NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

(A Component Unit of The City of New York)

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Reports Thereon)

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

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KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of New York City Health and Hospitals Corporation (the Corporation), a component unit of The City of New York, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of New York City Health and Hospitals Corporation as of June 30, 2015 and 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 13 and the schedule of the Corporation's contributions and the schedule of the Corporation's proportionate share of the net pension liability on pages 59 and 60, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2015 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

KPMG LLP

October 15, 2015

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

Management's Discussion and Analysis (Unaudited)

June 30, 2015 and 2014

Financial Analysis

Summary of Statements of Net Position

June 30, 2015, 2014, and 2013

(In thousands)

	2015 Business-type Activities – HHC	2014 Business-type Activities – HHC	2013 Business-type Activities – HHC
Assets:			
Current assets	$ 2,485,085	2,790,164	2,420,374
Capital assets, net	3,432,430	3,506,375	3,366,456
Other assets	118,444	131,927	169,524
Total assets	6,035,959	6,428,466	5,956,354
Deferred outflows:			
Unamortized refunding cost	15,349	18,240	22,437
Liabilities:			
Current liabilities	2,945,003	3,193,724	2,663,946
Other noncurrent liabilities	296,811	—	—
Long-term debt, net of current installments	882,848	941,289	1,003,650
Pension, net of current portion	2,334,651	2,045,366	2,734,690
Postemployment benefits obligation, other than pension, net of current portion	4,519,900	4,667,962	4,574,865
Total liabilities	10,979,213	10,848,341	10,977,151
Deferred inflows:			
Net differences between projected and actual earnings on pension plan investments	258,287	708,343	218,450
Net position:			
Net investment in capital assets	2,521,077	2,550,656	2,393,938
Restricted	149,231	150,112	146,786
Unrestricted	(7,856,500)	(7,810,746)	(7,757,534)
Total net deficit position	$ (5,186,192)	(5,109,978)	(5,216,810)

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)

June 30, 2015 and 2014

Financial Analysis

Summary of Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2015, 2014, and 2013

(In thousands)

	2015 Business-type Activities – HHC	2014 Business-type Activities – HHC	2013 Business-type Activities – HHC
Operating revenue:			
Net patient service revenue	$ 5,729,197	5,653,009	5,233,985
Appropriations from (remittances to) City of New York, net	140,597	399,165	(583)
Grants revenue	526,673	285,763	566,019
Other revenue	61,264	51,110	45,915
Total operating revenue	6,457,731	6,389,047	5,845,336
Operating expenses:			
Personal services, fringes benefits, and employer payroll taxes	3,423,547	3,305,159	3,160,507
Other than personal services	1,561,411	1,527,445	1,443,697
Pension	285,111	224,500	370,370
Postemployment benefits, other than pension	(40,299)	198,991	293,745
Affiliation contracted services	994,294	922,773	915,581
Depreciation	291,729	302,859	282,345
Total operating expenses	6,515,793	6,481,727	6,466,245
Operating loss	(58,062)	(92,680)	(620,909)
Nonoperating expenses, net	(125,067)	(114,392)	(107,252)
Loss before other changes in net position	(183,129)	(207,072)	(728,161)
Other changes in net position:			
Capital contributions	106,915	313,904	395,178
(Decrease) increase in net position	(76,214)	106,832	(332,983)
Net position at beginning of year	(5,109,978)	(5,216,810)	(4,883,827)
Net position at end of year	$ (5,186,192)	(5,109,978)	(5,216,810)

See accompanying notes to management's discussion and analysis.

This section of New York City Health and Hospitals Corporation's (the Corporation) annual financial report presents management's discussion and analysis of the financial performance during the years ended June 30, 2015 and 2014. The purpose is to provide an objective analysis of the financial activities of the Corporation based on currently known facts, decisions, and conditions. Please read it in conjunction with the financial statements, which follow this section.

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

Overview of the Financial Statements

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

The basic financial statements include statements of net position, statements of revenue, expenses, and changes in net position, statements of cash flows, and notes to financial statements. These statements present, on a comparative basis, the financial position of the Corporation for the fiscal year at June 30, 2015 and 2014, and the changes in net position and its financial activities for each of the years then ended. The statements of net position include all of the Corporation's assets and liabilities in accordance with U.S. generally accepted accounting principles. The statements of 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 Corporation's net position and how they have changed. Net position, or the difference between assets and liabilities, deferred inflows and deferred outflows, is a way to measure the Corporation's financial health or position. The statements of cash flows provide relevant information about each year's cash receipts and cash payments and classify them as to operating, noncapital financing, capital and related financing, and investing activities. Notes to financial statements explain information in the statements and provide more detailed data.

Overall Financial Position and Operations

The Corporation's total net deficit position increased by $76.2 million from June 30, 2014 to June 30, 2015; it had decreased by $106.8 million from June 30, 2013 to June 30, 2014. Net investment in capital assets decreased by $29.6 million and increased $156.7 million in 2015 and 2014, respectively, as the major modernization projects neared completion and the Corporation continued pay down debt. The Corporation's unrestricted net deficit position increased to $7.857 billion at June 30, 2015 from $7.811 billion at June 30, 2014. The Corporation incurred an operating loss of $58.1 million in 2015 compared with $92.7 million in 2014. The Corporation's net deficit position benefited from $105.7 million and $303.0 million in capital contributions from The City of New York (the City) in 2015 and 2014, respectively.

Significant financial ratios are as follows:

	2015	2014	2013
Current ratio	0.84	0.87	0.91
Quick ratio	0.42	0.32	0.42
Days' cash on hand	35.10	19.50	21.41
Net days' revenue in patient receivables	63.78	71.91	81.28

(Continued)

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

Super Storm Sandy

Since Super Storm Sandy (Sandy) in late October 2012, the Corporation has been immersed in the initial emergency responses to the storm, conducted extensive assessments of damages, implemented large-scale recovery efforts, and begun the execution of reconstruction and mitigation programs for the facilities based on our negotiations with FEMA. Currently the Corporation's FEMA claims for repair, reconstruction, and hazard mitigation are in excess of $1.8 billion. HHC achieved several major milestones in fiscal year 2015 including:

HHC signed a $1.72 billion Public Assistance Alternative Procedures Program Letter of Undertaking with FEMA, the State of New York and the New York City. This agreement secures the necessary funding to not only restore damages from Super Storm Sandy at Bellevue, Coler, Coney Island, and Metropolitan Hospitals but also increases each facility's resiliency to future storms. The agreement includes:

- $922 million for Coney Island Hospital in Brooklyn, including reimbursement for repairs already made to the hospital's basement, first floor, and electrical systems. It also includes construction of a new resilient critical services building that will house an Emergency Department on the second floor, plus critical medical services such as x-ray, CAT scan, MRI, pharmacy, and labs. Vital mechanical services, such as emergency power generators, heating and cooling systems, and water pumps will also be installed in the new building. The hospital will also build a new flood wall that will protect the campus.

- $499 million for Bellevue Hospital Center in Manhattan. Intensive restoration work has already repaired or replaced equipment damaged by the storm. In many cases, equipment such as electrical switching gear has been relocated out of the hospital's basement to higher elevation areas on the first floor. Bellevue has also installed removable flood barriers at its two loading dock entrances facing the East River, and raised its water and fuel pumps to higher elevations.

- $120 million for Metropolitan Hospital Center in Manhattan, including almost $7 million for electrical repairs and $109 million for a flood wall that will protect critical infrastructure on the campus to the 500 year flood level.

- $180 million for Coler Specialty Hospital on Roosevelt Island, including replacement of a generator that was destroyed, reimbursement for repairs already completed to the electrical system, and a flood wall/berm system that will protect critical parts of the campus to the 500-year flood level.

HHC has successfully worked with FEMA to obligate the funding for this agreement for Bellevue, Metropolitan, and Coney Island hospitals and anticipates the obligation of the Coler funding in fiscal year 2016.

HHC has implemented Environmental Assessments and public notice periods to satisfy FEMA and Federal Environmental and Historical Protection requirements. This process has been completed for Coney Island; the remaining facilities are anticipated to be completed in fiscal year 2016.

HHC engaged the New York City Economic Development Corporation (EDC) to serve as the Corporation's facilitating agency for rebuilding, reconstruction, and hazard mitigation efforts. EDC is in the process of procuring

construction and program managers as well as the architectural and engineering design contracts for the major Sandy-related projects.

HHC completed construction of the new Ida G. Israel Community Health Center, which opened on September 15, 2015 at 2925 West 19th Street, Brooklyn, NY. The Clinic provides services for Chemical Dependence and Rehabilitation, Dental, Family Planning, Medical Social Services, Pediatric and Primary Medical Care.

During fiscal year 2015, HHC received over $33 million in reimbursement from FEMA for Sandy-related expenditures. This includes $23 million repairs and maintenance work conducted at Bellevue, $5.9 million for emergency work completed to stabilize the facilities, $2.9 million for emergency generators at Coler, and $0.8 million for a temporary MRI and CT Scanner at Coney Island Hospital.

Variances in Financial Statements

In this section, the Corporation explains the reasons for certain financial statement items with variances relating to 2015 amounts compared to 2014 and, where appropriate, 2014 amounts compared to 2013.

Statements of Net Position

Cash and cash equivalents – Increased $267.8 million from June 30, 2014 to June 30, 2015 primarily due to a receipt of $599.1 million of inpatient State Fiscal Year Upper Payment Limit (UPL) funds, during the fourth quarter. Cash and cash equivalents decreased $17.4 million from June 30, 2013 to June 30, 2014 to maintain vendor payables at reasonable levels.

Patient accounts receivable, net – Decreased $58.3 million from 2014 to 2015 due to a decrease in the risk incentive pool payable from MetroPlus to HHC. Patient accounts receivable, net decreased $67.4 million from 2013 to 2014 due to increased collection efforts.

Estimated third-party payor settlements, receivable – decreased $539.9 million from June 30, 2014 to June 30, 2015 due to the receipt of $1.0 billion of UPL payments, partially offset by recording of receivable for fiscal 2015. Estimated third-party payor settlements, net increased $539.4 million from 2013 to 2014 due to the delay of $539.4 million of State Fiscal Year UPL payments.

Grants receivable – Grants receivable increased $60.4 million from June 30, 2014 to June 30, 2015 due to a delay of payment of the Medicaid Administration grant. Grants receivable decreased $222.9 million from 2013 to 2014 primarily due to the receipt of Community Development Block Grant (CDBG) grant funds of $183 million that were recorded as a receivable in the prior year and received during 2014 for 2015.

Assets restricted as to use – Decreased $11.3 million from June 30, 2014 to June 30, 2015 and $28.0 million from June 30, 2013 to June 30, 2014 due to a continued use of the Construction Fund for various capital projects.

Other current assets – Remained fairly consistent from June 30, 2014 to June 30, 2015. Other current assets decreased $7.2 million from June 30, 2013 to June 30, 2014 primarily due to a decrease in the amounts owed under affiliation agreements in the amount of $11 million.

Capital assets, net – Decreased $73.9 million from 2014 to 2015 as there were less acquisitions in fiscal year 2015 due to the completion of major modernization projects, in the prior year. Increased $139.9 million from 2013 to

2014. This was due to major modernization projects at Harlem Hospital Center and Gouverneur Healthcare Services, as well as construction on the Henry J. Carter Center property (note 7(h) to the financial statements).

Accrued salaries, fringe benefits, and payroll taxes – Decreased $9.1 million from June 30, 2014 to June 30, 2015 due to a decrease of an accrual for collective bargaining settlements and an offsetting increase in an accrual for health and welfare benefits. Accrued salaries, fringe benefits, and payroll taxes increased $104.8 million from June 30, 2013 to June 30, 2014 due to an accrual of collective bargaining settlements.

Accounts payable and accrued expenses – Increased $3.4 million from June 30, 2014 to June 30, 2015 primarily due to increases in affiliations payable of $12.8 million and affiliations vacation accrual of $9.2 million, which was partially offset by a decrease in pollution remediation of $10.0 million. Accounts payable and accrued expenses increased $23.4 million from June 30, 2013 to June 30, 2014 primarily due to increases in vendors payable due to cash flow.

Estimated third-party payor settlement, payable – Decreased by $31.6 million from June 30, 2014 to June 30, 2015 and $40.2 million from June 30, 2013 to June 30, 2014 due to a reestimation of third-party anticipated take backs for Medicaid and Medicare rate changes.

Estimated pools receivable (payable), net – Estimated pools payable, net, decreased $259.3 million from June 30, 2014 to June 30, 2015 primarily due to a $353.5 million decrease in the State's advance payments of Disproportionate Share Hospital (DSH) and DSH Max funds. Estimated pools payable, net, increased $414.7 million and remained a payable from June 30, 2013 to June 30, 2014 primarily due to the receipt of State Fiscal Years' 2015 Disproportionate Share Hospital (DSH), DSH Max, and Supplemental SLIPA allocations.

Due to (from) City of New York (current and non current) – Increased $332.0 million from June 30, 2014 to June 30, 2015 mainly due to $271.2 million that is payable to The City in the form of malpractice and debt service, which were not paid for 2014 and 2015. In fiscal 2014, the Corporation and the City agreed that the Corporation would not reimburse the City for the 2013 malpractice and debt service of $121.5 million and $150.4 million. Due to (from) City of New York decreased $103.7 million from June 30, 2013 to June 30, 2014 as The City agreed to fund collective bargaining settlements in the amount of $117.0 million (note 8 to the financial statement).

Long-term debt – Decreased $57.7 million from June 30, 2014 to June 30, 2015 due to a continuation of scheduled principal payments during fiscal year 2015 (note 7 to the financial statements). Long-term debt decreased $52.3 million from June 30, 2013 to June 30, 2014 due to scheduled principal payments during fiscal year 2014 (note 7 to the financial statements).

Pension (current and long-term) – Increased $298.2 million from June 30, 2014 to June 30, 2015 and decreased $691.7 million from June 30, 2013 to June 30, 2014 as the Corporation recognized its annual pension costs and payments toward its liability as determined by the New York City Office of the Actuary (note 9 to the financial statements).

Postemployment benefits obligation, other than pension – Decreased $145.1 million from June 30, 2014 to June 30, 2015 and increased $98.0 million from June 30, 2013 to June 30, 2014 as the Corporation recognized its annual OPEB credits and costs, respectively, as determined by the New York City Office of the Actuary (note 10 to the financial statements).

Other current liabilities – Remained constant during the period from June 30, 2014 to June 30, 2015 and decreased $16.8 million June 30, 2013 to June 30, 2014 due to FICA refunds paid to medical residents.

Changes in Components of Net Position

Net investment in capital assets – Decreased $29.6 million from June 30, 2014 to June 30, 2015 as capital assets, net, decreased by $73.9 million, related assets restricted as to use decreased by $10.4 million, and related debt and deferred outflows decreased by $54.7 million. Investment in capital assets, net of related debt increased $156.7 million from June 30, 2013 to June 30, 2014 as capital assets, net, increased by $139.9 million, related assets restricted as to use decreased by $28.0 million, and related debt and deferred outflows decreased by $56.5 million.

Restricted – remained fairly consistent from June 30, 2014 to June 30, 2015. Restricted net assets increased $3.3 million from June 30, 2013 to June 30, 2014 due to a $2.7 million increase in the revenue fund under bond resolution.

Unrestricted – Net position activities, other than those mentioned above, resulted in increases in unrestricted net assets of $45.8 million and $53.2 million for years 2015 and 2014, 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, 2015, the Corporation had capital assets, net of accumulated depreciation, of $3.432 billion compared to $3.506 billion at June 30, 2014 and $3.366 billion at June 30, 2013, representing a decrease of 2.2% from 2014 to 2015 and an increase of 4.2% from 2013 to 2014, as shown in the table below (in thousands of dollars):

		2015	2014	2013
Land and land improvements	$	29,159	29,187	28,460
Buildings and leasehold improvements		2,265,891	2,369,694	2,021,122
Equipment		833,143	867,101	699,942
Construction in progress		304,237	240,393	616,932
Total	$	3,432,430	3,506,375	3,366,456

2015's major capital asset additions included the following:

- Construction continued on the major modernization of Gouverneur Healthcare Services, with additional spending of approximately $9.9 million in 2015
- Construction has been mostly completed on the major modernization of Harlem Hospital Center, with additional spending of approximately $1.93 million in 2015
- Construction has been mostly completed on the major modernization of Henry J. Carter Center, with additional spending of approximately $11.02 million in 2015

- Construction of the new Ida G. Israel Community Health Center continued, with spending of approximately $7.1 million in 2015
- Developing the electronic medical record system continued with spending of approximately $52.3 million in 2015

2014's major capital asset additions included the following:

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

2013's major capital asset additions included the following:

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

The Corporation's 2016 capital budget projects spending of $286.3 million, which includes construction work on Rehab-Infrastructure projects, acquisition of medical equipment and electronic medical record (EMR) system. The 2016 capital budget is expected to be primarily financed by the Corporation's newly approved JP Morgan 2015 Equipment financing, City General Obligation, and Transitional Finance Authority Bonds, and other funding.

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

Long-Term Debt

At June 30, 2015, the Corporation has approximately $934 million in long-term debt financing relating to its capital assets, as shown with comparative amounts at June 30, 2014 and 2013 (in thousands of dollars):

		2015	2014	2013
Bonds payable	$	870,466	925,325	974,226
New York Power Authority (NYPA) financing		217	844	1,465
Equipment and renovation financing		135	540	998
Clinical bed financing		518	2,291	4,637
Henry J. Carter capital lease obligation		48,254	48,258	48,258
New Market Tax Credit		14,700	14,700	14,700
Total	$	934,290	991,958	1,044,284

At June 30, 2015, the Corporation's bonds are 81.7% uninsured fixed and 18.3% variable secured by letters of credit. The Corporation is rated Aa3, A+, and A+ by Moody's, S&P's, and Fitch, respectively. As of September 2, 2015, the variable rate bonds are secured by TD Bank's and JPMorgan Chase Bank's letters of credit. The Moody's, S&P's, and Fitch long-term/short-term ratings for TD Bank and JPMorgan Chase Bank are Aa1/P-1, AA-/A-1+, and AA-/F1+ and Aa2/P-1, A+/A-1, and AA-/F1+, respectively. There are no statutory debt limitations that may affect the Corporation's financing of planned facilities or services.

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

Statements of Revenue, Expenses, and Changes in Net Position

Net patient service revenue – Increased $76.2 million from June 30, 2014 to June 30, 2015 due to additional risk pool revenue from MetroPlus. Net patient service revenue increased $419.0 million from June 30, 2013 to June 30, 2014 reflecting full year operations for Bellevue Hospital Center and Coney Island Hospital after temporary closings following Super Storm Sandy during fiscal year 2013. The following also contributed to the increase in net patient service revenue 1) increased UPL revenue of $76 million; 2) increased DSH Maximization of $103.9 million; and 3) patient service revenue increases from third parties of $114.0 million, and 4) other third-party retroactive settlement accruals of $120 million.

Appropriations from (remittances to) City of New York, net – Decreased $258.6 million from June 30, 2014 to June 30, 2015 mainly due to the fact that the 2014 malpractice and debt service of $126.9 million and $153.2 million are Due to The City as of June 30, 2015. Whereas in the prior year, the City did not require the Corporation to reimburse the City for the 2013 malpractice and debt service. Appropriations from (remittances to) City of New York increased $399.7 million from June 30, 2013 to June 30, 2014 mainly due to an agreement with The City that the Corporation would not reimburse the 2013 malpractice and debt service of $121.5 million and $150.4 million, respectively, and The City's agreement to fund collective bargaining settlements in the amount of $114.0 million. These were offset by an increase of $17.2 million in interest expense paid by The City for HHC.

Grants revenue – Increased $240.9 million from June 30, 2014 to June 30, 2015 due to recognition of $136.9 million of Interim Access Assurance Fund (IAAF) and $111.1 million of Delivery System Reform Incentive Payment (DSRIP) grant revenue. Grants revenue decreased $280.3 million from June 30, 2013 to June 30, 2014

due to the recording, in 2013, of FEMA and CDBG revenue in the amount of $256 million for Super Storm Sandy expenses. No additional FEMA and CDBG revenue was recorded during 2014. Additional revenue for IAAF was accrued for during 2014 in the amount of $15.5 million.

Other revenue – Increased $10.2 million primarily due to a $5.5 million increase in 340B program revenue. Other revenue remained consistent from June 30, 2013 to June 30, 2014.

Personal services – Increased $68.2 million, or approximately 2.8%, from June 30, 2014 to June 30, 2015 due to continued collective bargaining salary increases. Personal services increased $129.5 million, or approximately 5.4%, from June 30, 2013 to June 30, 2014 due to increase in collective bargaining estimates for 2014.

Other-than-personal services – Increased $34.0 million, or 2.2% from June 30, 2014 to June 30, 2015, mainly due to a continued increase in pharmaceutical expenses of $28 million, and an increase in IT software maintenance expense of $17 million. Other-than-personal services increased $83.7 million, or 5.8%, from June 30, 2013 to June 30, 2014 due to costs related to increased pharmaceutical expenses of $19 million and increased use of temporary workers, including nursing of $32 million. Increased pollution remediation accruals of $9.1 million contribute to the increase from 2013.

Fringe benefits and employer payroll taxes – Increased $50.2 million or 6.7% from June 30, 2014 to June 30, 2015 mainly due to an increase in health benefits costs of $26.7 million or 5.1% and an increase in welfare benefits expense of $17.4 million or 16.7%. Increased $15.1 million from June 30, 2013 to June 30, 2014 primarily for FICA of $9.8 million or 7.1% for collective bargaining agreements.

Pension – Increased $60.6 million from June 30, 2014 to June 30, 2015 as determined by the New York City Office of the Actuary.

Postemployment benefits, other than pension – Decreased $239.3 million from June 30, 2014 to June 30, 2015 and decreased $94.8 million from June 30, 2013 to June 30, 2014 as determined by the New York City Office of the Actuary, and is mainly due to assumptions for healthcare actuarial gain experience, cost trends being updated to reflect recent past experience, and anticipated future experience, including the enactment of National Healthcare Reform (note 10 to the financial statements).

Affiliation contracted services – Increased $71.5 million or 7.8% from June 30, 2014 to June 30, 2015 and $7.2 million or 0.8% from June 30, 2013 to June 30, 2014 primarily due to market adjustments and enhancement of services.

Investment income – decreased $0.6 million from June 30, 2014 to June 30, 2015 due to a decrease in interest income. Investment income increased $1.4 million from June 30, 2013 to June 30, 2014 as the Corporation recognized fair value adjustments on its U.S. government securities.

Capital contributions funded by City of New York – Decreased $197.3 million from June 30, 2014 to June 30, 2015 due to fewer continuing major modernization projects. Capital contributions funded by City of New York decreased $88.7 million from June 30, 2013 to June 30, 2014 due to completions of the past major modernization projects.

Corporation Issues and Challenges

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

- Reduced Medicaid and Medicare reimbursements due to state and federal budget cuts
- Ability of New York City to increase capital and expense funding
- Implementation of the new Healthcare Exchanges and its effect on the uninsured
- Continued penetration of managed care and accountable care in the market place
- Implementation of the International Classification of Diseases 10th Edition (ICD-10)

The Corporation has responded to these challenges by 1) improving the patient experience and increasing MetroPlus members and increasing HHC's market share; 2) entering into a strategic partnership with another health system to provide laboratory services; and 3) centralizing procurement. Also, the Corporation has engaged in restructuring activities to consolidate long-term care services, implement the conversion of its diagnostic and treatment centers into federally qualified health center look-alike, and Corporate rebranding. Additionally, the Corporation has created an Accountable Care Organization, which is participating in the Medicare shared savings program and the Corporation is in the process of installing a new electronic medical record (EMR) – the EPIC system. All these changes are designed to assist the Corporation to compete in a more difficult environment.

The International Classification of Diseases (ICD), 10th Edition will replace the current version (9th Edition) on October 1, 2015 as per the mandate of the United States Department of Health and Human Services. The ICD is a code set used internationally to report on diagnoses and inpatient procedures and was last updated 35 years ago. ICD-10 is a newer, more up-to-date, greatly expanded, and much more specific version of ICD-9. The documentation and coding requirements for ICD-10 are much more complex and if not done appropriately can potentially lead to loss of revenue for services provided. Significant effort was undertaken to minimize potential impacts to the Corporation. Patient information and billing information systems are ICD-10 compliant. Starting in September 2013 and continuing through October 2015, education and training sessions were conducted for physicians and affected divisions, especially Health Information Management.

Contacting the Corporation's Financial Management

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

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

Statements of Net Position

June 30, 2015 and 2014

(In thousands)

	2015				2014			
Assets	**Business-type Activities – HHC**	**Discretely Presented Component Unit-MetroPlus**	**Eliminations**	**Total**	**Business-type Activities – HHC**	**Discretely Presented Component Unit-MetroPlus**	**Eliminations**	**Total**
Current assets:								
Cash and cash equivalents (note 2)	$ 610,960	654,039	—	1,264,999	343,188	780,320	—	1,123,508
U.S. government securities (note 16)	—	93,309	—	93,309	—	71,396	—	71,396
Patient accounts receivable, net (notes 4 and 11)	634,811	—	(187,359)	447,452	693,151	—	(272,538)	420,613
Premiums receivable (note 16)	—	232,925	(1,624)	231,301	—	168,518	(1,528)	166,990
Estimated third-party payor settlements, receivable (notes 4 and 11)	890,300	—	(167,900)	722,400	1,430,200	—	(110,830)	1,319,370
Grants receivable (note 13)	142,975	—	—	142,975	82,547	—	—	82,547
Supplies	20,909	—	—	20,909	19,796	—	—	19,796
Assets restricted as to use and required for current liabilities (notes 6 and 7)	49,068	—	—	49,068	46,873	—	—	46,873
Due from City of New York (note 8)	77,000	—	—	77,000	117,000	—	—	117,000
Other current assets	59,062	19,133	—	78,195	57,409	9,190	—	66,599
Total current assets	2,485,085	999,406	(356,883)	3,127,608	2,790,164	1,029,424	(384,896)	3,434,692
Assets restricted as to use, net of current portion (notes 6 and 16)	107,783	117,105	—	224,888	121,266	87,883	—	209,149
U.S. government securities (note 16)	—	156,559	—	156,559	—	43,010	—	43,010
Other receivable	10,661	—	—	10,661	10,661	—	—	10,661
Capital assets, net (note 5)	3,432,430	5,511	—	3,437,941	3,506,375	5,923	—	3,512,298
Total assets	6,035,959	1,278,581	(356,883)	6,957,657	6,428,466	1,166,240	(384,896)	7,209,810
Deferred Outflows of Resources								
Unamortized refunding cost	15,349	—	—	15,349	18,240	—	—	18,240
	$ 6,051,308	1,278,581	(356,883)	6,973,006	6,446,706	1,166,240	(384,896)	7,228,050
Liabilities								
Current liabilities:								
Current installments of long-term debt (note 7)	$ 51,442	—	—	51,442	50,669	—	—	50,669
Accrued salaries, fringe benefits, and payroll taxes	825,355	3,952	(1,624)	827,683	834,475	14,555	(1,528)	847,502
Accounts payable and accrued expenses (notes 12 and 16)	430,718	593,832	(355,259)	669,291	427,347	583,562	(383,368)	627,541
Estimated third-party payor settlement, payable (notes 4 and 11)	150,900	—	—	150,900	182,500	—	—	182,500
Estimated pools payable, net (notes 4 and 11)	452,300	—	—	452,300	711,600	—	—	711,600
Current portion of Due to City of New York, net (note 8)	485,174	—	—	485,174	449,941	(4,041)	—	445,900
Current portion of pension (note 9)	433,232	10,154	—	443,386	424,268	9,322	—	433,590
Current portion of postemployment benefits obligation, other than pension (note 10)	110,821	2,447		113,268	107,863	2,199	—	110,062
Other current liabilities	5,061	—	—	5,061	5,061	—	—	5,061
Total current liabilities	2,945,003	610,385	(356,883)	3,198,505	3,193,724	605,597	(384,896)	3,414,425
Long-term debt, net of current installments (note 7)	882,848	—	—	882,848	941,289	—	—	941,289
Due to City of New York, net of current portion (note 8)	296,811	—	—	296,811	—	—	—	—
Long-term pension, net of current portion (note 9)	2,334,651	54,716	—	2,389,367	2,045,366	42,120	—	2,087,486
Postemployment benefits obligation, other than pension, net of current portion (note 10)	4,519,900	43,368	—	4,563,268	4,667,962	46,761	—	4,714,723
Total liabilities	10,979,213	708,469	(356,883)	11,330,799	10,848,341	694,478	(384,896)	11,157,923
Deferred Inflows of Resources								
Net differences between projected and actual earnings on pension plan investments and other changes	258,287	6,053	—	264,340	708,343	15,564	—	723,907
	11,237,500	714,522	(356,883)	11,595,139	11,556,684	710,042	(384,896)	11,881,830
Commitments and contingencies (note 11)								
Net position								
Net investment in capital assets	2,521,077	5,540	—	2,526,617	2,550,656	5,946	—	2,556,602
Restricted:								
For debt service	135,961	—	—	135,961	137,469	—	—	137,469
Expendable for specific operating activities	12,342	—	—	12,342	11,715	—	—	11,715
Nonexpendable permanent endowments	928	—	—	928	928	—	—	928
For statutory reserve requirements	—	117,105	—	117,105	—	87,883	—	87,883
Unrestricted	(7,856,500)	441,414	—	(7,415,086)	(7,810,746)	362,369	—	(7,448,377)
Total net deficit position	(5,186,192)	564,059	—	(4,622,133)	(5,109,978)	456,198	—	(4,653,780)
	$ 6,051,308	1,278,581	(356,883)	6,973,006	6,446,706	1,166,240	(384,896)	7,228,050

See accompanying notes to financial statements.

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

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2015 and 2014

(In thousands)

	2015				2014			
	Business-type Activities – HHC	Discretely Presented Component Unit – MetroPlus	Eliminations	Total	Business-type Activities – HHC	Discretely Presented Component Unit – MetroPlus	Eliminations	Total
Operating revenue:								
Net patient service revenue (notes 4 and 11)	$ 5,729,197	—	(758,907)	4,970,290	5,653,009	—	(704,482)	4,948,527
Appropriations from (remittances to) City of New York, net (notes 1 and 11)	140,597	—	—	140,597	399,165	4,041	—	403,206
Premium revenue (note 16)	—	2,585,211	(20,204)	2,565,007	—	2,334,727	(19,129)	2,315,598
Grants revenue (notes 11, 13, and 14)	526,673	—	—	526,673	285,763	—	—	285,763
Other revenue	61,264	33	—	61,297	51,110	6	—	51,116
Total operating revenue	6,457,731	2,585,244	(779,111)	8,263,864	6,389,047	2,338,774	(723,611)	8,004,210
Operating expenses:								
Personal services	2,607,635	64,329	—	2,671,964	2,539,432	60,752	—	2,600,184
Other than personal services	1,561,411	2,385,522	(758,907)	3,188,026	1,527,445	2,169,538	(704,482)	2,992,501
Fringe benefits and employer payroll taxes	815,912	20,231	(20,204)	815,939	765,727	17,883	(19,129)	764,481
Pension (note 9)	285,111	6,879	—	291,990	224,500	4,932	—	229,432
Postemployment benefits, other than pension (note 10)	(40,299)	(1,097)	—	(41,396)	198,991	4,548	—	203,539
Affiliation contracted services	994,294	—	—	994,294	922,773	—	—	922,773
Depreciation (note 5)	291,729	2,424	—	294,153	302,859	2,606	—	305,465
Total operating expenses	6,515,793	2,478,288	(779,111)	8,214,970	6,481,727	2,260,259	(723,611)	8,018,375
Operating (loss) income	(58,062)	106,956	—	48,894	(92,680)	78,515	—	(14,165)
Nonoperating revenue (expenses):								
Investment income	1,979	905	—	2,884	2,536	1,761	—	4,297
Interest expense	(127,702)	—	—	(127,702)	(117,735)	—	—	(117,735)
Contributions restricted for specific operating activities	656	—	—	656	807	—	—	807
Total nonoperating (expenses) revenue, net	(125,067)	905	—	(124,162)	(114,392)	1,761	—	(112,631)
(Loss) income before other changes in net position	(183,129)	107,861	—	(75,268)	(207,072)	80,276	—	(126,796)
Other changes in net position:								
Capital contributions funded by City of New York, net	105,711	—	—	105,711	303,007	—	—	303,007
Capital contributions funded by grantors and donors	1,204	—	—	1,204	10,897	—	—	10,897
Total other changes in net position	106,915	—	—	106,915	313,904	—	—	313,904
(Decrease) increase in net position	(76,214)	107,861	—	31,647	106,832	80,276	—	187,108
Net deficit position at beginning of year	(5,109,978)	456,198	—	(4,653,780)	(5,216,810)	375,922	—	(4,840,888)
Net deficit position at end of year	$ (5,186,192)	564,059	—	(4,622,133)	(5,109,978)	456,198	—	(4,653,780)

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2015 and 2014

(In thousands)

	2015 Business-type Activities – HHC	2014 Business-type Activities – HHC
Cash flows from operating activities:		
Cash received from patients and third-party payors	$ 6,036,538	5,565,689
Cash appropriations received from City of New York	233,395	322,176
Receipts from grants	466,245	508,696
Other receipts	53,276	63,409
Cash paid for personal services, fringe benefits, and employer payroll taxes	(3,502,012)	(3,323,160)
Cash paid for pension	(443,386)	(435,678)
Cash paid for other than personal services	(1,425,634)	(1,521,736)
Cash paid for affiliation contracted services	(966,376)	(933,394)
Net cash provided by operating activities	452,046	246,002
Cash flows from noncapital financing activity:		
Proceeds from contributions restricted for specific operating activities	657	808
Net cash provided by noncapital financing activity	657	808
Cash flows from capital and related financing activities:		
Purchase of capital assets	(261,154)	(442,120)
Capital contributions by grantors and donors	1,204	10,897
Capital contributions by City of New York	161,535	303,007
Cash paid for retainage and construction accounts payable	(1,851)	(947)
Payments of long-term debt	(49,599)	(40,633)
Interest paid	(48,335)	(125,104)
Net cash used in capital and related financing activities	(198,200)	(294,900)
Cash flows from investing activities:		
Purchases of assets restricted as to use	(885)	(4,690)
Sales of assets restricted as to use	11,727	32,064
Interest received	2,427	3,325
Net cash provided by investing activities	13,269	30,699
Net increase (decrease) in cash and cash equivalents	267,772	(17,391)
Cash and cash equivalents at beginning of year	343,188	360,579
Cash and cash equivalents at end of year	$ 610,960	343,188
Supplemental disclosure:		
Change in fair value of assets restricted as to use	$ (212)	(302)

(Continued)

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

Statements of Cash Flows

Years ended June 30, 2015 and 2014

(In thousands)

	2015 Business-type Activities – HHC	2014 Business-type Activities – HHC
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (58,062)	(92,680)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	291,729	302,859
Provision for bad debts	479,172	636,517
Changes in assets and liabilities:		
Patient accounts receivable, net	(420,832)	(569,155)
Estimated third-party payor settlements, net	508,300	(579,600)
Estimated pools receivable (payable), net	(259,300)	414,700
Grants receivable	(60,428)	222,932
Supplies and other current assets	(2,766)	6,520
Accrued salaries, fringe benefits, and payroll taxes	(9,120)	104,794
Pension	(151,807)	(201,822)
Accounts payable and accrued expenses	3,371	23,443
Due to City of New York	276,893	(103,650)
Other liabilities	—	(16,813)
Postemployment benefits obligation, other than pension	(145,104)	97,957
Net cash provided by operating activities	$ 452,046	246,002

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

Organization

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

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

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

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

- HHC Insurance Company, Inc. (HHC Insurance) was created by the Corporation as a public benefit corporation, of which the Corporation is the sole member, in 2003. HHC Insurance obtained its license as a domestic captive insurance company from the New York State Department of Insurance on December 15, 2004 and commenced operations on January 1, 2005. The license was renewed on July 1, 2015. HHC Insurance underwrites medical malpractice insurance for the Corporation's attending physicians who specialize in the areas of Neurosurgery, Obstetrics, and Gynecology. HHC Insurance also provides access to the excess insurance coverage available in the New York State Excess Liability Pool (State Pool).

  HHC Insurance issues primary professional liability policies to their insureds on a claims-made basis with policy limits of $1.3 million per incident and $3.9 million in the aggregate. With the existence of this 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 Medical Malpractice Insurance Pool of New York (MMIP). HHC Insurance has been a participant in the excess program since 2007. MMIP is the insurer of last resort for medical malpractice coverage in the State and is a joint underwriting facility, not a separate legal entity. The members of MMIP are all the licensed medical malpractice carriers in New York State. As an MMIP member, HHC Insurance recognizes its allocable share of the premium, loss, underwriting expense, and administrative expense activities of MMIP.

- 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. The business of HHC Purchasing is to obtain on behalf of its members, who are employees of HHC or HHC's affiliates, primary insurance for medical malpractice from HHC Insurance. HHC Purchasing was registered and approved for operations by the New York State Department of Insurance on August 31, 2005. The Corporation is the sole voting member of HHC Physicians.

- HHC Risk Services Corporation (Risk Services), a public benefit corporation, was granted a license on December 30, 2003 to operate by the Vermont Department of Banking, Insurance, Securities, and Healthcare Administration. The Corporation is the sole member. Risk Services did not conduct business (no policies were issued). Risk Services ceased operations as an insurance company in November 2011 and returned the insurance license to the State of Vermont in December 2011. It has been dormant since December 2011. Risk Services is in the process of dissolving. The dissolution papers were filed with the appropriate NYS agencies and are pending approval.

- During June 2012, HHC ACO Inc., a public benefit corporation of HHC, was formed as an Accountable Care Organization (ACO) for purposes of applying to the federal Centers for Medicare and Medicaid Services (CMS) to participate in the Medicare Shared Savings Program (MSSP).

In October 2012, the Corporation formed the HHC Assistance Corporation (HHCAC), which is a membership not-for-profit corporation in which the Corporation is the sole member. All members of HHCAC's board of directors are officers of the Corporation. The HHCAC's purpose is to perform activities that are helpful to the Corporation in the fulfillment of its statutory purposes. During 2012, the HHCAC facilitated the Corporation's participation in a New Market Tax Credit supplementary financing transaction to be used for the construction of certain new facilities at the Harlem Hospital Center (note 7(i)). In 2015, HHCAC took on the function of the "Central Service Organization" in the HHC-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 the Corporation's behalf to advance its participation in the DSRIP program.

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

The financial statements also include MetroPlus, which is presented as a discretely presented component unit. MetroPlus is a public benefit corporation created by the Corporation. Supplementary disclosures for MetroPlus are presented beginning with note 16 of the financial statements. The Corporation is the sole member and appoints a voting majority of the governing board of MetroPlus. MetroPlus contracts primarily with Corporation facilities for the purpose of providing managed healthcare services on a prepaid basis and establishing and operating organized healthcare maintenance and delivery systems. MetroPlus has contractual agreements with the New York State Department of Health (DOH) to provide comprehensive medical services to Medicaid, Child Health Plus (CHP), Family Health Plus (FHP), HIV Special Needs Plan (HIV-SNP) recipients (members), and managed long-term care services under a partial capitation contract with the DOH. MetroPlus has contracted with CMS and the DOH to offer Medicare coverage to individuals, including those who are dually eligible for benefits under Medicare and New York State Medicaid. Beneficiaries have the option of selecting MetroPlus or the state of New York as their Medicaid coverage

provider. In October 2013, MetroPlus began offering Qualified Health Plans (QHP) with coverage beginning on or after January 1, 2014, also under a contract with the DOH. Such plans are the result of the Patient Protection and Affordable Care Act (ACA) signed into law in March 2010. Additionally, Corporation employees can elect MetroPlus healthcare coverage as part of their employee benefits.

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

The Corporation's significant accounting policies are as follows:

(a) Basis of Presentation

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

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

(b) Assets Restricted As to Use

Assets restricted as to use primarily include assets held by a trustee under bond resolutions and statutory reserve investments. Amounts required to meet current liabilities of the Corporation have been classified as current assets in the statement of net position at June 30, 2015 and 2014. 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 restriction or that arise as a result of the operations of the Corporation for its stated purposes. Donor-restricted net positions represent contributions to provide healthcare services, of which $928,000 are held in perpetuity, as nonexpendable permanent endowments, at June 30, 2015 and 2014. Resources restricted by donors for plant replacement and expansion are recognized as capital contributions and are added to the net investment in capital assets, net position balance to the extent expended within the period. Resources restricted by donors for specific operating activities are reported as nonoperating revenue. The Corporation utilizes available donor-restricted assets before utilizing unrestricted resources for expenses incurred.

(c) Charity Care

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

(d) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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 $49.6 million and $172.8 million for the years ended June 30, 2015 and 2014, 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 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 nonoperating 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

The Corporation has agreements with certain third-party payors that provide for payments at amounts different from its charges or established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated third-party payor settlements resulting from audits, reviews, and investigations. These estimated third-party payor settlements are accrued in the period the related services are rendered and adjusted in future periods as revised information becomes known or as years are no longer subject to such audits, reviews, and investigations. Net patient service revenue is reported net of the provision for bad debts of $479.2 million in 2015 and $636.5 million in 2014.

The allowance for doubtful accounts is the Corporation’s estimate of the amount of probable credit losses in its patient accounts receivable. The Corporation determines the allowance based on collection studies and historical write-off experience. Past-due balances are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts at June 30, 2015 and 2014 was approximately $452.8 million and $658.2 million, respectively.

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

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

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

Reimbursement by the Corporation is negotiated annually with The City. In 2014, The City and the Corporation agreed that the Corporation would not reimburse the City for the 2013 malpractice and debt service of $121.5 million and $150.4 million, respectively. No similar transaction took place in 2015. The Corporation has agreed to reimburse The City for the following as remittances to The City:

- Medical malpractice settlements, negligence, and other torts up to an agreed-upon amount negotiated annually and paid by The City on behalf of the Corporation. In 2015 and 2014, the medical malpractice and general liability settlements paid by The City were $123.3 million and $126.9 million, respectively, and the Corporation has agreed to reimburse The City $123.3 million for 2015 and $126.9 million for 2014. The reimbursements to The City are recorded by the Corporation as a reduction of appropriations from (remittances to) The City. Such medical malpractice, negligence, and other torts reimbursements by the Corporation do not alter the indemnification by The City of the Corporation's malpractice settlements under the Agreement (note 11(e)).
- Debt service (interest and principal), negotiated annually, related to debt, which funded Corporation capital acquisitions and paid by The City on behalf of the Corporation. In 2015 and 2014, the debt service paid by The City were $147.9 million and $153.2 million, respectively, and the Corporation has agreed to reimburse The City $147.9 million for 2015 and $153.2 million for 2014. These debt service reimbursements to The City are recorded by the Corporation as a reduction of appropriations from (remittances to) The City.

(h) Capital Assets and Depreciation

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

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

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

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

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

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

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

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

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

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

The Corporation evaluates long-lived assets for impairment when circumstances suggest that the service utility or the usable capacity that upon acquisition was expected to be used to provide service of the capital asset 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 charges to capital assets were recorded for the fiscal years ended June 30, 2015 and 2014.

(i) Custodial Funds

The Corporation holds funds for safekeeping, primarily cash held for the benefit of its long-term care patients, amounting to approximately $3.7 million and $3.8 million as of June 30, 2015 and 2014, respectively. These amounts are included in other current assets and accounts payable and accrued expenses in the accompanying statements of net position. At June 30, 2015 and 2014, all custodial funds-related bank balances are fully insured.

(j) Affiliation Contracted Services

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

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

(k) Supplies

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

(l) Income Taxes

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

(m) Grants Receivable

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

(n) Net Position

Net position of the Corporation is classified in various components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by outstanding borrowings used to finance the purchase or construction of those assets. *Restricted for debt service* consists of assets restricted, by each revenue bonds' official statement, for expenditures of principal and interest. *Restricted expendable net position* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Corporation, including amounts deposited with trustees as required by revenue bond indentures, discussed in note 6(a). Restricted nonexpendable net position consist of the principal portion of permanent endowments. Restricted for statutory reserve requirements are MetroPlus' investments required by the New York State Department of Health regulations for the protection of MetroPlus' enrollees. *Unrestricted net position* is remaining net position that does not meet the definition of *Net investment in capital assets or restricted*.

(o) Compensated Absences

The Corporation's employees earn vacation and holiday days at varying rates depending on years of service and title. Generally, vacation and holiday time may accumulate up to specified maximums, depending on title. Excess vacation and holiday time are converted to sick leave. Upon resignation or retirement, employees are paid for unused vacation and holiday days, most at the current rate. Most employees 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. The Corporation accrues for the employees' earned and accumulated vacation and sick leave.

(p) Reclassifications

Certain amounts have been reclassified from the prior year to conform with current year financial statement presentation. The reclassifications had no impact on the Corporation's net position or the statements of revenue, expenses, and changes in net position.

(q) New Accounting Standards Adopted

In 2015, the Corporation adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* (GASB 72). This guidance requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The guidance only requires additional disclosures and did not have an impact on the financial statements.

(r) 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 that 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.

(2) Cash and Cash Equivalents

Cash and cash equivalents include cash, certificates of deposit, 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, the Corporation's deposits may not be returned to it. The Corporation's policy to mitigate custodial credit risk is to collateralize all balances available (i.e., collected balances). Deposits in the process of collection within the banking system are not collateralized. At June 30, 2015 and 2014, all Corporation cash and cash equivalents bank balances were either insured or collateralized.

(Continued)

(3) Charity Care

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

	2015	2014
Charges foregone, based on established rates	$ 938,461	968,399
Estimated expenses incurred to provide charity care	661,442	636,091

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

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

Net patient service revenue for the years ended June 30, 2015 and 2014 is as follows (in thousands):

	2015		2014	
Medicaid	$ 1,436,363	25.1%	$ 1,495,122	26.4%
Medicare	664,399	11.6	680,663	12.0
Bad debt/charity care pools	614,698	10.7	609,647	10.8
Disproportionate share supplemental pool (DSH)	1,025,000	17.9	915,900	16.2
Other third-party payors that include Medicaid and Medicare managed care	1,197,299	20.9	1,190,921	21.1
MetroPlus	758,907	13.2	704,482	12.5
Self-pay	32,531	0.6	56,274	1.0
	$ 5,729,197	100.0%	$ 5,653,009	100.0%

(Continued)

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

	2015		2014	
Medicaid	$ 159,645	25.1%	$ 131,323	19.0
Medicare	58,233	9.2	69,902	10.1
Other third-party payors, that include Medicaid and Medicare managed care	199,974	31.5	183,915	26.5
MetroPlus	187,359	29.5	272,538	39.3
Self-pay	29,600	4.7	35,473	5.1
	$ 634,811	100.0%	$ 693,151	100.0%

(5) Capital Assets

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

	2015	2014
Land and land improvements	$ 55,234	54,081
Buildings and leasehold improvements	4,287,073	4,258,355
Equipment	3,496,203	3,397,117
	7,838,510	7,709,553
Less accumulated depreciation	4,710,317	4,443,571
	3,128,193	3,265,982
Construction in progress	304,237	240,393
Capital assets, net	$ 3,432,430	3,506,375

(Continued)

Capital assets activity for the years ended June 30, 2015 and 2014 was as follows (in thousands):

	Land and land improvements	Buildings and leasehold improvements	Equipment	Construction in progress	Total
June 30, 2013 balance	$ 55,707	3,831,385	3,166,436	616,932	7,670,460
Acquisitions, net of transfers	6,889	498,586	330,311	(376,539)	459,247
Sales, retirements, and adjustments	(8,515)	(71,616)	(99,630)	—	(179,761)
June 30, 2014 balance	54,081	4,258,355	3,397,117	240,393	7,949,946
Acquisitions, net of transfers	1,266	36,406	133,201	63,844	234,717
Sales, retirements, and adjustments	(113)	(7,688)	(34,115)	—	(41,916)
June 30, 2015 balance	$ 55,234	4,287,073	3,496,203	304,237	8,142,747

Related information on accumulated depreciation for the years ended June 30, 2015 and 2014 was as follows (in thousands):

	Land and land improvements	Buildings and leasehold improvements	Equipment	Total
June 30, 2013 balance	$ 27,247	1,810,263	2,466,494	4,304,004
Depreciation expense	1,520	123,356	153,504	278,380
Sales, retirements, and adjustments	(3,873)	(44,958)	(89,982)	(138,813)
June 30, 2014 balance	24,894	1,888,661	2,530,016	4,443,571
Depreciation expense	1,558	134,188	155,983	291,729
Sales, retirements, and adjustments	(377)	(1,667)	(22,939)	(24,983)
June 30, 2015 balance	$ 26,075	2,021,182	2,663,060	4,710,317

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

(Continued)

The Corporation capitalizes interest costs incurred in connection with construction projects. Interest activity relating to construction projects and net capitalized interest for the years ended June 30, 2015 and 2014 was as follows (in thousands):

		2015	2014
Interest costs subject to capitalization	$	11,102	10,495
Interest income		(1,529)	(1,614)
Capitalized interest costs, net	$	9,573	8,881

The Corporation capitalized net interest costs on TFA debt and City General Obligation Bonds in both 2015 and 2014, as well as the Corporation's own bonds. Such debt was issued to finance construction of certain Corporation facilities, with such debt to be paid by The City on behalf of the Corporation. Such amounts capitalized in 2015 and 2014 approximated $9.1 million and $7.4 million, respectively. In addition, the Corporation capitalized net interest costs of $0.5 million in 2015 and $1.5 million in 2014 related to its 2008 and 2010 Series bonds.

The Corporation has various major facility construction projects in progress, including major modernization projects at Harlem Hospital Center, Gouverneur Healthcare Services, and Henry J. Carter campus, with an estimated cost of completion of $11.7 million at June 30, 2015.

The Corporation is developing an electronic medical records (EMR) system that has a six-year implementation period with a budget of $764 million. Included within construction in progress is $115 million as of June 30, 2015 and $18.9 million has been expensed for the fiscal year ended June 30, 2015.

(6) Assets Restricted As to Use

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

		2015	2014
Under bond resolutions (a):			
Construction funds	$	7,621	18,028
Capital reserve funds		87,103	86,847
Revenue funds		48,502	50,188
		143,226	155,063
New Market Tax Credit (b)		355	433
By donors for specific operating activities and permanent endowments (c)		13,270	12,643
Total assets restricted as to use		156,851	168,139
Less current portion of assets restricted as to use		49,068	46,873
Assets restricted as to use, net of current portion	$	107,783	121,266

(Continued)

(a) Assets restricted as to use under the terms of the bond resolutions (note 7) are to provide for debt service requirements and the acquisition of capital assets. Terms of the bond resolutions provide that assets be maintained in separate funds held by the trustee. The construction funds are invested in an interest-bearing negotiable order of withdrawal (NOW) account, which is fully collateralized. The capital reserve funds are invested primarily in a ten-year U.S. Treasury note and a three-year U.S. Treasury note. Security maturity date decisions are based on the final maturity of the specific Bond series, potential need for liquidity due to refunding, and/or an assessment of the current market interest rate conditions. The majority of the revenue funds are invested in U.S. 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 semiannual debt service payments. $0.1 million and $0.2 million were uninsured and uncollateralized at June 30, 2015 and 2014, respectively. Possible exposure to fair value losses arising from interest rate volatility is limited by the of investments in securities having maturities of less than one year and at most ten years and by intending to hold the security to maturity.

The current portion is related to the 2010 Series A bonds and the 2008 Series A, B, C, D, and E bonds payable in fiscal 2016.

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

(c) The donor-restricted funds are invested in a certificate of deposit and an interest-bearing commercial checking account at June 30, 2015 and 2014. $7.0 million was invested in a fully insured certificate of deposit at June 30, 2015 and 2014; the money market account is fully collateralized by the U.S. government securities held by a custodian in the Corporation's name.

The following presents the Corporation's fair value measurements for assets restricted as to use measured at fair value on a recurring basis as of June 30, 2015 and 2014 (in thousands):

		June 30, 2015		
		Fair value	**Level 1**	**Level 2**
U.S. government obligations and securities	$	127,492	28,202	99,290
Cash and cash equivalents		15,734	15,734	—
Total	$	143,226	43,936	99,290

		June 30, 2014		
		Fair value	**Level 1**	**Level 2**
U.S. government obligations and securities	$	130,048	33,191	96,857
Cash and cash equivalents		25,015	25,015	—
Total	$	155,063	58,206	96,857

(Continued)

Included within assets restricted as to use are Certificates of Deposit (CD's) of approximately $13.6 million and $13.1 million for 2015 and 2014, respectively.

The Corporation does not have any assets or liabilities based upon Level 3 inputs.

(7) Long-Term Debt

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

		2015	2014
Bonds payable:			
2013 Series A Fixed Rate Health System Bonds – weighted average interest of 2.44%, payable in installments to 2023:			
Uninsured Bonds (a)	$	127,999	130,419
2010 Series A Fixed Rate Health System Bonds – weighted average interest of 3.89%, payable in installments to 2030:			
Uninsured Bonds (b)		474,179	505,993
2008 Series A Fixed Rate Health System Bonds – weighted average interest of 4.51%, payable in installments to 2026:			
Uninsured Bonds (c)		108,883	124,868
2008 Series B, C, D, and E Variable Rate Health System Bonds – subject to short-term liquidity arrangements, weighted average interest of 0.74% in 2015, payable in installments to 2031:			
Uninsured Bonds (d)		159,405	164,045
Total bonds payable		870,466	925,325
New York Power Authority (NYPA) financing (e)		217	844
Equipment and renovation financing (f)		135	540
Clinical bed financing (g)		518	2,291
Henry J. Carter capital lease obligation (h)		48,254	48,258
New Market Tax Credit (i)		14,700	14,700
Total long-term debt		934,290	991,958
Less current installments		51,442	50,669
Total long-term debt, net of current installments	$	882,848	941,289

(Continued)

Long-term debt activity for the years ended June 30, 2015 and 2014 was as follows (in thousands):

	June 30, 2014 balance	Additions	Reductions	June 30, 2015 balance	Amounts due within 1 year
Long-term debt:					
Bonds payable	$ 925,325	—	(54,859)	870,466	48,990
NYPA financing	844	—	(627)	217	217
Equipment and renovation financing	540	—	(405)	135	135
Clinical bed financing	2,291	—	(1,777)	514	442
Henry J. Carter capital lease obligation	48,258	—	—	48,258	1,658
New Market Tax Credit	14,700	—	—	14,700	—
	$ 991,958	—	(57,668)	934,290	51,442

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

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

(a) 2013 Series A Bonds

On March 28, 2013, the Corporation issued $112,045,000 of tax-exempt fixed rate Health System Bonds, 2013 Series A bonds (the 2013 Bonds). This issuance generated a premium of $21,422,488.

This bond issue included $112,045,000 of 3.0% to 5.0% uninsured serial bonds, due February 15, 2016 through February 15, 2023 with interest payable on February 15 and August 15.

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

The Corporation completed the current refunding of the 2003 Series A bonds and the advance refunding of the 2008 Series A bonds to reduce its total debt service payments over the next 10 years by $23,026,587 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $21,904,183, which is being amortized over the life of the 2013 Bonds.

The following table summarizes debt service requirements as of June 30, 2015 (in thousands):

	Principal	Interest	Total
Years:			
2016	$ 640	5,286	5,926
2017	690	5,267	5,957
2018	675	5,244	5,919
2019	735	5,216	5,951
2020	745	5,186	5,931
2021–2023	108,560	8,603	117,163
Total	112,045	34,802	146,847
Unamortized premium on 2013 Bonds	15,954	—	15,954
	$ 127,999	34,802	162,801

(b) 2010 Series A Bonds

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

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

The following table summarizes debt service requirements as of June 30, 2015 (in thousands):

	Principal	Interest	Total
Years:			
2016	$ 35,970	21,766	57,736
2017	37,705	19,955	57,660
2018	39,615	18,042	57,657
2019	41,565	16,067	57,632
2020	43,560	14,020	57,580
2021–2025	90,855	54,848	145,703
2026–2030	164,885	24,039	188,924
Total	454,155	168,737	622,892
Unamortized premium on 2010 Bonds	20,024	—	20,024
	$ 474,179	168,737	642,916

(c) 2008 Series A Bonds

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

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

Proceeds of the 2008 Series A Bonds and $4,359,500 in residual funds from the 2002 Series B, C, and H bonds were used (i) to finance and reimburse the Corporation for the costs of its capital improvement program of $99,367,379; (ii) to refund and defease all of the Corporation's 2002 Series B, C, and H

auction rate bonds totaling $156,750,000; (iii) to finance $2,285,938 in interest during the escrow period; (iv) to fund the Capital Reserve Fund of $22,755,766; and (v) to pay cost of issuance of $2,054,786. Proceeds used to refund and defease 2002 Series B, C, and H bonds were deposited with the bond trustee sufficient to pay the interest and principal of the refunded 2002 Series B, C, and H bonds to and including their final redemption date of September 24, 2008.

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

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

On September 4, 2008, the Corporation issued $189,000,000 of tax-exempt variable rate Health System Bonds, 2008 Series B, C, D, and E bonds (the 2008 Variable Rate Bonds). This issuance included four subseries, consisting of $50,470,000 of 2008 Series B bonds, $50,470,000 of 2008 Series C bonds, $44,030,000 of 2008 Series D bonds, and $44,030,000 of 2008 Series E bonds. The 2008 Series B and C bonds are due February 15, 2025 through February 15, 2031 and the 2008 Series D and E bonds are due February 15, 2009 through February 15, 2026. The 2008 Variable Rate Bonds are supported by irrevocable direct-pay letters of credit issued from two banks. The letter of credit fees are 0.55% per annum for 2008 Series B and C and 0.70% per annum for 2008 Series D and E. The 2008 Series B and C letters of credit will expire in September 2019 and the D and E letters of credit will expire in July 2017, unless extended by mutual agreement between the Corporation and the banks.

The Corporation maintains the bank letters of credit to ensure the availability of funds to purchase any bonds tendered by bondholders that the remarketing agents are unable to remarket to new bondholders. Draws related to such tenders under the letters of credit will become Bank Bonds. As Bank Bonds, they can still be remarketed by the remarketing agents. If not remarketed successfully as Bank Bonds, the Corporation will have the opportunity to refinance them during a period of up to 365 days from initial draw date. If the Bank Bonds are not refunded and remain outstanding exceeding 365 days from initial draw date, the Corporation will be required to make quarterly payments over four years commencing one year after the initial draw date. There were no draws under the letters of credit as of June 30, 2015.

The initial interest rates for the 2008 Variable Rate Bonds were set at 1.45%–1.50%, bearing interest at a weekly interest rate mode. However, the 2008 Variable Rate Bonds of any series may be converted by the Corporation to bear interest at either a daily interest rate, a bond interest term rate, a NRS (nonputable remarketed securities) rate, an auction rate, an index rate, or a fixed rate. The overall weighted average interest was 0.74% for 2015 and 0.81% for 2014.

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

The following table summarizes debt service requirements for all of the 2008 Series Bonds as of June 30, 2015 (in thousands). The interest payments are based on the interest rate in effect at June 30, 2015:

	Principal	Interest	Total
Years:			
2016	$ 12,380	5,403	17,783
2017	12,800	5,079	17,879
2018	13,255	4,725	17,980
2019	13,720	4,321	18,041
2020	14,300	3,833	18,133
2021–2025	84,655	10,953	95,608
2026–2030	98,710	515	99,225
2031	17,390	4	17,394
Total	267,210	34,833	302,043
Unamortized premium on 2008 Bonds	1,078	—	1,078
	$ 268,288	34,833	303,121

(e) New York Power Authority (NYPA) Financing

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

Monthly payments of principal and interest are due on the initial par amount (approximately $12.7 million) of the outstanding financing, at variable interest rates over 10 years. Variable interest rates are based on NYPA's cost of money related to its outstanding debt in the prior calendar year. NYPA adjusts the variable rate effective January 1 each year. At June 30, 2015, approximately $0.2 million was due at 0.51% interest. The effective interest rate for 2015 was approximately 0.51%. The final payment is scheduled in 2016.

The following table summarizes debt service requirements as of June 30, 2015 (in thousands). The interest payments are based on the interest rate in effect at June 30, 2015:

	Principal	Interest	Total
Year:			
2016	$ 217	—	217

(f) Equipment and Renovation Financing

In February 2005, the Corporation entered into a food service management agreement. As part of the agreement, the contractor purchased food service equipment for the Corporation and made renovations to Corporation facilities to improve food service processing. The Corporation is making monthly

payments to the contractor, at 7% interest, over periods of 3, 5, 7, and 10 years. All assets acquired under this agreement have been capitalized and the related obligation is reflected in the accompanying financial statements. The original loan amount was $17,327,803.

The following table summarizes debt service requirements as of June 30, 2015 (in thousands):

	Principal	Interest	Total
Year:			
2016	$ 135	4	139

(g) Clinical Bed Financing

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

The following table summarizes debt service requirements as of June 30, 2015 (in thousands):

	Principal	Interest	Total
Year:			
2016	$ 442	18	460
2017	76	1	77
	$ 518	19	537

(h) Henry J. Carter Capital Lease Obligation

In September 2010, the Corporation and the City of New York entered into a Memorandum of Understanding with the New York State Department of Health, the Dormitory Authority of the State of New York (DASNY), and 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 the Corporation to relinquish an aging and outdated campus, while facilitating the reorganization and downsizing of the Corporation's long-term care services consistent with the Corporation's restructuring plan.

The agreement provides for a capital lease of the existing North General Hospital building that was renovated to house long-term acute care hospital (LTACH) services. The Corporation has also acquired a parking lot on the North General campus, where a new tower building has been constructed to house skilled nursing (SNF) services. The Corporation 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 the Corporation's rent payment based on the final Medicaid capital reimbursement receipt attributable to depreciation expense for leased assets. Assets acquired under this lease agreement have been capitalized and the related obligation is reflected in the accompanying financial statements. Upon expiration of the lease, all leased property will be conveyed to HHC, upon payment of a nominal sum. The interest rate for this obligation is 3.28%.

The following table summarizes debt service requirements as of June 30, 2015 (in thousands):

		Principal	Interest	Total
Years:				
2016	$	1,658	743	2,401
2017		9,600	4,166	13,766
2018		3,217	1,165	4,382
2019		3,217	1,060	4,277
2020		3,217	954	4,171
2021–2025		16,085	3,188	19,273
2026–2029		11,260	662	11,922
Total	$	48,254	11,938	60,192

(i) New Market Tax Credit (NMTC)

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

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

The following table summarizes debt service requirements as of June 30, 2015 (in thousands):

	Principal	Interest	Total
Years:			
2016	$ —	179	179
2017	—	179	179
2018	—	179	179
2019	—	179	179
2020	324	181	505
2021–2025	2,876	790	3,666
2026–2030	3,056	609	3,665
2031–2035	3,248	418	3,666
2036–2040	3,451	214	3,665
2041–2044	1,745	27	1,772
Total	$ 14,700	2,955	17,655

(j) Equipment Financing Agreement

On July 9, 2015, the Corporation entered into a $60 million Equipment Financing Agreement (the Agreement) with JP Morgan Chase Bank for the purpose of financing medical, IT, and other equipment with useful lives ranging from 5 to 10 years. The Agreement is a drawdown loan, which allows the Corporation to make multiple draws (i.e., borrowings) up to June 30, 2016 for an aggregated not-to-exceed amount of $60 million. During this one year drawdown period, all borrowings will incur monthly interest expense based on an agreed-upon variable rate formula. The Corporation may elect to convert all outstanding loans any time up until July 1, 2016 based on an agreed-upon fixed rate formula with a final maturity no later than July 1, 2022. On July 9, 2015, the Corporation drew down $10 million at the initial interest rate of 0.9318%.

(8) Due to (from) City of New York

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

	2015	2014
FDNY EMS operations (a)	$ 177,046	140,461
Medical malpractice payable (b)	250,250	126,870
Other accrued expenses (c)	57,017	31,799
Utilities prepaid expenses (d)	(1,278)	(2,359)
Debt service (e)	298,950	153,170
Collective bargaining (f)	(77,000)	(117,000)
	$ 704,985	332,941

(Continued)

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

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

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

(d) Receivable represents final and reconciled utility costs due from The City. Estimated utilities payments made by the Corporation to The City during 2015 exceeded final and reconciled utilities bills, resulting in a prepaid expense of $1.3 million at June 30, 2015.

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

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

(9) Pension Plan

The Corporation participates in the New York City Employees Retirement System (NYCERS), which is a cost-sharing, multiple-employer public employees' retirement system. NYCERS provides defined-pension benefits to 186,000 active municipal employees and 139,400 pensioners through $63.40 billion in assets. Employees who receive permanent appointment to a competitive position and have completed six months of service are required to participate in NYCERS, and all other employees are eligible to participate in NYCERS. NYCERS provides pay-related retirement benefits, as well as death and disability benefits. Total amounts of the Corporation's employees' covered payroll for the years ended June 30, 2015 and 2014 are approximately $2.167 billion and $2.081 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.

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

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

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

The Corporation's net pension liability, deferred inflows of resources, and pension expense is calculated by the Office of the Actuary, City of New York, and includes the information for MetroPlus. At June 30, 2015 and 2014, the Corporation reported a liability of $2.833 billion and $2.521 billion, respectively, for its proportionate share of the NYCERS net pension liability. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 and rolled forward to each respective fiscal year. The Corporation's proportion for the net pension liability for each fiscal year was based on the Corporation's actual contributions to NYCERS relative to the total contributions of all participating employers for 2015 and 2014, which was 14.030% and 13.991%, respectively.

(a) Actuarial Assumptions

The total pension liability in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5%
Salary increases	In general, merit and promotion increases plus assumed general wage increase of 3.0% per annum.
Investment rate of return	7.0%, net of pension plan investment expense. Actual return for variable funds.
Cost of living adjustment	1.5% and 2.5% for various Tiers.

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

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

(b) Expected Rate of Return on Investments

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

Asset class	Target asset allocation	Arithmetic RROR by asset class	Portfolio component arithmetic RROR
U.S. public market equities	32.60%	6.60%	2.15%
International public market equities	10.00	7.00	0.70
Emerging public market equities	6.90	7.90	0.55
Private market equities	7.00	9.90	0.69
Fixed invoice (core, TIPS, HY, Opportunistic, convertibles)	33.50	2.70	0.90
Alternatives (real assets, hedge funds)	10.00	4.00	0.40
Portfolio long-term average arithmetic RROR	100.00%		5.39%

(c) Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2015 and 2014, respectively, was 7.00%. The projection of cash flow used to determine the discount rate assumed that employee contributions will be made at the rates applicable to the current Tier for each member and that employer contributions will be made based on rates determined by the Actuary. Based on those assumptions, the NYCERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and nonactive NYCERS members. Therefore, the long-term expected rate of return on NYCERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

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

	1% Decrease (6.00%)	Discount rate (7.00%)	1% Increase (8.00%)
Corporation's proportionate share of the net pension liability	$ 3.927	2.833	1.830

(d) Deferred Inflows of Resources

At June 30, 2015 and 2014, the Corporation reported $264.3 million and $723.9 million, respectively, as deferred inflows of resources mainly from the accumulated net difference between projected and actual earnings on NYCERS investments and expected and actual experience. The deferred inflows of resources at June 30, 2015 will be recognized in expense as follows (in thousands):

	Amount
Year ended June 30:	
2016	$ (133,827)
2017	(133,827)
2018	(70,336)
2019	73,650
	$ (264,340)

(e) Annual Pension Expense

The Corporation's annual pension expense for fiscal years ending 2015 and 2014, which includes contributions toward the actuarially determined accrued liability, including the information for MetroPlus, were approximately $292.0 million and $229.4 million, respectively.

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

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

The Corporation's OPEB (credit) expense of $(41.4) million, $203.5 million, and $300.0 million in 2015, 2014, and 2013 were actuarially determined in accordance with the parameters of GASB Statement No. 45; however, implicit rate subsidy credits of $13.1 million, $18 million, and $15 million reduced OPEB expenses for 2015, 2014, and 2013, respectively. The annual required contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities. The Corporation's net OPEB obligation for 2015, 2014, and 2013 is composed of the following, as calculated by the Office of the Actuary, City of New York, and includes the information for MetroPlus (in thousands):

		2015	2014	2013
Normal cost	$	227,986	241,316	244,614
Amortization of unfunded actuarial accrued liability over one year		(214,114)	(94,020)	264
Change in assumptions		(110,701)	—	—
Amortization of change in actuarial cost method over 10 years		(115,952)	(115,952)	(115,952)
Interest at 4.0%		184,480	190,195	186,031
Annual OPEB (credit) cost		(28,301)	221,539	314,957
Less Corporation payments for retired employees' healthcare benefits and implicit rate subsidy credit		119,948	120,288	113,276
Net OPEB obligation increase		(148,249)	101,251	201,681
Net OPEB obligation – beginning of year		4,824,785	4,723,534	4,521,853
Net OPEB obligation – end of year		4,676,536	4,824,785	4,723,534
Less current portion of postemployment benefits obligation, other than pension		113,268	110,062	105,180
	$	4,563,268	4,714,723	4,618,354

The $110.7 million change in assumptions in the June 30, 2014 OPEB actuarial valuation for fiscal year 2015, are due to Welfare Fund contributions and Medicare Part B premiums. Welfare Fund contributions have been updated to reflect recent contribution rates. Recently negotiated amounts including scheduled increases for fiscal years 2015 through 2018 were reflected. A three-year trended average of reported annual contribution amounts for retirees was used in previous OPEB actuarial valuations. Medicare Part B premium reimbursement amounts have been updated to reflect actual premium rates announced for calendar years through 2015, as well as a legislated change to scheduled Income-Related Monthly Adjustment Amounts (IRMAA).

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

The schedule below presents the results of OPEB valuations as of June 30, 2014 for fiscal year 2015, as of June 30, 2013 for fiscal year 2014, and as of June 30, 2012 for fiscal year 2013 (in thousands):

Actuarial valuation date	Entry age actuarial accrued liability (AAL)	Frozen entry age actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2014	$ 3,688,064	—	3,688,064	2,138,008	172.5%
June 30, 2013	3,732,883	—	3,732,883	2,105,660	177.3
June 30, 2012	3,544,019	—	3,544,019	2,083,349	170.1

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

The entry age actuarial cost method was used in the June 30, 2014 and 2013 and the frozen entry age actuarial cost method was used in the 2012 OPEB actuarial valuations as the basis for the 2015, 2014, and 2013 ARC calculations, respectively. The change in the Unfunded Actuarial Accrued Liability due to the change in actuarial cost methods is being amortized over a closed 10-year period using level dollar amortization. The portion of the Unfunded Actuarial Accrued Liability related to previous accumulated deficiencies in funding and any actuarial gains or losses due to experience are being amortized over a closed one-year period.

The actuarial assumptions include an annual healthcare cost trend rate (HCCTR). The HCCTR applied to Pre-Medicare plans was updated as of June 30, 2009 to reflect recent past experience and anticipated future experience, including the enactment of National Healthcare Reform. The HCCTR for Pre-Medicare plans assumes an initial rate of 9.0% and is gradually reduced to an ultimate rate of 5% after 8 years. The complete set of actuarial assumptions and methods used in the June 30, 2014 OPEB actuarial valuation are contained in the Report on the Tenth Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (the Tenth OPEB Report). The Tenth OPEB Report was prepared as of June 30, 2014 in accordance with GASB Statements No. 43 and 45 for the fiscal year ended June 30, 2015 by the New York City Office of the Actuary and is dated September 17, 2015.

(11) Commitments and Contingencies

(a) Reimbursement

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

Medicare provides PPS reimbursement for psychiatric units on a per diem basis, recognizing the intensity of care provided to the patients. The Corporation 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, costs related to treating a disproportionate share of indigent patients, and some physician services are reimbursed on a cost basis. Due to these adjustments and other factors, final determination of the reimbursement settlement for a given year is not known until Medicare performs its annual audit. The most recent fiscal year for Medicare cost report audit and final settlement for the Corporation hospitals ranges from 2010 to 2012.

Effective January 1, 1997, the 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, 2017. Medicaid pays for inpatient acute care services on a prospective basis using a combination of statewide and hospital specific 2010 costs per discharge adjusted to meet state budget targets and for severity of illness based on DRGs. Certain hospital specific noncomparable costs are paid as flat-rate per discharge add-ons to the DRG rate. Certain psychiatric, rehabilitation, long-term acute care, and other services are excluded from this methodology and are reimbursed on the basis of per diem rates. Effective October 2010, per diem reimbursement for inpatient psychiatric services is determined by a PPS methodology taking into account comorbidities and length of stay.

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

HCRA continues funding sources for public goods pools to finance healthcare for the uninsured; support graduate medical education; and fund initiatives in primary care. In December 2008, the State began implementing the Ambulatory Patient Groups (APGs) for outpatient reimbursement, and provides for service intensity adjusted prospective payments based on patient diagnoses and procedures groupings. The APG reimbursement methodology was effective for hospital ambulatory surgery services December 1, 2008, emergency room services effective January 1, 2009, and diagnostic and treatment center medical services effective September 1, 2009. APG payment for most chemical dependency and mental health clinic services was effective as of October 2010. APG payment for nonhospital-based chemical dependency and mental health clinic services was phased in over four years. Outpatient services for all nongovernmental payors are based on charges or negotiated rates.

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

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

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

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

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

(b) Medicare Recovery Audit Contractor Program (RAC)

Federal and state governments have implemented a variety of audit programs to review and recover potential improper payments to providers from the Medicare and Medicaid programs. In 2012, CMS resolved technical issues delaying implementation of the Medicare Recovery Audit Contractor (RAC) program at hospitals receiving Prospective Interim Payments and each of the Corporation's hospitals

has seen an increased level of activity under the RAC program. These RAC requests have focused primarily on medical necessity of inpatient admissions and hospital coding practices. In addition, the Corporation has continued to receive inquiries from other Medicare and Medicaid auditors and reviewers. The Corporation has cooperated with each of these audit requests and implemented programs to track and manage their efforts.

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

(c) 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 2024.

(d) 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. Additionally, $500 million was awarded through an Interim Access Assurance Fund (IAAF) to ensure the financial viability of critical safety net providers during the period prior to DSRIP implementation.

The IAAF, part of the DSRIP program, is a grant program authorized under the recently approved $8 billion Medicaid 1115 waiver. Its purpose is to assist safety net hospitals in severe financial distress and major public hospital systems to sustain key healthcare services as they participate with other providers to develop proposals for systems of integrated services delivery to be funded and implemented under the DSRIP. The Corporation was awarded a total of $152.4 million for IAAF and received an initial distribution, net, of $35.5 million for IAAF in 2014 and the balance of the award

during 2015. The Corporation recorded $15.5 million of grant revenue as of June 30, 2014 and $136.9 million as of June 30, 2015. In June 2015, the New York State Department of Health (NYSDOH) announced DSRIP valuation awards, which represent the total potential amount that each Performing Provider System (PPS) is eligible to earn in performance payments over the five years of the DSRIP program. OneCity Health, the HHC-led PPS received a valuation award of $1.2 billion (note 1).

As the DSRIP program requires, HHC serves as fiduciary or lead partner for a coalition of Medicaid provider and social services organizations referred to as a Performing Provider System (PPS). The HHC-led PPS is referred to as OneCity Health and the constellation of partner organizations was finalized via a NYSDOH-mandated attestation process that began in December 2014. Since April 2014, HHC has dedicated significant effort to enterprise-level and 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 PPS governance structures and the operationalization of an HHC subsidiary dedicated to DSRIP implementation and management.

OneCity Health 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 HHC has the final approval authority in its role as fiduciary of the PPS. The OneCity Health PPS Central Services Organization (CSO) is charged with supporting HHC and all PPS partners in implementing all aspects of the DSRIP program. The CSO Board comprises HHC leadership plus a minority (<25%) of outside members. Since the establishment of the CSO, the CSO team of HHC employees has advanced the planning and implementation work of the PPS by completing a complex partner readiness assessment of our over 200 partner organizations, over 1,000 sites of care and over 10,000 individual providers; 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 our PPS Executive Committee and included in our DOH-required State Implementation Plan submitted in August, 2015.

In June 2015, HHC received a DSRIP payment from NYSDOH in the amount of $333.4 million and subsequently remitted two required IGT payments to fund the nonfederal share of the DSRIP program performance payments. The first IGT payment to NYSDOH was $166.7 million and the second was for $55.6 million; both payments were made in June 2015. The net amount of these transactions, $111.1 million, was recorded as grant revenue for the fiscal year ended June 30, 2015 based on meeting the eligibility requirements.

(e) Legal Matters

There are a significant number of outstanding legal claims against the Corporation for alleged negligence, medical malpractice, and other torts, and for alleged breach of contract. Pursuant to the Agreement, the Corporation is indemnified by the City for such costs, which were $123.4 million for 2015 and $126.9 million for 2014. The Corporation records these costs when settled by The City as appropriations from The City and as other than personal services expenses in the accompanying

financial statements (note 8(b)). Accordingly, no provision has been made in the accompanying financial statements for unsettled claims, whether asserted or unasserted.

(f) Operating Leases

The Corporation leases equipment, off-site clinic space, and office space under various operating leases. Total rental expense for operating leases was approximately $40.1 million in 2015 and $38.3 million in 2014 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, 2015 (in thousands):

		Amount
Years:		
2016	$	22,192
2017		19,685
2018		19,292
2019		18,843
2020		14,741
2021–2025		59,922
Total minimum payments required	$	154,675

(12) Accounts Payable and Accrued Expenses

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

		2015	2014
Vendors payable	$	258,450	254,504
Per diem nurses payable		65,311	61,921
Accrued interest		12,870	13,773
Affiliations payable		30,206	17,435
Affiliations vacation accrual		37,493	28,318
Pollution remediation liability		10,691	21,659
Other		15,697	29,737
	$	430,718	427,347

(13) Super Storm Sandy

The Corporation has applied for public assistance through the Federal Emergency Management Agency (FEMA) to cover the costs of repairs and replacements of facilities to prestorm conditions and to make

improvements to meet codes and standards. FEMA has obligated $142 million, of which approximately $62 million was advanced and recognized as grant revenue during 2014. During 2015, the Corporation received over $33 million in reimbursement from FEMA for Sandy related expenditures, which was recorded as grant revenue.

In addition, New York City allocated $183 million in Community Development Block Grant (CDBG) funds to support operational expenses not covered by FEMA. Grant receivable for CDBG reimbursement is $372,000 at June 30, 2015 and $11 million at June 30, 2014.

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

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). These provisions were designed to increase the use of EHR technology and establish the requirements for a Medicare and Medicaid incentive payments program beginning in 2011 for eligible hospitals and providers that adopt 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, 2015 and 2014, the Corporation recognized revenue of approximately $13.3 million and $47.2 million, respectively, of HITECH incentives from the Medicare and Medicaid programs that is related to the Corporation meeting the requirements of the Meaningful Use Incentive program. The Corporation elected to recognize the revenue associated with the EHR incentive payment under the grant model and included such amounts in grants revenue in the accompanying consolidated statements of revenue, expenses, and changes in net position. The amount of the EHR incentive revenue recorded was based on the amounts received, which is subject to audit by CMS or its intermediaries and amounts recognized are subject to change.

(15) Correctional Health Services

On August 9, 2015, the Corporation, via a Memorandum of Understanding (MOU) with The City of New York, assumed from the New York City Department of Health and Mental Hygiene (DOHMH) 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 (Correctional Health Services (CHS)) with Corizon Health, Inc., Correctional Medical Associates of New York, PC, and Correctional Dental Associates of New York (collectively, "Corizon); Damian Family Care Centers, Inc. (Damian), and other smaller contracts for the duration of their terms. Included is the understanding that the Corporation will also assume the transfer of staff from DOHMH otherwise engaged in the performance of correctional health functions, together, with the transfer of all real and personal property, as used by DOHMH in its provision of correctional health services. The total fiscal year 2016 budget for CHS is $153.9 million, which is funded by the City of New York.

(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 rates volatility is limited by investing in securities with maturities of less than one year and, at most, three years, and by intending to hold the security to maturity.

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

Year	Investment type	Fair value	Investment maturities (in years)	
			Less than 1	1 to 2
2015	U.S. Treasury bills, notes, bonds, and strips	$ 249,868	93,309	156,559
2014	U.S. Treasury bills, notes, and bonds	114,406	71,396	43,010

The following presents MetroPlus fair value measurements for U.S. government securities measured at fair value on a recurring basis as of June 30, 2015 and 2014 (in thousands):

		June 30, 2015	
	Fair value	Level 1	Level 2
U.S. Treasury bills, notes, bonds, and strips	$ 249,868	19,402	230,466

		June 30, 2014	
	Fair value	Level 1	Level 2
U.S. Treasury bills, notes, and bonds	$ 114,406	21,179	93,227

MetroPlus does not have any assets or liabilities based upon Level 3 inputs.

(c) Premiums Receivable and Premium Revenue

Premiums earned are recorded in the month in which members are entitled to service. Medicaid and HIV Special Needs Plan (HIV-SNP) premiums are based upon several factors, including age, aid

category, and health status of the enrollee; and plan premium rates are risk-adjusted to reflect historical experience. In addition, Medicaid makes one-time maternity and newborn supplemental payments for the delivery of each child born to a member of MetroPlus. Medicaid, CHP, FHP, and HIV-SNP premium revenue received from the DOH represents a substantial portion of MetroPlus' premium revenue, and is subject to audit and adjustment by the DOH.

Medicare premiums are based on rates approved by CMS; premium revenue received from CMS represents a portion of MetroPlus' Medicare premium revenue. Premiums earned include Individual and Small Business Health Options Program (SHOP) Qualified Health Plan (QHP) revenue. QHP premiums are based on various plan types and coverage levels selected by the enrollee for individual and small business plans offered through the New York State Marketplace. In addition to premiums from enrolled QHP members, MetroPlus receives premium subsidies from CMS for Individual QHP members, under the Advanced Premium Tax Credit program (APTC) provided under the ACA.

Advanced premium tax credits received from CMS represent of substantial portion of MetroPlus' Qualified Health Plan premium revenue. MetroPlus also began receiving QHP Cost-Sharing Reduction (CSR) payments from CMS, which are recorded as deposit liabilities, and offset by payments to providers on behalf of the QHP member. These deposits are available to fund member deductibles, copayments, and coinsurance costs incurred by certain enrolled Individual QHP members. Receipts and payments for the CSR program are accumulated and the net amount is reported as a receivable or liability. Under the ACA, the United States Department of Health and Human Services (HHS) will initiate a settlement of the net CSR due, following the end of the coverage year.

With the implementation of the Exchange, the DOH began disenrolling FHP members from all managed care plans in New York State, at their respective annual renewal dates. MetroPlus FHP members qualifying for expanded Medicaid coverage were moved to the MetroPlus Medicaid line. MetroPlus FHP members not qualifying for Medicaid, had the option to select a QHP offered by any managed care plan in New York State. By March 2015, all MetroPlus FHP members were disenrolled from FHP.

The related costs of healthcare and claims payable for healthcare services provided to enrollees are estimated by management based on the current value of the estimated liability for claims in process, unpaid primary care capitation, and incurred but not reported claims. The Corporation estimates the amount of incurred but not reported or paid claims on an accrual basis and adjusts in future periods as required.

Premium revenue, by percentage, from members and third-party payors for the years ended June 30, 2015 and 2014 was as follows:

	2015	2014
Medicaid	81%	76%
Medicare	4	4
Child Health Plus	1	1
Family Health Plus	1	5
HIV-SNP	10	11
Qualified Health Plans	3	3
	100%	100%

(d) Assets Restricted As to Use

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

		2015	2014
MetroPlus statutory reserve investments	$	117,105	87,883

MetroPlus statutory reserve investments are required by the DOH regulations for the protection of MetroPlus enrollees, and are maintained at 5% of the healthcare services expenditures projected for the calendar year 2015. The statutory reserve is calculated in accordance with the regulations.

The statutory reserve account of $117.1 million and $87.9 million at June 30, 2015 and 2014, respectively, is invested in U.S. government securities with original maturities of one year or less. The account is in the form of an escrow deposit, maintained in a trust account under a custodian arrangement approved by the NYS Department of Financial Services.

The following presents MetroPlus statutory reserve investments' fair value measurements for assets measured at fair value on a recurring basis as of June 30, 2015 and 2014:

			June 30, 2015	
		Fair value	Level 1	Level 2
U.S. government Treasury bills	$	117,105	29,205	87,900

			June 30, 2014	
		Fair value	Level 1	Level 2
U.S. government Treasury bills	$	87,883	—	87,883

MetroPlus does not have any assets or liabilities based upon Level 3 inputs.

(Continued)

(e) Change in Claims Payable

Accounts payable and accrued expenses include MetroPlus claims payable of $504.5 million and $561.7 million at June 30, 2015 and 2014, respectively. Activity in the liability for claims payable, which includes health claims and claim adjustment expenses related to health claims included in other than personal services, is summarized as follows (in thousands):

	2015	2014
Balance, July 1	$ 561,692	489,055
Less drug rebates receivable	(9,156)	(2,794)
Net balance	552,536	486,261
Incurred related to:		
Current year	2,349,090	2,130,092
Prior years	(40,448)	(3,251)
Total incurred	2,308,642	2,126,841
Paid related to:		
Current year	1,893,421	1,667,086
Prior years	482,109	393,480
Total paid	2,375,530	2,060,566
Net balance at June 30	485,648	552,536
Plus drug rebates receivable	18,885	9,156
Balance, June 30	$ 504,533	561,692

Net reserves for unpaid claims and claim adjustment expenses attributable to insured claims of prior years decreased by $40.4 million in 2015 and by $3.3 million in 2014. These changes are generally the result of ongoing analysis of recent loss development trends that include expected healthcare cost and utilization. In 2015, the changes also reflect the impact of prior year net reserves for risk programs under the ACA, including the permanent risk adjustment, temporary reinsurance, and temporary risk corridor programs.

(Continued)

(f) Risk Sharing Agreement with HHC

In July 2000, MetroPlus and HHC entered into an agreement whereby all medical risk was shifted to HHC for most Medicaid, FHP, Child Health Plus, and HHC members who select primary care physicians associated with HHC or contracted with MetroPlus based upon a percentage of the premium collected for those members (86% and 88% in risk years 2015 and 2014, respectively). HHC is also entitled to 100% of the onetime 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. This risk sharing agreement was expanded in 2011 to shift the prescription drug risk cost component for most Medicaid and FHP members from MetroPlus to HHC, for 97.5% of the prescription drug premium collected for those members. The risk sharing agreement provides for annual settlement within six months of the end of each risk period or later as mutually agreed upon.

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 HHC, the State of New York, and CMS for its business lines.

As of January 2013, MetroPlus and HHC entered into an agreement to share surpluses generated under the aggregated Medicare Part C lines of business operated by MetroPlus for each year of the agreement. Surpluses, defined as the excess of expected costs of HHC medical claims for Part C, over actual HHC medical claim costs for Part C, will be shared at the rate of one quarter to three quarter between MetroPlus and HHC, respectively. Surplus payments are only made if the MetroPlus Medicare line of business has a positive net income for the claim year. To date, there have been no surplus sharing provisions.

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

MetroPlus is required to participate in the three risk spreading programs under the Affordable Care Act: permanent risk adjustment, temporary reinsurance, and temporary risk corridors. The risk adjustment program spreads risk of adverse selection among all QHP plans within the same state; the reinsurance program protects MetroPlus from unexpectedly high medical costs on individual QHP members, and under the risk corridors program. MetroPlus shares risks, associated with uncertainty in pricing during the initial years of the ACA implementation, with HHS. At June 30, 2015, MetroPlus estimated a risk adjustment liability of $52.3 million, which is included in accounts payable and accrued expenses.

(h) Operating Leases

MetroPlus leases equipment and office space under various operating leases. Total rental expense for operating leases was approximately $8.5 million in 2015 and $7.2 million in 2014 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, 2015 (in thousands):

		Amount
Years:		
2016	$	8,608
2017		8,376
2018		9,254
2019		8,755
2020		8,846
2021–2025		28,202
Total minimum payments required	$	72,041

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

Schedule of the Corporation's Contributions
NYCERS Pension Plan

(Unaudited)

June 30, 2015, 2014, and 2013

(Dollar amounts in thousands)

		2015	2014	2013
Contractually required contribution	$	443,386	435,678	426,284
Contributions in relation to the contractually required contribution		443,386	435,678	426,284
Contribution deficiency (excess)	$	—	—	—
HHC covered-employee payroll	$	2,166,797	2,081,328	2,103,054
Contributions as a percentage of covered-employee payroll		20.46%	20.93%	20.27%

See accompanying independent auditors' report.

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

Schedule of the Corporation's Proportionate Share of the Net Pension Liability
NYCERS Pension Plan

(Unaudited)

June 30, 2015, 2014, and 2013

(Dollar amounts in thousands)

	2015	2014	2013
HHC proportion of the net pension liability	14.030%	13.991%	13.991%
HHC proportionate share of the net pension liability	$ 2,832,753	2,521,076	3,228,173
HHC covered-employee payroll	2,166,797	2,081,328	2,103,054
HHC proportionate share of the net pension liability as a percentage of its covered-employee payroll	130.73%	121.13%	153.50%
Plan fiduciary net position as a percentage of the total pension liability	73.12	75.32	67.18

See accompanying independent auditors' report.

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of New York City Health and Hospitals Corporation (the Corporation), a component unit of The City of New York, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated October 15, 2015. The financial statements of MetroPlus Health Plan, Inc., a discretely presented component unit, and HHC Insurance Company, Inc., a blended component unit, were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

KPMG LLP

October 15, 2015