NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

(A Component Unit of The City of New York)

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of New York City Health and Hospitals Corporation (the Corporation), a component unit of the City of New York, as of and for the years ended June 30, 2013 and 2012, 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.

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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, 2013 and 2012, 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 Matter

As discussed in note 1(q) to the financial statements, in 2013, the Corporation adopted Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*. 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 13 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 September 26, 2013 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

KPMG LLP

September 26, 2013

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

Management's Discussion and Analysis

June 30, 2013 and 2012

Financial Analysis

Summary of Assets, Liabilities, and Net Position

June 30, 2013, 2012, and 2011

(In thousands)

Assets		**2013 Business-Type Activities – HHC**	**2012 Business-Type Activities – HHC**	**2011 Business-Type Activities – HHC**
Assets:				
Current assets	$	2,208,335	2,132,378	2,352,191
Capital assets, net		3,366,456	3,003,356	2,868,916
Other assets		166,471	258,248	322,239
Total assets		5,741,262	5,393,982	5,543,346
Liabilities:				
Current liabilities		2,014,587	1,432,788	1,428,226
Long-term debt, net of current installments		981,213	1,025,525	1,039,664
Postemployment benefits obligation, other than pension, net of current portion		4,574,865	4,382,843	4,181,084
Total liabilities		7,570,665	6,841,156	6,648,974
Net position:				
Net investment in capital assets		2,393,938	2,052,614	1,968,936
Restricted		146,786	169,771	165,979
Unrestricted		(4,370,127)	(3,669,559)	(3,240,543)
Total net deficit position	$	(1,829,403)	(1,447,174)	(1,105,628)

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

(A Component Unit of The City of New York)

Management's Discussion and Analysis

June 30, 2013 and 2012

Financial Analysis

Summary of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013, 2012, and 2011

(In thousands)

	2013 Business-Type Activities – HHC	2012 Business-Type Activities – HHC	2011 Business-Type Activities – HHC
Operating revenues:			
Net patient service revenue	$ 5,233,985	5,615,776	5,895,430
Appropriations from (remittances to) City of New York, net	(583)	(9,140)	27,593
Premium revenue	—	—	—
Grants revenue	566,019	249,252	212,984
Other revenue	45,915	71,239	47,515
Total operating revenues	5,845,336	5,927,127	6,183,522
Operating expenses:			
Personal services, fringes benefits, and employer payroll taxes	3,577,967	3,502,717	3,577,013
Other than personal services	1,443,697	1,410,017	1,393,476
Postemployment benefits, other than pension	293,745	299,850	611,561
Affiliation contracted services	915,581	884,436	857,467
Depreciation	282,345	259,045	254,458
Total operating expenses	6,513,335	6,356,065	6,693,975
Operating loss	(667,999)	(428,938)	(510,453)
Nonoperating expenses, net	(109,408)	(87,584)	(79,891)
Loss before other changes in net position	(777,407)	(516,522)	(590,344)
Other changes in net position:			
Capital contributions	395,178	174,977	200,270
Decrease in net position	(382,229)	(341,545)	(390,074)
Net position at beginning of year	(1,447,174)	(1,105,629)	(715,555)
Net position at end of year	$ (1,829,403)	(1,447,174)	(1,105,629)

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, 2013 and 2012. 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 at June 30, 2013 and 2012, the end of the fiscal year, 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 $398.6 million from June 30, 2012 to June 30, 2013; it had increased by $341.5 million from June 30, 2011 to June 30, 2012. Net investment in capital assets increased by $341.3 million and $83.7 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 $4.370 billion at June 30, 2013 from $3.670 billion at June 30, 2012. The Corporation incurred an operating loss of $668.0 million in 2013 compared with $428.9 million in 2012. The Corporation's net deficit position benefited from $391.8 million and $173.6 million in capital contributions from The City of New York (The City) in 2013 and 2012, respectively.

Significant financial ratios are as follows:

	2013	2012	2011
Current ratio	1.10	1.49	1.65
Quick ratio	0.56	0.82	0.83
Days cash on hand	21.41	30.28	35.16
Net days revenue in patient receivables	81.28	66.11	60.04

The current ratio, quick ratio, and days cash on hand are common liquidity indicators. The Corporation's current ratio, quick ratio, and days cash on hand has decreased from 2012 to 2013 and decreased slightly from 2011 to 2012. The current ratio, quick ratio, and days cash on hand decreased from 2012 to 2013 and 2011 to 2012 as cash and cash equivalents decreased $134.9 million and $83.3 million, respectively. 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, 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 2013 amounts compared to 2012 and, where appropriate, 2012 amounts compared to 2011.

Balance Sheets

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. Cash and cash equivalents decreased $83.3 million from June 30, 2011 to June 30, 2012 due to payment of amounts due The City for 2011 and the cost of additional fringe benefits.

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. Patient accounts receivable, net increased $66.7 million from 2011 to 2012 due to inpatient delayed third-party payments and outpatient increased revenue not yet collected.

Estimated third-party payor settlements, net – increased $266.0 million from June 30, 2012 to June 30, 2013 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. Estimated third-party payor settlements, net decreased $74.8 million from June 30, 2011 to June 30, 2012 primarily due to collections of prior year's receivables.

Estimated pools receivable (payable), net – 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. Estimated pools receivable, net, decreased $276.9 million from June 30, 2011 to June 30, 2012 primarily due to the receipt of State Fiscal Year's 2011 and 2012 DSH Max and a reduction to the State Fiscal Year 2012 allocation.

Grants receivable – increased $193.0 million from June 30, 2012 to June 30, 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. Grants receivable increased $35.8 million from 2011 to 2012 due to the timing of payments for the Medicaid Administration grant ($18.6 million) and HEAL NY program ($12.3 million).

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. Assets restricted as to use decreased $60.0 million from June 30, 2011 to June 30, 2012 due to use of the Construction Fund for various capital projects.

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. Other current assets increased $115.9 million from June 30, 2011 to June 30, 2012 due to accrued medical resident FICA refunds in the amount of $94.2 million and increase in the amounts owed under affiliation agreements in the amount of $11.7 million.

Capital assets, net – increased $363.1 million from 2012 to 2013 and $134.4 million from 2011 to 2012. 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(k) to the financial statements). In addition, in 2013, capital assets, net increased by $132.6M for the restoration of affected facilities from Super Storm Sandy, net of related asset impairments.

Accrued salaries, fringe benefits, and payroll taxes – is consistent from June 30, 2012 to June 30, 2013. Accrued salaries, fringe benefits, and payroll taxes decreased $20.0 million from June 30, 2011 to June 30, 2012 due to decreases in prior year collective bargaining estimates offset by increases in accrued health benefits.

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. Accounts payable and accrued expenses increased $17.9 million from June 30, 2011 to June 30, 2012 primarily due to increases in affiliate physician fringe benefits of $7.3 million, pollution remediation payable increase of $2.7 million, and an increase in per diem nurses payable of $5.9 million.

Due to City of New York – increased $264.9 million from June 30, 2012 to June 30, 2013 as the Corporation and The City agreed to delay payments to maintain adequate cash flows. Due to the City decreased $35.7 million from June 30, 2011 to June 30, 2012 primarily due to the decrease in medical malpractice during 2012.

Long-term debt – decreased $61.8 million from June 30, 2012 to June 30, 2013 due to the payment of current debt obligations and the current refunding of debt (see note 7 to the financial statements). Long-term debt

decreased $13.1 million from June 30, 2011 to June 30, 2012 primarily due to the payment of current debt obligations during fiscal year 2012 and offset by the recording of the Henry J. Carter capital lease (see note 7 to the financial statements).

Postemployment benefits obligation, other than pension – increased $196.7 million from June 30, 2012 to June 30, 2013 and increased $207.0 million from June 30, 2011 to June 30, 2012 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 $14.2 million from June 30, 2012 to June 30, 2013 for FICA refunds paid to medical residents. Other current liabilities increased $36.1 million from June 30, 2011 to June 30, 2012 and represents amounts owed to medical residents for FICA refunds.

Changes in Components of Net Position

Net investment in capital assets – 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 decreased by $61.8 million. Invested in capital assets, net of related debt increased $83.7 million from June 30, 2011 to June 30, 2012 as capital assets, net, increased by $134.4 million, related assets restricted as to use decreased by $63.8 million, and related debt decreased by $13.1 million.

Restricted – decreased $23.0 million from June 30, 2012 to June 30, 2013 as a result of a current refunding of debt during 2013. Restricted net assets increased $3.8 million from June 30, 2011 to June 30, 2012 due to a $4.3 million increase in the revenue fund under bond resolution.

Unrestricted – net position activities, other than those mentioned above, resulted in decreases of $700.6 million and $459.0 million for years 2013 and 2012, 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, 2013, the Corporation had capital assets, net of accumulated depreciation, of $3.366 billion compared to $3.003 billion at June 30, 2012 and $2.869 billion at June 30, 2011, representing an increase of 12.1% from 2012 to 2013 and 4.7% from 2011 to 2012, as shown in the table below (in thousands of dollars):

		2013	2012	2011
Land and land improvements	$	28,460	24,160	24,445
Buildings and leasehold improvements		2,021,122	1,601,186	1,639,742
Equipment		699,942	703,728	698,499
Construction in progress		616,932	674,282	506,230
Total	$	3,366,456	3,003,356	2,868,916

(Continued)

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.

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

2011's major capital asset additions included:

- Construction continued on the major modernization of Gouverneur Healthcare Services, with additional spending of approximately $41.2 million in 2011
- Construction continued on the major modernization of Harlem Hospital Center, with additional spending of approximately $66.5 million in 2011

The Corporation's 2014 capital budget projects spending of $662 million, which includes continuation of work on the major construction mentioned above. The 2014 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.

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

Long-Term Debt

At June 30, 2013, the Corporation has approximately $1.0 billion in long-term debt financing relating to its capital assets, as shown with comparative amounts at June 30, 2012 and 2011 (in thousands of dollars):

		2013	2012	2011
Bonds payable	$	951,789	1,024,385	1,080,524
Capital lease obligation		—	75	175
New York Power Authority (NYPA) financing		1,465	2,101	3,050
Equipment and renovation financing		998	1,923	3,928
Clinical bed financing		4,637	6,866	8,983
Henry J. Carter capital lease obligation		48,258	48,258	—
New Market Tax Credit		14,700	—	—
Total	$	1,021,847	1,083,608	1,096,660

Since 2008, the Corporation in its refinancing efforts has reduced all of its insured bonds. Currently, the Corporation's debt is 82% uninsured fixed and 18% 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, 2013, 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 – 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. Net patient service revenue decreased $279.7 million from June 30, 2011 to June 30, 2012 reflecting the following: 1) decreased outpatient UPL revenue of $84.8 million; 2) decreased DSH Maximization of $138.3 million; 3) additional reserve for HMO Graduate Medical Education Case Mix adjustment of $36.0 million; and 4) patient service revenue decreases from lower inpatient census and outpatient visits.

Appropriations from (remittances to) City of New York, net – 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. Appropriations from (remittances to) City of New York, net, decreased $36.7 million from June 30, 2011 to June 30, 2012 due to an increase of $31.1 million in debt service payable to The City.

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. Grants revenue increased $36.3 million from June 30, 2011 to June 30, 2012 due to the addition of prisoner and uniform grants.

Other revenue – decreased $25.3 million from June 30, 2012 to June 30, 2013 due to nonrecurrence of interest earned on the medical resident FICA refunds recorded in 2012. Other revenue increased $23.7 million from June 30, 2011 to June 30, 2012 due to interest earned on the medical resident FICA refunds.

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. Personal services decreased $149.3 million, or approximately 5.9%, from June 30, 2011 to June 30, 2012 primarily due to decreases in prior year collective bargaining estimates and reductions of 528 employee full-time equivalents (FTEs) or 1.4%.

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. Other-than-personal services was consistent from June 30, 2011 to June 30, 2012.

Fringe benefits and employer payroll taxes – increased $52.8 million from June 30, 2012 to June 30, 2013 due to the nonrecurrence of $30.5 million of medical resident FICA refunds and increases in health benefit costs of $36.6 million or 7.4%. Fringe benefits and employer payroll taxes increased $75.0 million from June 30, 2011 to June 30, 2012 primarily for health benefit increases of $34.8 million or 7.6% and pension increase of $92.2 million or 27.8% offset by $30.5 million of medical resident FICA refunds.

Postemployment benefits, other than pension – decreased $6.1 million from June 30, 2012 to June 30, 2013 and decreased $311.7 million from June 30, 2011 to June 30, 2012 as determined by the New York City Office of the Actuary, and is mainly due to assumptions for healthcare 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 $31.1 million or 3.5% from June 30, 2012 to June 30, 2013 and increased $27.0 million or 3.1% from June 30, 2011 to June 30, 2012 due to market adjustments and enhanced services.

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. Investment income remained consistent from 2011 to 2012.

Capital contributions funded by City of New York – increased $218.1 million from June 30, 2012 to June 30, 2013 for continued major modernization projects. Capital contributions funded by City of New York decreased $24.6 million from June 30, 2011 to June 30, 2012 due to additional capital funding sources available from the HEAL grant (Health Care Efficiency and Affordability Law of New York State) and HHC's 2010 bond proceeds.

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, 2013 and 2012

(In thousands)

	2013				2012 (Balances as Restated (see note 1(q)))			
Assets	**Business-Type Activities – HHC**	**Discretely Presented Component Unit-MetroPlus**	**Eliminations**	**Total**	**Business-Type Activities – HHC**	**Discretely Presented Component Unit-MetroPlus**	**Eliminations**	**Total**
Current assets:								
Cash and cash equivalents (note 2)	$ 360,579	703,306	—	1,063,885	495,467	493,140	—	988,607
U.S. government securities	—	81,671	—	81,671	—	113,950	—	113,950
Patient accounts receivable, net (notes 4, 7, and 11)	760,513	—	(309,043)	451,470	679,622	—	(208,320)	471,302
Premiums receivable	—	103,418	(1,299)	102,119	—	123,104	(1,273)	121,831
Estimated third-party payor settlements, net (notes 4, 7, and 11)	668,100	—	(58,275)	609,825	402,100	—	(64,322)	337,778
Estimated pools receivable, net (notes 4, 7, and 11)	—	—	—	—	232,800	—	—	232,800
Grants receivable	305,479	—	—	305,479	112,519	—	—	112,519
Supplies	19,116	—	—	19,116	24,240	—	—	24,240
Assets restricted as to use and required for current liabilities (notes 6 and 7)	37,283	—	—	37,283	54,185	—	—	54,185
Other current assets	57,265	3,234	—	60,499	131,445	3,645	—	135,090
Total current assets	2,208,335	891,629	(368,617)	2,731,347	2,132,378	733,839	(273,915)	2,592,302
Assets restricted as to use, net of current portion (notes 6 and 7)	158,863	84,345	—	243,208	248,484	65,896	—	314,380
U.S. government securities	—	32,372	—	32,372	—	—	—	—
Capital assets, net (notes 5 and 7)	3,366,456	7,485	—	3,373,941	3,003,356	6,608	—	3,009,964
Deferred financing costs, net	7,608	—	—	7,608	9,764	—	—	9,764
Total assets	$ 5,741,262	1,015,831	(368,617)	6,388,476	5,393,982	806,343	(273,915)	5,926,410
Liabilities and Net Position								
Current liabilities:								
Current installments of long-term debt (note 7)	$ 40,634	—	—	40,634	58,083	—	—	58,083
Accrued salaries, fringe benefits, and payroll taxes	729,681	10,081	(1,299)	738,463	724,225	9,166	(1,273)	732,118
Accounts payable and accrued expenses (notes 12 and 14)	385,904	512,721	(367,318)	531,307	344,427	418,119	(272,642)	489,904
Estimated pools payable, net (notes 4, 7, and 11)	296,900	—	—	296,900	—	—	—	—
Due to City of New York, net (note 8)	436,591	—	—	436,591	171,653	—	—	171,653
Current portion of postemployment benefits obligation, other than pension (note 10)	103,003	2,177	—	105,180	98,285	1,415	—	99,700
Other current liabilities	21,874	—	—	21,874	36,115	—	—	36,115
Total current liabilities	2,014,587	524,979	(368,617)	2,170,949	1,432,788	428,700	(273,915)	1,587,573
Long-term debt, net of current installments (note 7)	981,213	—	—	981,213	1,025,525	—	—	1,025,525
Postemployment benefits obligation, other than pension, net of current portion (note 10)	4,574,865	43,489	—	4,618,354	4,382,843	39,310	—	4,422,153
Total liabilities	7,570,665	568,468	(368,617)	7,770,516	6,841,156	468,010	(273,915)	7,035,251
Commitments and contingencies (note 11)								
Net position:								
Net investment in capital assets	2,393,938	7,514	—	2,401,452	2,052,614	6,639	—	2,059,253
Restricted:								
For debt service	134,776	—	—	134,776	159,714	—	—	159,714
Expendable for specific operating activities	11,082	—	—	11,082	9,129	—	—	9,129
Nonexpendable permanent endowments	928	—	—	928	928	—	—	928
For statutory reserve requirements	—	84,345	—	84,345	—	65,896	—	65,896
Unrestricted	(4,370,127)	355,504	—	(4,014,623)	(3,669,559)	265,798	—	(3,403,761)
Total net deficit position	(1,829,403)	447,363	—	(1,382,040)	(1,447,174)	338,333	—	(1,108,841)
	$ 5,741,262	1,015,831	(368,617)	6,388,476	5,393,982	806,343	(273,915)	5,926,410

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, 2013 and 2012

(In thousands)

	2013				2012 (Balances as Restated (see note 1(q)))			
	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)	$ 5,233,985	—	(742,199)	4,491,786	5,615,776	—	(705,976)	4,909,800
Appropriations from (remittances to) City of New York, net (note 11)	(583)	—	—	(583)	(9,140)	—	—	(9,140)
Premium revenue (note 14)	—	2,201,790	(17,217)	2,184,573	—	1,907,877	(15,881)	1,891,996
Grants revenue	566,019	—	—	566,019	249,252	(25)	—	249,227
Other revenue	45,915	5	—	45,920	71,239	32	—	71,271
Total operating revenues	5,845,336	2,201,795	(759,416)	7,287,715	5,927,127	1,907,884	(721,857)	7,113,154
Operating expenses:								
Personal services	2,409,926	53,956	—	2,463,882	2,387,461	47,920	—	2,435,381
Other than personal services	1,443,697	2,006,799	(742,199)	2,708,297	1,410,017	1,750,837	(705,976)	2,454,878
Fringe benefits and employer payroll taxes	1,168,041	24,828	(17,217)	1,175,652	1,115,256	22,842	(15,881)	1,122,217
Postemployment benefits, other than pension (note 10)	293,745	6,212	—	299,957	299,850	3,315	—	303,165
Affiliation contracted services	915,581	—	—	915,581	884,436	—	—	884,436
Depreciation (note 5)	282,345	2,341	—	284,686	259,045	1,862	—	260,907
Total operating expenses	6,513,335	2,094,136	(759,416)	7,848,055	6,356,065	1,826,776	(721,857)	7,460,984
Operating (loss) income	(667,999)	107,659	—	(560,340)	(428,938)	81,108	—	(347,830)
Nonoperating revenues (expenses):								
Investment income	1,088	1,367	—	2,455	10,502	1,476	—	11,978
Interest expense	(112,568)	—	—	(112,568)	(98,678)	—	—	(98,678)
Contributions restricted for specific operating activities	2,072	—	—	2,072	592	—	—	592
Total nonoperating (expenses) revenues, net	(109,408)	1,367	—	(108,041)	(87,584)	1,476	—	(86,108)
(Loss) income before other changes in net position	(777,407)	109,026	—	(668,381)	(516,522)	82,584	—	(433,938)
Other changes in net position:								
Capital contributions funded by City of New York	391,754	4	—	391,758	173,608	2	—	173,610
Capital contributions funded by grantors and donors	3,424	—	—	3,424	1,369	—	—	1,369
Total other changes in net position	395,178	4	—	395,182	174,977	2	—	174,979
(Decrease) increase in net position	(382,229)	109,030	—	(273,199)	(341,545)	82,586	—	(258,959)
Net deficit position at beginning of year	(1,447,174)	338,333	—	(1,108,841)	(1,105,629)	255,747	—	(849,882)
Net deficit position at end of year	$ (1,829,403)	447,363	—	(1,382,040)	(1,447,174)	338,333	—	(1,108,841)

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, 2013 and 2012

(In thousands)

	2013 Business-Type Activities – HHC	Balances as Restated (see note 1(q)) 2012 Business-Type Activities – HHC
Cash flows from operating activities:		
Cash received from patients and third-party payors	$ 5,416,794	5,900,758
Cash appropriations received from City of New York	299,629	126,688
Cash appropriations remitted to City of New York	(127,271)	(169,484)
Receipts from grants	373,059	213,475
Other receipts	122,836	(31,905)
Cash paid for personal services, fringe benefits, and employer payroll taxes	(3,688,862)	(3,579,861)
Cash paid for other than personal services	(1,293,332)	(1,396,580)
Cash paid for affiliation contracted services	(924,984)	(888,891)
Net cash provided by operating activities	177,869	174,200
Cash flows from noncapital financing activity:		
Proceeds from contributions restricted for specific operating activities	2,072	592
Net cash provided by noncapital financing activity	2,072	592
Cash flows from capital and related financing activities:		
Purchase of capital assets	(617,864)	(302,129)
Capital contributions by grantors and donors	3,424	1,369
Capital contributions by City of New York	391,754	173,608
Cash paid for retainage and construction accounts payable	(1,458)	(871)
Payments of long-term debt	(67,443)	(57,001)
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	(134,378)	(144,023)
Net cash used in capital and related financing activities	(421,414)	(329,047)
Cash flows from investing activities:		
Purchases of assets restricted as to use	(106,104)	(164,975)
Sales of assets restricted as to use	204,422	237,457
Interest received	8,267	(1,540)
Net cash provided by investing activities	106,585	70,942
Net decrease in cash and cash equivalents	(134,888)	(83,313)
Cash and cash equivalents at beginning of year	495,467	578,780
Cash and cash equivalents at end of year	$ 360,579	495,467
Supplemental disclosures:		
Capital lease incurred	$ —	48,258
Change in fair value of assets restricted as to use	(2,730)	6,263

(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, 2013 and 2012

(In thousands)

	2013 Business-Type Activities – HHC	Balances as Restated (see note 1(q)) 2012 Business-Type Activities – HHC
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (667,999)	(428,938)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	282,345	259,045
Provision for bad debts	329,416	591,934
Changes in assets and liabilities:		
Patient accounts receivable, net	(410,307)	(658,627)
Estimated third-party payor settlements, net	(266,000)	74,800
Estimated pools receivable (payable), net	529,700	276,875
Grants receivable	(192,960)	(35,777)
Supplies and other current assets	79,304	(110,346)
Accrued salaries, fringe benefits, and payroll taxes	5,456	(20,042)
Accounts payable and accrued expenses	41,477	17,898
Due to City of New York	264,938	(35,721)
Other liabilities	(14,241)	36,115
Postemployment benefits obligation, other than pension	196,740	206,984
Net cash provided by operating activities	$ 177,869	174,200

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies.

Organization

On July 1, 1970, the New York City Health and Hospitals Corporation (the Corporation), a New York State (the State) public benefit corporation created by Chapter 1016 of the Laws of 1969, assumed responsibility for the operation of the municipal hospital system of the City of New York (the City) pursuant to an agreement with the City dated June 16, 1970 (the Agreement). As a main element of its core mission, the Corporation provides, on behalf of the City, comprehensive medical and mental health services to City residents regardless of ability to pay. The Corporation operates eleven acute care hospitals, five long-term care facilities, five freestanding diagnostic and treatment centers, many hospital-based and neighborhood clinics, a certified home health agency, and MetroPlus Health Plan, Inc. (MetroPlus), a prepaid health services provider (PHSP). The Corporation's facilities are organized into 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 2002, 2003, 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 on each claim. 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 wholly owned subsidiary 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 that is projected to produce a net benefit to the Corporation of $3.4 million to be used for the construction of certain new facilities at the Harlem Hospital Center.

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. The Corporation is the sole member and appoints a voting majority of the governing board of MertoPlus. 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 a contractual agreement with the New York State Department of Health, Division of Healthcare Access, to provide comprehensive medical services to Medicaid recipients (members). Additionally, Corporation employees can elect MetroPlus healthcare coverage as part of their employee benefits. MetroPlus provides Child Health Plus (CHP), Family Health Plus (FHP), and HIV Special Needs Plan (HIV-SNP) coverage through a State Department of Health (DOH) contract. MetroPlus has contracted with Centers for Medicare & Medicaid Services (CMS) and DOH to offer Medicare coverage to individuals, who are dually eligible for benefits under Medicare and New York State Medicaid. Beneficiaries have the option of selecting MetroPlus or the State as their Medicaid coverage provider.

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 elimination 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 balance sheets at June 30, 2013 and 2012. Assets restricted as to use are stated at fair value, which approximates cost, with unrealized gains and losses included in investment income.

Donor-restricted net assets 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 assets represent contributions to provide healthcare services, of which $928,000 are held in perpetuity at June 30, 2013 and 2012. 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.

(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. Excluding the change in estimate pertaining to net patient service revenue (see note 4), the change in estimate relating to collective bargaining was a net decrease to fringe benefits and employer payroll taxes for approximately $47.5 million for the year ended June 30, 2012. 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 $329.4 million in 2013 and $591.9 million in 2012.

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, 2013 and 2012 was approximately $512.3 million and $716.3 million, respectively.

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

Funds appropriated from The City are payments, either directly or indirectly, for services rendered by the Corporation. The City pays for patient care rendered to prisoners, uniformed city employees, and various discretely funded facility-specific programs. 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 records both revenues and expenses in an amount equal to expenditures made on its behalf by The City, that is, settlements of claims for medical malpractice, negligence, other torts, and alleged breach of contracts (see note 11(b)); 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 typically reimburses The City for medical malpractice settlements, negligence, and other torts up to an agreed-upon amount negotiated annually. The City pays on behalf of the Corporation. In 2013 and 2012, the medical malpractice and general liability settlements paid by The City were $121.6 million and $118.8 million, respectively, and the Corporation has agreed to reimburse The City $121.6 million and $118.8 million in 2013 and 2012, 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 2013 and 2012, respectively, the Corporation agreed to reimburse the City $150.4 million and $144.0 million, respectively, for debt service 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 and Kings County Hospitals and 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 $4.5 million and $4.9 million as of June 30, 2013 and 2012, respectively. These amounts are included in other current assets and accrued expenses in the accompanying statements of net position. At June 30, 2013 and 2012, all custodial funds related bank balances are fully insured.

(j) Affiliation Contracted Services

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

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

(k) Supplies

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

(l) Income Taxes

The Corporation and its component units are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

(m) Deferred Financing Costs

Deferred financing costs represent expenditures incurred during bond issuances (i.e., insurance, underwriters' discount, etc.) and are being amortized over the respective terms of the issues.

(n) Grants Receivable

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

(o) Net Position

Net position of the Corporation are 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.*

(p) 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

(Continued)

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.

(q) New Accounting Standards Adopted

In 2013, the Corporation adopted three new accounting standards as follows:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* (GASB 61), revises and clarifies the requirements for reporting component units. As a result of the adoption of GASB 61, MetroPlus is now presented as a discretely presented component unit of the Corporation, requiring the fiscal year 2012 financial statements to be retrospectively adjusted to reflect the presentation of MetroPlus as a discretely presented component unit. The adoption of GASB 61 did not result in adjustment to the 2012 amounts for the total reporting entity.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB 62)*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in FASB pronouncements, which does not conflict with or contradict GASB pronouncements, and eliminates the option to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements. There was no impact on the Corporation's financial statements as a result of the adoption of GASB 62.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the Corporation's financial statements was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Balance Sheet" to "Statement of Net Position" as well as renaming "Statement of Revenues, Expenses, and Changes in Net Assets" to "Statement of Revenues, Expenses, and Changes in Net Position".

(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, 2013 and 2012, 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. The following information measures the level of charity care provided during the years ended June 30 (in thousands):

		2013	2012
Charges forgone, based on established rates	$	980,810	1,008,017
Estimated expenses incurred to provide charity care		596,270	643,463

(4) Patient Accounts Receivable and 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.

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 a decrease to net patient service revenue of $28.2 million and $2.5 million for the years ended June 30, 2013 and 2012, respectively.

Net patient service revenue for the years ended June 30, 2013 and 2012 is as follows (in thousands):

		2013			2012	
Medicaid	$	1,492,874	28.5%	$	1,858,865	33.0%
Medicare		570,322	10.9		694,479	12.4
Bad debt/charity care pools		445,420	8.5		440,984	7.9
DSH supplemental pool		812,000	15.5		742,525	13.2
Other third-party payors that include Medicaid and Medicare managed care		1,114,495	21.3		1,124,284	20.0
MetroPlus		742,199	14.2		705,976	12.6
Self-pay		56,675	1.1		48,663	0.9
	$	5,233,985	100.0%	$	5,615,776	100.0%

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

	2013		2012	
Medicaid	$ 176,451	23.2%	$ 196,436	28.9%
Medicare	64,704	8.5	70,195	10.3
Other third-party payors, that include Medicaid and Medicare managed care	183,065	24.1	187,277	27.6
MetroPlus	309,043	40.6	208,320	30.7
Self-pay	27,250	3.6	17,394	2.5
	$ 760,513	100.0%	$ 679,622	100.0%

(5) Capital Assets

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

	2013	2012
Land and land improvements	$ 55,707	50,396
Buildings and leasehold improvements	3,831,385	3,353,325
Equipment	3,166,436	3,110,019
	7,053,528	6,513,740
Less accumulated depreciation	4,304,004	4,184,666
	2,749,524	2,329,074
Construction in progress	616,932	674,282
Capital assets, net	$ 3,366,456	3,003,356

Capital assets activity for the years ended June 30, 2013 and 2012 was as follows (in thousands):

		Land and land improvements	Buildings and leasehold improvements	Equipment	Construction in progress	Total
June 30, 2011 balance	$	49,628	3,295,734	2,981,486	506,230	6,833,078
Net of acquisitions, net of transfers		965	59,457	165,484	168,052	393,958
Sales, retirements, and adjustments		(197)	(1,866)	(36,951)	—	(39,014)
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

Related information on accumulated depreciation for the years ended June 30, 2013 and 2012 was as follows (in thousands):

		Land and land improvements	Buildings and leasehold improvements	Equipment	Total
June 30, 2011 balance	$	25,183	1,655,991	2,282,987	3,964,161
Depreciation expense		1,251	98,012	160,190	259,453
Sales, retirements, and adjustments		(198)	(1,864)	(36,886)	(38,948)
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

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 approximately $9.0 million, is included in depreciation expense on the statements of revenues, expenses, and changes in net position.

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, 2013 and 2012 was as follows (in thousands):

		2013	2012
Interest costs subject to capitalization	$	26,664	41,085
Interest income		(1,699)	(417)
Capitalized interest costs, net	$	24,965	40,668

The Corporation capitalized net interest costs on TFA debt and City General Obligation Bonds in both 2013 and 2012, 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 2013 and 2012 approximated $20.9 million and $37.2 million, respectively. In addition, the Corporation capitalized net interest costs of $4.0 million in 2013 and $3.5 million in 2012 related to its 2008 and 2010 Series bonds.

(6) Assets Restricted as to Use

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

		2013	2012
Under bond resolutions (a):			
Construction funds	$	49,360	132,899
Capital reserve funds		86,739	99,793
Revenue funds		47,526	59,920
		183,625	292,612
New Market Tax Credit (b)		511	—
By donors for specific operating activities and permanent endowments (c)		12,010	10,057
Total assets restricted as to use		196,146	302,669
Less current portion of assets restricted as to use		37,283	54,185
	$	158,863	248,484

(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 fund balances 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. $0.8 million and $0.6 million were uninsured and uncollateralized at June 30, 2013 and 2012, respectively.

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

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

(c) The donor-restricted funds are invested in a certificate of deposit and an interest bearing commercial money market account at June 30, 2013 and 2012. $7.0 million was invested in a fully insured certificate of deposit at June 30, 2013 and 2012; 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 and Other Liabilities

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

		2013	2012
Bonds payable:			
2013 Series A Fixed Rate Health System Bonds – weighted average interest of 2.44%, payable in installments to 2023:			
Uninsured Bonds (a)	$	127,573	—
2010 Series A Fixed Rate Health System Bonds – average interest of 3.89%, payable in installments to 2030:			
Uninsured Bonds (b)		523,480	528,342
2008 Series A Fixed Rate Health System Bonds – weighted average interest of 4.51%, payable in installments to 2026:			
Uninsured Bonds (c)		132,550	187,966
2008 Series B, C, D, and E Variable Rate Health System Bonds – subject to short-term liquidity arrangements, weighted average interest of 0.89% in 2013, payable in installments to 2031:			
Uninsured Bonds (d)		168,186	174,144

	2013	2012
2003 Series A Fixed Rate Health System Bonds – weighted average interest of 4.77%, payable in installments to 2023:		
Insured Bonds (e)	—	132,298
2002 Series A Fixed Rate Health System Bonds – weighted average interest of 5.14%, payable in installments to 2026:		
Insured Bonds (f)	—	1,635
Total bonds payable	951,789	1,024,385
Capital lease obligation (g)	—	75
New York Power Authority (NYPA) financing (h)	1,465	2,101
Equipment and renovation financing (i)	998	1,923
Clinical bed financing (j)	4,637	6,866
Henry J. Carter capital lease obligation (k)	48,258	48,258
New Market Tax Credit (l)	14,700	—
	1,021,847	1,083,608
Less current installments	40,634	58,083
	$ 981,213	1,025,525

Long-term debt activity for the years ended June 30, 2013 and 2012 were as follows (in thousands):

	June 30, 2012 balance	Additions	Reductions	June 30, 2013 balance	Amounts due within 1 year
Long-term debt:					
Bonds payable	$ 1,024,385	127,573	(200,169)	951,789	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	—
	$ 1,083,608	142,273	(204,034)	1,021,847	40,634

	June 30, 2011 balance	Additions	Reductions	June 30, 2012 balance	Amounts due within 1 year
Long-term debt:					
Bonds payable	$ 1,080,524	—	(56,139)	1,024,385	54,185
Capital lease obligation	175	—	(100)	75	75
NYPA financing	3,050	—	(949)	2,101	631
Equipment and renovation financing	3,928	—	(2,005)	1,923	961
Clinical bed financing	8,983	—	(2,117)	6,866	2,231
Henry J. Carter capital lease obligation	—	48,258	—	48,258	—
	$ 1,096,660	48,258	(61,310)	1,083,608	58,083

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 proceed accounts to HHC Capital. All of the Corporation's Health System Bonds are secured by the pledge. The General Resolution imposes certain restrictive covenants on the issuance of additional bonds and working capital borrowing, and requires that the Corporation satisfy certain measures of financial performance, such as maintaining certain levels of net cash available for debt service, as defined and certain levels of healthcare reimbursement 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. The overall weighted average interest rate was 2.44%.

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, 2013, the amount outstanding for the 2008 Series A bonds for the future principal, which was refunded and defeased, is $30,675,000.

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.

		Principal	Interest	Total
Year:				
2014	$	—	4,661	4,661
2015		—	5,294	5,294
2016		640	5,294	5,934
2017		690	5,274	5,964
2018		675	5,274	5,949
2019 – 2023		110,040	20,965	131,005
Total		112,045	46,762	158,807
Premium on 2013 Bonds		20,851	—	20,851
Unamortized refunding cost		(5,323)	—	(5,323)
	$	127,573	46,762	174,335

(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 bond due February 15, 2030 with interest payable on February 15 and August 15. The overall weighted average interest rate was 3.89%.

Proceeds of the 2010 Bonds were used: (i) to finance and reimburse the Corporation of $199,758,168 for the costs of its capital improvement program; (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 unrefunded); (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, 2013 (in thousands):

	Principal	Interest	Total
Year:			
2014	$ 25,260	24,891	50,151
2015	26,420	23,733	50,153
2016	35,970	22,431	58,401
2017	37,705	20,657	58,362
2018	39,615	18,784	58,399
2019 – 2023	122,725	67,894	190,619
2024 – 2028	139,980	41,523	181,503
2029 – 2030	78,161	5,859	84,020
Total	505,836	225,772	731,608
Premium on 2010 Bonds	34,098	—	34,098
Unamortized refunding cost	(16,454)	—	(16,454)
	$ 523,480	225,772	749,252

(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. The overall weighted average interest was 4.51%.

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 of $99,367,379 for the costs of its capital improvement program; (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 Corporation's Series A bonds maturing in 2014 and 2015 (see note (a)).

(Continued)

(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 52008 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, 2012.

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 0.89% for 2013 and 0.83% for 2012.

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, 2013 (in thousands). The interest payments are based on the interest rate in effect at June 30, 2013:

	Principal	Interest	Total
Year:			
2014	$ 11,945	10,951	22,896
2015	20,375	9,572	29,947
2016	12,380	8,104	20,484
2017	12,800	7,706	20,506
2018	13,255	7,262	20,517
2019 – 2023	74,820	28,002	102,822
2024 – 2028	102,920	11,056	113,976
2029 – 2030	51,036	1,543	52,579
Total	299,531	84,196	383,727
Premium on 2008 Bonds	1,865	—	1,865
Unamortized refunding cost	(660)	—	(660)
	$ 300,736	84,196	384,932

(e) 2003 Series A Bonds

On January 15, 2003, the Corporation issued $245,180,000 of tax-exempt fixed rate Health System Bonds, 2003 Series A bonds (the 2003 Bonds). This issuance generated a premium of $9,029,318 and accrued interest of $818,452. This bond issue included $245,180,000 of 3.0% to 5.25% insured serial bonds, due February 15, 2004 through February 15, 2023 with interest payable on February 15 and August 15. The overall weighted average interest was 4.77%.

Proceeds of the 2003 Bonds, $250,469 of interest earning in escrow fund and $17,160,000 in residual funds from the 1993 Series A bonds (the 1993 Bonds) were used: (i) to refund and defease the Corporation's remaining 1993 Bonds totaling $252,955,000; (ii) to finance $6,178,859 in interest during the escrow period; (iii) to fund redemption premium of $4,817,900; (iv) to pay cost of issuance of $7,668,028; and (v) to pay accrued interest of $818,452. Proceeds used to refund and defease 1993 Bonds were deposited with the bond trustee sufficient to pay the interest and principal of the 1993 Bonds to and including their maturity date of February 15, 2003 for the 1993 Bonds maturing on such date, and, with respect to the refunded 1993 Bonds maturing after February 15, 2003, on their respective redemption dates of March 13, 2003 and March 18, 2003.

On March 28, 2013, the Corporation refunded and redeemed all of the Corporation's 2003 Series A bonds (see note (a)).

(f) 2002 Series A, B, C, D, E, F, G, and H Bonds

On July 1, 2002, the Corporation issued $192,750,000 of tax-exempt fixed rate Health System Bonds, 2002 Series A bonds (the 2002 Series A Bonds). This issuance generated a premium of

$3,016,172 and accrued interest of $616,667. This bond issue included $11,950,000 of 3.0% to 4.0% uninsured serial bonds, due February 15, 2005 through February 15, 2006; $154,140,000 of 3.2% to 5.5% insured serial bonds, due February 15, 2007 through February 15, 2019; and $26,660,000 of uninsured term bonds of 5.375% to 5.45%, due February 15, 2024 through February 15, 2026 with interest payable on February 15 and August 15. The overall weighted average interest was 5.14%.

Proceeds of the 2002 Series A Bonds were used: (i) to finance and reimburse the Corporation of $159,997,658 for the costs of its capital improvement program; (ii) to fund the Capital Reserve Fund of $11,754,803; (iii) to fund the Capitalized Interest Fund of $19,085,411; and (iv) to pay cost of issuance of $5,544,968.

The 2002 Series B, C, D, E, F, G, and H auction rate bonds were current refunded and defeased in August 2008 and September 2008 ((see notes (c) and (d)).

On October 26, 2010, the Corporation refunded and defeased substantially all of the Corporation's 2002 Series A bonds (see note (b)).

(g) Capital Lease Obligation

The Corporation is a party to a long-term lease agreement, which commenced in 1993 and resulted in the construction of a parking garage at Elmhurst Hospital, which was financed by $11.8 million of New York City Industrial Development Agency Triple Tax-Exempt Bonds. These bonds and related interest costs will be paid over an 11-year period at rates of 7.4% and 7.5%. The Corporation hired Elmpark Associates (Elmpark) to construct and manage the garage and is required to pay Elmpark $100,000 per year in years 11 through 20 of the agreement for Elmpark's equity interest in the garage.

All assets acquired under this lease agreement have been capitalized and the related obligation is reflected in the accompanying financial statements. As of June 30, 2013, the payment of all principal and interest due is subordinate to the payment of principal and interest on the Corporation's 2008, 2010, and 2013 Bonds. The cost of the parking garage is included in capital assets in the amount of $12.8 million, with accumulated depreciation of $10.5 million at June 30, 2013. The Corporation satisfied its capital lease obligation in 2013.

(h) 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, 2013, approximately $1.5 million was due at 0.86% interest. The effective interest rate for 2013 was approximately 0.9%.

The following table summarizes debt service requirements as of June 30, 2013 (in thousands). The interest payments are based on the interest rate in effect at June 30, 2013:

		Principal	Interest	Total
Year:				
2014	$	625	10	635
2015		626	5	631
2016		214	—	214
	$	1,465	15	1,480

(i) ***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, 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, 2013 (in thousands):

		Principal	Interest	Total
Year:				
2014	$	458	53	511
2015		405	26	431
2016		135	4	139
	$	998	83	1,081

(j) ***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, 2013 (in thousands):

		Principal	Interest	Total
Year:				
2014	$	2,346	187	2,533
2015		1,773	69	1,842
2016		442	18	460
2017		76	1	77
	$	4,637	275	4,912

(k) 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 following table summarizes debt service requirements as of June 30, 2013 assuming that occupancy occurs in 2015 (in thousands):

		Principal	Interest	Total
Year:				
2014	$	—	—	—
2015		1,256	783	2,039
2016		2,574	1,503	4,077
2017		2,660	1,417	4,077
2018		2,749	1,329	4,078
2019 – 2023		15,179	5,209	20,388
2024 – 2028		17,880	2,508	20,388
2029 – 2030		5,960	156	6,116
Total	$	48,258	12,905	61,163

(l) New Market Tax Credit

During the fall of 2012, the Corporation entered into a New Market Tax Credit transaction (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 HHC Assistance Corporation (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. It is anticipated that the put option will be exercised.

As of June 30, 2013, the Corporation was in compliance with all of the loan and reporting covenants.

The following table summarizes debt service requirements as of June 30, 2013 (in thousands):

		Principal	Interest	Total
Year:				
2014	$	—	179	179
2015		—	179	179
2016		—	179	179
2017		—	179	179
2018		—	179	179
2019 – 2023		2,028	854	2,882
2024 – 2028		2,980	687	3,667
2029 – 2033		3,166	500	3,666
2034 – 2038		3,364	301	3,665
2039 – 2043		3,162	92	3,254
Total	$	14,700	3,329	18,029

(8) Due to City of New York, Net

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

		2013	2012
FDNY EMS operations (a)	$	138,085	44,797
Medical malpractice payable (b)		121,362	113,595
Other accrued expenses (c)		27,855	13,094
Utilities prepaid expenses (d)		(1,122)	167
Debt service (e)		150,411	—
	$	436,591	171,653

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

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

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

(d) Payable represents final and reconciled utility costs due The City. Estimated utilities payments made by the Corporation to The City during 2013 exceeded final and reconciled utilities bills, resulting in a prepaid expense of $1.1 million at June 30, 2013.

(e) Payable represents final and reconciled debt service costs for the year ended June 30, 2013. These debt service costs relate to debt incurred by The City which funded HHC capital acquisitions.

(Continued)

(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 185,000 active municipal employees and 132,000 pensioners through $48.8 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, 2013 and 2012 are approximately $2.103 billion and $2.045 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 2013, 2012, and 2011, which includes contributions toward the actuarially determined accrued liability, including the information for MetroPlus, were approximately $417.3 million, $424.6 million and $332.4 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.

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 $300.0 million, $303.2 million and $620.6 million in 2013, 2012, and 2011 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 $15 million, $16 million, and $16 million reduced OPEB expenses for 2013, 2012, and 2011, 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 2013, 2012, and 2011 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):

	2013	2012	2011
Normal cost	$ 244,614	219,718	264,044
Amortization of unfunded actuarial accrued liability over one year	264	(78,706)	202,623
Amortization of unfunded actuarial accrued liability over ten years	(115,952)	—	—
Interest at 4.0%	186,031	178,153	169,932
ARC	314,957	319,165	636,599
Less Corporation payments for retired employees' health care benefits and implicit rate subsidy credit	113,276	110,128	105,418
Net OPEB obligation increase	201,681	209,037	531,181
Net OPEB obligation – beginning of year	4,521,853	4,312,816	3,781,635
Net OPEB obligation – end of year	4,723,534	4,521,853	4,312,816
Less current portion of postemployment benefits obligation, other than pension	105,180	99,700	94,400
	$ 4,618,354	4,422,153	4,218,416

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

The schedule below presents the results of OPEB valuations as of June 30, 2012 for fiscal year 2013, as of June 30, 2011 for fiscal year 2012, and as of June 30, 2010 for fiscal year 2011 (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, 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
June 30, 2010	—	3,984,256	3,984,256	2,043,063	195.0

(Continued)

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, 2013 and the frozen entry age actuarial cost method was used in the 2012 and 2011 OPEB actuarial valuations as the basis for the 2013, 2012, and 2011 ARC calculations, respectively.

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 11 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 Seventh Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (the Seventh OPEB Report). The Seventh OPEB Report was prepared as of June 30, 2011 in accordance with GASB Statements Nos. 43 and 45 for the fiscal year ended June 30, 2012 by the New York City Office of the Actuary and is dated September 19, 2012.

(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 2007 to 2011, with all but one hospital settled through at least 2009.

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.

(Continued)

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, will change 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) 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 $121.6 million for 2013 and $118.8 million for 2012. 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.

(c) 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 $37.7 million in 2013 and $38.0 million in 2012.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2013 (in thousands):

		Amount
Year:		
2014	$	14,218
2015		11,385
2016		9,123
2017		12,031
2018		1,641
2019 – 2023		2,718
Total minimum payments required	$	51,116

(d) Major Construction Projects

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 $201 million at June 30, 2013.

(12) Accounts Payable and Accrued Expenses

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

		2013	**2012**
Vendors payable	$	248,080	207,847
Accrued interest		13,727	15,762
Affiliations payable		18,347	29,585
Pollution remediation liability		19,531	13,777
Other		86,219	77,456
	$	385,904	344,427

(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 2013. 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). 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.

(14) 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):

			Investment maturities (in years)	
Year	**Investment type**	**Fair value**	**Less than 1**	**1 to 2**
2013	U.S. Treasury bills, notes, and bonds	$ 114,043	81,671	32,372
2012	U.S. Treasury bills and notes	$ 113,950	113,950	—

(c) Premiums Receivable and Premium Revenue

Premiums earned are recorded in the month in which members are entitled to service. Medicaid and FHP premiums are based upon the age and aid category 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 State represents a substantial portion of MetroPlus' premium revenues, and is subject to audit and adjustment by the DOH.

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, 2013 and 2012 was as follows:

	2013	2012
Medicaid	79%	78%
Medicare	4	4
Child Health Plus	1	2
Family Health Plus	6	7
Partnership In Care	10	9
	100%	100%

(d) Assets Restricted as to Use

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

	2013	2012
MetroPlus statutory reserve investments	$ 84,345	65,896

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 and projected for the calendar year. The statutory reserve account balances of $84.3 million and $65.9 million, respectively, are invested in U.S. government securities at June 30, 2013 and 2012 and comply with the balances calculated in accordance with the regulations.

The statutory reserve account of $84.3 million and $65.9 million at June 30, 2013 and 2012, respectively, are 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 $489.1 million and $382.3 million at June 30, 2013 and 2012, 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):

		2013	2012
Balance, July 1	$	382,258	266,737
Less drug rebates receivable		(3,174)	(921)
Net balance		379,084	265,816
Incurred related to:			
Current year		1,851,849	1,717,602
Prior years		102,919	(6,710)
Total incurred		1,954,768	1,710,892
Paid related to:			
Current year		1,545,139	1,395,646
Prior years		302,453	201,977
Total paid		1,847,592	1,597,623
Net balance at June 30		486,261	379,084
Plus drug rebates receivable		2,794	3,174
Balance, June 30	$	489,055	382,258

Net reserves for unpaid claims and claim adjustment expenses attributable to insured claims of prior years increased by $102.9 million in 2013 and decreased by $6.7 million in 2012. 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 $5.8 million in 2013 and $5.0 million in 2012.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2013 (in thousands):

		Amount
Year:		
2014	$	6,558
2015		6,531
2016		6,428
2017		6,315
2018		3,853
2019 – 2023		924
Total minimum payments required	$	30,609

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of New York City Health and Hospitals Corporation (the Corporation), a component unit of the City of New York, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated September 26, 2013. Our report included an emphasis of matter paragraph regarding the Corporation's implementation of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. 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.

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Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

September 26, 2013