payments on the Corporations behalf.

The Corporation has agreed to reimburse The City for the following as remittances to The City:

- Medical malpractice settlements, negligence, and other torts up to an agreed-upon amount negotiated annually and paid by The City on behalf of the Corporation. In 2014 and 2013, the medical malpractice and general liability settlements paid by The City were $126.9 million and $121.6 million, respectively, and the Corporation has agreed to reimburse The City $126.9 million for 2014. The reimbursements to The City are recorded by the Corporation as a reduction of appropriations from (remittances to) The City. Such medical malpractice, negligence, and other torts reimbursements by the Corporation do not alter the indemnification by The City of the Corporation’s malpractice settlements under the Agreement (note 11(e)).
- Debt service (interest and principal), negotiated annually, related to debt, which funded Corporation capital acquisitions and paid by The City on behalf of the Corporation. In 2014 and 2013, the debt service paid by The City were $153.2 million and $150.4 million, respectively, and the Corporation has agreed to reimburse The City $153.2 million for 2014. These debt service reimbursements to The City are recorded by the Corporation as a reduction of appropriations from (remittances to) The City.

(h) Capital Assets and Depreciation

In accordance with the Agreement, The City retains legal title to substantially all Corporation facilities and certain equipment and subleases them to the Corporation for an annual rent of $1. Prior to April 1, 1993, The City funded substantially all of the additions to capital assets.

Since April 1, 1993, the Corporation has funded much of its capital acquisitions through the issuance of its own debt. However, The City financed the major modernizations of Harlem, Queens, Jacobi, Coney Island, Bellevue, Kings County Hospitals, Gouverneur Healthcare Services and Henry J. Carter campus.

The Corporation is the sole beneficiary as to use of the capital assets and is responsible for their control and maintenance. Accordingly, capital assets have been capitalized in the accompanying balance sheets as follows:

(i) Assets placed in service through June 30, 1972 were recorded at an estimated cost as determined by an independent appraisal company's physical inventory and valuation of such assets as of June 30, 1972.

(ii) Assets acquired subsequent to June 30, 1972 are recorded at cost.

(iii) Donated equipment is recorded at its fair market value at date of donation.

Construction in progress (CIP) is recorded on all projects under construction. Such CIP costs are transferred to depreciable assets and depreciated when the related assets are placed in service. Interest cost incurred on borrowed funds, net of related interest income, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Depreciation is computed on a straight-line basis using estimated useful lives in accordance with American Hospital Association guidelines:

Land improvements	2 to 25 years
Buildings and leasehold improvements	5 to 40 years
Equipment	3 to 25 years

Capital assets under capital lease obligations are depreciated over either the lease term or the estimated useful life.

(i) Custodial Funds

The Corporation holds funds for safekeeping, primarily cash held for the benefit of its long-term care patients, amounting to approximately $3.8 million and $4.5 million as of June 30, 2014 and 2013, respectively. These amounts are included in other current assets and accounts payable and accrued expenses in the accompanying statements of net position. At June 30, 2014 and 2013, all custodial funds related bank balances are fully insured.

(j) Affiliation Contracted Services

The Corporation contracts with affiliated medical schools/professional corporations to provide patient care services at its facilities and reimburses the affiliate for expenses incurred in providing such services. Under the terms of the contract, the affiliate is required to furnish the Corporation with an independent audit report of receipts, workload and nonworkload expenditures, and commitments chargeable to the contract and refunds any excess advances or adjusts future payments depending upon the final settlement amount for reimbursable expenses for the fiscal year. The affiliate's reported expenditures are also subject to subsequent audit by the Corporation's Internal Audit Department.

The amounts due to/from the affiliates are based upon estimates of expenses, which include adjustments for patient care service modifications, and are included in accounts payable and accrued expenses and other current assets in the accompanying statements of net position (note 12). These estimates may differ from the final determination of amounts due to/from the affiliate upon completion of the annual recalculation schedule.

(k) Supplies

Supplies are stated at the lower of cost (first-in, first-out method) or market (net realizable value).

(l) Income Taxes

The Corporation and its component units qualify as governmental entities (or affiliates of a governmental entity), not subject to federal income tax, by reason of the organizations being a state or political subdivision thereof, or an integral part of a state or political subdivision thereof; or, an entity all of whose income is excluded from gross income for federal income tax purposes under section 115 of the Internal Revenue Code of 1986. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

(m) Grants Receivable

Grants receivable relate to various healthcare provision programs under contract with the State and other grantors. Grants receivable also include grants from The City, which are reimbursed to the Corporation for providing such services as mental health, child health, and HIV-AIDS services. Additionally, any accrued reimbursement for Super Storm Sandy expenses is included in grants receivable (note 13).

(n) Net Position

Net position of the Corporation is classified in various components. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and reduced by outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Corporation, including amounts deposited with trustees as required by revenue bond indentures, discussed in note 6(a). *Nonexpendable restricted net position* equal the principal portion of permanent endowments. *Restricted for statutory reserve requirements* are MetroPlus' investments required by the New York State Department of Health regulations for the protection of

 (Continued)

MetroPlus' enrollees. *Unrestricted net position* is remaining net position that does not meet the definition of *Net investment in capital assets or restricted*.

(o) Compensated Absences

The Corporation's employees earn vacation and holiday days at varying rates depending on years of service and title. Generally, vacation and holiday time may accumulate up to specified maximums, depending on title. Excess vacation and holiday time are converted to sick leave. Upon resignation or retirement, employees are paid for unused vacation and holiday days, most at the current rate. Most employees accrue sick leave at a fixed rate; however, the rate can vary depending on years of service and the contractual terms for their title. There is no accumulation limit on sick leave. Depending on length of service and contractual terms for their title, employees separating from service are paid for sick leave at varying rates.

(p) Reclassifications

Certain amounts have been reclassified from the prior year to conform with current year financial statement presentation.

(q) New Accounting Standards Adopted

In 2014, the Corporation adopted two new accounting standards as follows:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). Due to the adoption of GASB 65, deferred financing fees have been expensed and the fiscal year 2013 financial statements have been adjusted for retrospective application accordingly. Additionally, unamortized refunding costs have been reclassified from assets to deferred outflows in the statements of net position. The impact on the net deficit position at the beginning of the year for 2013 is $9.8 million.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined-benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI) (note 9). Due to the adoption of GASB 68, pension costs and pension liability for the fiscal year 2013 financial statements have been adjusted for retrospective application accordingly. The impact on the net deficit position at the beginning of the year for 2013 is $3.43 billion.

Statement of Net Position	standard impact		June 30, 2013 as reported HHC	Adjustments		June 30, 2013 (As adjusted) HHC
Assets:						
Deferred financing costs, net	GASB 65	$	7,608	(7,608)	$	—
Deferred outflows of resources:						
Unamortized refunding cost	GASB 65		—	22,437		22,437
Liabilities:						
Current portion of pension	GASB 68		—	426,659		426,659
Long-term pension, net of current portion	GASB 68		—	2,734,690		2,734,690
Long term debt, net of current installments (note 7)	GASB 65		981,213	22,437		1,003,650
Deferred inflows of resources:						
Difference between projected and actual earnings on pension plan investment	GASB 68		—	218,450		218,450
Net position:						
Unrestricted	GASB 65 and 68	$	(4,370,127)	(3,387,407)	$	(7,757,534)
Total net deficit position	GASB 65 and 68		(1,829,403)	(3,387,407)		(5,216,810)
Statement of Revenues, Expenses, and Changes in Net Position						
Operating expenses:						
Fringe benefits and employer payroll taxes	GASB 68	$	1,168,041	(417,460)	$	750,581
Pension	GASB 68		—	370,370		370,370
Nonoperating revenues (expenses):						
Interest expense	GASB 65		(112,568)	2,156		(110,412)
(Loss) income before other changes in net position	GASB 65 and 68		(777,407)	49,246		(728,161)
Other changes in net position:						
(Decrease) increase in net position	GASB 65 and 68	$	(382,229)	49,246	$	(332,983)

(2) Cash and Cash Equivalents

Cash and cash equivalents consist principally of a money market account and securities purchased under repurchase agreements stated at cost, which approximates fair value, because of their short-term maturities. The money market account is collateralized in excess of its carrying value by U.S. government securities in the name of the Corporation. The repurchase agreements are collateralized in excess of their carrying value by U.S. government securities in the name of the Corporation and held by a custodian. The Corporation considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Custodial credit risk is the risk that, in the event of a bank failure, the Corporation's deposits may not be returned to it. The Corporation's policy to mitigate custodial credit risk is to collateralize all balances available (i.e., collected balances). Deposits in the process of collection within the banking system are not collateralized. At June 30, 2014 and 2013, all Corporation cash and cash equivalents bank balances were either insured or collateralized.

(3) Charity Care

The Corporation maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services furnished under its charity care policy and the estimated cost of those services calculated using the prior year's cost reports. The following information measures the level of charity care provided during the years ended June 30 (in thousands):

		2014	2013
Charges foregone, based on established rates	$	968,399	980,810
Estimated expenses incurred to provide charity care		592,289	596,270

(4) Patient Accounts Receivable, Net and Net Patient Service Revenue

Most of the Corporation's net patient service revenue is from funds received on behalf of patients under governmental health insurance plans. Revenue from these governmental plans is based upon relevant reimbursement principles and is subject to audit by the applicable payors. Certain payors have performed audits and have proposed various disallowances, which other payors may similarly assert.

Net patient service revenue for the years ended June 30, 2014 and 2013 is as follows (in thousands):

	2014		2013	
Medicaid	$ 1,495,122	26.4%	$ 1,492,874	28.5%
Medicare	680,663	12.0	570,322	10.9
Bad debt/charity care pools	609,647	10.8	445,420	8.5
Disproportionate share supplemental pool (DSH)	915,900	16.2	812,000	15.5
Other third-party payors that include Medicaid and Medicare managed care	1,190,921	21.1	1,114,495	21.3
MetroPlus	704,482	12.5	742,199	14.2
Self-pay	56,274	1.0%	56,675	1.1
	$ 5,653,009	100.0%	$ 5,233,985	100.0%

The Corporation provides services to its patients, most of who are insured under third-party payor agreements. Patient accounts receivable, net were as follows as of June 30 (in thousands):

	2014		2013	
Medicaid	$ 131,323	19.0%	$ 176,451	23.2%
Medicare	69,902	10.1	64,704	8.5
Other third-party payors, that include Medicaid and Medicare managed care	183,915	26.5	183,065	24.1
MetroPlus	272,538	39.3	309,043	40.6
Self-pay	35,473	5.1	27,250	3.6
	$ 693,151	100.0%	$ 760,513	100.0%

(5) Capital Assets

Capital assets consist of the following as of June 30 (in thousands):

		2014	2013
Land and land improvements	$	54,081	55,707
Buildings and leasehold improvements		4,258,355	3,831,385
Equipment		3,397,117	3,166,436
		7,709,553	7,053,528
Less accumulated depreciation		4,443,571	4,304,004
		3,265,982	2,749,524
Construction in progress		240,393	616,932
Capital assets, net	$	3,506,375	3,366,456

Capital assets activity for the years ended June 30, 2014 and 2013 was as follows (in thousands):

		Land and land improvements	Buildings and leasehold improvements	Equipment	Construction in progress	Total
June 30, 2012 balance	$	50,396	3,353,325	3,110,019	674,282	7,188,022
Net of acquisitions, net of transfers		5,757	537,695	159,358	(57,350)	645,460
Loss on impairment		(24)	(10,260)	(1,874)	—	(12,158)
Sales, retirements, and adjustments		(422)	(49,375)	(101,067)	—	(150,864)
June 30, 2013 balance		55,707	3,831,385	3,166,436	616,932	7,670,460
Net of acquisitions, net of transfers		6,889	498,586	330,311	(376,539)	459,247
Sales, retirements, and adjustments		(8,515)	(71,616)	(99,630)	—	(179,761)
June 30, 2014 balance	$	54,081	4,258,355	3,397,117	240,393	7,949,946

Related information on accumulated depreciation for the years ended June 30, 2014 and 2013 was as follows (in thousands):

		Land and land improvements	Buildings and leasehold improvements	Equipment	Total
June 30, 2012 balance	$	26,236	1,752,139	2,406,291	4,184,666
Depreciation expense		1,332	104,015	155,980	261,327
Sales, retirements, and adjustments		(321)	(45,891)	(95,777)	(141,989)
June 30, 2013 balance		27,247	1,810,263	2,466,494	4,304,004
Depreciation expense		1,520	123,356	153,504	278,380
Sales, retirements, and adjustments		(3,873)	(44,958)	(89,982)	(138,813)
June 30, 2014 balance	$	24,894	1,888,661	2,530,016	4,443,571

In December of 2013, the Corporation surrendered the property formerly known as the Goldwater Specialty Hospital and Nursing Facility located on Roosevelt Island, New York to The City of New York. The surrender of property to the City is consistent with the Corporation's bylaws, which empowers the Corporation to surrender real estate to the City of New York when such property is no longer utilized for its corporate purpose. The Corporation recorded a loss on disposal of assets for the related land improvements, buildings, and leasehold improvements in the amount of $19.3 million and equipment in the amount of $3.4 million in 2014, which is included in depreciation expense on the statements of revenues, expenses, and changes in net position.

The Corporation incurred significant physical damage to Bellevue Hospital Center and Coney Island Hospital as a result of Super Storm Sandy. The hospitals were unable to service patients, and as such, there was a temporary loss of service utility. Using the restoration cost approach, the Corporation recorded a loss from impairment of assets of approximately $12.0 million to recognize the service utility loss in 2013. The loss from impairment of approximately $12.0 million, as well as a loss on retirement of assets of approximately $9.0 million, is included in depreciation expense on the statements of revenues, expenses, and changes in net position. No loss from impairments were recorded in 2014.

The Corporation capitalizes interest costs incurred in connection with construction projects. Interest activity relating to construction projects and net capitalized interest for the years ended June 30, 2014 and 2013 was as follows (in thousands):

		2014	2013
Interest costs subject to capitalization	$	10,495	26,664
Interest income		(1,614)	(1,699)
Capitalized interest costs, net	$	8,881	24,965

The Corporation capitalized net interest costs on TFA debt and City General Obligation Bonds in both 2014 and 2013, as well as the Corporation's own bonds. Such debt was issued to finance construction of certain Corporation facilities, with such debt to be paid by The City on behalf of the Corporation. Such amounts capitalized in 2014 and 2013 approximated $7.4 million and $20.9 million, respectively. In addition, the Corporation capitalized net interest costs of $1.5 million in 2014 and $4.0 million in 2013 related to its 2008 and 2010 Series bonds.

The Corporation has various major facility construction projects in progress, including major modernization projects at Harlem Hospital Center, Gouverneur Healthcare Services, and Henry J. Carter campus, with an estimated cost of completion of $52 million at June 30, 2014.

(6) Assets Restricted as to Use

Assets restricted as to use consist of the following as of June 30 (in thousands):

		2014	2013
Under bond resolutions (a):			
Construction funds	$	18,028	49,360
Capital reserve funds		86,847	86,739
Revenue funds		50,188	47,526
		155,063	183,625
New Market Tax Credit (b)		433	511
By donors for specific operating activities and permanent endowments (c)		12,643	12,010
Total assets restricted as to use		168,139	196,146
Less current portion of assets restricted as to use		46,873	37,283
	$	121,266	158,863

(a) Assets restricted as to use under the terms of the bond resolutions (note 7) are to provide for debt service requirements and the acquisition of capital assets. Terms of the bond resolutions provide that assets be maintained in separate funds held by the trustee. The construction funds are invested in an interest bearing negotiable order of withdrawal (NOW) account, which is fully collateralized. The capital reserve funds are invested primarily in a 10 year U.S. Treasury note and a three-year U.S. Treasury note. Security maturity date decisions are based on the final maturity of the specific Bond series, potential need for liquidity due to refunding, and/or an assessment of the current market interest rate conditions. The majority of the revenue funds are invested in U.S. T bills for the time period between a month and a maximum of six months. Investments are timed so that funds are available for required semiannual debt service payments. $0.2 million and $0.8 million were uninsured and uncollateralized at June 30, 2014 and 2013, respectively. Possible exposure to fair value losses arising from interest rate volatility is limited by the majority of investments in securities having maturities of less than one year and at most three years and by intending to hold the security to maturity.

The current portion is related to the 2010 Series A bonds and the 2008 Series A, B, C, D, and E bonds payable in 2015.

(b) The New Market Tax Credit (NMTC) transaction required the execution of a loan agreement between HHC/NCF Sub-CDE, LLC and the Corporation. This agreement required the establishment of a National Community Fund (NCF) Fee Reserve Account, which HHC would use to pay interest or fees associated with the loan (note 7).

(c) The donor-restricted funds are invested in a certificate of deposit and an interest bearing commercial money market account at June 30, 2014 and 2013. $7.0 million was invested in a fully insured certificate of deposit at June 30, 2014 and 2013; the money market account is fully collateralized by the U.S. government securities held by a custodian in the Corporation’s name.

(7) Long-Term Debt

Long-term debt consists of the following as of June 30 (in thousands):

		2014	2013 (As adjusted)
Bonds payable:			
2013 Series A Fixed Rate Health System Bonds – weighted average interest of 2.44%, payable in installments to 2023:			
Uninsured Bonds (a)	$	130,419	132,896
2010 Series A Fixed Rate Health System Bonds – average interest of 3.89%, payable in installments to 2030:			
Uninsured Bonds (b)		505,993	539,934
2008 Series A Fixed Rate Health System Bonds – weighted average interest of 4.51%, payable in installments to 2026:			
Uninsured Bonds (c)		124,868	132,841
2008 Series B, C, D, and E Variable Rate Health System Bonds – subject to short-term liquidity arrangements, weighted average interest of 0.81% in 2014, payable in installments to 2031:			
Uninsured Bonds (d)		164,045	168,555
Total bonds payable		925,325	974,226

		2014	2013 (As adjusted)
New York Power Authority (NYPA) financing (e)	$	844	1,465
Equipment and renovation financing (f)		540	998
Clinical bed financing (g)		2,291	4,637
Henry J. Carter capital lease obligation (h)		48,258	48,258
New Market Tax Credit (i)		14,700	14,700
		991,958	1,044,284
Less current installments		50,669	40,634
	$	941,289	1,003,650

(Continued)

Long-term debt activity for the years ended June 30, 2014 and 2013 were as follows (in thousands):

	June 30, 2013 balance (As adjusted)	Additions	Reductions	June 30, 2014 balance	Amounts due within 1 year
Long-term debt:					
Bonds payable	$ 974,226	—	(48,901)	925,325	46,795
NYPA financing	1,465	—	(621)	844	627
Equipment and renovation financing	998	—	(458)	540	405
Clinical bed financing	4,637	—	(2,346)	2,291	1,773
Henry J. Carter capital lease obligation	48,258	—	—	48,258	1,069
New Market Tax Credit	14,700	—	—	14,700	—
	$ 1,044,284	—	(52,326)	991,958	50,669

	June 30, 2012 balance (As adjusted)	Additions	Reductions	June 30, 2013 balance (As adjusted)	Amounts due within 1 year
Long-term debt:					
Bonds payable	$ 1,044,878	127,573	(198,225)	974,226	37,205
Capital lease obligation	75	—	(75)	—	—
NYPA financing	2,101	—	(636)	1,465	625
Equipment and renovation financing	1,923	—	(925)	998	458
Clinical bed financing	6,866	—	(2,229)	4,637	2,346
Henry J. Carter capital lease obligation	48,258	—	—	48,258	—
New Market Tax Credit	—	14,700	—	14,700	—
	$ 1,104,101	142,273	(202,090)	1,044,284	40,634

On November 19, 1992, the Corporation’s Board of Directors adopted the General Resolution requiring the Corporation to pledge substantially all reimbursement revenues, investment income, capital project, and bond proceeds accounts to HHC Capital. All of the Corporation’s Health System Bonds are secured by the pledge. The General Resolution imposes certain restrictive covenants on the issuance of additional bonds and working capital borrowing, and requires that the Corporation satisfy certain measures of financial performance, such as maintaining certain levels of net cash available for debt service, as defined and certain levels of healthcare reimbursement revenues, as defined.

(a) 2013 Series A Bonds

On March 28, 2013, the Corporation issued $112,045,000 of tax-exempt fixed rate Health System Bonds, 2013 Series A bonds (the 2013 Bonds). This issuance generated a premium of $21,422,488. This bond issue included $112,045,000 of 3.0% to 5.0% uninsured serial bonds, due February 15, 2016 through February 15, 2023 with interest payable on February 15 and August 15.

Proceeds of the 2013 Bonds and $13,229,202 in residual funds from the 2008 Series A bonds were used (i) to refund and redeem all of the Corporation's 2003 Series A bonds totaling $111,810,000; (ii) to refund and defease a portion of the Corporation's 2008 Series A bonds totaling $30,675,000 ($2,405,000 maturing in 2014 bearing interest at 4%, $16,450,000 maturing in 2014 bearing interest at 5%, and $11,820,000 maturing in 2015 bearing interest at 5% were refunded); and (iii) to pay cost of issuance of $1,131,283. Proceeds used to refund and redeem the 2003 Series A bonds were deposited with the bond trustee sufficient to pay the interest and principal of the refunded 2003 Series A bonds to and including their final redemption date of April 22, 2013. Also, proceeds used to refund and defease 2008 Series A bonds were deposited with the bond trustee sufficient to pay the interest and principal of the refunded 2008 Series A bonds to and including their final redemption date of February 15, 2015.

As of June 30, 2014, the amount outstanding for the 2008 Series A bonds for the future principal, which was refunded and defeased, is $11,820,000.

The Corporation completed the current refunding of the 2003 Series A bonds and the advance refunding of the 2008 Series A bonds to reduce its total debt service payments over the next 10 years by $23,026,587 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $21,904,183.

The following table summarizes debt service requirements as of June 30, 2014 (in thousands):

		Principal	Interest	Total
Years:				
2015	$	—	5,294	5,294
2016		640	5,286	5,926
2017		690	5,267	5,957
2018		675	5,244	5,919
2019		735	5,216	5,951
2020–2023		109,304	13,790	123,094
Total		112,044	40,097	152,141
Premium on 2013 Bonds		18,375	—	18,375
	$	130,419	40,097	170,516

(b) 2010 Series A Bonds

On October 26, 2010, the Corporation issued $510,460,000 of tax-exempt fixed rate Health System Bonds, 2010 Series A bonds (the 2010 Bonds). This issuance generated a premium of $49,767,349. This bond issue included $345,575,000 of 2.0% to 5.0% uninsured serial bonds, due February 15, 2011 through February 15, 2025; and a $7,995,000 of 4.125% and $156,890,000 of 5.0% uninsured term bonds due February 15, 2030 with interest payable on February 15 and August 15.

Proceeds of the 2010 Bonds were used (i) to finance and reimburse the Corporation for the costs of its capital improvement program of $199,758,168; (ii) to refund and redeem all of the Corporation's 1999 Series A bonds totaling $199,715,000; (iii) to refund and defease substantially all of the Corporation's 2002 Series A bonds totaling $142,315,000 ($11,905,000 of the 2002 Series A bonds were not refunded); (iv) to fund the Capital Reserve Fund of $1,751,329; and (v) to pay cost of issuance of $3,281,608. Proceeds used to refund and redeem the 1999 Series A bonds were deposited with the bond trustee sufficient to pay the interest and principal of the refunded 1999 Series A bonds to and including their final redemption date of November 26, 2010. Also, proceeds used to refund and defease 2002 Series A bonds were deposited with the bond trustee sufficient to pay the interest and principal of the refunded 2002 Series A bonds to and including their final redemption date of February 15, 2012.

The following table summarizes debt service requirements as of June 30, 2014 (in thousands):

		Principal	Interest	Total
Years:				
2015	$	26,420	23,245	49,665
2016		35,970	21,766	57,736
2017		37,705	19,955	57,660
2018		39,615	18,042	57,657
2019		41,565	16,067	57,632
2020–2024		108,720	59,896	168,616
2025–2029		150,555	31,771	182,326
2030–2031		40,024	1,240	41,264
Total		480,574	191,982	672,556
Premium on 2010 Bonds		25,419	—	25,419
	$	505,993	191,982	697,975

(c) 2008 Series A Bonds

During 2009, the Corporation restructured its 2002 Series B, C, D, E, F, G, and H auction rate bonds ($346,025,000). The related bond insurance was canceled. The auction rate bonds were refunded into uninsured fixed rate bonds (2008 Series A – $268,915,000, of which $152,890,000 was used for refunding and the remaining $116,025,000 used for capital projects) and into variable rate bonds supported by letters of credit (2008 Series B, C, D, and E – $189,000,000).

On August 21, 2008, the Corporation issued $268,915,000 of tax-exempt fixed rate Health System Bonds, 2008 Series A bonds (the 2008 Series A Bonds). This issuance generated a premium of $9,939,369. This bond issue included $245,725,000 of 4.0% to 5.5% uninsured serial bonds, due February 15, 2009 through February 15, 2026; a 5% uninsured term bond of $11,295,000 due February 15, 2024; and a 5% uninsured term bond of $11,895,000 due February 15, 2025 with interest payable on February 15 and August 15.

Proceeds of the 2008 Series A Bonds and $4,359,500 in residual funds from the 2002 Series B, C, and H bonds were used (i) to finance and reimburse the Corporation for the costs of its capital improvement program of $99,367,379; (ii) to refund and defease all of the Corporation's 2002 Series B, C, and H auction rate bonds totaling $156,750,000; (iii) to finance $2,285,938 in interest during the escrow period; (iv) to fund the Capital Reserve Fund of $22,755,766; and (v) to pay cost of issuance of $2,054,786. Proceeds used to refund and defease 2002 Series B, C, and H bonds were deposited with the bond trustee sufficient to pay the interest and principal of the refunded 2002 Series B, C, and H bonds to and including their final redemption date of September 24, 2008.

On March 28, 2013, the Corporation refunded and defeased a portion of the 2008 Series A bonds maturing in 2014 and 2015 (note (a)).

(d) 2008 Series B, C, D, and E Bonds

On September 4, 2008, the Corporation issued $189,000,000 of tax-exempt variable rate Health System Bonds, 2008 Series B, C, D, and E bonds (the 2008 Variable Rate Bonds). This issuance included four subseries, consisting of $50,470,000 of 2008 Series B bonds, $50,470,000 of 2008 Series C bonds, $44,030,000 of 2008 Series D bonds, and $44,030,000 of 2008 Series E bonds. The 2008 Series B and C bonds are due February 15, 2025 through February 15, 2031 and the 2008 Series D and E bonds are due February 15, 2009 through February 15, 2026. The 2008 Variable Rate Bonds are supported by irrevocable direct-pay letters of credit issued from two banks. The 2008 Series B and C letters of credit will expire in September 2015 and the D and E letters of credit will expire in July 2017, unless extended by mutual agreement between the Corporation and the banks. The Corporation maintains the bank letters of credit to ensure the availability of funds to purchase any bonds tendered by bondholders that the remarketing agents are unable to remarket to new bondholders. Draws related to such tenders under the letters of credit will become Bank Bonds. As Bank Bonds, they can still be remarketed by the remarketing agents.

If not remarketed successfully as Bank Bonds, the Corporation will have the opportunity to refinance them during a period of up to 365 days from initial draw date. If the Bank Bonds are not refunded and remain outstanding exceeding 365 days from initial draw date, the Corporation will be required to make quarterly payments over four years commencing one year after the initial draw date. There were no draws under the letters of credit as of June 30, 2014.

The initial interest rates for the 2008 Variable Rate Bonds were set at 1.45% – 1.50%, bearing interest at a weekly interest rate mode. However, the 2008 Variable Rate Bonds of any series may be converted by the Corporation to bear interest at either a daily interest rate, a bond interest term rate, a NRS (nonputable remarketed securities) rate, an auction rate, an index rate, or a fixed rate. The overall weighted average interest was 0.81% for 2014 and 0.89% for 2013.

Proceeds of the 2008 Variable Rate Bonds and $3,920,273 in residual funds from the 2002 Series D, E, F, and G bonds were used (i) to refund and defease all of the Corporation's 2002 Series D, E, F, and G auction rate bonds totaling $189,275,000; (ii) to finance $3,019,115 in interest during the escrow period; and (iii) to pay cost of issuance of $626,158. Proceeds used to refund and defease 2002 Series D, E, F, and G bonds were deposited with the bond trustee sufficient to pay the interest and principal of the refunded 2002 Series D, E, F, and G bonds to and including their final redemption date of October 10, 2008.

The following table summarizes debt service requirements for all of the 2008 Series Bonds as of June 30, 2014 (in thousands). The interest payments are based on the interest rate in effect at June 30, 2014:

	Principal	Interest	Total
Years:			
2015	$ 20,375	8,652	29,027
2016	12,380	7,955	20,335
2017	12,800	7,539	20,339
2018	13,255	7,092	20,347
2019	13,720	6,593	20,313
2020–2024	78,060	23,602	101,662
2025–2029	102,595	7,269	109,864
2030–2031	34,400	583	34,983
Total	287,585	69,285	356,870
Premium on 2008 Bonds	1,328	—	1,328
	$ 288,913	69,285	358,198

(e) New York Power Authority (NYPA) Financing

NYPA has provided construction services and unsecured financing to various Corporation facilities for energy-efficient heating/cooling systems and lighting improvements.

Monthly payments of principal and interest are due on the initial par amount (approximately $12.7 million) of the outstanding financing, at variable interest rates over 10 years. Variable interest rates are based on NYPA's cost of money related to its outstanding debt in the prior calendar year. NYPA adjusts the variable rate effective January 1 each year. At June 30, 2014, approximately $0.8 million was due at 0.86% interest. The effective interest rate for 2014 was approximately 0.86%.

The following table summarizes debt service requirements as of June 30, 2014 (in thousands). The interest payments are based on the interest rate in effect at June 30, 2014:

		Principal	Interest	Total
Year:				
2015	$	627	5	632
2016		217	—	217
	$	844	5	849

(f) Equipment and Renovation Financing

In February 2005, the Corporation entered into a food service management agreement. As part of the agreement, the contractor purchased food service equipment for the Corporation and made renovations to Corporation facilities to improve food service processing. The Corporation is making monthly payments to the contractor, at 7% interest, over periods of 3, 5, 7, and 10 years. All assets acquired under this agreement have been capitalized and the related obligation is reflected in the accompanying financial statements. The original loan amount was $17,327,803.

The following table summarizes debt service requirements as of June 30, 2014 (in thousands):

		Principal	Interest	Total
Year:				
2015	$	405	26	431
2016		135	4	139
	$	540	30	570

(g) Clinical Bed Financing

During 2011, the Corporation entered into agreements for the purchase of beds for several facilities. The Corporation is making monthly payments to the vendor on the original loan amounts of $11.5 million financed during March 2010 and June 2010. Interest rates are at 5.00% and 5.75% for the purchases in March 2010 and June 2010, respectively, and all assets acquired under this agreement have been capitalized and the related obligation is reflected in the accompanying financial statements.

The following table summarizes debt service requirements as of June 30, 2014 (in thousands):

	Principal	Interest	Total
Year:			
2015	$ 1,773	68	1,841
2016	442	18	460
2017	76	1	77
	$ 2,291	87	2,378

(h) Henry J. Carter Capital Lease Obligation

In September 2010, the Corporation and the City of New York entered into a Memorandum of Understanding with the New York State Department of Health, the Dormitory Authority of the State of New York (DASNY) and the recently closed North General Hospital, to relocate the Goldwater operations of the Coler-Goldwater Specialty Hospital and Nursing Facility to the North General Hospital campus in northern Manhattan. This relocation will allow the Corporation to relinquish an aging and outdated campus, while facilitating the reorganization and downsizing of the Corporation's long-term care services consistent with the Corporation's restructuring plan.

The agreement provides for a capital lease of the existing North General Hospital building that will be renovated to house long-term acute care hospital (LTACH) services. The Corporation has also acquired a parking lot on the North General campus, where a new tower building has been constructed to house skilled nursing (SNF) services. The Corporation has renamed the site of the former North General Hospital to the Henry J. Carter site. The Henry J. Carter site will have approximately 400 fewer SNF beds and 200 fewer LTACH beds than the Goldwater campus. The City is financing acquisition, renovation, and construction of the Henry J. Carter campus, with supplemental funding from State grants.

A lease agreement was executed in June 2011. The lease expires at the later of the date of full repayment of the North General Hospital DASNY bonds issued in relation to the leased property, or the date of the Corporation's rent payment based on the final Medicaid capital reimbursement receipt attributable to depreciation expense for leased assets. Assets acquired under this lease agreement have been capitalized and the related obligation is reflected in the accompanying financial statements. Upon expiration of the lease, all leased property will be conveyed to HHC, upon payment of a nominal sum. The interest rate for this obligation is 3.28%.

The following table summarizes debt service requirements as of June 30, 2014 assuming that occupancy occurs in 2015 (in thousands):

		Principal	Interest	Total
Years:				
2015	$	1,069	499	1,568
2016		6,974	3,140	10,114
2017		3,217	1,271	4,488
2018		3,217	1,165	4,382
2019		3,217	1,060	4,277
2020–2024		16,086	3,715	19,801
2025–2029		14,478	1,088	15,566
Total	$	48,258	11,938	60,196

(i) New Market Tax Credit

During the fall of 2012, the Corporation entered into a NMTC to fund construction of a new maternal postpartum unit at the Harlem Hospital Center. The transaction, structured under Section 45D of the Internal Revenue Code (IRC), involved a complex structure designed to meet IRC requirements.

The Corporation formed HHCAC, a New York not-for-profit corporation, the sole member of which is the Corporation. HHCAC was formed to assist the Corporation with various financial and other matters and initially to help finance the NMTC transaction. The Corporation capitalized HHCAC with $10.7 million, which was loaned to HHC/NCF Sub-CDE, LLC (the Sub-CDE), a Missouri limited liability company controlled by U.S. Bancorp Community Development Corporation (U.S. Bank). Along with outside investors' capital, the Sub-CDE made two loans to the Corporation in the amounts of approximately $10.7 million and $4.0 million. Both loans are at interest rates of 1.217%. The principal on the two loans is not payable, and cannot be paid, until the end of the seventh year, at which time the principal on both loans are due ratably over the remaining 23 years of their term. US Bank may, however, exercise a put option to require the Corporation to purchase the entire equity in the Sub-CDE for $1,000 at the end of the seventh year. The larger of the two loans, through several intermediaries, is ultimately due to HHCAC. The smaller of the two loans would also become due to the Corporation or a controlled entity if the put option is exercised. If the put option is not exercised, then HHCAC could elect to purchase the equity in the Sub-CDE for its fair market value or it could elect to repay the smaller loan over the remaining 23 years at its stated interest rate.

The following table summarizes debt service requirements as of June 30, 2014 (in thousands):

	Principal	Interest	Total
Years:			
2015	$ —	179	179
2016	—	179	179
2017	—	179	179
2018	—	179	179
2019	—	179	179
2020–2024	2,611	827	3,438
2025–2029	3,019	646	3,665
2030–2034	3,208	457	3,665
2035–2039	3,410	256	3,666
2040–2043	2,452	53	2,505
Total	$ 14,700	3,134	17,834

(8) Due to City of New York, Net

Amounts due to The City consist of the following at June 30 (in thousands):

	2014	2013
FDNY EMS operations (a)	$ 140,461	138,085
Medical malpractice payable (b)	126,870	121,362
Other accrued expenses (c)	28,758	27,855
Utilities prepaid expenses (d)	(2,359)	(1,122)
Debt service (e)	153,170	150,411
Collective bargaining (f)	(113,959)	—
	$ 332,941	436,591

(a) The liability for Emergency Medical Services (EMS) operations represents the balance of third-party payor reimbursement received by the Corporation and due to The City for EMS services provided by The City's Fire Department (FDNY) on behalf of the Corporation.

(b) Payable represents final malpractice balances due The City.

(c) Payable represents final and reconciled fringe benefit costs.

(d) Payable represents final and reconciled utility costs due The City. Estimated utilities payments made by the Corporation to The City during 2014 exceeded final and reconciled utilities bills, resulting in a prepaid expense of $2.4 million at June 30, 2014.

(e) Payable represents final and reconciled debt service costs. These debt service costs relate to debt incurred by The City, which funded HHC capital acquisitions.

(f) Receivable represents funding from The City for collective bargaining settlements.

(9) Pension Plan

The Corporation participates in the New York City Employees Retirement System (NYCERS), which is a cost-sharing, multiple-employer public employees' retirement system. NYCERS provides defined pension benefits to 187,000 active municipal employees and 135,000 pensioners through $55.00 billion in assets. Employees who receive permanent appointment to a competitive position and have completed six months of service are required to participate in NYCERS, and all other employees are eligible to participate in NYCERS. NYCERS provides pay-related retirement benefits, as well as death and disability benefits. Total amounts of the Corporation's employees' covered payroll for the years ended June 30, 2014 and 2013 are approximately $2.081 billion and $2.103 billion, respectively. NYCERS issues a financial report that includes financial statements and required supplementary information, which may be obtained by writing to NYCERS, 335 Adams Street, Brooklyn, New York 11201-3751.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the NYCERS and additions to/deductions from NYCERS' fiduciary net position have been determined on the same basis as they are reported by NYCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NYCERS provides three main types of retirement benefits: service retirements, ordinary disability retirements (non-job-related disabilities) and accident disability retirements (job-related disabilities) to members who are in different "Tiers". The members' Tier is determined by the date of membership. Subject to certain conditions, members generally become fully vested as to benefits upon the completion of 5 years of service. Employees may be required to contribute a percentage of the salary to the pension plan based on their Tier, determined by their date of membership in the plan. Annual pension benefits can be calculated as a percentage of final average salary times number of years of service and changes with the number of years of membership within the plan.

Contribution requirements of the active employees and the participating New York City agencies are established and may be amended by the NYCERS Board. Employees' contributions are determined by their Tier and number of years of service. They may range between 0.00% and 7.46% of their annual pay. Statutorily-required contributions ("Statutory Contributions") to NYCERS, determined by the New York City Office of the Actuary in accordance with State statutes and City laws, are funded by the Employer within the appropriate fiscal year.

The Corporation's net pension liability, deferred inflows of resources, and pension expense is calculated by the Office of the Actuary, City of New York, and includes the information for MetroPlus. At June 30, 2014 and 2013, the Corporation reported a liability of $2.521 billion and $3.228 billion, respectively, for its proportionate share of the NYCERS net pension liability. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2012 and rolled forward to each respective fiscal year. The Corporation's proportion for the net pension liability for each fiscal year was based on the Corporation's actual contributions to NYCERS relative to the total contributions of all participating employers for 2014 which was 13.991%.

(a) Actuarial Assumptions

The total pension liability in the June 30, 2012 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5%.
Salary Increases	In general, merit and promotion increases plus assumed General Wage Increase of 3.0% per annum.
Investment Rate of Return	7.0%, net of pension plan investment expense. Actual return for variable funds.
Cost of Living Adjustment	1.5% and 2.5% for various Tiers.

Mortality rates and methods used in determination of the total pension liability were adopted by the New York City Retirement System (NYCRS) Boards of Trustees during fiscal year 2012. Pursuant to Section 96 of the New York City Charter, studies of the actuarial assumptions used to value liabilities of the five actuarially funded New York City Retirement Systems (NYCRS) are conducted every two years.

Mortality tables for service and disability pensioners were developed from an experience study of the Plan. The mortality tables for beneficiaries were developed from an experience review. For more detail see the reports entitled "Proposed Changes in Actuarial Assumptions and Methods for Determining Employer Contributions for Fiscal Years Beginning on and After July 1, 2011", also known as "Silver Books". Electronic versions of the Silver Books are available on the Office of the Actuary website (www.nyc.gov/actuary) under Pension information.

(b) *Expected Rate of Return on Investments*

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 real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected real rates of return (RROR) by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Arithmetic RROR by Asset Class	Portfolio Component Arithmetic RROR
U.S. Public Market Equities	32.60%	6.60%	2.15%
International Public Market Equities	10.00	7.00	0.70
Emerging Public Market Equities	6.90	7.90	0.55
Private Market Equities	7.00	9.90	0.69
Fixed Invoice (Core, TIPS, HY, Opportunistic, Convertibles)	33.50	2.70	0.90
Alternatives (Real Assets, Hedge Funds)	10.00	4.00	0.40
Portfolio Long-Term Average Arithmetic RROR	100.00%		5.39%

(c) *Discount Rate*

The discount rate used to measure the total pension liability as of June 30, 2014 and June 30, 2013, respectively, was 7.00%. The projection of cash flow used to determine the discount rate assumed that employee contributions will be made at the rates applicable to the current Tier for each member and that employer contributions will be made based on rates determined by the Actuary. Based on those assumptions, the NYCERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and nonactive NYCERS members. Therefore, the long-term expected rate of return on NYCERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

The following presents the Corporation's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Corporation's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate (in billions):

		1% Decrease (6.00%)	Discount rate (7.00%)	1% Increase (8.00%)
Corporation's proportionate share of the net pension liability	$	3.636	2.521	1.486

(d) *Deferred Inflows of Resources*

At June 30, 2014 and 2013, the Corporation reported $723.9 million and $223.1 million, respectively, as deferred inflows of resources from the accumulated net difference between projected and actual earnings on NYCERS investments. The deferred inflows of resources at June 30, 2014 will be recognized in expense as follows:

		Amount
Year ended June 30:		
2015	$	(194,919)
2016		(194,919)
2017		(194,919)
2018		(139,150)
	$	(723,907)

(e) *Annual Pension Expense*

The Corporation's annual pension expense for fiscal years ending 2014 and 2013, which includes contributions toward the actuarially determined accrued liability, including the information for MetroPlus, were approximately $229.4 million and $380.7 million, respectively.

(10) Postemployment Benefits, Other than Pension (OPEB)

In accordance with collective bargaining agreements, the Corporation provides OPEB that include basic healthcare benefits to eligible retirees and dependents at no cost to many of the participants. Basic healthcare premium costs that are partially paid by the Corporation for the remaining participants vary according to the terms of their elected plans. To qualify, retirees must (i) have at least 10 years of credited service (five years of credited service if employed on or before December 27, 2001) as a member of a pension system approved by The City (requirement does not apply if retirement is as a result of accidental disability); (ii) have been employed by the Corporation prior to retirement; (iii) have worked regularly for at least 20 hours a week prior to retirement; and (iv) be receiving a pension check from a retirement system maintained by The City or another system approved by The City.

The Corporation's OPEB expense of $203.5 million, $300.0 million, and $303.2 million in 2014, 2013, and 2012 were equal to the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45; however, implicit rate subsidy credits of $18 million, $15 million and $16 million reduced OPEB expenses for 2014, 2013, and 2012, respectively. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities. The Corporation's ARC for 2014, 2013, and 2012 composed the following, as calculated by the Office of the Actuary, City of New York, and includes the information for MetroPlus (in thousands):

		2014	2013	2012
Normal cost	$	241,316	244,614	219,718
Amortization of unfunded actuarial accrued liability over one year		(94,020)	264	(78,706)
Amortization of unfunded actuarial accrued liability over 10 years		(115,952)	(115,952)	—
Interest at 4.0%		190,195	186,031	178,153
ARC		221,539	314,957	319,165
Less Corporation payments for retired employees' healthcare benefits and implicit rate subsidy credit		120,288	113,276	110,128
Net OPEB obligation increase		101,251	201,681	209,037
Net OPEB obligation – beginning of year		4,723,534	4,521,853	4,312,816
Net OPEB obligation – end of year		4,824,785	4,723,534	4,521,853
Less current portion of postemployment benefits obligation, other than pension		110,062	105,180	99,700
	$	4,714,723	4,618,354	4,422,153

The Corporation has not funded any of its net OPEB obligations.

The schedule below presents the results of OPEB valuations as of June 30, 2013 for fiscal year 2014, as of June 30, 2012 for fiscal year 2013, and as of June 30, 2011 for fiscal year 2012 (in thousands):

Actuarial valuation date		Entry age actuarial accrued liability (AAL)	Frozen entry age actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2013	$	3,732,883	—	3,732,883	2,105,660	177.3%
June 30, 2012		3,544,019	—	3,544,019	2,083,349	170.1
June 30, 2011		—	4,234,110	4,234,110	2,026,170	209.0

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the ARC are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

The entry age actuarial cost method was used in the June 30, 2014 and 2013 and the frozen entry age actuarial cost method was used in the 2012 OPEB actuarial valuations as the basis for the 2014, 2013, and 2012 ARC calculations, respectively. The change in Unfunded Actuarial Accrued Liability due to the change in actuarial methods is being amortized over a closed 10-year period using level dollar amortization. The portion of the Unfunded Actuarial Accrued Liability related to previous accumulated deficiencies in funding and any actuarial gains or losses due to experience are being amortized over a closed one-year period.

The actuarial assumptions include an annual healthcare cost trend rate (HCCTR). The HCCTR applied to Pre-Medicare plans was updated as of June 30, 2009 to reflect recent past experience and anticipated future experience, including the enactment of National Health Care Reform. The HCCTR for Pre-Medicare plans assumes an initial rate of 9.5% and is gradually reduced to an ultimate rate of 5% after 10 years. The complete set of actuarial assumptions and methods used in the June 30, 2011 OPEB actuarial valuation are contained in the Report on the Ninth Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (the Ninth OPEB Report). The Eighth OPEB Report was prepared as of June 30, 2012 in accordance with GASB Statements No. 43 and 45 for the fiscal year ended June 30, 2014 by the New York City Office of the Actuary and is dated September 24, 2014.

(11) Commitments and Contingencies

(a) Reimbursement

The Corporation derives significant third-party revenues from the Medicare and Medicaid programs. Medicare reimburses most inpatient acute services on a prospectively determined rate per discharge, based on diagnosis-related groups (DRGs) of illnesses, i.e., the Prospective Payment System (PPS).

For outpatient services, Medicare payments are based on service groups called ambulatory payment classifications (APCs).

Commencing July 1, 2005, Medicare introduced PPS reimbursement for psychiatric units on a per diem basis, recognizing the intensity of care provided to the patients. The Corporation receives Medicare payments for rehabilitation services using a PPS methodology, which requires facilities to complete patient health assessments. Using these assessments, Medicare defines a case-based payment, accounting for acuity, and comorbidities.

Medicare adjusts the reimbursement rates for capital, medical education, costs related to treating a disproportionate share of indigent patients, and some physician services are reimbursed on a cost basis. Due to these adjustments and other factors, final determination of the reimbursement settlement for a given year is not known until Medicare performs its annual audit. The most recent fiscal year for Medicare cost report audit and final settlement for the Corporation hospitals ranges from 2009 to 2011.

Effective July 1, 2004, Medicare instituted a new PPS for long-term acute care. Medicaid continues to reimburse for these services on a per diem basis.

Effective January 1, 1997, the State enacted the Health Care Reform Act (HCRA), which covers Medicaid, Workers' Compensation, and No-Fault. In January 2000, the State passed HCRA 2000 extending the HCRA methodology until June 30, 2003, which has subsequently been extended several times and is now scheduled to expire December 31, 2014. Medicaid pays for inpatient acute care services on a prospective basis using a combination of statewide and hospital specific 2005 costs per discharge trended forward to the current year and adjusted for severity of illness based on DRGs. Certain hospital specific noncomparable costs are paid as flat-rate per discharge add-ons to the DRG rate. Certain psychiatric, rehabilitation, and other services are excluded from this methodology and are reimbursed on the basis of per diem rates. Effective October 2010, per diem reimbursement for inpatient psychiatric services is determined by a PPS methodology taking into account comorbidities and length of stay.

Commercial insurers, including Health Maintenance Organization (HMOs), pay negotiated reimbursement rates or usual and customary charges, with the exception of inpatient Medicaid HMO cases that may be paid at the State-determined Alternate Payment Rate, which is related to the Medicaid rate. In addition, the State pays hospitals directly for graduate medical education costs associated with Medicaid HMO patients. The Corporation's current negotiated rates include per case, per diem, per service, per visit, and partial capitation arrangements.

HCRA continues funding sources for public goods pools to: finance healthcare for the uninsured; support graduate medical education; and fund initiatives in primary care. Medicaid outpatient services have been reimbursed based on fixed rates that are generally below cost. In December 2008, the State began implementing the Ambulatory Patient Groups (APGs) for outpatient reimbursement, and provides for service intensity adjusted prospective payments based on patient diagnoses and procedures groupings. The APG reimbursement methodology for hospital ambulatory surgery services is effective December 1, 2008, emergency room services effective January 1, 2009, and diagnostic and treatment center medical services effective September 1, 2009. APG payment for most chemical

(Continued)

dependency and mental health clinic services is effective as of October 2010. APG payment for nonhospital based chemical dependency and mental health clinic services is phased in over four years. Outpatient services for all nongovernmental payors are based on charges or negotiated rates.

The Corporation is in varying stages of appeals relating to third-party payors' reimbursement rates. Management routinely provides for the effects of all determinable prior year appeals, settlements, and audit adjustments and records estimates based upon existing regulations, past experience, and discussions with third-party payors. However, since the ultimate outcomes for various appeals are not presently determinable, no provision has been made in the accompanying financial statements for such issues.

Certain provisions of PPS and HCRA require retroactive rate adjustments for years covered by the methodologies. Those that can be reasonably estimated have been provided for in the accompanying financial statements. However, those that are either (a) without current specific regulations to implement them or (b) are dependent upon certain future events that cannot be assumed have not been provided for in the accompanying financial statements.

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, Health Reform Law), which was signed into law on March 23, 2010, is changing how healthcare services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, reduction in Medicaid Disproportionate Share Hospital payments, overall reduction and significant redistribution of Medicare Disproportionate Share Hospital payments, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, Health Reform Law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement.

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

Laws and regulations governing Medicaid and Medicare are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Corporation believes that it is in compliance with all applicable regulations and that any pending or possible investigations involving allegations of potential wrongdoing will not materially impact the accompanying financial statements. While certain regulatory inquiries have been made, compliance with the regulations can be subject to future government review and interpretation as well as significant regulatory action, i.e., fines, penalties, and possible exclusion from Medicaid and Medicare, in the event of noncompliance. In accordance with recent trends in healthcare financial operations, the Corporation has established a Corporate Compliance Committee and appointed a Corporate Compliance Officer to monitor adherence to laws and regulations.

(Continued)

(b) Medicare Recovery Audit Contractor Program (RAC)

Federal and state governments have implemented a variety of audit programs to review and recover potential improper payments to providers from the Medicare and Medicaid programs. In 2012, CMS resolved technical issues delaying implementation of the Medicare Recovery Audit Contractor (RAC) program at hospitals receiving Prospective Interim Payments and each of the Corporation's hospitals has seen an increased level of activity under the RAC program. These RAC requests have focused primarily on medical necessity of inpatient admissions and hospital coding practices. In addition, the Corporation has continued to receive inquiries from other Medicare and Medicaid auditors and reviewers. The Corporation has cooperated with each of these audit requests and implemented programs to track and manage their efforts.

Effective October 1, 2013, CMS adopted a policy known as the "Two-Midnight" rule. The "Two-Midnight" policy specifies that hospital stays spanning two or more midnights after the beneficiary is properly and formally admitted as an inpatient will be presumed to be "reasonable and necessary" for purposes of inpatient reimbursement. CMS adopted the policy due to concern with auditor determinations regarding appropriate inpatient admission criteria as well as the growing use of "observation" status at hospitals. On January 31, 2014, CMS issued a notice creating a "Probe and Educate" period delaying enforcement of the "Two-Midnight" rule until September 30, 2014 and later extended the delay to March 31, 2015. During this period, Medicare administrative contractors (MACs) will select claims for review of policy compliance in order to provide guidance to providers, and RACs are precluded from conducting reviews for medical necessity under the "Two-Midnight" rule.

(c) Delivery System Reform Incentive Payment (DSRIP) Program

In April 2014, the federal government approved a New York State Medicaid waiver request to reinvest $8 billion in federal savings to support implementation of transformative reforms to the State's healthcare system. Delivery system reforms will primarily be implemented through $6 billion of DSRIP Incentive payments for community-level collaborations to achieve programmatic objectives with a goal of reducing avoidable hospital use by 25% over five years. Additionally, $500 million was awarded through an Interim Access Assurance Fund to ensure the financial viability of critical safety net providers during the period prior to DSRIP implementation.

The Interim Access Assurance Fund (IAAF), part of the Delivery System Reform Incentive Payment (DSRIP), is a grant program authorized under the recently approved $8 billion Medicaid 1115 waiver. Its purpose is to assist safety net hospitals in severe financial distress and major public hospital systems to sustain key healthcare services as they participate with other providers to develop proposals for systems of integrated services delivery to be funded and implemented under the DSRIP. The Corporation was awarded a total of $152.4 million for IAAF and received an initial distribution, net, of $35.5 million for IAAF in 2014 and recorded $15.5 million grant revenue at June 30, 2014 and deferred $20 million to fiscal year 2015. The Corporation received the balance of the award during early fiscal year 2015.

(d) Budget Control Act

The Budget Control Act of 2011 (the Budget Control Act) mandated significant reductions and spending caps on the federal budget for fiscal years 2012 through 2021. The Budget Control Act also created a requirement for Congress to enact recommendations of a bipartisan "super committee" achieving at least $1.2 trillion in deficit savings over a 10-year period by January 1, 2013, otherwise $1.2 trillion of across the board reductions known as the "sequester" would be triggered. The super committee failed to produce recommendations and after passing the American Taxpayer Relief Act to provide a two month delay, Congress was unable to reach an agreement to avoid imposition of the sequester. As a result, Medicare reimbursement was reduced by 2% effective April 1, 2013.

(e) Legal Matters

There are a significant number of outstanding legal claims against the Corporation for alleged negligence, medical malpractice, and other torts, and for alleged breach of contract. Pursuant to the Agreement, the Corporation is indemnified by the City for such costs, which were $126.9 million for 2014 and $121.6 million for 2013. The Corporation records these costs when settled by The City as appropriations from The City and as other than personal services expenses in the accompanying financial statements (note 8(b)). Accordingly, no provision has been made in the accompanying financial statements for unsettled claims, whether asserted or unasserted.

(f) Operating Leases

The Corporation leases equipment, off-site clinic space, and office space under various operating leases. Total rental expense for operating leases was approximately $38.3 million in 2014 and $37.7 million in 2013 and included in other than personal services in the accompanying financial statements.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2014 (in thousands):

		Amount
Years:		
2015	$	14,542
2016		12,003
2017		8,846
2018		8,289
2019		2,221
2020–2024		3,687
Total minimum payments required	$	49,588

(12) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of June 30 (in thousands):

		2014	2013
Vendors payable	$	254,504	248,080
Accrued interest		13,773	13,727
Affiliations payable		17,435	18,347
Pollution remediation liability		21,659	19,531
Other		101,976	86,219
	$	409,347	385,904

(13) Super Storm Sandy

The Corporation has applied for public assistance through the Federal Emergency Management Agency (FEMA) to cover the costs of repairs and replacements of facilities to pre-storm conditions and to make improvements to meet codes and standards. FEMA has obligated $142 million, of which approximately $62 million was advanced during 2014. In addition, New York City allocated $183 million in Community Development Block Grant (CDBG) funds to support operational expenses not covered by FEMA.

During 2013, the Corporation recognized, as grant revenue, the CDBG award of $183 million and $73 million in FEMA awards (including $62 million paid in advance). Grant receivables for FEMA and CDBG reimbursement is $11 million at June 30, 2014 and $194 million at June 30, 2013. The Corporation also reported a loss on impairment of assets as a result of temporary service utility decline at two hospitals in the amount of $12 million. There were no impairment of assets during 2014.

(14) Incentive Payments for Meaningful Use of Electronic Health Records

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). These provisions were designed to increase the use of EHR technology and establish the requirements for a Medicare and Medicaid incentive payments program beginning in 2011 for eligible hospitals and providers that adopt meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology; but providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional incentive payments.

During the years ended June 30, 2014 and 2013, the Corporation recognized approximately $47.2 million and $57.2 million, respectively, revenue of HITECH incentives from the Medicare and Medicaid programs that is related to the Corporation meeting the requirements of the Meaningful Use Incentive program. The Corporation elected to recognize the revenue associated with the EHR incentive payment under the grant model and included such amounts in grants revenue in the accompanying consolidated statements of revenues, expenses, and changes in net position. The amount of the EHR incentive revenue recorded was based on the amounts received, which is subject to audit by CMS or its intermediaries and amounts recognized are subject to change.

(15) MetroPlus

(a) Cash and Cash Equivalents

Cash and cash equivalents consist principally of money market funds. MetroPlus considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

(b) U.S. Government Securities

U.S. government securities consist of U.S. Treasury bills, U.S. Treasury notes, and U.S. Treasury bonds. Such securities are stated at fair value, with unrealized gains and losses included in investment income. Securities maturing within a year are presented as current assets in the balance sheets. Securities presented as noncurrent assets mature after a year.

Possible exposure to fair value losses arising from interest rates volatility is limited by investing in securities with maturities of less than one year and, at most, three years, and by intending to hold the security to maturity.

As of June 30, MetroPlus had the following U.S. government securities (in thousands):

				Investment maturities (in years)	
Year	**Investment type**		**Fair value**	**Less than 1**	**1 to 2**
2014	U.S. Treasury bills, notes, and bonds	$	114,406	71,396	43,010
2013	U.S. Treasury bills, notes, and bonds	$	114,043	81,671	32,372

(c) Premiums Receivable and Premium Revenue

Premiums earned are recorded in the month in which members are entitled to service. Medicaid and HIV-SNP premiums are based upon several factors, including age, aid category, and health status of the enrollee; and plan premium rates are risk-adjusted to reflect historical experience. In addition, Medicaid makes one-time maternity and newborn supplemental payments for the delivery of each child born to a member of MetroPlus. Medicaid, CHP, FHP, and HIV-SNP premium revenue received from the DOH represents a substantial portion of MetroPlus' premium revenues, and is subject to audit and adjustment by the DOH.

Medicare premiums are based on rates approved by CMS; premium revenues received from CMS represent a substantial portion of MetroPlus' Medicare premium revenues. Qualified Health Plan premiums are based on rates set by MetroPlus for individual and small business plans offered through the New York State MarketPlace, with coverage effective January 1, 2014. Advanced premium tax credits received from CMS represent of substantial portion of MetroPlus' Qualified Health Plan premium revenues. The related costs of healthcare and claims payable for healthcare services provided to enrollees are estimated by management based on the current value of the estimated liability for claims in process, unpaid primary care capitation, and incurred but not reported claims. The Corporation estimates the amount of incurred but not reported or paid claims on an accrual basis and adjusts in future periods as required.

Premium revenue, by percentage, from members and third-party payors for the years ended June 30, 2014 and 2013 was as follows:

	2014	2013
Medicaid	76%	79%
Medicare	4	4
Child Health Plus	1	1
Family Health Plus	5	6
Partnership In Care	11	10
Health Exchange	3	—
	100%	100%

(d) ***Assets Restricted as to Use***

Assets restricted as to use consist of the following as of June 30 (in thousands):

	2014	2013
MetroPlus statutory reserve investments	$ 87,883	84,345

MetroPlus statutory reserve investments are required by the DOH regulations for the protection of MetroPlus enrollees, and are maintained at 5% of the health care services expenditures projected for the calendar year. The statutory reserve is calculated in accordance with the regulations.

The statutory reserve account of $87.9 million and $84.3 million at June 30, 2014 and 2013, respectively, is invested in U.S. government securities with original maturities of one year or less. The account is in the form of an escrow deposit, maintained in a trust account under a custodian arrangement approved by the NYS Department of Financial Services.

(e) Change in Claims Payable

Accounts payable and accrued expenses include MetroPlus claims payable of $561.7 million and $489.1 million at June 30, 2014 and 2013, respectively. Activity in the liability for claims payable, which includes health claims and claim adjustment expenses related to health claims included in other than personal services, is summarized as follows (in thousands):

		2014	2013
Balance, July 1	$	489,055	382,258
Less drug rebates receivable		(2,794)	(3,174)
Net balance		486,261	379,084
Incurred related to:			
Current year		2,130,092	1,963,232
Prior years		(3,251)	(8,463)
Total incurred		2,126,841	1,954,769
Paid related to:			
Current year		1,667,086	1,545,139
Prior years		393,480	302,453
Total paid		2,060,566	1,847,592
Net balance at June 30		552,536	486,261
Plus drug rebates receivable		9,156	2,794
Balance, June 30	$	561,692	489,055

Net reserves for unpaid claims and claim adjustment expenses attributable to insured claims of prior years decreased by $3.3 million in 2014 and by $8.5 million in 2013. These changes are generally the result of ongoing analysis of recent loss development trends that include expected healthcare cost and utilization.

(f) Operating Leases

MetroPlus leases equipment and office space under various operating leases. Total rental expense for operating leases was approximately $7.2 million in 2014 and $5.8 million in 2013 and included in other than personal services in the accompanying financial statements.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2014 (in thousands):

		Amount
Years:		
2015	$	7,245
2016		7,149
2017		7,072
2018		4,547
2019		1,719
2020–2024		3,504
Total minimum payments required	$	31,236

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

(A Component Unit of The City of New York)

Schedule of the Corporation's Contributions
NYCERS Pension Plan
(Unaudited)
June 30, 2014, 2013, and 2012

(Dollar amounts in thousands)

		2014	2013	2012
Contractually required contribution	$	435,678	426,284	424,583
Contributions in relation to the contractually required contribution		435,678	426,284	424,583
Contribution deficiency (excess)	$	—	—	—
HHC covered-employee payroll	$	2,081,328	2,103,054	2,027,188
Contributions as a percentage of covered-employee payroll		20.93%	20.27%	20.94%

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

(A Component Unit of The City of New York)

Schedule of the Corporation's Proportionate Share of The Net Pension Liability

NYCERS Pension Plan

(Unaudited)

June 30, 2014, 2013, and 2012

(Dollar amounts in thousands)

		2014	2013	2012
HHC proportion of the net pension liability		13.991%	13.991%	13.991%
HHC proportionate share of the net pension liability	$	2,521,076	3,228,173	3,496,825
HHC covered-employee payroll		2,081,328	2,103,054	2,027,188
HHC proportionate share of the net pension liability as a percentage of its covered-employee payroll		121.13%	153.50%	172.50%
Plan fiduciary net position as a percentage of the total pension liability		75.32%	67.18%	63.08%

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
New York City Health and Hospitals Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities and the discretely presented component unit of New York City Health and Hospitals Corporation (the Corporation), a component unit of The City of New York, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated October 29, 2014. Our report included an emphasis of matters paragraph regarding the Corporation's implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The financial statements of MetroPlus Health Plan, Inc., a discretely presented component unit, and HHC Insurance Company, Inc., a blended component unit, were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

October 29, 2014