NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

(A Component Unit of The City of New York)

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Reports Thereon)

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

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KPMG LLP
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New York, NY 10154-0102

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of New York City Health and Hospitals Corporation (NYC Health + Hospitals), a component unit of The City of New York, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of NYC Health + Hospitals as of June 30, 2016 and 2015, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 13 and the schedule of NYC Health + Hospitals contributions and the schedule of NYC Health + Hospitals proportionate share of the net pension liability on pages 61 and 62, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016 on our consideration of the 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the NYC Health + Hospitals' internal control over financial reporting and compliance.

KPMG LLP

October 24, 2016

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

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

Financial Analysis

Summary of Statements of Net Position

June 30, 2016, 2015, and 2014

(In thousands)

	2016 Business-type Activities – HHC	2015 Business-type Activities – HHC	2014 Business-type Activities – HHC
Assets:			
Current assets	$ 2,506,602	2,485,085	2,790,164
Capital assets, net	3,401,861	3,432,430	3,506,375
Other assets	162,777	118,444	131,927
Total assets	6,071,240	6,035,959	6,428,466
Deferred outflows:			
Net differences between projected and actual earnings on pension plan investments	480,191	—	—
Unamortized refunding cost	12,785	15,349	18,240
Liabilities:			
Current liabilities	2,637,985	2,945,003	3,193,724
Long-term debt, net of current installments	868,626	882,848	941,289
Other noncurrent liabilities	296,811	296,811	—
Pension, net of current portion	3,031,476	2,334,651	2,045,366
Postemployment benefits obligation, other than pension, net of current portion	4,836,872	4,519,900	4,667,962
Total liabilities	11,671,770	10,979,213	10,848,341
Deferred inflows:			
Net differences between projected and actual earnings on pension plan investments	—	258,287	708,343
Net deficit:			
Net investment in capital assets	2,514,112	2,521,077	2,550,656
Restricted	154,926	149,231	150,112
Unrestricted	(7,776,592)	(7,856,500)	(7,810,746)
Total net deficit	$ (5,107,554)	(5,186,192)	(5,109,978)

See accompanying notes to management's discussion and analysis.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

Financial Analysis

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

Years ended June 30, 2016, 2015, and 2014

(In thousands)

	2016 Business-type Activities – HHC	2015 Business-type Activities – HHC	2014 Business-type Activities – HHC
Operating revenue:			
Net patient service revenue	$ 5,812,049	5,729,197	5,653,009
Appropriations from (remittances to) City of New York, net	1,405,091	140,597	399,165
Grants revenue	362,339	526,673	285,763
Other revenue	103,080	61,264	51,110
Total operating revenue	7,682,559	6,457,731	6,389,047
Operating expenses:			
Personal services, fringes benefits, and employer payroll taxes	3,607,126	3,423,547	3,305,159
Other than personal services	1,753,336	1,561,411	1,527,445
Pension	502,374	285,111	224,500
Postemployment benefits, other than pension	426,513	(40,299)	198,991
Affiliation contracted services	1,050,535	994,294	922,773
Depreciation	302,530	291,729	302,859
Total operating expenses	7,642,414	6,515,793	6,481,727
Operating income (loss)	40,145	(58,062)	(92,680)
Nonoperating expenses, net	(112,910)	(125,067)	(114,392)
Loss before other changes in net deficit	(72,765)	(183,129)	(207,072)
Other changes in net deficit:			
Capital contributions	151,403	106,915	313,904
Increase (decrease) in net deficit	78,638	(76,214)	106,832
Net deficit at beginning of year	(5,186,192)	(5,109,978)	(5,216,810)
Net deficit at end of year	$ (5,107,554)	(5,186,192)	(5,109,978)

See accompanying notes to management's discussion and analysis.

This section of New York City Health and Hospitals Corporation's (NYC Health + Hospitals) annual financial report presents management's discussion and analysis of the financial performance during the years ended June 30, 2016 and 2015. 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 the NYC Health + Hospitals, are presented discretely from NYC Health + Hospitals; however, the MD&A focuses primarily on NYC Health + Hospitals.

Overview of the Financial Statements

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

The basic financial statements include statements of net position, statements of revenue, expenses, and changes in net position, statements of cash flows, and notes to financial statements. These statements present, on a comparative basis, the financial position of NYC Health + Hospitals for the fiscal year at June 30, 2016 and 2015, and the changes in net position and its financial activities for each of the years then ended. The statements of net position include all of NYC Health + Hospitals' assets and liabilities in accordance with U.S. generally accepted accounting principles. The statements of revenue, expenses, and changes in net position present each year's activities on the accrual basis of accounting, that is, when services are provided or obligations are incurred, not when cash is received or bills are paid. The financial statements also report the net position of NYC Health + Hospitals and how it has changed. Net position, or the difference between assets and liabilities, deferred inflows and deferred outflows, is a way to measure the financial health or position of NYC Health + Hospitals'. The statements of cash flows provide relevant information about each year's cash receipts and cash payments and classify them as to operating, noncapital financing, capital and related financing, and investing activities. Notes to financial statements explain information in the statements and provide more detailed data.

Overall Financial Position and Operations

NYC Health + Hospitals total net deficit position decreased by $78.6 million from June 30, 2015 to June 30, 2016; it had increased by $76.2 million from June 30, 2014 to June 30, 2015. Net investment in capital assets decreased by $7.0 million and decreased by $29.6 million in 2016 and 2015, respectively, as the major modernization projects neared completion and NYC Health + Hospitals continued to pay down debt. NYC Health + Hospitals unrestricted net deficit position decreased to $7.777 billion at June 30, 2016 from $7.857 billion at June 30, 2015. NYC Health + Hospitals ended the fiscal year June 30, 2016 with operating income of $40.1 million compared with an operating loss of $58.1 million for the year ended June 30, 2015. NYC Health + Hospitals net deficit position benefited from $150.1 million and $105.7 million in capital contributions from The City of New York (the City) in 2016 and 2015, respectively.

Significant financial ratios are as follows:

	2016	2015	2014
Current ratio	0.95	0.84	0.87
Quick ratio	0.46	0.42	0.32
Days' cash on hand	26.61	35.10	19.50
Net days' revenue in patient receivables	66.87	63.78	71.91

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

Super Storm Sandy

Since Super Storm Sandy (Sandy) in late October 2012, NYC Health + Hospitals has been immersed in the initial emergency responses to the storm, conducted extensive assessments of damages, implemented large-scale recovery efforts, and begun the execution of reconstruction and mitigation programs for the facilities based on our negotiations with the Federal Emergency Management Agency (FEMA). Currently NYC Health + Hospitals FEMA claims for repair, reconstruction, and hazard mitigation are in excess of $1.8 billion. NYC Health + Hospitals achieved several major milestones in the aftermath up to fiscal year 2016.

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

In fiscal year 2016, NYC Health + Hospitals completed construction of the new Ida G. Israel Community Health Center, which opened on September 15, 2015 at 2925 West 19th Street, Brooklyn, NY. The Clinic provides services for Chemical Dependence and Rehabilitation, Dental, Family Planning, Medical Social Services, Pediatric and Primary Medical Care.

During fiscal year 2016, NYC Health + Hospitals received over $18.3 million in reimbursement from FEMA for Sandy-related expenditures. This includes $14.9 million for emergency work completed to stabilize Health + Hospitals facilities, $0.7 million for emergency generators at Coler, and $1.6 million for a temporary MRI and CT Scanner at Coney Island Hospital, $0.6 million for Health + Hospitals system wide overtime costs for employees who performed various Hurricane Sandy related tasks during the first two weeks period immediately following Sandy's landfall, $0.2 million for permanent repairs and reconstruction work at Goldwater facility and $0.3 million for contents replacement and minor repairs at the Neponsit Adult Day Care Center.

Variances in Financial Statements

In this section, NYC Health + Hospitals explains the reasons for certain financial statement items with variances relating to 2016 amounts compared to 2015 and, where appropriate, 2015 amounts compared to 2014.

Statements of Net Position

Cash and cash equivalents – Decreased $67.3 million from June 30, 2015 to June 30, 2016 to $543.6 million mainly due to yearly operations. Cash and cash equivalents increased $267.8 million from June 30, 2014 to June 30, 2015 due to receipts of $599.1 million of State issued Upper Payment Limit (UPL) funds.

Patient accounts receivable, net – Increased $36.4 million from 2015 to 2016 due to an increase in the risk incentive pool receivable from MetroPlus to NYC Health + Hospitals. Patient accounts receivable, net decreased $58.3 million from 2014 to 2015 due to a decrease in the risk incentive pool payable from MetroPlus to NYC Health + Hospitals.

Estimated third-party payor settlements, receivable – Increased $31.9 million from June 30, 2015 to June 30, 2016 representative of revised estimates in anticipated UPL receivables for 2016. Estimated third-party payor settlements, net decreased $539.9 million from 2014 to 2015 due to the receipt of $1.0 billion of UPL payments partially offset by recording of receivable for fiscal year 2015.

Grants receivable – Grants receivable increased $118.4 million from June 30, 2015 to June 30, 2016 mainly due to the recognition of $73.9 million related to Delivery System Reform Incentive Payment (DSRIP) program funds and $20.7 million receivable for FEMA funds related to Super Storm Sandy. Grants receivable increased $60.4 million from 2014 to 2015 primarily due to a delay of payment of the Medicaid Administration grant.

Assets restricted as to use – Increased $29.7 million from June 30, 2015 to June 30, 2016 due to NYC Health + Hospitals' obtaining funds from equipment financing through Citibank, JP Morgan, and Key Bank and decreased by $11.3 million from June 30, 2014 to June 30, 2015 due to a continued use of the Construction Fund for various capital projects.

Other current assets – Decreased $8.7 million from June 30, 2015 to June 30, 2016 primarily due to a decrease of funds held on account (advance) with a medical surgical supplies vendor. Amounts remained fairly consistent from June 30, 2014 to June 30, 2015.

Capital assets, net – Decreased $30.6 million from 2015 to 2016 as depreciation outweighed the new additions in fiscal year 2016. Net Capital assets decreased $73.9 million from 2014 to 2015 as there were less acquisitions in fiscal year 2015 due to the completion of major modernization projects, in the prior year.

Accrued salaries, fringe benefits, and payroll taxes – Remained relatively constant from June 30, 2015 to June 30, 2016. Decreased $9.1 million from June 30, 2014 to June 30, 2015 due to a decrease of an accrual for collective bargaining settlements and an offsetting increase in an accrual for health and welfare benefits.

Accounts payable and accrued expenses – Increased $86.9 million from June 30, 2015 to June 30, 2016 primarily due to increases in vendors payable of $94.6 million coincided with a decrease in per diem nurses payable of $7.2 million representative of efforts to pay agencies more timely. Increased $3.4 million from June 30, 2014 to June 30, 2015 primarily due to increases in affiliations payable of $12.8 million and affiliations vacation accrual of $9.2 million, which was partially offset by a decrease in pollution remediation of $10.0 million.

Estimated third-party payor settlements, payable – Decreased by $43.1 million from June 30, 2015 to June 30, 2016 and $31.6 million from June 30, 2014 to June 30, 2015 due to a re-estimation of third-party anticipated take backs for Medicaid and Medicare rate changes.

Estimated pools payable – Estimated pools payable, net, decreased $143.5 million from June 30, 2015 to June 30, 2016 primarily due to a $142.9 million decrease in the State's advance payments of Disproportionate Share Hospital Maximization (DSH Max) funds. Estimated pools payable, net, decreased $259.3 million from June 30, 2014 to June 30, 2015 primarily due to a $353.5 million decrease in the State's advance payments of Disproportionate Share Hospital (DSH) and DSH Max funds.

Due to City of New York (current and long term) – Decreased $277.1 million from June 30, 2015 to June 30, 2016 mainly due to payments of 2014 liability related to malpractice and debt service of $126.9 million and $153.2 million, respectively, which coincided with no increase of related amounts which were assumed by City for $125.3 million and $165.2 million for malpractice and debt service, respectively, for the year ended June 30, 2016. These are no longer obligations of NYC Health + Hospitals for fiscal year 2016. Increased $332.0 million from June 30, 2014 to June 30, 2015 mainly due to $271.2 million that was payable to The City in the form of malpractice and debt service, which were not paid for 2014 and 2015. In fiscal 2014, NYC Health + Hospitals and the City agreed that NYC Health + Hospitals would not reimburse the City for the 2013 malpractice and debt service of $121.5 million and $150.4 million (note 8 to the financial statement).

Long-term debt – Decreased $2.2 million from June 30, 2015 to June 30, 2016 due to a continuation of scheduled principal payments during fiscal year 2016 partially offset by new equipment financing arrangements entered into during the year. Long-term debt decreased $57.7 million from June 30, 2014 to June 30, 2015 due to a continuation of scheduled principal payments during fiscal year 2015 (note 7 to the financial statements).

Pension (current and long-term) – Increased $749.7 million from June 30, 2015 to June 30, 2016 and increased $298.2 million from June 30, 2014 to June 30, 2015 as NYC Health + Hospitals recognized its annual pension costs and payments toward its liability as determined by the New York City Office of the Actuary (note 9 to the financial statements).

Postemployment benefits obligation, other than pension (current and long-term) – Increased $321.4 million from June 30, 2015 to June 30, 2016 and decreased $145.1 million from June 30, 2014 to June 30, 2015 as NYC Health + Hospitals recognized its annual OPEB costs and credits, respectively, as determined by the New York City Office of the Actuary (note 10 to the financial statements).

Changes in Components of Net Position

Net investment in capital assets – Decreased $7.0 million from June 30, 2015 to June 30, 2016 as capital assets, net, decreased by $30.6 million, related assets restricted as to use increased by $24.0 million, and related debt decreased by $2.1 million, and deferred outflows decreased by $2.5 million. Decreased $29.6 million from June 30, 2014 to June 30, 2015 as capital assets, net, decreased by $73.9 million, related assets restricted as to use decreased by $11.3 million, and related debt and deferred outflows decreased by $54.7 million.

Restricted – Restricted net assets increased $5.7 million from June 30, 2015 to June 30, 2016 mainly due to a $5.2 million increase in restricted funds for debt service. Restricted net assets remained fairly consistent from June 30, 2014 to June 30, 2015.

Unrestricted – Net position activities, other than those mentioned above, resulted in a decrease of $79.9 million and an increase of $45.8 million in unrestricted net assets for years 2016 and 2015, respectively. Please see the statements of revenue, expenses, and changes in net position.

Capital Assets, Net and Long-Term Debt Activity

Capital Assets, Net

At June 30, 2016, NYC Health + Hospitals had capital assets, net of accumulated depreciation, of $3.402 billion compared to $3.432 billion at June 30, 2015 and $3.506 billion at June 30, 2014, representing a decrease of 0.9% from 2015 to 2016 and a decrease of 2.2% from 2014 to 2015, as shown in the table below (in thousands of dollars):

		2016	2015	2014
Land and land improvements	$	29,111	29,159	29,187
Buildings and leasehold improvements		2,157,515	2,265,891	2,369,694
Equipment		844,084	833,143	867,101
Construction in progress		371,151	304,237	240,393
Total	$	3,401,861	3,432,430	3,506,375

2016's major capital asset additions included the following:

- Construction continued on the major modernization of Gouverneur Healthcare Services, with additional spending of approximately $3.7 million in 2016. During 2016, portions of the project totaling $20.0 million were placed in use.
- Construction has been mostly completed on the major modernization of Harlem Hospital Center, with additional spending of approximately $0.4 million in 2016.
- Construction has been mostly completed on the major modernization of Henry J. Carter Center, with additional spending of approximately $1.6 million in 2016.
- Construction of the new Ida G. Israel Community Health Center continued, with spending of approximately $0.7 million in 2016.
- Developing the electronic medical record system continued with spending of approximately $37.7 million in 2016.
- Boiler replacements and repairs at multiple facilities with approximately $30.0 million of spending in 2016.

- Construction costs related to the major modernization project at Coney Island Hospital of approximately $17.5 million in 2016.
- Construction projects of $2.2 million at Metropolitan Hospital in 2016.

2015's major capital asset additions included the following:

- Construction continued on the major modernization of Gouverneur Healthcare Services, with additional spending of approximately $9.9 million in 2015.
- Construction has been mostly completed on the major modernization of Harlem Hospital Center, with additional spending of approximately $1.93 million in 2015.
- Construction has been mostly completed on the major modernization of Henry J. Carter Center, with additional spending of approximately $11.02 million in 2015.
- Construction of the new Ida G. Israel Community Health Center continued, with spending of approximately $7.1 million in 2015.
- Developing the electronic medical record system continued with spending of approximately $52.3 million in 2015.

2014's major capital asset additions included the following:

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

NYC Health + Hospitals 2017 capital budget projects spending of $217.2 million, which includes construction work on Rehab-Infrastructure projects, acquisition of medical equipment and electronic medical record system. The 2017 capital budget is expected to be primarily financed by NYC Health + Hospitals' approved JP Morgan 2015 Equipment financing, City General Obligation, Transitional Finance Authority Bonds, and other funding.

More detailed information about the NYC Health + Hospitals capital assets is presented in note 5 to the financial statements.

Long-Term Debt

At June 30, 2016, NYC Health + Hospitals has approximately $932.1 million in long-term debt financing relating to its capital assets, as shown with comparative amounts at June 30, 2015 and 2014 (in thousands of dollars):

	2016	2015	2014
Bonds payable	$ 814,342	870,466	925,325
New York Power Authority (NYPA) financing	—	217	844
Equipment and renovation financing	—	135	540
Clinical bed financing	80	518	2,291
Henry J. Carter capital lease obligation	48,254	48,254	48,258
New Market Tax Credit	14,700	14,700	14,700
Key Bank CISCO Leases	28,216	—	—
Oracle ERP Financing	6,540	—	—
JP Morgan Equipment Financing	10,000	—	—
Revolving Loan (Citibank)	10,000	—	—
Total	$ 932,132	934,290	991,958

At June 30, 2016, NYC Health + Hospitals' outstanding bonds at par are 80.3% uninsured fixed and 19.7% variable secured by letters of credit. NYC Health + Hospitals is rated Aa3, A+, and A+ by Moody's, S&P's, and Fitch, respectively. The variable rate bonds are secured by TD Bank's and JPMorgan Chase Bank's letters of credit. As of August 26, 2016, the Moody's, S&P's, and Fitch long-term/short-term ratings for TD Bank and JPMorgan Chase Bank are Aa1/P-1, AA-/A-1+, and AA-/F1+ and Aa2/P-1, A+/A-1, and AA-/F1+, respectively. There are no statutory debt limitations that may affect NYC Health + Hospitals' financing of planned facilities or services.

More detailed information about NYC Health + Hospitals long-term debt is presented in note 7 to the financial statements.

Statements of Revenue, Expenses, and Changes in Net Position

Net patient service revenue – Increased $82.9 million from June 30, 2015 to June 30, 2016 mainly due to an increase in Upper Payment Limit (UPL) revenue. Increased $76.2 million from June 30, 2014 to June 30, 2015 due to additional risk pool revenue from MetroPlus.

Appropriations from City of New York, net – Increased $1.264 billion from June 30, 2015 to June 30, 2016 mainly attributable to The City funding of collective bargaining of $135.0 million, Correctional Health Services of $164.7 million, maintenance of DSH UPL support of $204.0 million and additional support of $581.0 million ($181.0 million provided during the year and $400.0 million provided at year end). Decreased $258.6 million from June 30, 2014 to June 30, 2015 mainly due to the fact that the 2014 malpractice and debt service of $126.9 million and $153.2 million are Due to The City as of June 30, 2015, whereas in the prior year, The City did not require NYC Health + Hospitals to reimburse The City for 2013 malpractice and debt service.

Grants revenue – Decreased $164.4 million from June 30, 2015 to June 30, 2016 due to a decrease in Interim Access Assurance Fund (IAAF) grant revenue as the program ended in fiscal year 2015, along with a decrease in DSRIP of $38 million. Increased $240.9 million from June 30, 2014 to June 30, 2015 due to recognition of $136.9 million of IAAF and $111.1 million of DSRIP grant revenue.

Other revenue – Increased $41.8 million primarily due to increase of $18.0 million in miscellaneous revenues and $12.2 million increase in 340B pharmaceutical program revenue from June 30, 2015 to June 30, 2016. Other revenue increased $10.2 million from June 30, 2014 to June 30, 2015 primarily due to a $5.5 million increase in 340B program revenue

Personal services – Increased $146.6 million, or approximately 6%, from June 30, 2015 to June 30, 2016 mainly due to continued collective bargaining salary increases, which represents $67.9 million, increases of approximately $41.0 million related to regular earnings of increased salary, and an increase of $34.1 million for the addition of Correctional Health Services to NYC Health + Hospitals (note 15 to the financial statements). Personal services increased $68.2 million, or approximately 2.8%, from June 30, 2014 to June 30, 2015 due to increase in collective bargaining estimates for 2015.

Other-than-personal services – Increased $191.9 million, or 12% from June 30, 2015 to June 30, 2016 primarily due to the addition of Correctional Health Services to NYC Health + Hospitals, which were transferred over from Department of Health and Mental Hygiene in the amount of $155.4 million. Increased $34.0 million, or 2.2% from June 30, 2014 to June 30, 2015, mainly due to a continued increase in pharmaceutical expenses of $28.0 million, and an increase in IT software maintenance expense of $17.0 million.

Fringe benefits and employer payroll taxes – Increased $37.0 million or approximately 5% from June 30, 2015 to June 30, 2016 mainly due to an increase in health benefits costs of $61.0 million or 12.3% and an increase in welfare benefits expense of $19.0 million or 19.2%. Increased $50.2 million or 6.7% from June 30, 2014 to June 30, 2015 mainly due to an increase in health benefits costs of $26.7 million or 5.1% and an increase in welfare benefits expense of $17.4 million or 16.7%.

Pension – Increased $217.3 million from June 30, 2015 to June 30, 2016, mainly due to changes in assumptions, including the mortality assumption. Pension increased $60.6 million from June 30, 2014 to June 30, 2015, mainly due to less than projected earnings on pension plan investments. Pension plan expense as of June 30, 2016 and 2015 respectively, is determined by the New York City Office of the Actuary (note 9 to the financial statements).

Postemployment benefits, other than pension – Increased $466.8 million from June 30, 2015 to June 30, 2016, mainly due to a change in a post-retirement mortality assumption, HMO aging adjustment, and Welfare Fund contribution trend. Postemployment benefits, other than pension decreased $239.3 million from June 30, 2014 to June 30, 2015, mainly due to updating Welfare Fund contributions to reflect the recent contribution rates and updating actual premium rates for Medicare Part B premiums announced for calendar years reimbursement through 2015, as well as legislated change to scheduled Income-Related Monthly Adjustment Amounts., Postemployment

benefits, other than pension as of June 30, 2016 and 2015 respectively, are determined by the New York City Office of the Actuary (note 10 to the financial statements).

Affiliation contracted services – Increased $56.2 million or 6% from June 30, 2015 to June 30, 2016 and $71.5 million or 7.8% from June 30, 2014 to June 30, 2015 primarily due to market adjustments and enhancement of services.

Capital contributions funded by City of New York – Decreased $44.4 million from June 30, 2015 to June 30, 2016 and $197.3 million from June 30, 2014 to June 30, 2015 due to fewer continuing major modernization projects.

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
- Ability of New York City to increase capital and contain expenses

Shifting from a fee-for-service payment system to a managed care system which includes value-based payment structure NYC Health + Hospitals has responded to these challenges by embarking on an ambitious transformation effort to comprehensively redesign the public health system and to build a competitive, sustainable organization. Shedding its' federated network structure, NYC Health + Hospitals, at the onset of fiscal year 2017, has aligned its management along lines of service (hospitals, post-acute care, ambulatory care) to 1) promote standardization of quality care; 2) leverage strengths in the system; 3) promote the use of primary care in less urgent settings, 4) improve continuity of care, and 5) maximize the potential of its various lines of business through vertical integration.

Additional strategies to meet the challenges include: 1) continuing close coordination with City, State and Federal partners; 2) designing and implementing an enterprise resource system to support organizational change through modern business processes; 3) increasing capacity for data analytics; and, 4) reinforcing the City's partnership and commitment by increasing the City's investments in NYC Health + Hospitals through capital investments in primary care clinics and acceptance of a majority of NYC Health + Hospitals' debt obligations. NYC Health + Hospitals will continue to adapt and respond to meet its mandate to improve the health of New Yorkers and its communities.

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. Plachikkat V. Anantharam, Senior Vice President – Finance, 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)

Statements of Net Position

June 30, 2016 and 2015

(In thousands)

	2016				2015			
Assets	**Business-type Activities – HHC**	**Discretely Presented Component Unit-MetroPlus**	**Eliminations**	**Total**	**Business-type Activities – HHC**	**Discretely Presented Component Unit-MetroPlus**	**Eliminations**	**Total**
Current assets:								
Cash and cash equivalents (note 2)	$ 543,618	568,385	—	1,112,003	610,960	654,039	—	1,264,999
U.S. government securities (note 16)	—	76,859	—	76,859	—	93,309	—	93,309
Patient accounts receivable, net (notes 4 and 11)	671,250	—	(252,974)	418,276	634,811	—	(187,359)	447,452
Premiums receivable (note 16)	—	149,134	(2,337)	146,797	—	232,925	(1,624)	231,301
Estimated third-party payor settlements, receivable (notes 4 and 11)	922,202	—	(88,036)	834,166	890,300	—	(167,900)	722,400
Grants receivable (note 13)	261,441	68	—	261,509	142,975	—	—	142,975
Supplies	23,291	—	—	23,291	20,909	—	—	20,909
Assets restricted as to use and required for current liabilities (notes 6 and 7)	34,405	—	—	34,405	49,068	—	—	49,068
Due from City of New York (note 8)	—	—	—	—	77,000	—	—	77,000
Other current assets	50,395	52,658	—	103,053	59,062	19,133	—	78,195
Total current assets	2,506,602	847,104	(343,347)	3,010,359	2,485,085	999,406	(356,883)	3,127,608
Assets restricted as to use, net of current portion (notes 6 and 16)	152,116	134,439	—	286,555	107,783	117,105	—	224,888
U.S. government securities (note 16)	—	329,047	—	329,047	—	156,559	—	156,559
Other receivable	10,661	—	—	10,661	10,661	—	—	10,661
Capital assets, net (note 5)	3,401,861	6,808	—	3,408,669	3,432,430	5,511	—	3,437,941
Total assets	6,071,240	1,317,398	(343,347)	7,045,291	6,035,959	1,278,581	(356,883)	6,957,657
Deferred Outflows of Resources								
Net differences between projected and actual earnings on pension plan investments and other changes	480,191	11,455	—	491,646	—	—	—	—
Unamortized refunding cost	12,785	—	—	12,785	15,349	—	—	15,349
	$ 6,564,216	1,328,853	(343,347)	7,549,722	6,051,308	1,278,581	(356,883)	6,973,006
Liabilities								
Current liabilities:								
Current installments of long-term debt (note 7)	$ 63,506	—	—	63,506	51,442	—	—	51,442
Accrued salaries, fringe benefits, and payroll taxes	825,826	15,820	(2,337)	839,309	825,355	3,952	(1,624)	827,683
Accounts payable and accrued expenses (notes 12 and 16)	517,568	650,206	(341,010)	826,764	430,718	593,832	(355,259)	669,291
Estimated third-party payor settlements, payable (notes 4 and 11)	107,800	—	—	107,800	150,900	—	—	150,900
Estimated pools payable, net (notes 4 and 11)	308,800	—	—	308,800	452,300	—	—	452,300
Current portion of Due to City of New York, net (note 8)	208,091	—	—	208,091	485,174	—	—	485,174
Current portion of pension (note 9)	486,118	11,597	—	497,715	433,232	10,154	—	443,386
Current portion of postemployment benefits obligation, other than pension (note 10)	115,215	2,749	—	117,964	110,821	2,447		113,268
Other current liabilities	5,061	—	—	5,061	5,061	—	—	5,061
Total current liabilities	2,637,985	680,372	(343,347)	2,975,010	2,945,003	610,385	(356,883)	3,198,505
Long-term debt, net of current installments (note 7)	868,626	—	—	868,626	882,848	—	—	882,848
Due to City of New York, net of current portion (note 8)	296,811	—	—	296,811	296,811	—	—	296,811
Long-term pension, net of current portion (note 9)	3,031,476	64,066	—	3,095,542	2,334,651	54,716	—	2,389,367
Postemployment benefits obligation, other than pension, net of current portion (note 10)	4,836,872	47,123	—	4,883,995	4,519,900	43,368	—	4,563,268
Total liabilities	11,671,770	791,561	(343,347)	12,119,984	10,979,213	708,469	(356,883)	11,330,799
Deferred Inflows of Resources								
Net differences between projected and actual earnings on pension plan investments and other changes	—	—	—	—	258,287	6,053	—	264,340
	11,671,770	791,561	(343,347)	12,119,984	11,237,500	714,522	(356,883)	11,595,139
Commitments and contingencies (note 11)								
Net position								
Net investment in capital assets	2,514,112	6,808	—	2,520,920	2,521,077	5,540	—	2,526,617
Restricted:								
For debt service	141,235	—	—	141,235	135,961	—	—	135,961
Expendable for specific operating activities	12,763	—	—	12,763	12,342	—	—	12,342
Nonexpendable permanent endowments	928	—	—	928	928	—	—	928
For statutory reserve requirements	—	134,439	—	134,439	—	117,105	—	117,105
Unrestricted	(7,776,592)	396,045	—	(7,380,547)	(7,856,500)	441,414	—	(7,415,086)
Total net deficit position	(5,107,554)	537,292	—	(4,570,262)	(5,186,192)	564,059	—	(4,622,133)
	$ 6,564,216	1,328,853	(343,347)	7,549,722	6,051,308	1,278,581	(356,883)	6,973,006

See accompanying notes to financial statements.

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

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

(In thousands)

	2016				2015			
	Business-type Activities – HHC	Discretely Presented Component Unit – MetroPlus	Eliminations	Total	Business-type Activities – HHC	Discretely Presented Component Unit – MetroPlus	Eliminations	Total
Operating revenue:								
Net patient service revenue (notes 4 and 11)	$ 5,812,049	—	(795,073)	5,016,976	5,729,197	—	(758,907)	4,970,290
Appropriations from City of New York, net (notes 1 and 11)	1,405,091	—	—	1,405,091	140,597	—	—	140,597
Premium revenue (note 16)	—	2,781,103	(24,958)	2,756,145	—	2,585,211	(20,204)	2,565,007
Grants revenue (notes 11, 13, and 14)	362,339	70	—	362,409	526,673	—	—	526,673
Other revenue	103,080	329	—	103,409	61,264	33	—	61,297
Total operating revenue	7,682,559	2,781,502	(820,031)	9,644,030	6,457,731	2,585,244	(779,111)	8,263,864
Operating expenses:								
Personal services	2,754,201	71,733	—	2,825,934	2,607,635	64,329	—	2,671,964
Other than personal services	1,753,336	2,700,031	(795,073)	3,658,294	1,561,411	2,385,522	(758,907)	3,188,026
Fringe benefits and employer payroll taxes	852,925	20,595	(24,958)	848,562	815,912	20,231	(20,204)	815,939
Pension (note 9)	502,374	12,052	—	514,426	285,111	6,879	—	291,990
Postemployment benefits, other than pension (note 10)	426,513	10,515	—	437,028	(40,299)	(1,097)	—	(41,396)
Affiliation contracted services	1,050,535	—	—	1,050,535	994,294	—	—	994,294
Depreciation (note 5)	302,530	2,397	—	304,927	291,729	2,424	—	294,153
Total operating expenses	7,642,414	2,817,323	(820,031)	9,639,706	6,515,793	2,478,288	(779,111)	8,214,970
Operating income (loss)	40,145	(35,821)	—	4,324	(58,062)	106,956	—	48,894
Nonoperating revenue (expenses):								
Investment income	3,335	9,054	—	12,389	1,979	905	—	2,884
Interest expense	(117,162)	—	—	(117,162)	(127,702)	—	—	(127,702)
Contributions restricted for specific operating activities	917	—	—	917	656	—	—	656
Total nonoperating (expenses) revenue, net	(112,910)	9,054	—	(103,856)	(125,067)	905	—	(124,162)
Income (Loss) before other changes in net position	(72,765)	(26,767)	—	(99,532)	(183,129)	107,861	—	(75,268)
Other changes in net position:								
Capital contributions funded by City of New York, net	150,069	—	—	150,069	105,711	—	—	105,711
Capital contributions funded by grantors and donors	1,334	—	—	1,334	1,204	—	—	1,204
Total other changes in net position	151,403	—	—	151,403	106,915	—	—	106,915
Increase (Decrease) in net position	78,638	(26,767)	—	51,871	(76,214)	107,861	—	31,647
Net deficit position at beginning of year	(5,186,192)	564,059	—	(4,622,133)	(5,109,978)	456,198	—	(4,653,780)
Net deficit position at end of year	$ (5,107,554)	537,292	—	(4,570,262)	(5,186,192)	564,059	—	(4,622,133)

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

	2016 Business-type Activities – HHC	2015 Business-type Activities – HHC
Cash flows from operating activities:		
Cash received from patients and third-party payors	$ 5,557,115	6,036,538
Cash appropriations received from City of New York	987,957	233,395
Receipts from grants	243,873	466,245
Other receipts	110,336	53,276
Cash paid for personal services, fringe benefits, and employer payroll taxes	(3,741,148)	(3,502,012)
Cash paid for pension	(497,715)	(443,386)
Cash paid for other than personal services	(1,513,447)	(1,425,634)
Cash paid for affiliation contracted services	(1,048,052)	(966,376)
Net cash provided by operating activities	98,919	452,046
Cash flows from noncapital financing activity:		
Proceeds from contributions restricted for specific operating activities	917	657
Net cash provided by noncapital financing activity	917	657
Cash flows from capital and related financing activities:		
Purchase of capital assets	(256,562)	(261,154)
Capital contributions by grantors and donors	1,334	1,204
Capital contributions by City of New York	165,769	161,535
Cash paid for capital retainage	(2,134)	(1,851)
Payments of long-term debt	(58,237)	(49,599)
Proceeds from the issuance of long-term debt	55,358	—
Interest paid	(50,835)	(48,335)
Net cash used in capital and related financing activities	(145,307)	(198,200)
Cash flows from investing activities:		
Purchases of assets restricted as to use	(28,037)	(885)
Sales of assets restricted as to use	2,686	11,727
Interest received	3,480	2,427
Net cash (used in) provided by investing activities	(21,871)	13,269
Net (decrease) increase in cash and cash equivalents	(67,342)	267,772
Cash and cash equivalents at beginning of year	610,960	343,188
Cash and cash equivalents at end of year	$ 543,618	610,960
Supplemental disclosure:		
Change in fair value of assets restricted as to use	$ 1,196	(212)
Capital lease incurred	7,847	—

(Continued)

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

Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

	2016 Business-type Activities – HHC	2015 Business-type Activities – HHC
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 40,145	(58,062)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	302,530	291,729
Provision for bad debts	482,724	479,172
Changes in assets and liabilities:		
Patient accounts receivable, net	(519,163)	(420,832)
Estimated third-party payor settlements, net	(75,003)	508,300
Estimated pools payable, net	(143,500)	(259,300)
Grants receivable	(118,466)	(60,428)
Supplies and other current assets	6,285	(2,766)
Accrued salaries, fringe benefits, and payroll taxes	471	(9,120)
Pension	11,233	(151,807)
Accounts payable and accrued expenses	79,117	3,371
Due to City of New York	(288,820)	276,893
Postemployment benefits obligation, other than pension	321,366	(145,104)
Net cash provided by operating activities	$ 98,919	452,046

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

Organization

On July 1, 1970, the New York City Health and Hospitals Corporation (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, on behalf of The City, comprehensive medical and mental health services to City residents regardless of 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 MetroPlus Health Plan, Inc. (MetroPlus), a prepaid health services provider (PHSP). NYC Health + Hospitals' facilities are organized into six vertically integrated healthcare networks that provide the full continuum of care – primary and specialty care, inpatient acute, outpatient, long-term care, and home health services – under a single medical and financial management structure. The networks were established to improve efficiencies through interfacility coordination.

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

The accompanying financial statements include the operation of the following component units, which are blended with the accounts of NYC Health + Hospitals:

- HHC Capital Corporation (HHC Capital) was created by NYC Health + Hospitals as a public benefit corporation, of which NYC Health + Hospitals is the sole member, in 1993 in order to secure its 1993 Series A bonds. The sole purpose of HHC Capital is to accept all payments assigned to it by NYC Health + Hospitals and its providers and remit monthly, from such assigned payments, amounts required for debt service on the 2008, 2010, and 2013 Bond issues to the bond trustee, with the balance transferred to NYC Health + Hospitals.
- HHC Insurance Company, Inc. (HHC Insurance) was created by NYC Health + Hospitals as a public benefit corporation, of which NYC Health + Hospitals is the sole member, in 2003. HHC Insurance obtained its license as a domestic captive insurance company from the New York State Department of Insurance on December 15, 2004 and commenced operations on January 1, 2005. The license was renewed on July 1, 2015. HHC Insurance underwrites medical malpractice insurance for NYC Health + Hospitals' attending physicians who specialize in the areas of Neurosurgery, Obstetrics, and Gynecology. HHC Insurance also provides access to the excess insurance coverage available in the New York State Excess Liability Pool (State Pool).

  HHC Insurance issues primary professional liability policies to their insureds on a claims-made basis with policy limits of $1.3 million per incident and $3.9 million in the aggregate. With the existence of this insurance coverage, the insured is able to apply for excess coverage, in the amount of $1.0 million per incident and $3.0 million in the aggregate, provided by the Medical Malpractice Insurance Pool of New York (MMIP). HHC Insurance has been a participant in the excess program since 2007. MMIP is the insurer of last resort for medical malpractice coverage in the State and is a joint underwriting facility, not a separate legal entity. The members of MMIP are all the licensed medical malpractice

carriers in New York State. As an MMIP member, HHC Insurance recognizes its allocable share of the premium, loss, underwriting expense, and administrative expense activities of MMIP.

- The HHC Physicians Purchasing Group, Inc. (HHC Purchasing), a public benefit corporation, was formed in 2003 to act as a purchasing group within the State. The business of HHC Purchasing is to obtain on behalf of its members, who are employees of NYC Health + Hospitals or NYC Health + Hospitals' affiliates, primary insurance for medical malpractice from HHC Insurance. HHC Purchasing was registered and approved for operations by the New York State Department of Insurance on August 31, 2005. NYC Health + Hospitals is the sole voting member of HHC Physicians.
- HHC Risk Services Corporation (Risk Services), a public benefit corporation, was granted a license on December 30, 2003 to operate by the Vermont Department of Banking, Insurance, Securities, and Healthcare Administration. NYC Health + Hospitals is the sole member. Risk Services did not conduct business (no policies were issued). Risk Services ceased operations as an insurance company in November 2011 and returned the insurance license to the State of Vermont in December 2011. It has been dormant since December 2011. Risk Services is in the process of dissolving. The dissolution papers were filed with the appropriate NYS agencies and are pending approval.
- During June 2012, HHC ACO Inc., a New York not-for-profit corporation formed by NYC Health + Hospitals as a membership entity with NYC Health + Hospitals as its sole member and as such it is entirely controlled by NYC Health + Hospitals and subject to the rules applicable to New York Public Benefit Corporations, was formed as an Accountable Care Organization (ACO) for purposes of applying to the federal Centers for Medicare and Medicaid Services (CMS) to participate in the Medicare Shared Savings Program (MSSP).
- In October 2012, NYC Health + Hospitals formed the HHC Assistance Corporation (HHCAC), which is a membership not-for-profit corporation in which NYC Health + Hospitals is the sole 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 7(f)). In 2015, HHCAC took on the function of the "Central Service Organization" in the NYC Health + Hospitals-led Participating Provider System under the New York State Department of Health's Delivery System Reform Incentive Payment (DSRIP) program. In that capacity, HHCAC operates under the d/b/a "One City Health" and performs various functions on NYC Health + Hospitals' behalf to advance its participation in the DSRIP program (note 11(d)).

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

The financial statements also include MetroPlus, which is presented as a discretely presented component unit. MetroPlus is a membership not-for-profit corporation, created by NYC Health + Hospitals, in which NYC Health + Hospitals is the sole member. 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 for the purpose of providing managed healthcare services on a prepaid basis and establishing and operating organized health maintenance and healthcare delivery systems. MetroPlus has contractual agreements with the New York State Department of Health (DOH), to provide comprehensive medical services to members of the Medicaid, Family Health Plus (FHP), HIV Special Needs Plan (HIV-SNP), and Child Health Plus (CHP) lines of business. MetroPlus also has contracts with Centers for Medicare & Medicaid Services (CMS) and DOH, to offer Medicare coverage to individuals, including those dually eligible for benefits under Medicare and New York State Medicaid. Beneficiaries have the option of selecting MetroPlus or the State of New York as their Medicaid coverage provider. MetroPlus through an agreement with the New York State Department of Financial Services (DFS), offers an Individual Qualified Health Plans (QHP) and a Small Business Health Options Program (SHOP), QHP, with coverage beginning on or after January 1, 2014, or later, through the New York State of Health Plan Marketplace (Exchange). Such plans are the result of the Patient Protection and Affordable Care Act (ACA) signed into law in March 2010. Also, effective January 1, 2016, a new product line called the Essential Plan became available to members. Additionally, NYC Health + Hospitals employees, as well as The City of New York employees, can elect MetroPlus healthcare coverage (MetroPlus Gold) as part of their employee benefits.

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 31, which are available through the Office of the Corporate Comptroller, 160 Water Street, Room 636, New York, New York 10038.

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 (GAAP) for state and local governments in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of NYC Heath + Hospitals have been prepared on the accrual basis of accounting using the economic resources measurement focus.

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

(b) Assets Restricted As to Use

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, 2016 and 2015. Assets restricted as to use are stated at fair value, with unrealized and realized gains and losses included in investment income.

Donor-restricted net positions are used to differentiate resources, the use of which is restricted by donors, from resources of unrestricted assets on which donors place no restriction or that arise as a result of the operations of NYC Health + Hospitals for its stated purposes. Donor-restricted net positions represent contributions to provide healthcare services, of which $928,000 are held in perpetuity, as nonexpendable permanent endowments, at June 30, 2016 and 2015. Resources restricted by donors for plant replacement and expansion are recognized as capital contributions and are added to the net investment in capital assets, net position balance to the extent expended within the period. Resources restricted by donors for specific operating activities are reported as nonoperating revenue. 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. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Included in net patient service revenue are adjustments to prior year estimated third-party payor settlements, estimated pools receivables and payables that were originally recorded in the period the related services were rendered. The adjustments to prior year estimates and other third-party reimbursement receipts or recoveries that relate to prior years resulted in an increase to net patient service revenue of $407.1 million and $49.6 million for the years ended June 30, 2016 and 2015, respectively.

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

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

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

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, which promotes quality and value of health care services. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated third-party payor settlements resulting from audits, reviews, and investigations. These estimated third-party payor settlements are accrued in the period the related services are rendered and adjusted in future periods as revised information becomes known or as years are no longer subject to such audits, reviews, and investigations. Net patient service revenue is reported net of the provision for bad debts of $482.7 million in 2016 and $479.2 million in 2015.

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, 2016 and 2015 was approximately $573.1 million and $452.8 million, respectively.

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

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

- Settlements of claims for medical malpractice, negligence, other torts, and alleged breach of contracts, and payments by The City (note 11(e)).
- Patient care rendered to prisoners (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; interest on New York State Housing Finance Agency (HFA) debt on NYC Health + Hospitals' assets acquired through lease purchase agreements prior to April 1, 1993; and interest on Dormitory Authority of the State of New York (DASNY) debt and Transitional Finance Authority (TFA) debt on assets acquired through lease purchase agreements, other than amounts capitalized during construction (note 5).
- Funding for collective bargaining agreements.

Reimbursement by 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 negotiated annually and paid by The City on behalf of NYC Health + Hospitals. In 2016 and 2015, the medical malpractice and general liability settlements paid by The City were $125.3 million and $123.3 million, respectively. During 2016, the City has assumed Fiscal Year

2016 commitments, thereby alleviating amounts owed to the City of $125.3 million. NYC Health + Hospitals has agreed to reimburse The City $123.3 million for 2015, which is recorded as a long term liability as The City has agreed that the amount is not due until after fiscal year 2017. The reimbursements to The City are recorded by NYC Health + Hospitals as a reduction of appropriations from (remittances to) 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 11(e)).

- Debt service (interest and principal), negotiated annually, related to debt, which funded NYC Health + Hospitals capital acquisitions and paid by The City on behalf of the NYC Health + Hospitals. In 2016 and 2015, the debt service paid by The City was $165.2 million and $147.9 million, respectively. During 2016, the City has assumed Fiscal Year 2016 commitments, thereby alleviating amounts owed to the City of $165.2 million. NYC Health + Hospitals has agreed to reimburse The City $145.8 million for 2015, which is recorded as a long term liability as The City has agreed that the amount is not due until after fiscal year 2017. These debt service reimbursements to The City are recorded by NYC Health + Hospitals as a reduction of appropriations from (remittances to) The City.

(h) Capital Assets and Depreciation

In accordance with the Agreement, The City retains legal title to substantially all 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 Henry J. Carter campus.

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

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

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

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

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

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

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

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

NYC Health + Hospitals evaluates long-lived assets for impairment when circumstances suggest that the service utility or the usable capacity that upon acquisition was expected to be used to provide service of the capital asset may have significantly or unexpectedly declined. If circumstances suggest that assets may be impaired, an impairment charge is recorded on those assets based upon a method that most appropriately reflects the decline in service utility of the capital asset. No material charges to capital assets were recorded for the fiscal years ended June 30, 2016 and 2015.

(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 $4.3 million and $3.7 million as of June 30, 2016 and 2015, respectively. These amounts are included in other current assets and accounts payable and accrued expenses in the accompanying statements of net position. At June 30, 2016 and 2015, all custodial funds-related bank balances are fully insured.

(j) Affiliation Contracted Services

NYC Health + Hospitals contracts with affiliated medical schools/professional corporations and voluntary hospitals to provide patient care services at its facilities and reimburses the affiliate for expenses incurred in providing such services. Under the terms of those contract(s), each of the affiliate(s) is required to furnish NYC Health + Hospitals with an independent audit report of receipts, expenditures, and commitments chargeable to the contract and refunds any excess advances or adjusts future payments depending upon the final settlement amount for reimbursable expenses for the fiscal year. In addition, the affiliate(s) submit to NYC Health + Hospitals a facility specific recalculation document. The recalculation document reconciles allowable contract costs to the advance payments made to the affiliate and calculates amounts due or amounts owed. Each recalculation document calculates payment based on the methodology prescribed in the contracts financial terms. The affiliate's reported expenditures are also subject to subsequent audit by NYC Health + Hospitals' Internal Audit Department.

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

(k) Supplies

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

(l) Income Taxes

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

(m) Grants Receivable

Grants receivable relate to various healthcare provision programs under contract with the State and other grantors. Grants receivable also include grants from The City, which are reimbursement to NYC Health + Hospitals for providing such services as mental health, child health, and HIV-AIDS services. Grants receivable also includes amounts related to the Delivery System Reform Incentive Payment (DSRIP) (note 11d). Additionally, $20.1 million of accrued reimbursement for Super Storm Sandy expenses is included in grants receivable (note 13).

(n) Net Position

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

(o) Compensated Absences

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 current rate. Most employees earn sick leave at a fixed rate; however, the rate can vary depending on years of

service and the contractual terms for their title. There is no accumulation limit on sick leave. Depending on length of service and contractual terms for their title, employees separating from service are paid for sick leave at varying rates. NYC Health + Hospitals accrues for the employees' earned and accumulated vacation and sick leave, and is contained within accrued salaries, fringe benefits and payroll taxes.

(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 that full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that traded less frequently than exchange-traded instruments.

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

(2) Cash and Cash Equivalents

Cash and cash equivalents include cash, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less when purchased. The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturity of the investments. Custodial credit risk is the risk that, in the event of a bank failure, NYC Health + Hospitals' deposits may not be returned to it. 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, 2016 and 2015, almost all NYC Health + Hospitals cash and cash equivalents bank balances were either insured or collateralized.

(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 forgone for services furnished under its charity care policy and the

estimated cost of those services calculated using the prior year's cost reports. The following information measures the level of charity care provided during the years ended June 30 (in thousands):

	2016	2015
Charges foregone, based on established rates	$ 974,465	938,461
Estimated expenses incurred to provide charity care	609,688	661,442

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

Most of the 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.

Net patient service revenue for the years ended June 30, 2016 and 2015 is as follows (in thousands):

	2016		2015	
Medicaid	$ 1,459,265	25.2%	$ 1,436,363	25.1%
Medicare	686,878	11.8	664,399	11.6
Bad debt/charity care pools	294,925	5.1	614,698	10.7
Disproportionate share supplemental pool (DSH)	1,164,509	20.0	1,025,000	17.9
Other third-party payors that include Medicaid and Medicare managed care	1,375,793	23.7	1,197,299	20.9
MetroPlus	795,073	13.7	758,907	13.2
Self-pay	35,606	0.5	32,531	0.6
	$ 5,812,049	100.0%	$ 5,729,197	100.0%

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

	2016		2015	
Medicaid	$ 90,640	13.5%	$ 159,645	25.1%
Medicare	67,798	10.1	58,233	9.2
Other third-party payors, that include Medicaid and Medicare managed care	228,935	34.1	199,974	31.5
MetroPlus	252,974	37.7	187,359	29.5
Self-pay	30,903	4.6	29,600	4.7
	$ 671,250	100.0%	$ 634,811	100.0%

(Continued)

(5) Capital Assets

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

		2016	2015
Land and land improvements	$	56,657	55,234
Buildings and leasehold improvements		4,313,853	4,287,073
Equipment		3,623,133	3,496,203
		7,993,643	7,838,510
Less accumulated depreciation		4,962,933	4,710,317
		3,030,710	3,128,193
Construction in progress		371,151	304,237
Capital assets, net	$	3,401,861	3,432,430

Capital assets activity for the years ended June 30, 2016 and 2015 was as follows (in thousands):

	Land and land improvements	Buildings and leasehold improvements	Equipment	Construction in progress	Total
June 30, 2014 balance	$ 54,081	4,258,355	3,397,117	240,393	7,949,946
Acquisitions, net of transfers	1,266	36,406	133,201	63,844	234,717
Sales, retirements, and adjustments	(113)	(7,688)	(34,115)	—	(41,916)
June 30, 2015 balance	55,234	4,287,073	3,496,203	304,237	8,142,747
Acquisitions, net of transfers	1,498	101,599	131,682	66,914	301,693
Sales, retirements, and adjustments	(75)	(74,819)	(4,752)		(79,646)
June 30, 2016 balance	$ 56,657	4,313,853	3,623,133	371,151	8,364,794

(Continued)

Related information on accumulated depreciation for the years ended June 30, 2016 and 2015 was as follows (in thousands):

	Land and land improvements	Buildings and leasehold improvements	Equipment	Total
June 30, 2014 balance	$ 24,894	1,888,661	2,530,016	4,443,571
Depreciation expense	1,558	134,188	155,983	291,729
Sales, retirements, and adjustments	(377)	(1,667)	(22,939)	(24,983)
June 30, 2015 balance	26,075	2,021,182	2,663,060	4,710,317
Depreciation expense	1,545	136,281	164,704	302,530
Sales, retirements, and adjustments	(74)	(1,125)	(48,715)	(49,914)
June 30, 2016 balance	$ 27,546	2,156,338	2,779,049	4,962,933

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 30, 2016 and 2015 was as follows (in thousands):

	2016	2015
Interest costs subject to capitalization	$ 18,786	11,102
Interest income	(1,580)	(1,529)
Capitalized interest costs, net	$ 17,206	9,573

NYC Health + Hospitals capitalized net interest costs on TFA debt and City General Obligation Bonds in both 2016 and 2015, 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. Such amounts capitalized in 2016 and 2015 approximated $17.0 million and $9.1 million, respectively. In addition, NYC Health + Hospitals capitalized net interest costs of $0.2 million in 2016 and $0.5 million in 2015 related to its 2008 and 2010 Series bonds.

NYC Health + Hospitals has various major facility construction projects in progress, including major modernization projects at Harlem Hospital Center, Gouverneur Healthcare Services, and Henry J. Carter campus, with an estimated cost of completion of $6.88 million at June 30, 2016.

NYC Health + Hospitals is developing an electronic medical records (EMR) system that has a six-year implementation period with a budget of $764.0 million. Included within construction in progress is $165.0 million as of June 30, 2016 and $93.5 million has been expensed for the fiscal year ended June 30, 2016. Construction in progress of $115.0 million and expense of $18.9 million were recorded as of June 30, 2015.

(Continued)

(6) Assets Restricted As to Use

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

	2016	2015
Under bond resolutions (a):		
Construction funds	$ 3,725	7,621
Capital reserve funds	87,439	87,103
Revenue funds	49,270	48,502
	140,434	143,226
New Market Tax Credit (b)	276	355
By donors for specific operating activities and permanent endowments (c)	13,690	13,270
Equipment financing (d)	32,121	—
Total assets restricted as to use	186,521	156,851
Less current portion of assets restricted as to use	34,405	49,068
Assets restricted as to use, net of current portion	$ 152,116	107,783

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

(b) The New Market Tax Credit (NMTC) transaction required the execution of a loan agreement between NYC Health + Hospitals/NCF Sub-CDE, LLC and NYC Health + Hospitals. This agreement required NYC Health + Hospitals to fund a National Community Fund (NCF) Fee Reserve Account, out of which NYC Health + Hospitals payments of interest and fees associated with the loan are drawn (note 7f).

(c) The donor-restricted funds are invested in certificate of deposits through the Certificate of Deposit Account Registry Service (CDARS), and an interest-bearing commercial checking account at June 30, 2016 and 2015. The CDARS are designated to satisfy the Federal Deposit Insurance Corporation (FDIC) requirements for pass-through deposit insurance coverage. $7.0 million was invested in certificates of deposit and $6.7 million in collateralized checking accounts at June 30, 2016 and 2015.

(d) The equipment financing escrow funds are mostly invested in United States Treasury Money Market Fund accounts (note 7(g)(h) and (i)).

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 2017.

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 30, 2016 and 2015 (in thousands):

		June 30, 2016		
		Fair value	**Level 1**	**Level 2**
U.S. government obligations and securities	$	139,270	12,629	126,641
Cash and cash equivalents		29,035	29,035	—
Total	$	168,305	41,664	126,641

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

Included within assets restricted as to use are Certificates of Deposit (CD's) of approximately $11.3 million and $13.6 million for 2016 and 2015, respectively.

NYC Health + Hospitals does not have any assets or liabilities based upon Level 3 inputs.

(7) Long-Term Debt

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

		2016	2015
Bonds payable:			
2013 Series A Fixed Rate Health System Bonds – weighted average interest of 2.44%, payable in installments to 2023:			
Uninsured Bonds (a)	$	124,941	127,999
2010 Series A Fixed Rate Health System Bonds – weighted average interest of 3.89%, payable in installments to 2030:			
Uninsured Bonds (b)		433,725	474,179
2008 Series A Fixed Rate Health System Bonds – weighted average interest of 4.51%, payable in installments to 2026:			
Uninsured Bonds (c)		101,006	108,883
2008 Series B, C, D, and E Variable Rate Health System Bonds – subject to short-term liquidity arrangements, weighted average interest of 0.80% in 2016, payable in installments to 2031:			
Uninsured Bonds (d)		154,670	159,405
Total bonds payable		814,342	870,466
New York Power Authority (NYPA) financing		—	217
Equipment and renovation financing		—	135
Clinical bed financing		80	518
Henry J. Carter capital lease obligation (e)		48,254	48,254
New Market Tax Credit (f)		14,700	14,700
JP Morgan Equipment Financing (g)		10,000	—
Revolving Loan (Citibank) (h)		10,000	—
Key Bank CISCO Leases (i)		28,216	—
Oracle ERP Financing (j)		6,540	—
Total long-term debt		932,132	934,290
Less current installments		63,506	51,442
Total long-term debt, net of current installments	$	868,626	882,848

(Continued)

Long-term debt activity for the years ended June 30, 2016 and 2015 was as follows (in thousands):

	June 30, 2015 balance	Additions	Reductions	June 30, 2016 balance	Amounts due within 1 year
Long-term debt:					
Bonds payable	$ 870,466	—	(56,124)	814,342	51,195
NYPA financing	217	—	(217)	—	
Equipment and renovation financing	135	63,205	(8,584)	54,756	9,568
Clinical bed financing	518	—	(438)	80	80
Henry J. Carter capital lease obligation	48,254	—	—	48,254	2,663
New Market Tax Credit	14,700	—	—	14,700	—
	$ 934,290	63,205	(65,363)	932,132	63,506

	June 30, 2014 balance	Additions	Reductions	June 30, 2015 balance	Amounts due within 1 year
Long-term debt:					
Bonds payable	$ 925,325	—	(54,859)	870,466	48,990
NYPA financing	844	—	(627)	217	217
Equipment and renovation financing	540	—	(405)	135	135
Clinical bed financing	2,291	—	(1,773)	518	442
Henry J. Carter capital lease obligation	48,254	—	—	48,254	1,658
New Market Tax Credit	14,700	—	—	14,700	—
	$ 991,954	—	(57,664)	934,290	51,442

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.

(a) 2013 Series A Bonds

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

Proceeds of the 2013 Bonds and $13,229,202 in residual funds from the 2008 Series A bonds were used (i) to refund and redeem all of NYC Health + Hospitals' 2003 Series A bonds totaling $111,810,000; (ii) to refund and defease a portion of NYC Health + Hospitals' 2008 Series A bonds totaling $30,675,000 ($2,405,000 matured in 2014 bearing interest at 4.0%, $16,450,000 matured in 2015 bearing interest at 5.0%, and $11,820,000 matured in 2015 bearing interest at 5% were refunded); and (iii) to pay cost of issuance of $1,131,283. Proceeds used to refund and redeem the 2003 Series A bonds were deposited with the bond trustee sufficient to pay the interest and principal of the refunded 2003 Series A bonds to and including their final redemption date of April 22, 2013. Also, proceeds used to refund and defease 2008 Series A bonds were deposited with the bond trustee sufficient to pay the interest and principal of the refunded 2008 Series A bonds to and including their final redemption date of February 15, 2015.

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

The following table summarizes debt service requirements as of June 30, 2016 (in thousands):

	Principal	Interest	Total
Years:			
2017	$ 690	5,267	5,957
2018	675	5,243	5,918
2019	735	5,216	5,951
2020	745	5,186	5,931
2021	10,000	4,558	14,558
2022–2023	98,560	4,045	102,605
Total	111,405	29,515	140,920
Unamortized premium on 2013 Bonds	13,536	—	13,536
	$ 124,941	29,515	154,456

(b) 2010 Series A Bonds

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

Proceeds of the 2010 Bonds were used (i) to finance and reimburse NYC Health + Hospitals for the costs of its capital improvement program of $199,758,168; (ii) to refund and redeem all of NYC Health

+ Hospitals' 1999 Series A bonds totaling $199,715,000; (iii) to refund and defease substantially all of NYC Health + Hospitals' 2002 Series A bonds totaling $142,315,000 ($11,905,000 of the 2002 Series A bonds were not refunded); (iv) to fund the Capital Reserve Fund of $1,751,329; and (v) to pay cost of issuance of $3,281,608. Proceeds used to refund and redeem the 1999 Series A bonds were deposited with the bond trustee sufficient to pay the interest and principal of the refunded 1999 Series A bonds to and including their final redemption date of November 26, 2010. Also, proceeds used to refund and defease 2002 Series A bonds were deposited with the bond trustee sufficient to pay the interest and principal of the refunded 2002 Series A bonds to and including their final redemption date of February 15, 2012.

The following table summarizes debt service requirements as of June 30, 2016 (in thousands):

	Principal	Interest	Total
Years:			
2017	$ 37,705	19,955	57,660
2018	39,615	18,042	57,657
2019	41,565	16,067	57,632
2020	43,560	14,020	57,580
2021	11,970	12,452	24,422
2022–2026	94,620	50,277	144,897
2027–2030	149,150	16,158	165,308
Total	418,185	146,971	565,156
Unamortized premium on 2010 Bonds	15,540		15,540
	$ 433,725	146,971	580,696

(c) 2008 Series A Bonds

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

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

Proceeds of the 2008 Series A Bonds and $4,359,500 in residual funds from the 2002 Series B, C, and H bonds were used (i) to finance and reimburse NYC Health + Hospitals for the costs of its capital improvement program of $99,367,379; (ii) to refund and defease all of NYC Health + Hospitals' 2002 Series B, C, and H auction rate bonds totaling $156,750,000; (iii) to finance $2,285,938 in interest

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

On March 28, 2013, NYC Health + Hospitals refunded and defeased a portion of the 2008 Series A bonds maturing in 2014 and 2015 (note 7(a)).

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

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

NYC Health + Hospitals maintains the bank letters of credit to ensure the availability of funds to purchase any bonds tendered by bondholders that the remarketing agents are unable to remarket to new bondholders. Draws related to such tenders under the letters of credit will become Bank Bonds. As Bank Bonds, they can still be remarketed by the remarketing agents. If not remarketed successfully as Bank Bonds, 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, 2016.

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, a NRS (nonputable remarketed securities) rate, an auction rate, an index rate, or a fixed rate. The overall weighted average interest was 0.80% for 2016 and 0.74% for 2015.

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

The following table summarizes debt service requirements for all of the 2008 Series Bonds as of June 30, 2016 (in thousands). The interest payments are based on the interest rate in effect at June 30, 2016:

	Principal	Interest	Total
Years:			
2017	$ 12,800	5,079	17,879
2018	13,255	4,724	17,979
2019	13,720	4,321	18,041
2020	14,300	3,833	18,133
2021	14,950	3,318	18,268
2022–2026	102,625	8,064	110,689
2027–2031	83,180	91	83,271
Total	254,830	29,430	284,260
Unamortized premium on 2008 Bonds	846		846
	$ 255,676	29,430	285,106

(e) Henry J. Carter Capital Lease Obligation

In September 2010, NYC Health + Hospitals and the City of New York entered into a Memorandum of Understanding with the New York State Department of Health, the Dormitory Authority of the State of New York (DASNY), and North General Hospital, to relocate the Goldwater operations of the Coler-Goldwater Specialty Hospital and Nursing Facility to the North General Hospital campus in northern Manhattan. This relocation allowed 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 agreement provides for a capital lease of the existing North General Hospital building that was renovated to house long-term acute care hospital (LTACH) services. 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 (SNF) services. NYC Health + Hospitals renamed the site of the former North General Hospital to the Henry J. Carter site. The City financed acquisition, renovation, and construction of the Henry J. Carter campus, with supplemental funding from State grants.

A lease agreement was executed in June 2011. The lease expires at the later of the date of full repayment of the North General Hospital DASNY bonds issued in relation to the leased property, or the date of NYC Health + Hospitals' rent payment based on the final Medicaid capital reimbursement receipt attributable to depreciation expense for 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, 2016 (in thousands):

		Principal	Interest	Total
Years:				
2017	$	2,663	1,146	3,809
2018		11,814	4,928	16,742
2019		3,217	1,060	4,277
2020		3,217	954	4,171
2021		3,217	849	4,066
2022–2026		16,087	2,660	18,747
2027–2029		8,039	341	8,380
Total	$	48,254	11,938	60,192

(f) New Market Tax Credit (NMTC)

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

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

The following table summarizes debt service requirements as of June 30, 2016 (in thousands):

		Principal	Interest	Total
Years:				
2017	$	—	179	179
2018		—	179	179
2019		—	179	179
2020		324	181	505
2021		561	172	733
2022–2026		2,911	754	3,665
2027–2031		3,094	572	3,666
2032–2036		3,287	378	3,665
2037–2041		3,494	172	3,666
2042–2043		1,029	9	1,038
Total	$	14,700	2,775	17,475

(g) Equipment Financing Agreement (JP Morgan)

On July 9, 2015, NYC Health + Hospitals entered into a $60 million Equipment Financing Agreement (the Agreement) with JP Morgan Chase Bank for the purpose of financing medical, information technology, and other equipment with useful lives ranging from 5 to 10 years. The 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 million. During the drawdown period, all borrowings will incur monthly interest expense based on an agreed-upon variable rate formula. NYC Health + Hospitals may elect to convert all outstanding loans any time up until August 1, 2017 based on an agreed-upon fixed rate formula with a final maturity no later than July 1, 2022. On July 9, 2015, NYC Health + Hospitals drew down $10 million at the initial interest rate of 0.9318%. The debt is secured by the equipment financed. Interest paid towards this agreement for fiscal year 2016 is $99,774. The overall weighted average interest rate was 1.0204% for the year ended June 30, 2016.

(h) Revolving Loan (Citibank)

On October 14, 2015, NYC Health + Hospitals entered into a $60 million revolving loan with Citibank for the purpose of financing Community Reinvestment Act (CRA)-eligible capital projects. The revolving loan allows NYC Health + Hospitals to borrow up to $60 million at any time in advance of the maturity date and repay in full no later than the maturity date; of which is October 12, 2018. Debt for this equipment is secured by the equipment itself.

On October 14, 2015, NYC Health + Hospitals initiated a draw-down of $10 million at the initial interest rate of 0.77%. As of June 30, 2016, NYC Health + Hospitals' outstanding revolving loan is $10 million, with a weekly variable interest rate of 1.18% reset on June 23, 2016. Interest paid for fiscal year 2016 is $66,381 with an average variable rate of 0.8989%.

(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 the all of NYC Health + Hospitals' VOIP/voice over internet protocol phones and devices. Both have maturity dates of January 30, 2020.

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

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

(j) Oracle ERP Financing

On February 26, 2016, NYC Health + Hospitals entered into a $7.8 million Municipal Payment Plan Agreement (Agreement) with Oracle Credit Corporation for the purpose of financing one-time licensing fees for an integrated ERP software solution for finance, supply chain, nurse/physician scheduling and human resources. The payment schedule under the Agreement is based upon 0% interest with the first payment made one month from closing, on May 2, 2016, then quarterly payments starting on June 1, 2016, and a final payment on December 1, 2018. Debt is secured by the software purchased through the financing agreement.

The following table summarizes debt service requirements combined for Equipment Financing Agreement (JP Morgan), Revolving Loan (Citibank), all four financing agreements for Key Bank Cisco, and Oracle EFP as of June 30, 2016 (in thousands):

		Principal	Interest	Total
Years:				
2017	$	9,568	488	10,056
2018		9,640	424	10,064
2019		18,394	273	18,667
2020		7,154	172	7,326
2021		—	102	102
2022		—	102	102
2023		10,000	—	10,000
Total	$	54,756	1,561	56,317

(Continued)

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

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

	2016	2015
FDNY EMS operations (a)	$ 209,850	177,046
Medical malpractice payable (b)	123,380	250,250
Other accrued expenses (c)	27,651	57,017
Utilities prepaid expenses (d)	(1,759)	(1,278)
Debt service (e)	145,780	298,950
Collective bargaining (f)	—	(77,000)
	$ 504,902	704,985

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

(b) Payable represents final malpractice balances due to The City (note 1(g)).

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

(d) Receivable represents final and reconciled utility costs due from The City. Estimated utilities payments made by NYC Health + Hospitals to The City during 2016 exceeded final and reconciled utilities bills, resulting in a prepaid expense of $1.8 million at June 30, 2016.

(e) Payable represents final and reconciled debt service costs. These debt service costs relate to debt incurred by The City, which funded NYC Health + Hospitals capital acquisitions (note 1(g)).

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

(9) Pension Plan

NYC Health + Hospitals participates in the New York City Employees Retirement System (NYCERS), which is a cost-sharing, multiple-employer public employees' retirement system. NYCERS provides defined-pension benefits to 184,800 active municipal employees and 142,100 pensioners through $63.59 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' employees' covered payroll for the years ended June 30, 2016 and 2015 are approximately $2.232 billion and $2.167 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.

(Continued)

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

NYCERS provides three main types of retirement benefits: service retirements, ordinary disability retirements (nonjob-related disabilities), and accident disability retirements (job-related disabilities) to members who are in different "Tiers." The members' Tier is determined by the date of membership. Subject to certain conditions, members generally become fully vested as to benefits upon the completion of 5 years of service. Employees may be required to contribute a percentage of their salary to the pension plan based on their Tier, determined by their date of membership in the plan. Annual pension benefits can be calculated as a percentage of final average salary 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. They may range between 0.00% and 7.46% of their annual pay. Statutorily required contributions (Statutory Contributions) to NYCERS, determined by the New York City Office of the Actuary in accordance with State statutes and City laws, are funded by the Employer within the appropriate fiscal year.

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, and includes the information for MetroPlus. At June 30, 2016 and 2015, NYC Health + Hospitals reported a liability of $3.593 billion and $2.833 billion, respectively, for its proportionate share of the NYCERS net pension liability. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 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 2016 and 2015, which was 14.789% and 14.030%, respectively.

(a) Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions:

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

Mortality rates and methods used in determination of the total pension liability were adopted by the New York City Retirement System (NYCRS) Boards of Trustees during fiscal year 2012 and updated for fiscal year 2016 based primarily on the experience of the Plan and the application of Mortality Improved Scale MP-2015 published by the Society of the Actuaries in October 2015. Scale MP-2015 applied on a generational basis, replaced Mortality Improvement Scale AA, which was applied on a static projection basis. Pursuant to Section 96 of the New York City Charter, studies of the actuarial assumptions used to value liabilities of the five actuarially funded New York City Retirement Systems (NYCRS) are conducted every two years.

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

(b) Expected Rate of Return on Investments

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

adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

(c) Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2016 and 2015, respectively, was 7.00%. The projection of cash flow used to determine the discount rate assumed that employee contributions will be made at the rates applicable to the current Tier for each member and that employer contributions will be made based on rates determined by the Actuary. Based on those assumptions, the NYCERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and nonactive NYCERS members. Therefore, the long-term expected rate of return on NYCERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

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	$ 4.927	3.593	2.476

(Continued)

(d) Deferred Outflows of Resources

At June 30, 2016 and 2015, NYC Health + Hospitals reported $491.6 million and $264.3 million, respectively, as deferred outflows and inflows of resources mainly from the accumulated net difference between projected and actual earnings on NYCERS investments, expected and actual experience, recognition of changes in assumptions, and changes in proportionate share contributions. The deferred outflows of resources at June 30, 2016 will be recognized in expense as follows (in thousands):

	Amount
Year ended June 30:	
2017	$ 68,200
2018	133,435
2019	198,502
2020	91,509
	$ 491,646

(e) Annual Pension Expense

NYC Health + Hospitals' annual pension expense for fiscal years ending 2016 and 2015, which includes contributions toward the actuarially determined accrued liability, including the information for MetroPlus, were approximately $514.4 million and $292.0 million, respectively.

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

In accordance with collective bargaining agreements, NYC Health + Hospitals provides OPEB that include basic healthcare benefits to eligible retirees and dependents at no cost to many of the participants. Basic healthcare premium costs that are partially paid by 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 prior to retirement; and (iv) be receiving a pension check from a retirement system maintained by The City or another system approved by The City.

NYC Health + Hospitals' OPEB expense (credit) of $437.0 million, $(41.4) million and $203.5 million in 2016, 2015, and 2014 were actuarially determined in accordance with the parameters of GASB Statement No. 45; however, implicit rate subsidy (expense) credits of $(15.6) million, $13.1 million and $18 million reduced OPEB expenses for 2016, 2015, and 2014, respectively. The annual required contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities. NYC Health + Hospitals' net OPEB obligation for 2016,

2015, and 2014 is composed of the following, as calculated by the Office of the Actuary, City of New York, and includes the information for MetroPlus (in thousands):

		2016	2015	2014
Normal cost	$	244,154	227,986	241,316
Amortization of unfunded actuarial accrued liability over one year		(48,071)	(214,114)	(94,020)
Change in assumptions		145,219	(110,701)	—
Amortization of change in actuarial cost method over 10 years		(115,952)	(115,952)	(115,952)
Interest at 4.0%		196,073	184,480	190,195
Annual OPEB (credit) cost		421,423	(28,301)	221,539
Less NYC Health + Hospitals payments for retired employees' healthcare benefits and implicit rate subsidy credit		96,000	119,948	120,288
Net OPEB obligation increase		325,423	(148,249)	101,251
Net OPEB obligation – beginning of year		4,676,536	4,824,785	4,723,534
Net OPEB obligation – end of year		5,001,959	4,676,536	4,824,785
Less current portion of postemployment benefits obligation, other than pension		117,964	113,268	110,062
	$	4,883,995	4,563,268	4,714,723

The $145.2 million change in assumptions in the June 30, 2015 OPEB actuarial valuation for fiscal year 2016, are due to a change in a post-retirement mortality assumption, HMO aging adjustment, and Welfare Fund contribution trend. The NYCERS pension actuarial assumptions used in the June 30, 2015 OPEB actuarial valuation are unchanged from those used in the June 30, 2014 OPEB actuarial valuation except for post-retirement mortality as prepared by the Actuary and adopted by each NYCERS Board of Trustees during Fiscal Year 2016. The new tables of post-retirement mortality are based primarily on the experience of each system and the application of Mortality Improvement Scale MP-2015 published by the Society of Actuaries in October 2015. Scale MP-2015 applied on a generational basis replaced Mortality Improvement Scale AA which was applied on a static projection basis. All other demographic and salary increase assumptions are reflected in the June 30, 2015 OPEB actuarial valuation. For the June 30, 2015 OPEB actuarial valuation, an age adjustment was applied to the cost of Other HMOs. The age-adjusted premiums used reflect the difference in age-adjusted premiums and cash premium costs for Other HMOs. In the previous valuation, these premiums were assumed to be community rated.

Welfare Fund contributions have been updated to reflect recent contribution rates. Recently negotiated amounts including scheduled increases for fiscal years 2016 through 2018 were reflected. The historical negotiated increase rates for the larger Welfare funds over the past 18 years were examined. There was an average increase of 2.5% over the past 18 years, which was significantly lower than the 5.0% assumed in the

previous valuation for the period after the current contracts. This rate was lowered to 3.5% for the June 30, 2015 valuation. Medicare Part B premium reimbursement amounts have been updated to reflect actual premium rates announced for calendar years through 2016, including changes adopted as part of the Bipartisan Budget Act of 2015.

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

NYC Health + Hospitals has not funded any of its net OPEB obligations.

The schedule below presents the results of OPEB valuations as of June 30, 2015 for fiscal year 2016, as of June 30, 2014 for fiscal year 2015, and as of June 30, 2013 for fiscal year 2014 (in thousands):

Actuarial valuation date	Entry age actuarial accrued liability (AAL)	Frozen entry age actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2015	$ 4,049,890	—	4,049,890	2,171,336	186.5%
June 30, 2014	3,688,064	—	3,688,064	2,138,008	172.5%
June 30, 2013	3,732,883	—	3,732,883	2,105,660	177.3

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

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

The actuarial assumptions include an annual healthcare cost trend rate (HCCTR). The HCCTR applied to Pre-Medicare plans was updated as of June 30, 2009 to reflect recent past experience and anticipated future experience, including the enactment of National Healthcare Reform. The HCCTR for Pre-Medicare plans assumes an initial rate of 8.5% and is gradually reduced to an ultimate rate of 5% after 8 years. The complete set of actuarial assumptions and methods used in the June 30, 2015 OPEB actuarial valuation are contained in the Report on the Eleventh Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (the Eleventh OPEB Report). The Eleventh OPEB Report was prepared as of June 30, 2015 in accordance with GASB Statements No. 43 and 45 for the fiscal year ended June 30, 2016 by the New York City Office of the Actuary and is dated September 23, 2016.

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

Medicare provides PPS reimbursement for psychiatric units on a per diem basis, recognizing the intensity of care provided to the patients. 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, costs related to treating a disproportionate share of indigent patients, and some physician services are reimbursed on a cost basis. Due to these adjustments and other factors, final determination of the reimbursement settlement for a given year is not known until Medicare performs its annual audit. The earliest fiscal year for open Medicare cost report audit and final settlement for NYC Health + Hospitals facilities ranges from 2010 to 2014.

Effective January 1, 1997, the State enacted the Healthcare Reform Act (HCRA), which covers Medicaid, Workers' Compensation, and No-Fault. In January 2000, the State passed HCRA 2000 extending the HCRA methodology until June 30, 2003, which has subsequently been extended several times and is now scheduled to expire December 31, 2017. Medicaid pays for inpatient acute care services on a prospective basis using a combination of statewide and hospital specific 2010 costs per discharge adjusted to meet state budget targets and for severity of illness based on DRGs. Certain hospital specific noncomparable costs are paid as flat-rate per discharge add-ons to the DRG rate. Certain psychiatric, rehabilitation, long-term acute care, and other services are excluded from this methodology and are reimbursed on the basis of per diem rates. Effective October 2010, per diem reimbursement for inpatient psychiatric services is determined by a PPS methodology taking into account comorbidities and length of stay.

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

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

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 provided for in the accompanying financial statements.

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

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

Laws and regulations governing Medicaid and Medicare are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. 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, i.e., fines, penalties, and possible exclusion from Medicaid and Medicare, in the event of noncompliance. In accordance with recent trends in healthcare financial operations, NYC Health + Hospitals has established a Corporate Compliance Committee and appointed a Corporate Compliance Officer to monitor adherence to laws and regulations.

(b) Medicare Recovery Audit Contractor Program (RAC)

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

Subsequently, CMS adopted a policy known as the "Two-Midnight" rule effective October 1, 2013. The "Two-Midnight" policy specifies that hospital stays spanning two or more midnights after the beneficiary is properly and formally admitted as an inpatient will be presumed to be "reasonable and necessary" for purposes of inpatient reimbursement. CMS adopted the policy due to concern with auditor determinations regarding appropriate inpatient admission criteria as well as the growing use of "observation" status at hospitals. With this significant change in policy, CMS implemented a "Probe and Educate" training period during which RAC audits for medical necessity were temporarily suspended. This minimized the audit activity for NYC Health + Hospitals. The Probe and Educate period ended on September 12, 2016.

(c) Budget Control Act

The Budget Control Act of 2011 (the Budget Control Act) mandated significant reductions and spending caps on the federal budget for fiscal years 2012 through 2021. The Budget Control Act also created a requirement for Congress to enact recommendations of a bipartisan "super committee" achieving at least $1.2 trillion in deficit savings over a 10-year period by January 1, 2013, otherwise $1.2 trillion of across the board reductions known as the "sequester" would be triggered. The super committee failed to produce recommendations and after passing the American Taxpayer Relief Act to provide a two-month delay, Congress was unable to reach an agreement to avoid imposition of the sequester. As a result, Medicare reimbursement was reduced by 2% effective April 1, 2013, known as Sequestration. The Sequestration period was extended by legislation until 2025.

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

In April 2014, the federal government approved a New York State Medicaid waiver request to reinvest $8 billion in federal savings to support implementation of transformative reforms to the State's healthcare system. Delivery system reforms will primarily be implemented through $7.4 billion of DSRIP Incentive payments for community-level collaborations to achieve programmatic objectives with a goal of reducing avoidable hospital use by 25% over five years. Additionally, there was an initial award of $500 million made available during fiscal years 2014 and 2015 via an Interim Access Assurance Fund (IAAF), which was provided to ensure the financial viability of critical safety net providers during the period prior to DSRIP implementation.

The IAAF, part of the DSRIP program, is a grant program authorized under the recently approved $8 billion Medicaid 1115 waiver. Its purpose is to assist safety net hospitals in severe financial distress and major public hospital systems to sustain key healthcare services as they participate with other providers to develop proposals for systems of integrated services delivery to be funded and implemented under the DSRIP. NYC Health + Hospitals was awarded a total of $152.4 million for IAAF and recorded $136.9 million of grant revenue as of June 30, 2015. The IAAF has fulfilled the role of sustainability for the major public hospitals, and no additional IAAF funds are available, nor recorded for fiscal year 2016, now that the five year DSRIP incentive payment program has been implemented.

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 (PPS). The NYC Health + Hospitals-led PPS is referred to as OneCity Health 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 PPS-level preparation for participation in the DSRIP program, and in execution of NYSDOH required organizational and project planning essential to implementing and managing DSRIP program efforts. Notable activities include the establishment of PPS governance structures and the operationalization of a NYC Health + Hospitals subsidiary (OneCity Health Central Services Organization, or CSO) dedicated to DSRIP implementation and management.

OneCity Health PPS governance structures include an Executive Committee, three subcommittees to the Executive Committee, and four Hub Steering Committees, for each of four OneCity Health hubs

corresponding to each of the boroughs Bronx, Brooklyn, Queens, and Manhattan. All governance approvals are made by the Executive Committee, and NYC Health + Hospitals has the final approval authority in its role as fiduciary of the PPS. The OneCity Health CSO is charged with supporting NYC Health + Hospitals and all 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 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 PPS Executive Committee and included in the DOH-required State Implementation Plan submitted in August, 2015.

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

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

During 2016, OneCity Health filed two progress reports on milestones and performance measures with the NYSDOH. Review of these quarterly reports by the Independent Assessor assigned a value for each submission. OneCity Health was assigned distributions of $73.9 million related to fiscal year ended June 30, 2016, which is reported as grants receivable and grants revenue based on meeting the eligibility requirements.

(e) Legal Matters

There are a significant number of outstanding legal claims against NYC Health + Hospitals for alleged negligence, medical malpractice, and other torts, and for alleged breach of contract. Pursuant to the Agreement, NYC Health + Hospitals is indemnified by the City for such costs, which were $125.3 million for 2016 and $123.3 million for 2015. For 2016, the City has notified NYC Health + Hospitals that the amount for 2016 was no longer an obligation, and as such, were assumed by The City. 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 8(b)). Accordingly, no provision has been made in the accompanying financial statements for unsettled claims, whether asserted or unasserted.

(f) 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 $38.7 million in 2016 and $40.1 million in 2015 and included in other than personal services in the accompanying financial statements.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2016 (in thousands):

		Amount
Years:		
2017	$	25,442
2018		23,481
2019		22,081
2020		17,720
2021		17,646
2022–2026		63,078
Total minimum payments required	$	169,448

(12) Accounts Payable and Accrued Expenses

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

		2016	2015
Vendors payable	$	353,047	258,450
Per diem nurses payable		58,090	65,311
Accrued interest		12,136	12,870
Affiliations payable		33,486	30,206
Affiliations vacation accrual		35,880	37,493
Pollution remediation liability		11,039	10,691
Other		13,890	15,697
	$	517,568	430,718

(13) Super Storm Sandy

NYC Health + Hospitals has applied for public assistance through the Federal Emergency Management Agency (FEMA) to cover the costs of repairs and replacements of facilities to pre-storm conditions and to make improvements to meet codes and standards. FEMA has obligated $142 million, of which approximately $62 million was advanced and recognized as grant revenue during 2014. For the year ended June 30, 2016, NYC Health + Hospitals received over $18.3 million and recognized grant revenue for

(Continued)

additional $20.1 million related to FEMA Sandy related expenditures. For June 30, 2015, NYC Health + Hospitals received over $33.0 million in reimbursements from FEMA for Sandy related expenditures and recorded as grant revenue.

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

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

During the years ended June 30, 2016 and 2015, NYC Health + Hospitals recognized revenue of approximately $23.7 million and $13.3 million, respectively, of HITECH incentives from the Medicare and Medicaid programs that is 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. The amount of the EHR incentive revenue recorded was based on the amounts received, which is subject to audit by CMS or its intermediaries and amounts recognized are subject to change.

(15) Correctional Health Services

On August 9, 2015, NYC Health + Hospitals, via a Memorandum of Understanding (MOU) with The City of New York, assumed from the New York City Department of Health and Mental Hygiene (DOHMH) its contracts for the provision of medical, mental health, and dental services for the inmates of correctional health facilities maintained and owned by the City of New York (Correctional Health Services (CHS)), 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 DOHMH otherwise engaged in the performance of correctional health functions, together, with the transfer of all real and personal property, as used by DOHMH in its provision of correctional health services. Total expenses funded through appropriations by the City of New York was $164.7 million, and an additional $17.4 million was funded through grants. The total expense for the assumed contracts from DOHMH for the fiscal year ended June 30, 2016 is $182.1 million.

(16) MetroPlus

(a) Cash and Cash Equivalents

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

(b) U.S. Government Securities

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

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

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

Year	Investment type	Fair value	Investment maturities (in years)	
			Less than 1	1 to 3
2016	U.S. Treasury bills, notes, bonds, and strips	$ 405,906	76,859	329,047
2015	U.S. Treasury bills, notes, bonds, and strips	249,868	93,309	156,559

The following presents MetroPlus fair value measurements for U.S. government securities measured at fair value on a recurring basis as of June 30, 2016 and 2015 (in thousands):

		June 30, 2016	
	Fair value	Level 1	Level 2
U.S. Treasury bills, notes, bonds, and strips	$ 405,906	—	405,906

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

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

(c) Premiums Receivable and Premium Revenue

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

Medicare premiums are based on rates approved by CMS. Premiums earned include Individual and SHOP QHP revenue. QHP premiums are based on various plan types and coverage levels selected by the enrollee. In addition to premiums from enrolled QHP members, MetroPlus receives premium subsidies from CMS for Individual QHP members, under the Advanced Premium Tax Credit program (APTC) provided under the ACA.

MetroPlus receives QHP Cost-Sharing Reduction (CSR) payments from CMS, which are recorded as deposit liabilities, and offset by payments to providers on behalf of the QHP member. These deposits are available to fund member deductibles, copayments, and coinsurance costs incurred by certain enrolled Individual QHP members. Receipts and payments for the CSR program are accumulated and the net amount is reported as a receivable or liability. A CSR deposit liability of $17.0 million at June 30, 2016 and $16.2 million at June 30, 2015 is included in accounts payable and accrued expenses. Under the ACA, the United States Department of Health and Human Services (HHS) will initiate a settlement of the net CSR due, following the end of the coverage year.

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

The Essential Plan became effective on January 1, 2016. This new plan provides members with all of the benefits offered on the New York State of Health (the official health plan marketplace), but at a much lower cost. Members who do not qualify for Medicaid or Child Health Plus, pay a premium of $20 per month or $0, dependent upon income in the Essential Plan. The plan offers no deductibles and free preventive care.

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

Premium revenue, by percentage, from members and third-party payors for the years ended June 30, 2016 and 2015 was as follows:

	2016	2015
Medicaid	73%	81%
MetroPlus Gold	1	1
Medicare	4	4
Child Health Plus	1	1
Family Health Plus	—	1
HIV-SNP	8	9
Qualified Health Plans	2	3
MLTC	2	—
HARP	5	—
Essential Plan	4	—
	100%	100%

(d) Assets Restricted As to Use

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

		2016	2015
MetroPlus statutory reserve investments	$	134,439	117,105

MetroPlus statutory reserve investments are required by the DOH Rules and Regulations for the protection of MetroPlus enrollees, and are maintained at 5% of the healthcare services expenditures projected for the calendar year 2016. The statutory reserve is calculated in accordance with the regulations.

The statutory reserve account of $134.4 million and $117.1 million at June 30, 2016 and 2015, respectively, is invested in U.S. government securities with original maturity dates of one year or more. The account is in the form of an escrow deposit, maintained in a trust account under a custodian arrangement approved by the NYS Department of Financial Services.

The following presents MetroPlus statutory reserve investments' fair value measurements for assets measured at fair value on a recurring basis as of June 30, 2016 and 2015:

			June 30, 2016	
		Fair value	Level 1	Level 2
U.S. government Treasury bills	$	134,439	—	134,439

(Continued)

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

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

(e) Change in Claims Payable

Accounts payable and accrued expenses include MetroPlus claims payable of $535.5 million and $504.5 million at June 30, 2016 and 2015, respectively. Activity in the liability for claims payable, which mainly includes health claims, the risk sharing agreement with NYC Health + Hospitals, and claim adjustment expenses related to health claims included in other than personal services, is summarized as follows (in thousands):

	2016	2015
Balance, July 1	$ 504,533	561,692
Less drug rebates receivable	(18,885)	(9,156)
Net balance	485,648	552,536
Incurred related to:		
Current year	2,603,715	2,349,090
Prior years	21,489	(40,448)
Total incurred	2,625,204	2,308,642
Paid related to:		
Current year	2,102,546	1,893,421
Prior years	493,222	482,109
Total paid	2,595,768	2,375,530
Net balance at June 30	515,084	485,648
Plus drug rebates receivable	20,387	18,885
Balance, June 30	$ 535,471	504,533

Net reserves for unpaid claims and claim adjustment expenses attributable to insured claims of prior years' increased by $21.5 million in 2016 and decreased by $40.4 million in 2015. These changes are generally the result of ongoing analysis of recent loss development trends that include expected healthcare cost and utilization.

(f) Risk Sharing Agreement with NYC Health + Hospitals

In July 2000, MetroPlus and NYC Health + Hospitals entered into an agreement whereby all medical risk was shifted to NYC Health + Hospitals for most Medicaid, FHP, CHP, SNP, HARP, EP and NYC Health + Hospitals members who select primary care physicians associated with NYC Health + Hospitals or contracted with MetroPlus based upon a percentage of the premium collected for those

(Continued)

members (89% and 86% in risk years 2016 and 2015, respectively). NYC Health + Hospitals is also entitled to 100% of the onetime maternity and newborn supplemental payments for those members. After the end of the calendar year risk period, both parties settle the net amount remaining after payment of all capitated and fee-for-service medical expenses regardless of whether the provider was part of NYC Health + Hospitals network or not. This risk sharing agreement was expanded beginning October 1, 2011 to shift the prescription drug risk cost component for most Medicaid and FHP members from MetroPlus to NYC Health + Hospitals, for 97.5% of the prescription drug premium collected for those members. The risk sharing agreement provides for annual settlement within six months of the end of each risk period or later as mutually agreed upon.

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

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

MetroPlus is required to participate in the three risk spreading programs under the Affordable Care Act: permanent risk adjustment, temporary reinsurance, and temporary risk corridors. The risk adjustment program spreads risk of adverse selection among all QHP plans within the same state; the reinsurance program protects MetroPlus from unexpectedly high medical costs on individual QHP members; and under the risk corridors program, MetroPlus shares risks, associated with uncertainty in pricing during the initial years of the ACA implementation, with HHS. At June 30, 2016 and 2015, MetroPlus estimated a risk adjustment liability of $47.6 million and $52 million, respectively, which is included in accounts payable and accrued expenses.

(h) Operating Leases

MetroPlus leases equipment and office space under various operating leases. Total rental expense for operating leases was approximately $10.0 million in 2016 and $8.5 million in 2015 and included in other than personal services in the accompanying financial statements.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2016 (in thousands):

		Amount
Years:		
2017	$	6,819
2018		7,925
2019		8,343
2020		8,557
2021		8,539
2022–2026		17,159
Total minimum payments required	$	57,342

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)

June 30, 2016, 2015, and 2014

(Dollar amounts in thousands)

		2016	2015	2014
Contractually required contribution	$	497,715	443,386	435,678
Contributions in relation to the contractually required contribution		497,715	443,386	435,678
Contribution deficiency (excess)	$	—	—	—
HHC covered-employee payroll	$	2,232,187	2,166,797	2,081,328
Contributions as a percentage of covered-employee payroll		22.30%	20.46%	20.93%

See accompanying independent auditors' report.

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

Schedule of NYC Health + Hospitals' Proportionate Share of the Net Pension Liability
NYCERS Pension Plan

(Unaudited)

June 30, 2016, 2015, and 2014

(Dollar amounts in thousands)

	2016	2015	2014
HHC proportion of the net pension liability	14.789%	14.030%	13.991%
HHC proportionate share of the net pension liability	$ 3,593,257	2,832,753	2,521,076
HHC covered-employee payroll	2,232,187	2,166,797	2,081,328
HHC proportionate share of the net pension liability as a percentage of its covered-employee payroll	160.97%	130.73%	121.13%
Plan fiduciary net position as a percentage of the total pension liability	69.57	73.12	75.32

See accompanying independent auditors' report.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of New York City Health and Hospitals Corporation (NYC Health + Hospitals), a component unit of The City of New York, as of and for the years ended June 30, 2016 and 2015, 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 24, 2016. 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 determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NYC Health + Hospitals 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 communication is not suitable for any other purpose.

KPMG LLP

October 24, 2016