NYC HEALTH + HOSPITALS

AUDIT COMMITTEE MEETING
AGENDA

October 10, 2019
9:00 A.M.
125 Worth Street,
Rm. 532
5th Floor Board Room

CALL TO ORDER

- Adoption of Minutes June 13, 2019 — Ms. Helen Arteaga Landaverde

INFORMATION ITEMS

- Fiscal Year 2019 Draft Financial Statements & Related Notes — Mr. John Ulberg/ Mr. Jay Weinman
- Fiscal Year 2019 Report to the Audit Committee — Ms. Tami Radinsky, Partner Grant Thornton
- Audits Update — Mr. Chris A. Telano
- Compliance Update — Ms. Catherine Patsos

EXECUTIVE SESSION

OLD BUSINESS

NEW BUSINESS

ADJOURNMENT

MINUTES

AUDIT COMMITTEE **MEETING DATE: June 13, 2019**
TIME: 11:00 A.M.

COMMITTEE MEMBERS
Jose Pagán, PhD
Matthew Siegler, SVP (Representing Mitchell Katz, CEO in a voting capacity)

OTHER MEMBERS OF THE BOARD
Sally Hernandez-Piñero

STAFF ATTENDEES
Andrea Cohen, General Counsel, Legal Affairs
Colicia Hercules, Chief of Staff, Chairman's Office
Sharon McPherson, Senior Secretary, Chairman's Office
John Ulberg, Chief Financial Officer
Jay Weinman, Corporate Comptroller
Catherine Patsos, Compliance Officer
Paul Albertson, Vice President,
Yvette Villanueva, Vice President, Human Resources
Devon Wilson, Senior Director, Office of Internal Audits
Carlotta Duran, Assistant Director, Office of Internal Audits
John Cuda, Chief Financial Officer, MetroPlus
Jose Santiago, Controller, MetroPlus
Beverly P. Addai, Senior Associate Accountant, H+H/Metropolitan

OTHER ATTENDEES
Grant Thornton: Tami Radinsky, Lead Engagement Partner; Lou Feuerstein, Relationship Partner; Steven Dioguardi, Lead Audit Senior Manager, Ganesh Narayan, Insurance Senior Manager

Office of Budget Management: Sarina Shrier, Budget Analyst

AUDIT COMMITTEE MINUTES
JUNE 13, 2019

CALL TO ORDER

The meeting was called to order by Mr. José Pagán, Board Chair at 11:00 A.M.

Mr. Pagán stated that Mr. Matt Siegler, Senior Vice President is representing Dr. Mitchell Katz in a voting capacity. Per Section 14 of the By-Laws: Committee Attendance states, "if any member of a standing or special committee of the Board will not be present at a scheduled committee meeting, the member may ask the Chair of the Board to request that another Board member, not a member of that committee, attend the scheduled meeting and be counted as a member for purposes of quorum and voting." Helen Arteaga Landaverde requested of the Board Chair that, Ms. Sally Hernandez-Pinero have her vote at this meeting.

Mr. Pagán asked for a motion to adopt the minutes of the Audit Committee meeting held on April 9, 2019. A motion was made and seconded with all in favor to adopt the minutes.

Grant Thornton LLC was represented by Tami Radinsky, Lead Engagement Partner; Lou Feuerstein, Relationship Partner and Steven Dioguardi, Senior Manager to present their 2019 audit plan.

Ms. Radinsky began the presentation by reporting on the following:

- Performing the following audits of financial statements as prepared by management, with your oversight, conducted under US Generally Accepted Auditing Standards (GAAS) and, where applicable, under Government Auditing Standards:
  - NYC Health + Hospitals for the fiscal year ending June 30, 2019
  - HHC Accountable Care Organization Inc. annual financial statements for the fiscal year ending June 30, 2019
  - MetroPlus Health Plan's annual statutory financial statements for the fiscal year ending December 31, 2019
  - HHC Insurance Company's annual statutory financial statements for the fiscal year ending December 31, 2019
  - Annual Report of Ambulatory Health Care Facility (AHCF-1)
  - Annual Report of Residential Health Care Facility (RHCF-4)
  - Communicating fraud risks to you identified during our audit
  - Communicating specific matters to you on a timely basis

Ms. Radinsky stated those charged with governance are responsible for:
- Overseeing the financial reporting process
- Setting a positive tone at the top and challenging NYC Health + Hospital's activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including its views about fraud risks
- Informing us about other matters that are relevant to our audit, such as:
  - Objectives and strategies and related business risks that may result in material misstatement

- Matters warranting particular audit attention
- Significant communications with regulators
- Matters related to the effectiveness of internal control and your oversight responsibilities
- Your views regarding our current communications

Management is responsible for:

- Preparing and fairly presenting the consolidated financial statements including supplementary information in accordance with US GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting
- Communicating significant accounting and internal control matters to those charged with governance
- Providing us with unrestricted access to all persons and all information relevant to our audit
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses
- Adjusting the financial statements, including disclosures, to correct material misstatements
- Informing us of subsequent events
- Providing us with certain written representations

Ms. Radinsky presented the Audit Timeline as follows:

May - June 2019	Client acceptance	• Client acceptance • Issue engagement letter • Conduct internal client service planning meeting, including coordination with audit support teams such as IT and tax
May – June 2019	Planning	• Meet with management to confirm expectations and discuss business risk • Discuss scope of work and timetable • Identify current-year audit issues and discuss recently issued accounting pronouncements of relevance • Initial Audit Committee communications
June 2019	Preliminary risk assessment procedures	• Develop audit plan that addresses risk areas • Update understanding of internal control environment • Coordinate planning with management and develop work calendar
June – July 2019	Interim fieldwork	• Perform final phase of audit and year-end fieldwork procedures • Meet with management to discuss results, draft financial statements and other required communications • Review final “draft” reports and other deliverables
October 2019	Deliverables	• Present draft reports and audit results to the Audit Committee and management • Issue final audit reports and other deliverables
December 2019	Deliverables	• Present final management letter to the Audit Committee
December 2019 - January 2020	MetroPlus Health Plan	• Perform walk-throughs of business processes and controls • Perform control testing over significant business processes • Perform selective substantive testing on interim balances
February 2020 – March 2020	MetroPlus Health Plan	• Perform final phase audit and year-end fieldwork procedures • Meet with management to discuss results, draft financial statements and other required communications • Issue the final audit report and other deliverables
April 2020 – August 2020	Cost Report Certification and HHC Insurance Company	• Perform applicable audit procedures and issue auditor’s reports on cost reports for the skilled nursing facilities (RHCF-4) and diagnostic and treatment centers (AHCF) • Perform HHC Insurance Company audit and issuance of audit report
Timing to be determined	HHC ACO, Inc.	• Perform HHC ACO, Inc. audit and issuance of audit report (2018 & 2019)

Ms. Radinsky turned the meeting over to Mr. Dioguardi who explained the audit approach as follows:

Planning – In this phase, we will update an understanding of and document your operations, control environment, accounts and information technology systems.

Risk Assessment - We use our understanding of your internal control system and operations to identify the inherent audit risks and strengths of your operations and information systems. By performing our risk assessment, we customize our audit approach to focus our efforts on the key areas.

Evaluation & Testing of Controls - We will evaluate the design effectiveness, and when appropriate, the operating effectiveness of the corporate governance and information technology controls, as well as the controls over each significant activity/process. Based on the result of this evaluation, we will determine the extent of our substantive testing.

Substantive Testing - When appropriate, we will use audit software to perform substantive testing. This enables us to retrieve information directly from your data files, if needed, without affecting the integrity of the data.

Concluding & Reporting - We will provide management and the Audit Committee with the results of our audit, including best practices and internal control recommendations.

Significant Risks and other areas of focus	Planned Procedure
Patient accounts receivable, related contractual Contractual and uncollectable allowances and net patient service revenue	• Review account reconciliations including completeness and accuracy testing of the aged patient trial balances • Perform analytical procedures over key indicators such as days in accounts receivable, account write offs and aging of balances • Perform detailed account balance testing • Perform cut-off testing • Review management's methodology for estimating allowances • Perform medical record testing for existence (no confirmation procedures) and detail test of subsequent cash receipts • Perform a hindsight analysis of the prior year accounts receivable balance by reviewing cash collections on prior year balances • Perform cash to revenue proof to assist in the validation of the revenue balance
Estimated settlements due to third-party payers and net patient service revenue	• Review account reconciliations and roll-forwards and agree significant reconciling items to supporting schedules and documentation. • Perform detailed account balance testing • Review management's methodology for estimating amounts • Review the financial statement presentation and disclosures
Accounts Payable and Accrued liabilities, including malpractice reserves and contingencies	• Perform detail testing of management's calculations, including underlying inputs and data provided to specialists used in actuarial calculations for medical malpractice, workers compensation, pension and self-insurance health liabilities • Obtain and review outside actuarial reports used to determine pension and malpractice liabilities • Assess for reasonableness the assumptions used in developing estimates • Perform a search for unrecorded liabilities •Test the completeness and accuracy of accounts payable aged trial balance • Review payroll accruals for reasonableness
Accounting Estimates	The preparation of NYC Health + Hospital's financial statements requires management to make multiple estimates and assumptions that affect the reported amounts of assets and liabilities as well as the amounts presented in certain required disclosures in the notes to those financial statements. The most significant estimates relate to contractual allowances, the allowance for doubtful accounts, third-party liabilities, malpractice liabilities

	and actuarial estimates for the pension plan. Our procedures have been designed in part, to review these estimates and evaluate their reasonableness.
Financial Statement Disclosures	Our procedures will also include an assessment as to the adequacy of NYC Health + Hospital's financial statement disclosures to ensure they are complete, accurate and appropriately describe the significant accounting policies employed in the preparation of the financial statements and provide a detail of all significant commitments, estimates and concentrations of risk, amongst other relevant disclosures required by accounting standards and industry practice.

Mr. Dioguardi concluded his presentation by noting the other areas of the audit focus will be to perform substantive testing on key account balances as of June 30, 2019, as follows:

- Confirmation of cash and cash equivalents.
- Test significant fixed asset additions and disposals, as applicable.

Ms. Hernandez-Pinero asked what is significant?

Mr. Dioguardi answered that significant is based on many variables. It can change from year to year and it is dependent on the financials of the organization, each year is dependent on various risk factors.

- Test deferred revenue, as applicable.
- Obtain debt roll-forward and test payments throughout the year and compliance with debt covenants
- Review and testing the completeness of accounts payable and accrued liabilities.
- Perform an analytical review of revenues and expenses.
- Identify and test non-routine transactions to ensure appropriate accounting treatment.
- Independently confirm with internal and external legal counsel the potential exposure associated with outstanding claims, as applicable. Identify contingent liabilities or assets requiring accounting treatment or footnote disclosure.

Mr. Dioguardi stated that our audit is designed to include some procedures around fraud. The audit is not designed to identify fraud, however there are certain procedures that we are required to do to satisfy some of the high-risk elements.

- Perform fraud procedures
  - Journal entry testing
  - Review inter-company accounts
  - Vendor testing

Mr. Pagán asked when there is suspicion of fraud – how is that communicated?

Ms. Radinsky responded that it is discussed with management.

Mr. Dioguardi continued by detailing their approach to testing the Organization's information technology systems as follows:

<u>Phase 1: Understand and document business processes material to the audit</u>
Our engagement team will:

- Meet with the Organization management to document our understanding of critical business processes and controls, and the technology used to support them.
- Document process flows, controls, and supporting technology relevant to audit objectives.

Phase 2: Assess information technology risks
- Our engagement team will identify information technology related risks and tailor our information technology review procedures to address those risks.

Phase 3: Identify information technology controls that support audit objectives
- General controls review – Review controls applicable to the overall processing environment.
- Applications review – Review specific business systems for application level and related controls.

Phase 4: Test technology related controls
- We will test the identified controls and determine their design and operating effectiveness, within the context of our audit scope and objectives. As a result of our test procedures, we will prepare observations and recommendations to improve existing information technology systems and associated controls and processes.

Mr. Feuerstein outlined the six GASBs issued that will impact the organization over next two to three years.

Title	Effective fiscal year ending
GASB 84 - *Fiduciary Activities*	June 30, 2020*
GASB 87 - *Leases*	June 30, 2021
GASB 88 – *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*	June 30, 2019*
GASB 89 – *Accounting for Interest Cost Incurred before the end of a Construction Period*	June 30, 2021
GASB 90 – *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*	June 30, 2020*
GASB 91 – *Conduit Debt Obligations*	June 30, 2022

*NYC Health + Hospitals is early adopting GASB 84 and GASB 90 for June 20, 2019 and is required to adopt GASB 88 for June 30, 2019.

Mr. Telano, Senior Assistant Vice President, Internal Audits began his presentation with the external audits being conducted by Regulatory Agencies were as follows:

I. ***Compliance with Federal Tax Requirements – Internal Revenue Service***

This audit began in October 2018. The objective of the audit is to ensure compliance with federal tax requirements as an exempt organization. During the entrance conference, the IRS requested the following documents:

a) Financial Assistance Plan (FAP) for each hospital facility – this document must apply to all emergency and other medically necessary care provided by the hospital facility.
b) Minutes from meetings describing the FAP during FY16, the billing and collection policy and actions taken in the event of nonpayment of fees.
c) Community Health Needs Assessment (CHNA) for FY16 - which is required to be conducted by each hospital facility once every three years in order to document the extent to which it understands the unique characteristics and needs of the local communities it serves, and responds to these means by delivering meaningful and effective benefit through clinical services.

Mr. Telano stated that all of the above documents were sent to the IRS as of February 7, 2019. On May 28, 2019 we were advised that the field work was completed and forwarded to the IRS Audit Manager for review. After this review is completed, we will receive a closing letter with the findings and observations.

II. ***Children of Bellevue Auxiliary – NYC Comptroller's Office***

This audit began in April 2019. The audit objectives are to determine whether CoB:

- Has adequate controls over and accurately reports its revenues and expenses.
- Is complying with applicable rules, regulations, policies and procedures.
- Has computerized systems controls to ascertain the integrity, validity and reliability of its data.

The walkthrough of Auxiliary operations was conducted on May 1, 2019. Financial documents and operating procedures related to the day-to-day activities of the Auxiliary are currently being requested.

Mr. Telano stated that a report was received from the Office of Inspector General (IG) regarding their review of Unauthorized Parking Placards and noted that the report discussed three complaints received by the IG concerning specific members of Hospital Police staff who were fabricating, distributing and using unauthorized parking placards to avoid parking fines for themselves and individuals within Health + Hospitals and other New York City agencies. The staff involved were assigned to various facilities – NYC Health + Hospitals/ Elmhurst, North Central Bronx and Coney Island. the IG believed the actions taken by these individuals violated NYC Health + Hospitals Code of Ethics and may violate conflicts of interest rules under Chapter 68 of the New York City Charter. The IG suggested that Health + Hospitals management take the appropriate personnel action against the employees noted within the report. They also recommended that Health + Hospitals issue a system-wide advisory reminding all employees on the proper use of placards.

Mr. Telano stated that as a result of this report, a system-wide advisory was issued by the Corporate Compliance Officer to all employees on the authorized uses of parking placards. In addition, an internal investigation was initiated regarding the employees mentioned in the report with appropriate actions to be taken depending on the results.

Mr. Telano stated that the Office of Internal Audits is currently investigating two anonymous letters received by the President's Office. The first letter included complaints about the purchasing habits at NYC Health + Hospitals/Gouverneur. The second letter is about MetroPlus.

Ms. Catherine Patsos, Chief Corporate Compliance Officer provided an update and stated that during the period from April 1, 2019 through May 31, 2019, the OCC was notified of three (3) disciplined community physicians and one (1) disciplined affiliate physician.

Ms. Patsos stated that on May 9 and 10, 2019, the OCC received reports stating that two (2) community physicians had restrictions placed on their licenses, including one physician whose license was revoked, and a third previously reported disciplined community physician who recently surrendered his license voluntarily.

Ms. Patsos when on to state that on May 10, 2019, the OCC was informed that an affiliate physician at NYC Health + Hospitals/Coney ("Coney") had a specific restriction placed on her license. This restriction precluded her from performing all forms of invasive procedures, including but not limited to injections, infusions, blood glucose tests with portable glucometers, and phlebotomy. The Chief Medical Officer at Coney was aware of this affiliate physician's restrictions, and her privileges were adjusted according to the Office of Professional Medical Conduct requirements. In addition, she has been placed on administrative leave until further notice.

Ms. Patsos stated that no providers were identified on the Death Master File (DMF) or National Plan and Provider Enumeration System (NPPES) since last Audit Meeting.

Ms. Patsos stated that since the last Audit Committee meeting, twenty-seven (27) incidents were entered in the System's RADAR Incident Tracking System. Of the twenty-seven (27) incidents, ten (10) were found after investigation to be violations of NYC Health + Hospitals HIPAA Privacy and Security Operating Procedures ("OPs"), specifically OP 240-15 HIPAA Privacy Safeguards Policy, and OP 240-28 HIPAA Policy on Uses and Disclosures for Treatment, Payment and Healthcare Operations; ten (10) were found not to be a violation of NYC Health + Hospitals HIPAA Privacy and Security OPs; and seven (7) are still under investigation. Of the 10 incidents confirmed as violations, three (3) were determined to be breaches.

Ms. Patsos stated that the first incident was with NYC Health + Hospitals/Elmhurst ("Elmhurst") in March 2019. Ms. Patsos stated that this incident occurred on March 28, 2019, when a resident physician allegedly disclosed a patient's HIV status in front of a family member present in the room without the patient's authorization. The patient filed a formal complaint with Patient Relations which was forwarded to Risk Management and the OCC.

Ms. Patsos stated that the OCC reviewed the patient complaint and spoke with the resident physician who could not expressly confirm whether or not this information was disclosed during the conversation he had with the patient. Due to the possibility that this disclosure may have occurred, the patient was notified of a breach on May 2, 2019.

Ms. Patsos stated that in response to this incident, the employee who potentially disclosed this information was required to complete the OCC's HIPAA online privacy and security remediation course and was provided with counseling by his supervisor.

Ms. Patsos stated that the second incident was with NYC Health + Hospitals/Bellevue ("Bellevue") in April 2019. Ms. Patsos stated that this incident occurred on April 17, 2019, when a contracted worker, who was on-site during the Epic Electronic Medical Record ("EMR") implementation, accessed the record of another contracted worker, who had become a patient while working at Bellevue. The contracted worker used the account of a Bellevue physician to access the patient's information, and the physician reported the incident to the OCC.

Ms. Patsos stated that the OCC reviewed the statements made by the contracted worker as well as the physician who reported the issue. Following an investigation, the OCC concluded that a breach had occurred, and notified the patient of the breach on May 2, 2019.

Ms. Patsos stated that in response to this incident, the OCC worked with HCI, the third-party company contracted to provide staff with Epic onsite assistance, to ensure that the contracted worker was removed from the Bellevue worksite, which was done immediately. Subsequently, HCI terminated this worker.

Ms. Patsos stated that the second incident was with NYC Health + Hospitals/Queens ("Queens") in April 2019.

Ms. Patsos stated that the OCC reviewed the statements made by both patients and the treating nurse practitioner, as well as Epic chart audit trails. The case was substantiated and the documents were returned to the hospital. The patient was notified of a breach on May 2, 2019.

Ms. Patsos stated that in response to this incident, the OCC required the employee who provided the discharge documents to the wrong patient to complete the OCC's HIPAA online privacy and security remediation course, and the employee's supervisor provided counseling to the employee.

Ms. Patsos stated there was one (1) report received from the OCR in the since the last Audit Committee meeting. The report involved a complaint about an alleged HIPAA violation at NYC Health + Hospitals/Coler ("Coler") concerning unreasonable fees charged by Coler for access to a patient's medical records. The OCC is currently investigating the allegation and working with the Health Information Management department at Coler to recommend areas for process improvement with respect to access to medical records. The OCR is not taking any action regarding this complaint at this time.

Ms. Patsos stated that in addition, as reported at the last Audit Committee Meeting, on February 22, 2019, the OCR met with the OCC and Enterprise Information Technology Services ("EITS") leadership, along with in house and outside counsel, to discuss NYC Health + Hospitals' compliance with HIPAA. The OCR called this meeting due to its concerns regarding NYC Health + Hospitals' ability to comply with HIPAA, and in particular, to safeguard its ePHI from inappropriate use or disclosure. During this meeting, however, we were able to explain to the OCR that the System has many controls in place to safeguard its ePHI, in compliance with HIPAA requirements. The OCR requested that the System document such current controls, as well as additional planned controls, in a Commitment Letter to the OCR. The OCC submitted a Commitment Letter to the OCR on March 4, 2019, with follow-up documentation on March 18, 2019, April 30. 2019, and June 7, 2019.

Ms. Patsos stated as part of the System's commitment to the OCR, the OCC has revised the System's HIPAA Privacy and Security Operating Procedures ("OPs"), nearly all of which were signed by Dr. Katz on May 31, 2019. Most of these OPs date back to 2003 or 2004. There were 42 OPs to be revised, many of which were merged, for a total of 25 revised OPs. There is still one OP left to be signed, which is currently being finalized and prepared for signature. This OP combines the mental health and genetic testing OPs and adds HIV-related information. Due to the sensitivity of this information, and the complexity of the OP, it has taken a slightly longer to complete.

Mr. Siegler congratulated Ms. Patsos on the work with OCR.

Ms. Patsos stated that since the last Audit Committee meeting, there were seventy-six (76) compliance reports, two (2) (2.6%) of which were classified as Priority "A," 3 twenty-eight (28) (36.8%) were classified as Priority "B," and forty-six (46) (60.5%) were classified as Priority "C" reports. For purposes here, the term "reports" means compliance-based inquiries and compliance-based complaints.

Ms. Patsos stated that the OCC received a report alleging that a psychiatrist in Correctional Health Services' ("CHS") Forensic Psychiatric Evaluation Court Clinic audio recorded, on "multiple occasions," evaluations of defendants, using her personal cell phone. The recordings were alleged to have been created without the consent of the defendants or their counsel. It was also alleged that the psychiatrist appeared in a New York State Supreme Court proceeding, during which she admitted that she recorded a defendant's 730 evaluation, which is an evaluation to determine an individual's competency to stand trial.

Ms. Patsos stated that following an investigation of this allegation, the OCC concluded that the psychiatrist had only audio-recorded one evaluation, and that, although she did not technically violate any existing law or policy regarding the audio-recording of forensic evaluations, her decision to record the defendant in the proceeding was inconsistent with the custom and practice of performing 730 evaluations.

Ms. Patsos stated that the OCC recommended that the psychiatrist be disciplined in the form of counseling, and retraining on the custom and practice of conducting 730 evaluations. The OCC also recommended that CHS develop general policies and procedures for conducting 730 evaluations, if such policies and procedures are not currently in existence, and more specifically to develop policies regarding any form of recording 730 evaluations.

Ms. Patsos stated that on April 17, 2019, the OCC received a report regarding a clinical matter that occurred at NYC Health + Hospitals/Woodhull ("Woodhull"), which was handled by Woodhull's Risk Management and Quality Assurance.

Ms. Patsos stated that in January 2019, an onsite audit on funds flow, workforce spending, and actively engaged patients was conducted by an Independent Assessor. On April 30, 2019, OneCity Health received its preliminary Audit Scorecard from the Independent Assessor, and submitted additional follow-up documentation to the Independent Assessor on May 31, 2019.

Ms. Patsos stated that upon receipt of the OneCity Health's response, the Independent Assessor will perform a review of the additional documentation submitted, and issue an Independent Assessor Onsite Audit Final Scorecard. If the Independent Assessor is unable to validate the documentation and reporting submitted by OneCity Health in the quarterly reports, the Independent Assessor will recommend that the corresponding Achievement Values be overturned and the corresponding value will be withheld from future payment to the PPS.

Ms. Patsos stated that HHC ACO, Inc. ("HHC ACO") submitted its application to renew its contract with CMS for the 2019-2024 agreement period. HHC ACO is applying to participate in the Enhanced Track of the Medicare Shared Savings Program ("MSSP"), beginning July 1, 2019. The Enhanced track is a two-sided track, which will involve shared savings as well as potential shared losses. The shared savings could be as much as 75% of the savings to the Medicare program, adjusted by HHC ACO's quality score, and capped at 20% of total benchmark expenditure. Although the Enhanced Track provides for the most allowed shared savings, it also carries the most risk – amounting to 40% to 75% of the losses to the Medicare program. The losses, however, are also adjusted by HHC ACO's quality scores, and capped at 15% of the total benchmark expenditure imposed by CMS. The final submission date for the final round of requested documentation to CMS was May 2, 2019.

Ms. Patsos stated that the ACO has been working to finalize its agreements and contracts to satisfy CMS' requirements to participate in the Enhanced Track, which will start on July 1, 2019 and end on December 31, 2024. HHC ACO expects to receive final approval from CMS on its application during the week of June 17, 2019.

Ms. Patsos stated that on April 15, 2019, the HHC ACO Board of Directors met and passed a resolution authorizing HHC ACO to furnish any required repayment mechanism and authorize the CEO of HHC ACO to execute and deliver the required repayment mechanism on behalf of HHC ACO Inc.

Ms. Patsos stated that on April 18, 2019, NYC Health + Hospitals' Board of Directors met and passed a resolution to authorize NYC Health + Hospitals to become the guarantor for the MSSP repayment mechanism. On May 21, 2019, HHC ACO received preliminary approval from CMS, status pending finalization of the repayment mechanism. On

May 30, 2019, HHC ACO finalized the transaction with TD Bank to issue a letter of credit to CMS to satisfy the requirement of establishing a repayment mechanism.

Ms. Patsos stated that on May 2, 2019, HHC ACO submitted responses to the New York State Department of Health for the annual questionnaire to maintain All Payer ACO status with New York State.

Ms. Patsos stated that to ensure the System's compliance with the requirements of HIPAA and HIPAA regulations, the System has engaged a third party vendor, Coalfire Systems, Inc. ("Coalfire"), to conduct a HIPAA enterprise-wide Risk Analysis and Security Assessment. Coalfire conducted its corporate review in April 2019, and began conducting facility on-site reviews on May 8, 2019. Coalfire will conduct on-site reviews at all of the System's acute care facilities, skilled nursing facilities, and Diagnostic and Treatment Centers, and a sample of the Gotham clinics. It will also conduct virtual reviews of 14 other Gotham clinics.

Ms. Patsos noted that in addition, Coalfire will perform penetration tests of the System's systems and applications to determine their vulnerability to unauthorized access. It will also assess a sample of the System's vendors to determine their compliance with HIPAA and the security of the System's PHI that they maintain.

Ms. Patsos stated as previously reported, on January 31, 2018, the OCC received notification from Aetna of a Notice of Compliance Program Audit (the "Notice"), requesting information from NYC Health + Hospitals relating to its compliance with Medicare Parts C and D compliance program elements as required by CMS. Ms. Patsos stated the Notice stated that the review would include functions performed by the System (particularly the OCC) which are related to Aetna's Medicare Advantage, Prescription Drug Plans and/or Medicare – Medicaid Plan product lines. Aetna performs such reviews to ensure that the entities it contracts with, such as the System, meet their compliance program obligations. These reviews are conducted under the auspices of their "Delegated Vendor Oversight" responsibilities, as required by CMS.

Ms. Patsos noted on April 30, 2018, the OCC received Aetna's Compliance Program Elements Audit Report (the "Audit Report"), which included Aetna's conclusions regarding NYC Health + Hospitals' compliance with its audit. According to the Audit Report, NYC Health + Hospitals satisfied eight of the compliance requirements, but failed to satisfy four compliance requirements. The Audit Report also required NYC Health + Hospitals to submit corrective action plans to Aetna for the failed compliance requirements, which the OCC did on May 25, 2018.

Ms. Patsos noted on August 27, 2018, the OCC submitted NYC Health + Hospitals' report on the implementation of its corrective actions plans, most of which involved changes to Operating Procedures. On September 18, 2018, the OCC received an email from Aetna requesting additional information in response to one of the System's corrective action plans, which the OCC provided on September 20, 2018.

Ms. Patsos noted on November 15, 2018, the OCC received an email from Aetna regarding its further review of the System's corrective action plans, stating that the System needs to revise its policies to meet a record retention requirement that the OCC believes does not apply to the System. The OCC conferred with the Office of Legal Affairs regarding the System's obligation to comply with this requirement, and responded that it continued to maintain its position that such requirement does not apply to NYC Health + Hospitals.

Ms. Patsos also noted on January 31, 2019, the OCC received another email from Aetna requesting that the OCC provide documentation to demonstrate the System's adherence to the CMS requirement related to retaining existing

employee training records for a 10-year period. In addition, Aetna provided a random selection of five System employees with hire dates of 2009 and prior, which were identified from the System's original employee universe. Aetna requested that the OCC provide evidence demonstrating completion of these employees' Code of Conduct and Compliance training within the past ten years, by February 15, 2019.

Ms. Patsos reported that on April 8, 2019, Aetna sent the OCC another email stating that (i) Aetna had completed its assessment of the System's compliance with general Medicare compliance program requirements; (ii) Aetna's National Network Delegation auditors conducted a thorough review of the evidence provided by the System and determined that the System demonstrated compliance training dating back to 2009 for four of the five selected employees, but that gaps were identified in training completion during some years; and (iii) Aetna's review of the System's evidence demonstrating completion of compliance training within the past ten (10) years did not meet the Corrective Action Plan ("CAP") requirements for the System's record retention policy. Aetna further noted that the CAP would remain open, and requested that the System advice Aetna if there will be any additions or revisions to its policy and procedure to address the identified deficiencies.

Ms. Patsos stated that on the OCC responded to this email on April 30, 2019, explaining the reasons for any gaps in training completion, and that the System has taken significant mitigation steps. These include the development of new courses, processes, and workforce requirements, all which were launched in 2018, which were designed and implemented to prevent the reoccurrence of any such issues going forward.

Ms. Patsos stated that finally, the OCC stated that the measures taken by the System provide sufficient evidence that the System is working to both enhance and support its compliance with applicable regulations. Due to the mitigation steps already implemented, and the CAP now in place, the OCC stated that it is of the opinion that no additions or revisions to the System's policy and procedure are warranted. The OCC also requested that Aetna close out the CAP and deem all the purported deficiencies to be resolved. We are currently awaiting Aetna's response to the OCC.

There being no other business, the meeting was adjourned at 12:00 P.M.

2019 Audit Results
New York City Health + Hospitals Corporation

Meeting with the Audit Committee of the Board of Directors; Those Charged with Governance

October 10, 2019

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October 10, 2019

The Audit Committee of the Board of Directors
New York City Health + Hospitals Corporation

We are pleased to meet with you to discuss our audit results and status for the audit of New York City Health + Hospitals Corporation ("NYC Health + Hospitals") for the year ended June 30, 2019.

This report to the Board summarizes our audits, the scope of our engagement, the reports issued, any matters that came to our attention during the audits, communications required by our professional standards and current accounting issues that could or will impact NYC Health + Hospitals.

The audit approach was developed to express an opinion on the financial statements of the business type activities and the discretely presented component unit of NYC Health + Hospitals, a component unit of The City of New York, as of and for the year ended June 30, 2019, in accordance with professional standards.

NYC Health + Hospitals and Grant Thornton share a commitment to quality. Our firm's global vision, CLEARR, (**C**ollaboration, **L**eadership, **E**xcellence, **A**gility, **R**espect and **R**esponsibility) serves as the foundation for each step we take toward executing our firm strategy and achieving our vision. CLEARR is the way in which we provide the Grant Thornton Experience to our people and our clients. The most important element of the Grant Thornton Experience for our clients is our service. We recognize that our success depends entirely on how well we know and serve our clients. Nothing takes precedence over our commitment to meet each client's continuing need for effective, insightful and responsive professional service. This commitment means that you will receive the attention and service you deserve.

We look forward to meeting with you to present this report, address your questions and discuss any other matters of interest of the Board. This report is intended solely for the information and use of the Board, and management, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Grant Thornton LLP

Our Values are CLEARR

To achieve our global vision, we capitalize on our strengths by embracing the following values:

- Unite through global **Collaboration**
- Demonstrate **Leadership** in all we do
- Promote a consistent culture of **Excellence**
- Act with **Agility**
- Ensure deep **Respect** for people
- Take **Responsibility** for our actions

Our values serve as the foundation of each step we take toward achieving our vision. They guide our decision-making and ensure that our people make correct and appropriate choices.

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Responsibilities

An audit process has various stakeholders including: Grant Thornton, Management and Those Charged with Governance

Our Responsibilities

We are responsible for:

- Performing an audit under US GAAS and *Government Auditing Standards* of the financial statements prepared by management, with your oversight
- Forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects in conformity with US GAAP
- Forming and expressing an opinion about whether certain supplementary information is fairly stated in relation to the financial statements as a whole
- Communicating specific matters to you on a timely basis; we do not design our audit for this purpose

An audit provides reasonable, not absolute, assurance that the financial statements do not contain material misstatements due to fraud or error. It does not relieve you or management of your responsibilities. Our respective responsibilities are described further in our engagement letter.

Management

Management is responsible for:

- Preparing and fairly presenting the financial statements in conformity with US GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting
- Communicating significant accounting and internal control matters to those charged with governance
- Providing us with unrestricted access to all persons and all information relevant to our audit
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses
- Adjusting the financial statements, including disclosures, to correct material misstatements
- Informing us of subsequent events
- Providing us with certain written representations

Those Charged with Governance

Those charged with governance are responsible for:

- Overseeing the financial reporting process
- Setting a positive tone at the top and challenging the company's activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including its views about fraud risks
- Informing us about other matters that are relevant to our audit, such as:
    - Objectives and strategies and related business risks that may result in material misstatement
    - Matters warranting particular audit attention
    - Significant communications with regulators
    - Matters related to the effectiveness of internal control and your related oversight responsibilities
    - Your views regarding our current communications and your actions regarding previous communications

Deliverables

The audit process is a mutual undertaking and executed in cooperation with management. It is a combined effort that gives full recognition to the existing internal controls as well as the assessment of inherent and control risks. There were no significant changes to the scope of planned deliverables.

Our 2019 audit scope is as follows:
Perform the following audits of financial statements as prepared by management, with your oversight, conducted under US Generally Accepted Auditing Standards (GAAS) and, where applicable, under *Government Auditing Standards*: • New York City Health + Hospitals Corporation ("NYC Health + Hospitals") for the fiscal year ended June 30, 2019 • HHC Accountable Care Organization Inc. annual financial statements for the fiscal year ended June 30, 2018 and June 30, 2019 • Metro Plus Health Plan's annual financial statements under GAAP for the fiscal year ended June 30, 2019 • Metro Plus Health Plan's annual statutory financial statements for the fiscal year ending December 31, 2019 • HHC Insurance Company's annual statutory financial statements for the fiscal year ending December 31, 2019
Perform the following audits, as applicable, of cost reports for the year ended June 30, 2019 and issuance of certifications and attestation reports: • Annual Report of Ambulatory Health Care Facility (AHCF-1) • Annual Report of residential Health Care Facility (RHCF-4)
Internal control communications: • Issue management letter describing significant deficiencies and material weaknesses identified during the audit, if any
Required communications to Those Charged with Governance

Summary of Audit Process

	A five-step process
Planning	Reviewing our understanding of your operations, internal controls, accounting procedures and information systems.
Risk assessment	Using our understanding of your internal controls and operations to identify the inherent risks and strengths of your business and information systems. After assessing risks, our approach will be customized to focus on your key cycles.
Testing and evaluation of controls	Evaluate the operations and controls of each significant internal control system. Based on the results of this evaluation, the extent of substantive testing will be determined.
Substantive testing	Perform year-end procedures, when appropriate audit software will be used to perform substantive testing. This software will enable us to retrieve information from your data files without affecting the integrity of the data.
Concluding and reporting	Concluding your audit promptly. The drafts of the financial statements and management advisory comments were reviewed with those charged with governance and management prior to final issuance.

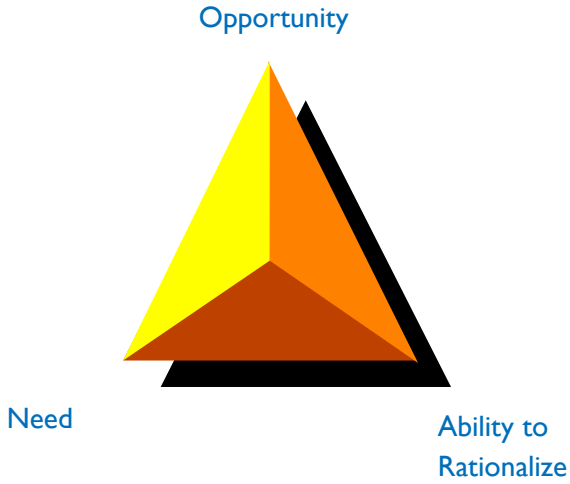
Fraud Considerations and the Risk of Management Override

We are responsible for planning and performing the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or by fraud (SAS No. 99, *Consideration of Fraud in a Financial Statement Audit*).

Our audit procedures consider the requirements of SAS No. 99: brainstorming; gathering information to facilitate the identification of and response to fraud risks; and performing mandatory procedures to address the risk of management override (including examining journal entries, reviewing accounting estimates, and evaluating business rationale of significant unusual transactions).

We consider, among other things:

- Code of conduct policy/ethics
- Effective and independent oversight by Those Charged with Governance
- Process for dealing with whistle-blower allegations
- Internal audit/corporate compliance activities
- Entity's risk assessment processes



Role and oversight responsibilities of Those Charged with Governance:

- Management's assessment of the risks of fraud
- Programs and controls to mitigate the risk of fraud
- Process for monitoring multiple locations for fraud
- Management communication to employees on its views on business practices and ethical behavior

Internal Control Matters

Our Responsibilities

- Obtain reasonable assurance about whether the financial statements are free of material misstatement
- Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NYC Health + Hospitals' internal control
- We express no opinion on the effectiveness of internal control
- Control deficiencies that are of a lesser magnitude than a significant deficiency were communicated to management

Definitions

- A deficiency in internal control ("***control deficiency***") 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, misstatements on a timely basis.
- A ***material weakness*** is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected 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 responsible for oversight of the company's financial reporting.

Areas of Emphasis

Grant Thornton has concluded that the balances and disclosures related to the areas of emphasis are reasonable and there were no issues identified requiring direct communication to those charged with governance.

Accounts receivable from patients, net patient service revenue, and related contractual allowances and bad debt reserves Risk – significant asset, management establishes reserves for allowances based on specific identification and historical data and reviews the reserve as part of their monthly closing process	• Reviewed account reconciliations. • Performed analytical procedures over key indicators such as days in accounts receivable, account write-offs and aging of balances. • Performed detailed account balance testing. • Performed cut-off testing. • Reviewed management's methodology for estimating allowances. • Performed medical records testing (in lieu of confirmations) for existence. • Performed cash to revenue proof. • To ensure reasonableness of accounts receivable allowances, we reviewed and tested subsequent cash receipts on June 30, 2018 net accounts receivable collected in FY2019, as well as June 30, 2019 collected through the first two months of FY2020. • Performed procedures over EPIC implementation at sites that went live on EPIC during FY2019.
Estimated settlements with third-party payors Risk - Estimated settlements with third-party payors are not complete and accurate.	• Reviewed account reconciliations and roll-forward and agreed significant reconciling items to supporting schedules and documentation. • Performed detailed account balance testing. • Reviewed management's methodology for estimating amounts. • Reviewed the financial statement presentation and disclosures.
Cash and cash equivalents, investments, assets restricted as to use and investment income Risk – Cash and investment balances do not exist or are not complete and accurately stated.	• Confirmed all material account balances directly with outside financial institutions. • Reviewed account reconciliations and supporting documentation. • Performed interbank transfer testing. • Reviewed management's disclosure over fair value in accordance with GASB 72, *Fair Value Measurement and Application*
Capital assets Risk –Completeness, existence and accuracy of current year additions, CIP, capitalized interest and accumulated depreciation	• Obtained a roll-forward of the property and equipment balances. • Tested current year additions, including the calculation of capitalized interest. Additions testing address the large additions to CIP due to the construction of the ambulatory wing. • Performed analytical procedures over depreciation expense. • Reviewed leases. • Reviewed the financial statement presentation and disclosures.

Areas of Emphasis - Continued

Long-term debt, compliance with debt covenants and debt transaction Risk – completeness and current vs. long-term classification.	• Confirmed all material long-term debt balances. • Performed accrued interest and interest expense reasonableness testing. • Reviewed debt compliance calculations prepared by management. • Reviewed the financial statement presentation and disclosures.
Accrued liabilities, including payables due to vendors, affiliation payables and accruals, and employee compensation accruals Risk – exposure and risks associated with reporting accruals and related expenses in the appropriate period	• Performed detail testing of management's calculations, including underlying inputs and data. • Assessed for reasonableness the assumptions used in developing estimates. • Performed search for unrecorded liabilities.
Other postemployment benefit (OPEB) liabilities Risk – the net OPEB liability is not valued accurately and the required disclosures are not complete as required by GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*	• Performed detail testing of underlying data provided to actuary for OPEB liability. • Documented our reliance on the actuary in accordance with SAS 73. • Reviewed management's documentation for assumptions selected (i.e. discount rate, health care cost trend rates). • Reviewed the footnote disclosures to ensure that they are complete and accurate as required by GASB 75. • Actuarial assumptions used in the actuarial reports were reviewed by subject matter professional for reasonableness.
Net Pension Liability Risk – the net pension liability is not recorded accurately and required disclosures are not complete as required by GASB Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.	• Obtained the actuarial valuation report. • Performed procedures to ensure that the amounts in the actuarial valuation report of pension amounts agree to amounts reported in the NYC Health + Hospitals' financial statements. • Performed detail testing of underlying data provided to actuary for pension liability • Reviewed management's documentation for assumptions selected (i.e. discount rate, health care cost trend rates). • Reviewed the footnote disclosures to ensure that they are complete and accurate as required by GASB 68. • Actuarial assumptions used in the actuarial reports were reviewed by subject matter professional for reasonableness.

Areas of Emphasis - Continued

Claims Payable Reserves (IBNR) Significant Risk – High estimation uncertainty	• Considered the experience, objectivity and capability/competence of the external actuarial specialist, Conduent. • Tested completeness and accuracy of claims data that was provided to the client's external actuary, Conduent. • Selected a sample of 30 Medicaid, Medicare and Marketplace claims covering the current fiscal year and prior fiscal year and performed substantive test of details over the selection. • Tested, with the assistance of GT internal actuary, the methodologies and assumptions used by Conduent in the calculation of IBNR for reasonableness. • Performed a look back analysis to compare the prior year IBNR estimate to current year results. • Performed journal entry testing covering transactions included transactions related to IBNR.
Risk Transfer Adjustment Significant Risk – High estimation uncertainty	• Considered the experience, objectivity and capability/competence of the external actuarial specialist, Wakely. • GT tested the inputs related to the Risk Transfer calculations along with getting support from third party actuaries and industry data. • Tested, with the assistance of GT internal actuary, the methodologies and assumptions used by Wakely in the calculation for reasonableness. • Completed a look back analysis to compare the prior year estimates to what was settled in 2019 related to the prior year reserves.
Premium Revenue Recognition Significant Risk – Presumed risk of fraud with respect to revenue	• Selected one month per quarter and tested the Medicaid/Medicare and Marketplace revenues received by MetroPlus. • Selected a sample of 25 individual Medicaid participants and agreed the rate they receive from the state to the premium rate per the Medicaid contract for reasonableness. • Select a sample of 25 individual Marketplace participants and agreed the rate they receive from CMS to the MetroPlus marketplace rate. • Performed journal entry testing covering transactions included in the revenue cycle.

Areas of Emphasis - Continued

Subsequent Events Risk – that significant events occurring subsequent to June 30, 2019 that impact NYC Health + Hospitals are not disclosed	• Held discussions with management and reviewed subsequent to year end documents to determine if management had disclosed all significant subsequent events. • Reviewed available financial information subsequent to June 30, 2019 to identify any significant subsequent events. • Included representation from management regarding the completeness of the subsequent event information provided in the annual representation letter.
Financial reporting and Financial Statement Presentation Risk – combined amounts and disclosures are not in accordance with GAAP	• Reviewed GAAP/GASB disclosure checklists and tested footnote data. • Reviewed consolidating and eliminating entries and ensured they were accurate and properly reviewed by management. • Reviewed the applicability of new accounting pronouncements and their potential impact to NYC Health + Hospitals.
Fraud procedures Risk – revenue recognition, journal entries and other top sided adjustments, accounting estimates, significant unusual transactions, and related party transactions are improperly recorded.	• Performed key analysis on the overall financial statements. • Examined journal entries and other adjustment for evidence of possible material misstatement due to fraud. • Reviewed estimates made by management for reasonableness and consistency. • Fraud inquires with the audit committee chair, key members of the executive management team and key members of the finance management team • Reviewed intercompany and related party balances. • Tested a sample of over-the-counter cash receipts during site visits for accuracy and compliance with cash collections policies • Performed existence testing of a sample of material fixed asset additions through physical observation during site visits

Required Communications

Matters to be communicated	Auditor's comments
Auditor's responsibility under Generally Accepted Auditing Standards (GAAS) The auditor is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The auditor is responsible for conducting an audit in accordance with GAAS. Those standards require that the auditor obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement. Accordingly, a material misstatement may remain undetected. An audit includes obtaining an understanding of internal controls sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal controls or to identify material weaknesses.	These items have been communicated to you in our engagement letter. We are prepared to issue an unmodified opinion on the financial statements of NYC Health + Hospitals.
Significant accounting policies, alternative treatments within generally accepted accounting principles (GAAP), and the auditor's judgment about the quality of accounting policies including modifications to the auditor's report We are responsible for providing our views about qualitative aspects of the significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. GAAP requires management to make accounting estimates and judgments about accounting policies and financial statement disclosures. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's current judgments. We will inform you about the appropriateness of the accounting policies to the particular circumstance of the entity. When acceptable alternative accounting policies exist, we will identify the financial statement items that are affected by the choice of significant policies as well as information on accounting policies used by similar entities. We will inform you of changes in significant accounting policies and application of new accounting pronouncements. Additionally we will communicate any accounting policies in controversial or emerging areas or those unique to an industry, particularly when there is a lack of authoritative guidance or consensus.	We are not aware of any significant alternative accounting treatments, policies, and unusual transactions, controversial or emerging areas for which there is a lack of authoritative guidance that NYC Health + Hospitals has recorded or used. We have discussed with you our views of estimates and areas of emphasis in an earlier section of this report. During FY 2019 NYC Health + Hospitals adopted the following accounting pronouncements: • GASB Statement No. 84, Fiduciary Activities (GASB 84) • GASB Statements No. 88, Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements (GASB 88) • GASB Statement No. 90, Majority Equity Interests (GASB 90) See financials statements Note 1 for Recent Accounting Pronouncements noting that the newly adopted accounting pronouncements did not materially impact the 2019 financial statements.

Required Communications - Continued

Matters to be communicated	Auditor's comments
Materiality Essentially, materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is based on a relevant financial statement benchmark selected by the audit team.	We believe that total revenues for NYC Health + Hospitals and surplus for Metro Plus component unit are the relevant benchmark for the company. Financial statement items greater than materiality are within our audit scope. Other accounts or classes of transactions less than materiality may be in our scope if qualitative risk factors are present (for example, related party relationships or significant unusual transactions).
Audit differences or omitted financial statement disclosures including other findings or issues	There were no unrecorded audit differences identified in our audit that would have any effect on total net position, or changes in net position, and there were no omitted financial statement disclosures identified during the course of our audit.
Use of the Work of Others We are required to discuss the procedures performed by other professionals as part of our audit procedures.	Grant Thornton Valuation Services Group (VSG) • Utilized to review the assumptions used in the valuation of NYC Health + Hospitals' Health and Benefit Postretirement Plans.
Potential effect on the financial statements of any significant risk and exposures	The financial statements disclose significant risks and uncertainties, including, but not limited to significant estimates, regulatory compliance, and commitment and contingencies.
Fraud and illegal acts	No irregularities, frauds or illegal acts involving senior management or that would cause a material misstatement to the financial statements, came to our attention as a result of our audit procedures.
Material uncertainties related to events and conditions that may cast doubt on the ability to continue as a going concern	We are not aware of any material uncertainties that cast doubt on NYC Health + Hospitals' ability to continue as a going concern.
Significant deficiencies and material weaknesses in internal control over financial reporting	

Required Communications - Continued

Matters to be communicated	Auditor's comments
Other information in documents containing audited /reviewed financial information Our responsibility with respect to other information in documents containing audit financial statement is to consider whether its content or manner of presentation is materially inconsistent with the financial information covered by our report or whether it contains a material misstatement.	We are not aware of and therefore have not reviewed any documents containing audited financial information.
Disagreements with management Our responsibility is to describe disagreements, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to NYC Health + Hospitals' financial statements or the auditor's report.	We have had no disagreements with management.
Management's consultation with other accountants We will inform you when management has consulted with other accountants about significant accounting or auditing matters.	None of which we are aware.
Significant issues discussed with management and difficulties encountered during the audit	No such issues were discussed with management or instances of difficulties were encountered.
Other material written communications	Items include: • Engagement letter • Representation letter

GASB Technical Update

Selected pronouncements effective for the year ending June 30, 2019 or subsequent periods – GASB

Title	Effective fiscal year ending
GASB 84- *Fiduciary Activities*	June 30, 2020 *
GASB 87- *Leases*	June 30, 2021
GASB 88- *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*	June 30, 2019 +
GASB 89- *Accounting for Interest Cost Incurred before the end of a Construction Period*	June 30, 2021
GASB 90- *Majority Equity Interests –an amendment of GASB Statements No. 14 and No. 61*	June 30, 2020 *
GASB 91- *Conduit Debt Obligations*	June 30, 2022

*** Adopted for the year ended June 30, 2019 at the request of the NYC Comptroller's.**

+ Adopted for the year ended June 30, 2019

GASB Technical Update - Continued

GASB 84- Fiduciary Activities	Potential impact
• Guidance addresses the following: - The categorization of fiduciary activities for financial reporting - How fiduciary activities are to be reported - When liabilities to beneficiaries must be disclosed • Types of fiduciary funds that must be reported include the following: - Pension (and other employee benefit) trust funds - Investment trust funds - Private-purpose trust funds - Custodial funds • A government controls the assets of an activity if it holds the assets or "has the ability to direct the use, exchange or employment of the assets in a manner that provides benefits to the specified or intended recipients" • Fiduciary activities must be disclosed in the basic financial statements of the government entity and a statement of fiduciary net position and changes in fiduciary net position should be presented (unless the period of custody is less than three months). • Effective for periods beginning after December 31, 2018, with early adoption encouraged.	Organizations often will agree to act as a fiduciary for certain third party entities that might be somehow affiliated to the organization. Under this new requirement, the Organization must report the fiduciary activity on its financial statements, where it may not have done so in the past. Management should identify which fiduciary activities it is engaged in to inventory the relationships, which may need to be reported. Management may want to consider changing the terms of the relationships such that they are not subject to reporting on the financial statements of the Organization when the requirement becomes effective.

GASB 87- Leases
• The GASB recently issued guidance which resembles the recently issued FASB guidance on leases. • To determine whether a lease exists, a government should assess whether it has both: - The right to obtain the present service capacity from use of the underlying asset as specified in the contract, and - The right to determine the nature and manner of use of the underlying asset as specified in the contract • For Lessees: - In general, all leases will be reported on the statement of net position (the distinction between operating and capital leases is no longer relevant) as a "right of use" asset and a corresponding lease liability within long term debt - On the statement of changes, rent expense will be replaced by amortization expense of the right-of-use asset as well as interest expense on the lease liability (thus accelerating expenses in the beginning years of the lease term) - There is an exemption for short term leases (those with a term of 12 months or less, including extension options) as well as leases that transfer ownership at the end of the term - Disclosures regarding matters such as total leased assets by major class of underlying assets and related accumulated amortization (in total), principal and interest payments for each of the five subsequent fiscal years and in five year increments thereafter and commitments under leases before a lease commencement period, among other items • Effective for periods beginning after December 15, 2019, with early adoption encouraged. Existing leases will be adjusted based on the remaining lease payments as of the beginning of the period of adoption or beginning of any earlier periods restated (for example, for June 30 year ends, adoption is June 30, 2021 so the beginning period is July 1, 2020).

GASB Technical Update - Continued

GASB 87- Leases – Potential Impact
For those organizations which use operating leases to finance certain capital activities, this standard could have a significant impact on the financial statements of the organization upon adoption. Management should consider the impact on financial covenants, as well as ensuring a complete inventory of existing leases that will be subject to the new accounting and disclosures.

GASB 88- Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements	Potential impact
• Improves consistency of information presented in the footnotes with respect to long-term debt, and to distinguish it from other long-term liabilities in applying disclosure requirements. • New guidance defines debt as "a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established". • In addition to the existing debt disclosures, organizations should disclose the following about all types of debt: - Amount of unused lines of credit - Assets pledged as collateral for debt - Terms specified in debt agreements related to significant events of default or termination events with finance-related consequences, as well as any subjective acceleration clauses - Direct borrowings and direct placements of debt should be distinguishable from other types of debt for all disclosures. • Effective for periods beginning after June 15, 2018. Changes to adopt this standard should be applied to all periods presented within the footnotes.	Depending on the amount of information currently disclosed as it relates to debt, organizations may find themselves having to augment existing footnotes to comply with the standard, specifically as it relates to direct borrowings, lines of credit, and other debt instruments.

GASB 89- Accounting for Interest Cost Incurred before the end of a Construction Period	Potential impact
• This Statement improves financial reporting by providing users with more relevant information about capital assets and the cost of borrowing, and enhancing comparability of information for both governmental activities and business-type activities. • Financial statements prepared using the economic resources measurement focus: - Interest cost should be recognized as an expense in the period incurred. • Financial statements prepared using the current financial resources measurement focus: - Interest cost should be recognized as an expenditure consistent with governmental fund accounting principles. • Effective for periods beginning after December 15, 2019, with early adoption encouraged. Changes to adopt this standard should be applied prospectively at adoption.	Organizations may have varying amounts of interest incurred during periods of significant construction. With the implementation of this new guidance, complex calculations of interest to be capitalized will no longer be required, thus simplifying accounting requirements. The new accounting accelerates the expense impact for the construction period, which should be considered when preparing budgets for future periods.

GASB Technical Update - Continued

GASB 90- Majority Equity Interests –an amendment of GASB Statements No. 14 and No. 61	Potential impact
• Improves consistency and comparability of reporting a government's major equity interests in legally separate organizations. • Defines an equity interest as a financial interest in a legally separate organization evidenced by the ownership of shares of the organization's stock or by otherwise having an explicit, measureable right to the net resources of the organization, usually based on an investment of financial or capital resources by the government. - If the equity interest holding meets the definition of an investment (GASB 72), the equity interest should be reported as an investment and measured using the equity method. - If the equity interest is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment or permanent fund, the equity interest should be measured at fair value - If the equity interest holding does not meet the definition of an investment, the legally separate organization should be reported as a component unit of the government. - If the legally separate organization is reported as a discretely-presented component unit, the equity interest should also be reported as an asset of the government (or fund) that holds the equity interest, measured using the equity method. • Effective for periods beginning after December 15, 2018, with early adoption encouraged. Changes to adopt this standard should be applied retroactively, with certain exceptions.	Organizations should inventory financial interests in legally separate organizations and evaluate whether such equity interests meet the definition of an investment. Depending on the nature of the equity interest and the intent for holding such interests, Organizations may find themselves reclassifying holdings between presentation as investments and component units.

GASB 91- Conduit Debt Obligations	Potential impact
• Provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures • Achieves objectives by: - Clarifying the existing definition of a conduit debt obligation - Establishing that a conduit debt obligation is not a liability of the issuer - Establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations - Improving required note disclosures • Effective for periods beginning after December 15, 2020, with early adoption encouraged.	For Organizations with conduit debt obligations reporting and disclosures of the debt obligations and related commitments could be impacted to apply uniform definition and reporting of those obligations and commitments.

Board of Trustee and Management Resources

Bringing meaningful information to our clients

As a health care provider, you must always stay up to date on the latest developments, current challenges and practical solutions, as well as emerging industry knowledge and research. You also need to convey vital information to those you serve in a helpful yet authoritative manner, supplying both industry information and expert opinion on the most effective approach to a wide range of issues. At Grant Thornton, our clients expect the very same from us. That is why we provide timely alerts, surveys and newsletters to keep you informed on issues that may affect your organization.

Your challenges are our focus. Through events (in person and via webcast), publications and sponsorships, our goal is to guide and assist you with meaningful thought leadership.

Electronic Tools

To meet your audit needs, Grant Thornton's electronic audit tool, Voyager, utilizes the same software system across all offices and delivers a consistent standard of audit service for your organization. This means you and your team will not need to reconcile documentation from a patchwork of different tools, and **you will not get repeated requests for the same information.**

Events and sponsorships

- We offer customized, continued professional education sessions delivered by firm professionals to your boardroom, management teams and audit committees.
- We hold regular education seminars in collaboration with national, regional and local chapters of the Healthcare Financial Management Association (HFMA).
- We are national sponsors, participants and speakers with the HFMA, Association of Healthcare Internal Auditors (AHIA), the Health Care Compliance Association (HCCA) and AICPA, among many other industry organizations.

Surveys, newsletters and alerts

- *Governance in Nonprofit Community Health Systems: An initial report on CEO perspectives* is a survey of nonprofit community health systems' chief executive officers to examine the structures, practices and cultures of community health systems' governing boards and compare them to selected benchmarks of good governance.

- *Governance in High-Performing Community Health Systems: A report on Trustee and CEO views* compares community health systems performance on selected measures. Site visits and interviews with leaders of high-performing systems result in findings and recommendations that will assist board leaders and chief executive officers in assessing and enhancing board effectiveness. Both surveys were produced in collaboration with the **American Hospital Association** and the **University of Iowa**.

- *National Board Governance Survey for Not-for-Profit Health Care Organizations* is an exclusive annual survey that provides board governance trends in view of increased scrutiny of tax-exempt health care organizations. A complimentary webcast is held each year to present the findings.

Board of Trustee and Management Resources

- *Health CareRx* is a quarterly business intelligence newsletter for health care financial executives that covers best practices, regulatory and tax updates and industry information affecting health care organizations.

- *ForwardThinking* is a timely newsletter that highlights best practices for governance of tax-exempt organizations and provides board and committee members with timely information on current governance issues.

- *Health Care Alerts* are timely electronic alerts on tax, regulatory and legislative actions that may have an effect on various segments of the health care industry.

- *Serving on the Board of a Not-for-Profit Organization* is a booklet offering guidance and best practices for board members of not-for-profit organizations.

- *Serving on the Audit Committee of a Not-for-Profit Organization* is a booklet offering guidance and best practices for audit committee members of not-for-profit organizations.

- *Tax Hot Topics* is a biweekly newsletter written by the tax professionals in our National Tax Office. To make the right choices for your business, you need the latest information on a wide range of tax issues, e.g., IRS rulings, litigation, and state, local and international tax developments.

- *NFP Tax Alerts* are issued by Grant Thornton's Board Governance Institute. Not-for-Profit Tax Alerts provide you with timely notification of tax issues affecting not-for-profit organizations.

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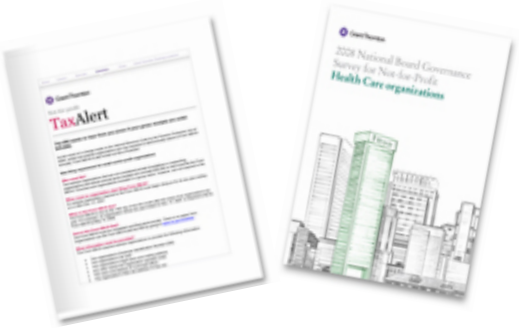

Financial Statements and Supplemental Schedules and
Report of Independent Certified Public Accountants

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

(A Component Unit of The City of New York)

June 30, 2019 and 2018

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
New York City Health and Hospitals Corporation

Report on the financial statements

We have audited the accompanying financial statements of New York City Health and Hospitals Corporation ("NYC Health + Hospitals"), discretely presented component unit of The City of New York, and the discretely presented component unit as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprises the NYC Health + Hospitals' basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements as of and for the year ended June 30, 2018 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 opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of NYC Health + Hospitals and its discretely presented component unit as of June 30, 2018, and the respective changes in financial position, and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting Principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 and the schedule of NYC Health + Hospitals' contributions, the schedule of NYC Health + Hospitals' proportionate share of the net pension liability and the schedule of NYC Health + Hospitals' Changes in Total OPEB Liability and Related Ratios on pages 68, 69 and 70, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October XX, 2019 on our consideration of NYC Health + Hospitals' 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 solely 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 the effectiveness of NYC Health + Hospitals' 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 NYC Health + Hospitals' internal control over financial reporting and compliance.

New York, New York
October XX, 2019

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Management's Discussion and Analysis (Unaudited)
Statements of Net Position
As of June 30, 2019, 2018, and 2017
(In thousands)

	2019 Business-type Activities - HHC	2018 Business-type Activities - HHC	2017 Business-type Activities - HHC
ASSETS			
Current assets	$ 2,421,163	$ 2,421,534	$ 2,233,423
Capital assets, net	3,709,259	3,490,264	3,395,964
Other assets	149,146	134,442	151,480
Total assets	6,279,568	6,046,240	5,780,867
Deferred outflows			
Net differences between projected and actual earnings on pension plan investments and other changes, net	-	-	13,794
Unamortized refunding cost	6,851	8,567	10,537
LIABILITIES			
Current liabilities	2,335,492	2,380,215	2,444,027
Long-term debt, net of current installments	726,552	792,702	776,783
Other noncurrent liabilities	485,084	582,833	340,600
Pension, net of current portion	2,014,885	2,090,713	2,514,409
Postemployment benefits obligation, other than pension, net of current portion	5,355,472	5,026,936	4,622,435
Total liabilities	10,917,485	10,873,399	10,698,254
Deferred inflows			
Net differences between projected and actual earnings on pension plan investments	480,295	310,683	-
Net differences between expected and actual experience and changes in actuarial assumptions in postemployment benefits obligation, other than pension	250,073	408,912	684,300
Net position			
Net investment in capital assets	2,731,552	2,545,082	2,553,374
Restricted	150,554	146,104	153,319
Unrestricted	(8,243,540)	(8,229,373)	(8,284,049)
Total net deficit position	$ (5,361,434)	$ (5,538,187)	$ (5,577,356)

See accompanying notes to management's discussion and analysis.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)
Management's Discussion and Analysis (Unaudited)
Summary of Statements of Revenue, Expenses, and Changes in Net Position
For the years ended June 30, 2019, 2018, and 2017
(In thousands)

	2019 Business-type Activities - HHC	2018 Business-type Activities - HHC	2017 Business-type Activities - HHC
OPERATING REVENUES			
Net patient service revenue	$ 6,039,217	$ 6,216,713	$ 5,611,114
Appropriations from City of New York, net	1,064,186	787,331	723,425
Grants revenue	649,597	651,966	863,808
Other revenue	143,762	104,981	95,287
Total operating revenue	7,896,762	7,760,991	7,293,634
OPERATING EXPENSES			
Personal services, fringes benefits, and employer payroll taxes	3,754,009	3,911,188	3,628,339
Other than personal services	1,853,317	1,789,369	1,842,665
Pension	513,750	394,420	426,325
Postemployment benefits, other than pension	375,706	337,745	289,166
Affiliation contracted services	1,160,986	1,076,202	1,069,545
Depreciation	328,993	309,574	310,325
Total operating expenses	7,986,761	7,818,498	7,566,365
Operating (loss) income	(89,999)	(57,507)	(272,731)
Nonoperating expenses, net	(108,584)	(113,347)	(115,994)
Loss before other changes in net deficit	(198,583)	(170,854)	(388,725)
Other changes in net deficit:			
Capital contributions	375,336	210,023	155,780
(Decrease) increase in net deficit	176,753	39,169	(232,945)
Net deficit position at beginning of year	(5,538,187)	(5,577,356)	(5,344,411)
Net deficit position at end of year	$ (5,361,434)	$ (5,538,187)	$ (5,577,356)

See accompanying notes to management's discussion and analysis.

This section of the New York City Health and Hospitals Corporation's ("NYC Health + Hospitals") annual financial report presents Management's Discussion and Analysis ("MD&A") of the financial performance during the years ended June 30, 2019 and 2018. The purpose is to provide an objective analysis of the financial activities of NYC Health + Hospitals 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 NYC Health + Hospitals, are presented discretely from NYC Health + Hospitals; however, the MD&A focuses primarily on NYC Health + Hospitals.

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 NYC Health + Hospitals at June 30, 2019 and 2018, 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 NYC Health + Hospitals' assets and liabilities in accordance with U.S. generally accepted accounting principles. The *Statements of Revenue, 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 net position of NYC Health + Hospitals and how it has changed. Net position, or the difference between assets and liabilities and deferred inflows and deferred outflows, is a way to measure the financial health of NYC Health + Hospitals. The *Statements of Cash Flows* provide relevant information about each year's cash receipts and cash payments and classifies them as to operating, non-capital financing, capital and related financing, and investing activities. The notes to the financial statements explain information in the statements and provide more detailed data.

Overall Financial Position and Operations

NYC Health + Hospitals' total net deficit position improved by $176..8 million from June 30, 2018 to June 30, 2019, and improved by $39.2 million from June 30, 2017 to June 30, 2018, as adjusted. Net investment in capital assets increased by $186.5 million and decreased by $8.3 million in fiscal years 2019 and 2018, respectively, due to increases in spending on the Epic implementation and on-going work on FEMA-related projects. NYC Health + Hospitals' unrestricted net deficit position remained consistent between June 30, 2019 and June 30, 2018. It ended fiscal year 2019 with an operating loss of $90.0 million compared with an operating loss of $57.5 million for the year ended June 30, 2018. The net deficit position benefited from $291.7 million and $126.1 million in capital contributions from The City of New York ("The City") in fiscal years 2019 and 2018, respectively.

Significant financial ratios are as follows:

	2019	2018	2017
Current ratio	1.04	1.00	0.91
Quick ratio	0.67	0.60	0.48
Days of cash on hand	37.16	36.16	30.18
Net number of days of revenue in patient receivables	72.78	65.16	58.31

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

Variances in Financial Statements

In this section, NYC Health + Hospitals explains the reasons for certain financial statement items with variances relating to fiscal year 2019 amounts when compared to fiscal year 2018 amounts and, where appropriate, fiscal year 2018 amounts when compared to fiscal year 2017 amounts. Fiscal year 2017 has been adjusted for the retrospective application of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75").

Statements of Net Position

Cash and cash equivalents - Increased by $98.1 million from June 30, 2018 to June 30, 2019 due to increased funds from the City of New York. It increased by $137.8 million from June 30, 2017 to June 30, 2018 mainly due to the receipt of outpatient Upper Payment Limit ("UPL") and Care Restructuring Enhancement Pilot ("CREP") reimbursement during the last quarter of the fiscal year.

Patient accounts receivable, net - Increased by $87.8 million from fiscal year 2018 to 2019 mainly due to an increase in risk incentive pools receivables in 2019. Patient accounts receivable, net increased by $118.2 million from fiscal year 2017 to 2018 mainly due to an increase in the patient Case Mix Index ("CMI") and increases in risk incentive pools receivables in 2018.

Estimated third-party payor settlements, receivable - Decreased $84.4 million from June 30, 2018 to June 30, 2019 due to a decrease in UPL receivable balances. Estimated third-party payor settlements, receivable decreased $130.7 million from June 30, 2017 to June 30, 2018 due to a decrease in UPL receivable balances.

Grants receivable - Decreased $149.3 million primarily resulting from a newly issued New York State Department of Health ("NYSDOH") Acheivement Value Scorecard associated with DSRIP which decreased funding expected from June 30, 2018 to June 30, 2019. Grants receivable remained consistent from June 30, 2017 to June 30, 2018.

Assets restricted as to use - Increased by $20.9 million from June 30, 2018 to June 30, 2019 due to NYC Health + Hospitals obtaining funds for equipment financing through Citibank. From June 30, 2017 to June 30, 2018 the balance decreased by $16.9 million due to the use of equipment financing to buy equipment during fiscal year 2018 as well as the use of donations for operations and capital purchases.

Capital Assets, net - Increased by $219.0 million from June 30, 2018 to June 30, 2019 due primarily to increases in Construction in Progress ("CIP") for the Electronic Medical Records ("EMR") and Federal Emergency

Management Agency ("FEMA") projects. Capital assets, net also increased by $94.3 million from June 30, 2017 to June 30, 2018 due to increases in CIP for the EMR and FEMA projects.

Other current assets - Remained consistent from June 30, 2018 to June 30, 2019. It increased $14.1 million from June 30, 2017 to June 30, 2018 primarily due to increases in estimated affiliate settlements for performance indicators and contract reconciliations.

Deferred outflows of resources - Decreased $1.7 million from June 30, 2017 to June 30, 2018 mainly due to lower unamortized refunding costs. It decreased $15.8 million from June 30, 2017 to June 30, 2018 mainly due to changes in projected and actual earnings and experience in pensions which shifted the reporting of an outflow to an inflow for fiscal year 2018. Deferred outflows of resources are largely determined by the New York City Office of the Actuary.

Estimated pools, net - Increased from June 30, 2018 to June 30, 2019 by $85.5 million due to a change in estimate of the Disproportionate Share Hospital Maximum ("DSH Max"). As of June 30, 2018, NYC Health + Hospitals reported a receivable of $54.7 million versus having a payable of $43.2 million as of June 30, 2017. This change was attributable to an increase of $136.4 million in change in estimate of DSH Max.

Deferred inflows of resources - Increased by $10.8 million from June 30, 2018 to June 30, 2019 due to changes in actuarial assumptions related to the pension and OPEB plans. It increased $35.3 million from June 30, 2017 to June 30, 2018 due to changes in projected and actual investment earnings and experience for pensions which was offset by changes in expected and actual experience and changes in assumptions for OPEB during fiscal year 2018. Deferred inflows of resources are determined by the New York City Office of the Actuary.

Accrued salaries, fringe benefits, payroll taxes, and accrued compensated absences (current and long-term) - Decreased by $58.0 million from June 30, 2018 to June 30, 2019 because there were no additional collective bargaining agreements settled in fiscal year 2019 versus fiscal year 2018 when the balance increased $283.5 million from fiscal year 2017 due to recognition of newly settled collective bargaining agreements.

Accounts payable and accrued expenses - Increased by $47.6 million from June 30, 2018 to June 30, 2019 due to increases in payables associated with capital projects. Increased $10.9 million from June 30, 2017 to June 30, 2018 primarily due to increases in vendor payable balances.

Estimated third-party payor settlements, payable - Remained consistent from June 30, 2018 to June 30, 2019. It increased by $20.7 million from June 30, 2017 to June 30, 2018 due to receipt of cash for subsequent years' UPL payments in fiscal year 2018 attributable to future periods.

Due to The City of New York, net (current and long term) - Decreased $157 million mainly due to a $145.8 million payment of fiscal year 2015 debt service and continuation of timely payments during fiscal year 2019. It decreased $136.8 million due to timely payments of fiscal years 2017 and 2018 Medicare Part B, stabilization fund, and medical malpractice insurance expenses to The City which was offset by a malpractice prepayment in fiscal year 2018 of $9.1 million.

Long-term debt (includes current installments) - Decreased $55.1 million in fiscal year 2019 primarily due to $85.6 million of scheduled principal payment and $30.0 million of new debt from the Citibank Term Loan. It increased $32.1 million from June 30, 2017 to June 30, 2018 primarily due to the recognition of $44.3 million in New York

Power Authority ("NYPA") loans, which fund a number of NYC Health + Hospitals' energy efficiency projects, which was offset by decreases in other long term debt during the year (Note 8).

Pension (current and long-term) - Decreased by $75.4 million from June 30, 2018 to June 30, 2019 due to changes changes in expected and actual experience and assumptions made in the acturial calculation such as retirement age, mortality, disability, withdrawal and salary scale. It decreased $411.0 from June 30, 2017 as NYC Health + Hospitals recognized its annual pension costs and payments toward its liability, as determined by the New York City Office of the Actuary (Note 10).

Postemployment benefits obligation, other than pension (current and long-term) - Increased by $340.4 million from June 30, 2018 to June 30, 2019 due to to changes in expected and actual experience and assumptions made in the acturial calculation such as retirement age, mortality, disability, withdrawal and salary scale. It increased $415.0 million from June 30, 2017 to June 30, 2018 due to changes in assumptions. The annual other post employment benefits (OPEB) costs are determined by the New York City Office of the Actuary (Note 11).

Changes in Components of Net Position

Net investment in capital assets - Increased by $186.5 million in fiscal year 2019. It decreased by $8.3 million in fiscal years 2018 as some of the major modernization projects were completed during fiscal year 2018.

Restricted - Restricted net assets remained consitent from June 30, 2018 to June 30, 2019. It decreased $7.2 million from June 30, 2017 to June 30, 2018 mainly due to a decrease in restricted funds expendable for specific operating activities.

Unrestricted - Net position activities, other than those mentioned above, resulted in an increase of $14.2million and a decrease of $54.7 million in the unrestricted net deficit when comparing fiscal years 2017 and 2018 balances, respectively. Please see the *Statements of Revenue, Expenses, and Changes in Net Position.*

Capital Assets, Net and Long-Term Debt Activity

Capital Assets, Net

At June 30, 2019, NYC Health + Hospitals had capital assets, net of accumulated depreciation, of $3.7 billion compared to $3.5 billion at June 30, 2018 and $3.4 billion at June 30, 2017, as shown in the table below (in thousands):

	2019	2018	2017
Land and land improvements	$ 26,200	$ 27,171	$ 27,969
Buildings and leasehold improvements	1,956,214	2,024,215	2,075,173
Equipment	1,005,379	828,136	827,178
Construction in progress	721,466	610,742	465,644
Total	$ 3,709,259	$ 3,490,264	$ 3,395,964

2019's major capital asset additions include the following:

- NYC Health + Hospitals continued to develop an Electronic Medical Records ("EMR") system which has two components: a Clinical budget of approximately $764.0 million and a Revenue Cycle budget of approximately $289.1 million. Fiscal year 2019 added $78.5 million to CIP related to this project; which is inclusive of capitalizable expenditures of $56.0 million for the Clinical portion and $22.4 million for the Revenue Cycle portion. As of June 30, 2019, total capital CIP reported was $156.1 million. This amount excludes the costs of capitalized in-house payroll assigned to this project.

- NYC Health + Hospitals continued the development of an Enterprise Resource Planning ("ERP") system with a capital addition to CIP of $6.9 million in fiscal year 2019 and total CIP as of June 30, 2019 of $4.7 million. The ERP project budget assigned through fiscal year 2025, which includes post implementation expenses, was approximately $114.9 million. This amount excludes the costs of capitalized in-house payroll and consultant costs assigned to the project.

- NYC Health + Hospitals continued to capitalize net interest costs on TFA debt, City General Obligation Bonds, and NYC Health + Hospitals' own bonds in fiscal year 2019. Such debt was issued to finance construction of various NYC Health + Hospitals facilities, with such debt to be paid by The City on behalf of NYC Health + Hospitals. Amounts capitalized in fiscal year 2019 approximated $14.6 million.

- There were also FEMA projects at multiple facilities for priority mitigation and major work components which represented $70.2 million of CIP in fiscal year 2019, total CIP as of June 30, 2019 of $95.0 million, with an estimated cost to complete of $1.4 billion.

- Energy efficiency upgrade projects at multiple facilities represented a CIP of $5.9 million for fiscal year 2019, total CIP as of June 30, 2019 of $10.3 million, with a total budget of $93.0 million for completion.

2018's major capital asset additions include the following:

- NYC Health + Hospitals capitalized net interest costs on TFA debt and City General Obligation Bonds in both fiscal years 2018 and 2017, as well as NYC Health + Hospitals' own bonds. This debt was issued to finance construction of various NYC Health + Hospitals facilities, with such debt to be paid by The City on behalf of NYC Health + Hospitals. Amounts capitalized in fiscal years 2018 and 2017 approximated $20.3 million and $17.8 million, respectively. In addition, NYC Health + Hospitals capitalized net interest costs of $0.1 million in fiscal year 2018 and $0.3 million in fiscal year 2017 related to its 2008 and 2010 Series bonds.

- NYC Health + Hospitals continued to develop an EMR system which has two components: a Clinical budget of approximately $764.0 million and a Revenue Cycle budget of approximately $289.1 million. Fiscal year 2018 added $43.1 million to CIP related to this project; which is inclusive of capitalizable expenditures of $37.2 million for the Clinical portion and $5.9 million for the Revenue Cycle portion. Capitalized payroll additions for fiscal year 2018 were $10.3 million. As of June 30, 2018, total capital CIP reported was $187.1 million.

- NYC Health + Hospitals continued the development of an ERP system with a capital addition to CIP of $2.7 million in fiscal year 2018 and total CIP as of June 30, 2018 of $17.6 million. The ERP project

budget assigned through fiscal year 2025, which includes post implementation expenses, was approximately $114.9 million. This amount excludes the costs of capitalized in-house payroll assigned to the project.

- Energy efficiency upgrade projects at multiple facilities represented an increase in CIP of $20.2 million for fiscal year 2018, with a total budget of $54.0 million for completion. The Comprehensive Energy Efficiency project at Metropolitan Hospital, which was managed by NYPA, was completed and placed in service in fiscal year 2018 for $34.1 million. Parts of the Comprehensive Energy Efficiency project at Elmhurst Hospital, which was also managed by NYPA, were completed and placed in service in both fiscal year 2017 for $5.9 million and fiscal year 2018 for $1.9 million.

- The major modernization construction project at Gouverneur Hospital was close to completion and was in the close-out process as of fiscal year end 2018. Approximately $6.7 million was expended as of June 30, 2018 and portions of this project approximating $29.6 million were transferred out of CIP and placed into service during fiscal year 2018.

- Construction was completed on the new NYC Health + Hospitals Gotham diagnostic and treatment center on Staten Island with $19.9 million of the project placed in service during fiscal year 2018. There were also FEMA projects at multiple facilities for priority mitigation and major work components which represented $42.5 million of CIP in fiscal year 2018, with an estimated cost to complete of $1.4 billion.

2017's major capital asset additions included the following:

- Development of the EMR system continued with increases of approximately $67.0 million in fiscal year 2017, which included in-house payroll amounts of $11.3 million associated with direct implementation. During fiscal year 2017, portions of the project totaling $20.0 million were placed in use.

- Development of the ERP system continued with an increase of capitalized costs of $15.3 million in fiscal year 2017. Included in that amount was in-house payroll amounts of $2.1 million associated with direct implementation.

- Construction was largely completed on the major modernization of Gouverneur Healthcare Services, with additional amounts capitalized of $3.6 million in fiscal year 2017. During fiscal year 2017, portions of the project totaling $15.0 million were placed in use.

- Energy efficiency measures upgrade projects managed by NYPA continued at multiple facilities with $14.0 million capitalized in fiscal year 2017.

- Construction continued on a new diagnostic and treatment center facility in Staten Island, with the addition of $2.5 million in fiscal year 2017.

- FEMA-funded projects at multiple facilities were in-design and under construction during the year. These projects were managed jointly by the New York City Economic Development Corporation and NYC Health + Hospitals with $15.0 million of total costs capitalized in fiscal year 2017.

NYC Health + Hospitals fiscal year 2020 capital budget projects spending is $838 million, which includes acquisition of medical equipment, information techonology upgrades, continued additions to the EMR system, and construction work on rehab-infrastructure projects. The 2020 capital budget is expected to be primarily financed by New York City General Obligation Bonds, Transitional Finance Authority Bonds, a NYS Grant called the Capital Restructuring Financing Program, and FEMA grants.

Long-Term Debt

At June 30, 2019, NYC Health + Hospitals had approximately $821.1 million in current and long-term debt financing related to its capital assets, as shown with comparative amounts at June 30, 2018 and 2017 (in thousands):

	2019	2018	2017
Bonds payable	$ 637,393	$ 698,027	$ 756,939
New York Power Authority (NYPA) financing	42,647	44,328	-
Equipment and renovation financing (Sodexo)	5,116	-	-
Henry J. Carter capital lease obligation	25,096	25,095	27,217
New Market Tax Credit	14,700	14,700	14,700
Key Bank CISCO leases	7,155	14,240	21,260
Oracle ERP financing	-	1,308	3,923
JP Morgan Equipment financing	36,683	48,411	10,000
Revolving loan (Citibank)	28,000	-	10,000
Term Loan (Citibank)	24,260	30,000	-
Total	$ 821,050	$ 876,109	$ 844,039

At June 30, 2019, NYC Health + Hospitals' outstanding bonds at par were approximately $637.4 million, with 77.6% uninsured fixed and 22.4% variable secured by letters of credit. NYC Health + Hospitals is rated Aa2, A+, and AA- by Moody's, S&P's, and Fitch, respectively. The variable rate bonds are secured by TD Bank's and JPMorgan Chase Bank's letters of credit. As of August 23, 2019, the Moody's, S&P's, and Fitch long-term/short-term ratings for TD Bank and JPMorgan Chase Bank are Aa2/P-1, AA-/A-1+, and AA-/F1+ and Aa1/P-1, A+/A-1, and AA/F1+, respectively. There are no statutory debt limitations that may affect NYC Health + Hospitals' financing of planned facilities or services.

More detailed information about NYC Health + Hospitals long-term debt is presented in Note 8 to the financial statements.

Statements of Revenue, Expenses, and Changes in Net Position

Net patient service revenue - Decreased by $177.5 million due to lower third party reimbursement revenue related to DSH and UPL. It increased $605.6 million from June 30, 2017 to June 30, 2018 as a result of additional DSH revenue of approximately $404.0 million, increased CMI, and larger managed care risk pool distributions.

Appropriations from City of New York, net - Increased $276.9 million and $63.9 million during fiscal years 2019 and 2018, respectively, due to an increase in cash received from The City over the prior year.

Grants revenue - Remained consistent from June 30, 2018 to June 30, 2019. It decreased $211.8 million from June 30, 2017 to June 30, 2018 due to fiscal year 2018 ending without a signed agreement for VBP-QIP grant revenue reimbursement which precluded NYC Health + Hospitals from recognizing revenue.

Other revenue - There was a $33 million increase in fiscal year 2019 due to largely to increases in the 340B Drug Discount Program ("340B"). From June 30, 2017 to June 30, 2018, Other Revenue remained consistent with an increase of $9.7 million in miscellanous revenue from fiscal year 2017 to 2018 due to an increase in 340B pharmaceutical revenue of $30.0 million offset by a reduction of $10.0 million in the component unit, HHC ACO, rent, and parking and a re-classification of $9.0 million to patient pharmacy revenue from miscellaneous revenue in prior fiscal years.

Personal services - Decreased by $221.5 million from June 30, 2018 to June 30, 2019 as there were no new collective bargaining accruals in fiscal 2019 balanced with increases to the compensated absences reported. Increased $317.1 million due to recognition of collective bargaining increases offset by continued controls over headcount which began in fiscal year 2017.

Other-than-personal services - Increased by $64.0 million from June 30, 2018 to June 30, 2019 due to increases in pharmaceutical expenses. It decreased $53.3 million in fiscal year 2018 due to a decrease in accrued expenses.

Fringe benefits and employer payroll taxes - Increased by $65.4 million from June 30, 2018 to June 30, 2019 largely due to increases in costs related to health benefits. It decreased $34.2 million from June 30, 2017 to June 30, 2018 due to a reduction in accrued health benefits.

Pension - Increased by $119.3 million from June 30, 2018 to June 30, 2019 due to a one time change in actuarial census data. It decreased $31.9 million from June 30, 2017 to June 30, 2018 mainly due to differences between projected and actual earnings on plan investments. Pension plan expense as of June 30, 2018 and 2017, is determined by the New York City Office of the Actuary (Note 10).

Postemployment benefits, other than pension - Increased by $38.0 million from June 30, 2018 to June 30, 2019 due to changes in expected and actual experience and assumptions made in the acturial calculation such as retirement age, mortality, disability, withdrawal and salary scale. Increased $48.6 million from June 30, 2017 to June 30, 2018 due to changes in assumptions by the New York City Office of the Actuary such as a decrease in the discount rate netted against an increase in recognition of benefit payments. Postemployment benefits, other than pension as of June 30, 2018 and 2017 are determined by the New York City Office of the Actuary (Note 11).

Affiliation contracted services - Increased by $84.8 million from June 30, 2018 to June 30, 2019 due to increases in payroll obligations. This remained consistent from June 30, 2017 to June 30, 2018.

Capital contributions funded by The City of New York - Increased $165.6 million due in part to increases for costs associated with the EMR capital project. Contributions remained consistent from fiscal year 2017 through fiscal year 2018.

Corporation Issues and Challenges

NYC Health + Hospitals, with The City's assistance, continues to address and adapt to the increasing fiscal challenges placed on healthcare institutions in the New York City area. Specifically, these include:

- Insufficient Medicaid and Medicare reimbursements to meet the costs of caring for low-income New Yorkers
- Potential decreases in Medicaid supplemental funding
- Shifting from a fee-for-service payment system to a managed care system which includes a value-based payment structure

NYC Health + Hospitals has responded to these challenges by continuing its ambitious transformation effort, which began in fiscal year 2017, to comprehensively redesign the public health system and to build a competitive, sustainable organization. The appointment of President and CEO, Mitchell Katz, MD, has also resulted in new intiatives being enacted to create a balanced financial plan through fiscal year 2022 and to further stabilize the health system for the population it serves.

Federally Qualified Health Center

NYC Health + Hospitals entered into a co-applicant agreement with Gotham Health FQHC, Inc. ("Gotham"), for the purposes of operating certain community health centers ("Health Centers") together as a public entity model in order to obtain designations as Federally Qualified Health Center(s) ("FQHC"). This type of federal designation provides for enhanced reimbursement rates for the care of patients. Gotham is a New York not-for-profit corporation participating with NYC Health + Hospitals in the governance of these Health Centers which were previously operated solely by NYC Health + Hospitals. The purpose of the co-applicant process is to permit these Health Centers to operate under FQHC status. Gotham is not considered a related organization to NYC Health + Hospitals, nor is there any overlap in any members of their respective boards.

Contacting NYC Health + Hospitals Financial Management

This financial report provides the citizens of The City, NYC Health + Hospitals' patients, bondholders, and creditors with a general overview of NYC Health + Hospitals' finances and operations. If you have questions about this report or need additional financial information, please contact Mr. John Ulberg, Senior Vice President/Chief Financial Officer, NYC Health + Hospitals, 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)
Statement of Net Position
As of June 30, 2019
(In thousands)

	Business-type Activities - HHC	Discretely Presented Component Unit-MetroPlus	Eliminations	Total
ASSETS				
Current assets				
Cash and cash equivalents	$ 779,604	$ 617,030	$ -	$ 1,396,634
U.S. government securities	-	296,642	-	296,642
Patient accounts receivable, net	777,779	-	(387,661)	390,118
Premiums receivable	-	157,110	(3,919)	153,191
Estimated third-party payor settlements, receivable	388,800	-	(106,400)	282,400
Estimated pools receivable, net	140,200	-	-	140,200
Grants receivable	179,545	388	(5,740)	174,193
Assets restricted as to use and required for current liabilities	31,142	-	-	31,142
Due from City of New York	22,563	-	-	22,563
Other current assets	101,530	93,339	-	194,869
Total current assets	2,421,163	1,164,509	(503,720)	3,081,952
Assets restricted as to use, net of current portion	138,485	155,758	-	294,243
U.S. government securities	-	266,045	-	266,045
Other receivable	10,661	-	-	10,661
Capital assets, net	3,709,259	6,017	-	3,715,276
Total assets	6,279,568	1,592,329	(503,720)	7,368,177
Unamortized refunding cost	6,851	-	-	6,851
	$ 6,286,419	$ 1,592,329	$ (503,720)	$ 7,375,028
LIABILITIES				
Current liabilities				
Current installments of long-term debt	$ 94,498	$ -	$ -	$ 94,498
Accrued salaries, fringe benefits, and payroll taxes	541,397	10,742	(3,919)	548,220
Accounts payable and accrued expenses	651,116	910,500	(499,801)	1,061,815
Estimated third-party payor settlements, net payable	81,306	-	-	81,306
Current portion of due to The City of New York, net	323,150	-	-	323,150
Current portion of pension	495,960	12,821	-	508,781
Current portion of postemployment benefits obligation, other than pension	148,065	3,828	-	151,893
Total current liabilities	2,335,492	937,891	(503,720)	2,769,663
Long-term debt, net of current installments	726,552	-	-	726,552
Accrued compensated absences, net of current portion	323,229	6,486	-	329,715
Accrued salaries, fringe benefits, and payroll taxes, net of current portion	161,855	-	-	161,855
Long-term pension, net of current portion	2,014,885	49,077	-	2,063,962
Postemployment benefits obligation, other than pension, net of current portion	5,355,472	51,739	-	5,407,211
Total liabilities	10,917,485	1,045,193	(503,720)	11,458,958
Deferred inflows of resources				
Net differences between projected and actual earnings on pension plan investments and other changes, net	480,295	10,006	-	490,301
Net differences between expected and actual experience and changes in actuarial assumptions in postemployment benefits obligation, other than pension	250,073	511	-	250,584
	11,647,853	1,055,710	(503,720)	12,199,843
Net position				
Net investment in capital assets	2,731,552	4,568	-	2,736,120
Restricted:				
For debt service	136,238	-	-	136,238
Expendable for specific operating activities	13,388	-	-	13,388
Nonexpendable permanent endowments	928	-	-	928
Contingent surplus reserve	-	394,462	-	394,462
Unrestricted	(8,243,540)	137,589	-	(8,105,951)
Total net deficit position	(5,361,434)	536,619	-	(4,824,815)
	$ 6,286,419	$ 1,592,329	$ (503,720)	$ 7,375,028

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

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)
Statement of Net Position
As of June 30, 2018
(In thousands)

ASSETS	Business-type Activities - HHC	Presented Component Unit-MetroPlus	Eliminations	Total
Current assets				
Cash and cash equivalents	$ 747,399	$ 551,100	$ -	$ 1,298,499
U.S. government securities	-	147,379	-	147,379
Patient accounts receivable, net	689,973	-	(299,204)	390,769
Premiums receivable	-	485,501	(2,746)	482,755
Estimated third-party payor settlements, receivable	473,200	-	(364,195)	109,005
Estimated pools receivable, net	54,700	-	-	54,700
Grants receivable	323,316	183	-	323,499
Assets restricted as to use and required for current liabilities	31,162	-	-	31,162
Other current assets	101,784	59,802	-	161,586
Total current assets	2,421,534	1,243,965	(666,145)	2,999,354
Assets restricted as to use, net of current portion	123,781	149,590	-	273,371
U.S. government securities	-	315,325	-	315,325
Other receivable	10,661	-	-	10,661
Capital assets, net	3,490,264	5,901	-	3,496,165
Total assets	6,046,240	1,714,781	(666,145)	7,094,876
Unamortized refunding cost	8,567	-	-	8,567
	$ 6,054,807	$ 1,714,781	$ (666,145)	$ 7,103,443
LIABILITIES				
Current liabilities				
Current installments of long-term debt	$ 83,407	$ -	$ -	$ 83,407
Accrued salaries, fringe benefits, and payroll taxes	501,685	12,212	(2,746)	511,151
Accounts payable and accrued expenses	603,150	1,032,661	(663,399)	972,412
Estimated third-party payor settlements, net payable	79,845	-	-	79,845
Current portion of due to The City of New York, net	480,389	-	-	480,389
Current portion of pension	495,496	12,181	-	507,677
Current portion of postemployment benefits obligation, other than pension	136,243	3,379	-	139,622
Total current liabilities	2,380,215	1,060,433	(666,145)	2,774,503
Long-term debt, net of current installments	792,702	-	-	792,702
Accrued compensated absences, net of current portion	282,833	5,914	-	288,747
Accrued salaries, fringe benefits, and payroll taxes, net of current portion	300,000	-		300,000
Long-term pension, net of current portion	2,090,713	51,328	-	2,142,041
Postemployment benefits obligation, other than pension, net of current portion	5,026,936	42,358	-	5,069,294
Total liabilities	10,873,399	1,160,033	(666,145)	11,367,287
Deferred inflows of resources				
Net differences between projected and actual earnings on pension plan investments and other changes, net	310,683	7,706	-	318,389
Net differences between expected and actual experience and changes in actuarial assumptions in postemployment benefits obligation, other than pension	408,912	2,839	-	411,751
	11,592,994	1,170,578	(666,145)	12,097,427
Net position				
Net investment in capital assets	2,545,082	5,909	-	2,550,991
Restricted:				
For debt service	136,059	-	-	136,059
Expendable for specific operating activities	9,117	-	-	9,117
Nonexpendable permanent endowments	928	-	-	928
Contingent surplus reserve	-	372,135	-	372,135
Unrestricted	(8,229,373)	166,159	-	(8,063,214)
Total net deficit position	(5,538,187)	544,203	-	(4,993,984)

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

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)
Statement of Revenues, Expenses, and Changes in Net Position
For the year June 30, 2019
(In thousands)

	2019			
	Business-type Activities - HHC	Discretely Presented Component Unit - MetroPlus	Eliminations	Total
OPERATING REVENUE				
Net patient service revenue	$ 6,039,217	$ -	$ (931,682)	$ 5,107,535
Appropriations from City of New York, net	1,064,186	-	-	1,064,186
Premium revenue	-	3,311,601	(44,637)	3,266,964
Grants revenue	649,597	828	(5,740)	644,685
Other revenue	143,762	1,252	-	145,014
Total operating revenue	7,896,762	3,313,681	(982,059)	10,228,384
OPERATING EXPENSES				
Personal services	2,847,482	90,589	-	2,938,071
Other than personal services	1,853,317	3,201,962	(937,422)	4,117,857
Fringe benefits and employer payroll taxes	906,527	29,734	(44,637)	891,624
Pension	513,750	13,281	-	527,031
Postemployment benefits, other than pension	375,706	9,713	-	385,419
Affiliation contracted services	1,160,986	-	-	1,160,986
Depreciation	328,993	2,333	-	331,326
Total operating expenses	7,986,761	3,347,612	(982,059)	10,352,314
Operating loss	(89,999)	(33,931)	-	(123,930)
NONOPERATING REVENUE (EXPENSES)				
Investment income	12,460	26,347	-	38,807
Interest expense	(121,545)	-	-	(121,545)
Contributions restricted for specific operating activities	501	-	-	501
Total nonoperating (expenses) revenue, net	(108,584)	26,347	-	(82,237)
Loss before other changes in net position	(198,583)	(7,584)	-	(206,167)
OTHER CHANGES IN NET POSITION				
Capital contributions funded by City of New York, net	291,683	-	-	291,683
Capital contributions funded by grantors and donors	83,653	-	-	83,653
Total other changes in net position	375,336	-	-	375,336
(Decrease) increase in net position	176,753	(7,584)	-	169,169
Net deficit position at beginning of period	(5,538,187)	544,203	-	(4,993,984)
Net deficit position at end of period	$ (5,361,434)	$ 536,619	$ -	$ (4,824,815)

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

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)
Statement of Revenues, Expenses, and Changes in Net Position
For the year June 30, 2018
(In thousands)

	Business-type Activities - HHC	Discretely Presented Component Unit - MetroPlus	Eliminations	Total
OPERATING REVENUES				
Net patient service revenue	$ 6,216,713	$ -	$ (1,037,499)	$ 5,179,214
Appropriations from City of New York, net	787,331	-	-	787,331
Premium revenue	-	3,332,526	(32,981)	3,299,545
Grants revenue	651,966	928	-	652,894
Other revenue	104,981	5,198	-	110,179
Total operating revenue	7,760,991	3,338,652	(1,070,480)	10,029,163
OPERATING EXPENSES				
Personal services	3,070,082	83,289	-	3,153,371
Other than personal services	1,789,369	3,239,540	(1,037,499)	3,991,410
Fringe benefits and employer payroll taxes	841,106	24,851	(32,981)	832,976
Pension	394,420	9,781	-	404,201
Postemployment benefits, other than pension	337,745	8,375	-	346,120
Affiliation contracted services	1,076,202	-	-	1,076,202
Depreciation	309,574	2,530	-	312,104
Total operating expenses	7,818,498	3,368,366	(1,070,480)	10,116,384
Operating loss	(57,507)	(29,714)	-	(87,221)
NONOPERATING REVENUES (EXPENSES)				
Investment income	2,673	3,075	-	5,748
Interest expense	(120,759)	(2)	-	(120,761)
Contributions restricted for specific operating activities	4,739	-	-	4,739
Total nonoperating (expenses) revenue, net	(113,347)	3,073	-	(110,274)
Loss before other changes in net position	(170,854)	(26,641)	-	(197,495)
OTHER CHANGES IN NET POSITION				
Capital contributions funded by City of New York, net	126,126	-	-	126,126
Capital contributions funded by grantors and donors	83,897	-	-	83,897
Total other changes in net position	210,023	-	-	210,023
(Decrease) increase in net position	39,169	(26,641)	-	12,528
Net deficit position at beginning of period	(5,577,356)	570,844	-	(5,006,512)
Net deficit position at end of period	$ (5,538,187)	$ 544,203	$ -	$ (4,993,984)

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

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)
Statements of Cash Flows
For the years June 30, 2019 and 2018
(In thousands)

	2019 Business-type Activities - HHC	2018 Business-type Activities - HHC
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	$ -	$ 6,156,392
Cash appropriations received from City of New York	-	693,768
Receipts from grants	-	658,058
Other receipts	-	90,835
Cash paid for personal services, fringe benefits, employer payroll taxes, and postemployment benefits obligation, other than pension	-	(3,754,730)
Cash paid for pension	-	(507,335)
Cash paid for other than personal services	-	(1,967,353)
Cash paid for affiliation contracted services	-	(1,105,964)
Net cash provided by operating activities	-	263,671
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY		
Proceeds from contributions restricted for specific operating activities	-	4,739
Net cash provided by noncapital financing activity	-	4,739
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	-	(285,712)
Capital contributions by grantors and donors	-	83,897
Capital contributions by City of New York	-	126,126
Cash paid for capital retainage	-	(416)
Payments of long-term debt	-	(87,217)
Proceeds from the issuance of long-term debt	-	58,411
Interest paid including capitalized interest	-	(43,406)
Net cash used in capital and related financing activities	-	(148,317)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of assets restricted as to use	-	(61,886)
Proceeds from sales of assets restricted as to use	-	78,825
Interest received	-	720
Net cash provided by investing activities	-	17,659
Net increase in cash and cash equivalents	-	137,752
Cash and cash equivalents at beginning of year	-	609,647
Cash and cash equivalents at end of year	$ -	$ 747,399
Supplemental disclosure:		
Change in fair value of assets restricted as to use	$ (2,276)	$ (2,276)
Capital assets included within accounts payable and accrued expenses	72,342	72,342

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

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)
Statements of Cash Flows
For the years June 30, 2019 and 2018
(In thousands)

	2019 Business-type Activities - HHC	2018 Business-type Activities - HHC
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ -	$ (57,507)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	-	309,574
Provision for bad debts		313,507
Changes in assets and liabilities:		
Patient accounts receivable, net	-	(431,670)
Estimated third-party payor settlements, net	-	151,370
Estimated pools, net	-	(97,900)
Grants receivable	-	6,092
Other current assets	-	(14,146)
Accrued salaries, fringe benefits, payroll taxes, and compensated absences	-	287,441
Pension	-	(86,539)
Accounts payable and accrued expenses	-	(31,021)
Due to City of New York	-	(225,158)
Postemployment benefits obligation, other than pension	-	139,628
Net cash provided by operating activities	$ -	$ 263,671

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

On July 1, 1970, the New York City Health and Hospitals Corporation ("NYC Health + Hospitals"), 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, NYC Health + Hospitals provides to all, on behalf of The City, comprehensive medical and mental health services of the highest quality in an atmosphere of humane care, dignity, and respect, regardless of a patient's ability to pay. NYC Health + Hospitals operates eleven acute care hospitals, five long-term care facilities, six diagnostic and treatment centers (five of those freestanding facilities), many hospital-based and neighborhood clinics, a certified home health agency, and discretely presents a related entity, MetroPlus Health Plan, Inc. ("MetroPlus"), a prepaid health services provider. During 2017, NYC Health + Hospitals realigned the delivery of care to three defined areas as follows: acute care (hospitals), post-acute care (long-term care facilities), and ambulatory care services. Prior to this realignment, all facilities were organized into six integrated networks based on proximity to one another.

The realignment of the three areas of vertically integrated facilities provides the full continuum of care for primary and specialty care, inpatient episodic acute care, outpatient services, and long-term care. The realignment of the delivery of services allows NYC Health + Hospitals to enhance and improve the efficiencies achieved under the former network model.

NYC Health + Hospitals is a discretely presented component unit of The City, and accordingly, its financial statements are included in The City's Comprehensive Annual Financial Report.

NYC Health + Hospitals has a number of blended component units, which means that they are reported as if they were part of NYC Health + Hospitals. These entities meet the requirements for blending when they provide services exclusively to NYC Health + Hospitals and/or NYC Health + Hospitals is the sole corporate member and appoints a voting majority of the governing board of each of the blended component units. The accompanying financial statements include the operations of the following component units, which are blended with the accounts of Business-type Activities- HHC in the preceding Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position:

- HHC Capital Corporation ("HHC Capital") was created by NYC Health + Hospitals as a public benefit corporation, of which NYC Health + Hospitals 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 NYC Health + Hospitals 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 NYC Health + Hospitals.

- HHC Insurance Company, Inc. ("HHC Insurance") was created in 2003 by NYC Health + Hospitals as a public benefit corporation, of which NYC Health + Hospitals is the sole member. It is a not-for-profit captive insurance company licensed by the New York State Insurance Department. Its license is renewed annually. HHC Insurance underwrites medical malpractice insurance for NYC Health + Hospitals' attending physicians who specialize in the areas of neurosurgery and obstetrics/ gynecology. All insured practitioners can apply for the excess insurance coverage available to them in the New York State Excess Liability Pool, issued by the Medical Malpractice Insurance Pool ("MMIP" or "Pool").

HHC Insurance issues primary professional liability policies to its insureds on a claims-made basis with policy limits of $1.3 million per incident and $3.9 million in the aggregate. Once the insured practitioner has this primary insurance coverage, the insured is able to apply for excess coverage, in the amount of $1.0 million per incident and $3.0 million in the aggregate, provided by the MMIP. HHC Insurance has been a participant in the excess Pool since 2007. The MMIP is considered the insurer of last resort for primary medical malpractice coverage in the State. On the excess level, it operates as a medical malpractice insurance pool created by all the authorized (licensed) insurers writing medical malpractice insurance in New York as an alternative to receiving direct assignments of eligible health care providers. The liability of the members is several but not joint. As an MMIP member, HHC Insurance recognizes its allocable share of the premium, loss expense, underwriting expense, administrative expense activities of MMIP, and shortfall coverage, as needed. HHC Insurance is the only captive insurance company in the Pool.

- The HHC Physicians Purchasing Group, Inc. ("HHC Purchasing"), a public benefit corporation, was formed in 2003 to act as a purchasing group within the State of New York. The business of HHC Purchasing is to obtain, on behalf of its members who are employees of NYC Health + Hospitals or NYC Health + Hospitals' affiliates, primary professional liability insurance from HHC Insurance. HHC Purchasing was registered and approved for operations by the New York State Department of Insurance on August 31, 2005. NYC Health + Hospitals is the sole voting member of HHC Purchasing.

- HHC ACO Inc. ("HHC ACO"), a New York not-for-profit corporation, was formed in June 2012 by NYC Health + Hospitals 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"). HHC ACO was approved to participate in the MSSP as of January 1, 2013 and began operations in fiscal year 2014. CMS subsequently approved HHC ACO for renewal terms through December 31, 2024. NYC Health + Hospitals is its sole member.

- HHC Assistance Corporation ("HHCAC"), a membership not-for-profit corporation, was formed in October 2012 by NYC Health + Hospitals and is the sole corporate member. All members of HHCAC's board of directors are officers of NYC Health + Hospitals. The HHCAC's purpose is to perform activities that are helpful to NYC Health + Hospitals in the fulfillment of its statutory purposes. During 2012, the HHCAC facilitated NYC Health + Hospitals' 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 8). In 2015, HHCAC took on the function of the "Central Service Organization" in the NYC Health + Hospitals-led Participating Provider System under the New York State Department of Health's Delivery System Reform Incentive Payment ("DSRIP") program. In that capacity, HHCAC operates under the d/b/a "One City Health" and performs various functions on NYC Health + Hospitals' behalf to advance its participation in the DSRIP program (Note 12).

The financial statements also include MetroPlus, which is a discretely presented component unit and is a public benefit corporation created by NYC Health + Hospitals. As the sole member, NYC Health + Hospitals appoints a voting majority of the governing board of MetroPlus. MetroPlus contracts with NYC Health + Hospitals facilities and other providers to provide managed healthcare services on a prepaid basis and operates as a health maintenance organization.

MetroPlus' major lines of business include Medicaid, Essential Plan, HIV Special Needs Plan ("HIV-SNP"), Child Health Plus ("CHP"), Medicare Advantage, partially capitated Managed Long-Term Care ("MLTC"), and

Health and Recovery Plan ("HARP"). In addition, MetroPlus offers an Individual Qualified Health Plan ("QHP") and a Small Business Health Options Program ("SHOP") through the New York State of Health Plan Marketplace. Such plans are the result of the Patient Protection and Affordable Care Act ("ACA") signed into law in March 2010.

MetroPlus has contractual agreements with the New York State Department of Health ("NYSDOH") to provide comprehensive medical service to members of the Medicaid, Essential Plan, MLTC, HARP and CHP lines of business. MetroPlus also has contracts with the CMS and NYSDOH, to offer Medicare coverage in individuals, including those dually eligible for benefits under Medicare and Medicaid. Beneficiaries have the option of selecting MetroPlus or the State of New York as their Medicaid coverage provider. MetroPlus has an agreement with the New York State Department of Financial Services ("NYSDFS") to offer the QHP and SHOP programs.

NYC Health + Hospitals employees and all City employees can elect MetroPlus Gold as part of their employee benefits. MetroPlus also offers GoldCare I and GoldCare II, low-cost, high-quality plans, to all day care workers of New York City agencies.

Capitation payments are made to physicians affiliated with NYC Health + Hospitals, other non-NYC Health + Hospitals physicians, and provider groups for primary care services. Capitation refers to payments made at fixed per member, per month values based on the provider's assigned members.

Supplementary disclosures for MetroPlus are presented beginning with Note 16 of the financial statements.

MetroPlus and HHC Insurance issue separate statutory annual financial statements as of December 31st, which are available through the Office of the Corporate Comptroller, 160 Water Street, Room 642, New York, New York 10038. Additionally, while not a statutory requirement, HHC ACO issues financial statements as of June 30th, which are also available through the Office of the Corporate Comptroller.

The NYC Health + Hospitals' significant accounting policies are as follows:

(a) Basis of Presentation

The accompanying basic financial statements of NYC Health + Hospitals are presented in conformity with generally accepted accounting principles ("U.S. GAAP" or "GAAP") for state and local governments in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The financial statements of NYC Heath + Hospitals have been prepared on the accrual basis of accounting, using the economic resources measurement focus.

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

(b) Assets Restricted As to Use and Contributions

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 NYC Health + Hospitals have been classified as current assets in the Statements of Net Position at June 30, 2019 and 2018. Assets restricted as to use are stated at fair value, with unrealized and realized 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 place no restrictions or that arise as a result of the operations of NYC Health + Hospitals for its stated purposes. Donor-restricted net positions represent contributions to provide healthcare services, of which $0.9 million are held in perpetuity, as non-expendable permanent endowments, at June 30, 2019 and 2018. 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. Resources restricted by donors for specific operating activities are reported as non-operating revenue. NYC Health + Hospitals utilizes available donor-restricted assets before utilizing unrestricted resources for expenses incurred.

(c) Charity Care

NYC Health + Hospitals provides care to patients who meet certain criteria under its charity care policy at amounts less than its charges or established rates. NYC Health + Hospitals 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. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Included in net patient service revenue are adjustments to prior year estimated third-party payor settlements, estimated pools receivables, and payables 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 $109.3 million and $260.3 million for the years ended June 30, 2019 and 2018, respectively.

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

All transactions deemed by management to be ongoing, major, or central to the provision of healthcare services or for the purpose of providing managed healthcare services are considered to be operating activities and are reported as operating revenue and operating expenses. Investment income, interest expense, and peripheral or incidental transactions are reported as non-operating revenue 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, Net and Net Patient Service Revenue

NYC Health + Hospitals 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, per diem payments, and value-based payment arrangements; a payment relationship in which there is a shift from a pure volume-based payment (i.e., fee for service) to an outcome-based payment where health providers are paid based on improvement of health of the patient rather than volume of services provided to the patient. 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 $453.3 million in 2019 and $306.1 million in 2018.

The allowance for doubtful accounts is the NYC Health + Hospitals estimate of the amount of probable credit losses in its patient accounts receivable. NYC Health + Hospitals determines the allowance based on collection studies and historical write-off experience. Past-due balances are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts at June 30, 2019 and 2018 was approximately $592.5 million and $464.0 million, respectively.

(g) Appropriations from The City of New York, net

NYC Health + Hospitals considers appropriations from The City to be ongoing and central to the provision of healthcare services and, accordingly, classifies them as operating revenue. Funds appropriated from The City are direct or indirect payments made by The City on behalf of NYC Health + Hospitals for the following:

- Settlements of claims for medical malpractice, negligence, other torts, and alleged breach of contracts (Note 12).

- Patient care rendered to prisoners (Note 15), uniformed City employees, and various discretely funded facility-specific programs.

- Interest on City General Obligation debt that funded NYC Health + Hospitals' capital acquisitions 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 9).

- Funding for collective bargaining agreements.

Reimbursement by NYC Health + Hospitals is negotiated annually with The City. NYC Health + Hospitals 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 are negotiated annually and paid by The City on behalf of NYC Health + Hospitals. In 2019 and 2018, the medical malpractice and general liability settlements paid by The City were $118.3 million and $108.1 million, respectively. In FY 2018, NYC Health + Hospitals prepaid FY 2019 medical malpractice to The City in the amount of $9.1 million. The reimbursements to The City are recorded by NYC Health + Hospitals as a reduction of appropriations from The City. Such medical malpractice, negligence, and other torts reimbursements by NYC Health + Hospitals do not alter the indemnification by The City of NYC Health + Hospitals' malpractice settlements under the Agreement (Note 12).

- Interest and principal on debt service, which funds NYC Health + Hospitals capital acquisitions, is negotiated annually with and is paid by The City on behalf of the NYC Health + Hospitals. During 2019 and 2018, The City paid $106.7 million and $128.8 million of debt service, respectively, and this assumption of payments alleviated amounts owed to The City of $106.7 million and $128.8 million for 2019 and 2018, respectively. The debt service reimbursements to The City are recorded by NYC Health + Hospitals as a reduction of appropriations from The City.

Refer to Note 9 of the financial statements for balances owed to The City including malpractice and debt service.

(h) Capital Assets and Depreciation

In accordance with the Agreement, The City retains legal title to substantially all NYC Health + Hospitals' facilities and certain equipment, and subleases them to NYC Health + Hospitals 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, NYC Health + Hospitals 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 the Henry J. Carter campus.

NYC Health + Hospitals 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 Statements of Net Position 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 the 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 costs 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 of the asset.

NYC Health + Hospitals evaluates long-lived assets for impairment when circumstances suggest that the service utility or the usable capacity originally expected ,may have significantly or unexpectedly declined. If circumstances suggest that assets may be impaired, an impairment charge is recorded on those assets based upon a method that most appropriately reflects the decline in service utility of the capital asset. No material changes to capital assets were recorded for the fiscal years ended June 30, 2019 and 2018.

(i) Custodial Funds

NYC Health + Hospitals holds funds for safekeeping, primarily cash held for the benefit of its long-term care patients, amounting to approximately $6.5 million and $6.9 million as of June 30, 2019 and 2018, respectively. These amounts are included in other current assets and accounts payable and accrued expenses in the accompanying Statements of Net Position.

(j) Affiliation Contracted Services

NYC Health + Hospitals contracts with affiliated medical schools/professional corporations and voluntary hospitals ("Affiliates") to provide patient care services at its facilities and reimburses the Affiliates for expenses incurred in providing such services. Under the terms of those contracts, each of the Affiliates is required to furnish NYC Health + Hospitals with an independent audit report of receipts, expenditures, and commitments chargeable to the contract, as well as refunds or amounts due to the Affiliate. In addition, the Affiliates submit an annual recalculation document which reconciles allowable contract costs to the expenses incurred by the Affiliates. The net effect of these recalculations creates either a payable or receivable by comparing the total advance payments made during the fiscal year to the total contract amount.

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 (Note 13) and other current assets in the accompanying Statements of Net Position. 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) and are included within other current assets.

(l) Income Taxes

NYC Health + Hospitals 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. NYC Health + Hospitals is a New York State public benefit corporation created by Chapter 1016 of the Laws of 1969 and, as such, is exempt from New York State income tax. MetroPlus is also exempt from federal and New York State income tax under Section 501(a) of the Internal Revenue Code, as an organization described in Section 501(c)(3). 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, including amounts related to DSRIP, the Value Based Payment Quality Improvement Program ("VBP QIP") and the Care Restructuring Enhancement Pilot ("CREP") (Note 12). Grants receivable also include grants from The City, which are reimbursements to NYC Health + Hospitals for providing such services as mental health, child health, and HIV-AIDS services.

(n) Net Position

Net position of NYC Health + Hospitals is classified in various components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by outstanding borrowings used to finance the purchase or construction of those assets. *Restricted for debt service* consists of assets restricted, by each revenue bond's official statement, for expenditures of principal and interest. *Restricted expendable for specific operating activities* reflects non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to NYC Health + Hospitals, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 8. *Restricted nonexpendable permanent endowments* consists of the principal portion of permanent endowments. *Restricted for statutory reserve requirements* represents MetroPlus' statutory reserve as required by the NYSDOH Rules and Regulations. *Unrestricted net position* is the remaining net position that does not meet the definition of *Net investment in capital assets* or *Restricted*.

(o) Compensated Absences

NYC Health + Hospitals' 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 rates in effect during the past 3 years. Most employees earn 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. NYC Health + Hospitals accrues for the employees' earned and accumulated vacation and sick leave, which may be used in subsequent years, and earned vacation and sick leave to be paid upon termination or retirement from future resources. These costs are included as a liability within accrued compensated absences and salaries, fringe benefits, and payroll taxes. For certain collectively bargained units, time is paid out at the current rate.

(p) Fair Value

Management determines fair value of financial instruments as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Management utilizes valuation techniques that maximize the use of observable inputs (Levels 1 and 2) and minimize the use of unobservable inputs (Level 3) within the fair value hierarchy established by GASB. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following categories:

Level 1 - Fair value measurements using unadjusted quoted market prices in active markets for identical, unrestricted assets or liabilities.

Level 2 - Fair value measurements using observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that traded less frequently than exchange-traded instruments.

Level 3 - Fair value measurements using significant inputs that are not readily observable in the market and are based on internally developed models or methodologies utilizing significant inputs that are generally less readily observable.

(q) Reclassifications

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

(r) New Accounting Standards Adopted

In 2019, NYC Health + Hospitals adopted the following new accounting standards:

GASB Statement No. 84, *Fiduciary Activities* ("GASB 84") establishes criteria for identifying fiduciary activities of all state and local governments. Generally, the criteria focuses on where control of the assets lies and who are the beneficiaries of the fiduciary relationship. GASB 84 also provides criteria to identify component units and postemployment benefit arrangements that meet a fiduciary definition.

As NYC Health + Hospitals is a business-type entity, it reports in accordance with business-type reporting requirements and, as a result, does not use fund accounting. Given that no fund accounting occurs on its audited financial statements, NYC Health + Hospitals has determined that the majority of GASB 84 covering how to report in accordance with fiduciary fund accounting, is not applicable to its financial statement reporting process and, as a result, had no effect on its audited financial statements.

Specific to Custodial Funds, which is also covered by this Statement, GASB has a provision for business-type entities to report the amounts held in custodial funds on its Statement of Net Position. This provision further states that reporting of the additions and deductions to the Custodial Funds should only be reported on the Statement of Cash Flows when significant. NYC Health + Hospitals already reports these amounts in "Other Current Assets" and "Accounts Payable and Accrued Expenses" in its Statements of Net Position. Therefore, NYC H+H has determined that it is already in compliance with this reporting requirement set forth in GASB 84.

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements ("GASB 88") is intended to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

NYC Health + Hospitals has updated its debt disclosures to meet the additional requirements resulting from the issuance of GASB 88.

GASB Statement No. 90, *Majority Equity Interests* ("GASB 90") improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment and should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

The adoption of GASB 90 had no impact on the financial statements or disclosures of NYC Health + Hospitals as it does not own a majority equity share in any acquired organizations.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, certificates of deposit ("CDs"), and all highly liquid debt instruments with original maturities of three months or less when purchased. The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturity of the investments. Custodial credit risk is the risk that, in the event of a bank failure, NYC Health + Hospitals' deposits may not be returned. NYC Health + Hospitals' policy to mitigate custodial credit risk is to collateralize all balances when permitted (i.e., collected balances). Deposits in the process of collection within the banking system are not collateralized. At June 30, 2019, 99.8% of NYC Health + Hospitals cash and cash equivalents bank balances were insured or collateralized and efforts continue to cover all remaining balances, when permitted.

3. CHARITY CARE

NYC Health + Hospitals maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone 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 30th (in thousands):

	2019	2018
Charges foregone, based on established rates	$ 741,298	$ 953,576
Estimated expenses incurred to provide charity care	490,946	608,275

4. PATIENT ACCOUNTS RECEIVABLE, NET AND NET PATIENT SERVICE REVENUE

Most of NYC Health + Hospitals' 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.

Disproportionate Share Hospital ("DSH") and Upper Payment Limit ("UPL") are supplemental payments to hospitals for their care to the indigent and are included in net patient service revenue. Hospital participants of DSH serve a significantly disproportionate number of low-income patients and receive payments from CMS to cover the costs of providing care to uninsured patients. The UPL is a federal limit placed on a fee-for-service reimbursement of Medicaid providers. The UPL is the maximum a given state's Medicaid program may pay a type of provider in the aggregate, statewide, in Medicaid fee-for-service. State Medicaid programs cannot claim federal matching dollars for provider payments in excess of the applicable UPL; however, UPL federal regulations allow states to pay Medicaid providers up to Medicare levels or the costs of care.

Net patient service revenue by primary payor for the years ended June 30th is as follows (in thousands):

	2019		2018	
Medicaid	$ 1,368,215	22.7 %	$ 1,248,612	20.1 %
Medicare	627,828	10.4	646,228	10.4
Bad debt/charity care pools	440,315	7.3	687,067	11.0
Disproportionate share supplemental pool (DSH)	1,088,468	18.0	1,109,168	17.8
Other third-party payors that include Medicaid and Medicare managed care	1,560,496	25.8	1,464,787	23.6
MetroPlus	931,680	15.4	1,037,499	16.7
Self-pay	22,215	0.4	23,352	0.4
	$ 6,039,217	100.0 %	$ 6,216,713	100.0 %

NYC Health + Hospitals provides services to its patients, most of whom are insured under third-party payor agreements. Patient accounts receivable, net were as follows as of June 30th (in thousands):

	2019		2018	
Medicaid	$ 93,208	12.0 %	$ 69,006	10.0 %
Medicare	51,837	6.7	56,483	8.2
Other third-party payors, that include Medicaid and Medicare managed care	235,754	30.3	244,780	35.4
MetroPlus	387,661	49.8	299,204	43.3
Self-pay	9,319	1.2	20,500	3.1
	$ 777,779	100.0 %	$ 689,973	100.0 %

5. CAPITAL ASSETS

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

	2019	2018
Land and land improvements	$ 58,251	$ 57,726
Buildings and leasehold improvements	4,514,761	4,450,202
Equipment	4,013,649	3,694,217
	8,586,661	8,202,145
Less: accumulated depreciation	5,598,868	5,322,623
	2,987,793	2,879,522
Construction in progress	721,466	610,742
Capital assets, net	$ 3,709,259	$ 3,490,264

Capital assets activity for the years ended June 30th was as follows (in thousands):

	Land and Land Improvements	Buildings and Leasehold Improvements	Equipment	Construction in Progress	Total
June 30, 2017 balance	$ 56,971	$ 4,366,964	$ 3,526,013	$ 465,644	8,415,592
Acquisitions, net of transfers	758	84,284	228,321	145,098	458,461
Sales, retirements, and adjustments	(3)	(1,046)	(60,117)	-	(61,166)
June 30, 2018 balance	57,726	4,450,202	3,694,217	610,742	8,812,887
Acquisitions, net of transfers	521	77,423	387,919	111,204	577,067
Sales, retirements, and adjustments	4	(12,864)	(68,487)	(480)	(81,827)
June 30, 2019 balance	$ 58,251	$ 4,514,761	$ 4,013,649	$ 721,466	$ 9,308,127

Related information on accumulated depreciation for the years ended June 30th was as follows (in thousands):

	Land and Land Improvements	Buildings and Leasehold Improvements	Equipment	Total
June 30, 2017 balance	$ 29,002	$ 2,291,791	$ 2,698,835	$ 5,019,628
Depreciation expense	1,554	134,795	173,225	309,574
Sales, retirements, and adjustments	(1)	(599)	(5,979)	(6,579)
June 30, 2018 balance	30,555	2,425,987	2,866,081	5,322,623
Depreciation expense	1,505	135,650	195,921	333,076
Sales, retirements, and adjustments	(8)	(3,090)	(53,733)	(56,831)
June 30, 2019 balance	$ 32,052	$ 2,558,547	$ 3,008,269	$ 5,598,868

NYC Health + Hospitals capitalizes interest costs incurred in connection with construction projects. Interest activity relating to construction projects and net capitalized interest for the years ended June 30th was as follows (in thousands):

	2019	2018
Interest costs subject to capitalization	$ 14,646	$ 20,593
Interest income	(1)	(148)
Capitalized interest costs, net	$ 14,645	$ 20,445

NYC Health + Hospitals capitalized net interest costs on TFA debt and City General Obligation Bonds in both 2019 and 2018, as well as NYC Health + Hospitals' own bonds. Such debt was issued to finance construction of various NYC Health + Hospitals facilities, with such debt to be paid by The City on behalf of NYC Health + Hospitals. Amounts capitalized in 2019 and 2018 approximated $14.6 million and $20.6 million, respectively.

NYC Health + Hospitals continued developing an Electronic Medical Records ("EMR") system that has two components: a Clinical budget of $764.0 million and a Revenue Cycle budget of $289.1 million. The project is scheduled to be implemented by December 31, 2019. The fiscal year 2019 addition to CIP related to this project was $78.5 million; which is inclusive of capitalizable expenditures of $56.0 million for the Clinical portion of the project and $22.4 million for the Revenue Cycle portion. Total capital CIP related to the EMR system was $156.1 million and $187.1 million as of June 30, 2019 and 2018, respectively.

NYC Health + Hospitals continued the development of an Enterprise Resource Planning ("ERP") system with a capital addition to CIP of $3.5 million in fiscal year 2019 and total capital CIP as of June 30, 2019 of $4.7 million. The ERP project budget assigned through fiscal year 2025, including post implementation expenses, is

approximately $114.9 million. This amount excludes the costs of capitalized in-house payroll assigned to the project.

Also, there are energy efficiency upgrade projects at multiple facilities which represent an increase in CIP of $5.9 million for fiscal year 2019, total CIP as of June 30, 2019 of $10.3 million, and a total cost to complete of $93.0 million.

NYC Health + Hospitals has a project to upgrade its system-wide network infrastructure called Network Refresh. It is funded through City Capital in the amount of $160 million and during fiscal year 2019, CIP decreased by $63.8 million when the NYC Health + Hospitals placed parts of this project into service.

There were also Federal Emergency Management Agency ("FEMA") projects at multiple facilities for priority mitigation and other major work components which represent $70.2 million of CIP in fiscal year 2019, total CIP as of June 30, 2019 of $95.0 million, and a total cost to complete of $1.4 billion.

6. ASSETS RESTRICTED AS TO USE

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

	2019	2018
Under bond resolutions [a]		
Construction funds	$ 789	$ 1,174
Capital reserve funds	87,631	87,487
Revenue funds	44,317	44,204
	132,737	132,865
New Market Tax Credit [b]	40	119
By donors for specific operating activities and permanent endowments [c]	14,909	10,362
Equipment financing [d]	21,941	11,597
Total assets restricted as to use	169,627	154,943
Less: current portion of assets restricted as to use	31,142	31,162
Assets restricted as to use, net of current portion	$ 138,485	$ 123,781

a. Assets restricted as to use under the terms of the bond resolutions 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 ten-year U.S. Treasury note and a two-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. Treasury bills for the time period between a month and a maximum of twelve months. Investments are timed so that funds are available for required semi-annual debt service payments. Possible exposure to fair value losses arising from interest rate volatility is limited by investments in securities having maturities of less than one year and at most ten years and by intending to hold the security to maturity.

b. The New Market Tax Credit ("NMTC") transaction required the execution of a loan agreement between NYC Health + Hospitals/NCF Sub-CDE, LLC and NYC Health + Hospitals. This agreement required NYC Health + Hospitals to fund a National Community Fund ("NCF") Fee Reserve Account, out of which NYC Health + Hospitals payments of interest and fees associated with the loan are drawn (Note 8).

c. As of June 30, 2019, $7.2 million of donor-restricted funds were invested in T-Bills and $3.5 million in collateralized checking accounts. As of June 30, 2018, $7.0 million of donor-restricted funds were invested in CDs and $3.3 million in collateralized checking accounts.

d. The equipment financing escrow funds are mostly invested in United States Treasury Money Market Fund accounts (Note 8).

The current portion is related to the 2013 Series A bonds, 2010 Series A bonds, and the 2008 Series A, B, C, D, and E bonds debt service payable in fiscal year 2019.

The following presents NYC Health + Hospitals fair value measurements for assets restricted as to use measured at fair value on a recurring basis as of June 30th (in thousands):

		June 30, 2019	
	Fair Value	**Level 1**	**Level 2**
U.S. government obligations and securities	$ 169,627	$ 36,032	$ 133,595

		June 30, 2018	
	Fair Value	**Level 1**	**Level 2**
U.S. government obligations and securities	$ 154,943	$ 8,075	$ 146,868

Included within assets restricted as to use are T-Bills of approximately $7.2 million for fiscal year 2019 and CDs of approximately $7.0 million for fiscal year 2018, and cash and cash equivalents of $3.5 million million and $3.3 million for 2019 and 2018, respectively. NYC Health + Hospitals does not have any assets or liabilities based upon Level 3 inputs.

7. U.S. GOVERNMENT SECURITIES

U.S. government securities consist of U.S. Treasury bills, U.S. Treasury notes, and U.S. Treasury zero-coupon strips. Such securities are stated at fair value based upon Level 2 inputs, with unrealized and realized gains and losses included in investment income. Securities maturing within a year are presented as current assets. Securities presented as non-current 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 30th, NYC Health +Hospitals had the following U.S. government securities (in thousands):

			Investment Maturing in (Years)	
Year	Investment Type	Fair Value	Less than 1	1 to 3
2019	U.S. Treasury bills, notes, bonds and strips	$ 562,687	$ 562,687	$ -
2018	U.S. Treasury bills, notes, bonds, and strips	462,704	462,704	-

8. LONG-TERM DEBT

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

	2019	2018
Bonds Payable:		
2013 Series A Fixed Rate Health System Bonds – weighted average interest of 2.44%, payable in installments to 2023:		
Uninsured Bonds (a)	$ 115,680	$ 118,785
2010 Series A Fixed Rate Health System Bonds – weighted average interest of 3.89%, payable in installments to 2030:		
Uninsured Bonds (b)	306,432	350,069
2008 Series A Fixed Rate Health System Bonds – weighted average interest of 4.51%, payable in installments to 2026:		
Uninsured Bonds (c)	75,501	83,930
2008 Series B, C, D, and E Variable Rate Health System Bonds – subject to short-term liquidity arrangements, weighted average interest of 2.2023% in 2019 and 1.7875% in 2018 payable in installments to 2031:		
Uninsured Bonds (d)	139,780	145,243
Total Bonds Payable	637,393	698,027
Direct Borrowings		
New Market Tax Credit (e)	14,700	14,700
JP Morgan Equipment Financing (f)	36,683	48,411
Term Loan and Revolving Loan (Citibank) (g)	52,260	30,000
New York Power Authority (NYPA) financing (h)	42,647	44,328
Total Direct Borrowings	146,290	137,439
Other Debt Agreements		
Key Bank CISCO Leases (i)	7,155	14,240
Equipment and renovation financing (Sodexho) (j)	5,116	-
Henry J. Carter capital lease obligation (k)	25,096	25,095
Oracle ERP Financing (m)	-	1,308
Total Other Debt Agreements	37,367	40,643
Total Long-Term Debt	**821,050**	**876,109**
Less: current installments	94,498	83,407
Total Long-Term Debt, net of current installments	$ 726,552	$ 792,702

Long-term debt activity for the years ended June 30, 2019 and 2018 was as follows (in thousands):

	June 30, 2018 Balance	Additions	Reductions	June 30, 2019 Balance	Amount Due Within 1 Year
Long-term debt					
Bonds payable	$ 698,027	$ -	$ (60,634)	$ 637,393	$ 58,605
NYPA financing	44,328	-	(1,681)	42,647	1,642
Equipment and renovation financing	93,958	35,117	(27,861)	101,214	26,925
Clinical bed financing	-	-	-	-	-
Henry J. Carter capital lease obligation	25,096	-	-	25,096	7,002
New Market Tax Credit	14,700	-	-	14,700	324
	$ 876,109	$ 35,117	$ (90,176)	$ 821,050	$ 94,498

	June 30, 2017 Balance	Additions	Reductions	June 30, 2018 Balance	Amount Due Within 1 Year
Long-term debt					
Bonds payable	$ 756,939	$ -	$ (58,912)	$ 698,027	$ 56,020
NYPA financing	-	44,328	-	44,328	1,767
Equipment and renovation financing	45,183	80,326	(31,551)	93,958	22,907
Henry J. Carter capital lease obligation	27,217	-	(2,121)	25,096	2,713
New Market Tax Credit	14,700	-	-	14,700	-
	$ 844,039	$ 124,654	$ (92,584)	$ 876,109	$ 83,407

Bonds

On November 19, 1992, the Board of Directors for NYC Health + Hospitals adopted the General Resolution requiring NYC Health + Hospitals to pledge substantially all reimbursement revenue, investment income, capital project, and bond proceeds accounts to HHC Capital. All of NYC Health + Hospital'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 NYC Health + Hospitals 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 revenue, as defined. For all bonds and direct financings, unless otherwise noted, default provisions exist for failure to make timely payments in full which, when triggered, ultimately require outstanding amounts payable on demand or repossession of items financed by Lessor, if applicable. For all other debt agreements, no default terms are specified. NYC Health + Hospitals has not defaulted on any of its debt.

(a) 2013 Series A Bonds

On March 28, 2013, NYC Health + Hospitals 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 through February 15, 2023 with interest payable on February 15th and August 15th.

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 NYC Health + Hospitals' 2003 Series A bonds totaling $111,810,000; (ii) to refund and defease a portion of NYC Health + Hospitals' 2008 Series A bonds totaling $30,675,000 ($2,405,000 matured in 2014 bearing interest at 4.0%, $16,450,000 matured in 2015 bearing interest at 5.0%, and $11,820,000 matured in 2015 bearing interest at 5% were refunded); and (iii) to pay the cost of issuance of $1,131,283. Proceeds used to refund and redeem the 2003 Series A bonds were deposited with the bond trustee in an amount 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.

NYC Health + Hospitals 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, which is being amortized over the life of the 2013 Bonds.

The following table summarizes debt service requirements as of June 30, 2019 (in thousands):

	Principal	Interest	Total
Years			
2020	$ 745	$ 5,186	$ 5,931
2021	34,515	4,558	39,073
2022	36,195	2,901	39,096
2023	37,850	1,145	38,995
Total	109,305	13,790	123,095
Unamortized premium on 2013 Bonds	6,375	-	6,375
	$ 115,680	$ 13,790	$ 129,470

(b) 2010 Series A Bonds

On October 26, 2010, NYC Health + Hospitals 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 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 15th and August 15th of each year.

Proceeds of the 2010 Bonds were used: (i) to finance and reimburse NYC Health + Hospitals for the costs of its capital improvement program of $199,758,168; (ii) to refund and redeem all of NYC Health + Hospitals' 1999 Series A bonds totaling $199,715,000; (iii) to refund and defease substantially all of NYC Health + Hospitals' 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 the cost of issuance of $3,281,608. Proceeds used to refund and redeem the 1999 Series A bonds were deposited with the bond trustee in an amount 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, 2019 (in thousands):

	Principal	Interest	Total
Years			
2020	$ 43,560	$ 14,020	$ 57,580
2021	11,970	12,452	24,422
2022	12,485	11,875	24,360
2023	13,145	11,238	24,383
2024	27,560	10,311	37,871
2025 - 2029	150,555	31,771	182,326
2030	40,025	1,240	41,265
Total	299,300	92,907	392,207
Unamortized premium on 2010 Bonds	7,132	-	7,132
	$ 306,432	$ 92,907	$ 399,339

(c) 2008 Series A Bonds

During fiscal 2009, NYC Health + Hospitals restructured its 2002 Series B, C, D, E, F, G, and H auction rate bonds of $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, NYC Health + Hospitals issued $268,915,000 of tax-exempt fixed rate Health System Bonds, 2008 Series A bonds ("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 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 15th and August 15th.

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 NYC Health + Hospitals for the costs of its capital improvement program of $99,367,379; (ii) to refund and defease all of NYC Health + Hospitals' 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 the cost of the 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, NYC Health + Hospitals refunded and defeased a portion of the 2008 Series A bonds scheduled to mature in 2014 and 2015.

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

On September 4, 2008, NYC Health + Hospitals 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 sub-series, 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 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 were issued by TD Bank N.A. with expiration date on September 3, 2023 and the D and E letters of credit was issued by JPMorgan Chase Bank N.A. with expiration date on July 1, 2022.

NYC Health + Hospitals maintains 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, NYC Health + Hospitals 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, NYC Health + Hospitals 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, 2019.

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 NYC Health + Hospitals to bear interest at either a daily interest rate, a bond interest term rate, an NRS (nonputable remarketed securities) rate, an auction rate, an index rate, or a fixed rate. The overall weighted average interest rate was 2.20% for 2019 and 1.79% for 2018.

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 NYC Health + Hospitals' 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 through 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, 2019 (in thousands). The interest payments are based on the interest rate in effect at June 30, 2019:

	Principal	Interest	Total
Years			
2020	$ 14,300	$ 6,321	$ 20,621
2021	14,950	5,711	20,661
2022	15,575	5,072	20,647
2023	16,275	4,400	20,675
2024	16,960	3,715	20,675
2025 - 2029	102,595	8,551	111,146
2030 - 2031	34,400	718	35,118
Total	215,055	34,488	249,543
Unamortized premium on 2008 Bonds	226	-	226
	$ 215,281	$ 34,488	$ 249,769

Direct Borrowings

(e) New Market Tax Credit

In 2012, NYC Health + Hospitals entered into a New Market Tax Credit ("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.

NYC Health + Hospitals formed HHCAC to assist NYC Health + Hospitals with various financial and other matters and initially to help finance the NMTC transaction. NYC Health + Hospitals financed HHCAC with $10.7 million, which was loaned to HHC/NCF Sub-CDE, LLC ("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 NYC Health + Hospitals 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. U.S. Bank may, however, exercise a put option to require NYC Health + Hospitals 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 NYC Health + Hospitals 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. As of the issuance of this financial statement, NYC Health + Hospitals has initiated discussions with the equity investor through the fund advisors related to the unwinding of this transaction and execution of the put option.

The following table summarizes debt service requirements as of June 30, 2019 (in thousands):

	Principal	Interest	Total
Years			
2020	$ 324	$ 181	$ 505
2021	561	172	733
2022	568	165	733
2023	575	158	733
2024	582	151	733
2025 - 2029	3,019	646	3,665
2030 - 2034	3,208	457	3,665
2035 - 2039	3,411	256	3,667
2040 - 2043	2,452	53	2,505
Total	$ 14,700	$ 2,239	$ 16,939

(f) Equipment Financing Agreement (JPMorgan Chase Bank)

On July 9, 2015, NYC Health + Hospitals ("Borrower") entered into a $60.0 million Equipment Financing Agreement ("JPMorgan Agreement") with JPMorgan Chase Bank ("Lender") for the purpose of financing medical, information technology, and other equipment with useful lives ranging from 5 to 10 years. The JPMorgan Agreement is a drawdown loan, which allows NYC Health + Hospitals to make multiple draws (i.e., borrowings) up to August 1, 2017 for an aggregated not-to-exceed amount of $60.0 million. During the drawdown period, all borrowings will incur monthly interest expense based on an agreed-upon variable rate formula. On July 9, 2015, NYC Health + Hospitals drew down $10.0 million at the initial interest rate of 0.9318%. On July 31, 2017, NYC Health + Hospitals drew down the remaining $50.0 million and thereafter converted the $60.0 million outstanding loan to a fixed rate loan at the interest rate of 2.088%, which was based on an agreed-upon fixed rate formula with a final maturity of July 1, 2022. The debt is secured by the equipment financed and a second lien on Health Care Reimbursement Revenues.

(g) Term Loan and Revolving Loan (Citibank)

On October 14, 2015, NYC Health + Hospitals entered into a $60.0 million revolving loan with Citibank for the purpose of financing Community Reinvestment Act-eligible capital projects. The revolving loan allows NYC Health + Hospitals to borrow up to $60.0 million at any time in advance of the maturity date and repay in full no later than the maturity date, which was October 12, 2018.

On October 14, 2015, NYC Health + Hospitals initiated a draw-down of $10.0 million at the initial interest rate of 0.77% ("Prior Loan").

On November 1, 2017, NYC Health + Hospitals entered into a $30.0 million Term Loan and $30.0 million Revolving Loan with Citibank to refinance the Prior Loan and to finance additional Community Reinvestment Act-eligible capital projects. On November 1, 2017, NYC Health + Hospitals borrowed $30.0 million on the Term Loan at a fixed interest rate of 2.17% and refinanced the then outstanding $10.0 million Prior Loan. The Term Loan maturity date is November 1, 2022.

The $30.0 million Citibank Revolving Loan allows NYC Health + Hospitals to make multiple draws (i.e., borrowings) up to October 31, 2018 for an aggregated not-to-exceed amount of $30.0 million.

On October 30, 2018, NYC Health + Hospitals borrowed the remaining $30 million Revolving Loan to finance Community Reinvestment Act-eligible capital projects. The initial interest rate for the Revolving Loan was set at 2.20% andis to be reset weekly based on the SIFMA index plus a margin. The final maturity of the Revolving Loan is October 30, 2023. The overall average interest rate was 2.23% for 2019.

Both the Term Loan and the Revolving Loan are secured by a second lien on Health Care Reimbursement Revenues.

In addition to default provisions mentioned earlier in this section, this loan has an additional default trigger associated with the Borrower's rating being reduced to a category below BBB+ by S&P, BBB+ by Fitch or below Baa1 by Moody's, or if the Borrower's rating is removed, withdrawn for credit-related reasons or suspended for any reason. In any of these situations, the Loan shall be subject to mandatory prepayment.

(h) New York Power Authority Financing

NYC Health + Hospitals has had two energy efficiency upgrade projects at both Metropolitan and Elmhurst hospitals in the last few years. The projects fall under NYPA's energy efficiency program which allows for NYPA to provide construction management, interim financing, and long-term financing upon project completion for qualifying projects. During fiscal year 2018, both projects were largely completed and placed into service, thereby moving costs from CIP to assets with long-term debt associated with their costs. The long-term debt agreement was finalized in August 2018 and debt service payments began at that time.

On August 1, 2018, the Corporation began debt service payments related to the two boiler projects constructed and financed by NYPA at Elmhurst and Metropolitan Hospitals. The tax-exempt variable rate loan amounts are based on construction spending, plus capitalized interest, minus certain grant funding received from The City of New York from May 1, 2011 to May 31, 2018, which represents greater than 95% of the projects' completion. Upon the completion of the projects, the remaining construction costs will be added to the balance of the respective loans and will be repaid in the remaining loan term.

On August 1, 2018, the Elmhurst Hospital loan amount was $21.5 million and the Metropolitan Hospital loan amount was $22.8 million, and both loans were set at the initial variable interest rate of 1.43% with a 20 year maturity date of August 1, 2038. Monthly debt service for Elmhurst and Metropolitan Hospitals are $0.103 million and $0.110 million, respectively, and began on September 4, 2018. The interest rate of the variable rate loans are to be reset annually in January or February by NYPA based on NYPA's prior 12 months' funding cost.

The interest rates of the variable rate loans were reset in January 2019 for 2.35%. Monthly debt service for Elmhurst and Metropolitan Hospitals are $0.112 million and $0.119 million, respectively.

The following table summarizes debt service requirements as of June 30, 2019 (in thousands):

	Principal	Interest	Total
Years			
2020	$ 1,641	$ 903	$ 2,544
2021	1,831	944	2,775
2022	1,875	900	2,775
2023	1,919	856	2,775
2024	1,965	810	2,775
2025 - 2029	10,548	3,329	13,877
2030 - 2034	11,862	2,015	13,877
2035 - 2039	11,006	558	11,564
Total	$ 42,647	$ 10,315	$ 52,962

Other Debt Agreements

(i) Key Bank CISCO Leasing

On October 30, 2015, NYC Health + Hospitals entered into a $5.7 million taxable lease purchase agreement ("Taxable 1") and a $5.8 million tax-exempt lease purchase agreement ("TELP 1") with Key Government Finance, Inc. to purchase a Cisco Enterprise License Agreement that provides the operating software for all of NYC Health + Hospitals' voice over internet protocol phones and devices. Both have maturity dates of January 30, 2020.

On November 25, 2015, NYC Health + Hospitals entered into a $10.2 million tax-exempt lease purchase agreement ("TELP 2") with Key Government Finance, Inc. to fund the cost of renovations at two hospitals and health centers. On the same day, NYC Health + Hospitals entered into a $13.7 million tax-exempt lease purchase agreement ("TELP 3") with Key Government Finance, Inc. to fund the cost of Cisco and Cisco-partner equipment for the same facilities above; both of which have a maturity date of February 25, 2020.

NYC Health + Hospitals does not pay interest on the Taxable 1, TELP 1 and TELP 3 financing agreements as they are non-interest bearing. The interest rate for the TELP 2 financing agreement is 3.525%. The debt for each of the agreements is secured by the equipment financed.

(j) Equipment and Renovation (Sodexo)

In 2005, NYC Health and Hospitals executed a contract with Sodexo Dietary Division, US Foods, and GNYHA Ventures (the "Consortium") related to the food services provided at NYC Health and Hospitals facilities. As part of that agreement, the Consortium and NYC Health + Hospitals agreed upon financing arrangement whereby renovations were made to NYC Health + Hospitals food processing equipment and monthly payments were made over periods not to exceed 10 years. In January 2015, the Consortium committed an additional $8.0 million to modernize and improve dietary operations at various facilities..

The Consortium is responsible for all $1.5 million and NYC Health + Hospitals is responsible for remaining $6.5 million. The $6.5 million is amortized over the remaining contract term, and payment is made monthly as part of the contract. In the event of termination of the agreement, the NYC Health + Hospitals will be responsible for payment in full of the $1.5 million funded by the Consortium. All assets acquired under this addenda to the master agreement have been capitalized and the related obligation is reflected in the accompanying financial statements.

There is no interest on this transaction. Monthly payments are payable in the amount of a daily specified rate of $2,580 multiplied by the number of days in that month. The last payment is due December 2024.

(k) Henry J. Carter Capital Lease Obligation

In September 2010, NYC Health + Hospitals and The City of New York entered into a Memorandum of Understanding ("MOU") with the NYSDOH, DASNY, and 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 allowed NYC Health + Hospitals to relinquish an aging and outdated campus, while facilitating the reorganization and downsizing of NYC Health + Hospitals' long-term care services consistent with NYC Health + Hospitals' restructuring plan.

The MOU provides for a capital lease of the existing North General Hospital building that was renovated to house long-term acute care hospital services. NYC Health + Hospitals has also acquired a parking lot on the North General campus, where a new tower building has been constructed to house skilled nursing services. NYC Health + Hospitals renamed the site of the former North General Hospital to the Henry J. Carter site. The City financed 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 NYC Health + Hospitals' rent payment based on the final Medicaid capital reimbursement receipt attributable to depreciation expense for the 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 NYC Health + Hospitals, 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, 2019 (in thousands):

	Principal	Interest	Total
Years			
2020	$ 7,003	$ 3,039	$ 10,042
2021	1,877	565	2,442
2022	1,939	503	2,442
2023	2,004	438	2,442
2024	2,070	372	2,442
2025 - 2029	10,203	1,145	11,348
Total	$ 25,096	$ 6,062	$ 31,158

(l) Letter of Credit and Guaranty (TD Bank)

On May 30, 2019, NYC Health + Hospitals issued a Guaranty to TD Bank in connection to TD Bank's issuance of an unsecured Irrevocable Standby Letter of Credit in the amount of $1,250,000 for the benefit of the CMS on behalf of HHC ACO, a component unit of the NYC Health + Hospitals. The Guaranty is a continuing guaranty of payment and performance of the HHC ACO. The expiration of the letter of credit is December 31, 2021, with an annual automatic renewal and a final expiration date not exceeding December 31, 2025. As of June 30, 2019, there were no draws on the letter of credit.

Upon the occurrence and during the continuance of any Events of Default, such as failure to pay any required payment when due, amounts unpaid when due will bear interest at the Default Rate of 3% plus the Prime Rate or the highest rate permitted by law from the due date until the date paid.

HHC ACO is a New York accountable care organization that participates in the MSSP. The MSSP is an alternative payment model that promotes coordinated care for Medicare fee-for-Service beneficiaries by holding providers accountable for quality and cost of care. The goal of coordinated care is to ensure that patients get the right care at the right time, while avoiding unnecessary duplication of services and preventing medical errors. When an ACO succeeds both in delivering high-quality care and reducing healthcare spend, that ACO will share in the savings it achieves for the Medicare program.

The HHC ACO participates in a two-sided risk model which potentially provides the highest reward to the HHC ACO, as well as a potential for shared losses. In this model, the MSSP requires all participating ACOs to provide a letter of credit, escrow fund, or surety bond to CMS to guarantee repayment of any liability for shared losses incurred. As such, ACO chose to issue a letter of credit.

(m) Oracle ERP Financing

On February 26, 2016, NYC Health + Hospitals entered into a $7.8 million Municipal Payment PlanAgreement ("MPP Agreement") with Oracle Credit Corporation for the purpose of financing one-time licensing fees for an integrated ERP software solution for finance, supply chain, nurse and physician scheduling and human resources. The payment schedule under the MPP Agreement was based upon 0% interest with the first payment made one month from closing, on May 2, 2016, then quarterly payments starting on June 1, 2016, and a final payment

which was made on December 1, 2018. The debt was secured by the software purchased through the financing agreement.

The following table summarizes debt service requirements combined for the JP Morgan Agreement, Term Loan and Revolving Loan ("Citibank"), all four financing agreements for Key Bank Cisco, and equipment and renovation financing as of June 30, 2019 (in thousands):

	Principal	Interest	Total
Years			
2020	$ 26,925	$ 1,974	$ 28,899
2021	23,599	1,416	25,015
2022	25,490	884	26,374
2023	16,852	375	17,227
2024	7,944	56	8,000
2025	404	-	404
Total	$ 101,214	$ 4,705	$ 105,919

(n) Letter of Credit 1199

On December 18, 2015, NYC Health + Hospitals established a letter of credit totaling $4.3 million to secure amounts for the benefit of 1199 SEIU Health Care Employees Pension Fund resulting from NYC Health + Hospitals' assumption of pension liabilities for certain Correctional Health employees. The letter of credit has an automatic annual extension with a final expiration date of December 31, 2020. No amount has been drawn against this letter of credit.

(o) Letter of Credit 55 Water

On September 17, 2013, NYC Health + Hospitals established a letter of credit eventually totaling $7.5 million to secure its performance under a lease entered into with New Water Street Corp. for space located at 55 Water Street, New York, New York. The letter of credit has an automatic annual extension with a final expiration date of September 12, 2033. No amount has been drawn against this letter of credit.

(p) Letter of Credit Captive

NYC Health + Hospitals established a letter of credit on behalf of the HHC Insurance Company to fufill a requirement by the New York State Insurance Department for captive insurance companies to hold certain monies in reserve. The letter of credit was issued in the amount of $250,000 for the benefit of NYSDFS. It is automatically renewable annually and has an expiration date of May 22, 2020. No amount has been drawn against this letter of credit.

9. DUE TO THE CITY OF NEW YORK, NET

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

	2019	2018
FDNY EMS operations [a]	$ 187,713	$ 192,692
Medical malpractice payable [b]	109,419	123,380
Other accrued expenses [c]	26,018	27,651
Debt service [d]	-	145,781
Medical malpractice prepayment [e]	-	(9,115)
	$ 323,150	$ 480,389

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

[b.] Payable represents final malpractice balances due to The City (Note 1(g)).

[c.] Payable mainly represents final and reconciled fringe benefit costs.

[d.] Payable represents final and reconciled debt service costs. The FY 2018 amount represents debt service paid in FY 2018 for FY 2015 liabilities; no liability was attributable to either FY 2018 or FY 2019 as The City paid the liability each year on behalf of NYC Health + Hospitals.

[e.] Receivable represents NYC Health + Hospitals' prepaid portion of its fiscal year 2019 medical malpractice liability in fiscal year 2018.

10. PENSION PLAN

NYC Health + Hospitals participates in the New York City Employees Retirement System ("NYCERS") Qualified Pension Plan ("QPP"), which is a cost-sharing, multiple-employer public employees' retirement system. NYCERS provides defined-pension benefits to 190,572 active municipal employees, 154,116 pensioners, 21,389 deferred vested, and 28,483 members who are no longer on payroll through $77.4 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 NYC Health + Hospitals' covered payroll for the years ended June 30, 2019 and 2018 are approximately $2.02 billion and $2.1 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 or from the following website: https://www.nycers.org/comprehensive-annual-financial-report.

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 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 QPP 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' Tiers are determined by the date of membership in the QPP. Subject to certain conditions, members generally become fully vested as to benefits upon the completion of 5 or 10 years of service. Employees may be required to contribute a percentage of their 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 multiplied by the 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. 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.

NYC Health + Hospitals' net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense is calculated by the Office of the Actuary, City of New York (the "Actuary"), and includes the information for MetroPlus. At June 30, 2019 and 2018, NYC Health + Hospitals reported a liability of $2.6 billion and $2.8 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 actuarial valuations as of June 30, 2018 and June 30, 2016, and rolled forward to each respective fiscal year. NYC Health + Hospitals' proportion for the net pension liability for each fiscal year was based on NYC Health + Hospitals' actual contributions to NYCERS relative to the total contributions of all participating employers for 2019 and 2018, which was 14.0% and 15.0%, respectively. NYC Health + Hospitals made contributions of $515.5 million and $507.3 million for 2019 and 2018, respectively.

(a) Actuarial Assumptions

The total pension liability in the June 30, 2018 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% per annum.
Investment rate of return	7.0%, net of pension plan investment expense.
Cost of living adjustment	1.5% and 2.5% for various Tiers.

Mortality rates and methods, as well as retirement, disability, withdrawal, and salary scale, used in determination of the total pension liability were proposed by the Actuary and adopted by each of the five New York City Retirement Systems' ("NYCRS") Boards of Trustees during fiscal year 2019. These tables were based primarily on the experience of each system and the application of Mortality Improvement Scale, MP-2018, published by the Society of Actuaries in October 2018 and the Mortality Base Tables as updated by Bolton, Inc. in its 10-year Experience Study ending on June 30, 2017. Pursuant to Section 96 of the New York City Charter, studies of the actuarial assumptions used to value liabilities of the five actuarially funded 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 details, see the NYCRS "2019 Assumptions and Methods (A&M)" reports available on the Office of the Actuary's website: https://www1.nyc.gov/site/actuary/reports/reports.page.

(b) Expected Rate of Return on Investments

The long-term expected rate of return ("LTEROR") on pension plan investments was determined using a building-block method in which best-estimate ranges of expected real rates of return (i.e. expected returns, net of pension fund investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the LTEROR by weighting the expected real rates of return ("RROR") by the target asset allocation percentage and by adding Expected Inflation. The target asset allocation and best estimates of arithmetic RROR for each major asset class are summarized in the following table:

Asset class	Target Asset Allocation	Arithmetic RROR by Asset Class
U.S. Public Market Equities	29.00 %	7.00 %
International Public Market Equities	13.00	7.10
Emerging Public Market Equities	7.00	9.40
Private Market Equities	7.00	10.50
Fixed Invoice (Core, TIPS, High Yield, Opportunistic, Convertibles)	33.00	2.20
Alternatives (Real Assets, Hedge Funds)	11.00	5.70
Portfolio long-term average arithmetic RROR	100.00 %	

(c) Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2019 and 2018, respectively, was 7.00%. The projection of cash flow used to determine the discount rate assumes 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 is projected to be available to make all projected future benefit payments of current active and non-active 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.

The following presents NYC Health + Hospitals' proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what NYC Health + Hospitals' 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%)
NYC Health + Hospitals' proportionate share of the net pension liability	$ 3.988	$ 2.585	$ 1.401

(d) Deferred Inflows and Outflows of Resources

The following are components of deferred inflows and (outflows) at June 30, 2019 and 2018 (in thousands):

	2019	2018
Differences between projected and actual earnings on pension plan investments	$ 166,460	$ 147,939
Differences between expected and actual experience	(36,595)	255,369
Changes in Assumptions	106,760	(69,160)
Differences between employer contributions and proportionate share of contributions	151,520	(15,759)
Adjustment for Census Data Fix	102,156	-
	$ 490,301	$ 318,389

The deferred inflows and (outflows) of resources at June 30, 2019 will be recognized in expense as follows (in thousands):

	Amount
Year Ended June 30,	
2020	$ 192,640
2021	164,720
2022	72,094
2023	43,962
2024	15,379
2025	1,506
	$ 490,301

(e) Annual Pension Expense

NYC Health + Hospitals' annual pension expense for fiscal years ending 2019 and 2018, which includes contributions toward the actuarially determined accrued liability, including the information for MetroPlus, were approximately $527.0 million and $404.2 million, respectively.

11. POSTEMPLOYMENT BENEFITS, OTHER THAN PENSION

The other postemployment benefits ("OPEB") provided to NYC Health + Hospitals is managed by The New York City Other Postemployment Benefits Plan, a fiduciary component unit of The City of New York, and is classified as a single employer plan under GASB 75, as amended by GASB 85.

In accordance with collective bargaining agreements, NYC Health + Hospitals provides OPEB that includes 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 NYC Health + Hospitals 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 NYC Health + Hospitals prior to retirement; (iii) have worked regularly for at least 20 hours a week at termination of active service; and (iv) be receiving a pension check from a retirement system maintained by The City or another system approved by The City.

At June 30, 2018, the following employees were covered by the benefit terms:

Employees covered by benefit terms	
Active	$ 29,805
Actives Off Payroll	4,600
Deferreds	3,442
Retirees	22,549
Total	$ 60,396

NYC Health + Hospitals' total OPEB liability, deferred inflow of resources, and OPEB expense is calculated by the Actuary, and includes the information for Metroplus.

Contributions: NYC Health + Hospitals funds the postretirement benefits program on a pay-as-you go basis. In 2019 and 2018, NYC Health + Hospitals' contributions were $171.6 million and $235.4 million, respectively. For the years ended June 30, 2019 and 2018, the NYC Health + Hospitals' average contribution rate was 7.7 percent and 10.6 percent, respectively, of covered-employee payroll. Employees are not required to contribute to the plan.

Total OPEB Liability: NYC Health + Hospitals total OPEB liability measured at June 30, 2019 and 2018 of $5.6 billion and $5.2 billion, respectively, were determined by actuarial valuations as of June 30, 2018 and June 30, 2017, respectively.

(a) Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5 percent
Salary increases	3.0 percent per annum
Investment rate of return	4.0 percent, net of investment expenses includes an inflation rate of 2.5 percent
Healthcare cost trend rates	1.5 percent and 2.5 percent for various Tiers
Pre-Medicare Plans	7.0 percent for 2019, remaining level in 2019 and decreasing 0.25 percent per year thereafter to an ultimate rate of 4.5 percent for 2030 and later years
Medicare Plans	5.0 percent for 2019 and 2020, decreasing by .1 percent every two year period thereafter to an ultimate rate of 4.5 percent for 2030 and later years
Welfare Fund Contributions	3.5 percent for 2019 and thereafter

Mortality rates and methods, as well as retirement, disability, withdrawal, and salary scale, used in determination of the total OPEB liability were proposed by the Actuary and adopted by each of the five NYCRS Boards of Trustees during fiscal year 2019. These tables were based primarily on the experience of each system and the application of Mortality Improvement Scale, MP-2018, published by the Society of Actuaries in October 2018 and the Mortality Base Tables as updated by Bolton, Inc. in its 10-year Experience Study ended on June 30, 2017. Pursuant to Section 96 of the New York City Charter, studies of the actuarial assumptions used to value liabilities of the five actuarially funded NYCRS are conducted every two years. For more details, see the NYCRS "2019 Assumptions and Methods (A&M)" reports available on the Office of the Actuary's website: https://www1.nyc.gov/site/actuary/reports/reports.page.

(b) Changes in the Total OPEB Liability *(in thousands)*

	2019 Activity Total OPEB Liability	2018 Activity Total OPEB Liability
Balances at end of prior fiscal year	$ 5,208,916	$ 4,790,644
Changes for the year		
Service cost	307,104	279,874
Interest	161,840	158,153
Difference between expected and actual experience	858,811	104,933
Change in assumptions	(806,009)	110,707
Actual benefit payments	(171,559)	(235,395)
Net changes	350,187	418,272
Balances at June 30, 2019 and 2018, respectively	$ 5,559,103	$ 5,208,916

(c) Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2019 and 2018 was 2.79% and 2.98%, respectively, based on the Municipal Bond 20-year high grade index rate.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents NYC Health + Hospitals' total OPEB liability calculated using the discount rate of 2.79%, as well as what NYC Health + Hospitals' total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.79%) or 1 percentage point higher (3.79%) than the current rate (in millions):

	1% Decrease (1.79%)	Discount Rate (2.79%)	1% Increase (3.79%)
NYC Health + Hospitals' total OPEB liability	$ 6,419	$ 5,559	$ 4,872

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents NYC Health + Hospitals' total OPEB liability calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates (in millions):

	1% Decrease (6.0%) Decreasing to 3.5%)	Healthcare Cost Trend Rates (7.0% Decreasing to 4.5%)	1% Increase (8.0%) Decreasing to 5.5%)
NYC Health + Hospitals' total OPEB liability	$ 4,658	$ 5,559	$ 6,820

(d) Deferred Outflows and Inflows of Resources

The following are components of deferred outflows and inflows at June 30, 2019 and 2018 (in thousands):

	June 30, 2019		June 30, 2018	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	$ 794,375	$ 83,503	$ 88,408	$ 108,746
Changes in assumptions	75,840	1,037,296	93,273	484,686
Net	$ 870,215	$ 1,120,799	$ 181,681	$ 593,432
Total Deferred Inflows	250,584		411,751	

The net deferred outflows and inflows of resources at June 30, 2019 will be recognized as follows (in thousands):

	Amount
Year Ending June 30,	
2020	$ 83,525
2021	83,525
2022	80,682
2023	25,634
2024	(20,267)
Thereafter	(2,514)
	$ 250,585

(e) Annual OPEB Expense

NYC Health + Hospitals' annual OPEB expenses for fiscal years ended 2019 and 2018, including the information for MetroPlus, were $385.4 million and $346.1 million, respectively. Implicit rate subsidy credits of $30.0 million and $23.0 million contributed to the reduction of OPEB expenses for 2019 and 2018, respectively.

12. COMMITMENTS AND CONTINGENCIES

(a) Reimbursement

NYC Health + Hospitals derives significant third-party revenue 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"). Long-term acute care is also reimbursed under a PPS. For outpatient services, Medicare payments are based on service groups called ambulatory payment classifications.

Medicare provides PPS reimbursement for psychiatric units on a per diem basis, recognizing the intensity of care provided to the patients. NYC Health + Hospitals also 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, and the costs related to treating a disproportionate share of indigent patients. Additionally, 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. Medicare cost report audits and final settlements have been completed for most NYC Health + Hospitals facilities through fiscal year 2016; two facilities have outstanding fiscal year 2016 final settlements.

Effective January 1, 1997, the New York State enacted the Healthcare 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, 2020.

HCRA continues funding sources for public goods pools to finance healthcare for the uninsured and fund initiatives in primary care. Under HCRA, the State continues to pay outpatient reimbursements under Ambulatory Patient Groups for ambulatory surgery services, emergency room services, diagnostic and treatment center medical services, and most chemical dependency and mental health clinic services, and provides for service intensity adjusted prospective payments based on patient diagnoses and procedures groupings. Outpatient services for all non-governmental payors are based on charges or negotiated rates.

Medicaid pays for inpatient acute care services on a prospective basis using a combination of Statewide and hospital-specific 2015 costs per discharge adjusted to meet State budget targets and for severity of illness based on DRGs. Certain hospital-specific non-comparable costs are paid as flat-rate-per-discharge add-ons to the DRG rate. Certain psychiatric, rehabilitation, long-term acute care, and other services are excluded from this methodology and are reimbursed on the basis of per diem rates. 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's ("HMO's"), 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 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. NYC Health + Hospitals' current negotiated rates include per case, per diem, per service, per visit, partial capitation, and value based payment arrangements.

NYC Health + Hospitals 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 recorded in the accompanying financial statements.

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. NYC Health + Hospitals 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, e.g., fines, penalties, and possible exclusion from Medicaid and Medicare, in the event of noncompliance. NYC Health + Hospitals has a Corporate Compliance Committee and a Corporate Compliance Officer to monitor adherence to laws and regulations.

(b) Risks to Supplemental Medicaid Reimbursement

As the country's largest municipal provider of safety net care to low income and uninsured patients, NYC Health + Hospitals relies heavily on a variety of supplemental safety net funding programs, to augment below cost reimbursements received from government and subsidized insurances, and to support care for the uninsured and underinsured. Chief among these is the Medicaid DSH program, from which NYC Health + Hospitals' facilities received $1.4 billion in fiscal year 2019. These programs are subject to many laws and regulations at both the State and federal level, changes to which may result in significant implications for NYC Health + Hospitals.

i. Federal Medicaid DSH Reductions

The ACA included reductions in Medicaid DSH funds that were originally scheduled to begin in federal fiscal year 2014, and totaled $18 billion through federal fiscal year 2020. The ACA DSH cuts were premised on the expectation that growth in insurance coverage through Medicaid expansion and the new ACA offerings would

reduce hospital need for DSH funds. However, since passage of the ACA, lawmakers have recognized hospitals' ongoing need for Medicaid DSH funding, by delaying the cuts four times. The most recent DSH cut delay came via the Bipartisan Budget Act of 2018, which scheduled $4 billion in Medicaid DSH cuts to begin in federal fiscal year 2020 ("FFY 2020"), growing to $8 billion annually in federal fiscal years 2021 through 2025.

NYC Health + Hospitals, along with the entire hospital industry and a broad coalition of stakeholders in the provision of care to low income patients, has advocated for further delay and ultimate repeal of the federal Medicaid DSH cuts. Late in September 2019, Congress passed a continuing resolution postponing the FFY 2020 reductions from October 1 to November 21, which the President is expect to sign into law. It is widely anticipated that the cuts will be delayed for at least two more years. Absent this additional delay in the DSH cuts, NYC Health + Hopsitals projects net revenue reductions of $223.4 million in fiscal year 2020 and $495.1 million in fiscal year 2021.

ii.MetroPlus Enhanced Rate Pass Through

Since the State fiscal year beginning in April 2011, NYC Health + Hospitals has received supplemental revenue averaging approximately $120 million per year related to an enhanced Medicaid managed care premium rate paid to MetroPlus by New York State, which was directed to be passed from the plan to NYC Health + Hospitals. As a result of changes in federal Medicaid managed care regulations, the State's ability to provide these enhanced rates to MetroPlus ended on March 1, 2019. NYC Health + Hospitals is working with New York State to explore other permissible funding opportunities that may offset this loss of revenue.

(c) Audits

Federal and State governmental entities have a variety of audit programs to review and recover potential improper payments to providers from the Medicare and Medicaid programs. Stated below are various recovery audits of which NYC Health + Hospitals continues to be subject to:

i. Medicare Recovery Audit Contractor Program ("RAC")

The RAC program, which primarily reviews medical necessity of inpatient admissions and hospital coding practices was enacted by CMS on a demonstration basis for 2002 through 2008, and as a full program for 2009, although implementation was delayed until 2012. Subsequently, in 2013 CMS implemented a policy, known as the "Two-Midnight" rule, which establishes that hospital stays expected to span two or more midnights after the beneficiary is properly and formally admitted as an inpatient, are reasonable and necessary proper admissions for reimbursement. Related to the Two-Midnight Rule, CMS implemented a "Probe and Educate" training period beginning May 4, 2016, during which RAC audits for medical necessity were temporarily suspended until September 2016. Since the suspension has been lifted, RAC audit activities for NYC Health and Hospitals have continued to be minimal. NYC Health + Hospitals maintains distinct estimates of liabilities for RAC audits related to the demonstration period, and for fiscal years 2009 through 2014 for which we have received final settlement notices indicating a reopening to account for adjustments due to an issue where the claim payments on the Provider Statistical and Reimbursement report ("PS&R") were not accounting for the RAC adjustments applicable to claims paid on a Periodic Interim Payment basis.As of June 30, 2019, all RAC liabilities for fiscal years 2009 through 2014 have been resolved. RAC liabilities for the demonstration period remain open. For fiscal years after 2014, RAC liabilities are reflected in the PS&R data used to estimate Medicare cost report final settlements, therefore no separate RAC liability estimate is developed.

ii.Disproportionate Share Hospital ("DSH") Payment Audits

Pursuant to federal regulations, all New York State hospital recipients of DSH participate in Medicaid DSH Audits to determine the final calculation of limits on hospital-specific DSH payments. Since 2014, these audits have been conducted for each Medicaid State Plan Rate Year ("SPRY") on an approximate three year lag. DSH Audits have been completed through SPRY 2015; the SPRY 2016 audit is currently in progress.

(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, known as Sequestration. The Sequestration period was extended by legislation until 2029.

(e) 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 $7.4 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.

As the DSRIP program requires, NYC Health + Hospitals serves as fiduciary or lead partner for a coalition of Medicaid provider and social services organizations referred to as a Performing Provider System ("DSRIP PPS"). The NYC Health + Hospitals-led DSRIP PPS is referred to as OneCity Health PPS and the constellation of partner organizations was established via a NYSDOH-mandated attestation process that began in December 2014. Since April 2014, NYC Health + Hospitals has dedicated significant effort to enterprise-level and DSRIP PPS-level preparation for participation in the DSRIP program, and in execution of NYSDOH-required organizational and project planning essential to implementing and managing DSRIP program efforts. Notable activities include the establishment of DSRIP PPS governance structures and the operationalization of a NYC Health + Hospitals subsidiary (OneCity Health Central Services Organization, or "CSO") dedicated to DSRIP implementation and management.

OneCity Health DSRIP PPS governance structures include an Executive Committee, three subcommittees to the Executive Committee, and four Hub Steering Committees, for each of four OneCity Health hubs corresponding to each of the boroughs Bronx, Brooklyn, Queens, and Manhattan. All governance approvals are made by the Executive Committee, and NYC Health + Hospitals has the final approval authority in its role as fiduciary of the DSRIP PPS. The OneCity Health CSO is charged with supporting NYC Health + Hospitals and all DSRIP PPS partners in implementing all aspects of the DSRIP program. The CSO Board comprises NYC Health + Hospitals leadership plus a minority (<25%) of outside members. Since the establishment of the CSO, the CSO team of NYC Health + Hospitals employees has advanced the planning and implementation work of the DSRIP PPS by completing a complex partner readiness assessment of over 220 partner organizations, over 1,200 sites of care and over 12,000 individual practitioners; performing initial project planning for the eleven selected DSRIP projects; and committing to a high-level DSRIP budget and flow of funds, which was approved by the DSRIP

PPS Executive Committee and included in the NYSDOH-required State Implementation Plan submitted in August 2015.

In June 2015, the NYSDOH announced DSRIP valuation awards, which represent the total potential amount that each DSRIP PPS is eligible to earn in performance payments over the five years of the DSRIP program. OneCity Health, the HHC-led DSRIP PPS received a valuation award of $1.2 billion (Note 1). Through the fiscal year ending June 30, 2018, NYC Health + Hospitals recorded DSRIP grant revenue totaling $640.9 million, based on meeting the applicable eligibility requirements for the first three years of the DSRIP program.

During 2019, NYC Health + Hospitals received additional DSRIP payments from NYSDOH in the amount of $215.3 million after meeting the applicable eligibility requirements for the first of two DSRIP year four payments, and remitted a required intergovenmental transfer ("IGT") payment in the amount of $97.5 million to fund the non-federal share of the DSRIP program. In addition, NYC Health + Hospitals made a payment to SUNY in the amount of $10.1 million in recognition of DSRIP IGT payments remitted by SUNY to NYSDOH. As of June 30, 2019 an additional IGT payment required to fund the non-federal share of the DSRIP program totaling $35.9 million had yet to be scheduled by NYSDOH, and therefore was recorded as a reduction to FY 2019 grants revenue. The net amount of these transactions, $71.8 million, was recorded as DRIP grant revenue for the fiscal year ended June 30, 2019.

As of the issuance of these financial statements, NYSDOHhas provided notice of the State's intent to request approval from the CMS for a four year waiver amendment to further support the quality improvements and cost savings through the DSRIP program. New York State seeks a continuation of DSRIP for the 1-year balance of the 1115 waiver ending on March 31, 2021 and conceptual agreement to an additional 3 years from April 2021 to March 31, 2024. However, the likelihood of the four-year renewal of DSRIP cannot be determined at this time.

(f) Value-Based Quality Improvement Program ("VBP QIP")

VBP QIP is a New York State Medicaid Managed Care initiative that partners hospital providers, DSRIP PPS', and managed care plans to improve quality and support transformation to value-based purchasing arrangements. The purpose of VBP QIP is to transition financially distressed facilities to a value-based payment ("VBP"), improve the quality of care, and as a result, achieve financial sustainability over the five years of the program, which commenced in April 2015 and is scheduled to end with the State fiscal year commencing in April 2020. This program is meant to ensure long-term financial sustainability through active changes in the delivery and contracting of healthcare services, not to solely sustain operations.

NYC Health + Hospitals was allocated $120.0 million per year for the five year program which started as of the State fiscal year April 1, 2015 to March 31, 2016 ("Year 1"). For Year 1, NYC Health + Hospitals, through OneCity Health, partnered with EmblemHealth, HealthFirst, and MetroPlus. In April 2016 ("Year 2"), HealthFirst was reassigned to a different VBP QIP Partnership. In Years 1 and 2, there were planning and reporting milestones. Year 2 started to incorporate DSRIP VBP baseline metrics, and in Years 3 through 5 (April 1, 2017 to March 31, 2020), providers are required to maintain or improve performance on selected quality metrics. Additionally, Years 4 and 5 funding required providers to demonstrate by April 1, 2018 that 80% of Medicaid Managed Care revenue is paid through value-based payment arrangements.

During the fiscal year ended June 30, 2019, NYC Health + Hospitals received $120.0 million related to meeting the reporting and performance metrics established by NYSDOH for Year 3. Agreements between NYC Health

+ Hospitals and NYSDOH, and The City and NYSDOH related to IGT funding for Year 4, had not been executed as of June 30, 2019. Therefore, no additional revenue for Year 4 was recorded for FY 2019. It is anticipated that Year 4 agreements will be executed during fiscal year 2020.

(g) Care Restructuring Enhancement Pilot ("CREP")

CREP is a New York State initiative funded through the State's 1115 Medicaid Waiver. CREP is designed to meet programmatic goals and support the expansion of Medicaid Managed Care in two specific special need areas - Home and Community Based Behavioral Health ("HCBS") services and Managed Long Term Care ("MLTC"). Under CREP, selected public hospitals assess HCBS needs and gaps for the HARP population, and develop workforce training initiatives for both HCBS and MLTC. NYC Health + Hospitals was awarded $432 million over four years beginning in April 2016.

CREP program funds are paid to participating facilities for completion of program related deliverables defined by the NYS Department of Health and evaluated by Fidelis Care, NYS' administrator for the program. Similar to the DSRIP funds, CREP require provision of matching funds through IGTs from NYC Health + Hospitals to the State.

During the year ended June 30, 2019, NYC Health + Hospitals earned $59.2 million in grants revenue related to CREP Year 3 and reduced its estimate of Year 1 grant revenue earned in prior years by $0.25 million. During the year ended June 30, 2018, NYC Health + Hospitals earned $32.5 million in grants revenue related to CREP year 1 and $133.4 million related to CREP year 2.

(h) Legal Matters

There are a significant number of outstanding legal claims against NYC Health + Hospitals for alleged negligence, medical malpractice, and other torts, and for alleged breach of contract. Pursuant to the Agreement, NYC Health + Hospitals is indemnified by The City for such costs. In FY 2019 and FY 2018, NYC Health + Hospitals agreed to reimburse The City $118.3 and $108.1 million, respectively. NYC Health + Hospitals 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 9). Accordingly, no provision has been made in the accompanying financial statements for unsettled claims, whether asserted or unasserted.

(i) Operating Leases

NYC Health + Hospitals leases equipment, off-site clinic space, and office space under various operating leases. Total rental expense for operating leases was approximately $42.0 million in 2019 and $30.0 million in 2018 and is 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 non-cancelable lease terms in excess of one year as of June 30, 2019 (in thousands):

	Amount
Years	
2020	$ 31,526
2021	31,921
2022	29,978
2023	35,538
2024 forward	802,563
Total minimum payments required	$ 931,526

13. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2019	2018
Vendors payable	$ 519,858	$ 487,770
Accrued interest	12,004	13,151
Affiliations payable	58,313	45,483
Affiliations vacation accrual	30,894	29,945
Pollution remediation liability	16,049	13,765
Asset retirement obligation	5,000	5,000
Other	8,998	8,036
	$ 651,116	$ 603,150

GASB Statement No. 83, *Certain Asset Retirement Obligations* ("GASB 83") establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations ("ARO"s). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. In accordance with GASB 83, the Corporation completed analysis of assets meeting the criteria of an ARO for specific types of medical equipment such as medical imaging equipment (e.g., MRIs, CT scanners, and PET scanners), X-Rays, and ultrasounds as well as computers containing information protected by HIPPA laws, and certain types of laboratory equipment. NYC Health + Hospitals determined, based on industry standards for disposition of similar equipment and other known costs, that the future cost for disposition of these assets, in the aggregate, totals less than $5.0 million. .

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 Electronic Health Record ("EHR") technology and establish the requirements for a Medicare and Medicaid incentive payments program beginning in 2011 for eligible hospitals and providers that adopt meaningful 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, 2019 and 2018, NYC Health + Hospitals recognized revenue of approximately $2.6 million and $19.5 million, respectively, of HITECH incentives from the Medicare and Medicaid programs that are related to NYC Health + Hospitals meeting the requirements of the Meaningful Use Incentive program. NYC Health + Hospitals 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 Statements of Revenue, Expenses, and Changes in Net Position. EHR amounts received are subject to audit by CMS or its intermediaries and amounts recognized are subject to change.

15. CORRECTIONAL HEALTH SERVICES

On August 9, 2015, NYC Health + Hospitals, via a Memo of Understanding with The City, assumed from the New York City Department of Health and Mental Hygiene ("NYCDOHMH") its contracts for the provision of medical, mental health, and dental services for the inmates of correctional health facilities maintained and owned by The City of New York's Correctional Health Services, from other providers of care for the duration of their terms. Included is the understanding that NYC Health + Hospitals assumed the transfer of staff from NYCDOHMH otherwise engaged in the performance of correctional health functions, together with the transfer of all real and personal property, as used by NYCDOHMH, in its provision of correctional health services. Total expenses funded through appropriations by The City was $237.3 million and an additional $53.3 million was funded through grants and intra-city agreements for a total funding for the year ended June 30, 2019 of $290.6 million. For the year ended June 30, 2018, $217.7 million was funded through appropriations by The City with an additional $63.4 million funded through grants and intra-city agreements for a total funding of $281.1 million.

16. 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 zero-coupon strips. Such securities are stated at fair value, with unrealized and realized 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 rate volatility is limited by investing in securities with maturities of less than one year and, at most, five years, and by intending to hold the security to maturity.

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

Year	Investment Type	Fair Value	Investment Maturities (in Years)	
			Less than 1	1 to 5
2019	U.S. Treasury bills, notes, bonds, and strips	$ 562,687	$ 296,642	$ 266,045
2018	U.S. Treasury bills, notes, bonds, and strips	$ 462,704	$ 147,379	$ 315,325

(c) Premiums Receivable and Premium Revenue

Premiums earned are recorded in the month in which members are entitled to service for primarily medical, pharmacy, and dental benefits. 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 medical cost 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, and HIV-SNP premium revenue received from the DOH represents a substantial portion of MetroPlus' premium revenue and is subject to audit and adjustment by the DOH. Medicare premiums are based on rates approved by CMS.

QHP premiums are based on the plan type (Bronze, Silver, Gold or Platinum) and coverage level (standard or nonstandard) selected by the enrollee. In addition to premiums from enrolled QHP members, MetroPlus receives subsidies from CMS under the Advanced Premium Tax Credit program provided under the ACA, which were included in premiums earned.

The Essential Plan covers major health benefits, including inpatient and outpatient care, physician services, diagnostic services, and prescription drugs among others, with no annual deductible and low out-of-pocket costs. Preventive care, such as routine office visits and recommended screenings, are free. Essential Plan members with income at or below 150% of the federal poverty level do not pay any monthly premiums. Essential Plan members with incomes at 200% of the federal poverty level pay a monthly premium of $20. Essential Plan is administered under an agreement between MetroPlus and NYSDOH and extends through December 31, 2020.

Premium revenue, by percentage, from members and third-party payors for the years ended June 30, 2019 and 2018 was as follows:

	2019	2019
Medicaid	57 %	61 %
Essential Plan	13	12
HARP	11	9
HIV-SNP	7	7
Medicare	3	3
MLTC	3	3
Others *	6	5
	100 %	100 %

* Included in Others are MetroPlus Gold, CHP, QHP, SHOP, GoldCare I, and GoldCare II

(d) Assets Restricted As to Use

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

	2019	2018
MetroPlus statutory reserve investments	$ 155,758	$ 149,590

NYSHOH Rules and Regulations Section 98-1.11(f) requires that a plan operating under the authority of Article 44 of the public health law, establish a statutory escrow reserve account for the protection of its enrollees, and that this balance be maintained at 5% of the healthcare expenditures, as defined, and projected for the following calendar year. The statutory escrow reserve is computed in accordance with the regulations.

The statutory escrow reserve account of $155.8 million and $149.5 million at June 30, 2019 and 2018, respectively, is invested in U.S. government securities with original maturity dates of six months or more and are measured at fair value based on Level 2 inputs. The account is in the form of an escrow deposit, maintained in a trust account under a custodian arrangement with Citibank approved by the NYSDFS.

In accordance with NYSDOH Rules and Regulations, MetroPlus is also required to maintain a contingent surplus reserve equal to 12.5% of net premiums earned for the prior year. The contingent surplus reserve as of June 30, 2019 and 2018 was $394.5 million and $372.1 million, respectively.

(e) Change in Claims Payable

Accounts payable and accrued expenses include MetroPlus claims payable of $783.2 million and $935.0 million at June 30, 2019 and 2018, respectively. Activity in the liability for claims payable, which primarily includes medical claims, the risk sharing agreement with NYC Health + Hospitals, and claim adjustment expenses is summarized as follows (in thousands):

	2019	2018
Balance, July 1	$ 935,001	$ 594,190
Less drug rebates receivable	(19,329)	(19,404)
Net balance	915,672	574,786
Incurred related to:		
Current year	3,069,076	3,075,247
Prior years	26,134	64,063
Total incurred	3,095,210	3,139,310
Paid related to:		
Current year	2,464,794	2,323,518
Prior years	792,137	474,906
Total paid	3,256,931	2,798,424
Net balance at June 30	753,951	915,672
Plus drug rebates receivable	29,205	19,329
Balance, June 30	$ 783,156	$ 935,001

Net reserves for unpaid claims and claim adjustment expenses attributable to insured claims of prior years increased by $26.1 million and $64.1 million in 2019 and 2018, respectively. These changes are generally the result of ongoing analysis of recent loss development trends that include expected healthcare cost and utilization.

(f) Risk Sharing Agreement with NYC Health + Hospitals

MetroPlus entered into a risk sharing agreement with NYC Health + Hospitals in July 2000. The agreement is open to annual negotiation, with the most recent negotiation on March 27, 2019. The agreement shifts all medical risk from MetroPlus to NYC Health + Hospitals, for Medicaid, CHP, HIV-SNP, HARP, Essential Plan, MetroPlus Gold, Gold Care I, and Gold Care II. The risk sharing agreement is 88% for CHP and HIV-SNP, 89% for Medicaid, 92% for Essential Plan, HARP, MetroPlus Gold, Gold Care I, and Gold Care II in 2019 calendar year of the premiums collected for those members. NYC Health + Hospitals is also entitled to 100% of the one-time maternity and newborn supplemental payments for those members. After the end of the calendar year risk period, both parties settle the net amount remaining after payment of all capitated and fee-for-service medical expenses regardless of whether the provider was part of NYC Health + Hospitals network or not.

In addition, the risk sharing agreement shifts the prescription drug risk cost component for most Medicaid members from MetroPlus to NYC Health + Hospitals, for 97.5% of the prescription drug premium collected for those members.

MetroPlus assumes full risk for operations, including paying medical claims and providing administrative services to its members and providers, and other services required by contract with NYC Health + Hospitals, the State of New York, and CMS for its business lines.

The risk sharing agreement provides for an annual settlement, within six months of the end of the risk period, or later as mutually agreed upon. Risk sharing payables were $287.2 million and $211.3 million at June 30, 2019 and 2018, respectively, representing net amounts payable to NYC Health + Hospitals pursuant to the agreement. NYC Health + Hospitals has reported a corresponding receivable at June 30, 2019 and 2018, respectively. Amounts are included in eliminations in the Statement of Net Position. Net payments pursuant to the agreement were $207.0 million and $253.8 million in 2019 and 2018, respectively.

(g) Risk-Sharing Program of the Affordable Care Act

MetroPlus is required to participate in the Risk Adjustment program under the ACA. The risk adjustment program spreads risk of adverse selection among all QHP plans within the same state. MetroPlus shares risks, associated with uncertainty in pricing during the initial years of the ACA implementation, with HHS. At June 30, 2019 and 2018, MetroPlus estimated a risk adjustment liability, including high risk pool and risk adjustment data validation, of $17.1 million and $8.2 million, respectively, which is included in accounts payable and accrued expenses. Included in the liability of $17.1 million is a $16.6 million liability relating to the 2018 calendar benefit year. The 2018 calendar benefit year estimate was settled in August 2019 for $15.8 million. The 2017 calendar benefit year estimate was settled in September 2018 for $2.6 million.

(h) Stop-Loss and Reinsurance

MetroPlus uses stop-loss insurance to minimize medical expense losses as a result of a Medicaid member incurring excessive expenses in any one calendar year. Such insurance is provided by the State of New York for Medicaid enrollees with coverage as follows:

- Medical inpatient is reimbursed at 80% of the lower of contractual or Medicaid calculated rate for expenses between $100,000 and $250,000 in any one calendar year. Over $250,000, the coverage is increased to 100% of the excess amount over $250,000.

- Psychiatric, alcohol and substance abuse inpatient stays are covered for members who exceed 45 inpatient days in any one calendar year.

- Residential Health Care Facility inpatient stays are covered for members who exceed 60 inpatient days in any one calendar year.

- Stop-loss insurance is also provided by the State of New York for HIV-SNP members, with coverage for hospital inpatient at 85% of the lower of contractual or Medicaid calculated rate for expenses between $100,000 and $300,000 in any one calendar year. Over $300,000, the coverage is increased to 100% of the excess amount over $300,000.

- Stop-loss reinsurance is also provided by the State of New York for certain mental health costs of its Medicaid members. The State reimburses 50% of payments made for the 46th through the 60th day of the episode and 100% of payments made for the days in the episode beyond the 60th day.

In addition, MetroPlus contracts with Zurich American Insurance Company ("Zurich") for stop-loss coverage for its CHP, Medicare Advantage, MetroPlus Gold, QHP, and SHOP lines of business. The coverage has a per member threshold of the first $500,000 of loss incurred in any one calendar year and covers 80% of eligible medical services, though there are daily limits for certain types of services.

Premiums for the reinsurance provided by the State of New York and any related recoveries on paid losses are netted and reported within other than personal services expenses. Premiums for the reinsurance coverage provided by Zurich are reimbursed to MetroPlus by NYC Health + Hospitals, for lines under the risk sharing agreement, and related recoveries on paid losses are passed through to NYC Health + Hospitals pursuant to the agreement. MetroPlus has two years from the close of the benefit year to file a claim for all stop-loss coverages. Reinsurance recoverable, mainly from the State of New York, was $30.4 million and $29.2 million at fiscal years ended June 30, 2019 and 2018, respectively.

(i) Value-based Payment Quality Improvement Program (VBP QIP)

MetroPlus and NYC Health + Hospitals were selected to participate as part of the VBP QIP program administered by the NYSDOH. MetroPlus received $64.6 million in 2019 and $139.3 million during calendar year 2018 through per member per month rate increases, inclusive of an administrative fee and surplus (5% and 1%, respectively during fiscal year 2019 and during calendar year 2018. MetroPlus released the award pass-through payments of $60.0 million and $129.8 million to NYC Health + Hospitals in 2019 and 2018, respectively. The administrative fee and surplus amounts are reported within other revenue in the amount of $3.8 million and $8.2 million for fiscal years ended June 30, 2019 and 2018, respectively. MetroPlus reported $2.1 million and $1.3 million due to the State of New York within accounts payable and accrued expenses at June 30, 2019 and 2018, respectively.

(j) Due to State of New York

The State of New York has advised MetroPlus of instances where it will need to return premium payments as a result of State audits and adjustments of its payments made to MetroPlus. Management's estimate of such amounts is included in due to the State of New York and reported within accounts payable and accrued expenses, is $57.9 million and $24.2 million at June 30, 2019 and 2018, respectively. Premiums returned to the State of New York are charged against premiums earned.

(k) Medical Loss Ratio

The ACA Medical Loss Ratio (MLR) standards require that the MLR for MetroPlus' commercial lines of business individual (QHP), small group (SHOP), and large group (MetroPlus Gold, GoldCare I, and GoldCare II) meet specified minimums for the fiscal year ended June 30, 2019 of 82%, 82%, and 85%, respectively. In addition, MetroPlus is also required to meet the MLR minimum of 85% for Medicare and Essential Plan, 86% for Medicaid lines of business, and 89% for MLTC. The MLR represents the percentage of premium dollars spent on healthcare claims and quality improvement activities. MetroPlus is in compliance with these requirements. No MLR liability was required at June 30, 2019 and 2018.

(l) Operating Leases

MetroPlus leases equipment and office space under various operating leases. Total rental expense for operating leases was approximately $11.2 million in 2019 and $10.3 million in 2018 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, 2019 (in thousands):

	Amount
Years:	
2020	$ 9,851
2021	9,835
2022	9,754
2023	9,764
2024	2,168
Thereafter	135
Total minimum payments required	$ 41,507

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)
Schedule of NYC Health + Hospitals' Contributions NYCERS Pension Plan - (Unaudited)
Years ended June 30, 2019, 2018, 2017, 2016 and 2015
(Dollar amounts in thousands)

	2019	2018	2017	2016	2015
Contractually required contribution	$ 515,454	$ 507,335	$ 492,161	$ 497,715	$ 443,386
Contributions in relation to the contractually required contribution	515,454	507,335	492,161	497,715	443,386
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
HHC covered payroll	$ 2,207,943	$ 2,122,448	$ 2,177,897	$ 2,232,187	$ 2,199,797
Contributions as a percentage of covered payroll	23.30 %	23.90 %	22.60 %	22.30 %	20.16 %

See accompanying notes to the basic financial statements.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)
Schedule of NYC Health + Hospitals' Proportionate Share of the Net Pension Liability
NYCERS Pension Plan - (Unaudited)
Years ended June 30, 2019, 2018, 2017, 2016 and 2015
(Dollar amounts in thousands)

	2019	2018	2017	2016	2015
HHC proportion of the net pension liability	13.959 %	15.023 %	14.788 %	14.789 %	14.030 %
HHC proportionate share of the net pension liability	$ 2,585,414	$ 2,751,874	$ 3,070,928	$ 3,593,257	$ 2,832,753
HHC covered payroll	2,207,943	2,122,448	2,177,897	2,232,187	2,166,797
HHC proportionate share of the net pension liability as a percentage of its covered payroll	117.10 %	129.66 %	141.00 %	160.97 %	130.73 %
Plan fiduciary net position as a percentage of the total pension liability	78.84%	78.83%	74.80%	69.57%	73.12%

See accompanying notes to the basic financial statements.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)
Schedule of NYC Health + Hospitals' Changes in Total OPEB Liability and Related Ratios - (Unaudited)
Years ended June 30, 2019, 2018 and 2017
(Dollar amounts in thousands)

	2019	2018	2017
Total OPEB liability			
Service cost	$ 307,105	$ 279,874	$ 274,749
Interest	161,840	158,153	147,667
Differences between expected and actual experience	858,811	104,933	(122,396)
Changes of assumptions	(806,009)	110,707	(661,094)
Benefit payments	(171,559)	(235,395)	(56,087)
Net change in total OPEB liability	350,188	418,272	(417,161)
Total OPEB liability - beginning	5,208,916	4,790,644	5,207,805
Total OPEB liability - ending	$ 5,559,104	$ 5,208,916	$ 4,790,644
Covered employee payroll	$ 2,222,409	$ 2,211,014	$ 2,283,056
Total OPEB liability as a percentage of covered employee payroll	250.1 %	235.6 %	209.8 %
Changes of assumptions			
Changes of assumptions reflect the effects of changes in the discount rate.			
The following are the discount rates used in each period:	2.79 %	2.98 %	3.13 %

See accompanying notes to the basic financial statements.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

We have audited, 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, the financial statements of New York City Health and Hospitals Corporation (NYC Health + Hospitals), a discretely presented component unit of The City of New York, and the discretely presented component unit as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise NYC Health + Hospitals' basic financial statements, and have issued our report thereon dated October 16, 2018. The financial statements of NYC Health + Hospitals and its discretely presented component unit as of and for the year ended June 30, 2017 were audited by other auditors in their report dated October 25, 2017.

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 NYC Health + Hospitals' internal control over financial reporting ("internal control") to design 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 internal control. Accordingly, we do not express an opinion on the effectiveness of NYC Health + Hospitals' 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of NYC Health + Hospitals' 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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. We did identify a deficiency in internal control over the reconciliation process between the general ledger and the supporting detail for vendor accounts payable that we consider to be a significant deficiency in NYC Health + Hospitals' internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NYC Health + Hospitals' 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*.

Intended Purpose

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 NYC Health + Hospitals' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NYC Health + Hospitals' internal control and compliance. Accordingly, this report is not suitable for any other purpose.

New York, New York
October XX, 2019

NYC HEALTH + HOSPITALS

OFFICE OF INTERNAL AUDITS

AUDIT COMMITTEE BRIEFING
OCTOBER 2019

Index

A. EXTERNAL AUDITS

1. *Compliance with Federal Tax Requirements – Internal Revenue Service*

Audit Notification Letter Received – August 30, 2018
Entrance Conference – October 30, 2018
Audit Status – Completed June 24, 2019

The objective of the audit is to ensure compliance with federal tax requirements as an exempt organization. During the entrance conference, the IRS requested the following documents:

a) Financial Assistance Plan (FAP) for each hospital facility – this document must apply to all emergency and other medically necessary care provided by the hospital facility.

b) Minutes from meetings describing the FAP during FY16, the billing and collection policy and actions taken in the event of nonpayment of fees.

c) Community Health Needs Assessment (CHNA) for FY16 - which is required to be conducted by each hospital facility once every three years in order to document the extent to which it understands the unique characteristics and needs of the local communities it serves, and responds to these means by delivering meaningful and effective benefit through clinical services.

On June 24, 2019 we received a letter from the IRS stating that NYC Health + Hospitals continued "to qualify for exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

2. ***Children of Bellevue Auxiliary – NYC Comptroller's Office***

Audit Notification Letter Received – March 21, 2019
Preliminary Entrance Conference – April 4, 2019
Audit Status – On-going

The Audit Engagement Letter stated that the audit was of Children of Bellevue's (CoB) financial and operating practices. For Calendar Year 2017, the Balance Sheet for this Auxiliary shows Cash and Investments totaling over $1.25 million.

The twenty-two Auxiliaries that exist within the various facilities of NYC Health + Hospitals are separate 501c3 not-for-profit corporations whose primary function is to enhance the quality of patient care. They do this by receiving and administering funds received from fund raising activities, gifts, and donations and distributing those funds for activities or projects which enhance the quality of patient care and for selected amenities not otherwise available to patients.

The audit objectives are to determine whether CoB:

- Has adequate controls over and accurately reports its revenues and expenses.
- Is complying with applicable rules, regulations, policies and procedures.
- Has computerized systems controls to ascertain the integrity, validity and reliability of its data.

The walkthrough of Auxiliary operations was conducted on May 1, 2019. Financial documents and operating procedures related to the day-to-day activities of the Auxiliary are being requested and reviewed. A meeting with various members of the Auxiliaries' Board of Directors was held to ascertain their duties and responsibilities. The Comptroller's Office is waiting for the audited financial statements for Calendar Year 2018 before completing their review.

B. COMPLETED INTERNAL AUDITS

1. Terminal Leave Payments – System-wide (Final Report Issued 05/30/19)

An internal audit was conducted of payments issued to employees upon their separation from the System for unused accrued Annual, Sick, Vested and/or Holiday hours. During the period of January 2016 through June 2018, almost $45 million in these type of payments were issued to 2,389 employees.

During the course of the audit, the following observations were made:

1. Directive #1, *Principles of Internal Control*, is submitted each year by NYC Health + Hospitals to the NYC Comptroller's Office, to affirm their reliable and effective system of internal controls and fiscal integrity. The System responded incorrectly within Directive #1 that, in accordance with Directive #14, lump sum payments are submitted to the Comptroller's Office for approval, prior to the payment being released.
2. If Directive #14, which provides guidelines to NYC agencies on calculating leave payments, was followed instead of current operating procedures, payments would be for lower amounts.
3. Due to the complex formula used to calculate Annual Leave and Sick Leave payments, overpayments and underpayments were made to separated employees.
4. Employees have been paid Annual Leave exceeding the maximum accrual amounts because they received an authorized exception during their employment to continue their accrual. However, there is no written policy indicating that this exception should be granted or applied.
5. High amounts of Sick Leave are being paid as there is no maximum accrual amount in contrast to Vacation Leave, which has a current maximum of 525 hours.
6. Sick Leave and Vested Sick Leave are paid inconsistently at the various facilities.
7. Outstanding Holiday and Floating Holiday hours are paid inconsistently at the various facilities.
8. Different documents are utilized and maintained at each site in processing terminal leave payments. Various files requested from Central Office Payroll could not be located or did not exist.

A standardized and simpler policy would eliminate most, if not all, of the observations noted above.

The Vice President of Human Resources revised the policy for Payroll to use so they can consistently and accurately calculate terminal leave payments.

C. OTHER AUDIT ACTIVITIES

1. Anonymous Letters

Four anonymous letters, received from the President's Office, are currently being or have been investigated since the last meeting.

The first letter included complaints about the purchasing habits of the Facilities Manager at NYC Health + Hospitals/Gouverneur. The accusations in the second letter were regarding the Chief Financial Officer in MetroPlus not following established polices related to salary increases for his staff. The third letter asserted there were improprieties regarding a contractor's responsibilities at MetroPlus.

Final reports were issued to Executive Management discussing the results of three of the investigations.

One other anonymous letter is still being investigated. It alleges there were improper payroll procedures in the Nursing Department at NYC Health + Hospitals/Elmhurst.

AUDIT COMMITTEE OF THE NYC HEALTH + HOSPITALS BOARD OF DIRECTORS

Audit Committee Meeting

Corporate Compliance Report

October 10, 2019

AUDIT COMMITTEE OF THE
NYC HEALTH + HOSPITALS
BOARD OF DIRECTORS
Corporate Compliance Report
125 Worth Street, Room 532
New York, NY 10013
October 10, 2019 @ 9:00 AM

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AUDIT COMMITTEE OF THE
NYC HEALTH + HOSPITALS
BOARD OF DIRECTORS
Corporate Compliance Report
125 Worth Street, Room 532
New York, NY 10013
October 10, 2019 @ 9:00 AM

I. Monitoring Excluded Providers

Responsibilities of NYC Health + Hospitals (the "System") for Sanction List Screening

1) To comply with Federal and state regulations, and consistent with the recommendations of the NYS Office of the Medicaid Inspector General ("OMIG") and the U.S. Department of Health and Human Services Office of Inspector General ("OIG"), each month the Office of Corporate Compliance ("OCC") reviews the exclusion status of the System's workforce members, vendors, and New York State Department of Health ("DOH") Delivery System Reform Incentive Payment ("DSRIP") program Partners.

2) To ensure that System does not conduct business with individuals or entities that are a threat to the security, economy or foreign policy of the United States, the OCC also screens all NYC Health + Hospitals workforce members, vendors and DSRIP Partners against the databases of the United States Department of Treasury Office of Foreign Asset Control ("OFAC").

Exclusion and Sanction Screening Report June 1, 2019 through September 20, 2019

3) During the period from June 1, 2019 through September 20, 2019, there were two community physicians, one of whom was sanctioned and the other was excluded, as well as one excluded vendor and one disciplined agency registered nurse.

4) On June 11, 2019 and August 7, 2019, the OCC was notified that two community physicians, were sanctioned and excluded, respectively, and the OCC coordinated with the Epic security team to ensure that NYC Health + Hospitals no longer receives referrals from these community physicians.

5) In addition, on August 14, 2019, the OCC was notified that a vendor used across the System for medical equipment and servicing of such equipment had been excluded as listed on the System for Award Management list. The OCC is coordinating with the Supply Chain Department to find an alternative vendor.

6) On August 23, 2019, the OCC was notified that a registered nurse provided to NYC Health + Hospitals/Queens ("Queens") through the agency Axion Healthcare had a suspension placed upon her license. The OCC notified the agency that manages

Axion Healthcare regarding the suspended individual, and she has since been prohibited from returning to work at Queens. The OCC is determining the amount of an overpayment based upon the one day that she had spent working at Queens following the effective date of her suspension.

Death Master File and National Plan and Provider Enumeration System Screening

7) The Centers for Medicaid and Medicare Services' ("CMS") regulations and the contractual provisions found in managed care organization provider agreements require screening of the System's workforce members, certain business partners, and agents to ensure that none of these individuals are using the social security number ("SSN") or National Provider Identifier ("NPI") number of a deceased person. This screening may be accomplished by vetting the SSNs and NPIs of such individuals through the Social Security Administration Death Master File ("DMF") and the National Plan and Provider Enumeration System ("NPPES"), respectively.

8) No providers were identified on the DMF or NPPES during the period June 1, 2019 through September 20, 2019.

II. Privacy Incidents and Related Reports

Breach Defined

9) A breach is an impermissible use, access, acquisition or disclosure (collectively referred to as "use and/or disclosure") under the Health Insurance Portability and Accountability Act ("HIPAA") of 1996 Privacy Rule, which compromises the security and privacy of protected health information ("PHI") maintained by the System or one of its business associates.

10) Pursuant to 45 CFR § 164.402(2), unless an exception applies, the unauthorized use and/or disclosure of PHI is presumed to be a breach unless the System can demonstrate, through a thorough, good faith risk assessment of key risk factors, that there is a low probability that the PHI has been compromised.[1]

[1] *See* 45 CFR § 164.402(2); *see also* 78 Fed. Reg. 5565, 5643 & 5695 (Jan. 25, 2013).

Reported Breaches for the Period of June 1, 2019 through September 20, 2019

11) During the period of June 1, 2019 through September 20, 2019, forty-one (41) incidents were entered in the System's RADAR Incident Tracking System. Of the forty-one (41) incidents entered in the tracking system, seventeen (17) were found after investigation, to be violations of NYC Health + Hospitals' HIPAA Privacy and Security Operating Procedures ("OPs"), specifically OP 240-15 HIPAA Privacy Safeguards Policy, and OP 240-28 HIPAA Policy on Uses and Disclosures for Treatment, Payment and Healthcare Operations; nineteen (19) were found not to be a violation of NYC Health + Hospitals' HIPAA Privacy and Security OPs; and five (5) are still under investigation.

12) Of the seventeen (17) incidents confirmed as violations, twelve (12) were determined to be breaches. Those breaches resulted form incidents where providers inappropriately accessed patients' medical records not under their care; discharge summaries or billing information were provided to the wrong patient; medical records were sent by the System's medical record retrieval vendor to the wrong patient or an incorrect address; medical records were uploaded to the wrong MyChart account; and PHI was uploaded to the internet.

13) In response to breaches caused by the System's medical record retrieval vendor, the System published a request for proposals to solicit other vendors. Three vendors, including the current vendor responded, and the selection committee has chosen a new vendor, with which it is negotiating the terms of service.

Office for Civil Rights ("OCR") Reports Regarding HIPAA Incidents

14) Since the last Audit Committee meeting, the OCC received two (2) reports from the OCR regarding HIPAA incidents at NYC Health + Hospitals.

15) The first inquiry, dated July 12, 2019, concerned a complaint by an attorney who stated that Bellevue failed to provide the medical records of his client, who was allegedly a patient of Bellevue. The OCC investigated and found no record of the patient ever having been treated at Bellevue. On September 6, 2019, the OCC responded to the OCR explaining the actions taken by the OCC to investigate the complaint, and that the individual was never a patient at Bellevue.

16) The second inquiry, dated July 18, 2019, concerned a patient's complaint that Bellevue failed to provide the patient's complete medical records. The OCC investigated the matter and concluded that, due to a misunderstanding on the part of a staff member of the System's medical records retrieval vendor, only part of the records were sent to the patient. Upon discovery of the error, the complete medical record was sent to the patient. On September 6, 2019, the OCC sent a response to the OCR explaining the circumstances of the complaint and the actions taken to remediate the issue.

17) In addition, as previously reported, on February 22, 2019, the OCR met with the OCC and Enterprise Information Technology Services ("EITS") leadership, along with in house and outside counsel, to discuss NYC Health + Hospitals' compliance with HIPAA. The OCR called this meeting to discuss NYC Health + Hospitals' ability to comply with HIPAA, and in particular, to safeguard its ePHI from inappropriate use or disclosure. During this meeting, we were able to explain to the OCR that the System has many controls in place to safeguard its ePHI, in compliance with HIPAA requirements. The OCR requested that the System document such current controls, as well as additional planned controls, in a Commitment Letter to the OCR. The OCC submitted a Commitment Letter to the OCR on March 4, 2019, with follow-up documentation on March 18, 2019, April 30. 2019, and June 7, 2019. On July 2, 2019, we had a conference call with the OCR to follow up on the Commitment Letter and the follow-up documentation. Based on the discussion during that call, the OCC sent the OCR further explanation of the previously submitted documents, and provided additional information requested by the OCR.

III. Compliance Reports

Summary of Reports for the Period of June 1, 2019 through September 20, 2019

18) For the period June 1, 2019 through September 20, 2019, there were one hundred two (102) compliance reports, one (1) (1%) of which was classified as Priority

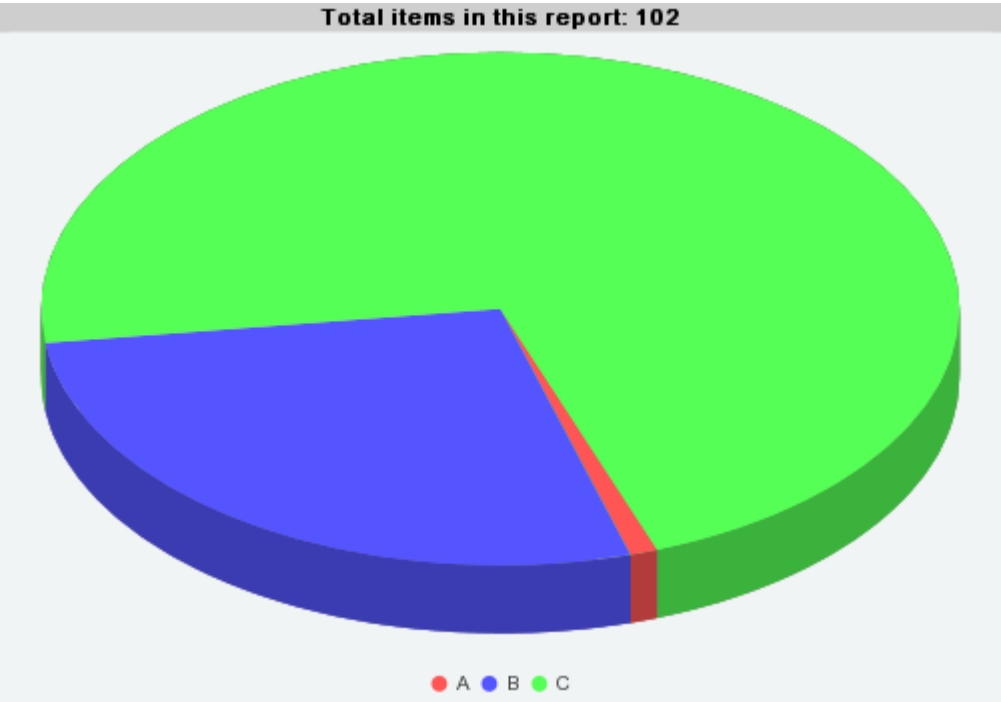
"A,"[2] twenty-eight (28) (27.5%) were classified as Priority "B," and seventy-three (73) (71.6%) were classified as Priority "C" reports. For purposes here, the term "reports" means compliance-based inquiries and compliance-based complaints. The one priority "A" report did not come from a NYC Health + Hospitals facility; but was a misdirected complaint from an unaffiliated hospital.

19) Of note, there were two reports concerning the use and attempted use of physicians' NPI and DEA numbers to prescribe controlled substances from several pharmacies for individuals who were not patients of the physicians. Only one of the pharmacies filled a prescription, and it was filled as an emergency prescription. The OCC referred both reports to NYC Health + Hospitals' Office of Inspector General.

a. PRIORITY CLASSIFICATION

	Frequency (Percentage)
A	1.0 (1 %)
B	28.0 (27.5 %)
C	73.0 (71.6 %)
Totals	102.0 (100%)

[2] There are three (3) different report categories: (i) Priority "A" reports are matters that require immediate review and/or action due to an allegation of an immediate threat to a person, property or environment; (ii) Priority "B" reports are matters of a time-sensitive nature that may require prompt review and/or action; and (iii) Priority "C" reports are matters that do not require immediate action.

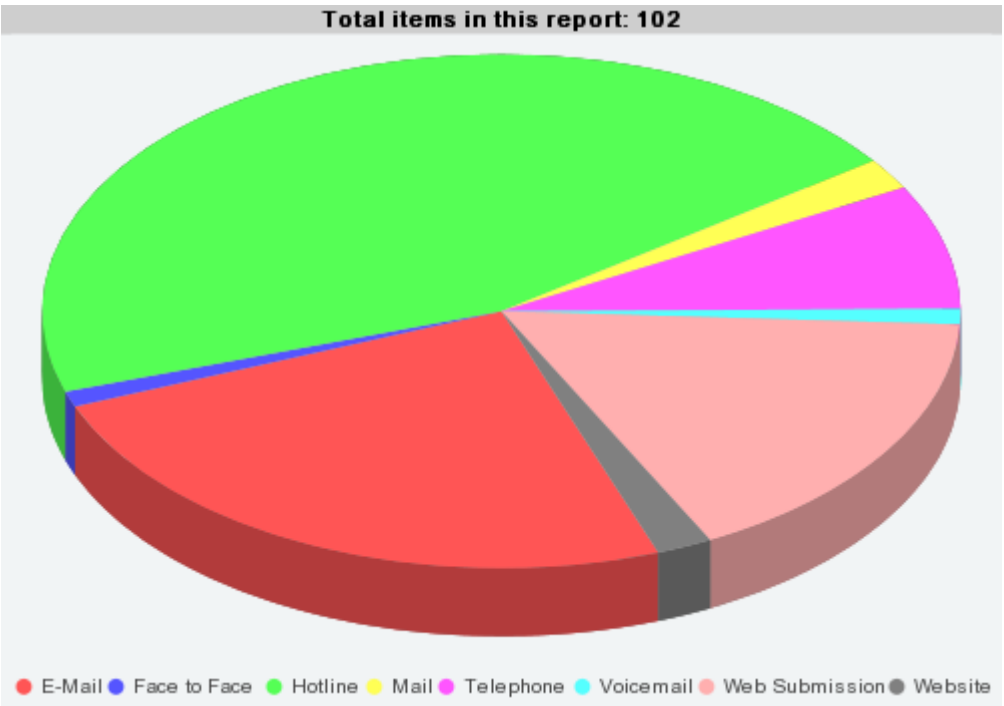


b. PRIMARY ALLEGATION CLASS

PRIMARY ALLEGATION CLASS - CHART DATA	
	Frequency (Percentage)
Diversity, Equal Opportunity and Respect in the Workplace	7.0 (6.9 %)
Employee Relations	19.0 (18.6 %)
Environmental, Health and Safety	1.0 (1 %)
Financial Concerns	1.0 (1 %)
Misuse or Misappropriation of Assets or Information	16.0 (15.7 %)
Other	36.0 (35.3 %)
Policy and Process Integrity	22.0 (21.6 %)
Totals	102.0 (100%)

c. PRIMARY ALLEGATION SOURCE

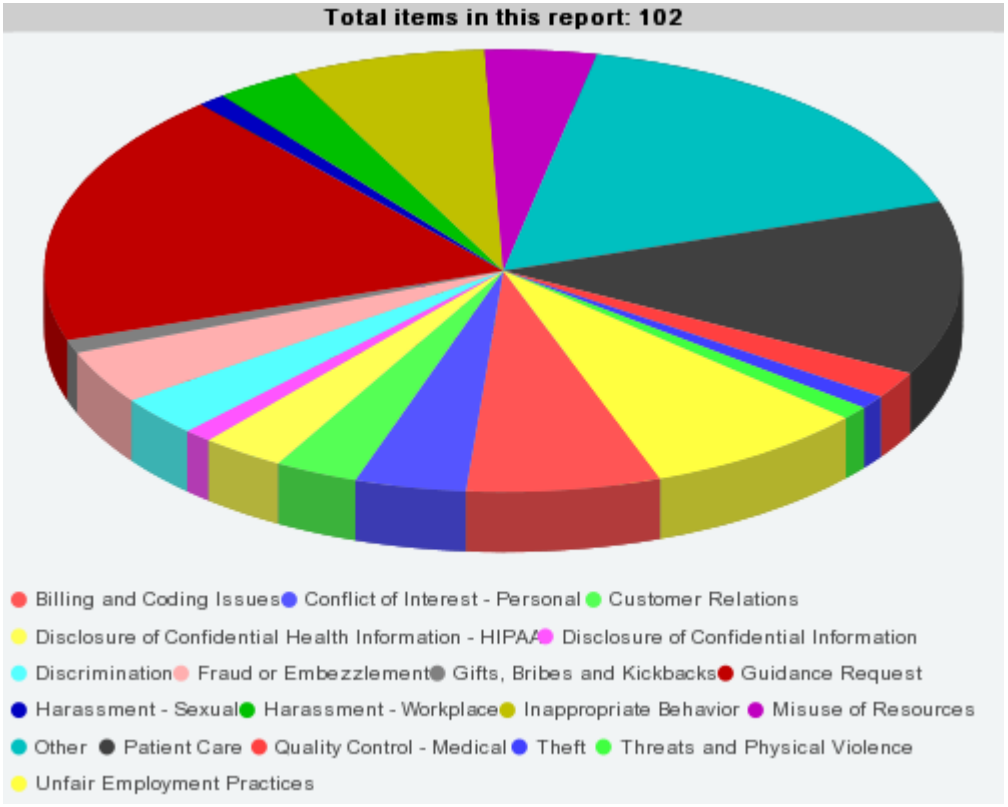
SOURCE - CHART DATA	
	Frequency (Percentage)
E-Mail	25.0 (24.5 %)
Face to Face	1.0 (1 %)
Hotline	46.0 (45.1 %)
Mail	2.0 (2 %)
Telephone	8.0 (7.8 %)
Voicemail	1.0 (1 %)
Web Submission	17.0 (16.7 %)
Website	2.0 (2 %)
Totals	102.0 (100%)



d. PRIMARY ALLEGATION TYPE

PRIMARY ALLEGATION TYPE - CHART DATA	
	Frequency (Percentage)
Billing and Coding Issues	7.0 (6.9 %)
Conflict of Interest - Personal	4.0 (3.9 %)
Customer Relations	3.0 (2.9 %)
Disclosure of Confidential Health Information - HIPAA	3.0 (2.9 %)
Disclosure of Confidential Information	1.0 (1 %)
Discrimination	3.0 (2.9 %)
Fraud or Embezzlement	4.0 (3.9 %)

Gifts, Bribes and Kickbacks	1.0 (1 %)
Guidance Request	19.0 (18.6 %)
Harassment - Sexual	1.0 (1 %)
Harassment - Workplace	3.0 (2.9 %)
Inappropriate Behavior	7.0 (6.9 %)
Misuse of Resources	4.0 (3.9 %)
Other	17.0 (16.7 %)
Patient Care	13.0 (12.7 %)
Quality Control - Medical	2.0 (2 %)
Theft	1.0 (1 %)
Threats and Physical Violence	1.0 (1 %)
Unfair Employment Practices	8.0 (7.8 %)
Totals	102.0 (100%)



IV. Status Update – OneCity Health

Independent Assessor Audit of OneCity Health

20) As previously reported, in January 2019, an onsite audit on funds flow, workforce spending, and actively engaged patients was conducted by an Independent Assessor. On April 30, 2019, OneCity Health received its preliminary Audit Scorecard back from the Independent Assessor. OneCity Health submitted additional follow-up documentation in May. In July, the Independent Assessor concluded its review of materials submitted by OneCity Health. OneCity Health's final scorecard indicated that the PPS will retain all earned Achievement Values related to workforce spending, partner funds flow, and patient engagement reporting.

21) In September, Agio, a third-party auditor, completed an assessment to validate that the security controls to which the OneCity Health had attested to the State, were correctly implemented and operating as intended. The assessment findings were shared with and accepted by the State's Security and Privacy Bureau. The resulting outcome is that OneCity Health is authorized to access the State's Medicaid Confidential Data to perform population health management activities tied to the goals of the DSRIP program. OneCity Health will send quarterly updates to the State on the implementation of a subset of the controls. This represents a large step in validating that the System's data storage environment meets the State's security requirements for both current and future data sharing needs.

V. Status Update - HHC ACO, Inc.

22) As previously reported, HHC ACO, Inc. ("HHC ACO") submitted its application to renew its contract with CMS for the 2019-2024 agreement period. HHC ACO applied to participate in the Enhanced Track of the Medicare Shared Savings Program ("MSSP"), beginning July 1, 2019. The Enhanced Track is a two-sided track, which will involve shared savings as well as potential shared losses. The shared savings could be as much as 75% of the savings to the Medicare program, adjusted by HHC ACO's quality score, and capped at 20% of total benchmark expenditure. Although the Enhanced Track provides for the most allowed shared

savings, it also carries the most risk – amounting to 40% to 75% of the losses to the Medicare program. The losses, however, are also adjusted by HHC ACO's quality scores, and capped at 15% of the total benchmark expenditure imposed by CMS. On June 20, 2019, HHC ACO's application as an Enhanced Track MSSP received final approval from CMS.

23) As previously reported, HHC ACO has been awarded status by the state as an All Payor Accountable Care Organization ("APACO"). On August 28, 2019, during a Value Based Care ("VBC") meeting, HHC ACO shared a draft strategic plan that delineated the next steps for its APACO, which included contracting with HealthFirst and Metroplus Medicare Advantage ("MA") plans, and exploring new arrangements with other MA plans. In addition, its APACO will assess the best timeline to engage managed care organizations for management of Medicaid beneficiaries.

VI. HIPAA Risk Analysis and Security Assessment

24) To ensure the System's compliance with the requirements of HIPAA and HIPAA regulations, the System has engaged a third party vendor to conduct a HIPAA enterprise-wide Risk Analysis and Security Assessment. The vendor conducted its corporate review in April 2019, and began conducting facility on-site reviews in May 2019. It conducted on-site reviews at all of the System's acute care facilities, skilled nursing facilities, and Diagnostic and Treatment Centers, and a sample of the Gotham clinics. It also conducted virtual reviews of fourteen (14) other Gotham clinics.

25) In addition, the vendor has performed penetration tests of the System's systems and applications to determine their vulnerability to unauthorized access. It is also assessing a sample of the System's vendors to determine their level of security of the System's PHI that they maintain.

26) The vendor will be submitting draft reports of its findings to the OCC and Information Security Risk Management later this month. Based on the high and very high risks identified in the enterprise-wide risk analysis, the vendor will develop a risk management plan to be presented to System's leadership to determine whether to mitigate, remediate, or accept the risks.

VII. FY2019 Risk Assessment and FY2020 Corporate Compliance Work Plan

Regulatory Requirements

27) The FY2019 Corporate Risk Assessment ("Risk Assessment") was undertaken pursuant to NYS Social Services Law § 363-d(2)(f) and its implementing regulation, 18 NYCRR § 521.3(c)(6), which require the establishment of a system for routine identification of compliance risk areas. The Risk Assessment is also a component of the System's OP 50-1, *Corporate Compliance and Ethics Program*, and it conducted annually.

The Risk Assessment Process

28) OP 50-1 provides that the Chief Corporate Compliance Officer ("CCO") shall have primary responsibility for performing System-wide risk identification, assessment, and prioritization activities, and presenting the findings and the resulting Corporate Compliance Work Plan to the President and Audit Committee of the NYC Health + Hospitals Board of Directors for approval. This includes conducting annual risk assessments at the facility and program levels, and selecting identified items for inclusion and implementation in the Corporate Compliance Work Plan.

29) The OCC identified various risks to the System, broken down by service line (*e.g.* ambulatory care and post-acute care) and System-wide. These risks were presented to the Executive Compliance Workgroup ("ECW") in a Draft Risk Assessment on June 4, 2019, for review and potential revision and/or additions/deletions.[3]

30) The risks described in the Draft Risk Assessment were derived from the Office of the Medicaid Inspector General's Work Plans, and the U.S. Department of Health and Human Services Office of Inspector General's Work Plans and updates thereto, both of which identify risks that these agencies have determined to be areas of concern for overpayment and/or noncompliance. Other risks outlined in the Draft Risk Assessment were identified internally.

[3] The Risk Assessment did not include risk assessments of OneCity Health, HHC ACO, Inc., or Correctional Health Services, all of which are conducted separately.

31) Following the ECW's review, the Draft Risk Assessment was presented to the Compliance Committees of the System's facilities and programs for their input and identification of additional risks pertinent to their facilities or programs. The Compliance Committees were asked to rank each of the relevant risks as high, medium or low.

32) The OCC then finalized the Risk Assessment by identifying the impact, vulnerability, and current controls associated with the identified risks, and assigning a severity rating to each risk on a scale of 1 – 5, with 5 being the risks having the greatest impact. The OCC utilized a *Table of Risk Assessment Scoring Parameters,* adopted and derived, in pertinent part, from the Health Care Compliance Association, to score and prioritize the risks.

33) Once all the risks were prioritized, the OCC developed a Draft FY2020 Corporate Compliance Work Plan ("Draft FY2020 Work Plan"), which included the risks from the Risk Assessment with the highest risk prioritization scores. On September 20, 2019, the ECW met to discuss Draft FY2020 Work Plan, and finalize the FY2020 Corporate Compliance Work Plan.

VIII. National Corporate Compliance and Ethics Week 2019

34) The OCC will commemorate National Corporate Compliance and Ethics Week from November 4th to 8th. This year's Corporate Compliance and Ethics Week theme, ***Awareness, Recognition, Reinforcement,*** embodies key elements of the OCC's work towards increasing the prominence of compliance concerns, acknowledging the duty to report them, and emphasizing the importance of professional and ethical conduct in carrying out our duties and responsibilities.

35) National Corporate Compliance and Ethics Week is an opportunity for workforce members across the System to learn more about compliance and ethics at NYC Health + Hospitals through outreach and education, thus fostering their support for and commitment to the culture of compliance and ethics. In addition, the week provides an opportunity to "meet and greet" their local compliance officers.

36) Compliance Officers will work to promote events across the System. In addition, the OCC will offered electronic games for workforce members to participate in remotely for a chance to win prizes.