

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

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

June 30, 2020 and 2019

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
New York City Health and Hospitals Corporation

Report on the financial statements

We have audited the accompanying financial statements of New York City Health and Hospitals Corporation ("NYC Health + Hospitals"), a discretely presented component unit of the City of New York, and the discretely presented component unit as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprises the NYC Health + Hospitals' basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements as of and for the years ended June 30, 2020 and 2019 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 NYC Health + Hospital'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 NYC Health + Hospital's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of NYC Health + Hospitals and its discretely presented component unit as of June 30, 2020 and 2019, and the respective changes in financial position, and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 and the schedule of NYC Health + Hospitals' contributions, the schedule of NYC Health + Hospitals' proportionate share of the net pension liability and the schedule of NYC Health + Hospitals' Changes in Total OPEB Liability and Related Ratios on pages 74, 75 and 76, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2020 on our consideration of NYC Health + Hospitals' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NYC Health + Hospitals' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NYC Health + Hospitals' internal control over financial reporting and compliance.



New York, New York
October 15, 2020

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Management's Discussion and Analysis (Unaudited)
Statements of Net Position
As of June 30, 2020, 2019, and 2018
(In thousands)

| | 2020 | 2019 | 2018 |
|------------------------------------------------------------------------|-------------------------|-------------------------|-------------------------|
| | Business-type | Business-type | Business-type |
| | Activities - H+H | Activities - H+H | Activities - H+H |
| ASSETS | | | |
| Current assets | \$ 2,826,981 | \$ 2,421,163 | \$ 2,421,534 |
| Capital assets, net | 3,903,927 | 3,709,259 | 3,490,264 |
| Other assets | 156,815 | 149,146 | 134,442 |
| Total assets | <u>6,887,723</u> | <u>6,279,568</u> | <u>6,046,240</u> |
| Deferred outflows | | | |
| Deferred outflows from pension | 223,784 | 35,828 | 82,864 |
| Deferred outflows from postemployment benefits, other than pension | 783,244 | 868,440 | 180,428 |
| Unamortized refunding cost | 5,369 | 6,851 | 8,567 |
| Asset retirement obligation | 5,000 | - | - |
| LIABILITIES | | | |
| Current liabilities | 2,893,574 | 2,335,491 | 2,380,215 |
| Long-term debt, net of current installments | 634,217 | 726,552 | 792,702 |
| Other noncurrent liabilities | 381,872 | 485,084 | 582,833 |
| Pension, net of current portion | 2,273,422 | 2,027,556 | 2,090,713 |
| Postemployment benefits, other than pension, net of current portion | 5,077,724 | 5,355,472 | 5,026,936 |
| Total liabilities | <u>11,260,809</u> | <u>10,930,155</u> | <u>10,873,399</u> |
| Deferred inflows | | | |
| Deferred inflows from pension | 342,681 | 503,452 | 393,547 |
| Deferred inflows from postemployment benefits, other than pension | 1,239,560 | 1,118,514 | 589,340 |
| Net position | | | |
| Net investment in capital assets | 2,834,053 | 2,731,552 | 2,545,082 |
| Restricted | 152,770 | 150,554 | 146,104 |
| Unrestricted | (7,924,753) | (8,243,540) | (8,229,373) |
| Total net deficit position | <u>\$ (4,937,930)</u> | <u>\$ (5,361,434)</u> | <u>\$ (5,538,187)</u> |

See accompanying Management's Discussion and Analysis.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Management's Discussion and Analysis (Unaudited)
Summary of Statements of Revenue, Expenses, and Changes in Net Position
For the years ended June 30, 2020, 2019, and 2018
(In thousands)

| | 2020 | 2019 | 2018 |
|--------------------------------------------------------------------|-------------------------|-------------------------|-------------------------|
| | Business-type | Business-type | Business-type |
| | Activities - H+H | Activities - H+H | Activities - H+H |
| OPERATING REVENUES | | | |
| Net patient service revenue | \$ 6,676,714 | \$ 6,039,217 | \$ 6,216,713 |
| Appropriations from City of New York, net | 673,269 | 1,064,186 | 787,331 |
| Grants revenue | 1,499,213 | 649,597 | 651,966 |
| Other revenue | 204,242 | 143,762 | 104,981 |
| | <u>9,053,438</u> | <u>7,896,762</u> | <u>7,760,991</u> |
| OPERATING EXPENSES | | | |
| Personal services, fringes benefits, and employer payroll taxes | 3,868,998 | 3,754,009 | 3,911,188 |
| Other than personal services | 2,915,080 | 1,853,317 | 1,789,369 |
| Pension | 367,234 | 513,750 | 394,420 |
| Postemployment benefits, other than pension | 236,268 | 375,706 | 337,745 |
| Affiliation contracted services | 1,232,026 | 1,160,986 | 1,076,202 |
| Depreciation | 385,375 | 328,993 | 309,574 |
| | <u>9,004,981</u> | <u>7,986,761</u> | <u>7,818,498</u> |
| Operating income (loss) | 48,457 | (89,999) | (57,507) |
| Nonoperating expenses, net | <u>(85,413)</u> | <u>(108,584)</u> | <u>(113,347)</u> |
| Loss before other changes in net deficit | (36,956) | (198,583) | (170,854) |
| Other changes in net deficit: | | | |
| Capital contributions | <u>460,460</u> | <u>375,336</u> | <u>210,023</u> |
| Increase (decrease) in net position | 423,504 | 176,753 | 39,169 |
| Net deficit position at beginning of year | <u>(5,361,434)</u> | <u>(5,538,187)</u> | <u>(5,577,356)</u> |
| Net deficit position at end of year | <u>\$ (4,937,930)</u> | <u>\$ (5,361,434)</u> | <u>\$ (5,538,187)</u> |

See accompanying 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, 2020 and 2019

This section of the New York City Health and Hospitals Corporation’s (“NYC Health + Hospitals”) annual financial report presents Management’s Discussion and Analysis (“MD&A”) of the financial performance during the years ended June 30, 2020 and 2019. The purpose is to provide an objective analysis of the financial activities of NYC Health + Hospitals based on currently known facts, decisions, and conditions. Please read it in conjunction with the financial statements, which follow this section.

The financial statements of MetroPlus Health Plan, Inc. (“MetroPlus”), a component unit of NYC Health + Hospitals, are presented discretely from NYC Health + Hospitals. MetroPlus issues its own financial statements within which a reader can obtain additional information not provided by the discrete presentation within this document. Consequently, the MD&A that follows focuses primarily on NYC Health + Hospitals.

Overview of the Financial Statements

This annual report consists of two parts – MD&A and the basic financial statements.

The basic financial statements include *Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, Statements of Cash Flows*, and notes to financial statements. These statements present, on a comparative basis, the financial position of NYC Health + Hospitals at June 30, 2020 and 2019, and the changes in net position and its financial activities for each of the years then ended. The *Statements of Net Position* include all of NYC Health + Hospitals’ assets, liabilities, and deferred inflows and outflows of resources in accordance with U.S. generally accepted accounting principles. The *Statements of Revenue, Expenses, and Changes in Net Position* present each year’s activities on the accrual basis of accounting, that is, when services are provided or obligations are incurred, not when cash is received or bills are paid. The financial statements also report the net position of NYC Health + Hospitals and how it has changed. Net position, or the difference between assets and liabilities and deferred inflows and deferred outflows of resources, is a way to measure the financial health of NYC Health + Hospitals. The *Statements of Cash Flows* provide relevant information about each year’s cash receipts and cash payments and classifies them as to operating, non-capital financing, capital and related financing, and investing activities. The notes to the financial statements explain information in the statements and provide more detailed data.

Overall Financial Position and Operations

NYC Health + Hospitals’ total net deficit position improved by \$423.5 million from June 30, 2019 to June 30, 2020, and improved by \$176.8 million from June 30, 2018 to June 30, 2019, as adjusted. Net investment in capital assets increased by \$102.5 million and \$186.5 million in fiscal years 2020 and 2019, respectively, due to increases in spending on the IT implementation and on-going work on Federal Emergency Management Agency (“FEMA”)-related projects. NYC Health + Hospitals’ unrestricted net deficit position decreased by \$318.8 million between June 30, 2020 and June 30, 2019 due to receipt of Coronavirus Aid, Relief, and Economic Security (“CARES”) Act funding and capital contributions made during the fiscal year. It ended fiscal year 2020 with an operating income of \$48.5 million compared with an operating loss of \$90.0 million for the year ended June 30, 2019. The net deficit position benefited from \$291.7 million in capital contributions from the City of New York (the “City”) made in fiscal years 2020 and 2019.

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June 30, 2020 and 2019

Significant financial ratios are as follows:

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|------------------------------------------------------|-------------|-------------|-------------|
| Current ratio | 0.98 | 1.04 | 1.02 |
| Quick ratio | 0.57 | 0.67 | 0.60 |
| Days of cash on hand | 28.23 | 37.15 | 36.33 |
| Net number of days of revenue in patient receivables | 78.69 | 72.78 | 65.16 |

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

Variances in Financial Statements

In this section, NYC Health + Hospitals explains the reasons for certain financial statement items with variances relating to fiscal year 2020 amounts when compared to fiscal year 2019 amounts and, where appropriate, fiscal year 2019 amounts when compared to fiscal year 2018 amounts

Statements of Net Position

Cash and cash equivalents - Decreased by \$113.2 million from June 30, 2019 to June 30, 2020 due to decreased funds received from the City of New York and various advance payments to vendors related to COVID-19. It increased by \$32.2 million from June 30, 2018 to June 30, 2019 due to increased funds from the City of New York.

Patient accounts receivable, net - Increased by \$197.0 million from fiscal year 2019 to 2020 mainly due to and increases in patient Case Mix Index (“CMI”) related to treating COVID-19 patients and increases in risk incentive pools receivables in fiscal year 2020. Patient accounts receivable, net increased by \$87.8 million from fiscal year 2018 to 2019 mainly due to an increase in risk incentive pools receivables in 2019.

Estimated third-party payor settlements, receivable - Decreased \$75.8 million and \$84.4 million in fiscal years 2020 and 2019, respectively, due to a decrease in Upper Payment Limit (“UPL”) receivables when compared to the same period during the prior fiscal year.

Estimated pools receivable - Increased by \$293.4 million from June 30, 2019 to June 30, 2020 due to an increase in Disproportionate Share Hospital (“DSH”) receivables as a result of a change in estimate for Disproportionate Share Hospital Maximum (“DSH Max”) payments. Estimated pools receivable increased from June 30, 2018 to June 30, 2019 by \$85.5 million due to a change in estimate of DSH Max.

Grants receivable - Decreased \$100.0 million from June 30, 2019 to June 20, 2020 due to a delay in the New York State Department of Health Achievement Value Scorecard associated with DSRIP. It decreased \$143.8 million primarily resulting from a newly issued New York State Department of Health Achievement Value Scorecard associated with DSRIP which decreased funding expected from June 30, 2018 to June 30, 2019.

Assets restricted as to use (current and long term) - Remained consistent from June 30, 2019 to June 30, 2020 and increased by \$14.7 million from June 30, 2018 to June 30, 2019 primarily due to new equipment financing contracts entered into during the fiscal year.

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Other current assets – Increased by \$178.2 million during fiscal 2020 when compared to fiscal 2019 due to increases in supplies as well as prepayments made to vendors related to the COVID-19 reponse. Other current assets remained consistent from June 30, 2018 to June 30, 2019.

Capital assets, net - Increased by \$194.7 million from June 30, 2019 to June 30, 2020 and by \$219.0 million from June 30, 2018 to June 30, 2019 due primarily to increases in Construction in Progress (“CIP”) for the Electronic Medical Records (“EMR”) and FEMA projects.

Deferred outflows of resources - Increased \$106.3 million from June 30, 2019 to June 30, 2020 mainly due to the increase of deferred outflows from pensions. Deferred outflows of resources are largely determined by the New York City Office of the Actuary.

Deferred inflows of resources - Decreased \$39.7 million from June 30, 2019 to June 30, 2020 mainly due to a decrease of deferred inflows from pensions and a corresponding increase of deferred inflows from postemployment benefits, other than pension. Deferred inflows of resources are determined by the New York City Office of the Actuary.

Accrued salaries, fringe benefits, payroll taxes, and accrued compensated absences (current and long-term) - Decreased by \$50.6 million from June 30, 2019 to June 30, 2020 and decreased by \$58.0 million from June 30, 2018 to June 30, 2019 because there were no additional collective bargaining agreements settled in fiscal years 2020 and 2019 versus fiscal year 2018.

Accounts payable and accrued expenses – Increased by \$263.9 million in fiscal year 2020 and \$48 million in fiscal year 2019 due to expenses associated with capital projects.

Estimated third-party payor settlements, net payable – Increased by \$19.7 million from June 30, 2019 to June 30, 2020 primarily due to a \$17.2 million decrease in Medicaid rates. It remained consistent from June 30, 2018 to June 30, 2019.

Due to/Due from the City of New York, net – Increased \$82.2 million from June 30, 2019 to June 30, 2020 primarily due to a delay in reimbursement of EMS services to the City for fiscal year 2019. It decreased \$157.2 million mainly due to a \$145.8 million payment of fiscal year 2015 debt service and continuation of timely payments during fiscal year 2019.

Long-term debt (includes current installments) – Decreased \$81.2 million during fiscal year 2020 due largely to scheduled principal payments and extinguishment of a direct borrowing. It decreased \$55.1 million in fiscal year 2019 primarily due to \$85.6 million of scheduled principal payment and \$30.0 million of new debt from the Citibank Term Loan (Note 8).

Pension (current and long-term) – Increased \$267.4 million from June 30, 2019 to June 30, 2020 primarily due changes and actual earning on pension plan investments. It decreased by \$62.7 million from June 30, 2018 to June 30, 2019 due to changes in expected and actual experience and assumptions made in the actuarial calculation such as retirement age, mortality, disability, withdrawal and salary scale, as determined by the New York City Office of the Actuary (Note 10).

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Postemployment benefits, other than pension (current and long-term) – Decreased \$196.9 million in fiscal year 2020 and increased by \$340.4 million in fiscal year 2019 due to changes in expected and actual experience and assumptions made in the actuarial calculation such as retirement age, mortality, disability, withdrawal and salary scale. The annual other post employment benefits (“OPEB”) costs are determined by the New York City Office of the Actuary (Note 11).

Changes in Components of Net Position

Net investment in capital assets - Increased by \$102.5 million in fiscal year 2020, due to the Electronic Medical Records (“EMR”), Network Refresh, and FEMA projects. It increased by \$186.5 million in fiscal years 2019 due to the EMR and FEMA projects.

Restricted - Restricted net position remained consistent from June 30, 2019 to June 30, 2020 and from June 30, 2018 to June 30, 2019.

Unrestricted - Net position activities, other than those mentioned above, resulted in a deficit decrease of \$318.8 million and a deficit increase of \$14.2 million in the unrestricted net deficit when comparing fiscal years 2020 and 2019 balances, respectively.

Capital Assets, Net and Long-Term Debt Activity

Capital Assets, Net

At June 30, 2020, NYC Health + Hospitals had capital assets, net of accumulated depreciation, of \$3.9 billion compared to \$3.7 billion at June 30, 2019 and \$3.5 billion at June 30, 2018, as shown in the table below (in thousands):

| | 2020 | 2019 | 2018 |
|--------------------------------------|---------------------|---------------------|---------------------|
| | <hr/> | <hr/> | <hr/> |
| Land and land improvements | \$ 24,863 | \$ 26,200 | \$ 27,171 |
| Buildings and leasehold improvements | 1,925,662 | 1,956,214 | 2,024,215 |
| Equipment | 1,216,197 | 1,005,379 | 828,136 |
| Construction in progress | 737,205 | 721,466 | 610,742 |
| | <hr/> | <hr/> | <hr/> |
| Total | <u>\$ 3,903,927</u> | <u>\$ 3,709,259</u> | <u>\$ 3,490,264</u> |

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(A Component Unit of the City of New York)
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June 30, 2020 and 2019

2020's major capital asset additions include the following:

- NYC Health + Hospitals continued to develop an Electronic Medical Records (“EMR”) system which has two components: a Clinical budget of approximately \$764.0 million and a Revenue Cycle budget of approximately \$289.1 million. Fiscal year 2020 added \$90.8 million of CIP related to this project which is inclusive of capitalizable expenditures of \$43.8 million for the Clinical portion and \$47.0 million for the Revenue Cycle portion. As of June 30, 2020, the total placed in service was \$242.3 million which consisted of \$175.6 million related to Clinical and \$66.7 million related to Revenue Cycle capital. This amount excludes the costs of capitalized in-house payroll assigned to this project.
- NYC Health + Hospitals continued to capitalize net interest costs on Transitional Finance Authority debt, City of New York General Obligation Bonds, and NYC Health + Hospitals' own bonds in fiscal year 2020. Such debt was issued to finance construction of various NYC Health + Hospitals facilities, with such debt to be paid by the City on behalf of NYC Health + Hospitals.
- NYC Health + Hospitals has a project to upgrade its system-wide network infrastructure called Network Refresh. During fiscal year 2020, \$40 million was added to the CIP total. CIP as of June 30, 2020 was \$66.6 million. It is funded through City capital in the total amount of \$160 million as of June 30, 2020.
- There were also FEMA projects at multiple facilities for priority mitigation and major work components which represented \$81.7 million of CIP in fiscal year 2020, with CIP totaling \$167.9 million as of June 30, 2020. As of 2020's fiscal year end, \$4.0 million was placed in service with an estimated cost to complete of \$1.4 billion.
- Energy efficiency upgrade projects at multiple facilities represented an addition of \$40.4 million for fiscal year 2020 in CIP with a total CIP of \$37.9 million as of June 30, 2020. These projects had a total budget of \$69.0 million estimated for completion.

2019's major capital asset additions include the following:

- NYC Health + Hospitals continued to develop an Electronic Medical Records (“EMR”) system which has two components: a Clinical budget of approximately \$764.0 million and a Revenue Cycle budget of approximately \$289.1 million. Fiscal year 2019 added \$78.5 million to CIP related to this project; which is inclusive of capitalizable expenditures of \$56.0 million for the Clinical portion and \$22.4 million for the Revenue Cycle portion. As of June 30, 2019, total capital CIP reported was \$156.1 million. This amount excludes the costs of capitalized in-house payroll assigned to this project.
- NYC Health + Hospitals continued the development of an Enterprise Resource Planning (“ERP”) system with a capital addition to CIP of \$6.9 million in fiscal year 2019 and total CIP as of June 30, 2019 of \$4.7 million. The ERP project budget assigned through fiscal year 2025, which includes post implementation expenses, is approximately \$114.9 million. This amount excludes the costs of capitalized in-house payroll and consultant costs assigned to the project.

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- NYC Health + Hospitals continued to capitalize net interest costs on TFA debt, City General Obligation Bonds, and NYC Health + Hospitals' own bonds in fiscal year 2019. Such debt was issued to finance construction of various NYC Health + Hospitals facilities, with such debt to be paid by the City on behalf of NYC Health + Hospitals. Amounts capitalized in fiscal year 2019 approximated \$14.6 million.
- There were also FEMA projects at multiple facilities for priority mitigation and major work components which represented \$70.2 million of CIP in fiscal year 2019, total CIP as of June 30, 2019 of \$95.0 million, with an estimated cost to complete of \$1.4 billion.
- Energy efficiency upgrade projects at multiple facilities represented a CIP of \$5.9 million for fiscal year 2019, total CIP as of June 30, 2019 of \$10.3 million, and had a total budget of \$93.0 million estimated for completion.

2018's major capital asset additions include the following:

- NYC Health + Hospitals capitalized net interest costs on TFA debt and City General Obligation Bonds in both fiscal years 2018 and 2017, as well as NYC Health + Hospitals' own bonds. This debt was issued to finance construction of various NYC Health + Hospitals facilities, with such debt to be paid by the City on behalf of NYC Health + Hospitals. Amounts capitalized in fiscal years 2018 and 2017 approximated \$20.3 million and \$17.8 million, respectively. In addition, NYC Health + Hospitals capitalized net interest costs of \$0.1 million in fiscal year 2018 and \$0.3 million in fiscal year 2017 related to its 2008 and 2010 Series bonds.
- NYC Health + Hospitals continued to develop an EMR system which has two components: a Clinical budget of approximately \$764.0 million and a Revenue Cycle budget of approximately \$289.1 million. Fiscal year 2018 added \$43.1 million to CIP related to this project which is inclusive of capitalizable expenditures of \$37.2 million for the Clinical portion and \$5.9 million for the Revenue Cycle portion. Capitalized payroll additions for fiscal year 2018 were \$10.3 million. As of June 30, 2018, total capital CIP reported was \$187.1 million.
- NYC Health + Hospitals continued the development of an ERP system with a capital addition to CIP of \$2.7 million in fiscal year 2018 and total CIP as of June 30, 2018 of \$17.6 million. The ERP project budget assigned through fiscal year 2025, which includes post implementation expenses, was approximately \$114.9 million. This amount excludes the costs of capitalized in-house payroll assigned to the project.
- Energy efficiency upgrade projects at multiple facilities represented an increase in CIP of \$20.2 million for fiscal year 2018, with a total budget of \$54.0 million for completion. The Comprehensive Energy Efficiency project at Metropolitan Hospital, which was managed by NYPA, was completed and placed in service in fiscal year 2018 for \$34.1 million. Parts of the Comprehensive Energy Efficiency project at Elmhurst Hospital, which was also managed by NYPA, were completed and placed in service in both fiscal year 2017 for \$5.9 million and fiscal year 2018 for \$1.9 million.
- The major modernization construction project at Gouverneur Hospital was close to completion and was in the close-out process as of fiscal year end 2018. Approximately \$6.7 million was expended as of

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June 30, 2018 and portions of this project approximating \$29.6 million were transferred out of CIP and placed into service during fiscal year 2018.

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

NYC Health + Hospitals fiscal year 2021 capital budget projects spending of \$714.0 million, which includes acquisition of medical equipment, information technology upgrades, continued additions to the EMR system, and construction work on rehab-infrastructure projects. The 2021 capital budget is expected to be primarily financed by New York City General Obligation Bonds, CARES Act funding, Transitional Finance Authority bonds, a New York State Grant called the Capital Restructuring Financing Program, and FEMA grants.

More detailed information about NYC Health + Hospital's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2020, NYC Health + Hospitals had approximately \$739.8 million in current and long-term debt financing related to its capital assets, as shown with comparative amounts at June 30, 2019 and 2018 (in thousands):

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---------------------------------------------|-------------------|-------------------|-------------------|
| Bonds payable | \$ 574,897 | \$ 637,393 | \$ 698,027 |
| New York Power Authority (“NYPA”) financing | 40,892 | 42,647 | 44,328 |
| Equipment and renovation financing (Sodexo) | 4,165 | 5,116 | - |
| Henry J. Carter capital lease obligation | 16,632 | 25,096 | 25,095 |
| New Market Tax Credit | - | 14,700 | 14,700 |
| Key Bank CISCO leases | - | 7,155 | 14,240 |
| Oracle ERP Financing | - | - | 1,308 |
| JP Morgan Equipment financing | 24,715 | 36,683 | 48,411 |
| Revolving loan (Citibank) | 24,000 | 28,000 | - |
| Term Loan (Citibank) | 18,390 | 24,260 | 30,000 |
| CISCO Maintenance | 36,124 | - | - |
| | <u>\$ 739,815</u> | <u>\$ 821,050</u> | <u>\$ 876,109</u> |
| Total | <u>\$ 739,815</u> | <u>\$ 821,050</u> | <u>\$ 876,109</u> |

At June 30, 2020, NYC Health + Hospitals’ outstanding bonds at par were approximately \$574.9 million, with 76.2% uninsured fixed rate and 23.8% variable rate secured by letters of credit. NYC Health + Hospitals is rated Aa2, A+, and AA- by Moody’s, S&P, and Fitch, respectively. The variable rate bonds are secured by TD Bank’s and JPMorgan Chase Bank’s letters of credit. As of September 17, 2020, the Moody’s, S&P, and Fitch long-term/short-term ratings for TD Bank and JPMorgan Chase Bank are Aa2/P-1, AA-/A-1+, and AA-/F1+ and Aa1/P-1, A+/A-1, and AA/F1+, respectively. There are no statutory debt limitations that may affect NYC Health + Hospitals’ financing of planned facilities or services.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

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

Statements of Revenue, Expenses, and Changes in Net Position

Net patient service revenue - Increased by \$637.5 million during fiscal year 2020 due to additional DSH revenue of approximately \$145.0 million and increased CMI. It decreased by \$177.5 million from June 30, 2018 to June 30, 2019 due to lower third party reimbursement revenue related to DSH and UPL.

Appropriations from City of New York, net - Decreased \$390.9 million from June 30, 2019 to June 30, 2020 due to a decrease in cash received from the City. It increased \$276.9 million during fiscal year 2019 due to an increase in cash received from the City over the prior year.

Grants revenue – Increased by \$849.6 million from June 30, 2019 to June 30, 2020 primarily due to a \$1.0 billion receipt of federal government funds related to the emergency COVID-19 response funded by CARES Act offset by a decrease in DSRIP funding. It remained consistent from June 30, 2018 to June 30, 2019.

Other revenue – Increased by \$60.5 million during fiscal year 2020 due largely to increases in the 340B Drug Discount Program (“340B”). There was a \$38.8 million increase in fiscal year 2019 due largely to increases in the 340B.

Personal services – Increased by \$132.5 million in fiscal year 2020 due to increased headcount and use of overtime. Decreased by \$222.6 million from June 30, 2018 to June 30, 2019 as there were no new collective bargaining accruals in fiscal 2019 balanced with increases to the compensated absences reported.

Other-than-personal services – Increased by \$1.1 billion during fiscal year 2020 due to expenditures resulting from the COVID-19 pandemic. It increased by \$64.0 million from June 30, 2018 to June 30, 2019 due to increases in pharmaceutical expenses.

Fringe benefits and employer payroll taxes – Decreased by \$17.5 million during fiscal year 2020 due to overpayments of portions of fringe benefits during the previous fiscal year. It increased by \$65.4 million from June 30, 2018 to June 30, 2019 largely due to increases in costs related to health benefits.

Pension – Decreased by \$146.5 million as determined by the New York City Office of the Actuary. It increased by \$119.3 million from June 30, 2018 to June 30, 2019 due to a one time change in actuarial census data. Pension plan expense as of June 30, 2019 and 2018 is determined by the New York City Office of the Actuary (Note 10).

Postemployment benefits, other than pension – Decreased by \$139.4 million from June 30, 2019 to June 30, 2020 and increased by \$38.0 million from June 30, 2018 to June 30, 2019 due to changes in expected and actual experience and assumptions made in the actuarial calculation such as retirement age, mortality, disability, withdrawal and salary scale. Postemployment benefits, other than pension as of June 30, 2020 and 2019 are determined by the New York City Office of the Actuary (Note 11).

Affiliation contracted services – Increased by \$71.0 million from June 30, 2019 to June 30, 2020 due to implementation of new programs and cost of living increases. It increased by \$84.8 million from June 30, 2018 to June 30, 2019 due to increases in payroll obligations.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Management’s Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

Capital contributions funded by City of New York, net - Remained consistent from fiscal year 2019 to fiscal year 2020. It increased \$165.6 million during fiscal year 2019 due, in part, to increases for costs associated with the EMR capital project.

Capital contributions funded by grantors and donors- Increased by \$85.1 million in fiscal year 2020 due to increased FEMA mitigation spending. It remained consistent from fiscal year 2018 to fiscal year 2019.

Corporation Issues and Challenges

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

- Insufficient Medicaid and Medicare reimbursements to meet the costs of caring for low-income New Yorkers
- Potential decreases in Medicaid supplemental funding
- Shifting from a fee-for-service payment system to a managed care system which includes a value-based payment structure
- Operational and financial uncertainties due to the COVID-19 pandemic

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

Federally Qualified Health Center

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

Contacting NYC Health + Hospitals Financial Management

This financial report provides the citizens of the City, NYC Health + Hospitals’ patients, bondholders, and creditors with a general overview of NYC Health + Hospitals’ finances and operations. If you have questions about this report or need additional financial information, please contact Mr. John Ulberg, Senior Vice President/Chief Financial Officer, NYC Health + Hospitals, 160 Water Street, Room 1014, New York, New York 10038.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Statement of Net Position
As of June 30, 2020
(In thousands)

| | 2020 | | | |
|------------------------------------------------------------------------------|-----------------------------------------------|------------------------------------------------------------------|---------------------|-----------------------|
| | Business-type Activities - H+H | Discretely Presented Component Unit-MetroPlus | Eliminations | Total |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 666,563 | \$ 473,287 | \$ - | \$ 1,139,850 |
| U.S. government securities | - | 243,661 | - | 243,661 |
| Patient accounts receivable, net | 974,840 | - | (531,834) | 443,006 |
| Premiums receivable | - | 407,471 | (4,044) | 403,427 |
| Estimated third-party payor settlements, receivable | 313,000 | - | (106,400) | 206,600 |
| Estimated pools receivable | 433,600 | - | - | 433,600 |
| Grants receivable | 79,559 | 167 | - | 79,726 |
| Assets restricted as to use and required for current liabilities | 31,034 | - | - | 31,034 |
| Due from City of New York | 48,680 | - | - | 48,680 |
| Other current assets | 279,705 | 95,968 | - | 375,673 |
| Total current assets | 2,826,981 | 1,220,554 | (642,278) | 3,405,257 |
| Assets restricted as to use, net of current portion | 138,365 | 159,739 | - | 298,104 |
| U.S. government securities | - | 376,580 | - | 376,580 |
| Other receivable | - | - | - | - |
| Capital assets, net | 3,903,927 | 5,151 | - | 3,909,078 |
| Other assets | 18,450 | - | - | 18,450 |
| Total assets | 6,887,723 | 1,762,024 | (642,278) | 8,007,469 |
| Deferred outflows of resources | | | | |
| Deferred outflows from pension | 223,784 | 5,362 | - | 229,146 |
| Deferred outflows from postemployment benefits, other than pension | 783,244 | - | - | 783,244 |
| Unamortized refunding cost | 5,369 | - | - | 5,369 |
| Asset retirement obligation | 5,000 | - | - | 5,000 |
| | <u>\$ 7,905,120</u> | <u>\$ 1,767,386</u> | <u>\$ (642,278)</u> | <u>\$ 9,030,228</u> |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Current installments of long-term debt | \$ 105,598 | \$ - | \$ - | \$ 105,598 |
| Accrued salaries, fringe benefits, and payroll taxes | 593,965 | 12,434 | (4,044) | 602,355 |
| Accounts payable and accrued expenses | 915,131 | 1,035,870 | (638,234) | 1,312,767 |
| Estimated third-party payor settlements, net payable | 100,996 | - | - | 100,996 |
| Due to the City of New York, net | 431,460 | - | - | 431,460 |
| Current portion of pension | 517,556 | 12,401 | - | 529,957 |
| Current portion of postemployment benefits, other than pension | 228,868 | 5,484 | - | 234,352 |
| Total current liabilities | 2,893,574 | 1,066,189 | (642,278) | 3,317,485 |
| Long-term debt, net of current installments | 634,217 | - | - | 634,217 |
| Accrued compensated absences, net of current portion | 313,461 | 5,817 | - | 319,278 |
| Accrued salaries, fringe benefits, and payroll taxes, net of current portion | 68,411 | - | - | 68,411 |
| Long-term pension, net of current portion | 2,273,422 | 55,905 | - | 2,329,327 |
| Postemployment benefits, other than pension, net of current portion | 5,077,724 | 47,448 | - | 5,125,172 |
| Total liabilities | 11,260,809 | 1,175,359 | (642,278) | 11,793,890 |
| Deferred inflows of resources | | | | |
| Deferred inflows from pension | 342,681 | 5,948 | - | 348,629 |
| Deferred inflows from postemployment benefits, other than pension | 1,239,560 | 5,348 | - | 1,244,908 |
| | <u>12,843,050</u> | <u>1,186,655</u> | <u>(642,278)</u> | <u>13,387,427</u> |
| Net position | | | | |
| Net investment in capital assets | 2,834,053 | 3,772 | - | 2,837,825 |
| Restricted: | | | | |
| For debt service | 138,454 | - | - | 138,454 |
| Expendable for specific operating activities | 13,388 | - | - | 13,388 |
| Non-expendable permanent endowments | 928 | - | - | 928 |
| Contingent surplus reserve | - | 400,506 | - | 400,506 |
| Unrestricted | (7,924,753) | 176,453 | - | (7,748,300) |
| Total net deficit position | <u>\$ (4,937,930)</u> | <u>\$ 580,731</u> | <u>\$ -</u> | <u>\$ (4,357,199)</u> |

The accompanying notes are an integral part of this financial statement.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Statement of Net Position
As of June 30, 2019
(In thousands)

| | 2019 | | | |
|------------------------------------------------------------------------------|--------------------------------------|--------------------------------------------------------|---------------------|-----------------------|
| | Business-type Activities - H+H | Discretely Presented Component Unit-MetroPlus | Eliminations | Total |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 779,604 | \$ 617,030 | \$ - | \$ 1,396,634 |
| U.S. government securities | - | 296,642 | - | 296,642 |
| Patient accounts receivable, net | 777,779 | - | (387,661) | 390,118 |
| Premiums receivable | - | 157,110 | (3,919) | 153,191 |
| Estimated third-party payor settlements, receivable | 388,800 | - | (106,400) | 282,400 |
| Estimated pools receivable | 140,200 | - | - | 140,200 |
| Grants receivable | 179,545 | 388 | (5,740) | 174,193 |
| Assets restricted as to use and required for current liabilities | 31,142 | - | - | 31,142 |
| Due from City of New York | 22,563 | - | - | 22,563 |
| Other current assets | 101,530 | 93,339 | - | 194,869 |
| Total current assets | 2,421,163 | 1,164,509 | (503,720) | 3,081,952 |
| Assets restricted as to use, net of current portion | 138,485 | 155,758 | - | 294,243 |
| U.S. government securities | - | 266,045 | - | 266,045 |
| Other receivable | 10,661 | - | - | 10,661 |
| Capital assets, net | 3,709,259 | 6,017 | - | 3,715,276 |
| Total assets | 6,279,568 | 1,592,329 | (503,720) | 7,368,177 |
| Deferred outflows of resources | | | | |
| Deferred outflows from pension | 35,828 | 767 | - | 36,595 |
| Deferred outflows from postemployment benefits, other than pension | 868,440 | 1,774 | - | 870,214 |
| Unamortized refunding cost | 6,851 | - | - | 6,851 |
| | <u>\$ 7,190,687</u> | <u>\$ 1,594,870</u> | <u>\$ (503,720)</u> | <u>\$ 8,281,837</u> |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Current installments of long-term debt | \$ 94,498 | \$ - | \$ - | \$ 94,498 |
| Accrued salaries, fringe benefits, and payroll taxes | 541,397 | 10,742 | (3,919) | 548,220 |
| Accounts payable and accrued expenses | 651,115 | 910,500 | (499,801) | 1,061,814 |
| Estimated third-party payor settlements, net payable | 81,306 | - | - | 81,306 |
| Due to City of New York, net | 323,150 | - | - | 323,150 |
| Current portion of pension | 495,960 | 12,821 | - | 508,781 |
| Current portion of postemployment benefits, other than pension | 148,065 | 3,828 | - | 151,893 |
| Total current liabilities | 2,335,491 | 937,891 | (503,720) | 2,769,662 |
| Long-term debt, net of current installments | 726,552 | - | - | 726,552 |
| Accrued compensated absences, net of current portion | 323,229 | 6,486 | - | 329,715 |
| Accrued salaries, fringe benefits, and payroll taxes, net of current portion | 161,855 | - | - | 161,855 |
| Long-term pension, net of current portion | 2,027,556 | 49,077 | - | 2,076,633 |
| Postemployment benefits, other than pension, net of current portion | 5,355,472 | 51,739 | - | 5,407,211 |
| Total liabilities | 10,930,155 | 1,045,193 | (503,720) | 11,471,628 |
| Deferred inflows of resources | | | | |
| Deferred inflows from pension | 503,452 | 10,773 | - | 514,225 |
| Deferred inflows from postemployment benefits, other than pension | 1,118,514 | 2,285 | - | 1,120,799 |
| | <u>12,552,121</u> | <u>1,058,251</u> | <u>(503,720)</u> | <u>13,106,652</u> |
| Net position | | | | |
| Net investment in capital assets | 2,731,552 | 4,568 | - | 2,736,120 |
| Restricted: | | | | |
| For debt service | 136,238 | - | - | 136,238 |
| Expendable for specific operating activities | 13,388 | - | - | 13,388 |
| Non-expendable permanent endowments | 928 | - | - | 928 |
| Contingent surplus reserve | - | 394,462 | - | 394,462 |
| Unrestricted | (8,243,540) | 137,589 | - | (8,105,951) |
| Total net deficit position | <u>\$ (5,361,434)</u> | <u>\$ 536,619</u> | <u>\$ -</u> | <u>\$ (4,824,815)</u> |

The accompanying notes are an integral part of this financial statement.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Statement of Revenues, Expenses, and Changes in Net Position
For the year ended June 30, 2020
(In thousands)

| | 2020 | | | |
|------------------------------------------------------------|--------------------------------------|-------------------------------------------------------------|--------------------|-----------------------|
| | Business-type Activities - H+H | Discretely Presented Component Unit - MetroPlus | Eliminations | Total |
| OPERATING REVENUE | | | | |
| Net patient service revenue | \$ 6,676,714 | \$ - | \$ (904,063) | \$ 5,772,651 |
| Appropriations from City of New York, net | 673,269 | - | - | 673,269 |
| Premium revenue | - | 3,243,455 | (50,554) | 3,192,901 |
| Grants revenue | 1,499,213 | 567 | (70,600) | 1,429,180 |
| Other revenue | 204,242 | 4,088 | - | 208,330 |
| Total operating revenue | <u>9,053,438</u> | <u>3,248,110</u> | <u>(1,025,217)</u> | <u>11,276,331</u> |
| OPERATING EXPENSES | | | | |
| Personal services | 2,979,980 | 88,597 | - | 3,068,577 |
| Other than personal services | 2,915,080 | 3,092,458 | (974,663) | 5,032,875 |
| Fringe benefits and employer payroll taxes | 889,018 | 29,065 | (50,554) | 867,529 |
| Pension | 367,234 | 8,799 | - | 376,033 |
| Postemployment benefits, other than pension | 236,268 | 6,048 | - | 242,316 |
| Affiliation contracted services | 1,232,026 | - | - | 1,232,026 |
| Depreciation | 385,375 | 2,365 | - | 387,740 |
| Total operating expenses | <u>9,004,981</u> | <u>3,227,332</u> | <u>(1,025,217)</u> | <u>11,207,096</u> |
| Operating income/(loss) | <u>48,457</u> | <u>(20,778)</u> | <u>-</u> | <u>69,235</u> |
| NONOPERATING REVENUE (EXPENSES) | | | | |
| Investment income | 9,532 | 23,334 | - | 32,866 |
| Interest expense | (124,597) | - | - | (124,597) |
| Contributions restricted for specific operating activities | 29,652 | - | - | 29,652 |
| Total nonoperating (expenses) revenue, net | <u>(85,413)</u> | <u>23,334</u> | <u>-</u> | <u>(62,079)</u> |
| Loss before other changes in net position | <u>(36,956)</u> | <u>44,112</u> | <u>-</u> | <u>7,156</u> |
| OTHER CHANGES IN NET POSITION | | | | |
| Capital contributions funded by City of New York, net | 291,747 | - | - | 291,747 |
| Capital contributions funded by grantors and donors | 168,713 | - | - | 168,713 |
| Total other changes in net position | <u>460,460</u> | <u>-</u> | <u>-</u> | <u>460,460</u> |
| Increase in net position | 423,504 | 44,112 | - | 467,616 |
| Net deficit position at beginning of period | (5,361,434) | 536,619 | - | (4,824,815) |
| Net deficit position at end of period | <u>\$ (4,937,930)</u> | <u>\$ 580,731</u> | <u>\$ -</u> | <u>\$ (4,357,199)</u> |

The accompanying notes are an integral part of this financial statement.

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

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

The accompanying notes are an integral part of this financial statement.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Statements of Cash Flows
For the years ended June 30, 2020 and 2019
(In thousands)

| | 2020 | 2019 |
|--------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| | Business-type | Business-type |
| | Activities - | Activities - |
| | H+H | H+H |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from patients and third-party payors | \$ 6,271,661 | \$ 5,961,424 |
| Cash appropriations received from City of New York | 575,022 | 972,506 |
| Cash appropriations remitted to City of New York | (164,419) | - |
| Receipts from grants | 1,561,614 | 829,872 |
| Other receipts | 200,395 | 144,016 |
| Cash paid for personal services, fringe benefits, employer payroll taxes, and postemployment benefits obligation, other than pension | (4,032,421) | (3,926,857) |
| Cash paid for pension | (493,792) | (515,454) |
| Cash paid for other than personal services | (2,557,133) | (2,047,703) |
| Cash paid for affiliation contracted services | (1,238,286) | (1,153,425) |
| Net cash provided by operating activities | <u>122,641</u> | <u>264,379</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY | | |
| Proceeds from contributions restricted for specific operating activities | <u>29,652</u> | <u>501</u> |
| Net cash provided by noncapital financing activity | <u>29,652</u> | <u>501</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchase of capital assets | (537,486) | (488,959) |
| Capital contributions by grantors and donors | 168,713 | 83,653 |
| Capital contributions by City of New York | 232,380 | 269,120 |
| Cash paid for capital retainage | (368) | (2,005) |
| Payments of long-term debt | (104,643) | (85,562) |
| Proceeds from the issuance of long-term debt | - | 30,000 |
| Interest paid including capitalized interest | (28,983) | (35,646) |
| Net cash used in capital and related financing activities | <u>(270,387)</u> | <u>(229,399)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of assets restricted as to use | (53,696) | (98,511) |
| Proceeds from sales of assets restricted as to use | 53,924 | 83,826 |
| Interest received | 4,825 | 11,409 |
| Net cash provided by (used in) investing activities | <u>5,053</u> | <u>(3,276)</u> |
| Net (decrease) increase in cash and cash equivalents | (113,041) | 32,205 |
| Cash and cash equivalents at beginning of year | 779,604 | 747,399 |
| Cash and cash equivalents at end of year | <u>\$ 666,563</u> | <u>\$ 779,604</u> |
| Supplemental disclosure: | | |
| Change in fair value of assets restricted as to use | \$ 477 | \$ 428 |
| Capital assets included within accounts payable and accrued expenses | 43,473 | 119,638 |

The accompanying notes are an integral part of this financial statement.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Statements of Cash Flows
For the years ended June 30, 2020 and 2019
(In thousands)

| | 2020 | 2019 |
|---------------------------------------------------------------------------------------|----------------------|----------------------|
| | Business-type | Business-type |
| | Activities - | Activities - |
| | H+H | H+H |
| | <u> </u> | <u> </u> |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating income (loss) | \$ 48,457 | \$ (89,999) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation | 385,375 | 328,993 |
| Provision for bad debts | 458,848 | 453,276 |
| Changes in assets and liabilities: | | |
| Patient accounts receivable, net | (655,909) | (541,082) |
| Estimated third-party payor settlements, net | 95,490 | 85,861 |
| Estimated pools receivable | (293,400) | (85,500) |
| Grants receivable | 99,986 | 143,771 |
| Other current assets | (196,625) | 254 |
| Accrued salaries, fringe benefits, payroll taxes, and compensated absences | (50,644) | (58,037) |
| Pension | (81,265) | 94,248 |
| Accounts payable and accrued expenses | 340,181 | 669 |
| Due to City of New York | (37,150) | (249,595) |
| Postemployment benefits obligation, other than pension | 9,297 | 181,520 |
| | <u> </u> | <u> </u> |
| Net cash provided by operating activities | <u>\$ 122,641</u> | <u>\$ 264,379</u> |

The accompanying notes are an integral part of this financial statement.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

On July 1, 1970, the New York City Health and Hospitals Corporation (“NYC Health + Hospitals”), a New York State (the “State”) public benefit corporation created by Chapter 1016 of the Laws of 1969, assumed responsibility for the operation of the municipal hospital system of the City of New York (the “City”) pursuant to an agreement with the City dated June 16, 1970 (the “Agreement”). As a main element of its core mission, NYC Health + Hospitals provides to all, on behalf of the City, comprehensive medical and mental health services of the highest quality in an atmosphere of humane care, dignity, and respect, regardless of a patient’s ability to pay. NYC Health + Hospitals operates eleven acute care hospitals, five long-term care facilities, six diagnostic and treatment centers (five of those freestanding facilities), many hospital-based and neighborhood clinics, a certified home health agency, and discretely presents a related entity, MetroPlus Health Plan, Inc. (“MetroPlus”), a prepaid health services provider. During 2017, NYC Health + Hospitals realigned the delivery of care to three defined areas as follows: acute care (hospitals), post-acute care (long-term care facilities), and ambulatory care services. Prior to this realignment, all facilities were organized into six integrated networks based on proximity to one another.

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

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

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

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

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

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

- The HHC Physicians Purchasing Group, Inc. (“HHC Purchasing”), a public benefit corporation, was formed in 2003 to act as a purchasing group within the State of New York. The business of HHC Purchasing is to obtain, on behalf of its members who are employees of NYC Health + Hospitals or NYC Health + Hospitals’ affiliates, primary professional liability insurance from HHC Insurance. HHC Purchasing was registered and approved for operations by the New York State Department of Insurance on August 31, 2005. NYC Health + Hospitals is the sole voting member of HHC Purchasing.
- HHC ACO Inc. (“HHC ACO”), a New York not-for-profit corporation, was formed in June 2012 by NYC Health + Hospitals as an Accountable Care Organization (“ACO”) for purposes of applying to the federal Centers for Medicare and Medicaid Services (“CMS”) to participate in the Medicare Shared Savings Program (“MSSP”). HHC ACO was approved to participate in the MSSP as of January 1, 2013 and began operations in fiscal year 2014. CMS subsequently approved HHC ACO for renewal terms through December 31, 2024. NYC Health + Hospitals is its sole member.
- HHC Assistance Corporation (“HHCAC”), a membership not-for-profit corporation, was formed in October 2012 by NYC Health + Hospitals and is the sole corporate member. All members of HHCAC’s board of directors are officers of NYC Health + Hospitals. The HHCAC’s purpose is to perform activities that are helpful to NYC Health + Hospitals in the fulfillment of its statutory purposes. During 2012, the HHCAC facilitated NYC Health + Hospitals’ participation in a New Market Tax Credit supplementary financing transaction to be used for the construction of certain new facilities at the Harlem Hospital Center (Note 8). In 2015, HHCAC took on the function of the “Central Service Organization” in the NYC Health + Hospitals-led Participating Provider System under the New York State Department of Health’s Delivery System Reform Incentive Payment

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(“DSRIP”) program. In that capacity, HHCAC operates under the d/b/a “OneCity Health” (“OneCity Health”) and performs various functions on NYC Health + Hospitals’ behalf to advance its participation in the DSRIP program (Note 12).

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

MetroPlus’ major lines of business include Medicaid, Essential Plan, HIV Special Needs Plan (“HIV-SNP”), Child Health Plus (“CHP”), Medicare Advantage, partially capitated Managed Long-Term Care (“MLTC”), and Health and Recovery Plan (“HARP”). In addition, MetroPlus offers an Individual Qualified Health Plan (“QHP”) and a Small Business Health Options Program (“SHOP”) through the New York State of Health Plan Marketplace. Such plans are the result of the Patient Protection and Affordable Care Act (“ACA”) signed into law in March 2010.

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

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

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

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

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

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

(a) Basis of Presentation

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

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

(b) Assets Restricted as to Use and Contributions

Assets restricted as to use primarily include assets held by a trustee under bond resolutions and statutory reserve investments. Amounts required to meet current liabilities of NYC Health + Hospitals have been classified as current assets in the Statements of Net Position at June 30, 2020 and 2019. Assets restricted as to use are stated at fair value, with unrealized and realized gains and losses included in investment income.

Donor-restricted net positions are used to differentiate resources, the use of which is restricted by donors, from resources of unrestricted assets on which donors place no restrictions or that arise as a result of the operations of NYC Health + Hospitals for its stated purposes. Donor-restricted net positions represent contributions to provide healthcare services, of which \$0.9 million are held in perpetuity, as non-expendable permanent endowments, at June 30, 2020 and 2019. Resources restricted by donors for plant replacement and expansion are recognized as capital contributions and are added to the net investment in capital assets, net position balance. Resources restricted by donors for specific operating activities are reported as non-operating revenue. NYC Health + Hospitals utilizes available donor-restricted assets before utilizing unrestricted resources for expenses incurred.

(c) Charity Care

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

(d) Use of Estimates

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

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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 \$264.2 million and \$109.3 million for the years ended June 30, 2020 and 2019, respectively.

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

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

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

NYC Health + Hospitals has agreements with certain third-party payors that provide for payments at amounts different from its charges or established rates. Payment arrangements include prospectively determined rates, discounted charges, per diem payments, and value-based payment arrangements; a payment relationship in which there is a shift from a pure volume-based payment (i.e., fee for service) to an outcome-based payment where health providers are paid based on improvement of health of the patient rather than volume of services provided to the patient. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated third-party payor settlements resulting from audits, reviews, and investigations. These estimated third-party payor settlements are accrued in the period the related services are rendered and adjusted in future periods as revised information becomes known or as years are no longer subject to such audits, reviews, and investigations. Net patient service revenue was reported net of the provision for bad debts of \$458.8 million in 2020 and \$453.3 million in 2019.

The allowance for doubtful accounts is the NYC Health + Hospitals estimate of the amount of probable credit losses in its patient accounts receivable. NYC Health + Hospitals determines the allowance based on collection studies and historical write-off experience. Past-due balances are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts at June 30, 2020 and 2019 was approximately \$744.4 million and \$592.5 million, respectively.

(g) Appropriations from the City of New York, Net

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

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

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- Patient care rendered to prisoners (Note 15), uniformed City employees, and various discretely funded facility-specific programs.
- Interest on City General Obligation debt that funded NYC Health + Hospitals' capital acquisitions and interest on Dormitory Authority of the State of New York ("DASNY") debt and Transitional Finance Authority ("TFA") debt on assets acquired through lease purchase agreements, other than amounts capitalized during construction (Note 5).
- Funding for collective bargaining agreements.

Reimbursement by NYC Health + Hospitals is negotiated annually with the City. NYC Health + Hospitals has agreed to reimburse the City for the following as remittances to the City:

- Medical malpractice settlements, negligence, and other torts up to an agreed-upon amount are negotiated annually and paid by the City on behalf of NYC Health + Hospitals. In 2020 and 2019, the medical malpractice and general liability settlements paid by the City were \$96.1 million and \$118.3 million, respectively. The reimbursements to the City are recorded by NYC Health + Hospitals as a reduction of appropriations from the City. Such medical malpractice, negligence, and other torts reimbursements by NYC Health + Hospitals do not alter the indemnification by the City of NYC Health + Hospitals' malpractice settlements under the Agreement (Note 12).
- Interest and principal on debt service, which funds NYC Health + Hospitals capital acquisitions, is negotiated annually with and is paid by the City on behalf of the NYC Health + Hospitals. During 2020 and 2019, the City paid \$187.7 million and \$210.1 million of debt service, respectively, and this assumption of payments alleviated amounts owed to the City of \$187.7 million and \$210.1 million for 2020 and 2019, respectively. The debt service reimbursements to the City are recorded by NYC Health + Hospitals as a reduction of appropriations from the City.

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

(h) Capital Assets and Depreciation

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

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

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NYC Health + Hospitals is the sole beneficiary as to use of the capital assets and is responsible for their control and maintenance. Accordingly, capital assets have been capitalized in the accompanying Statements of Net Position as follows:

- (i) Assets placed in service through June 30, 1972 were recorded at an estimated cost as determined by an independent appraisal company's physical inventory and valuation of such assets as of June 30, 1972.
- (ii) Assets acquired subsequent to June 30, 1972 are recorded at cost.
- (iii) Donated equipment is recorded at acquisition value.

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

Depreciation is computed on a straight-line basis using estimated useful lives in accordance with American Hospital Association guidelines (the ranges listed below cover the potential useful life of many different types of assets within each category):

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

Capital assets under capital lease obligations are depreciated over either the lease term or the estimated useful life of the asset, whichever is shorter.

NYC Health + Hospitals evaluates long-lived assets for impairment when circumstances suggest that the service utility or the usable capacity originally expected may have significantly or unexpectedly declined. If circumstances suggest that assets may be impaired, an impairment charge is recorded on those assets based upon a method that most appropriately reflects the decline in service utility of the capital asset. No material changes to capital assets were recorded for the fiscal years ended June 30, 2020 and 2019.

(i) Custodial Funds

NYC Health + Hospitals holds funds for safekeeping, primarily cash held for the benefit of its long-term care patients, amounting to approximately \$1.7 million and \$6.5 million as of June 30, 2020 and 2019, respectively. These amounts are included in other current assets and accounts payable and accrued expenses in the accompanying Statements of Net Position.

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(j) Affiliation Contracted Services

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

The amounts due to/from the affiliates are based upon estimates of expenses, which include adjustments for patient care service modifications, and are included in accounts payable and accrued expenses (Note 13) and other current assets in the accompanying Statements of Net Position. These estimates may differ from the final determination of amounts due to/from the affiliate upon completion of the annual recalculation schedule.

(k) Supplies

Supplies are stated at the lower of cost (first-in, first-out method) or market (net realizable value) and are included within other current assets.

(l) Income Taxes

NYC Health + Hospitals and its component units qualify as governmental entities (or affiliates of a governmental entity) not subject to federal income tax by reason of the organizations being a state or political subdivision thereof, or an integral part of a state or political subdivision thereof, or an entity all of whose income is excluded from gross income for federal income tax purposes under Section 115 of the Internal Revenue Code (“IRC”) of 1986. NYC Health + Hospitals is a New York State public benefit corporation created by Chapter 1016 of the Laws of 1969 and, as such, is exempt from New York State income tax. MetroPlus is also exempt from federal and New York State income tax under Section 501(a) of the IRC, as an organization described in Section 501(c)(3). Accordingly, no provision for income taxes has been made in the accompanying financial statements.

(m) Grants Receivable

Grants receivable relate to various healthcare provision programs under contract with the State and other grantors, including amounts related to DSRIP, the Value Based Payment Quality Improvement Program (“VBP QIP”) and the Care Restructuring Enhancement Pilot (“CREP”) (Note 12). Grants receivable also include grants from the City, which are reimbursements to NYC Health + Hospitals for providing such services as mental health, child health, and HIV-AIDS services.

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(n) Net Position

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

(o) Compensated Absences

NYC Health + Hospitals' employees earn vacation and holiday days at varying rates depending on years of service and title. Generally, vacation and holiday time may accumulate up to specified maximums, depending on title. Excess vacation and holiday time are converted to sick leave. Upon resignation or retirement, employees are paid for unused vacation and holiday days, most at the rates in effect during the past three years. Most employees earn sick leave at a fixed rate; however, the rate can vary depending on years of service and the contractual terms for their title. There is no accumulation limit on sick leave. Depending on length of service and contractual terms for their title, employees separating from service are paid for sick leave at varying rates. NYC Health + Hospitals accrues for the employees' earned and accumulated vacation and sick leave, which may be used in subsequent years, and earned vacation and sick leave to be paid upon termination or retirement from future resources. These costs are included as a liability within accrued compensated absences and salaries, fringe benefits, and payroll taxes. For certain collectively bargained units, time is paid out at the current rate.

(p) Fair Value

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

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

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

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

(q) Reclassifications

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

(r) New Accounting Standards Adopted

In 2020, NYC Health + Hospitals did not adopt any new accounting standards.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, certificates of deposit ("CDs"), and all highly liquid debt instruments with original maturities of three months or less when purchased. The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturity of the investments. Custodial credit risk is the risk that, in the event of a bank failure, NYC Health + Hospitals' deposits may not be returned. NYC Health + Hospitals' policy to mitigate custodial credit risk is to collateralize all balances when permitted (i.e., collected balances). Deposits in the process of collection within the banking system are not collateralized. At June 30, 2020 and 2019, 100% of NYC Health + Hospitals cash and cash equivalents bank balances were insured or collateralized and efforts continue to cover all remaining balances, when permitted.

3. CHARITY CARE

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

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------------------------|-------------|-------------|
| Charges foregone, based on established rates | \$ 730,368 | \$ 741,298 |
| Estimated expenses incurred to provide charity care | 494,553 | 490,946 |

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

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

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

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

| | 2020 | | 2019 | |
|--------------------------------------------------------------------------------|--------------|---------|--------------|---------|
| Medicaid | \$ 1,377,361 | 20.6 % | \$ 1,368,215 | 22.7 % |
| Medicare | 818,036 | 12.3 | 627,828 | 10.4 |
| Bad debt/charity care pools | 418,108 | 6.3 | 440,315 | 7.3 |
| Disproportionate share supplemental pool (“DSH”) | 1,233,422 | 18.5 | 1,088,468 | 18.0 |
| Other third-party payors that include Medicaid and Medicare managed care | 1,971,745 | 29.4 | 1,560,496 | 25.8 |
| MetroPlus | 833,463 | 12.5 | 931,680 | 15.4 |
| Self-pay | 24,579 | 0.4 | 22,215 | 0.4 |
| | \$ 6,676,714 | 100.0 % | \$ 6,039,217 | 100.0 % |

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

| | 2020 | | 2019 | |
|---------------------------------------------------------------------------------|-------------------|----------------|-------------------|----------------|
| Medicaid | \$ 177,901 | 18.2 % | \$ 93,208 | 12.0 % |
| Medicare | 54,017 | 5.5 | 51,837 | 6.7 |
| Other third-party payors, that include Medicaid and Medicare managed care | 203,305 | 20.9 | 235,754 | 30.3 |
| MetroPlus | 531,834 | 54.6 | 387,661 | 49.8 |
| Self-pay | 7,783 | 0.8 | 9,319 | 1.2 |
| | <u>\$ 974,840</u> | <u>100.0 %</u> | <u>\$ 777,779</u> | <u>100.0 %</u> |

5. CAPITAL ASSETS

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

| | 2020 | 2019 |
|--------------------------------------|---------------------|---------------------|
| Land and land improvements | \$ 58,296 | \$ 58,251 |
| Buildings and leasehold improvements | 4,613,145 | 4,514,761 |
| Equipment | 4,406,979 | 4,013,649 |
| | 9,078,420 | 8,586,661 |
| Less: accumulated depreciation | 5,911,698 | 5,598,868 |
| | 3,166,722 | 2,987,793 |
| Construction in progress | 737,205 | 721,466 |
| Capital assets, net | <u>\$ 3,903,927</u> | <u>\$ 3,709,259</u> |

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

| | Land and Land Improvements | Buildings and Leasehold Improvements | Equipment | Construction in Progress | Total |
|-------------------------------------|-------------------------------------------|-----------------------------------------------------|---------------------|-------------------------------------|---------------------|
| June 30, 2018 balance | \$ 57,726 | \$ 4,450,202 | \$ 3,694,217 | \$ 610,742 | \$ 8,812,887 |
| Acquisitions, net of transfers | 521 | 65,895 | 377,556 | 111,204 | 555,176 |
| Sales, retirements, and adjustments | <u>4</u> | <u>(1,336)</u> | <u>(58,124)</u> | <u>(480)</u> | <u>(59,936)</u> |
| June 30, 2019 balance | 58,251 | 4,514,761 | 4,013,649 | 721,466 | 9,308,127 |
| Acquisitions, net of transfers | 257 | 101,802 | 475,734 | 16,836 | 594,629 |
| Sales, retirements, and adjustments | <u>(212)</u> | <u>4,796</u> | <u>(82,404)</u> | <u>(1,096)</u> | <u>(78,916)</u> |
| June 30, 2020 balance | <u>\$ 58,296</u> | <u>\$ 4,621,359</u> | <u>\$ 4,406,979</u> | <u>\$ 737,206</u> | <u>\$ 9,823,840</u> |

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

| | Land and Land Improvements | Buildings and Leasehold Improvements | Equipment | Total |
|-------------------------------------|-------------------------------------------|-----------------------------------------------------|---------------------|---------------------|
| June 30, 2018 balance | \$ 30,555 | \$ 2,425,987 | \$ 2,866,081 | \$ 5,322,623 |
| Depreciation expense | 1,506 | 131,566 | 195,921 | 328,993 |
| Sales, retirements, and adjustments | <u>(9)</u> | <u>994</u> | <u>(53,733)</u> | <u>(52,748)</u> |
| June 30, 2019 balance | 32,052 | 2,558,547 | 3,008,269 | 5,598,868 |
| Depreciation expense | 1,432 | 147,004 | 249,238 | 397,674 |
| Sales, retirements, and adjustments | <u>(50)</u> | <u>(9,854)</u> | <u>(66,725)</u> | <u>(76,629)</u> |
| June 30, 2020 balance | <u>\$ 33,434</u> | <u>\$ 2,695,697</u> | <u>\$ 3,190,782</u> | <u>\$ 5,919,913</u> |

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

| | <u>2020</u> | <u>2019</u> |
|------------------------------------------|------------------|------------------|
| Interest costs subject to capitalization | \$ 14,223 | \$ 14,646 |
| Interest income | <u>(1)</u> | <u>(1)</u> |
| Capitalized interest costs, net | <u>\$ 14,222</u> | <u>\$ 14,645</u> |

NYC Health + Hospitals capitalized net interest costs on TFA debt and City General Obligation Bonds in both 2020 and 2019, as well as NYC Health + Hospitals' own bonds. Such debt was issued to finance construction of various NYC Health + Hospitals facilities, with such debt to be paid by the City on behalf of NYC Health + Hospitals. Amounts capitalized in 2020 and 2019 approximated \$14.2 million and \$14.6 million, respectively.

NYC Health + Hospitals continued to develop an Electronic Medical Records system which has two components: a Clinical budget of approximately \$764.0 million and a Revenue Cycle budget of approximately \$289.1 million. Fiscal year 2020 added \$90.8 million of CIP related to this project which is inclusive of capitalizable expenditures of \$43.8 million for the Clinical portion and \$47.0 million for the Revenue Cycle portion. As of June 30, 2020, the total placed in service was \$242.3 million which consisted of \$175.6 million related to Clinical and \$66.7 million related to Revenue Cycle capital. This amount excludes the costs of capitalized in-house payroll assigned to this project.

NYC Health + Hospitals continued to capitalize net interest costs on TFA debt, City of New York General Obligation Bonds, and NYC Health + Hospitals' own bonds in fiscal year 2019. Such debt was issued to finance construction of various NYC Health + Hospitals facilities, with such debt to be paid by the City on behalf of NYC Health + Hospitals.

NYC Health + Hospitals has a project to upgrade its System-wide network infrastructure called Network Refresh. During fiscal year 2020, \$40.0 million was added to the CIP total. CIP as of June 30, 2020 was \$66.6 million. It is funded through City capital funding in the amount of \$160.0 million.

There were also Federal Emergency Management Agency ("FEMA") projects at multiple facilities for priority mitigation and major work components which represented \$81.7 million of CIP in fiscal year 2020, with CIP totaling \$167.9 million as of June 30, 2020. As of 2020's fiscal year end, \$4.0 million was placed in service with an estimated cost to complete of \$1.4 billion.

Energy efficiency upgrade projects at multiple facilities represented an addition of \$40.4 million for fiscal year 2020 in CIP with a total CIP of \$37.9 million as of June 30, 2020. These projects had a total budget of \$69.0 million estimated for completion.

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6. ASSETS RESTRICTED AS TO USE

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

| | <u>2020</u> | <u>2019</u> |
|------------------------------------------------------|-------------------|-------------------|
| Under bond resolutions ^a | | |
| Construction funds | \$ 793 | \$ 789 |
| Capital reserve funds | 88,322 | 87,631 |
| Revenue funds | 45,883 | 44,317 |
| | <u>134,998</u> | <u>132,737</u> |
| New Market Tax Credit ^b | - | 40 |
| Letters of credit ^c | 14,374 | 13,981 |
| Permanent endowments ^c | 928 | 928 |
| Equipment financing ^d | 19,099 | 21,941 |
| | <u>169,399</u> | <u>169,627</u> |
| Less: current portion of assets restricted as to use | <u>31,034</u> | <u>31,142</u> |
| Assets restricted as to use, net of current portion | <u>\$ 138,365</u> | <u>\$ 138,485</u> |

- a. Assets restricted as to use under the terms of the bond resolutions are to provide for debt service requirements and the acquisition of capital assets. Terms of the bond resolutions provide that assets be maintained in separate funds held by the trustee. The construction funds are invested in an interest-bearing negotiable order of withdrawal (“NOW”) account, which is fully collateralized. The capital reserve funds are invested primarily in a ten-year U.S. Treasury note and a two-year U.S. Treasury note. Security maturity date decisions are based on the final maturity of the specific bond series, potential need for liquidity due to refunding, and/or an assessment of the current market interest rate conditions. The majority of the revenue funds are invested in U.S. Treasury bills for the time period between one month and a maximum of twelve months. Investments are timed so that funds are available for required semi-annual debt service payments. Possible exposure to fair value losses arising from interest rate volatility is limited by investments in securities having maturities of less than one year and at most ten years and by intending to hold the security to maturity.
- b. The New Market Tax Credit (“NMTTC”) transaction required the execution of a loan agreement between NYC Health + Hospitals/NCF Sub-CDE, LLC and NYC Health + Hospitals. This agreement required NYC Health + Hospitals to fund a National Community Fund (“NCF”) Fee Reserve Account, out of which NYC Health + Hospitals payments of interest and fees associated with the loan are drawn (Note 8).
- c. As of June 30, 2020, \$7.2 million of restricted funds related to letters of credit and permanent endowments were invested in T-Bills, \$4.25 million in CDs, and \$3.9 million in collateralized checking accounts. As of June 30, 2019, \$7.2 million of restricted funds related to letters of credit were invested in T-bills, \$3.3 million in CDs, and \$3.5 million in collateralized checking accounts.
- d. The equipment financing escrow funds are mostly invested in United States Treasury Money Market Fund accounts (Note 8).

The current portion is related to the 2013 Series A bonds, 2010 Series A bonds, and the 2008 Series A, B, C, D, and E bonds debt service payable in fiscal year 2021.

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NYC Health + Hospitals categorizes its fair value measurements within the hierarchy established by generally accepted accounting principles. Level 1 inputs are quoted prices in an active market for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. NYC Health + Hospitals does not have any assets or liabilities based upon Level 3 inputs. The following presents NYC Health + Hospitals fair value measurements for assets restricted as to use measured at fair value on a recurring basis as of June 30th (in thousands):

| | June 30, 2020 | | |
|--------------------------------------------|----------------------|----------------|----------------|
| | Fair Value | Level 1 | Level 2 |
| U.S. government obligations and securities | \$ 169,399 | \$ 29,377 | \$ 140,022 |

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

Included within assets restricted as to use are T-Bills of approximately \$7.2 million for both fiscal years 2020 and 2019, CDs of approximately \$4.3 million for both fiscal years 2020 and 2019, and cash and cash equivalents of \$3.9 million and \$3.5 million for 2020 and 2019, respectively.

7. U.S. GOVERNMENT SECURITIES

U.S. government securities consist of U.S. Treasury bills, U.S. Treasury notes, and U.S. Treasury zero-coupon strips. Such securities are stated at fair value based upon Level 2 inputs, with unrealized and realized gains and losses included in investment income. Securities maturing within a year are presented as current assets. Securities presented as non-current assets mature after a year.

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

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

| Year | Investment Type | Fair Value | Investment Maturing in | |
|-------------|--------------------------------------------------|-------------------|-------------------------------|---------------|
| | | | (Years) | |
| | | | Less than 1 | 1 to 3 |
| 2020 | U.S. Treasury bills, notes, bonds and strips | \$ 620,241 | \$ 243,661 | \$ 376,580 |
| 2019 | U.S. Treasury bills, notes, bonds, and strips | 562,687 | 296,642 | 266,045 |

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8. LONG-TERM DEBT

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

| | <u>2020</u> | <u>2019</u> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| <i>Bonds Payable</i> | | |
| 2013 Series A Fixed Rate Health System Bonds – weighted average interest of 2.44%, payable in installments to 2023: | | |
| Uninsured Bonds (a) | \$ 112,582 | \$ 115,680 |
| 2010 Series A Fixed Rate Health System Bonds – average interest of 3.89%, payable in installments to 2030: | | |
| Uninsured Bonds (b) | 261,453 | 306,432 |
| 2008 Series A Fixed Rate Health System Bonds – weighted average interest of 4.51%, payable in installments to 2026: | | |
| Uninsured Bonds (c) | 66,262 | 75,501 |
| 2008 Series B, C, D, and E Variable Rate Health System Bonds – subject to short-term liquidity arrangements, weighted average interest of 1.7919% in 2020 and 2.2023% in 2019 payable in installments to 2031: | | |
| Uninsured Bonds (d) | 134,600 | 139,780 |
| Total Bonds Payable | <u>574,897</u> | <u>637,393</u> |
| <i>Direct Borrowings</i> | | |
| New Market Tax Credit (e) | - | 14,700 |
| JP Morgan Equipment Financing (f) | 24,715 | 36,683 |
| Term Loan and Revolving Loan (Citibank) (g) | 42,390 | 52,260 |
| New York Power Authority ("NYPA") financing (h) | 40,892 | 42,647 |
| Total Direct Borrowings | <u>107,997</u> | <u>146,290</u> |
| <i>Other Debt Agreements</i> | | |
| Key Bank CISCO Leases (i) | - | 7,155 |
| Equipment and renovation financing (Sodexo) (j) | 4,165 | 5,116 |
| Henry J. Carter capital lease obligation (k) | 16,632 | 25,096 |
| CISCO Maintenance Financing (i) | 36,124 | - |
| Total Other Debt Agreements | <u>56,921</u> | <u>37,367</u> |
| Total Long-Term Debt | <u>739,815</u> | <u>821,050</u> |
| Less: current installments | 105,598 | 94,498 |
| Total Long-Term Debt, net of current installments | <u>\$ 634,217</u> | <u>\$ 726,552</u> |

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Long-term debt activity for the years ended June 30, 2020, 2019, and 2018 was as follows (in thousands):

| | <u>June 30, 2019 Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2020 Balance</u> | <u>Amounts Due Within 1 year</u> |
|------------------------------------------|--------------------------------------|------------------|---------------------|--------------------------------------|------------------------------------------|
| Long-term debt: | | | | | |
| Bonds payable | \$ 637,393 | \$ - | \$ (62,496) | \$ 574,897 | \$ 61,435 |
| Direct borrowings: | | | | | |
| NYPA financing | 42,647 | - | (1,755) | 40,892 | 1,615 |
| Equipment and renovation financing | 101,214 | 48,908 | (42,728) | 107,394 | 38,257 |
| Henry J. Carter capital lease obligation | 25,096 | - | (8,464) | 16,632 | 4,291 |
| New Market Tax Credit | 14,700 | - | (14,700) | - | - |
| | <u>\$ 821,050</u> | <u>\$ 48,908</u> | <u>\$ (130,143)</u> | <u>\$ 739,815</u> | <u>\$ 105,598</u> |
| | | | | | |
| | <u>June 30, 2018 Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2019 Balance</u> | <u>Amounts Due Within 1 Year</u> |
| Long-term debt: | | | | | |
| Bonds payable | \$ 698,027 | \$ - | \$ (60,634) | \$ 637,393 | \$ 58,605 |
| Direct borrowings: | | | | | |
| NYPA financing | 44,328 | - | (1,681) | 42,647 | 1,642 |
| Equipment and renovation financing | 93,958 | 35,117 | (27,861) | 101,214 | 26,925 |
| Henry J. Carter capital lease obligation | 25,096 | - | - | 25,096 | 7,002 |
| New Market Tax Credit | 14,700 | - | - | 14,700 | 324 |
| | <u>\$ 876,109</u> | <u>\$ 35,117</u> | <u>\$ (90,176)</u> | <u>\$ 821,050</u> | <u>\$ 94,498</u> |

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Bonds

On November 19, 1992, the Board of Directors for NYC Health + Hospitals adopted the General Resolution requiring NYC Health + Hospitals to pledge substantially all reimbursement revenue, investment income, capital project, and bond proceeds accounts to HHC Capital. All of NYC Health + Hospital's Health System Bonds are secured by the pledge. The General Resolution imposes certain restrictive covenants on the issuance of additional bonds and working capital borrowing, and requires that NYC Health + Hospitals satisfy certain measures of financial performance, such as maintaining certain levels of net cash available for debt service, as defined, and certain levels of healthcare reimbursement revenue, as defined. For all bonds and direct financings, unless otherwise noted, default provisions exist for failure to make timely payments in full which, when triggered, ultimately require outstanding amounts payable on demand or repossession of items financed by lessor, if applicable. For all other debt agreements, no default terms are specified. NYC Health + Hospitals has not defaulted on any of its debt.

(a) 2013 Series A Bonds

On March 28, 2013, NYC Health + Hospitals issued \$112.1 million of tax-exempt fixed rate Health System Bonds, 2013 Series A bonds (the "2013 Bonds"). This issuance generated a premium of \$21.4 million. This bond issue included \$112.1 million of 3.0% to 5.0% uninsured serial bonds, due through February 15, 2023 with interest payable on February 15th and August 15th.

Proceeds of the 2013 Bonds and \$13.2 million in residual funds from the 2008 Series A bonds were used (i) to refund and redeem all of NYC Health + Hospitals' 2003 Series A bonds totaling \$111.8 million; (ii) to refund and defease a portion of NYC Health + Hospitals' 2008 Series A bonds totaling \$30.7 million (\$2.4 million matured in 2014 bearing interest at 4.0%, \$16.4 million matured in 2015 bearing interest at 5.0%, and \$11.8 million matured in 2015 bearing interest at 5% were refunded); and (iii) to pay the cost of issuance of \$1.1 million. Proceeds used to refund and redeem the 2003 Series A bonds were deposited with the bond trustee in an amount sufficient to pay the interest and principal of the refunded 2003 Series A bonds to and including their final redemption date of April 22, 2013. Also, proceeds used to refund and defease 2008 Series A bonds were deposited with the bond trustee sufficient to pay the interest and principal of the refunded 2008 Series A bonds to and including their final redemption date of February 15, 2015.

NYC Health + Hospitals completed the current refunding of the 2003 Series A bonds and the advance refunding of the 2008 Series A bonds to reduce its total debt service payments over the next 10 years by \$23.0 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$21.9 million, which is being amortized over the life of the 2013 Bonds.

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The following table summarizes debt service requirements as of June 30, 2020 (in thousands):

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------------|-------------------|-----------------|-------------------|
| Years | | | |
| 2021 | \$ 34,515 | \$ 4,558 | \$ 39,073 |
| 2022 | 36,195 | 2,901 | 39,096 |
| 2023 | <u>37,850</u> | <u>1,145</u> | <u>38,995</u> |
| Total | 108,560 | 8,604 | 117,164 |
| Unamortized premium on 2013 Bonds | <u>4,022</u> | - | <u>4,022</u> |
| | <u>\$ 112,582</u> | <u>\$ 8,604</u> | <u>\$ 121,186</u> |

(b) 2010 Series A Bonds

On October 26, 2010, NYC Health + Hospitals issued \$510.5 million of tax-exempt fixed rate Health System Bonds, 2010 Series A bonds (the “2010 Bonds”). This issuance generated a premium of \$49.8 million. This bond issue included \$345.6 million of 2.0% to 5.0% uninsured serial bonds, due through February 15, 2025; and a \$8.0 million of 4.125% and \$156.9 million of 5.0% uninsured term bonds due February 15, 2030 with interest payable on February 15th and August 15th of each year.

Proceeds of the 2010 Bonds were used: (i) to finance and reimburse NYC Health + Hospitals for the costs of its capital improvement program of \$199.8 million; (ii) to refund and redeem all of NYC Health + Hospitals’ 1999 Series A bonds totaling \$199.7 million; (iii) to refund and defease substantially all of NYC Health + Hospitals’ 2002 Series A bonds totaling \$142,315,000 (\$11.9 million of the 2002 Series A bonds were not refunded); (iv) to fund the Capital Reserve Fund of \$1.7 million; and (v) to pay the cost of issuance of \$3.3 million. Proceeds used to refund and redeem the 1999 Series A bonds were deposited with the bond trustee in an amount sufficient to pay the interest and principal of the refunded 1999 Series A bonds to and including their final redemption date of November 26, 2010. Also, proceeds used to refund and defease 2002 Series A bonds were deposited with the bond trustee sufficient to pay the interest and principal of the refunded 2002 Series A bonds to and including their final redemption date of February 15, 2012.

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The following table summarizes debt service requirements as of June 30, 2020 (in thousands):

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------------|-------------------|------------------|-------------------|
| Years | | | |
| 2021 | \$ 11,970 | \$ 12,452 | \$ 24,422 |
| 2022 | 12,485 | 11,875 | 24,360 |
| 2023 | 13,145 | 11,238 | 24,383 |
| 2024 | 27,560 | 10,311 | 37,871 |
| 2025 | 25,695 | 8,971 | 34,666 |
| 2026 - 2030 | <u>164,885</u> | <u>24,039</u> | <u>188,924</u> |
| Total | 255,740 | 78,886 | 334,626 |
| Unamortized premium on 2010 Bonds | <u>5,713</u> | - | <u>5,713</u> |
| | <u>\$ 261,453</u> | <u>\$ 78,886</u> | <u>\$ 340,339</u> |

(c) 2008 Series A Bonds

During fiscal 2009, NYC Health + Hospitals restructured its 2002 Series B, C, D, E, F, G, and H auction rate bonds of \$346.0 million. The related bond insurance was canceled. The auction rate bonds were refunded into uninsured fixed rate bonds (2008 Series A - \$268.9 million, of which \$152.9 million was used for refunding and the remaining \$116.0 million used for capital projects) and into variable rate bonds supported by letters of credit (2008 Series B, C, D, and E - \$189.0 million).

On August 21, 2008, NYC Health + Hospitals issued \$268,915,000 of tax-exempt fixed rate Health System Bonds, 2008 Series A bonds ("2008 Series A Bonds"). This issuance generated a premium of \$9.9 million. This bond issue included \$245,725,000 of 4.0% to 5.5% uninsured serial bonds, due through February 15, 2026; a 5% uninsured term bond of \$11.3 million due February 15, 2024; and a 5% uninsured term bond of \$11.9 million due February 15, 2025 with interest payable on February 15th and August 15th.

Proceeds of the 2008 Series A Bonds and \$4.4 million in residual funds from the 2002 Series B, C, and H bonds were used: (i) to finance and reimburse NYC Health + Hospitals for the costs of its capital improvement program of \$99.4 million; (ii) to refund and defease all of NYC Health + Hospitals' 2002 Series B, C, and H auction rate bonds totaling \$156.8 million; (iii) to finance \$2.3 million in interest during the escrow period; (iv) to fund the Capital Reserve Fund of \$22.8 million; and (v) to pay the cost of the issuance of \$2.1 million. Proceeds used to refund and defease 2002 Series B, C, and H bonds were deposited with the bond trustee sufficient to pay the interest and principal of the refunded 2002 Series B, C, and H bonds to and including their final redemption date of September 24, 2008.

On March 28, 2013, NYC Health + Hospitals refunded and defeased a portion of the 2008 Series A bonds scheduled to mature in 2014 and 2015.

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

On September 4, 2008, NYC Health + Hospitals issued \$189.0 million of tax-exempt variable rate Health System Bonds, 2008 Series B, C, D, and E bonds (the “2008 Variable Rate Bonds”). This issuance included four sub-series, consisting of \$50.5 million of 2008 Series B bonds, \$50.5 million of 2008 Series C bonds, \$44.0 million of 2008 Series D bonds, and \$44.0 million of 2008 Series E bonds. The 2008 Series B and C bonds are due February 15, 2025 through February 15, 2031 and the 2008 Series D and E bonds are due through February 15, 2026. The 2008 Variable Rate Bonds are supported by irrevocable direct-pay letters of credit issued from two banks. The 2008 Series B and C letters of credit were issued by TD Bank N.A. with expiration date on September 3, 2023 and the D and E letters of credit was issued by JPMorgan Chase Bank N.A. with expiration date on July 1, 2022.

NYC Health + Hospitals maintains letters of credit to ensure the availability of funds to purchase any bonds tendered by bondholders that the remarketing agents are unable to remarket to new bondholders. Draws related to such tenders under the letters of credit will become Bank Bonds. As Bank Bonds, they can still be remarketed by the remarketing agents. If not remarketed successfully as Bank Bonds, NYC Health + Hospitals will have the opportunity to refinance them during a period of up to 365 days from initial draw date. If the Bank Bonds are not refunded and remain outstanding exceeding 365 days from initial draw date, NYC Health + Hospitals will be required to make quarterly payments over four years commencing one year after the initial draw date. There were no draws under the letters of credit as of June 30, 2020.

The initial interest rates for the 2008 Variable Rate Bonds were set at 1.45% – 1.50%, bearing interest at a weekly interest rate mode. However, the 2008 Variable Rate Bonds of any series may be converted by NYC Health + Hospitals to bear interest at either a daily interest rate, a bond interest term rate, an NRS (nonputable remarketed securities) rate, an auction rate, an index rate, or a fixed rate. The overall weighted average interest rate was 1.79% for 2020 and 2.20% for 2019.

Proceeds of the 2008 Variable Rate Bonds and \$3.9 million in residual funds from the 2002 Series D, E, F, and G bonds were used: (i) to refund and defease all of NYC Health + Hospitals’ 2002 Series D, E, F, and G auction rate bonds totaling \$189.3 million; (ii) to finance \$3.1 million in interest during the escrow period; and (iii) to pay cost of issuance of \$626,158. Proceeds used to refund and defease 2002 Series D, E, F, and G bonds were deposited with the bond trustee sufficient to pay the interest and principal of the refunded 2002 Series D, E, F, and G bonds through their final redemption date of October 10, 2008.

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The following table summarizes debt service requirements for all of the 2008 Series Bonds as of June 30, 2020 (in thousands). The interest payments are based on the interest rate in effect at June 30, 2020:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------------|-------------------|------------------|-------------------|
| Years | | | |
| 2021 | \$ 14,950 | \$ 3,441 | \$ 18,391 |
| 2022 | 15,575 | 2,893 | 18,468 |
| 2023 | 16,275 | 2,315 | 18,590 |
| 2024 | 16,960 | 1,727 | 18,687 |
| 2025 | 20,895 | 1,141 | 22,036 |
| 2026 - 2030 | 98,710 | 804 | 99,514 |
| 2031 | 17,390 | 15 | 17,405 |
| | <u>200,755</u> | <u>12,336</u> | <u>213,091</u> |
| Total | 200,755 | 12,336 | 213,091 |
| Unamortized premium on 2008 Bonds | 107 | - | 107 |
| | <u>\$ 200,862</u> | <u>\$ 12,336</u> | <u>\$ 213,198</u> |

Direct Borrowings

(e) New Market Tax Credit

In 2012, NYC Health + Hospitals entered into a NMTC, a financing transaction, to fund construction of a new maternal postpartum unit at the Harlem Hospital Center. The transaction, structured under Section 45D of the IRC, involved a complex structure designed to meet IRC requirements.

NYC Health + Hospitals formed HHCAC to assist NYC Health + Hospitals with various financial and other matters and initially to help finance the NMTC transaction. NYC Health + Hospitals financed HHCAC with \$10.7 million, which was loaned to HHC/NCF Sub-CDE, LLC (“Sub-CDE”), a Missouri limited liability company controlled by U.S. Bancorp Community Development Corporation (“U.S. Bank”). The Sub-CDE used the funds loaned by HHCAC together with outside investors’ capital to make two loans to NYC Health + Hospitals in the amounts of approximately \$10.7 million and \$4.0 million. Both loans are at interest rates of 1.217%. The principal on the two loans is not payable, and cannot be paid, until the end of the seventh year, at which time the principal on both loans are due ratably over the remaining 23 years of their term. U.S. Bank may, however, exercise a put option to require NYC Health + Hospitals to purchase the entire equity in the Sub-CDE for \$1,000 at the end of the seventh year. The larger of the two loans, through several intermediaries, is ultimately due to HHCAC. The smaller of the two loans would also become due to NYC Health + Hospitals or a controlled entity if the put option is exercised.

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In November 2019, U.S. Bank exercised its put option. In accordance with the terms of the put, NYC Health + Hospitals acquired all of the equity in the Sub-CDE for \$1,000. Upon such acquisition, the smaller of the two loans became due by NYC Health + Hospitals to itself, effectively un-winding the transaction as originally anticipated.

(f) Equipment Financing Agreement (JPMorgan Chase Bank)

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

(g) Term Loan and Revolving Loan (Citibank)

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

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

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

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

On October 30, 2018, NYC Health + Hospitals borrowed the remaining \$30.0 million Revolving Loan to finance Community Reinvestment Act-eligible capital projects. The initial interest rate for the Revolving Loan was set at 2.20% and is to be reset weekly based on the SIFMA index plus a margin. The final maturity of the Revolving Loan is October 30, 2023. The overall average interest rate was 1.75% for 2020 and 2.23% for 2019.

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

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

(h) New York Power Authority Financing

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

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

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

The interest rates of the variable rate loans were reset in January 2020 for 2.79%. Monthly debt service for Elmhurst and Metropolitan Hospitals are \$0.116 million and \$0.124 million, respectively.

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The following table summarizes debt service requirements as of June 30, 2020 (in thousands):

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------|-------------------|-------------------|-------------------|
| Years | | | |
| 2021 | \$ 1,615 | \$ 1,027 | \$ 2,642 |
| 2022 | 1,809 | 1,073 | 2,882 |
| 2023 | 1,860 | 1,022 | 2,882 |
| 2024 | 1,913 | 969 | 2,882 |
| 2025 | 1,967 | 915 | 2,882 |
| 2026 - 2030 | 10,701 | 3,709 | 14,410 |
| 2031 - 2035 | 12,301 | 2,109 | 14,410 |
| 2036 - 2039 | 8,726 | 401 | 9,126 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | <u>\$ 40,892</u> | <u>\$ 11,225</u> | <u>\$ 52,116</u> |

Other Debt Agreements

(i) Key Bank CISCO Leasing

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

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

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

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On September 30, 2019, NYC Health + Hospitals entered into a \$48.9 million taxable lease purchase agreement (“Taxable 2”) with Key Government Finance, Inc. to purchase a Cisco SmartNet Agreement to support all of NYC Health + Hospitals’ Cisco networking equipment, including voice over internet protocol phones, wireless communication equipment, and devices. The debt for the agreement is secured by the equipment financed and the maturity date is June 30, 2022.

(j) Equipment and Renovation (Sodexo)

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

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

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

(k) Henry J. Carter Capital Lease Obligation

In September 2010, NYC Health + Hospitals and the City of New York entered into a Memorandum of Understanding (“MOU”) with the NYSDOH, DASNY, and North General Hospital, to relocate the Goldwater operations of the Coler-Goldwater Specialty Hospital and Nursing Facility to the North General Hospital campus in northern Manhattan. This relocation allowed NYC Health + Hospitals to relinquish an aging and outdated campus, while facilitating the reorganization and downsizing of NYC Health + Hospitals’ long-term care services consistent with NYC Health + Hospitals’ restructuring plan.

The MOU provides for a capital lease of the existing North General Hospital building that was renovated to house long-term acute care hospital services. NYC Health + Hospitals has also acquired a parking lot on the North General campus, where a new tower building has been constructed to house skilled nursing services. NYC Health + Hospitals renamed the site of the former North General Hospital to the Henry J. Carter site. The City financed acquisition, renovation, and construction of the Henry J. Carter campus, with supplemental funding from State grants.

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

The following table summarizes debt service requirements as of June 30, 2020 (in thousands):

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------|------------------|-----------------|------------------|
| Years | | | |
| 2021 | \$ 4,291 | \$ 1,605 | \$ 5,896 |
| 2022 | 1,476 | 383 | 1,859 |
| 2023 | 1,525 | 334 | 1,859 |
| 2024 | 1,575 | 283 | 1,858 |
| 2025 | 1,628 | 230 | 1,858 |
| 2026 - 2029 | <u>6,137</u> | <u>367</u> | <u>6,504</u> |
| Total | <u>\$ 16,632</u> | <u>\$ 3,202</u> | <u>\$ 19,834</u> |

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

On May 30, 2019, NYC Health + Hospitals issued a Guaranty to TD Bank in connection to TD Bank's issuance of an unsecured Irrevocable Standby Letter of Credit in the amount of \$1,250,000 for the benefit of the CMS on behalf of HHC ACO, a blended component unit of the NYC Health + Hospitals. The Guaranty is a continuing guaranty of payment and performance of the HHC ACO. The expiration of the letter of credit is December 31, 2021, with an annual automatic renewal and a final expiration date not exceeding December 1, 2025. As of June 30, 2020, there were no draws on the letter of credit.

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

HHC ACO is a New York accountable care organization that participates in the MSSP (Note 1). The MSSP is an alternative payment model that promotes coordinated care for Medicare fee-for-service beneficiaries by holding providers accountable for quality and cost of care. The goal of coordinated care is to ensure that patients get the right care at the right time, while avoiding unnecessary duplication of services and preventing medical errors. When an ACO succeeds both in delivering high-quality care and reducing healthcare spend, that ACO will share in the savings it achieves for the Medicare program.

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

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(m) Letter of Credit 1199

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

(n) Letter of Credit 55 Water

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

(o) Letter of Credit Captive

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

9. DUE TO THE CITY OF NEW YORK, NET

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

| | <u>2020</u> | <u>2019</u> |
|-------------------------------------------------|-------------------|-------------------|
| FDNY EMS operations ^a | \$ 375,742 | \$ 187,713 |
| Medical malpractice payable ^b | 41,114 | 109,419 |
| Other accrued expenses ^c | 14,604 | 26,018 |
| Capital contributions from the City of New York | <u>(48,680)</u> | <u>(22,563)</u> |
| | <u>\$ 382,780</u> | <u>\$ 300,587</u> |

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

^b Payable represents final malpractice balances due to the City (Note 1(g)).

^c Payable mainly represents final and reconciled fringe benefit costs.

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10. PENSION PLAN

NYC Health + Hospitals participates in the New York City Employees Retirement System (“NYCERS”) Qualified Pension Plan (“QPP”), which is a cost-sharing, multiple-employer public employees’ retirement system. NYCERS provides defined-pension benefits to 196,879 active municipal employees, 154,655 pensioners, 18,155 deferred vested, and 23,195 members who are no longer on payroll through \$77.7 billion in assets. Employees who receive permanent appointment to a competitive position and have completed six months of service are required to participate in NYCERS, and all other employees are eligible to participate in NYCERS. NYCERS provides pay-related retirement benefits, as well as death and disability benefits. Total amounts of NYC Health + Hospitals’ covered payroll for the years ended June 30, 2020 and 2019 were approximately \$2.4 billion and \$2.2 billion, respectively. NYCERS issues a financial report that includes financial statements and required supplementary information, which may be obtained by writing to NYCERS, 335 Adams Street, Brooklyn, New York 11201 or from the following website: <https://www.nycers.org/comprehensive-annual-financial-report>.

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

NYCERS QPP provides three main types of retirement benefits: service retirements, ordinary disability retirements (non-job-related disabilities), and accident disability retirements (job-related disabilities) to members who are in different “Tiers”. The members’ Tiers are determined by the date of membership in the QPP. Subject to certain conditions, members generally become fully vested as to benefits upon the completion of 5 or 10 years of service. Employees may be required to contribute a percentage of their salary to the pension plan based on their Tier, determined by their date of membership in the plan. Annual pension benefits can be calculated as a percentage of final average salary multiplied by the number of years of service and changes with the number of years of membership within the plan.

Contribution requirements of the active employees and the participating New York City agencies are established and may be amended by the NYCERS Board. Employees’ contributions are determined by their Tier and number of years of service. Statutorily required contributions (“Statutory Contributions”) to NYCERS, determined by the New York City Office of the Actuary in accordance with State statutes and City laws, are funded by the Employer within the appropriate fiscal year.

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NYC Health + Hospitals’ net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense is calculated by the Office of the Actuary, City of New York (the “Actuary”) and includes the information for MetroPlus. At June 30, 2020 and 2019, NYC Health + Hospitals reported a liability of \$2.9 billion and \$2.6 billion, respectively, for its proportionate share of the NYCERS net pension liability. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2019 and June 30, 2018, and rolled forward to each respective fiscal year. NYC Health + Hospitals’ proportion for the net pension liability for each fiscal year was based on NYC Health + Hospitals’ actual contributions to NYCERS relative to the total contributions of all participating employers for 2020 and 2019, which was 13.6% and 14.0%, respectively. NYC Health + Hospitals made contributions of \$505.6 million and \$515.5 million for 2020 and 2019, respectively.

(a) Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation, measurement date of the pension liability, was determined using the following actuarial assumptions:

| | |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| Inflation | 2.5% per annum |
| Projected 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 |
| Cost of living adjustment | 1.5% per annum for Tier 1, Tier II, Tier IV, and certain Tier III and Tier VI retirees 2.5% per annum for certain Tier II and Tier VI retirees |

Mortality tables for service, disability pensioners and beneficiaries were developed from experience studies of the Plan. 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. The most recent of these studies was performed by Bolton, Inc. and included experience through June 30, 2017. For more details, see the NYCRS “2019 Assumptions and Methods (A&M)” reports available on the Office of the Actuary’s website: <https://www1.nyc.gov/site/actuary/reports/reports.page>.

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(b) Expected Rate of Return on Investments

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

| <u>Asset class</u> | <u>Target Target Asset Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|--------------------------------------------|-----------------------------------------------|-------------------------------------------------------|
| Public Markets: | | |
| U.S. Public Market Equities | 27.0% | 7.6% |
| Developed Public Market Equities | 12.0% | 7.7% |
| Emerging Public Market Equities | 5.0% | 10.6% |
| Fixed Income | 30.5% | 3.1% |
| Private Markets (Alternative Investments): | | |
| Private Equity | 8.0% | 11.2% |
| Private Real Estate | 7.5% | 7.0% |
| Infrastructure | 4.0% | 6.8% |
| Opportunistic Fixed Income | 6.0% | 6.5% |
| | <u>100.0%</u> | |

(c) Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2020 was 7.0%. 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 is projected to be available to make all projected future benefit payments of current active and non-active NYCERS members. Therefore, the long-term expected rate of return on NYCERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|--------------------------------------------------------------------------|--------------------------------------|----------------------------------------|--------------------------------------|
| NYC Health + Hospitals' proportionate share of the net pension liability | <u>\$ 4.275</u> | <u>\$ 2.859</u> | <u>\$ 1.665</u> |

(d) Deferred Outflows and Inflows of Resources

The following are components of deferred outflows and (inflows) at June 30, 2020 and 2019 (in thousands):

| | <u>2020</u> | <u>2019</u> |
|-------------------------------------------------------------------------------------|-------------|--------------|
| Differences between projected and actual earnings on pension plan investments | \$ 113,444 | \$ (153,789) |
| Differences between expected and actual experience | 145,159 | 36,595 |
| Changes in Assumptions | (85,948) | (106,760) |
| Differences between employer contributions and proportionate share of contributions | (189,981) | (151,520) |
| Adjustment for Census Data Fix | (102,157) | (102,157) |

The deferred inflows and (outflows) of resources at June 30, 2020 will be recognized in expense as follows (in thousands):

| | <u>Amount</u> |
|----------------------------|---------------------|
| Year Ended June 30, | |
| 2021 | \$ (206,299) |
| 2022 | (7,704) |
| 2023 | 26,625 |
| 2024 | 58,403 |
| 2025 | 8,766 |
| 2026 | <u>726</u> |
| | <u>\$ (119,483)</u> |

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(e) Annual Pension Expense

NYC Health + Hospitals' annual pension expense for fiscal years ended 2020 and 2019, which includes contributions toward the actuarially determined accrued liability, including the information for MetroPlus, was approximately \$376.0 million and \$527.0 million, respectively.

11. POSTEMPLOYMENT BENEFITS, OTHER THAN PENSION

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

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

At June 30, 2019, the following employees were covered by the benefit terms:

Employees covered by benefit terms

| | |
|---------------------|---------------|
| Active | 29,835 |
| Actives Off Payroll | 6,172 |
| Deferreds | 3,316 |
| Retirees | 22,995 |
| | <hr/> |
| Total | <u>62,318</u> |

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

Contributions: NYC Health + Hospitals funds the postretirement benefits program on a pay-as-you go basis. In 2020 and 2019, NYC Health + Hospitals' contributions were \$230.8 million and \$171.6 million, respectively, which includes amounts for the implicit rate subsidy. For the years ended June 30, 2020 and 2019, the NYC Health + Hospitals' average contribution rate was 9.9 percent and 7.7 percent, respectively, of covered-employee payroll. Employees are not required to contribute to the plan.

Total OPEB Liability: NYC Health + Hospitals total OPEB liability measured at June 30, 2020 and 2019 of \$5.4 billion and \$5.6 billion, respectively, were determined by actuarial valuations as of June 30, 2019 and June 30, 2018, respectively.

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(a) Actuarial Assumptions

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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

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

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

| | 2020 Activity Total OPEB Liability | 2019 Activity Total OPEB Liability |
|---------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|
| Balances at end of prior fiscal year | <u>\$ 5,559,104</u> | <u>\$ 5,208,916</u> |
| Changes for the year | | |
| Service cost | 264,512 | 307,104 |
| Interest | 159,281 | 161,840 |
| Difference between expected and actual experience | (450,871) | 858,811 |
| Change in assumptions | 99,391 | (806,009) |
| Actual benefit payments | (230,815) | (171,558) |
| Other changes | <u>(41,078)</u> | <u>-</u> |
| Net changes | <u>(199,580)</u> | <u>350,188</u> |
| Balances at June 30, 2020 and 2019, respectively | <u><u>\$ 5,359,524</u></u> | <u><u>\$ 5,559,104</u></u> |

(c) Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2020 and 2019 was 2.66% and 2.79%, respectively, based on the Municipal Bond 20-year high grade index rate.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents NYC Health + Hospitals' total OPEB liability calculated using the discount rate of 2.66%, as well as what NYC Health + Hospitals' total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.66%) or 1 percentage point higher (3.66%) than the current rate (in millions):

| | 1% Decrease (1.66%) | Discount Rate (2.66%) | 1% Increase (3.66%) |
|----------------------------------------------|--------------------------------|----------------------------------|--------------------------------|
| NYC Health + Hospitals' total OPEB liability | <u>\$ 6,222</u> | <u>\$ 5,360</u> | <u>\$ 4,675</u> |

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

| | 1% Decrease (6.0% Decreasing to 3.5%) | Healthcare Cost Trend Rates (7.0% Decreasing to 4.5%) | 1% Increase (8.0% Decreasing to 5.5%) |
|----------------------------------------------|----------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------|
| NYC Health + Hospitals' total OPEB liability | \$ 4,511 | \$ 5,360 | \$ 6,463 |

(d) Deferred Outflows and Inflows of Resources

The following are components of deferred outflows and inflows at June 30, 2020 and 2019 (in thousands):

| | June 30, 2020 | | June 30, 2019 | |
|----------------------------------------------------|------------------------------|-----------------------------|------------------------------|-----------------------------|
| | Deferred Outflows | Deferred Inflows | Deferred Outflows | Deferred Inflows |
| Differences between expected and actual experience | \$ 641,531 | \$ 436,175 | \$ 794,375 | \$ 83,503 |
| Changes in assumptions | 141,713 | 808,733 | 75,839 | 1,037,296 |
| Net | <u>\$ 783,244</u> | <u>\$ 1,244,908</u> | <u>\$ 870,214</u> | <u>\$ 1,120,799</u> |

The net deferred outflows and (inflows) of resources at June 30, 2020 will be recognized as follows (in thousands):

| Year Ending June 30, | Amount |
|-----------------------------|---------------------|
| 2021 | \$ (140,399) |
| 2022 | (137,555) |
| 2023 | (82,508) |
| 2024 | (36,607) |
| 2025 | (54,359) |
| Thereafter | <u>(10,236)</u> |
| | <u>\$ (461,664)</u> |

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(e) Annual OPEB Expense

NYC Health + Hospitals' annual OPEB expenses for fiscal years ended 2020 and 2019, including the information for MetroPlus, were \$242.3 million and \$385.4 million, respectively. Implicit rate subsidy credits of \$3.5 million and \$30.0 million contributed to the reduction of OPEB expenses for 2020 and 2019, respectively.

12. COMMITMENTS AND CONTINGENCIES

(a) Reimbursement

NYC Health + Hospitals derives significant third-party revenue from the Medicare and Medicaid programs. Medicare reimburses most inpatient acute services on a prospectively determined rate per discharge, based on diagnosis-related groups ("DRGs") of illnesses, i.e., the Prospective Payment System ("PPS"). Long-term acute care is also reimbursed under a PPS. For outpatient services, Medicare payments are based on service groups called ambulatory payment classifications.

Medicare provides PPS reimbursement for psychiatric units on a per diem basis, recognizing the intensity of care provided to the patients. NYC Health + Hospitals also receives Medicare payments for rehabilitation services using a PPS methodology, which requires facilities to complete patient health assessments. Using these assessments, Medicare defines a case-based payment, accounting for acuity, and comorbidities.

Medicare adjusts the reimbursement rates for capital, medical education, and the costs related to treating a disproportionate share of indigent patients. Additionally, some physician services are reimbursed on a cost basis. Due to these adjustments and other factors, final determination of the reimbursement settlement for a given year is not known until Medicare performs its annual audit. Medicare cost report audits and final settlements have been completed for most NYC Health + Hospitals facilities through fiscal year 2017; two facilities have outstanding fiscal year 2017 final settlements.

Effective January 1, 1997, the New York State enacted the Healthcare Reform Act ("HCRA"), which covers Medicaid, Workers' Compensation, and No-Fault. In January 2000, the State passed HCRA 2000 extending the HCRA methodology until June 30, 2003, which has subsequently been extended several times, and is now scheduled to expire March 31, 2023.

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

Medicaid pays for inpatient acute care services on a prospective basis using a combination of Statewide and hospital-specific 2015 costs per discharge adjusted to meet State budget targets and for severity of illness based on DRGs. Certain hospital-specific non-comparable costs are paid as flat-rate-per-discharge add-ons to the DRG rate. Certain psychiatric, rehabilitation, long-term acute care, and other services are excluded from this methodology and are reimbursed on the basis of per diem rates. Per diem reimbursement for inpatient psychiatric services is determined by a PPS methodology taking into account comorbidities and length of stay.

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

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

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

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

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

(b) Risks to Supplemental Medicaid Reimbursement

As the country's largest municipal provider of safety net care to low income and uninsured patients, NYC Health + Hospitals relies heavily on a variety of supplemental safety net funding programs, to augment below cost reimbursements received from government and subsidized insurances, and to support care for the uninsured and underinsured. Chief among these is the Medicaid DSH program, from which NYC Health + Hospitals' facilities received \$1.3 billion in fiscal year 2020. These programs are subject to many laws and regulations at both the State and federal level, changes to which may result in significant implications for NYC Health + Hospitals.

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i. Federal Medicaid DSH Reductions

The ACA included reductions in Medicaid DSH funds that were originally scheduled to begin in federal fiscal year 2014, and totaled \$18.0 billion through federal fiscal year 2020. The ACA DSH cuts were premised on the expectation that growth in insurance coverage through Medicaid expansion and the new ACA offerings would reduce hospital need for DSH funds. However, since passage of the ACA, lawmakers have recognized hospitals' ongoing need for Medicaid DSH funding, by delaying or eliminating the cuts five times. The most recent DSH cut delay came via the Coronavirus Aid, Relief, and Economic Security ("CARES") Act which deferred all 2020 Medicaid DSH cuts and scheduled \$4.0 billion in Medicaid DSH cuts for the period December 1, 2020 to September, 30 2021, and \$8.0 billion annually in federal fiscal years 2022 through 2025.

NYC Health + Hospitals, along with the entire hospital industry and a broad coalition of stakeholders in the provision of care to low income patients, has advocated for further delay and ultimate repeal of the federal Medicaid DSH cuts. The coronavirus pandemic has only highlighted the urgent need to maintain and support critical safety net hospital services, and strengthened the case against Medicaid DSH cuts. It is widely anticipated that the cuts will be delayed or possibly eliminated for at least two more years.

ii. MetroPlus Enhanced Rate Pass Through

Since the State fiscal year beginning in April 2011, NYC Health + Hospitals has received supplemental revenue averaging approximately \$120.0 million per year related to an enhanced Medicaid managed care premium rate paid to MetroPlus by New York State, which was directed to be passed from the plan to NYC Health + Hospitals. As a result of changes in federal Medicaid managed care regulations, the State's ability to provide these enhanced rates to MetroPlus ended on March 1, 2019. NYC Health + Hospitals is working with New York State to implement other permissible funding opportunities that may offset this loss of revenue.

(c) Audits

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

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

The RAC program, which primarily reviews medical necessity of inpatient admissions and hospital coding practices was implemented by CMS on a demonstration basis for 2002 through 2008, and as a full program for 2009, although implementation was delayed until 2012. Subsequently, in 2013 CMS implemented a policy, known as the "Two-Midnight" rule, which establishes that hospital stays expected to span two or more midnights after the beneficiary is properly and formally admitted as an inpatient, are reasonable and necessary proper admissions for reimbursement. Related to the Two-Midnight Rule, CMS implemented a "Probe and Educate" training period beginning May 4, 2016, during which RAC audits for medical necessity were temporarily suspended until September 2016. Since the suspension has been lifted, RAC audit activities for

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NYC Health and Hospitals have continued to be minimal. NYC Health + Hospitals maintains distinct estimates of liabilities for RAC audits related to the demonstration period, and for fiscal years 2009 through 2014 for which we have received final settlement notices indicating a reopening to account for adjustments due to an issue where the claim payments on the Provider Statistical and Reimbursement report (“PS&R”) were not accounting for the RAC adjustments applicable to claims paid on a Periodic Interim Payment basis. As of June 30, 2020, all RAC liabilities for fiscal years 2009 through 2014 have been resolved. RAC liabilities for the demonstration period remain open. For fiscal years after 2014, RAC liabilities are reflected in the PS&R data used to estimate Medicare cost report final settlements, therefore no separate RAC liability estimate is developed.

ii. Disproportionate Share Hospital (“DSH”) Payment Audits

Pursuant to federal regulations, all New York State hospital recipients of DSH participate in Medicaid DSH Audits to determine the final calculation of limits on hospital-specific DSH payments. Since 2014, these audits have been conducted for each Medicaid State Plan Rate Year (“SPRY”) on an approximate three-year lag. DSH Audits have been completed through SPRY 2016; the SPRY 2017 audit is currently in progress.

(d) Budget Control Act

The Budget Control Act of 2011 (the “Budget Control Act”) mandated significant reductions and spending caps on the federal budget for fiscal years 2012 through 2021. The Budget Control Act also created a requirement for Congress to enact recommendations of a bipartisan “super committee” achieving at least \$1.2 trillion in deficit savings over a 10-year period by January 1, 2013, otherwise \$1.2 trillion of across-the-board-reductions, known as the “sequester,” would be triggered. The super committee failed to produce recommendations and after passing the American Taxpayer Relief Act to provide a two-month delay, Congress was unable to reach an agreement to avoid imposition of the sequester. As a result, Medicare reimbursement was reduced by 2% effective April 1, 2013, known as Sequestration. The Sequestration period was extended by legislation until 2029. However, sequestration was suspended for the period May 1, 2020 through December 31, 2020 by the CARES Act.

(e) Delivery System Reform Incentive Payment (“DSRIP”) Program

In April 2014, the federal government approved a New York State Medicaid waiver request to reinvest \$8.0 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.

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

OneCity Health DSRIP PPS governance structures include an Executive Committee of 15 to 18 members with expertise in fields related to the mission of OneCity, three subcommittees to the Executive Committee, and four Hub Steering Committees, for each of four OneCity Health hubs corresponding to four New York City boroughs: Bronx, Brooklyn, Queens, and Manhattan. All governance approvals are made by the Executive Committee, and NYC Health + Hospitals has the final approval authority in its role as fiduciary of the DSRIP PPS. The OneCity Health CSO is charged with supporting NYC Health + Hospitals and all DSRIP PPS partners in implementing all aspects of the DSRIP program. The CSO Board comprises NYC Health + Hospitals leadership plus a minority (<25%) of outside members. Since the establishment of the CSO, the CSO team of NYC Health + Hospitals employees has advanced the planning and implementation work of the DSRIP PPS by completing a complex partner readiness assessment of over 220 partner organizations, over 1,200 sites of care and over 12,000 individual practitioners; performing initial project planning for the eleven selected DSRIP projects; and committing to a high-level DSRIP budget and flow of funds, which was approved by the DSRIP PPS Executive Committee and included in the NYSDOH-required State Implementation Plan submitted in August 2015.

In June 2015, the NYSDOH announced DSRIP valuation awards, which represent the total potential amount that each DSRIP PPS is eligible to earn in performance payments over the five years of the DSRIP program. OneCity Health, the HHC-led DSRIP PPS received a valuation award of \$1.2 billion. Through the fiscal year ended June 30, 2019, NYC Health + Hospitals recorded DSRIP grant revenue totaling \$712.7 million, based on meeting the applicable eligibility requirements for the first three and a half years of the DSRIP program.

During 2020, NYC Health + Hospitals received \$205.1 million and remitted required intergovernmental transfer (“IGT”) payments in the amount of \$172.6 million, related to fiscal year 2019 DSRIP revenue (or second half of DSRIP year 4). NYC Health + Hospitals received additional DSRIP payments from NYSDOH in the amount of \$131.0 million after meeting the applicable eligibility requirements for the first half of DSRIP year five. NYC Health + Hospitals remitted required IGT payments in the amount of \$65.5 million to fund the non-federal share of the DSRIP program. As of June 30, 2020, an additional IGT payment required to fund the non-federal share of the DSRIP program totaling \$21.8 million had yet to be scheduled by NYSDOH, and therefore was recorded as a reduction to fiscal year 2020 grants revenue. The net amount of these transactions, \$43.7 million, was recorded as DSRIP grant revenue for the fiscal year ended June 30, 2020.

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New York State's request to continue the DSRIP program was denied by CMS and the program ended March 31, 2020.

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

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

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

During the fiscal year ended June 30, 2020, NYC Health + Hospitals received and recognized \$120.0 million as grant revenue related to meeting the reporting and performance metrics established by NYSDOH for Year 4. Agreements between NYC Health + Hospitals and NYSDOH, and the City and NYSDOH related to IGT funding for Year 5, had not been executed as of June 30, 2019. Therefore, no additional revenue for Year 5 was recorded for fiscal year 2020. It is anticipated that Year 5 agreements will be executed during fiscal year 2021.

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

CREP is a New York State initiative funded through the State's 1115 Medicaid Waiver. CREP is designed to meet programmatic goals and support the expansion of Medicaid Managed Care in two specific special need areas - Home and Community Based Behavioral Health ("HCBS") services and MLTC. Under CREP, selected public hospitals assess HCBS needs and gaps for the HARP population, and develop workforce training initiatives for both HCBS and MLTC. NYC Health + Hospitals was awarded \$432.3 million over four years beginning in April 2016.

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

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During the year ended June 30, 2020, NYC Health + Hospitals earned \$44.5 million in grants revenue related to CREP Year 4, and completed the CREPs program having earned and received the full grant award.

(h) Legal Matters

There are a significant number of outstanding legal claims against NYC Health + Hospitals for alleged negligence, medical malpractice, and other torts, and for alleged breach of contract, and are provided for in the financial statements as amounts are determined to be probable and estimatable. Pursuant to the Agreement, NYC Health + Hospitals is indemnified by the City for such costs. In fiscal years 2020 and 2019, NYC Health + Hospitals agreed to reimburse the City \$96.1 and \$118.3 million, respectively. NYC Health + Hospitals records these costs when settled by the City as appropriations from the City and as other than personal services expenses in the accompanying financial statements (Note 9). Accordingly, no provision has been made in the accompanying financial statements for unsettled claims, whether asserted or unasserted.

(i) Operating Leases

NYC Health + Hospitals leases equipment, off-site clinic space, and office space under various operating leases. Total rental expense for operating leases was approximately \$81.0 million in 2020 and \$42.0 million in 2019 and is included in other than personal services in the accompanying financial statements.

The following is a schedule, by years, of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2020 (in thousands):

| Years | <u>Amount</u> |
|---------------------------------|----------------------|
| 2021 | \$ 34,813 |
| 2022 | 34,184 |
| 2023 | 32,862 |
| 2024 | 39,758 |
| 2025 | 47,513 |
| Thereafter | <u>865,682</u> |
| Total minimum payments required | <u>\$ 1,054,812</u> |

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13. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

| | <u>2020</u> | <u>2019</u> |
|---------------------------------|-------------------|-------------------|
| Vendors payable | \$ 784,738 | \$ 519,858 |
| Accrued interest | 10,475 | 12,004 |
| Affiliations payable | 57,971 | 58,313 |
| Affiliations vacation accrual | 29,615 | 30,894 |
| Pollution remediation liability | 17,386 | 16,049 |
| Asset retirement obligation | - | 5,000 |
| Other | 14,946 | 8,997 |
| | <u>\$ 915,131</u> | <u>\$ 651,115</u> |

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

14. INCENTIVE PAYMENTS FOR MEANINGFUL USE OF ELECTRONIC HEALTH RECORDS

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

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During the years ended June 30, 2020 and 2019, NYC Health + Hospitals recognized revenue of approximately \$11.7 million and \$2.6 million, respectively, of HITECH incentives from the Medicare and Medicaid programs that are related to NYC Health + Hospitals meeting the requirements of the Meaningful Use Incentive program. NYC Health + Hospitals elected to recognize the revenue associated with the EHR incentive payment under the grant model and included such amounts in grants revenue in the accompanying Statements of Revenue, Expenses, and Changes in Net Position. EHR amounts received are subject to audit by CMS or its intermediaries and amounts recognized are subject to change.

15. CORRECTIONAL HEALTH SERVICES

On August 9, 2015, NYC Health + Hospitals, via a Memo of Understanding with the City, assumed from the New York City Department of Health and Mental Hygiene (“NYCDOHMH”) its contracts for the provision of medical, mental health, and dental services for the inmates of correctional health facilities maintained and owned by the City of New York’s Correctional Health Services, from other providers of care for the duration of their terms. Included is the understanding that NYC Health + Hospitals assumed the transfer of staff from NYCDOHMH otherwise engaged in the performance of correctional health functions, together with the transfer of all real and personal property, as used by NYCDOHMH, in its provision of correctional health services. Total expenses funded through appropriations by the City was \$237.1 million and an additional \$54.1 million was funded through grants and intra-city agreements for a total funding for the year ended June 30, 2020 of \$291.2 million. For the year ended June 30, 2019, \$237.3 million was funded through appropriations by the City with an additional \$53.3 million funded through grants and intra-city agreements for a total funding of \$290.6 million.

16. METROPLUS

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.

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. These securities are stated at fair value, with unrealized and realized gains and losses included in investment income. Securities maturing within a year are presented as current assets in the balance sheets. Securities presented as noncurrent assets mature after a year. Possible exposure to fair value losses arising from interest rate volatility is limited by investing in securities with maturities of less than one year and, at most, five years, and by intending to hold the security to maturity.

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

| <u>Year</u> | <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities</u> | |
|-------------|-----------------------------------------------------|-------------------|------------------------------|---------------|
| | | | <u>(in Years)</u> | |
| | | | <u>Less than 1</u> | <u>1 to 5</u> |
| 2020 | U.S. Treasury bills, notes, bonds, and strips | \$ 620,241 | \$ 243,012 | \$ 377,229 |
| 2019 | U.S. Treasury bills, notes, bonds, and strips | \$ 562,687 | \$ 296,642 | \$ 266,045 |

Premiums Receivable and Premium Revenue

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

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

The Essential Plan covers major health benefits, including inpatient and outpatient care, physician services, diagnostic services, and prescription drugs among others, with no annual deductible and low out-of-pocket costs. Preventive care, such as routine office visits and recommended screenings, are free. Essential Plan members with income at or below 150% of the federal poverty level do not pay any monthly premiums. Essential Plan members with incomes at 200% of the federal poverty level pay a monthly premium of \$20. Essential Plan is administered under an agreement between MetroPlus and NYSDOH and is under negotiation to extend through December 31, 2021.

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Premium revenue, by percentage, from members and third-party payors for the years ended June 30, 2020 and 2019 was as follows:

| | <u>2020</u> | <u>2019</u> |
|----------------|--------------|--------------|
| Medicaid | 54 % | 57 % |
| Essential Plan | 14 | 13 |
| HARP | 11 | 11 |
| HIV-SNP | 7 | 7 |
| Medicare | 3 | 3 |
| MLTC | 4 | 3 |
| Others * | 7 | 6 |
| | <u>100 %</u> | <u>100 %</u> |

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

Assets Restricted as to Use

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

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------------|-------------|-------------|
| MetroPlus statutory reserve investments | \$ 159,739 | \$ 155,758 |

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

The statutory escrow reserve account of \$159.7 million and \$155.8 million at June 30, 2020 and 2019, respectively, is invested in U.S. government securities with original maturity dates of six months or more and are measured at fair value based on Level 2 inputs. The account is in the form of an escrow deposit, maintained in a trust account under a custodian arrangement with Citibank approved by the NYSDFS.

In accordance with NYSDOH Rules and Regulations, MetroPlus is also required to maintain a contingent surplus reserve equal to 12.5% of net premiums earned for the prior year. The contingent surplus reserve as of June 30, 2020 and 2019 was \$400.5 million and \$394.5 million, respectively.

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(e) Change in Claims Payable

Accounts payable and accrued expenses include MetroPlus claims payable of \$911.5 million and \$783.2 million at June 30, 2020 and 2019, respectively. Activity in the liability for claims payable, which primarily includes medical claims, the risk sharing agreement with NYC Health + Hospitals, and claim adjustment expenses is summarized as follows (in thousands):

| | 2020 | 2019 |
|------------------------------|-------------------|-------------------|
| Balance, July 1 | \$ 783,156 | \$ 935,001 |
| Less drug rebates receivable | (29,205) | (19,329) |
| Net balance | <u>753,951</u> | <u>915,672</u> |
| Incurred related to: | | |
| Current year | 2,970,810 | 3,069,076 |
| Prior years | (1,244) | 26,134 |
| Total incurred | <u>2,969,566</u> | <u>3,095,210</u> |
| Paid related to: | | |
| Current year | 2,432,318 | 2,464,794 |
| Prior years | 428,626 | 792,137 |
| Total paid | <u>2,860,944</u> | <u>3,256,931</u> |
| Net balance at June 30 | 862,573 | 753,951 |
| Plus drug rebates receivable | <u>48,930</u> | <u>29,205</u> |
| Balance, June 30 | <u>\$ 911,503</u> | <u>\$ 783,156</u> |

Net reserves for unpaid claims and claim adjustment expenses attributable to insured claims of prior years' decreased by \$1.2 million and increased by \$26.1 million in 2020 and 2019, respectively. These changes are generally the result of ongoing analysis of recent loss development trends that include expected healthcare cost and utilization.

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Risk Sharing Agreement with NYC Health + Hospitals

MetroPlus entered into a risk sharing agreement with NYC Health + Hospitals in July 2000. The agreement is open to annual negotiation, with the most recent negotiation on March 25, 2020. The agreement shifts all medical risk from MetroPlus to NYC Health + Hospitals, for Medicaid, CHP, HIV-SNP, HARP, Essential Plan, MetroPlus Gold, Gold Care I, and Gold Care II. The risk sharing agreement is 88% for Medicaid, CHP and HIV-SNP, 92% for Essential Plan, HARP, MetroPlus Gold, Gold Care I, and Gold Care II in 2020 calendar year of the premiums collected for those members. NYC Health + Hospitals is also entitled to 99.55% for Medicaid, 98.25% for HARP and 100% for HIV-SNP of the one-time maternity and newborn supplemental payments for those members. After the end of the calendar year risk period, both parties settle the net amount remaining after payment of all capitated and fee-for-service medical expenses regardless of whether the provider was part of NYC Health + Hospitals network or not.

In addition, the risk sharing agreement shifts the prescription drug risk cost component for most Medicaid members from MetroPlus to NYC Health + Hospitals, for 97.5% of the prescription drug premium collected for those members. MetroPlus assumes full risk for operations, including paying medical claims and providing administrative services to its members and providers, and other services required by contract with NYC Health + Hospitals, the State of New York, and CMS for its business lines.

The risk sharing agreement provides for an annual settlement, within six months of the end of the risk period, or later as mutually agreed upon. Risk sharing payables were \$428.0 million and \$287.2 million at June 30, 2020 and 2019, respectively, representing net amounts payable to NYC Health + Hospitals pursuant to the agreement. NYC Health + Hospitals has reported a corresponding receivable at June 30, 2020 and 2019, respectively. Amounts are included in eliminations in the Statements of Net Position. Net payments pursuant to the agreement were \$142.2 million and \$207.0 million in 2020 and 2019, respectively.

Risk-Sharing Program of the Affordable Care Act

MetroPlus is required to participate in the Risk Adjustment program under the ACA: 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 the Plan from unexpectedly high medical costs on QHP members; and under the risk corridors program, the Plan shares risk, associated with uncertainty in pricing during the initial years of the ACA implementation, with HHS. The reinsurance and risk corridors programs ended in 2016.

The risk adjustment program, based on Section 1343 of the ACA, was effective beginning with the 2014 benefit year and continues as a permanent program. The program covers both QHP and SHOP and transfers funds from lower risk plans to higher risk plans, within the same state, to adjust premiums for adverse selection among the plans. HHS operates the program for the State of New York and may set an annual user fee payable by plans.

MetroPlus estimates its risk adjustment amount based on an estimate of its risk score relative to an estimate of the average risk score of all QHP and SHOP plans in New York State. MetroPlus reported a risk adjustment liability, including high risk pool and risk adjustment data validation, of \$3.9 million and \$17.1 million, respectively, which is included in accounts payable and accrued expenses. The 2019 and 2018 calendar benefit year estimates were settled in August 2020 and 2019 for \$3.0 Million and \$15.8 million, respectively.

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Stop-Loss and Reinsurance

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

- Medical inpatient is reimbursed at 80% of the lower of contractual or Medicaid calculated rate for expenses between \$100,000 and \$250,000 in any one calendar year. Over \$250,000, the coverage is increased to 100% of the excess amount over \$250,000.
- Psychiatric, alcohol and substance abuse inpatient stays are covered for members who exceed 45 inpatient days in any one calendar year.
- Residential Health Care Facility inpatient stays are covered for members who exceed 60 inpatient days in any one calendar year.
- Stop-loss insurance is also provided by the State of New York for HIV-SNP members, with coverage for hospital inpatient at 85% of the lower of contractual or Medicaid calculated rate for expenses between \$100,000 and \$300,000 in any one calendar year. Over \$300,000, the coverage is increased to 100% of the excess amount over \$300,000.
- Stop-loss reinsurance is also provided by the State of New York for certain mental health costs of its Medicaid members. The State reimburses 50% of payments made for the 46th through the 60th day of the episode and 100% of payments made for the days in the episode beyond the 60th day.

In addition, MetroPlus contracts with Zurich American Insurance Company (“Zurich”) for stop-loss coverage for its CHP, Medicare Advantage, MetroPlus Gold, QHP, and SHOP lines of business. The coverage has a per member threshold of the first \$500,000 of loss incurred in any one calendar year and covers 80% of eligible medical services, though there are daily limits for certain types of services. The contract with Zurich was terminated on December 31, 2019.

Premiums for the reinsurance provided by the State of New York and any related recoveries on paid losses are netted and reported within other than personal services expenses. Premiums for the reinsurance coverage provided by Zurich are reimbursed to MetroPlus by NYC Health + Hospitals, for lines under the risk sharing agreement, and related recoveries on paid losses are passed through to NYC Health + Hospitals pursuant to the agreement. MetroPlus has two years from the close of the benefit year to file a claim for all stop-loss coverages. Reinsurance recoverable, mainly from the State of New York, was \$32.2 million and \$30.4 million at fiscal years ended June 30, 2020 and 2019, respectively.

Value-Based Payment Quality Improvement Program (“VBP QIP”)

MetroPlus and NYC Health + Hospitals were selected to participate as part of the VBP QIP program administered by the NYSDOH. MetroPlus received \$85.0 million and \$64.6 million inclusive of administrative fee and surplus per member per month rate increases during fiscal year 2020 and 2019, respectively. MetroPlus released the award pass-through payments of \$70.6 million and \$60.0 million to NYC Health + Hospitals in 2020 and 2019, respectively. The administrative fee and surplus amounts are reported within other revenue in the amount of \$4.0 million and \$3.8 million for fiscal years ended June 30,

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2020 and 2019, respectively. MetroPlus reported \$12.5 million and \$2.1 million due to the State of New York within accounts payable and accrued expenses at June 30, 2020 and 2019, respectively.

Due to State of New York

The State of New York has advised MetroPlus of instances where it will need to return premium payments as a result of State audits and adjustments of its payments made to MetroPlus. Management’s estimate of such amounts is included in due to the State of New York and reported within accounts payable and accrued expenses, is \$69.4 million and \$57.9 million at June 30, 2020 and 2019, respectively. Premiums returned to the State of New York are charged against premiums earned.

Medical Loss Ratio

The ACA Medical Loss Ratio (“MLR”) standards require that the MLR for MetroPlus’ commercial lines of business individual (“QHP”), small group (“SHOP”), and large group (MetroPlus Gold, GoldCare I, and GoldCare II) meet specified minimums for the fiscal year ended June 30, 2020 of 82% for QHP and SHOP and 85% for large group. In addition, MetroPlus is also required to meet the MLR minimum of 85% for Medicare and Essential Plan, 86% for Medicaid lines of business, and 89% for HARP. The MLR represents the percentage of premium dollars spent on healthcare claims and quality improvement activities. MetroPlus is in compliance with these requirements. No MLR liability was required at June 30, 2020 and 2019.

Operating Leases

MetroPlus leases equipment and office space under various operating leases. Total rental expense for operating leases was approximately \$96.0 million in 2020 and \$42.0 million in 2019 and is included in other than personal services.

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, 2020 (in thousands):

| | |
|---------------------------------|----------------------------|
| Years | |
| 2021 | \$ 34,813 |
| 2022 | 34,184 |
| 2023 | 32,862 |
| 2024 | 39,758 |
| 2025 | 47,513 |
| Thereafter | <u>865,682</u> |
| Total minimum payments required | <u><u>\$ 1,054,812</u></u> |

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17. OTHER LONG-TERM LIABILITIES

Other long-term liabilities for the years ended June 30, 2020 and 2019 was as follows (in thousands):

| | June 30, 2019 | | | June 30, 2020 |
|------------------------------------------------------|--------------------------|------------------|---------------------|--------------------------|
| | Balance | Additions | Reductions | Balance |
| Accrued compensated absences | \$ 323,229 | \$ - | \$ (9,768) | \$ 313,461 |
| Accrued salaries, fringe benefits, and payroll taxes | 161,855 | - | (93,444) | 68,411 |
| | <u>\$ 485,084</u> | <u>\$ -</u> | <u>\$ (103,212)</u> | <u>\$ 381,872</u> |

18. COVID-19

In March 2020, the World Health Organization declared COVID-19, the disease caused by the novel coronavirus, a pandemic, which continues to spread throughout the United States. As a result of the COVID-19 pandemic, NYC Health + Hospitals experienced a decline in patient visits, elective surgery, and other medical procedures beginning in mid-March through late May 2020. Additionally, in response to the pandemic, NYC Health + Hospitals incurred additional costs for personal protective equipment and other operating costs associated with ensuring employee and patient safety while operating during a pandemic. Since late spring, NYC Health + Hospitals began to see increases in its patient visits, admissions, and medical procedures, however volumes have not returned to pre-pandemic levels. Management is actively monitoring operating revenues and expenses for COVID-19 and other services.

Federal funding for COVID-19 includes the CARES Act that ensured that NYC Health + Hospitals would have the cash flow needed for COVID related expenses and revenue shortfalls. CARES Act funds are to be used to prevent, prepare for, and respond to coronavirus, and are only for health care related expenses or lost revenues that are attributable to coronavirus and not covered by other funding sources, including FEMA.

NYC Health + Hospitals received grant payments, which are considered nonexchange transactions, from the federal government distributed under the CARES Act. For the year ended June 30, 2020, payments were received in the amount of \$1.0 billion and are included in grants revenue in the Statement of Revenues, Expenses and Changes in Net Position. These payments are subject to audit and compliance with federal regulations. While the federal regulations have not been finalized as of issuance of these financial statements, NYC Health + Hospitals believes it has met the conditions to retain these funds, and no amounts are reserved for repayment at June 30, 2020, in the accompanying Statements of Net Position.

The CARES Act also provided for an expansion of the Medicare Accelerated and Advance Payment Program for patient services. NYC Health + Hospitals did not participate in this program.

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The course of the COVID-19 virus and its effect in the coming months are unknown. Because of the uncertainty and evolving nature of the pandemic, the full impact on NYC Health + Hospitals financial position and operations (including regulatory requirements, federal and state funding, reduced revenue stream, constraints on operations, higher cost of resources) cannot be fully determined at this time.

19. SUBSEQUENT EVENTS

From July through September 2020, NYC Health + Hospitals received additional grant payments under the CARES Act in the amount of \$166.0 million and FEMA payments in the amount of \$199.6 million which have not been recognized in revenue during 2020 as NYC Health + Hospitals had not met the conditions to retain these funds as of June 30, 2020. Future grant payments are uncertain at this time.

In September 2020, a Post-Payment Notice of Reporting Requirements (the “Notice”) was issued by the Department of Health and Human Services which requires that the provider relief funds (“PRF”) received under the CARES Act be first used for healthcare related expenses attributable to coronavirus, and to the extent that the PRF payment amounts are not fully expended on healthcare related expenses attributable to coronavirus, are then to be applied to lost revenues, represented as a negative change in year-over-year net patient care operating income. The impact of this Notice cannot be determined at this time.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Schedule of NYC Health + Hospitals' Contributions NYCERS Pension Plan (Unaudited)
Years ended June 30, 2020, 2019, 2018, 2017, 2016 and 2015
(Dollar amounts in thousands)

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|----------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Contractually required contribution | \$ 505,624 | \$ 515,454 | \$ 507,335 | \$ 492,161 | \$ 497,715 | \$ 443,386 |
| Actual contributions as related to the contractually required contribution | <u>505,624</u> | <u>515,454</u> | <u>507,335</u> | <u>492,161</u> | <u>497,715</u> | <u>443,386</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| HHC covered payroll | <u>\$ 2,367,816</u> | <u>\$ 2,207,943</u> | <u>\$ 2,122,448</u> | <u>\$ 2,177,897</u> | <u>\$ 2,232,187</u> | <u>\$ 2,166,797</u> |
| Contributions as a percentage of covered payroll | 21.35 % | 23.35 % | 23.90 % | 22.60 % | 22.30 % | 20.46 % |

See accompanying notes to the basic financial statements.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
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Schedule of NYC Health + Hospitals' Proportionate Share of the Net Pension Liability
NYCERS Pension Plan (Unaudited)
Years ended June 30, 2020, 2019, 2018, 2017, 2016 and 2015
(Dollar amounts in thousands)

| | <u>2020</u> | | <u>2019</u> | | <u>2018</u> | | <u>2017</u> | | <u>2016</u> | | <u>2015</u> |
|---------------------------------------------------------------------------------------------|--------------|----|-------------|----|-------------|----|-------------|----|-------------|----|-------------|
| HHC proportion of the net pension liability | 13.564 % | | 13.959 % | | 15.023 % | | 14.788 % | | 14.789 % | | 14.030 % |
| HHC proportionate share of the net pension liability | \$ 2,859,284 | \$ | 2,585,414 | \$ | 2,751,874 | \$ | 3,070,928 | \$ | 3,593,257 | \$ | 2,832,753 |
| HHC covered payroll | 2,367,816 | | 2,207,943 | | 2,122,448 | | 2,177,897 | | 2,232,187 | | 2,166,797 |
| HHC proportionate share of the net pension liability as a percentage of its covered payroll | 120.76 % | | 117.10 % | | 129.66 % | | 141.00 % | | 160.97 % | | 130.73 % |
| Plan fiduciary net position as a percentage of the total pension liability | 76.93% | | 78.84% | | 78.83% | | 74.80% | | 69.57% | | 73.12% |

See accompanying notes to the basic financial statements.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Schedule of NYC Health + Hospitals' Changes in Total OPEB Liability and Related Ratios (Unaudited)
Years ended June 30, 2020, 2019, 2018 and 2017
(Dollar amounts in thousands)

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|-----------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Total OPEB liability | | | | |
| Service cost | \$ 264,512 | \$ 307,105 | \$ 279,874 | \$ 274,749 |
| Interest | 159,281 | 161,840 | 158,153 | 147,667 |
| Differences between expected and actual experience | (450,871) | 858,811 | 104,933 | (122,396) |
| Changes of assumptions | 99,391 | (806,009) | 110,707 | (661,094) |
| Benefit payments | (230,815) | (171,559) | (235,395) | (56,087) |
| Other Changes | (41,078) | - | - | - |
| Net change in total OPEB liability | (199,580) | 350,188 | 418,272 | (417,161) |
| Total OPEB liability - beginning | <u>5,559,104</u> | <u>5,208,916</u> | <u>4,790,644</u> | <u>5,207,805</u> |
| Total OPEB liability - ending | <u>\$ 5,359,524</u> | <u>\$ 5,559,104</u> | <u>\$ 5,208,916</u> | <u>\$ 4,790,644</u> |
| Covered employee payroll | \$ 2,320,005 | \$ 2,222,409 | \$ 2,211,014 | \$ 2,283,056 |
| Total OPEB liability as a percentage of covered employee payroll | 231.0 % | 250.1 % | 235.6 % | 209.8 % |
| Changes of assumptions | | | | |
| Changes of assumptions reflect the effects of changes in the discount rate. | | | | |
| The following are the discount rates used in each period: | 2.66 % | 2.79 % | 2.98 % | 3.13 % |

See accompanying notes to the basic financial statements.

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

The Board of Directors

New York City Health and Hospitals Corporation:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of New York City Health and Hospitals Corporation ("NYC Health + Hospitals"), a discretely presented component unit of the City of New York, and the discretely presented component unit as of and for the years ended June 30, 2020 and 2019 and the related notes to the financial statements, which collectively comprise NYC Health + Hospitals' basic financial statements, and have issued our report thereon dated October 16, 2019.

The financial statements of MetroPlus Health Plan, Inc., a discretely presented component unit, and HHC Insurance Company, Inc., a blended component unit, were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over the reconciliation process between the general ledger and the supporting detail for vendor accounts payable that we consider to be a significant deficiency in NYC Health + Hospitals' internal control.

Compliance and Other Matters

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

Intended Purpose

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



New York, New York
October 15, 2020