AUDIT COMMITTEE
MEETING AGENDA

October 2, 2014

11:00 A.M.

125 Worth Street,
Rm. 532
5th Floor Board Room

CALL TO ORDER

- Adoption of Minutes September 11, 2014 — Ms. Emily A. Youssouf

INFORMATION ITEMS

- Fiscal Year 2014 Draft Financial Statements and Related Notes — Jay Weinman
- Fiscal Year 2014 Report to the Audit Committee — Ms. Maria Tiso, Partner KPMG
- Audits Update — Mr. Chris A. Telano
- Compliance Update — Mr. Wayne McNulty

OLD BUSINESS

NEW BUSINESS

ADJOURNMENT

MINUTES

AUDIT COMMITTEE

MEETING DATE: September 11, 2014
TIME: 11:00 AM

COMMITTEE MEMBERS
Emily A. Youssouf, Chair
Josephine Bolus, RN
Jo Ivey Boufford, M.D.

STAFF ATTENDEES
Antonio Martin, Executive Vice President/COO
Barbara Keller, Deputy Counsel, Legal Affairs
Deborah Cates, Chief of Staff, Chairman's Office
Randall Mark, Chief of Staff, President's Office
Patricia Lockhart, Secretary to the Corporation, Chairman's Office
Marlene Zurack, Senior Assistant Vice President/CFO, Corporate Finance
Jay Weinman, Corporate Comptroller
Nelson Conde, Senior Director, Central Office
Gassenia Guilford, Assistant Vice President, Finance
Christopher A. Telano, Chief Internal Auditor/AVP, Office of Internal Audits
Wayne McNulty, Corporate Compliance Officer
Devon Wilson, Senior Director, Office of Internal Audits
Steve Van Schultz, Director, Office of Internal Audits
Carlotta Duran, Assistant Director, Office of Internal Audits
Delores Rahman, Audit Manager, Office of Internal Audits
Frank Zanghi, Audit Manager, Office of Internal Audits
George Asadoorian, Senior Auditor, Office of Internal Audits
Jonathan Delgado, Senior Auditor, Office of Internal Audits
Cynthia McIntosh, Senior Auditor, Office of Internal Audits
Roger Novoa, Senior Auditor, Office of Internal Audits
Armel Sejour, Senior Auditor, Office of Internal Audits
Rosemarie Thomas, Senior Auditor, Office of Internal Audits
Jean Saint-Preux, Staff Auditor, Office of Internal Audits
Barbarah Gelin, Staff Auditor, Office of Internal Audits
Satish Malla, Staff Auditor, Office of Internal Audits
Gillian Smith, Staff Auditor, Office of Internal Audits
Guzal Contrera, Staff Auditor, Office of Internal Audits
Denise Soares, Senior Assistant Vice President, Gen + Northern Manhattan Healthcare Network
Caswell Samms, Chief Financial Officer, Gen + Northern Manhattan Healthcare Network
Michael Thomas, Pharmacy Director, Lincoln Medical & Mental Health Center
Mercia Franklin, Controller, Harlem Hospital Center
Dinah Surh, Senior Executive Administrator, D&TCs, Gen + Northern Manhattan Healthcare Network
Cheryl Isaacs, Associate Director, Renaissance Healthcare Network D&T Center
Edie Coleman, Senior Associate Director, Metropolitan Hospital Center
Brian Stacey, Chief Financial Controller, Queens Health Network
Lisa Stager, Deputy Financial Controller, Queens Health Network
Kiho Park, Associate Executive Director, Queens Health Network
Joseph Abinanti, Pharmacy Director, Kings County Hospital Center
Juan Checo, Director, Kings County Hospital Center
Anthony Saul, Senior Associate Director, Finance, Central Brooklyn Health Network
Ronald Townes, Associate Director, Kings County Hospital Center
Christina Santiago, Associate Director, Kings County Hospital Center
Aaron Cohen, Chief Financial Officer, South Manhattan Healthcare Network
Timi Diyaolu, Controller, Bellevue Hospital Center
Seth Narine, Coordinating Manager, Bellevue Hospital Center
Kibaki DePass, Assistant Controller, Coney Island Hospital
Kim Walcott, Assistant Director, Coney Island Hospital

OTHER ATTENDEES
Mt Sinai School of Medicine: Caryn Pannone, Director of Finance, Kenneth Feifer, Associate Director

SEPTEMBER 11, 2014
AUDIT COMMITTEE OF THE BOARD OF DIRECTORS
NYC HEALTH & HOSPITALS CORPORATION

An Audit Committee meeting was held on Thursday, September 11, 2014. The meeting was called to order at 11:08 A.M. by Ms. Emily Youssouf, Committee Chair. Ms. Youssouf stated that before we get into the meeting, she would like to ask for a moment of silence in recognition of September 11th.

Ms. Youssouf then asked for a motion to adopt the minutes of the Audit Committee meeting held on June 12, 2014. A motion was made and seconded with all in favor to adopt the minutes. An additional motion was made and seconded to hold an Executive Session of the Audit Committee to discuss matters of personnel and potential litigation.

Ms. Youssouf introduced the first information item, a follow-up on the Art Management Audit and asked the representatives to introduce themselves. They did as follows: Joe Schick, Executive Director of the President's Office of Special Projects; Gregory Mink, Art Administrator and Frederick Leich, Senior Director.

Mr. Schick stated that they were there to follow-up on the items raised in an audit conducted by the Office of Internal Audits (OIA). OIA identified the following six issues which we have been concerned ourselves since the initial meeting.

The Operating Policy (OP) 10-23, which governs the Art Collection; OIA identified it as out of date and we concurred. We quickly began updating the OP, which was sent on March 5th to the Office of Legal Affairs and approved by them, subsequently sent and signed by Dr. Raju on June 27th. We completely revamped the OP in a very short period of time. The new policy was mailed to 300 central office employees including those with interest in either the oversight of art in their facilities and the distribution D. We have been conducting in-service meetings around the new operating policy and to-date have had those meetings with five HHC facilities; Coney Island, Lincoln, Jacobi, Bellevue and Woodhull. The remaining facilities will be in-serviced before the end of calendar year 2014.

HHC Art Collection Database – Mr. Leich commented on what has been done with regard to the database. A comprehensive survey of all of HHC art collection works is underway with a corresponding update to the database. Each database entry contains specific information about the work of art, such as the title of the artist and an inventory number. As of now that information is being manually entered, but we are looking to make that process electronic. As mentioned in February, we are going to go to a barcoding system. We have received the barcoding scanner, and we are working with our vendor to implement the software to generate the barcodes for inventory by the end of this year.

Mrs. Bolus asked if the barcoding diminishes the value of the painting. Mr. Leich answered no, because the inventory number will be affixed on the back, and when the artwork is displayed, it will be attached to places like the bottom of the frame so the artwork does not have to be moved to be scanned. It will not be visible, but it will be attached directly to it.

Mr. Leich continued with item B stating that the second slide shows the relative amount of information that we have in the database at the time the audit was conducted. We had just over 6,100 works in the database and have added 600 additional entries to that database now. We also recovered many artworks from the facilities back to central storage, and we have inventoried about 1,300 of those.

Ms. Youssouf asked if they have a total on how much artwork we have. Mr. Leich said that they have not finished all the facilities' surveys, but they have about 6,700 works that are either true artworks or what we call decorative items.

We keep track of things like posters and photographs so that for future audits it is very easy to categorize and inventory what the item is that the audit team might be looking at.

Ms. Youssouf asked if they were comfortable that that is everything. To which Mr. Leich answered that they have a baseline completed by the end of the fiscal year, and then they will truly have count of everything.

Ms. Youssouf asked that if that number could potentially increase. Mr. Leich said that it will likely increase as they add decorative items and new acquisitions to the database. Then Ms. Youssouf asked if they had a dollar value. Mr. Leich responded that they do not have a dollar value. It would be in the many millions of dollars. For example, the Bearden work was appraised earlier this year at half a million dollars. Some of our murals that are at the facilities are likely in the millions of dollars.

Ms. Youssouf stated that her concern is that should we have some kind of insurance, it is very valuable and it should be on our books somewhere as some kind of asset and she thinks it needs to be protected. She said that she would leave that question up to both the CFO and Legal Counsel.

Mr. Schick stated that he would agree and defer to the Office of Legal Affairs and the CFO on how to if needed. He said that the literal ownership of the HHC's art resides with the City. They are the formal owners of it and it may already be insured under the City's blanket coverage.

Ms. Zurack added that the City is self-insured and it is too expensive to get insurance.

Dr. Boufford added that we have had some experience with art collection. I think you need to get the items appraised to get the value and there is a group insurance for rare projects that are less expensive than you think. It is something that should be explored, even though the value of the items could be in the millions, the actual insurance policy is much more reasonable.

Ms. Youssouf said that we should check on the ownership; if it is, in fact, the City or HHC.

Mrs. Bolus added that if they were actually donated to HHC, then it actually goes over to the City.

Mr. Schick said that our understanding is that if the vast majority of the works, are part of the ownership, they belong to the City. He said he would check on what happens towards if they individually donate.

Ms. Zurack said that the City owns almost all of the assets of HHC, most of the assets, except for equipment sets that we have purchased. But then they are available for our use exclusively, so we have them in our books.

Ms. Youssouf and Mrs. Bolus asked if they were donated directly to HHC. To which Ms. Zurack said yes, but it was likely not donated directly to HHC, especially if you are talking about some of this older stuff. It depends – what I was getting at is some assets are actually only owned by HHC. The City was not involved in it. For the most part, mostly the buildings are the City's and we have a lease for exclusive use for a dollar a year, etc. But if they are part of a lot of City capital projects, which sounds like through the years, they may even precede HHC.

Mr. Leich said that the WPA murals go all the way back.

Mr. Schick stated that this is one of the points OIA was interested in – were they purchased under the City's Percent For Art Stipulation, which is essentially mandated that if you are conducting a capital project, you will devote one

percent of the budget of that project to the purchase of art to beautify the institution. Many of the works that are in HHC's art collection were purchased under that stipulation.

Ms. Youssouf added that once we get all of the details, we will have a better idea what the precise numbers are and as Dr. Boufford said, taking a look at what the cost of the insurance policy is.

Dr. Boufford asked if there is paperwork on the items that were actually donated. Mr. Schick responded yes.

Dr. Boufford said that that is always important because people may have used that about whether things revert back to an estate.

Mr. Schick said that he believes when we go through the paperwork process with works that are donated to HHC the standard paperwork includes the giving of all rights with regard to the works to HHC.

Dr. Boufford said that in terms of some of the Keith Haring work in Woodhull that was given by him free. That is an example of something more recent that probably is valuable at this point. Mr. Schick added that that is entered into the City's collection. It was given to the City at Woodhull in 1986.

Ms. Youssouf asked if it was given to the City or the Hospital and Mr. Schick responded that it was given to the City.

Mr. Schick continued with the next item pointed out by OIA.

Storage and physical security of the artwork – OIA was concerned with the appropriateness and security of facility storage areas, and now during every one of our surveys, we review the storage of art that is not on display. The larger activity there is the return of works that are not on display to secure, safe and controlled storage at central office. As Mr. Leich pointed out that somewhere in the nature of 335 works have been returned just this summer. As we conduct the in-services and as we go and do the surveys at the facilities where works are not either installed on displayed or, otherwise in transit to us, we bring them back. When works are mounted at the facilities, we install them in a multipoint method system, so there is a four point system to ensure that they cannot be taken off the walls. We are investigating radio frequency identification devices (RFIDs) that could be installed on the facilities and therefore any movement of the artwork would be tracked and alarm us. It is much more difficult in places like hospitals or healthcare facilities where there may be fifty or sixty doors – we would have to have a very complex monitoring system in place and very expensive. At least for the moment we are tracking through the barcoding system once we fully implement it.

Mrs. Bolus asked if there will be an electronic station at every door and if the picture goes through, will it make a noise? Mr. Schick said that if there was a station at every door that would in effect be exponentially increasing the cost of something that is probably not sustainable. Barcoding is for identification purposes. We will know that for example, artwork D2341 is at such location. When we do our survey and find that it is not in that location then we will know that it is not where it is supposed to be.

Mrs. Bolus asked if it is easily removed. Mr. Schick and Mr. Leich answered that it is tamper proof.

Mr. Schick continued with the next item OIA was interested in.

Documented approval for artwork related functions – if art is located at one facility and we determine to move it to another, as we recently did with artwork that were moved from various locations to Carter, we now fully document a standard form for the movement of those artworks. As previously mentioned, we are documenting appraisal

numbers for the artworks. It was a bit of a test case for us moving the artwork to Carter. We installed just shy of 50 artworks from HHC's art collection at Carter, documented the movement of them, documented the appraised value and installed all of them in the most maximally secure way that we could.

Mrs. Bolus asked if they were doing everything. To which Mr. Schick responded that what they are trying to do is create, within the database, a record of what is considered art. The Public Designing Commission of the City of New York considers art, and the OP makes reference to art, as anything that has a value of over $500, including the frame. It is a very arbitrary notion, but that is the one that they are working with. We are attempting, as we expand the database to identify things that are art and things that have a decorative value but are not, per se, art. We keep very accurate logs, the security of the works that were in storage at 346 Broadway plus all of the artworks that have returned through the summer are now in secure swipe or key card access storage at 55 Water Street. We have documented the return and secure storage of all of those works.

Mr. Schick continued and stated that OIA also noted.

Compliance with OP 10-23 (Goldwater artwork survey) - As the facility was decommissioned, they were curious about how we had or how the facility that handled the removal of art and its ultimate relocation. We worked extensively with Goldwater; a formal survey had not been done before the building was decommissioned. That is a responsibility that resides with the facility management in every case, which is something that was in the original OP but it had sort of fallen out of use over time, as new facility managers came in and they were not instructed in the appropriate behaviors with regard to art. As we update the new OP 10-23, we reviewed with their facilities group the artworks and retrieve or relocate many. Most notably, under curatorial supervision, we removed a series of works, valuable and important works that were in the chapels at Goldwater. Those works are now in safe storage at Coler and will be reinstalled in the relatively near future.

Mr. Schick stated that OIA was also interested in knowing that we have communicated to facilities what their responsibilities were with regard to oversight over the art within their physical domain. We have now made it clear to them, through the OP and through in-service meetings, that within those conducted formal artwork surveys of works within their facilities, before beginning major construction or demolition projects, report the findings of those surveys to us and we will then verify them.

Mr. Schick stated that the last item the auditors were interest was:

HHC's Compliance with Percent For Art – When it was founded, one percent of the art of the construction project was not a daunting number. Over time it has become a pretty substantial number. If you take one dollar of every hundred out of a construction project for the purchase of art, it would be very expensive. We are doing what we did at Carter, which is to take works from across the system or that are in storage in our central office vaults and to use them, collaborating with the facility, to create a visual artistic identity for that facility and at the same time meet the general demands of One Percent for Art. That has been working successfully – we are about to do the same with Gouverneur and a couple of other facilities are waiting in the wings. Coney Island, which had artworks removed during the hurricane and stored security, returned to us, are also going to be able to be installed going forward.

Ms. Youssouf stated that she commends and thanks him and his team for doing this so quickly and so thoroughly and that she will be interested to get an update at the end of the year when he thinks he has found more and also to hear back from our CFO and Counsel about insurance and what the procedure is who actually owns the art in various situations.

Ms. Youssouf turned to Chris Telano for the audits update.

Mr. Telano saluted the Committee Members and said that we will start with the briefing on pages three and four, which is the summary of the audits currently being conducted by government agencies. The first one is the Emergency Room Wait Time. That report was issued in final and we sent out a response on September 5th. There was only finding, which states "the three facilities failed to provide sufficient evidence to support their claims of reductions in the wait time". The report with our responses will still be issued in final in the coming weeks.

Number two, Navigant, which at the next meeting, will be taken off this briefing because we have not heard from them in over a year. Number three is the Lincoln Affiliation Agreement with PAGNY that the Comptroller's office is reviewing and that is just ongoing. That review has been ongoing for fourteen months and they are still evaluating documents.

On Page four, the same could be said about the New York City Comptroller's audit of patient revenue and accounts receivables. That audit started in October last year, so it is coming up on a year, and once again, they are just gathering information and evaluating it. Since our last meeting in June, there have been two new audits initiated. The first one is of Bellevue Hospital's Emergency Operations Plan, the entrance conference for that audit was held in August. They have been sent documentation, and I met with the HHC representatives yesterday regarding that audit and it is just a flow of information and documents on right now. The last one is an audit initiated by the State Comptroller's office, which is a follow-up audit. The original audit was issued in 2012 and it is of management and control of overtime costs. The entrance conference was held September 3rd so it is in the infancy stages.

Mr. Telano continued on page five, completed audits. The first one is of the process and procedures and systems at Gouverneur Healthcare. The representatives approached the table and introduced themselves as follows: Martha Sullivan, Executive Director; Christopher Mastromano, Deputy Executive Director; Brian Ancona, CFO; Matt Mateo, Operations Officer. Mr. Telano stated that he will not call this an audit; he will call this a review, because it was done at the request of Dr. Sullivan. She came on board as the ED in January, and she had asked for a full review of the processes and procedures throughout the facility. Mr. Telano said that that is one thing he encourages people to do, ask for audits when they first come on board because we will find things for you ahead of time. The first issue we came across was that the Chief Financial Officer was the only individual authorized to approve purchases of goods and services. There was no other approval within the GHX system. Dr. Sullivan responded yes, and said that she thanks Mr. Telano and his team for this review. It has proved very helpful, and she did request this so that she could more quickly identify any areas of exposure or vulnerability or possibly impropriety. With regard to this specific item, we have developed a matrix of approvers to facilitate the procurement process. That begins with the department head approval. The associate director of finance also has been designated to approve in the absence of the CFO.

Mr. Telano said that the second item is regarding pay increases. We noted that all raises and, actually, any changes in salaries were approved by this internal review committee which consisted of the previous executive director, the comptroller and the senior associate executive director of HR. To document this, these changes in salaries, a SMN 100-form was supposed to be completed. We found that this form was sometimes not completed, sometimes signed only the ED, although the department head, budget and HR are also supposed to sign-off on that form. In some instances not all four parties were signing off on this form. During our review, we found 17 employees with increases in the calendar year 2013 from 10 percent to 146.8 percent increase in pay. Dr. Sullivan said that effective January 2014 when I began, all the SMN 100s are signed by the department head, me and the CFO.

Mrs. Bolus stated that she was curious about the raises, especially people who received more than 100 percent – what happened with those people and why did they receive this. Mr. Telano answered that according to his notes, the individuals received a promotion and a merit increase at the same time. That was the reason indicated on any of the documents, and without the individuals still working for Gourverneur, that is all we can go by.

Mrs. Bolus asked if they no longer work for Gouverneur. To which Mr. Telano responded that the ED no longer works there. Mrs. Bolus then asked if there was no paperwork at all. Mr. Telano answered that there was some of those individuals, and it just said promotion and merit increases, so it was combined.

Mrs. Bolus asked what type of a job was it. Mr. Telano stated that one was a psychologist; the actual code was good evaluation and a promotion.

Dr. Sullivan stated that in some of those cases, people were moved from part-time to a full-time status.

Ms. Youssouf said to please find out and get back to us. Mr. Telano responded sure and said that the percentage increases just brings to the attention of the function and the process as it relates to the approval. The approval was all in-house and primarily, by the forms we saw that were only signed by the ED, he was the only person approving this. That is the control weakness that existed, so there may not be any other explanation, other than what we saw on a document that said good evaluation, promotion.

Ms. Youssouf said that it is worth further explanation.

Mr. Telano continued and stated that the third item was lack of monitoring and tracking company assets. We could not locate 10 pieces of biomedical equipment; five laptops and phones were assigned to incorrect individual's names.

Dr. Sullivan stated that we did conduct an investigation to locate the missing equipment and we were not able to find it or locate it either. We believe that some of this was probably discarded during the demolition related to the modernization of the first floor and skilled nursing floors. Presently, though, all equipment is being tagged and tracked and barcoded and a relinquishment process is in place.

Ms. Youssouf wanted to know what the biomedical equipment was, and how expensive it was. To which Dr. Sullivan said that it was not all biomedical equipment. Mr. Telano said some items were – one was an exam table, which might not be biomedical, but we could not find it. We have an aspirator, the vital signs monitor, a blood flow Doppler, a dental chair.

Ms. Youssouf asked if there was a procedure in place. Mr. Telano said that the point of this review was to find these weaknesses, so going forward these types of exceptions will not occur.

Mrs. Bolus asked if they are supposed to be tagged. Mr. Martin responded yes, that there is supposed to be a fixed asset process, maybe it was moved and sent someplace else and it was not registered. I do not think anybody would steal an exam table, but I could be wrong.

Mr. Telano continued with the bank account signatory list not being up-to-date. There was a signature of the executive director of psychiatry who had retired in January 2013 still on the signature card, and Dr. Sullivan's name was not on the signature card as of June 2014. Dr. Sullivan said that we definitely updated the signature list. I am a signatory; the CFO and our ED for development are all bona fide signatories at this point. We also have a designated signature liaison, Mel Tanay, who will monitor this situation.

Mr. Telano stated that the next item has to do with petty cash -- basically a violation of the Operating Procedure 40-46. In some instances, rather than going through accounts payable, they went through petty cash. They broke down the receipts because petty cash is supposed to be limited to $50. For example, for a Breakthrough event, they

break down receipts under $50, instead of going through accounts payable and paying a thousand dollars; the same thing with the volunteer office. We also found that some of the uses of petty cash were questionable as when we compared it to the operating procedures. For example, engineering and maintenance were using petty cash for car washes, car inspections and automotive supplies. Dr. Sullivan said that they are pursuing vendor contracts for Breakthrough meals, engineering and maintenance, also for the volunteer services. Furthermore, to prevent the commingling of funds, the custodians of petty cash are no longer able to cash their petty cash reimbursement checks with the property office. They need to go outside to cash their checks, and they have begun to do that already.

Mr. Telano continued with the next item regarding system access. We found numerous terminated employees that still had access to eCommerce, GHX and OTPS. We found 551 users that were not on the human sources roster at Gouverneur that still had access to the patient billing system, Unity. There seemed to be a complete lack of controls related to that. Dr. Sullivan stated that they done a couple of things. First of all, we implemented HR six, an HR policy that is addressing the exit process for terminated employees. All employees, once they give notice that they are leaving, the department heads have been instructed to notify HR. HR now has a checklist that they must go through that addresses equipment, keys and so forth. They communicate with the IT department letting them know that the employee is leaving. For NYU affiliates, we designated someone at NYU who will also contact the IT department. IT will then discuss any equipment that is assigned and also limit systems access.

Ms. Youssouf asked that of the 551 user, did they find any fraud. To which Mr. Telano responded that we did not come across anything like that.

Mr. Martin added that almost a year ago, we instituted a policy for separated employees, so this is a reminder that that policy is not being followed because this has come up in other audits also. I have reinforced that with the senior leadership of the Corporation.

Mr. Telano continued and stated that the next item is in line with that, that there is a lack of tracking of employees ID cards. According to the HR, the ID card system did not allow them to print a report identifying all outstanding IDs; it is a possibility that terminated employees never returned their IDs which allow them access to the facility still.

Ms. Youssouf asked if it has been corrected. To which Dr. Sullivan responded yes, the same HR process that I just referenced will also be an opportunity to track the IDs.

Mr. Telano stated that he will go quickly through these last three items; the safe at the Judson Health Center Clinic, we found not locked and a deposit not done timely. We found some patient accounts that remained opened because they are not being periodically reviewed. We also noticed a lack of security at the main entrance as visitors were not being asked for IDs.

Ms. Youssouf stated that Internal Audit was highly complementary of the new administration at Gouverneur and that she is very impressed that you asked for this. You dealt with it and she thinks that this is a best practice that perhaps you might want to think about in security. Dr. Sullivan thanked the Committee.

Mr. Martin said that he already brought it up. That at his Senior VP meeting, he talked very positively about how proactive Dr. Sullivan was; and he recommended, that all of them should do this. Mr. Martin also added that when you are at the very top of an organization, a lot of times you do not know, do not understand what is going on. So I congratulate Dr. Sullivan for being very proactive.

Mr. Telano continued with the next audit regarding the Renaissance Healthcare Network. We did a review of controls over cash. He asked the representatives to approach the table they did and introduced themselves as follows: Denise Soares, SVP; Dinah Surh, Executive Director; Caswell Samms, CFO; Mercia Franklin, Controller and Cheryl Issacs, Associate Director, Renaissance Healthcare Network.

Mr. Telano said that he will go through both findings. The first one had to do with the reconciling of cash. We were looking for, as a cashier's cashes out at the end of each day, there should be an agreement of cash on hand to some type of system, as bank tellers do, as cashiers at retail outlets do, and they were not doing that. Unity provides a daily cash log report and OPUS provides a dispensing report, and this is being done at other facilities of the Corporation, so we had recommended that they do that. The other finding was that the pharmacist at the Lenox Pharmacy sometimes accepts co-payments and dispenses medicine to patients during lunch hours of the cashier.

Mr. Samuels stated that the item with regards to the reconciliation of OPUS has been implemented. Also, in addition to the recommendation from OIA, we have a cashier training coming up, which we are going to implement to make sure that there is cross coverage of the cashiers at the different locations. We adjusted the hours of operation of the cashier at the Lenox Pharmacy as well.

Mr. Telano continued with the Surprise Count of Pharmacy Inventory at Lincoln Medical Center and asked for the appropriate representative to approach the table. The representatives present were: Denise Soares, SVP; Caswell Samms, CFO; Mr. Michael Thomas, Pharmacy Director. Mr. Telano stated that we revealed no discrepancies when we did our surprise count which is a good thing. We have some minor control recommendations, and will quickly go through them. We found that controlled substances were on both reports, the stockroom and the controlled substance inventory. We also found that ID cards were still in existence for terminated employees or individuals that should not have access to the pharmacy. The other one, we found is that the pharmacy director does not have an appointed assistant to cover him in his absence. Mr. Thomas stated that in regards to the controlled substance, when we receive controlled substances from eCommerce, it comes into the stockroom. We receive it in the system, and then it is shipped to Pyxis. At the audit, the stockroom personnel overlooked a shipment from a few days, but they had actually shipped the product over. As a result of that, when the shipment comes in, the narcotics supervisor has to go to the stockroom, reconcile with the stockroom personnel and make sure that the electronic shipment goes over to the next system which is Pyxis. The two systems do not talk to each other, we have an eCommerce system, and then we have Pyxis system and other systems. Someone has to electronically direct the movement of any sort of drugs to the next system.

Ms. Youssouf asked if he will be checking on this to be sure this is working now. To which Mr. Thomas responded yes.

Mr. Thomas said that they were two issues with the ID cards. One was the spelling of the name of the employee was spelled one way under the hospital police system and spelled a different way under the pharmacy system, that has been reconciled. Then there were two non-pharmacy employees in the hospital police system that had access to the card swipe door of the outpatient pharmacy.

Ms. Youssouf wanted to know how that happened. Mr. Samms said that those particular employees were employees that are given access to clean the pharmacy. Currently, hospital employees are self-auditing all security sensitive areas, and we are also reconciling with pharmacy and the additional security sensitive areas with their department heads on the employees that currently have should have access to those areas. Mr. Thomas added that when the system was further reviewed, it was demonstrated that those employees never used their card swipe to get into the pharmacy.

Mrs. Bolus asked when will IT going to correct the problem they have with eCommerce and the Pyxis. Mr. Thomas said that it is cumbersome, the auditors were actually very helpful, I drew out for them the flow of or the movement of medication from system to the other and it is a very complex diagram – interface would be perfect.

Mrs. Bolus asked how many people can do that. To which Mr. Thomas answered about five. Mrs. Bolus asked out how many employees. Mr. Thomas responded about 60.

Mr. Martin added that it is a corporate-wide issue, not just specific to Lincoln.

Ms. Youssouf asked if he has hired an assistant pharmacy director. Mr. Thomas said not yet.

Mr. Samms added that they assessing the actual need to add additional pharmacy director. Although we thank Mr. Telano for his recommendation, we are evaluating on a financial basis to make that determination if we want to increase that resource in that specific area.

Mr. Telano moved onto the next audit which is Kings County, also a pharmacy inventory. He asked for the representatives to approach the table and stated that he actually has two Kings Audits in a row, so the same individuals can probably stay at the table. The representatives present were: Anthony Saul, Senior Associate Director; Joseph Abinanti, Pharmacy Director; Christina Santiago, Associate Director, HR; Juan Checo, Director, Hospital Police.

Mr. Telano then stated that he will go through the findings all together. Once again, we had the card swipe issue where individuals have access to pharmacy that should not have. Then the freight charges on their inventory. Then an individual, the pharmacy technician in charge of transferring the inventory from eCommerce to Pyxis did have a backup. That came to halt when that individual was out.

Ms. Youssouf asked if they have addressed that. Mr. Saul stated that on the backup, there was only one individual at the time that did this particular transfer. Two additional have been trained during the month of June and July and the last person was trained this month when he gets back from vacation, we will have four individuals trained.

Ms. Youssouf asked about the 12 of 31 who were not and had active swipes. Mr. Saul responded that those individuals were not actually in our facility. What we have done, as Mr. Martin pointed out, we are repeating that policy that has been in effect. We have also implemented an electronic confirmation process where when HR sends the electronic confirmation to hospital police and to IT, they send back electronically that they have deactivated these individuals and we also implemented a sample process, where even though they have said that they have done it, we are going to take samples that it has been done.

Ms. Youssouf said great and thanked them.

Mr. Telano continued on with the next five audits which are affiliations. He asked the representatives to approach the table and introduced themselves as follows: Anthony Saul, Senior Associate Director and Nelson Conde, Senior Director of Affiliations. Mr. Telano then said that all of the affiliation audits that we are going to discuss, five of them, the only major issue would be of the recalcs not being finalized timely, then there is minor recordkeeping and controls that need to be improved during the rest of the audits. At Kings we only found that recalcs was not being completed timely. Mr. Saul said that the recalc has subsequently been completed and executed, by both Kings and SUNY and it will be processed.

Ms. Youssouf added that she knows that recalc is something OIA has mentioned a number of times and how it has been a problem. She is sure Mr. Martin is aware of that and had probably spoken to everybody about making sure they do their recalcs. Mr. Martin said absolutely.

Mr. Telano continued on with Queens and asked the representatives to approach the table. They introduced themselves as follows: Brian Stacey, Network CFO; Lisa Stager, Deputy CFO/Affiliations; Caryn Pannone, Director/Mt Sinai; Kenneth Feifer, Mt Sinai Administration. Mr. Telano said that the findings are all related to terminated employees still having either ID cards or system access.

Mr. Stacey stated that they tightened up their process for making sure that those individuals are terminated from all systems. The process right now is that they communicate that to a network security officer, and that person creates a database, which she logs in everybody that is terminated. She immediately sends out an email to all the systems' administrators, whether it be QuadraMed or Seamans, and then also the hospital police to make sure that those IDs are deactivated.

Ms. Youssouf stated that her concern is that this comes up in almost every audit has reviewed today. It seems to be more of a system wide issue.

Mr. Telano added that it is the same issue and I think some progress has been made related to HHC employees, but now that has to be rolled out to the affiliates also.

Mr. Martin said that it is somewhat disappointing, because we did put the policy in effect a year ago. I have sat with the senior leaders and have let them know and I hold them accountable for making sure this is followed.

Mr. Telano said that the last three audits are all related to the NYU affiliation; Bellevue/Gouverneur, Coler/Carter and Woodhull. We could probably address these all together. He asked for the representatives to approach the table and introduce themselves: Aaron Cohen, Network CFO and Wade Crowe, Finance Director (NYU). Regarding Bellevue and Gouverneur once again, it is about system access and ID badges. I think that we beat that one to death, so we do not need to go into that. Coler/Carter representatives were Manuela Brito, CFO and Wade Crowe, Finance Director (NYU). The findings have to do with subcontractors, we found that two subcontractors received medical clearance one to two months after their due date; we also could not find a document that shows the increase in the monthly rate of a payment to a pathology lab and then subcontractor agreement with Cornell had expired but they were still doing work for us.

Mr. Crowe said that on the subcontracts, most of these we took over from RIMA, the oral pathology one was dated 1998. We assumed all of these contracts and have been in the process of renewing them one by one. The payment to the oral path folks, they had doubled the number sessions. So the budget was approved differently, the invoices were coming in from two sessions. Everything was set two sessions except for the contract, which at the same rate. We are in the process of terminating that contract and bringing the person on as a per diem.

Mrs. Bolus asked if this all pathology. To which Mr. Crowe answered yes.

Mrs. Bolus then asked why we have it in our paper as 2011. Mr. Crowe said the original contract was 1998. There is no contract since 1998, we turned it over.

Mr. Cohen said that the point is that the payment was correct, the contract was wrong.

Mrs. Bolus asked if we had a copy of the contract. Mr. Crowe responded no, that the contract was never changed – just the work was changed.

Mrs. Bolus then stated that the monthly rate was raised from $1,000 to 2,000. Mr. Crowe added that the number of sessions was changed the rate per session was the same.
Mr. Telano added that the number of sessions doubled, which resulted in a doubling of the monthly payment.

Mr. Martin said that the issue is have we made the adjustments in the contract giving us the flexibility to actually, increase or reduce the amount. Mr. Crowe said right, we are working with the provider to actually cancel the contract and bring them on as a per diem, which is more efficient.

Ms. Zurack said that there will be no need for subcontracts. Mr. Crowe said right, I think we took 10 subcontracts when we took over RIMA, and we have been trying to eliminate the subcontracts because then it requires a whole invoicing process and then a time sheet from another organization to come in that we then have to approve. We are trying to eliminate all of it.

Mr. Telano said that he had one comment related to the Woodhull affiliation. The representatives were: Rick Walker, CFO and Wade Crowe, Finance Director (NYU). That also has to do with subcontractors in which there was no documentation related to time being worked and Mr. Crowe responded that time sheets will be utilized going forward. Mr. Crowe said yes, the May and June payments I just recently approved, because it took time for them to get us time sheets. The practice, ever since contracts have come in, that people reviewed the work on a monthly basis, the HHC medical director, the department chair, everyone reviewed the work monthly, but there was no time sheet submitted.

Mr. Telano said that was the end of the audit update.

Ms. Youssouf thanked and stated to let's move quickly to Compliance.

Wayne A. McNulty, HHC's Senior Assistant Vice President and Chief Corporate Compliance Officer, began by starting with page three of the Corporate Compliance Report (the "Report") - - the Compliance Reporting Index. Mr. McNulty reported that for the second quarter of calendar year 2014, April 1, 2014 to June 30, 2014, there were a total of 98 compliance-based reports. Mr. McNulty stated that, out of these reports, there were 64 priority B reports and 34 priority C reports. He commented that there were some notable reports that would be discussed in executive session.

Ms. Youssouf asked if there were any priority A. Mr. McNulty said that there were none.

Mr. McNulty continued on page four of the Report - - the Privacy Reporting Index. Mr. McNulty informed the Audit Committee that for the same period of time - - the second quarter of the calendar 2014, there were 36 incidents reported through the HIPAA complaint tracking system. He explained that out of these 36 reports, 18 were confirmed violations of HHC HIPAA privacy operating procedures, 11 of which were determined to be breaches of protected health information ("PHI"). Mr. McNulty continued by discussing a privacy incident at Kings County Hospital ("Kings"). Specifically, he described an incident that involved the disclosure of PHI pertaining to 18 patients that occurred when a paper that contained PHI was found outside SUNY Downstate Hospital and was returned to the privacy office at Kings. Mr. McNulty advised the Audit Committee that although the source of the document had not yet been determined, efforts to determine the same continued. He further advised the Audit Committee that breach notification letters were sent to all the affected individuals.

Mr. McNulty continued on to page six of the Report by discussing a data breach that occurred at Coler Rehabilitation Nursing Center ("Coler"). He reported to the Audit Committee that on Friday, August 29th, the Office of Corporate Compliance ("OCC") began the notification process of 102 former and current patients. He elaborated that the incident in question occurred between January 1, 2008 and April 30, 2013, when a Coler employee, who is now a former employee, inappropriately accessed and used the PHI of patients and filed fraudulent tax returns in their names. He stated that the Coler employee then subsequently received tax refunds based on the fraudulent tax returns, and unlawfully deposited the proceeds derived from the tax returns into an account under his control. He reported that the former employee was subsequently indicted by United States Attorney's Office. Mr. McNulty advised the Audit Committee that, in response to this incident, the following steps were taken by Coler and HHC: (i) the availability of services of a third-party vendor to provide the affected patients with credit monitoring and identity theft restoration services on their accounts was arranged; and (ii) the examination of HHC's internal privacy practices, which will result in, where appropriate, the implementation of policies and procedures to reduce the chance of an incident of this nature from recurring in the future, was performed. He commented that HHC continued to cooperate with law enforcement and civil authorities to bring the matter to its proper and prompt conclusion. He closed by stating that he was unable to discuss further details regarding the matter because of the ongoing resulting prosecution of the same by the U.S. Attorney's Office.

Mr. McNulty continued to page seven of the Report, the monitoring of excluded providers. He reported that there were no reports of excluded providers received by the OCC since the last time convened in June of 2014.

Mr. McNulty continued with to the next item on the Report, Gotham FQHC ("Gotham") and compliance oversight. Mr. McNulty reminded the Audit Committee that, in April, HHC applied to the Health Resources Services Administration ("HRSA") for designation of six of its diagnostic and treatment centers ("D & TCs") and all their respective satellite clinics as a federally qualified community health center look-alike pursuant to HRSA's regulations. Mr. McNulty stated that, during the pending application process, the OCC has met with the chairperson and board members of Gotham on compliance oversight matters, noting that he recently met with Gotham board members on July 30, 2014. In summary, he stated that during the July 30, 2014 meeting with Gotham, the following topics were reviewed: (i) the amendment of HHC's Corporate Compliance Plan to specifically address compliance oversight activities at the FQHC D & TCs; and (ii) the finalization of a number of operating procedures, including operating procedures related to billing, overpayments, and excluded providers.

Mr. McNulty continued with the final section of the Report - - the External Audit Follow-up Report. He reminded the Audit Committee that he reported in June that HHC responded to an audit conducted by the Office of Civil Rights ("OCR") concerning Metropolitan Hospital Center ("Metropolitan") and its compliance with certain federal civil rights and health information technology laws. He continued by informing the Audit Committee that the OCR subsequently requested additional information regarding the scope of HHC's information systems risk analysis process. He stated that OCR specifically asked for a comprehensive risk analysis that identified the risks and vulnerabilities of PHI applications, including, among other things, servers, applications, databases, desktops, mobile devices, media, and smart phones. He stated that on July 28, 2014, the OCC responded to the subject query by providing the OCR with a supplement, which included findings from an outside vendor that HHC engaged to conduct its security HIPAA and Meaningful Use assessments. He stated that the OCR was provided with the Metropolitan risk registry and remediation tracking report. He added that the OCR was also provided with a report that covered the HIPAA risk analysis procedures, which was conducted by the OCC in conjunction with a vendor. He further stated that the OCR was informed of HHC's engagement of outside vendor TekMark to perform a HIPAA gap analysis at all HHC acute care facilities, including Metropolitan.

Mr. McNulty asked the Audit Committee if they had any questions and then concluded his Report.

Ms. Youssouf thanked Mr. McNulty, and then indicated that the Committee was going into Executive Session. (Executive Session was then held).

Ms. Youssouf stated that they are back from the Executive Session.

There being no further business, the meeting was adjourned at 12:55 P.M.

Submitted by,

Emily Youssouf
Audit Committee Chair

New York City Health And Hospitals Corporation
Summary of Financial Operations For Year Ended June 30, 2014

- KPMG has almost completed its audit of the Corporation's 2014 financial statement and is expected to issue an unqualified opinion. An unqualified opinion states that the financial statements are presented fairly in all material respects.

- The following statements reflect changes in reporting and required a restatement of the 2013 financial statements:

    - GASB 65 – reporting items previously reported as assets
        - Requires gain or loss on refunding to be classified as a deferred outflow rather than an asset
        - Costs of issuance to be expensed rather than amortized over the life of the bonds
    - GASB 68 – accounting for pensions
        - Changes the measurement for liability recognition

- Overall, the Corporation's net deficit position increased by $509 million in 2014. For 2013, net deficit increased by $380 million.

Significant Financial Ratios Comparison

			2012	
	2014	2013	State-Wide Avg*	NYC Avg*
Current ratio	0.87	1.10	1.48	1.24
Days cash on hand	19.50	21.41	54.90	51.30
Net days revenue in patient receivables	71.91	81.28	65.97	64.75

* Source: 2012 Institutional Cost Reports as compiled by Greater New York Hospital Association (latest data available)

New York City Health And Hospitals Corporation
Summary of Financial Operations For Year Ended June 30, 2014

Balance Sheet (Statement of Net Position)

Assets

- Patient accounts receivable, net –decreased $67 million and 10 days due to an increase in collection efforts. 2014 patient service cash increased by $406 million while increasing patient service revenue.

Statement Page #	Reference	2014	2013	Variance
15	A	693,151	760,513	(67,362)

- Estimated third party-payor settlements – increased $580 million due to the payment delay of $540 million of earned UPL revenue for state fiscal years beginning with 2012.

Statement Page #	Reference	2014	2013	Variance
15	B	1,247,700	668,100	579,600

- Grants receivable – decreased $223 million due to the receipt of $183 million in CDBG revenue accrued at the 2013 year-end, and the receipt of $20 million of IAAF (Interim Access Assurance Fund) funds for fiscal year 2015.

Statement Page #	Reference	2014	2013	Variance
15	C	82,547	305,479	(222,932)

- Assets restricted as to use - decreased $28 million due to use of the Construction Fund for various capital projects.

Statement Page #	Reference	2014	2013	Variance
15	D	46,873	37,283	9,590
15	D	121,266	158,863	(37,597)
		170,153	198,159	(28,007)

- Capital assets, net - increased $140 million for:
  - Gouverneur Healthcare Services major modernization project ($42 million)
  - Harlem Hospital Center major modernization project ($13 million)
  - Henry J. Carter major modernization project ($82 million)

Statement Page #	Reference	2014	2013	Variance
15	E	3,506,375	3,366,456	139,919

Deferred Outflows

- Unamortized refunding cost – Represents the amortization of loss on bond refunding and is newly reported as per GASB 65. This was previously reported as a reduction to HHC's long term bond debt. Decreased $ 4 million from 2013; representing the amortization.

Statement Page #	Reference	2014	2013	Variance
15	F	18,240	22,437	(4,197)

Liabilities

- Accrued salaries, fringe benefits, and payroll taxes – increased $105 million for estimated collective bargaining settlements.

Statement Page #	Reference	2014	2013	Variance
15	G	834,475	729,681	104,794

New York City Health And Hospitals Corporation
Summary of Financial Operations For Year Ended June 30, 2014

- Accounts payable and accrued expenses – increased $23 million primarily due to increases in vendors' payable due to cash flow.

Statement Page #	Reference	2014	2013	Variance
15	H	409,347	385,904	23,443

- Estimated pools payable – increased $415 million The increase is primarily due to the receipt of State Fiscal Year 2015 DSH Max and Supplemental SLIPA funds

Statement Page #	Reference	2014	2013	Variance
15	I	711,600	296,900	414,700

- Due to City of New York – increased $310 million as the Corporation and The City agreed to delay payments to maintain adequate cash flows.

Statement Page #	Reference	2014	2013	Variance
15	J	746,740	436,591	310,149

- Long-term debt – decreased $52 million due to the payment of current debt obligations. The statements have been adjusted for GASB 65 and loss on refunding is reported as deferred outflows.

Statement Page #	Reference	2014	2013	Variance
15	K	50,669	40,634	10,035
15	K	941,289	1,003,650	(62,361)
		993,972	1,046,297	(52,326)

- Postemployment benefits obligation, other than pension (OPEB) – increased $98 million related to the New York City Office of the Actuary revised assumptions for OPEB costs. The actuarial cost method has changed and resulted in a decrease to the liability and amortized over 10 years.

Statement Page #	Reference	2014	2013	Variance
15	L	107,863	103,003	4,860
15	L	4,667,962	4,574,865	93,097
		4,777,839	4,679,881	97,957

- Other current liabilities – decreased $17 million as FICA refunds received were paid out to medical residents.

Statement Page #	Reference	2014	2013	Variance
15	M	5,061	21,874	(16,813)

Income Statement
(Statement of Revenues, Expenses and Changes in Net Position)

Operating Revenue

- Net patient service revenue – increased $419 million due to:
  - Increased patient revenue of $118 million
  - UPL revenue increases of $76 million
  - DSH Max increase of $104 million
  - Other third party retro revenue of $120 million

Statement Page #	Reference	2014	2013	Variance
16	A	5,653,009	5,233,985	419,024

- Appropriations from the City of New York – increased $14 million mainly due to an increase of $17 million of interest paid by The City.

Statement Page #	Reference	2014	2013	Variance
16	B	13,166	(583)	13,749

- Grants revenue – decreased $280 million due to:
  - $256 million in FEMA and CDBG revenue for storm related expense reimbursement accrued in FY 2013.
  - $10 million in reduced Meaningful Use

Statement Page #	Reference	2014	2013	Variance
16	C	285,763	566,019	(280,256)

Operating Expenses

- Personal services – increased $130 million or 5.4 % and FTE's are consistent. The increase is due to collective bargaining settlements and expected settlements of $115 million.

Statement Page #	Reference	2014	2013	Variance
6	D	2,539,432	2,409,926	129,506

- Other than personal services – increased $92 million or 6.4% primarily due to the increased cost of pharmaceuticals ($19 m), temporary workers and nurse fees ($32 m), and other general cost increases.

Statement Page #	Reference	2014	2013	Variance
16	E	1,535,945	1,443,697	92,248

- Fringe benefits and employer payroll taxes – increased $43 million due to
  - Health benefit increases of $18 million or 3.6%.
  - Pension expense increase of 18 million or 4.3%
  - FICA increase of $10 million

Statement Page #	Reference	2014	2013	Variance
16	F	1,211,349	1,168,041	43,308

- Postemployment benefits, other than pension (OPEB) – decreased $95 million as the New York City Office of the Actuary actuarial gain experience. Also, since the actuarial cost method was adjusted in 2013, the change in unfunded actuarial accrued liability is being amortized over a 10 year period.

Statement Page #	Reference	2014	2013	Variance
16	G	198,991	293,745	(94,754)

- Affiliation contracted services – increased $7 million or less than 1% for market adjustments and enhanced services and is consistent with the prior year's growth.

Statement Page #	Reference	2014	2013	Variance
16	H	922,773	915,581	7,192

Operating Loss

- Operating loss is $708 million compared to $668 million in 2013.

Statement Page #	Reference	2014	2013	Variance
16	I	(708,301)	(667,999)	(40,302)

Non-operating revenue

- Interest expense – increased $7 million from 2013 to 2014 as the interest paid by The City increased by $17 million and capitalized interest of City funded debt decreased by $13 million

Statement Page #	Reference	2014	2013	Variance
16	J	(117,735)	(110,412)	(7,323)

Other changes in net assets

Capital contributions funded by City of New York – decreased $89 million due to fewer continuing major modernization projects (see capital assets explanation for major projects)

Statement Page #	Reference	2014	2013	Variance
16	K	303,007	391,754	(88,747)

New York City Health And Hospitals Corporation
Summary of Financial Operations For Year Ended June 30, 2014

MetroPlus

- Cash and cash equivalents – increased $77 million due to positive operating results.

Statement Page #	Reference	2014	2013	Variance
15	AA	780,320	703,306	77,014

- Premium receivable – increased $65 million for unpaid supplemental managed care of $49 million

Statement Page #	Reference	2014	2013	Variance
15	BB	168,518	103,418	65,100

- Accounts payable and accrued expenses – increased $71 million due to the impact of the Medicaid redesign (low birth weight newborns, disabled infants, homeless and personal care) and growth in lines such as NY Exchange, and Medicare.

Statement Page #	Reference	2014	2013	Variance
15	CC	583,562	512,721	70,841

- Premium revenue – increased $133 million. Premium growth is mainly new NYS Health Exchange products, Medicare ($15m), HIV/SNP ($15m), Managed Long Term Care ($18m) and NYS Health Exchange ($65m).

Statement Page #	Reference	2014	2013	Variance
16	AA	2,334,727	2,201,790	132,937

- Other than personal services – increased $163 million for medical expenses related to increased services and growth for the above.

Statement Page #	Reference	2014	2013	Variance
16	BB	2,169,538	2,006,799	162,739

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

(A Component Unit of The City of New York)

Statements of Net Position

June 30, 2014 and 2013

(In thousands)

Assets		2014 Business-Type Activities – HHC		2014 Discretely Presented Component Unit-MetroPlus		2014 Eliminations	2014 Total	2013 (As Adjusted) Business-Type Activities – HHC		2013 (As Adjusted) Discretely Presented Component Unit-MetroPlus		2013 (As Adjusted) Eliminations	2013 (As Adjusted) Total
Current assets:													
Cash and cash equivalents (note 2)	$	343,188		780,320	AA	—	1,123,508	360,579		703,306	AA	—	1,063,885
U.S. government securities		—		71,396		—	71,396	—		81,671		—	81,671
Patient accounts receivable, net (notes 4, 7, and 11)		693,151	A	—		(272,538)	420,613	760,513	A	—		(309,043)	451,470
Premiums receivable				168,518	BB	(1,528)	166,990	—		103,418	BB	(1,299)	102,119
Estimated third-party payor settlements, net (notes 4, 7, and 11)		1,247,700	B	—		(110,830)	1,136,870	668,100	B	—		(58,275)	609,825
Estimated pools receivable, net (notes 4, 7, and 11)		—		—		—	—	—		—		—	—
Grants receivable		82,547	C	—		—	82,547	305,479	C	—		—	305,479
Supplies		19,796		—		—	19,796	19,116		—		—	19,116
Assets restricted as to use and required for current liabilities (notes 6 and 7)		46,873	D	—		—	46,873	37,283	D	—		—	37,283
Other current assets		39,409		9,190		—	48,599	46,604		3,234		—	49,838
Total current assets		2,472,664		1,029,424		(384,896)	3,117,192	2,197,674		891,629		(368,617)	2,720,686
Assets restricted as to use, net of current portion (notes 6 and 7)		121,266	D	87,883		—	209,149	158,863	D	84,345		—	243,208
U.S. government securities				43,010		—	43,010	—		32,372		—	32,372
Other receivable		10,661		—		—	10,661	10,661		—		—	10,661
Capital assets, net (notes 5 and 7)		3,506,375	E	5,923		—	3,512,298	3,366,456	E	7,485		—	3,373,941
Total assets	$	6,110,966		1,166,240		(384,896)	6,892,310	5,733,654		1,015,831		(368,617)	6,380,868
Deferred Outflows of Resources													
Unamortized refunding cost		18,240	F	—		—	18,240	22,437	F	—		—	22,437
		6,129,206		1,166,240		(384,896)	6,910,550	5,756,091		1,015,831		(368,617)	6,403,305
Liabilities and Net Position													
Current liabilities:													
Current installments of long-term debt (note 7)	$	50,669	K	—		—	50,669	40,634	K	—		—	40,634
Accrued salaries, fringe benefits, and payroll taxes		834,475	G	14,555		(1,528)	847,502	729,681	G	10,081		(1,299)	738,463
Accounts payable and accrued expenses (notes 12 and 14)		409,347	H	583,562	CC	(383,368)	609,541	385,904	H	512,721	CC	(367,318)	531,307
Estimated pools payable, net (notes 4, 7, and 11)		711,600	I	—		—	711,600	296,900	I	—		—	296,900
Due to City of New York, net (note 8)		746,740	J	—		—	746,740	436,591	J	—		—	436,591
Current portion of postemployment benefits obligation, other than pension (note 10)		107,863	L	2,199		—	110,062	103,003	L	2,177		—	105,180
Other current liabilities		5,061	M	—		—	5,061	21,874	M	—		—	21,874
Total current liabilities		2,865,755		600,316		(384,896)	3,081,175	2,014,587		524,979		(368,617)	2,170,949
Long-term debt, net of current installments (note 7)		941,289	K	—		—	941,289	1,003,650	K	—		—	1,003,650
Postemployment benefits obligation, other than pension, net of current portion (note 10)		4,667,962	L	46,761		—	4,714,723	4,574,865	L	43,489		—	4,618,354
Total liabilities		8,475,006		647,077		(384,896)	8,737,187	7,593,102		568,468		(368,617)	7,792,953
Commitments and contingencies (note 11)													
Net position:													
Net investment in capital assets		2,550,656		5,946		—	2,556,602	2,393,938		7,514		—	2,401,452
Restricted:													
For debt service		137,469		—		—	137,469	134,776		—		—	134,776
Expendable for specific operating activities		11,715		—		—	11,715	11,082		—		—	11,082
Nonexpendable permanent endowments		928		—		—	928	928		—		—	928
For statutory reserve requirements		—		87,883		—	87,883	—		84,345		—	84,345
Unrestricted		(5,046,568)		425,334		—	(4,621,234)	(4,377,735)		355,504		—	(4,022,231)
Total net deficit position		(2,345,800)		519,163		—	(1,826,637)	(1,837,011)		447,363		—	(1,389,648)
	$	6,129,206		1,166,240		(384,896)	6,910,550	5,756,091		1,015,831		(368,617)	6,403,305

See accompanying notes to financial statements.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

(A Component Unit of The City of New York)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

(In thousands)

	2014				2013 (As Adjusted)			
	Business-Type Activities – HHC	Discretely Presented Component Unit – Metroplus	Eliminations	Total	Business-Type Activities – HHC	Discretely Presented Component Unit – Metroplus	Eliminations	Total
Operating revenues:								
Net patient service revenue (notes 4 and 7)	$ 5,653,009 A	—	(704,482)	4,948,527	5,233,985 A	—	(742,199)	4,491,786
Appropriations from (remittances to) City of New York, net (note 11)	13,166 B	—	—	13,166	(583) B	—	—	(583)
Premium revenue (note 14)	—	2,334,727 AA	(19,129)	2,315,598	—	2,201,790 AA	(17,217)	2,184,573
Grants revenue	285,763 C	—	—	285,763	566,019 C	—	—	566,019
Other revenue	51,110	6	—	51,116	45,915	5	—	45,920
Total operating revenues	6,003,048	2,334,733	(723,611)	7,614,170	5,845,336	2,201,795	(759,416)	7,287,715
Operating expenses:								
Personal services	2,539,432 D	60,752		2,600,184	2,409,926 D	53,956	—	2,463,882
Other than personal services	1,535,945 E	2,169,538 BB	(704,482)	3,001,001	1,443,697 E	2,006,799 BB	(742,199)	2,708,297
Fringe benefits and employer payroll taxes	1,211,349 F	27,250	(19,129)	1,219,470	1,168,041 F	24,828	(17,217)	1,175,652
Postemployment benefits, other than pension (note 10)	198,991 G	4,548	—	203,539	293,745 G	6,212	—	299,957
Affiliation contracted services	922,773 H	—	—	922,773	915,581 H	—	—	915,581
Depreciation (note 5)	302,859	2,606	—	305,465	282,345	2,341	—	284,686
Total operating expenses	6,711,349	2,264,694	(723,611)	8,252,432	6,513,335	2,094,136	(759,416)	7,848,055
Operating (loss) income	(708,301) I	70,039	—	(638,262)	(667,999) I	107,659	—	(560,340)
Nonoperating revenues (expenses):								
Investment income	2,536	1,761	—	4,297	1,088	1,367	—	2,455
Interest expense	(117,735) J	—	—	(117,735)	(110,412) J	—	—	(110,412)
Contributions restricted for specific operating activities	807	—	—	807	2,072	—	—	2,072
Total nonoperating (expenses) revenues, net	(114,392)	1,761	—	(112,631)	(107,252)	1,367	—	(105,885)
(Loss) income before other changes in net position	(822,693)	71,800	—	(750,893)	(775,251)	109,026	—	(666,225)
Other changes in net position:								
Capital contributions funded by City of New York	303,007 K	—	—	303,007	391,754 K	4	—	391,758
Capital contributions funded by grantors and donors	10,897	—	—	10,897	3,424	—	—	3,424
Total other changes in net position	313,904	—	—	313,904	395,178	4	—	395,182
(Decrease) increase in net position	(508,789)	71,800	—	(436,989)	(380,073)	109,030	—	(271,043)
Net deficit position at beginning of year	(1,837,011)	447,363	—	(1,389,648)	(1,456,938)	338,333	—	(1,118,605)
Net deficit position at end of year	$ (2,345,800)	519,163	—	(1,826,637)	(1,837,011)	447,363	—	(1,389,648)

See accompanying notes to financial statements.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

(A Component Unit of The City of New York)

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Emphasis of Matters

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

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 14 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 __, 2014 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Date

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)
Management's Discussion and Analysis
June 30, 2014 and 2013
Financial Analysis
Summary of Assets, Liabilities, and Net Position
June 30, 2014, 2013, and 2012
(In thousands)

Assets		2014 Business-Type Activities – HHC	2013 Business-Type Activities – HHC (As Adjusted)	2012 Business-Type Activities – HHC (As Adjusted)
Assets:				
Current assets	$	2,472,664	2,197,674	2,132,378
Capital assets, net		3,506,375	3,366,456	3,003,356
Other assets		131,927	169,524	248,484
Total assets		6,110,966	5,733,654	5,384,218
Deferred outflows:				
Unamortized refunding cost		18,240	22,437	22,128
Liabilities:				
Current liabilities		2,865,755	2,014,587	1,432,788
Long-term debt, net of current installments		941,289	1,003,650	1,047,653
Postemployment benefits obligation, other than pension, net of current portion		4,667,962	4,574,865	4,382,843
Total liabilities		8,475,006	7,593,102	6,863,284
Net position:				
Net investment in capital assets		2,550,656	2,393,938	2,052,614
Restricted		150,112	146,786	169,771
Unrestricted		(5,046,568)	(4,377,735)	(3,679,323)
Total net deficit position	$	(2,345,800)	(1,837,011)	(1,456,938)

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

Management's Discussion and Analysis

June 30, 2014 and 2013

Financial Analysis

Summary of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014, 2013, and 2012

(In thousands)

	2014 Business-Type Activities – HHC	2013 Business-Type Activities – HHC (As Adjusted)	2012 Business-Type Activities – HHC (As Adjusted)
Operating revenues:			
Net patient service revenue	$ 5,653,009	5,233,985	5,615,776
Appropriations from (remittances to) City of New York, net	13,166	(583)	(9,140)
Grants revenue	285,763	566,019	249,252
Other revenue	51,110	45,915	71,239
Total operating revenues	6,003,048	5,845,336	5,927,127
Operating expenses:			
Personal services, fringes benefits, and employer payroll taxes	3,750,781	3,577,967	3,502,717
Other than personal services	1,535,945	1,443,697	1,410,017
Postemployment benefits, other than pension	198,991	293,745	299,850
Affiliation contracted services	922,773	915,581	884,436
Depreciation	302,859	282,345	259,045
Total operating expenses	6,711,349	6,513,335	6,356,065
Operating loss	(708,301)	(667,999)	(428,938)
Nonoperating expenses, net	(114,392)	(107,252)	(85,969)
Loss before other changes in net position	(822,693)	(775,251)	(514,907)
Other changes in net position:			
Capital contributions	313,904	395,178	174,977
Decrease in net position	(508,789)	(380,073)	(339,930)
Net position at beginning of year	(1,837,011)	(1,456,938)	(1,117,008)
Net position at end of year	$ (2,345,800)	(1,837,011)	(1,456,938)

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

Management's Discussion and Analysis (Unaudited)

June 30, 2014 and 2013

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

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

Overview of the Financial Statements

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

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

Overall Financial Position and Operations

The Corporation's total net deficit position increased by $508.8 million from June 30, 2013 to June 30, 2014; it had increased by $380.1 million from June 30, 2012 to June 30, 2013. Net investment in capital assets increased by $156.7 million and $341.3 million in 2013 and 2012, respectively, as the Corporation continued to upgrade its facilities and pay down debt. The Corporation's unrestricted net deficit position increased to $5.047 billion at June 30, 2014 from $4.378 billion at June 30, 2013. The Corporation incurred an operating loss of $708.3 million in 2014 compared with $668.0 million in 2013. The Corporation's net deficit position benefited from $303.0 million and $391.8 million in capital contributions from The City of New York (The City) in 2014 and 2013, respectively.

Significant financial ratios are as follows:

	2013	2013	2012
Current ratio	0.87	1.10	1.49
Quick ratio	0.36	0.56	0.82
Days cash on hand	19.50	21.41	30.28
Net days revenue in patient receivables	71.91	81.28	66.11

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

Super Storm Sandy

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

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

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

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

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

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

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

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

Variances in Financial Statements

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

Balance Sheets

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

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

Estimated third-party payor settlements, net – increased $579.6 million from June 30, 2013 to June 30, 2014 due to the delay of $539.4 million of State Fiscal Year UPL payments. Estimated third-party payor settlements, net increased $266.0 million due to the timing of receipt of $434.2 million of State Fiscal Year 2012 inpatient UPL during 2012 and no cash received during 2013.

Grants receivable – decreased $222.9 million from June 30, 2013 to June 30, 2014 primarily due to the receipt of CDBG grant funds of $183 million that were recorded as a receivable in the prior year. Grants receivable increased $193.0 million from 2012 to 2013 due to an accrual of $194.4 million in FEMA and CDBG revenues related to expenses incurred in the restoration of facilities after Super Storm Sandy.

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

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

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

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

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

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

Due to City of New York – increased $310.1 million from June 30, 2013 to June 30, 2014 as the Corporation deferred payments to fiscal year 2015 in order to maintain adequate cash flows. Due to the City increased $264.9 million from June 30, 2012 to June 30, 2013 due to a delay of payments. (see note 8 to the financial statement)

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

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

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

Changes in Components of Net Position

Net investment in capital assets – increased $156.7 million from June 30, 2013 to June 30, 2014 as capital assets, net, increased by $139.9 million, related assets restricted as to use decreased by $31.3 million, and related debt and deferred outflows decreased by $48.1 million. Invested in capital assets, net of related debt increased $341.3 million from June 30, 2012 to June 30, 2013 as capital assets, net, increased by $363.1 million, related assets restricted as to use decreased by $83.5 million, and related debt and deferred outflows decreased by $61.8 million.

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

Unrestricted – net position activities, other than those mentioned above, resulted in decreases of $668.8 million and $700.6 million for years 2014 and 2013, respectively. Please see the statements of revenues, expenses, and changes in net position.

Capital Assets, Net and Long-Term Debt Activity

Capital Assets, Net

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

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

2014's major capital asset additions included:

- Construction continued on the major modernization of Gouverneur Healthcare Services, with additional spending of approximately $41.8 million in 2014

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

2013's major capital asset additions included:

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

2012's major capital asset additions included:

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

The Corporation's 2015 capital budget projects spending of $662 million, which includes continuation of work on the major construction and electronic medical record system mentioned above. The 2015 capital budget is expected to be primarily financed by the Corporation's 2010 Series A bonds mentioned in note 7 to the financial statements, City General Obligation and Transitional Finance Authority Bonds, and other City funding.

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

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

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

Long-Term Debt

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

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

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

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

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

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

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

Statements of Revenues, Expenses, and Changes in Net Position

Net patient service revenue – increased $419.0 million from June 30, 2013 to June 30, 2014 reflecting full year operations for Bellevue Hospital Centerand Coney Island Hospital after temporary closings following Super Storm Sandy during fiscal year 2013. The following also contributed to the increase in net patient service revenue: 1) increased UPL revenue of $76 million; 2) increased DSH Maximization of $103.9 million; and 3) patient service revenue increases from third parties of $118 million, and 4) other third party retroactive settlement accruals of $120 million. . Net patient service revenue decreased $381.8 million from June 30, 2012 to June 30, 2013 reflecting the revenue impact from the temporary closing of Bellevue Hospital Center ($153.9 million) and Coney Island Hospital ($110.7 million) and revenue losses associated with reduced inpatient census and outpatient visits for the remaining facilities of $152.9 million. Additional UPL revenue of $28.8 million was also recognized.

Appropriations from (remittances to) City of New York, net – increased $13.7 million from June 30, 2013 to June 30, 2014 mainly due to an increase of $17.2 million in interest expense paid by The City for HHC. Appropriations from (remittances to) City of New York increased $8.5 million from June 30, 2012 to June 30, 2013 due to an increase of $6.4 million in debt service payable to The City offset by an increase of $18.2 million in interest expense paid by The City for HHC.

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

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

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

Other-than-personal services – increased $92.2 million, or 6.4%, from June 30, 2013 to June 30, 2014 due to costs related to increased pharmaceutical expenses of $19 million and increased use of temporary workers, including nursing of $32 million. Increased pollution remediation accruals of $ 9.1 million contribute to the increase from 2013. *Other-than-personal services* increased $33.7 million, or 2.4%, from June 30, 2012 to June 30, 2013 due to the costs related to restoration services after Super Storm Sandy.

Fringe benefits and employer payroll taxes – increased $43.3 million from June 30, 2013 to June 30, 2014 primarily for health benefit increases of $18.4 million or 3.6%, pension increase of $17.7 million or 4.3 %, and FICA of $9.8 million or 7.1%. Fringe benefits and employer payroll taxes increased $52.8 million from June 30, 2012 to June 30, 2013 due to the non-recurrence of $30.5 million of medical resident FICA refunds and increases in health benefit costs of $36.6 million or 7.4%.

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

Affiliation contracted services – increased $7.2 million or 0.8% from June 30, 2013 to June 30, 2014 And increased $31.1 million or 3.5% from June 30, 2012 to June 30, 2013 due to market adjustments and enhanced services.
Investment income – increased $1.4 million from June 30, 2013 to June 30, 2014 as the Corporation recognized the market value adjustment of the bonds. Investment income decreased $9.4 million from June 30, 2012 to June 30, 2013 as the Corporation recognized the market value of the 2003 bond reserve fund decrease.

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

Corporation Issues and Challenges

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

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

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

Contacting the Corporation's Financial Management

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

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of The City of New York)
Statements of Net Position
June 30, 2014 and 2013
(In thousands)

Assets	2014 Business-Type Activities – HHC	2014 Discretely Presented Component Unit-MetroPlus	2014 Eliminations	2014 Total	2013 (As Adjusted) Business-Type Activities – HHC	2013 (As Adjusted) Discretely Presented Component Unit-MetroPlus	2013 (As Adjusted) Eliminations	2013 (As Adjusted) Total
Current assets:								
Cash and cash equivalents (note 2)	$ 343,188	780,320	—	1,123,508	360,579	703,306	—	1,063,885
U.S. government securities	—	71,396	—	71,396	—	81,671	—	81,671
Patient accounts receivable, net (notes 4, 7, and 11)	693,151	—	(272,538)	420,613	760,513	—	(309,043)	451,470
Premiums receivable		168,518	(1,528)	166,990	—	103,418	(1,299)	102,119
Estimated third-party payor settlements, net (notes 4, 7, and 11)	1,247,700	—	(110,830)	1,136,870	668,100	—	(58,275)	609,825
Estimated pools receivable, net (notes 4, 7, and 11)	—	—	—	—	—	—	—	—
Grants receivable	82,547	—	—	82,547	305,479	—	—	305,479
Supplies	19,796	—	—	19,796	19,116	—	—	19,116
Assets restricted as to use and required for current liabilities (notes 6 and 7)	46,873	—	—	46,873	37,283	—	—	37,283
Other current assets	39,409	9,190	—	48,599	46,604	3,234	—	49,838
Total current assets	2,472,664	1,029,424	(384,896)	3,117,192	2,197,674	891,629	(368,617)	2,720,686
Assets restricted as to use, net of current portion (notes 6 and 7)	121,266	87,883	—	209,149	158,863	84,345	—	243,208
U.S. government securities		43,010	—	43,010	—	32,372	—	32,372
Other receivable	10,661	—	—	10,661	10,661	—	—	10,661
Capital assets, net (notes 5 and 7)	3,506,375	5,923	—	3,512,298	3,366,456	7,485	—	3,373,941
Total assets	$ 6,110,966	1,166,240	(384,896)	6,892,310	5,733,654	1,015,831	(368,617)	6,380,868
Deferred Outflows of Resources								
Unamortized refunding cost	18,240	—	—	18,240	22,437	—	—	22,437
	6,129,206	1,166,240	(384,896)	6,910,550	5,756,091	1,015,831	(368,617)	6,403,305
Liabilities and Net Position								
Current liabilities:								
Current installments of long-term debt (note 7)	$ 50,669	—	—	50,669	40,634	—	—	40,634
Accrued salaries, fringe benefits, and payroll taxes	834,475	14,555	(1,528)	847,502	729,681	10,081	(1,299)	738,463
Accounts payable and accrued expenses (notes 12 and 14)	409,347	583,562	(383,368)	609,541	385,904	512,721	(367,318)	531,307
Estimated pools payable, net (notes 4, 7, and 11)	711,600	—	—	711,600	296,900	—	—	296,900
Due to City of New York, net (note 8)	746,740	—	—	746,740	436,591	—	—	436,591
Current portion of postemployment benefits obligation, other than pension (note 10)	107,863	2,199	—	110,062	103,003	2,177	—	105,180
Other current liabilities	5,061	—	—	5,061	21,874	—	—	21,874
Total current liabilities	2,865,755	600,316	(384,896)	3,081,175	2,014,587	524,979	(368,617)	2,170,949
Long-term debt, net of current installments (note 7)	941,289	—	—	941,289	1,003,650	—	—	1,003,650
Postemployment benefits obligation, other than pension, net of current portion (note 10)	4,667,962	46,761	—	4,714,723	4,574,865	43,489	—	4,618,354
Total liabilities	8,475,006	647,077	(384,896)	8,737,187	7,593,102	568,468	(368,617)	7,792,953
Commitments and contingencies (note 11)								
Net position:								
Net investment in capital assets	2,550,656	5,946	—	2,556,602	2,393,938	7,514	—	2,401,452
Restricted:								
For debt service	137,469	—	—	137,469	134,776	—	—	134,776
Expendable for specific operating activities	11,715	—	—	11,715	11,082	—	—	11,082
Nonexpendable permanent endowments	928	—	—	928	928	—	—	928
For statutory reserve requirements	—	87,883	—	87,883	—	84,345	—	84,345
Unrestricted	(5,046,568)	425,334	—	(4,621,234)	(4,377,735)	355,504	—	(4,022,231)
Total net deficit position	(2,345,800)	519,163	—	(1,826,637)	(1,837,011)	447,363	—	(1,389,648)
	$ 6,129,206	1,166,240	(384,896)	6,910,550	5,756,091	1,015,831	(368,617)	6,403,305

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

(In thousands)

	2014				2013 (As Adjusted)			
	Business-Type Activities – HHC	Discretely Presented Component Unit – Metroplus	Eliminations	Total	Business-Type Activities – HHC	Discretely Presented Component Unit – Metroplus	Eliminations	Total
Operating revenues:								
Net patient service revenue (notes 4 and 7)	$ 5,653,009	—	(704,482)	4,948,527	5,233,985	—	(742,199)	4,491,786
Appropriations from (remittances to) City of New York, net (note 11)	13,166	—	—	13,166	(583)	—	—	(583)
Premium revenue (note 14)	—	2,334,727	(19,129)	2,315,598	—	2,201,790	(17,217)	2,184,573
Grants revenue	285,763	—	—	285,763	566,019	—	—	566,019
Other revenue	51,110	6	—	51,116	45,915	5	—	45,920
Total operating revenues	6,003,048	2,334,733	(723,611)	7,614,170	5,845,336	2,201,795	(759,416)	7,287,715
Operating expenses:								
Personal services	2,539,432	60,752		2,600,184	2,409,926	53,956	—	2,463,882
Other than personal services	1,535,945	2,169,538	(704,482)	3,001,001	1,443,697	2,006,799	(742,199)	2,708,297
Fringe benefits and employer payroll taxes	1,211,349	27,250	(19,129)	1,219,470	1,168,041	24,828	(17,217)	1,175,652
Postemployment benefits, other than pension (note 10)	198,991	4,548	—	203,539	293,745	6,212	—	299,957
Affiliation contracted services	922,773	—	—	922,773	915,581	—	—	915,581
Depreciation (note 5)	302,859	2,606	—	305,465	282,345	2,341	—	284,686
Total operating expenses	6,711,349	2,264,694	(723,611)	8,252,432	6,513,335	2,094,136	(759,416)	7,848,055
Operating (loss) income	(708,301)	70,039	—	(638,262)	(667,999)	107,659	—	(560,340)
Nonoperating revenues (expenses):								
Investment income	2,536	1,761	—	4,297	1,088	1,367	—	2,455
Interest expense	(117,735)	—	—	(117,735)	(110,412)	—	—	(110,412)
Contributions restricted for specific operating activities	807	—	—	807	2,072	—	—	2,072
Total nonoperating (expenses) revenues, net	(114,392)	1,761	—	(112,631)	(107,252)	1,367	—	(105,885)
(Loss) income before other changes in net position	(822,693)	71,800	—	(750,893)	(775,251)	109,026	—	(666,225)
Other changes in net position:								
Capital contributions funded by City of New York	303,007	—	—	303,007	391,754	4	—	391,758
Capital contributions funded by grantors and donors	10,897	—	—	10,897	3,424	—	—	3,424
Total other changes in net position	313,904	—	—	313,904	395,178	4	—	395,182
(Decrease) increase in net position	(508,789)	71,800	—	(436,989)	(380,073)	109,030	—	(271,043)
Net deficit position at beginning of year	(1,837,011)	447,363	—	(1,389,648)	(1,456,938)	338,333	—	(1,118,605)
Net deficit position at end of year	$ (2,345,800)	519,163	—	(1,826,637)	(1,837,011)	447,363	—	(1,389,648)

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

	2014 Business-Type Activities – HHC	2013 Business-Type Activities – HHC
Cash flows from operating activities:		
Cash received from patients and third-party payors	5,565,689	5,416,794
Cash appropriations received from City of New York	322,176	299,629
Cash appropriations remitted to City of New York	—	(127,271)
Receipts from grants	508,696	373,059
Other receipts	63,409	122,836
Cash paid for personal services, fringe benefits, and employer payroll taxes	(3,758,838)	(3,688,862)
Cash paid for other than personal services	(1,521,736)	(1,293,332)
Cash paid for affiliation contracted services	(933,394)	(924,984)
Net cash provided by operating activities	246,002	177,869
Cash flows from noncapital financing activity:		
Proceeds from contributions restricted for specific operating activities	808	2,072
Net cash provided by noncapital financing activity	808	2,072
Cash flows from capital and related financing activities:		
Purchase of capital assets	(442,314)	(617,864)
Capital contributions by grantors and donors	2,381	3,424
Capital contributions by City of New York	311,717	391,754
Cash paid for retainage and construction accounts payable	(947)	(1,458)
Payments of long-term debt	(40,633)	(67,443)
Proceeds from issuance of long-term debt	—	148,167
Refunding of long-term debt	—	(142,485)
Cash paid for deferred financing costs	—	(1,131)
Interest paid	(125,104)	(134,378)
Net cash used in capital and related financing activities	(294,900)	(421,414)
Cash flows from investing activities:		
Purchases of assets restricted as to use	(4,690)	(106,104)
Sales of assets restricted as to use	32,064	204,422
Interest received	3,325	8,267
Net cash provided by investing activities	30,699	106,585
Net decrease in cash and cash equivalents	(17,391)	(134,888)
Cash and cash equivalents at beginning of year	360,579	495,467
Cash and cash equivalents at end of year	$ 343,188	360,579
Supplemental disclosures:		
Capital lease incurred	$	—
Change in fair value of assets restricted as to use	(302)	(2,730)

(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, 2014 and 2013

(In thousands)

		2014 Business-Type Activities – HHC	2013 Business-Type Activities – HHC
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(708,301)	(667,999)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation		302,859	282,345
Provision for bad debts		636,517	329,416
Changes in assets and liabilities:			
Patient accounts receivable, net		(569,156)	(410,307)
Estimated third-party payor settlements, net		(579,600)	(266,000)
Estimated pools receivable (payable), net		414,700	529,700
Grants receivable		222,933	(192,960)
Supplies and other current assets		6,520	79,304
Accrued salaries, fringe benefits, and payroll taxes		104,794	5,456
Accounts payable and accrued expenses		23,443	41,477
Due to City of New York		310,149	264,938
Other liabilities		(16,813)	(14,241)
Postemployment benefits obligation, other than pension		97,957	196,740
Net cash provided by operating activities	$	246,002	177,869

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2014 and 2013

(1) Summary of Significant Accounting Policies.

Organization

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

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

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

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

  HHC Insurance commenced operations on January 1, 2005. HHC Insurance provides the insured with indemnity insurance coverage on a claims-made basis for the first $1.3 million per incident and $3.9 million in the aggregate. With the existence of this insurance coverage, the insured is able to access $1.0 million per incident and $3.0 million in the aggregate of excess insurance coverage provided by the Medical Malpractice Insurance Pool of New York (MMIP) for each claim greater than $1.3 million per incident and $3.9 million in the aggregate. During 2007, HHC Insurance began participation in MMIP. MMIP is the insurer of last resort for medical malpractice coverage in the

State and is a joint underwriting facility, not a separate legal entity. The members of MMIP are all the licensed medical malpractice carriers in New York State. As an MMIP member, HHC Insurance recognizes its allocable share of the premium, loss, underwriting expense, and administrative expense activities of MMIP.

- During 2003, the HHC Physicians Purchasing Group, Inc. (HHC Physicians), a public benefit corporation, was formed to purchase medical malpractice insurance for the Corporation's physicians from HHC Insurance. The Corporation is the sole member of HHC Physicians. HHC Physicians was registered and approved for operations by the New York State Department of Insurance on August 31, 2005.

- HHC Risk Services Corporation (HHC Risk), a public benefit corporation, was granted a license on December 30, 2003 to operate by the Vermont Department of Banking, Insurance, Securities and Health Care Administration. The Corporation is the sole member of HHC Risk. HHC Risk is inactive.

  The creation of HHC Insurance, HHC Physicians, and HHC Risk by the Corporation does not alter the indemnification by the City of the Corporation's malpractice settlements under the Agreement (see note 11(b)).

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

  An ACO is a healthcare reform model authorized in the Patient Protection and Affordable Care Act of 2010, involving groups of doctors, hospitals, and other healthcare providers to collaboratively coordinate high-quality care to the patients they serve. When an ACO succeeds in delivering high-quality care at lower cost, it will share in the savings it achieves for the Medicare program, which savings are then distributed among the ACO participants. The MSSP (also authorized by the Patient Protection and Affordable Care Act) is a three-year program in which ACOs will be responsible for the care of a defined group of Medicare Fee-For-Service beneficiaries.

- In October 2012, the Corporation formed the HHC Assistance Corporation (HHCAC), which is a not-for-profit corporation that is closely affiliated with the Corporation. All members of HHCAC's board of directors are officers of the Corporation. The HHCAC's purpose is to perform activities that are helpful to the Corporation in the fulfillment of its statutory purposes. During 2012, the HHCAC facilitated the Corporation's participation in a New Market Tax Credit supplementary financing transaction to be used for the construction of certain new facilities at the Harlem Hospital Center (see note 7(i).

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

The financial statements also include MetroPlus, which is presented as a discretely presented component unit. MetroPlus is a public benefit corporation created by the Corporation. Supplementary disclosures for MetroPlus are presented in note 15 of the financial statements. The Corporation is the sole member and

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

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

The Corporation's significant accounting policies are as follows:

(a) Basis of Presentation

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

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

(b) Assets Restricted as to Use

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

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

nonoperating revenue. The Corporation utilizes available donor-restricted assets before utilizing unrestricted resources for expenses incurred.

(c) Charity Care

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

(d) Use of Estimates

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

Included in net patient service revenue are adjustments to prior year estimated third-party payor settlements and estimated pools receivable that were originally recorded in the period the related services were rendered. The adjustments to prior year estimates and other third-party reimbursement receipts or recoveries that relate to prior years resulted in an increase to net patient service revenue of $172.8 million and a decrease of $28.2 million for the years ended June 30, 2014 and 2013, respectively. In addition, , collective bargaining settlements and expected settlements were recorded in the amount of $124.0 million, including a change in estimate of $95.5 million in personal services and $7.0 million in fringe benefits and employer payroll taxes. There was no such change for the year ended June 30, 2013.

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

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

(f) Patient Accounts Receivable and Net Patient Service Revenue

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

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

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

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

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

The Corporation considers appropriations from (remittances to) The City to be ongoing and central to the provision of healthcare services and, accordingly, classifies them as operating revenues.

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

- medical malpractice settlements, negligence, and other torts up to an agreed-upon amount negotiated annually and paid by The City on behalf of the Corporation. In 2014 and 2013, the medical malpractice and general liability settlements paid by The City were $126.9 million and $121.6 million, respectively, and the Corporation has agreed to reimburse The City $126.9 million and $121.6 million in 2014 and 2013, respectively. The reimbursements to The City are recorded by the Corporation as a reduction of appropriations from (remittances to) The City. Such medical malpractice, negligence, and other torts reimbursements by the Corporation do not alter the indemnification by The City of the Corporation's malpractice settlements under the Agreement (see note 11(b)).

- In 2014 and 2013, respectively, the Corporation agreed to reimburse the City $153.2 million and $150.4 million, respectively, for debt service (interest and principal) related to debt incurred by The City, which funded Corporation capital acquisitions. These debt service reimbursements to The City are recorded by the Corporation as a reduction of appropriations from (remittances to) The City.

(h) Capital Assets and Depreciation

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

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

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

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

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

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

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

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

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

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

(i) Custodial Funds

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

(j) Affiliation Contracted Services

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

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

(k) Supplies

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

(l) Income Taxes

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

(m) Grants Receivable

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

(n) Net Position

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

(o) Compensated Absences

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

(p) New Accounting Standards Adopted

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

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

	June 30, 2013 as Reported	Adjustments	June 30, 2013 as Adjusted
Statement of Net Position			
Assets			
Deferred Financing Costs, net	7,608	(7,608)	-
Deferred Outflows of Resources			
Unamortized Refunding Cost	-	22,437	22,437
Liabilities			
Long term debt, net of current installments (note 7)	981,213	22,437	1,003,650
Net position			
Unrestricted	(4,370,127)	(7,608)	(4,377,735)
Total net deficit position	(1,829,403)	(7,608)	(1,837,011)
Statement of Revenues, Expenses, and Changes in Net Position			
Nonoperating revenues (expenses):			
Interest expense	(112,568)	2,156	(110,412)
(Loss) income before other changes in net position	(777,407)	2,156	(775,251)
Other changes in net position:			
(Decrease) increase in net position	(382,229)	2,156	(380,073)

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

(2) Cash and Cash Equivalents

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

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

(3) Charity Care

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

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

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

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

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

	2014		2013	
Medicaid	$ 1,495,122	26.4%	$ 1,492,874	28.5%
Medicare	680,663	12.0	570,322	10.9
Bad debt/charity care pools	609,647	10.8	445,420	8.5
Disproportionate share supplemental pool (DSH)	915,900	16.2	812,000	15.5
Other third-party payors that include Medicaid and Medicare managed care	1,190,921	21.0	1,114,495	21.3
MetroPlus	714,701	12.6	742,199	14.2
Self-pay	56,274	1.0	56,675	1.1
	$ 5,663,228	100.0%	$ 5,233,985	100.0%

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

	2014		2013	
Medicaid	$ 131,323	18.9%	$ 176,451	23.2%
Medicare	69,902	10.1	64,704	8.5
Other third-party payors, that include Medicaid and Medicare managed care	183,915	26.5	183,065	24.1
MetroPlus	272,538	39.4	309,043	40.6
Self-pay	35,473	5.1	27,250	3.6
	$ 693,151	100.0%	$ 760,513	100.0%

(Continued)

(5) Capital Assets

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

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

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

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

(Continued)

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

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

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

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

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

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

(Continued)

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

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

(6) Assets Restricted as to Use

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

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

(a) Assets restricted as to use under the terms of the bond resolutions (see 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. T bills for the time period between a month and a maximum of six months. Investments are timed so that funds are available for required semi-annual debt service payments. $0.2 million and $0.8 million were uninsured and uncollateralized at June 30, 2014 and 2013, respectively. Possible exposure to fair value losses arising from interest rate volatility is limited by the majority of investments in securities

having maturities of less than one year and at most three years and by intending to hold the security to maturity.

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

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

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

(7) Long-Term Debt

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

		2014	2013 (as adjusted)
Bonds payable:			
2013 Series A Fixed Rate Health System Bonds – weighted average interest of 2.44%, payable in installments to 2023:			
Uninsured Bonds (a)	$	130,419	132,896
2010 Series A Fixed Rate Health System Bonds – average interest of 3.89%, payable in installments to 2030:			
Uninsured Bonds (b)		505,993	539,934
2008 Series A Fixed Rate Health System Bonds – weighted average interest of 4.51%, payable in installments to 2026:			
Uninsured Bonds (c)		124,868	132,841
2008 Series B, C, D, and E Variable Rate Health System Bonds – subject to short-term liquidity arrangements, weighted average interest of .81% in 2014, payable in installments to 2031:			
Uninsured Bonds (d)		164,045	168,555
Total bonds payable		925,325	974,226
New York Power Authority (NYPA) financing (e)		844	1,465
Equipment and renovation financing (f)		540	998
Clinical bed financing (g)		2,291	4,637
Henry J. Carter capital lease obligation (h)		48,258	48,258
New Market Tax Credit (i)		14,700	14,700
		991,958	1,044,284
Less current installments		50,669	40,634
	$	941,289	1,003,650

(Continued)

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

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

(As Adjusted)

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

On November 19, 1992, the Corporation's Board of Directors adopted the General Resolution requiring the Corporation to pledge substantially all reimbursement revenues, investment income, capital project, and bond proceeds accounts to HHC Capital. All of the Corporation's Health System Bonds are secured by the pledge. The General Resolution imposes certain restrictive covenants on the issuance of additional bonds and working capital borrowing, and requires that the Corporation satisfy certain measures of financial

(Continued)

performance, such as maintaining certain levels of net cash available for debt service, as defined and certain levels of healthcare reimbursement revenues, as defined.

(a) 2013 Series A Bonds

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

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

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

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

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

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

(b) 2010 Series A Bonds

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

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

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

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

(c) 2008 Series A Bonds

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

refunding and the remaining $116,025,000 used for capital projects) and into variable rate bonds supported by letters of credit (2008 Series B, C, D, and E – $189,000,000).

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

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

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

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

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

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

The initial interest rates for the 2008 Variable Rate Bonds were set at 1.45% – 1.50%, bearing interest at a weekly interest rate mode. However, the 2008 Variable Rate Bonds of any series may be

converted by the Corporation to bear interest at either a daily interest rate, a bond interest term rate, a NRS (nonputable remarketed securities) rate, an auction rate, an index rate, or a fixed rate. The overall weighted average interest was 0.81% for 2014 and 0.89% for 2013.

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

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

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

(e) New York Power Authority (NYPA) Financing

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

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

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

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

(f) Equipment and Renovation Financing

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

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

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

(g) Clinical Bed Financing

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

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

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

(h) Henry J. Carter Capital Lease Obligation

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

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

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

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

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

(i) New Market Tax Credit

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

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

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

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

(8) Due to City of New York, Net

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

	2014	2013
FDNY EMS operations (a)	$ 140,461	138,085
Medical malpractice payable (b)	248,444	121,362
Other accrued expenses (c)	56,613	27,855
Utilities prepaid expenses (d)	(2,359)	(1,122)
Debt service (e)	303,581	150,411
	$ 746,740	436,591

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

(b) Payable represents final malpractice balances due The City. 2014 amount includes residual liability from 2013.

(c) Payable represents final and reconciled fringe benefit costs. 2014 amount includes residual liability from 2013.

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

(e) Payable represents final and reconciled debt service costs. These debt service costs relate to debt incurred by The City which funded HHC capital acquisitions. 2014 amount includes residual liability from 2013.

(9) Pension Plan

The Corporation participates in the New York City Employees Retirement System (NYCERS), which is a cost-sharing, multiple-employer public employees retirement system. NYCERS provides defined pension benefits to 187,000 active municipal employees and 135,000 pensioners through $55.6 billion in assets. Employees who receive permanent appointment to a competitive position and have completed six months of service are required to participate in NYCERS, and all other employees are eligible to participate in NYCERS. NYCERS provides pay-related retirement benefits, as well as death and disability benefits. Total amounts of the Corporation's employees' covered payroll and total related payroll for the year ended June 30, 2014 and 2013 are approximately $2.081 billion and $2.103 billion, respectively.

Prior to 2012, the frozen entry age actuarial cost method of funding was utilized by the actuary to calculate the contribution from the Corporation. Starting in 2012, the entry age actuarial cost method of funding is utilized by the actuary to calculate the contribution from the Corporation. Under this actuarial method, the initial liability was reestablished as of June 30, 1999, but with the unfunded actuarial accrued liability (UAAL) was not less than zero. The excess of the actuarial present value (APV) of projected benefits of members as of the valuation date, over the sum of the actuarial asset value (AAV) plus UAAL, if any, and the APV of future employee contributions, was allocated on a level basis over the future earnings of members who were on the payroll as of the valuation date. Actuarial gains and losses were reflected in the employer normal contribution rate.

The Corporation's annual pension costs for fiscal 2014, 2013, and 2012, which includes contributions toward the actuarially determined accrued liability, including the information for MetroPlus, were approximately $435.7 million, $417.3 million and $424.6 million, respectively. These costs paid by the Corporation represent the Corporation's required contribution as calculated by the Office of the Actuary, City of New York and includes the information for MetroPlus.

NYCERS issues a financial report that includes financial statements and required supplementary information, which may be obtained by writing to NYCERS, 335 Adams Street, Brooklyn, New York 11201-3751.

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

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

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

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

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

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

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

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

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

The actuarial assumptions include an annual healthcare cost trend rate (HCCTR). The HCCTR applied to Pre-Medicare plans was updated as of June 30, 2009 to reflect recent past experience and anticipated future experience, including the enactment of National Health Care Reform. The HCCTR for Pre-Medicare plans assumes an initial rate of 9.5% and is gradually reduced to an ultimate rate of 5% after 10 years. The complete set of actuarial assumptions and methods used in the June 30, 2011 OPEB actuarial valuation are contained in the Report on the Ninth Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (the Ninth OPEB Report). The Eighth OPEB Report was prepared as of June 30, 2012 in accordance with GASB Statements Nos. 43 and 45 for the fiscal year ended June 30, 2014 by the New York City Office of the Actuary and is dated September 24, 2014.

(11) Commitments and Contingencies

(a) Reimbursement

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

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

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

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

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

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

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

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

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

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

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

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

(b) Medicare Recovery Audit Contractor Program (RAC)

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

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

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

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

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

(d) Budget Control Act

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

(e) Legal Matters

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

(f) Operating Leases

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

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

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

(12) Accounts Payable and Accrued Expenses

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

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

(13) Super Storm Sandy

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

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

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

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

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

(15) MetroPlus

(a) Cash and Cash Equivalents

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

(b) U.S. Government Securities

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

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

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

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

(c) Premiums Receivable and Premium Revenue

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

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

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

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

(d) Assets Restricted as to Use

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

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

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

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

(e) Change in Claims Payable

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

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

(Continued)

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

(f) Operating Leases

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

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

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

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

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

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

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

October , 2014

KPMG

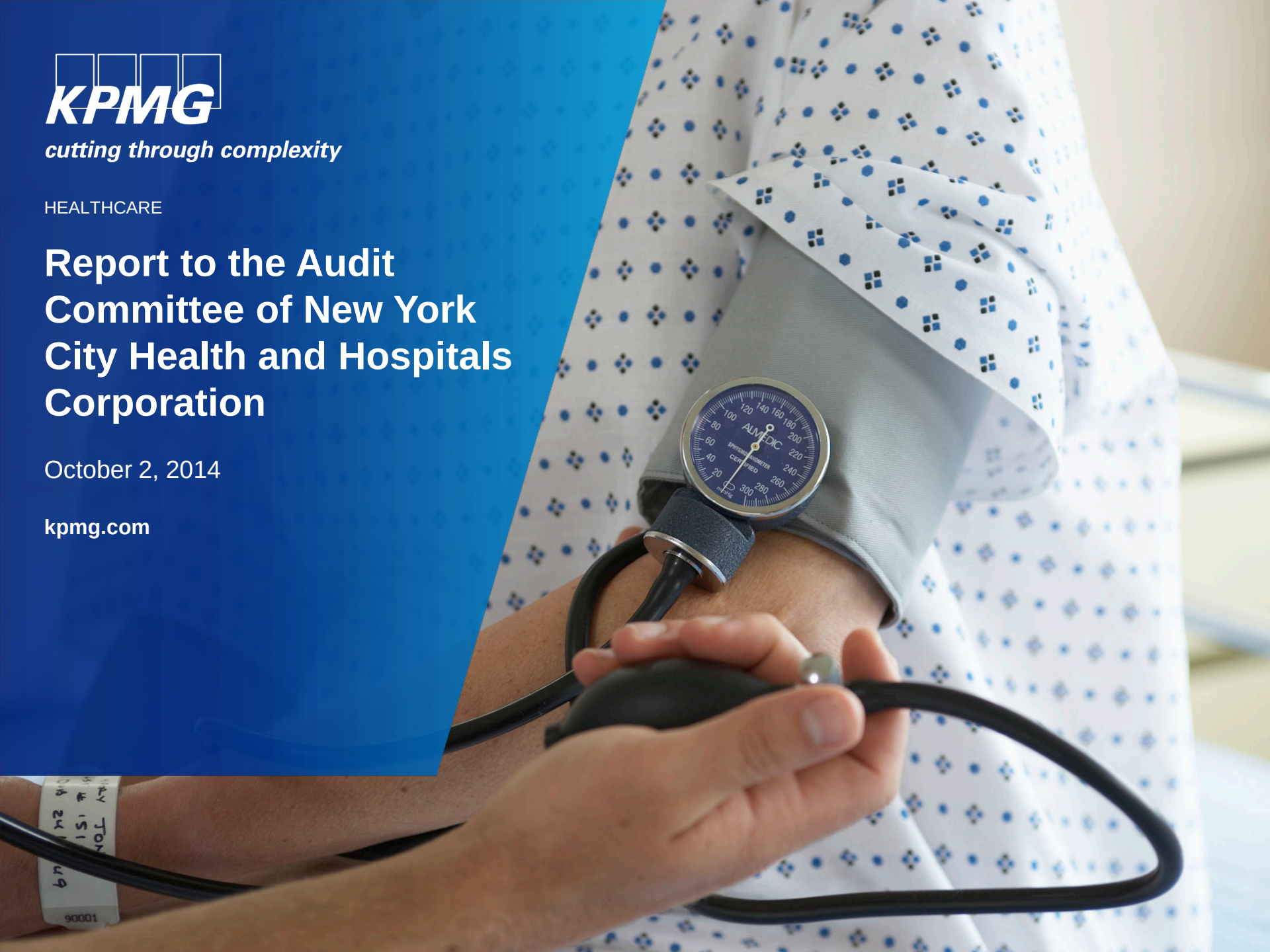
cutting through complexity

HEALTHCARE

Report to the Audit Committee of New York City Health and Hospitals Corporation

October 2, 2014

kpmg.com



2014 Audit Results
Agenda

With You Today

Audit Responsibilities

Deliverables to date

Required Communications

Next steps

With You Today

- Maria Tiso, Lead Engagement Partner
- Jim Martell, Healthcare Industry Resource Partner
- Joe Bukzin, Engagement Senior Manager

Audit Responsibilities

Management is responsible for:

- Adopting sound accounting policies
- Fairly presenting the financial statements in conformity with generally accepted accounting principles (GAAP)
- Establishing and maintaining effective internal control over financial reporting (ICFR), including internal controls to prevent, deter, and detect fraud
- Identifying and confirming that the Corporation complies with laws and regulations applicable to its activities, and for informing us of any known material violations of such laws and regulations
- Making all financial records and related information available to the auditors
- Providing unrestricted access to personnel within the entity from whom the auditors determines it necessary to obtain audit evidence
- Adjusting the financial statements to correct material misstatements, if any
- Providing the auditors with a letter confirming certain representations made during the audit that includes, but is not limited to management's:
  - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Corporation's financial reporting
  - Acknowledgement of the Corporations responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud
  - Affirmation that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole

Audit Responsibilities (continued)

The Audit Committee is responsible for:

- Oversight of the financial reporting process and oversight of ICFR
- Oversight of the establishment and maintenance of programs and internal controls designed to prevent and detect fraud
- Must rely on senior management and external/internal auditors
- Appoints, approves and reviews external audit function

Management and the Audit Committee are responsible for:

- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities.

Audit Responsibilities (continued)

KPMG is responsible for:

- Forming and expressing an opinion about whether the financial statements that have been prepared by management, with the oversight of those charged with governance, are prepared, in all material respects, in accordance with the applicable financial reporting framework
- Planning and performing the audit with an attitude of professional skepticism
- Conducting the audit in accordance with professional standards and complying with the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant CPA societies and relevant state boards of accountancy
- Evaluating ICFR as a basis for designing audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR
- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with GAAP
- Communicating to management and the Audit Committee all required information, including significant matters
- Communicating to the Audit Committee and management in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention

Deliverables to date

- Opinion on the financial statements of New York City Health and Hospitals Corporation
- Issue a management letter to the Audit Committee on our recommendations regarding internal controls and other operational matters (in progress to be presented in November 2014)
- Required communications to those charged with governance

Required Communications

Required Communications:

- The Auditor's responsibility under Auditing Standards Generally Accepted in the United States of America is to communicate responsibility assumed for the internal control structure, material errors, irregularities and illegal acts, etc.

Response:

- Our audits were designed in accordance with audit standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Audit Standards to provide reasonable assurance that the financial statements are free of material misstatement.
- We have the responsibility to obtain sufficient understanding of internal controls to plan our audits and determine the nature, timing and extent of procedures to be performed and not to opine on the system of internal control.
- We noted no material errors, irregularities or illegal acts. The changing regulatory environment places greater risk of compliance with regulatory requirements.
- We plan to issue an unmodified opinion on the financial statements.
- Management Letter, no significant deficiencies or material weaknesses noted.

Required Communications

Required Communications:

- Significant Accounting Policies. The Audit Committee should be informed about the initial selection of and changes in significant accounting policies as well as the methods used to account for significant unusual transactions

Response:

- Accounting policies have been consistently applied
  - The Corporation's summary of significant accounting policies are disclosed within note 1 to the financial statements
  - There are two new accounting pronouncements adopted in the current year.
    - GASB 65, *Items Previously Reported as Assets and Liabilities*
      - *Recording of deferred financing costs of approximately $9 million as interest expense (retrospective application) see footnote 1 in financial statements*
      - *Classification of deferred outflows of resources relating to unamortized refunding cost (retrospective application)*
    - *GASB 68, Accounting and Financial Reporting for Pensions*
      - *In Progress; working with City of NY management team and auditors.*
  - During fiscal 2014, there were no transactions recorded, that we are aware of, which lacked authoritative accounting guidance or consensus

Required Communications (continued)

Required Communications:

- Significant or Unusual Transactions. The Audit Committee should be informed about the methods used to account for significant or unusual transactions

Response:

- Upper payment limit balance recorded as a third party payor receivable of $1.3 billion at June 30, 2014 (approximately $780 million at June 30, 2013).
- Meaningful use incentive of approximately $47.2 million recorded as other revenue.
- Interim Access Assurance Fund (IAAF) Grant funds of approximately $35 million received of which $15 million has been recorded as grant revenue and $20 million has been recorded as a deferred liability.
- During December 2013, the Corporation surrendered the property formerly known as the Goldwater Specialty Hospital and Nursing Facility to the City of New York. The Corporation recorded a loss on disposal of approximately $23 million for this transaction, which is recorded within depreciation expense.
- Collective bargaining settlement and expected settlements were recorded in the amount of $124 million, including changes in estimates related to the prior year of approximately $102 million.
- *GASB 68, Accounting and Financial Reporting for Pensions*
  - Will result in the recording of a liability (in progress); estimated liability not known to date.

Required Communications (continued)

Required Communications:

- Quality of Accounting Principles. We discuss our judgments about the quality, not just the acceptability, of the Corporation's accounting principles as applied in its financial reporting including matters on consistency, understandability, completeness and related disclosures
- GASB Accounting Guidance requires management to evaluate subsequent events up through the issuance date of the financial statements

Response:

- Quality of accounting policies and principles have been consistently applied
  - Appropriate disclosures are included in the financial statements
- Subsequent events will be evaluated and disclosures included up to the issuance of our report.

Required Communications (continued)

Required Communications:

- Management Judgments and Accounting Estimates. The Audit Committee should be informed about the process used by management in forming particularly sensitive accounting estimates and about the basis for the auditor's conclusions regarding the reasonableness of those estimates

Response:

- Valuation of patient accounts receivable
- Valuation of estimated third-party settlements, net and estimated pools receivable, net
- Valuation of post-employment benefits other than pension (OPEB) liability
- Valuation of cost sharing multiple employer plan under GASB 68 (in progress)
- Valuation of MetroPlus incurred but not reported (IBNR) liability

We evaluated management's significant judgments and estimates noted above as part of our audit, and found them to be reasonable in the context of the financial statements taken as a whole

Required Communications (continued)

Required Communications:

- Uncorrected Misstatements. Any passed adjustments proposed by the auditor, but not recorded by the client, should be communicated to the Audit Committee

- Audit and Post Closing Adjustments. All significant audit and post closing adjustments arising from the audit should be communicated to the Audit Committee

Response:

- There were no uncorrected misstatements proposed and not recorded by the client.

- The following adjustments were recorded by management during the course of the audit process:

  Revenue:

– Net patient services revenue	($104M)
– Grant revenue (IAAF)	($20M)
– Grant revenue (Medicaid Admin)	($20M)
Total revenue impact:	($144M)

  Expenses:

– Pollution remediation expense	$64M
– Accrued expense	($9M)
– Loss on disposal of Goldwater	($23M)
Total expense impact:	$32M

  Net impact to P&L: ($112M)

Required Communications (continued)

Required Communications:	Response:
■ Evaluation of non-GAAP policies and practices	■ Amounts for non-GAAP policies and practices deemed not material to the financial statements of the organizations.
■ Related party transactions	■ Related party transactions with The City of New York are disclosed within the notes to the financial statements

Required Communications (continued)

Required Communications:	Response:
■ Disagreements with Management. Disagreements with management, whether or not satisfactorily resolved, about matters that could be significant to the financial statements or the auditors' report should be communicated to the Audit Committee	■ There are no unresolved disagreements.
■ Consultation with Other Accountants. Any knowledge of communications with other independent accountants are required to be brought to the attention of the Audit Committee	■ To best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants.
■ Major Issues Discussed with Management Prior to Retention. Any discussions with management where our response is a condition of retention as independent auditors should be communicated to the Audit Committee	■ We generally discuss a variety of matters with management prior to our retention, however, these discussions were not a condition of our retention.
■ Difficulties Encountered in Performing the Audit. Serious difficulties encountered in dealing with management that relate to the performance of the audit are required to be brought to the attention of the Audit Committee	■ No difficulties were encountered.

Required Communications (continued)

Required Communications:	Response:
Illegal Acts or fraud	None
Litigation, Claims and Assessments	No additional items that require disclosure within the financial statements that we are aware that would result in significant misstatement of the financial statements
Noncompliance with laws and regulations	None of which we are aware that would result in significant misstatement of the financial statements
Changes to the initial 2014 audit plan	GASB 65, *Items previous reported as Assets and Liabilities* GASB 68, *Accounting and Financial Reporting for Pensions* (early adoption) Additional attestation report to be completed over the completeness and accuracy of the census data of New York City Employees Retirement Systems cost sharing multiple employer plan (GASB 68).

Required Communications (continued)

Required Communications:	Response:
■ Material Written Communications. We disclosed the nature of significant communications with management	■ Our significant communications are the engagement letter, management representation letter and management letter (to be presented in November 2014)
■ Independence. We communicate to the Audit and Compliance Committee all independence-related relationships between our firm and the Corporation	■ We are not aware of any relationships between KPMG and the Corporation that in our professional judgment, may reasonably be thought to bear on our independence
■ Other Information in documents containing audited financial statements	■ None

Unpredictability

Below are a sample of additional procedures performed during the course of the audit

- Additional meetings with local CFO's and Controllers of three of the Corporation's facilitates (Kings, Jacobi, and Bellevue)
- Compare employee list to master vendor listing for employees being listed
- Review specific controls over nursing agency transactions (i.e. Med Assets)
- Revenue cycle advisory professionals assisted with data analysis relating to accounts receivable and patient revenue cycle observations
- IT professionals held preliminary meeting on status of electronic medical record implementation (preliminary stages)

Next Steps

- Finalization of financial statements, including footnotes, statement of cash flow and concurring partner review
- Classification of reimbursement related receivables and liabilities on the statements of net position
- Supporting documentation for Medicaid- Admin grant receivable reserve
- GASB 68
- Finalize Subsequent event procedures required until issuance
  - Inquiries with management
  - Down to date legal letter inquiry updates
  - Inspection of subsequent minutes, if any
- Management representation letter
- Debt covenant calculations
- Responses to the management letter observations and status of prior year observations

Audit Committee Resources

KPMG's Audit Committee Institute (ACI)

Established in 1999

- KPMG's commitment to communicating with Audit Committee members and other participants in the financial reporting process
- www.kpmg.com/aci
- Publications of the ACI
  - Audit Committee Insights – www.kpmginsights.com
  - Audit Committee Quarterly – http://www.kpmg.com/aci/quarterly.htm
  - Audit Committee Institute Roundtables – www.kpmg.com/aci/roundtables.htm
  - ACI Website: www.kpmg.com/aci
  - ACI mailbox: auditcommittee@kpmg.com | ACI hotline – 1-877-KPMG-ACI

Healthcare Publications

- KPMG Insiders: Healthcare – www.kpmginsiders.com
- Healthcare Business Briefing

AUDIT COMMITTEE OF THE HHC BOARD OF DIRECTORS

Corporate Compliance Report

October 2, 2014

Table of Contents

Agenda

I. Compliance with the Deficit Reduction Act of 2005

1) Pursuant to the Deficit Reduction Act ("DRA") of 2005, the New York City Health and Hospitals Corporation ("HHC") is required, as a condition of its participation in the Medical Assistance Program ("Medicaid"), to establish written policies and procedures that inform its employees, contractors, agents, and other persons about the following:

- HHC's internal policies covering the prevention and detection of fraud, waste, and abuse;
- the federal False Claims Act and any similar law of the State of New York ("State") that governs false claims and statements; and
- whistleblower protections under federal and State laws.

2) Under the DRA health care entities receiving or making $5 million or more in Medicaid payments during a federal fiscal year (FFY), which begins on October 1st and ends on September 30th, are required to certify their compliance with the DRA annually. This year's DRA certification is due on or before January 1, 2015 and is based on the applicability for the FFY ending September 30, 2014. The actual certification is made electronically by HHC's Senior Assistant Vice President and Chief Corporate Compliance Officer ("CCO") via the Office of the Medicaid Inspector General's ("OMIG") website.

3) To comply with the DRA, as well as State and federal compliance program requirements, HHC has established a number of policies and procedures designed to prevent and detect fraud, waste, and abuse. These policies include the following:

- *HHC's Corporate Compliance Plan*

The overall breadth of HHC's Corporate Compliance Program (the "Program") is best reflected in its Corporate Compliance Plan (the "Plan"). Specifically, the Plan outlines and explains the structural and operational elements of the Program, highlighting HHC's development and/or adoption of written policies and procedures covering compliance, including, without limitation, HHC's Operating Procedure 50-1 - Corporate Compliance Program ("OP 50-1"), which details the structure of the Program; HHC's Principles of Professional Conduct ("POPC"), which establishes HHC's prohibition of fraudulent billing and other improper business practices; and HHC's A Guide to Compliance at the New York City Health and Hospitals Corporation ("Guide to Compliance") which provides a summary of important compliance issues and compliance standards and expectations at HHC. The Plan, OP 50-1, the POPC, and the Guide to Compliance may all be accessed through HHC's Intranet under the Office of Corporate Compliance ("OCC") at http://compliance.nychhc.org/, or by way of HHC's public website at http://www.nyc.gov/html/hhc/html/about/About-PublicInfo-Compliance.shtml. HHC workforce members may also contact their local Network

Compliance Officer or the OCC - by phone at (646) 458-7799 or by e-mail at COMPLIANCE@nychhc.org - to obtain copies of the same.

The Plan also underscores HHC's commitment to: (i) routinely identify potential areas of corporate risks and vulnerabilities; and (ii) to perform self-evaluations and audits of its operations and practices, which are both required under New York's mandatory compliance program regulations.

- *HHC OPERATING PROCEDURE 50-1- CORPORATE COMPLIANCE PROGRAM*

As evidenced by its internal operating procedures, HHC has implemented a Program that satisfies the mandatory provider compliance program regulations promulgated by the New York State Department of Social Services. Additionally, the Program also adopts the principles set forth in the United States Sentencing Commission 2013 Federal Sentencing Guidelines pertaining to effective compliance and ethics programs. The Program is responsible for, among other things, aggressively identifying, directing, and addressing corporate-wide and local compliance activities and concerns. The following are some key highlights of the Program:

- ✓ the appointment of a CCO charged with the oversight and implementation of the Program;
- ✓ the creation of an annual Corporate Compliance Work Plan ("Work Plan") designed to proactively address compliance vulnerabilities;
- ✓ the institution of a confidential process and toll-free hotline (1-866-HELP-HHC) to receive compliance complaints;
- ✓ the implementation of corporate-wide training and education regarding corporate compliance issues;
- ✓ the requirement that the CCO report, at least quarterly, HHC compliance activities to the Chairperson of the Board of Directors ("BOD"), the Chairperson of the Audit Committee of the BOD, and HHC's President and Chief Executive Officer;
- ✓ the requirement that all HHC workforce members report violations of OP 50-1, as well as of all applicable laws, rules, codes and regulations (collectively "Laws"), to the CCO;
- ✓ the investigation of allegations regarding: (i) violations of applicable Laws and HHC OP 50-1; and (ii) allegations of intimidation and retaliation; and
- ✓ the prohibition of intimidation and retaliation against any person who, acting in good faith, engages in the Program.

- *HHC'S PRINCIPLES OF PROFESSIONAL CONDUCT*

The POPC is a guide to direct HHC employees to conduct official business in an ethical and lawful manner. Some examples of violations of professional conduct are:

- ✓ improper billing practices;
- ✓ accepting gifts from a vendor;
- ✓ inappropriate patient referrals;
- ✓ breaches of patient confidentiality; and
- ✓ failure to adhere to HHC policies concerning patient care.

- *HHC'S GUIDE TO COMPLIANCE AT THE NEW YORK CITY HEALTH & HOSPITALS CORPORATION*

The Guide to Compliance defines the terms *compliance*, *fraud*, *waste*, and *abuse*. The Guide to Compliance also describes the goals of HHC's Program, the consequences of non-compliance with applicable laws and internal policies, and the responsibilities of each employee with regard to compliance. In addition to the foregoing, the Guide to Compliance provides information regarding the following compliance subjects:

- ✓ federal and State False Claims Acts;
- ✓ HHC's policy on retaliation; and
- ✓ instructions on how to report a compliance issue.

4) To meet the DRA requirements of informing employees, contractors and agents about federal and State false claim acts and whistleblower protections, HHC's CCO issued three separate 2014 DRA Memorandums as noted below:

- In late July of 2014, the OCC commenced the process of notifying, via written memorandum, all HHC contractors, subcontractors, agents or other persons which or who, on behalf of HHC, furnish healthcare items or services, perform billing or coding functions, or monitor the health care provided by HHC's facilities ("Vendors"). This memorandum was issued to Vendors via email beginning July 23, 2014; the notification process will continue until September 30, 2014.

- On July 23, 2014, a memorandum was issued to all employees and affiliate employees via payroll distribution.

- On August 1, 2014, a corporate-wide email containing the required DRA information was issued by the HHC Office of Internal Communications.

- To fulfill the DRA requirement that providers include policies and procedures regarding detecting and preventing fraud, waste, and abuse in any employee handbook, the OCC reviewed all current HHC Network and/or facility employee handbooks to verify the presence of the required DRA information.

  ✓ All Networks have either incorporated the DRA information in their handbooks or have added an addendum to the same summarizing the relevant DRA information.

5) To further ensure compliance with the DRA by making the policies readily available to all employees, contractors, or agents, the OCC has published the 2014 DRA Memorandum and the associated policies and procedures on HHC's public website (http://www.nyc.gov/html/hhc/html/about/About-PublicInfo-Compliance.shtml), and on HHC's intranet under the OCC page at http://compliance.nychhc.org/.

II. Data Breach at East New York Diagnostic and Treatment Center

1) On August 11, 2014, the OCC, along with HHC information data security contractor Tekmark Global Solutions, conducted a privacy and security audit walk-through of the East New York Diagnostic and Treatment Center ("East NY") to assess East NY's compliance with Meaningful Use certification regulations and the Health Insurance Portability and Accountability Act of 1996 ("HIPAA").

2) In the course of performing this walk-through, the OCC observed that multiple unsecured boxes - - 198 in total - - of medical and dental records were inappropriately stored in an employee parking garage at that facility. At the direction of the OCC, the boxes were immediately secured and, on August 15, 2014, were moved to a secure location at Citi Storage, HHC's offsite storage vendor.

3) OCC's investigation of this matter has revealed that these boxes contain the medical and/or dental records from several closed HHC clinics, including (1) the Howard Houses Child Health Center; (2) the Brevoort Houses Child Health Clinic; (3) the Fifth Avenue Child Health Clinic and (4) dental records from the closed dental clinic at the Brownsville Child Health Clinic. An audit of these records is in progress and, to date, East NY has identified the medical and/or dental records of 1,595 patients with the likelihood that the final tally may be somewhere between five and six thousand patients.

4) OCC's investigation into this matter is ongoing.

5) In response to the breach, the OCC has developed a written policy on the handling of medical records and other sensitive data relevant to future closings. The policy calls for, among other things, the following protocol to be followed:

- *Procedures for Managing Records from Closed Facilities* - In the event that a HHC acute care hospital, nursing home, diagnostic and treatment center, clinic or any other HHC-operated facility closes, all corresponding Corporation records including, without limitation, medical, billing, business, and employment records, must be: (i) appropriately secured, preserved, and transferred to either a receiving HHC facility, or an approved off-site storage location that allows for the lawful access of such records and maintains confidentiality the confidentiality and security, as appropriate, of such records; (ii) appropriately archived after consulting with Enterprise Information Technology Services and the Office of Legal Affairs; or (iii) properly disposed of, provided that such records are inactive, have no archival or other value, and have met the HHC's record retention and disposition requirements.

- *Responsible parties* - The Executive Director (and/or his/her designee) charged with administrative oversight of the closing facility will be responsible for coordinating the secure storage, transfer, and preservation of all records from a facility scheduled for closure. Such coordinating efforts shall be conducted in conjunction with the respective closing (and, where applicable, receiving) facility's Network Security Officer ("NSO"), Facility Records Management Officer ("RMO"), Facility Privacy Officer ("FPO"), Health Information Management ("HIM") Department, Human Resources ("HR"), Finance department, and any other relevant facility department or unit head, or Chief of Service, responsible for the records at the facility planned for closure. The policy also calls for the Corporate RMO to be kept apprised of the aforementioned activities.

6) The OCC has scheduled privacy/security walk-through audits at the other five diagnostic treatment centers, which will occur over the next couple of months. Additionally, all facility privacy officers will be required to perform periodic privacy/security walk-through audits at all of the HHC offsite clinic locations, including at least quarterly audits the Diagnostic and Treatment Centers. The results of these audits will be shared with the Audit Committee.

7) Although there is no indication that these records were ever accessed or improperly viewed, their storage in this location created the risk for a potential misuse of personal information. Therefore, in an abundance of caution, the OCC will begin notifying affected patients as early as next week of this incident. Affected patients will be provided with identity theft and credit monitoring services at no cost to them.

III. Monitoring of Excluded Providers

1) The OCC has not received or uncovered any reports of excluded providers since the Audit Committee last convened on September 11, 2014.

IV. Gotham Health FQHC, Inc., and Compliance Oversight

1) As previously reported to the Audit Committee, HHC applied to the Health Resources Services Administration ("HRSA") for the designation of its six Diagnostic and Treatment Centers ("D&TCs") and all of their respective satellite clinics — 20 satellite clinics and 13 school-based health centers — as a Federally Qualified Community Health Center Look-Alike ("Health Center") pursuant to HRSA's regulations concerning the Public Entity/Co-Applicant governance model. A co-applicant agreement was executed between HHC ("Public Entity") and the Gotham Health FQHC, Inc. ("Co-Applicant" or "Gotham") in November 2012.

2) The OCC is in the process of scheduling a compliance training session for the Gotham Board of Directors, which will take place in either November or December of 2014.

V. External Audits – U.S. Department of Health and Human Services ("HHS") Office of Civil Rights ("OCR"): *Follow Up Report*

1) The OCC reported to the Audit Committee in June that it responded to a review being conducted by the Office of Civil Rights ("OCR") concerning Metropolitan Hospital Center's ("MHC") compliance with certain federal civil rights and health information technology laws, including MHC's policies, procedures, and practices related to: (i) meaningful access to services and programs for limited English proficient ("LEP") individuals; (ii) equal access to services and programs for individuals with HIV; and (iii) the privacy and security of individuals' protected health information ("PHI") and their rights with regard to such information.

2) As reported to the Audit Committee on September 11, 2014, the OCR subsequently requested additional information regarding the scope of HHC's risk analysis process, specifically asking for a comprehensive risk analysis which identifies risks and vulnerabilities for the organization-wide electronic PHI ("EPHI") systems and applications including, but not limited to, servers, applications, databases, desktops, mobile devices and media, or smartphones, that contain, process, or store EPHI, as well as MHC's corresponding remediation plan and targeted completion dates. On July 28, 2014, the OCC responded to this query by providing OCR with a supplement to its initial response. Therein, the OCC provided an overview of HHC's past and present data security activities including the following:

- findings from a vendor conducted information security and HIPAA assessment of MHC;
- a MHC Risk Registry and Remediation and Tracking report;
- a HIPAA Risk Analysis Report of MHC's Quadramed system; and
- the engagement of the services of an outside information technology vendor to perform a risk assessment and HIPAA gap analysis on all HHC acute care facilities, including MHC.

3) On September 16, 2014, the OCR requested that the OCC make the following Metropolitan staff members from the following departments available for interview:

- The HIV Counseling & Testing Department
- Impatient Medicine and Mental Health
- Walk-in Testing
- Satellite Clinic – East 120th Street
- Coordinator of Language Access Services

4) The OCC is in the process of coordinating the above-reference interviews with Metropolitan and Central Office Leadership.

VI. Mid–year 2014 Compliance Program Integrity Assessment

1) On March 31, 2013, the Office of Medicaid Inspector General ("OMIG") published a guidance document entitled "Bureau of Compliance Identified Compliance Program Opportunities for Enhancement", in which it recommended that providers conduct a mid-year self-evaluation of their compliance programs. During the Months of July and August the OCC conducted a self-assessment to identify potential program gaps and maximize the opportunity meet the annual OMIG December compliance program certification obligation.

2) To assist in the self-evaluation process, the OCC used the OMIG's self-evaluation tool that includes the requirements of NYS Social Services Law § 363-d and the seven areas that compliance programs should apply to that are set out in 18 NYCRR § 521.3(a).

3) Upon completion of the program assessment via the OMIG's self-evaluation tool, the OCC determined that no program gaps were present in HHC's Corporate Compliance Program.

4) The OCC will perform and thoroughly document a second program review in late November of 2014 in preparation for the December 2014 compliance program certification to be performed by HHC President and Chief Executive Officer Ramanathan Raju, M.D. The review and program certification is subject to audit by the OMIG's Bureau of Compliance.