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

Financial Statements
(With Management's Discussion and Analysis)

June 30, 2012 and 2011

(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:

We have audited the accompanying balance sheets of New York City Health and Hospitals Corporation (the Corporation), a component unit of the City of New York, as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of MetroPlus Health Plan, Inc. and HHC Insurance Company, Inc., blended component units of the Corporation, were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New York City Health and Hospitals Corporation as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2012 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* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 12 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.

KPMG LLP

September 13, 2012

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

Management's Discussion and Analysis

June 30, 2012 and 2011

Financial Analysis

Summary of Assets, Liabilities, and Net Assets (Deficit)

June 30, 2012, 2011, and 2010

(In thousands)

		2012	2011	2010	2012 – 2011 Percentage change
Assets:					
Current assets	$	2,592,302	2,641,879	2,606,943	(1.9)%
Capital assets, net		3,009,964	2,874,966	2,810,720	4.7
Other assets		324,144	427,908	207,451	(24.2)
Total assets	$	5,926,410	5,944,753	5,625,114	(0.3)%
Liabilities:					
Current liabilities	$	1,587,573	1,536,553	1,564,501	3.3%
Long-term debt, net of current installments		1,025,525	1,039,664	901,352	(1.4)
Postemployment benefits obligation, other than pension, net of current portion		4,422,153	4,218,416	3,688,635	4.8
Total liabilities	$	7,035,251	6,794,633	6,154,488	3.5%
Net assets (deficit):					
Invested in capital assets, net of related debt	$	2,059,253	1,975,015	1,871,925	4.3%
Restricted		235,667	226,427	209,958	4.1
Unrestricted		(3,403,761)	(3,051,322)	(2,611,257)	(11.6)
Total net deficit	$	(1,108,841)	(849,880)	(529,374)	(30.5)%

(Continued)

Financial Analysis

Summary of Revenues, Expenses, and Changes in Net Deficit

Years ended June 30, 2012, 2011, and 2010

(In thousands)

	2012	2011	2010	2012 – 2011 Percentage change
Operating revenues:				
Net patient service revenue	$ 4,909,800	5,315,360	4,778,845	(7.6)%
Appropriations from (remittances to) City of New York, net	(9,140)	27,593	287,048	(133.1)
Premium revenue	1,891,996	1,279,390	1,107,197	47.9
Grants revenue	249,227	213,226	220,152	16.9
Other revenue	71,271	47,519	47,323	50.0
Total operating revenues	7,113,154	6,883,088	6,440,565	3.3
Operating expenses:				
Personal services, fringes benefits, and employer payroll taxes	3,557,598	3,627,371	3,572,129	(1.9)
Other than personal services	2,454,878	1,964,049	1,837,224	25.0
Postemployment benefits, other than pension	303,165	620,601	602,623	(51.1)
Affiliation contracted services	884,436	857,467	825,375	3.1
Depreciation	260,907	256,134	253,419	1.9
Total operating expenses	7,460,984	7,325,622	7,090,770	1.8
Operating loss	(347,830)	(442,534)	(650,205)	(21.4)
Nonoperating expenses, net	(86,108)	(78,242)	(91,922)	10.1
Loss before other changes in net deficit	(433,938)	(520,776)	(742,127)	16.7
Other changes in net deficit – capital contributions	174,977	200,270	262,488	(12.6)
Increase in net deficit	(258,961)	(320,506)	(479,639)	(19.2)
Net deficit, beginning of year	(849,880)	(529,374)	(49,735)	(60.5)
Net deficit, end of year	$ (1,108,841)	(849,880)	(529,374)	(30.5)%

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, 2012 and 2011. 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.

Overview of the Financial Statements

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

The financial statements include balance sheets, statements of revenues, expenses, and changes in net deficit, 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, 2012 and 2011, the end of the fiscal year, and the changes in net deficit and its financial activities for each of the years then ended. The balance sheets 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 deficit 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 deficit and how they have changed. Net deficit, or the difference between assets and liabilities, is one 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 increased by $259.0 million from June 30, 2011 to June 30, 2012; it had increased by $320.5 million from June 30, 2010 to June 30, 2011. Net assets invested in capital assets, net of related debt, increased by $84.2 million and $103.1 million in 2012 and 2011, respectively, as the Corporation continued to upgrade its facilities and pay down debt. The Corporation's unrestricted net deficit increased to $3.404 billion at June 30, 2012 from $3.051 billion at June 30, 2011. The Corporation incurred an operating loss of $347.8 million in 2012 compared with $442.5 million in 2011. The Corporation's net deficit position benefited from $173.6 million and $198.2 million in capital asset contributions from the City of New York (the City) in 2012 and 2011, respectively.

Significant financial ratios are as follows:

	2012	2011	2010
Current ratio	1.66	1.72	1.67
Quick ratio	1.11	0.96	0.79
Days cash on hand	56.92	53.38	36.52
Net days revenue in patient receivables	56.44	52.28	55.51

The current ratio, quick ratio, and days cash on hand are common liquidity indicators. The Corporation's current ratio has decreased slightly from 2011 to 2012 and increased slightly from 2010 to 2011 and remains at a fairly high level for the healthcare industry. The quick ratio and days cash on hand increased from 2011 to 2012 as cash and cash equivalents increased $87.4 million and increased from 2010 to 2011 due primarily to a $358.1 million increase in cash and cash equivalents. The net days revenue in patient receivables is an indicator of how quickly the Corporation collects its patient receivables.

Variances in Financial Statements

In this section, the Corporation explains the reasons for certain financial statement items with variances relating to 2012 amounts compared to 2011 and, where appropriate, 2011 amounts compared to 2010.

Balance Sheets

Cash and cash equivalents – increased $87.4 million from June 30, 2011 to June 30, 2012 due to positive operating results from MetroPlus. Cash and cash equivalents increased $358.1 million from June 30, 2010 to June 30, 2011 due to maintaining positive cash flows from net increases in the Upper Payment Limit (UPL), Disproportionate Share (DSH) and DSH Maximization payments of $287.2 million, and $170.0 million in increased MetroPlus cash balances.

U.S. government securities – remained fairly constant at June 30, 2012, 2011, and 2010. U.S. government securities represent MetroPlus' investments.

Patient accounts receivable, net – increased $21.1 million from 2011 to 2012 due to inpatient delayed third party payments and outpatient increased revenue not yet collected. Patient accounts receivable, net decreased $36.2 million from 2010 to 2011 due to a better collection experience.

Premiums receivable – increased $63.8 million from June 30, 2011 to June 30, 2012 predominately due to the accrual of unpaid Supplemental Medicaid Managed Care allocations. Premiums receivable decreased $52.8 million from June 30, 2010 to June 30, 2011 due to the receipt of Medicaid premiums during 2011 that were accrued for during 2010.

Estimated third-party payor settlements, net – decreased $137.8 million from June 30, 2011 to June 30, 2012 primarily due to collections of prior year's receivables, and was consistent from June 30, 2010 to June 30, 2011.

Estimated pools receivable (payable), net – estimated pools receivable, net, decreased $276.9 million from June 30, 2011 to June 30, 2012 primarily due to the receipt of State Fiscal Years' 2011 and 2012 DSH Max and a reduction to the State Fiscal Year 2012 allocation. The Corporation recognized DSH Max revenue of $412.4 million and $550.5 million at June 30, 2012 and 2011, respectively. Estimated pools receivable, net, increased from reporting a payable of $191.5 million at June 30, 2010 to a receivable of $509.7 million at June 30, 2011. This net increase of $701.2 million was due to the recording of $550.5 million of annual DSH Maximization receivable and $330.0 million of DSH for 2011.

Grants receivable – increased $35.8 million from June 30, 2011 to June 30, 2012 due to the timing of payments for the Medicaid Administration grant ($18.6 million) and HEAL NY program ($12.3 million). Grants receivable remained constant from 2010 to 2011.

Assets restricted as to use – decreased $54.6 million from June 30, 2011 to June 30, 2012 due to use of the Construction Fund for various capital projects. Assets restricted as to use increased $189.0 million from June 30, 2010 to June 30, 2011 due to the issuance of the 2010 bonds for which $190.3 million is held in the construction fund.

Other current assets – increased $114.9 million due to 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. Other current remained consistent from 2010 to 2011.

Capital assets, net – increased $135.0 million from 2011 to 2012 and $64.2 million from 2010 to 2011. This was due to major modernization projects at Harlem Hospital Center and Gouverneur Healthcare Services, as well as entering into a capital lease and construction on the North General Hospital Center property (see note 7(j) to the financial statements).

Accrued salaries, fringe benefits, and payroll taxes – decreased $18.9 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. Accrued salaries, fringe benefits, and payroll taxes increased $94.7 million from June 30, 2010 to June 30, 2011 due to increased collective bargaining accruals of $55.1 million and vacation, holiday, and sick accruals of $13.0 million.

Accounts payable and accrued expenses – increased $63.1 million from June 30, 2011 to June 30, 2012 due to increases in MetroPlus claims payable and Medicare premiums paid in advance. Accounts payable and accrued expenses increased $26.5 million from June 30, 2010 to June 30, 2011 due primarily to increases of $13.8 million in MetroPlus claims payable for continued membership increases and higher reimbursement rates.

Due to City of New York – decreased $35.7 million from June 30, 2011 to June 30, 2012 primarily due to the decrease in medical malpractice during 2012. Due to the City increased $45.5 million from June 30, 2010 to June 30, 2011 due to an increase of $21.1 million due to the City for medical malpractice and an increase of $16.0 million for fringe benefits.

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 North General capital lease (see note 7 to the financial statements). Long-term debt increased $133.7 million from June 30, 2010 to June 30, 2011 primarily due to the issuance of the 2010 Series A bonds in fiscal year 2011 (see note 7 to the financial statements) offset by the Corporation's required debt service payments on its remaining bonds.

Postemployment benefits obligation, other than pension – increased $209.0 million from June 30, 2011 to June 30, 2012 and increased $531.2 million from June 30, 2010 to June 30, 2011 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 – increased $36.1 million from June 30, 2011 and June 30, 2012 and represents amounts owed to medical residents for FICA refunds. There is no other current liabilities for June 30, 2011 and June 30, 2010.

Changes in Components of Net Assets (Deficit)

Invested in capital assets, net of related debt – increased $84.2 million from June 30, 2011 to June 30, 2012 as capital assets, net, increased by $135.0 million, related assets restricted as to use decreased by $63.8 million, and related debt decreased by $13.1 million. Invested in capital assets, net of related debt increased $103.1 million from June 30, 2010 to June 30, 2011 as capital assets, net, increased by $64.3 million, related assets restricted as to use increased by $172.5 million, and related debt increased by $133.7 million.

Restricted – increased $9.2 million from June 30, 2011 to June 30, 2012 due to $5.4 million increase to the MetroPlus statutory reserve for increased membership and related cost and $4.3 million increase in the revenue fund under bond resolution. Restricted net assets increased $16.5 million from 2010 to 2011 due to $5.6 million payment resulting from the termination of the AIG Guaranteed Investment Contract (GIC) for the 1999 and 2003 Series A bonds Capital Reserve Fund and $7.6 million increase to the MetroPlus statutory reserve for increased membership and related cost.

Unrestricted – net asset activities, other than those mentioned above, resulted in decreases of $352.4 million and $440.1 million for years 2012 and 2011, respectively. Please see the statements of revenues, expenses, and changes in net deficit.

Capital Assets, Net and Long-Term Debt Activity

Capital Assets, Net

At June 30, 2012, the Corporation had capital assets, net of accumulated depreciation, of $3.010 billion compared to $2.875 billion at June 30, 2011 and $2.811 billion at June 30, 2010, representing an increase of 4.7% from 2011 to 2012 and 2.3% from 2010 to 2011, as shown in the table below (in thousands of dollars):

		2012	2011	2010
Land and land improvements	$	24,160	24,445	17,621
Buildings and leasehold improvements		1,602,497	1,641,065	1,622,396
Equipment		709,025	703,226	710,371
Construction in progress		674,282	506,230	460,332
Total	$	3,009,964	2,874,966	2,810,720

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 North General Hospital 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.

2010's major capital asset additions included:

- Construction continued on the major modernization of Gouverneur Healthcare Services, with additional spending of approximately $32.1 million in 2011.
- Construction continued on the major modernization of Harlem Hospital Center, with additional spending of approximately $40.0 million in 2011.

The Corporation's 2013 capital budget projects spending of $308 million, which includes continuation of work on the major construction mentioned above. The 2013 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, 2012, the Corporation had approximately $1.0 billion in long-term debt financing relating to its capital assets, as shown with comparative amounts at June 30, 2011 and 2010 (in thousands of dollars):

		2012	2011	2010
Bonds payable	$	1,024,385	1,080,524	940,648
Capital lease obligation		75	175	275
New York Power Authority (NYPA) financing		2,101	3,050	4,940
Equipment and renovation financing		1,923	3,928	6,154
Clinical bed financing		6,866	8,983	10,942
North General capital lease obligation		48,258	—	—
Total	$	1,083,608	1,096,660	962,959

Since 2008, the Corporation in its refinancing efforts has shed most of its insured bonds. Currently, the Corporation's debt is 82% fixed with very little insured 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, on more than 99% of its fixed rate bonds where no insurance exists. As of July 31, 2011, AGMC's ratings are Aa3 and AA- by Moody's and S&P's, respectively, and Ambac's rating was withdrawn by Moody's and S&P's. 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

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long-term/short-term ratings for TD Bank and JPMorgan Chase Bank are Aa2/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.

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 Deficit

Net patient service revenue – decreased $405.6 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) decreased Supplemental Medicaid Managed Care funds of $84.5 million and 4) additional reserve for HMO Graduate Medical Education Case Mix adjustment of $36.0 million. Net patient service revenue increased $536.5 million from June 30, 2010 to June 30, 2011 reflecting the following: 1) increased revenue of $66.8 million inpatient UPL and $195.7 million outpatient UPL; 2) increased DSH Maximization of $174.3 million and Supplemental Medicaid Managed Care funds of $165.3 million.

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. Appropriations from (remittances to) the City, net, decreased $259.5 million from June 30, 2010 to June 30, 2011 and reflects the Corporation's intent to reimburse the City for 2011 malpractice expense of $142.6 million and debt service of $112.9 million.

Premium revenue – increased $612.6 million from June 30, 2011 to June 30, 2012 due to $340.0 million in additional pharmacy revenue. Based on the recommendation from New York State's Medicaid Redesign Team, the State added the pharmacy benefit to the Medicaid managed care plans contract. Additional increases are due to 5.0% growth in member months and 9.0% rate increase. Premium revenue increased $172.2 million from June 30, 2010 to June 30, 2011, or 15.6%, due to a 6.3% increase in MetroPlus member months and an approximate 8.0% net increase in rates.

Grants revenue – increased $36.0 million from June 30, 2011 to June 30, 2012 due to the addition of prisoner and uniform grants. Grants revenue was constant from June 30, 2010 to June 30, 2011.

Other revenue – increased $23.8 million from June 30, 2011 to June 30, 2012 due to interest earned on the medical resident FICA refunds. Other revenue was constant from June 30, 2010 to June 30, 2011.

Personal services – decreased $147.7 million, or approximately 5.7%, from June 30, 2011 to June 30, 2012 primarily due to decreases in prior year collective bargaining estimates and reductions of 471 employee full-time equivalents (FTEs) or 1.3%. Personal services decreased $28.3 million, or approximately 1.0%, from June 30, 2010 to June 30, 2011 primarily due to a decrease of 981 FTE's or 2.7%, and offset by various salary accruals.

Other-than-personal services – increased $490.8 million, or 25.0%, from June 30, 2011 to June 30, 2012 due to $340.0 million in additional MetroPlus pharmacy expenses along with 5.0% growth in member months and 9.0% rate increase. Other-than-personal services increased $126.8 million, or 6.9%, in 2011 compared to 2010, mainly due to MetroPlus' membership growth and higher inpatient reimbursement levels resulting in increased medical expenses of $93.2 million.

Fringe benefits and employer payroll taxes – increased $77.9 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. Fringe benefits and employer payroll taxes increased $83.6 million from June 30, 2010 to June 30, 2011 primarily for health benefit increases of $59.0 million or 14.8% and pension increase of $32.8 million or 11.0%.

Postemployment benefits, other than pension – decreased $317.4 million from June 30, 2011 to June 30, 2012 and increased $18.0 million from June 30, 2010 to June 30, 2011 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 $27.0 million or 3.1% from June 30, 2011 to June 30, 2012 and increased $32.1 million or 3.9% from June 30, 2010 to June 30, 2011 due to market adjustments and enhanced services.

Investment income – is consistent from June 30, 2011 to June 30, 2012 as the Corporation benefited from an increased market value in the 2003 bond's capital reserve fund and increased $8.5 million from 2010 to 2011 primarily due to $5.6 million payment resulting from the termination of the AIG GIC for the 1999 and 2003 Series A bonds Capital Reserve Fund.

Capital contributions funded by City of New York – decreased $24.6 million from June 30, 2011 to June 30, 2012 and decreased $60.3 million from June 30, 2010 to June 30, 2011 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 is continually adjusting to the financial challenges that it faces. It is difficult to predict the impact on the Corporation of the following factors:

- Economic conditions and the related impact on City and State budgets and, consequently, the level of City support for the Corporation, that is, City appropriations, City capital contributions, and City grants;
- Future of Medicaid and Medicare reimbursement;
- Potential impact of healthcare reform initiatives;
- Rising medical costs;
- Potential changes in federal and state healthcare reimbursement regulations; and
- Continuous managed care market increase.

However, the Corporation is continuing to seek cost savings and revenue enhancement strategies by, among other things, implementing cost containment, restructuring, and process improvement plans that include clinical consolidations, managing acute care average length of stay, controlling employee staffing levels, reducing clinic wait times, renegotiating managed care contracts, centrally managed corporate contracts, and increasing clinic, primary care, and home healthcare visits. The Corporation continues to invest in technology with an eye towards providing quality patient care and achieving increased efficiencies. Additionally, the Corporation works with the City's Human Resources Administration to enroll eligible patients in the Medicaid, Child Health Plus, and Family Health Plus programs.

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)

Balance Sheets

June 30, 2012 and 2011

(In thousands)

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents (note 2)	$	988,607	901,241
U.S. government securities		113,950	68,518
Patient accounts receivable, net (notes 4, 7, and 11)		471,302	450,258
Premiums receivable		121,831	58,006
Estimated third-party payor settlements, net (notes 4, 7, and 11)		337,778	475,640
Estimated pools receivable, net (notes 4, 7, and 11)		232,800	509,675
Grants receivable		112,519	76,742
Supplies		24,240	29,765
Assets restricted as to use and required for current liabilities (notes 6 and 7)		54,185	51,825
Other current assets		135,090	20,209
Total current assets		2,592,302	2,641,879
Assets restricted as to use, net of current portion (notes 6 and 7)		314,380	371,308
U.S. government securities		—	45,221
Capital assets, net (notes 5 and 7)		3,009,964	2,874,966
Deferred financing costs, net		9,764	11,379
Total assets	$	5,926,410	5,944,753
Liabilities and Net Assets (Deficit)			
Current liabilities:			
Current installments of long-term debt (note 7)	$	58,083	56,996
Accrued salaries, fringe benefits, and payroll taxes		732,118	751,026
Accounts payable and accrued expenses (notes 12 and 14)		489,904	426,757
Due to City of New York, net (note 8)		171,653	207,374
Current portion of postemployment benefits obligation, other than pension (note 10)		99,700	94,400
Other current liabilities		36,115	—
Total current liabilities		1,587,573	1,536,553
Long-term debt, net of current installments (note 7)		1,025,525	1,039,664
Postemployment benefits obligation, other than pension, net of current portion (note 10)		4,422,153	4,218,416
Total liabilities		7,035,251	6,794,633
Commitments and contingencies (note 11)			
Net assets (deficit):			
Invested in capital assets, net of related debt		2,059,253	1,975,015
Restricted:			
For debt service		159,714	156,332
Expendable for specific operating activities		9,129	8,719
Nonexpendable permanent endowments		928	928
For statutory reserve requirements		65,896	60,448
Unrestricted		(3,403,761)	(3,051,322)
Total net assets (deficit)		(1,108,841)	(849,880)
	$	5,926,410	5,944,753

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 Deficit

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Operating revenues:			
Net patient service revenue (notes 4 and 7)	$	4,909,800	5,315,360
Appropriations from (remittances to) City of New York, net (note 11)		(9,140)	27,593
Premium revenue (note 13)		1,891,996	1,279,390
Grants revenue		249,227	213,226
Other revenue		71,271	47,519
Total operating revenues		7,113,154	6,883,088
Operating expenses:			
Personal services		2,435,381	2,583,078
Other than personal services		2,454,878	1,964,049
Fringe benefits and employer payroll taxes		1,122,217	1,044,293
Postemployment benefits, other than pension (note 10)		303,165	620,601
Affiliation contracted services		884,436	857,467
Depreciation (note 5)		260,907	256,134
Total operating expenses		7,460,984	7,325,622
Operating loss		(347,830)	(442,534)
Nonoperating revenues (expenses):			
Investment income		11,978	14,069
Interest expense		(98,678)	(92,868)
Contributions restricted for specific operating activities		592	557
Total nonoperating expenses, net		(86,108)	(78,242)
Loss before other changes in net deficit		(433,938)	(520,776)
Other changes in net deficit:			
Capital contributions funded by City of New York		173,608	198,192
Capital contributions funded by grantors and donors		1,369	2,078
Total other changes in net deficit		174,977	200,270
Increase in net deficit		(258,961)	(320,506)
Net deficit at beginning of year		(849,880)	(529,374)
Net deficit at end of year	$	(1,108,841)	(849,880)

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, 2012 and 2011

(In thousands)

		2012	2011
Cash flows from operating activities:			
Cash received from patients and third-party payors	$	5,303,493	5,368,302
Cash appropriations received from City of New York		126,688	200,920
Cash appropriations remitted to City of New York		(169,484)	(136,261)
Cash received from premiums and stop-loss insurance recoveries		1,828,171	1,332,199
Receipts from grants		213,450	197,361
Other receipts		34,718	52,436
Cash paid for personal services, fringe benefits, and employer payroll taxes		(3,701,452)	(3,622,108)
Cash paid for other than personal services		(2,395,884)	(1,930,033)
Cash paid for affiliation contracted services		(888,891)	(855,154)
Net cash provided by operating activities		350,809	607,662
Cash flows from noncapital financing activity:			
Proceeds from contributions restricted for specific operating activities		592	557
Net cash provided by noncapital financing activity		592	557
Cash flows from capital and related financing activities:			
Purchase of capital assets		(304,549)	(282,031)
Capital contributions by grantors and donors		1,369	2,078
Capital contributions by City of New York		173,608	198,192
Cash paid for retainage and construction accounts payable		(871)	(871)
Payments of long-term debt		(57,001)	(71,090)
Proceeds from issuance of long-term debt		—	560,227
Refunding of long-term debt		—	(355,436)
Cash paid for deferred financing costs		—	(3,281)
Interest paid		(143,338)	(122,293)
Net cash used in capital and related financing activities		(330,782)	(74,505)
Cash flows from investing activities:			
Purchases of assets restricted as to use		(170,423)	(378,808)
Sales of assets restricted as to use		237,457	193,293
Cash invested in U.S. government securities		(96,236)	(141,021)
Cash received from sales and maturities of U.S. government securities		96,025	140,204
Loan repayments from affiliates		—	—
Interest received		(76)	10,745
Net cash provided by (used in) investing activities		66,747	(175,587)
Net increase in cash and cash equivalents		87,366	358,127
Cash and cash equivalents at beginning of year		901,241	543,114
Cash and cash equivalents at end of year	$	988,607	901,241
Supplemental disclosures:			
Capital lease incurred	$	48,258	—
Change in fair value of assets restricted as to use		6,263	1,971

(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, 2012 and 2011

(In thousands)

		2012	2011
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(347,830)	(442,534)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation		260,907	256,134
Provision for bad debts		591,934	510,142
Changes in assets and liabilities:			
Patient accounts receivable, net		(612,978)	(473,935)
Premiums receivable		(63,825)	52,809
Estimated third-party payor settlements, net		137,862	717,910
Estimated pools receivable (payable), net		276,875	(701,175)
Grants receivable		(35,777)	(15,865)
Supplies and other current assets		(109,351)	7,747
Accrued salaries, fringe benefits, and payroll taxes		(18,908)	94,720
Accounts payable and accrued expenses		62,469	25,011
Due to City of New York		(35,721)	45,517
Other liabilities		36,115	—
Postemployment benefits obligation, other than pension		209,037	531,181
Net cash provided by operating activities	$	350,809	607,662

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, six 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.

- MetroPlus is a public benefit corporation created by the Corporation. The Corporation is the sole member. 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.
- 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 1999, 2002, 2003, 2008, and 2010 Bond issues to the bond trustee, with the balance transferred to the Corporation.
- In May 2001, the Corporation established The HHC Foundation of New York City, Inc. (HHC Foundation), a closely affiliated not-for-profit corporation, wherein as of June 30, 2011, three of the seven HHC Foundation's board of directors are Corporation representatives. The main purpose of the HHC Foundation, as a 501(c)(3) organization under the Internal Revenue Code, is to inspire community philanthropy in order to further expand access to quality healthcare and services for the

Corporation's patients. HHC Foundation raises private support for critically important programs that serve unmet needs of the Corporation's diverse patient population.

As of July 1, 2011, the Corporation dissolved the HHC Foundation while continuing to coordinate and conduct activities consistent with the HHC Foundation's charitable purposes and the mission of the Corporation. The operation, assets, and liabilities of the HHC Foundation were transferred to the Corporation effective with the dissolution on July 1, 2011 and had no material impact on the Corporation's financial statements.

- 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 is 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. The next available start date for participation is January 1, 2013.

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

The financial statements of the Corporation include the accounts of the Corporation and its blended component units, HHC Capital, MetroPlus, and HHC Insurance. HHC Foundation is also included in the financial statements at June 30, 2011 and for the year then ended as a blended component unit because it existed for the benefit of the Corporation. All significant intercompany balances and transactions have been eliminated.

The Corporation's financial statements are prepared in accordance with all relevant Governmental Accounting Standards Board (GASB) pronouncements. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, states that proprietary activities may elect to apply the provisions of Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements. The Corporation has elected to follow GASB pronouncements exclusively after that date.

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, 2012 and 2011. 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, 2012 and 2011. Resources restricted by donors for plant replacement and expansion are added to the invested in capital assets, net of related debt, net asset 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 on a limited basis before utilizing unrestricted resources for expenses incurred.

(c) U.S. Government Securities

U.S. government securities consist of U.S. Treasury bills and U.S. Treasury notes. 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, the Corporation had the following U.S. government securities (in thousands):

			Investment maturities (in years)	
Year	**Investment type**	**Fair value**	**Less than 1**	**1 to 2**
2012	U.S. Treasury bills and notes	$ 113,950	113,950	—
2011	U.S. Treasury bills and notes	$ 113,739	68,518	45,221

(d) 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.

(e) 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.

(f) Statements of Revenues, Expenses, and Changes in Net Deficit

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 deficit, which are excluded from loss before other changes in net deficit, consist of contributions of capital assets funded by the City, grantors, and donors.

(g) 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 $591.9 million in 2012 and $510.1 million in 2011.

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, 2012 and 2011 was approximately $716.3 million and $590.2 million, respectively.

(h) 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.

(i) 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 the City pays on behalf of the Corporation, up to an agreed-upon amount negotiated annually. In 2012 and 2011, the medical malpractice and general liability settlements paid by the City were \$118.8 million and \$142.6 million, respectively, and the Corporation has agreed to reimburse the City \$118.8 million and \$142.6 million in 2012 and 2011, 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 2012 and 2011, respectively, the Corporation paid the City \$144.0 million and \$112.9 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.

(j) 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 North General 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.

(k) Custodial Funds

The Corporation holds funds for safekeeping, primarily cash held for the benefit of its long-term care patients, amounting to approximately $4.9 million as of June 30, 2012 and $4.6 million as of June 30, 2011. These amounts are included in other current assets and accrued expenses in the accompanying balance sheets. At June 30, 2012 and 2011, all custodial funds related bank balances are fully insured.

(l) Affiliation Contracted Services

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

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

(m) Supplies

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

(n) 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.

(o) 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.

(p) 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.

(q) Net Assets (Deficit)

Net assets of the Corporation are classified in various components. *Net assets invested in capital assets, net of related debt* 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 assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Corporation, including amounts deposited with trustees as required by revenue bond indentures, discussed in note 6(a). *Restricted nonexpendable net assets* 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 assets* are remaining net assets that do not meet the definition of *invested in capital assets, net of related debt or restricted*.

(r) Compensated Absences

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

(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, 2012 and 2011, 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):

	2012	2011
Charges forgone, based on established rates	$ 1,008,017	974,523
Estimated expenses incurred to provide charity care	643,463	618,413

(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 $2.5 million for the year ended June 30, 2012 and an increase to net patient service revenue of $54.7 million for the year ended June 30, 2011.

Net patient service revenue for the years ended June 30, 2012 and 2011 is as follows (in thousands):

	2012		2011	
Medicaid	$ 1,858,865	37.9%	$ 2,216,301	41.7%
Medicare	694,479	14.1	666,926	12.5
Bad debt/charity care pools	440,984	9.0	437,226	8.2
DSH supplemental pool	742,525	15.1	880,475	16.6
Other third-party payors that include Medicaid and Medicare managed care	1,124,284	22.9	1,069,053	20.1
Self-pay	48,663	1.0	45,379	0.9
	$ 4,909,800	100.0%	$ 5,315,360	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):

	2012		2011	
Medicaid	$ 196,436	41.7%	$ 199,410	44.3%
Medicare	70,195	14.9	63,356	14.1
Other third-party payors, that include Medicaid and Medicare managed care	187,277	39.7	172,175	38.2
Self-pay	17,394	3.7	15,317	3.4
	$ 471,302	100.0%	$ 450,258	100.0%

(5) Capital Assets

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

	2012	2011
Land and land improvements	$ 50,396	49,628
Buildings and leasehold improvements	3,356,143	3,298,379
Equipment	3,127,058	2,996,686
	6,533,597	6,344,693
Less accumulated depreciation	4,197,915	3,975,957
	2,335,682	2,368,736
Construction in progress	674,282	506,230
Capital assets, net	$ 3,009,964	2,874,966

Capital assets activity for the years ended June 30, 2012 and 2011 was as follows (in thousands):

		Land and land improvements	Buildings and leasehold improvements	Equipment	Construction in progress	Total
June 30, 2010 balance	$	41,978	3,184,716	2,887,429	460,332	6,574,455
Acquisitions, net of transfers		7,885	115,075	151,522	45,898	320,380
Sales, retirements, and adjustments		(235)	(1,412)	(42,265)	—	(43,912)
June 30, 2011 balance		49,628	3,298,379	2,996,686	506,230	6,850,923
Acquisitions, net of transfers		965	59,630	167,323	168,052	395,970
Sales, retirements, and adjustments		(197)	(1,866)	(36,951)	—	(39,014)
June 30, 2012 balance	$	50,396	3,356,143	3,127,058	674,282	7,207,879

Related information on accumulated depreciation for the years ended June 30, 2012 and 2011 was as follows (in thousands):

		Land and land improvements	Buildings and leasehold improvements	Equipment	Total
June 30, 2010 balance	$	24,357	1,562,320	2,177,058	3,763,735
Depreciation expense		1,061	96,405	158,668	256,134
Sales, retirements, and adjustments		(235)	(1,411)	(42,266)	(43,912)
June 30, 2011 balance		25,183	1,657,314	2,293,460	3,975,957
Depreciation expense		1,251	98,197	161,459	260,907
Sales, retirements, and adjustments		(198)	(1,865)	(36,886)	(38,949)
June 30, 2012 balance	$	26,236	1,753,646	2,418,033	4,197,915

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, 2012 and 2011 was as follows (in thousands):

		2012	2011
Interest costs subject to capitalization	$	41,085	37,918
Interest income		(417)	(108)
Capitalized interest costs, net	$	40,668	37,810

The Corporation capitalized net interest costs on TFA debt and City General Obligation Bonds in both 2012 and 2011, 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 2012 and 2011 approximated $37.2 million and $34.0 million, respectively. In addition, the Corporation capitalized net interest costs of $3.5 million in 2012 and $3.8 million in 2011 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):

		2012	2011
Under bond resolutions (a):			
Construction funds	$	132,899	196,705
Capital reserve funds		99,793	100,700
Revenue funds		59,920	55,633
		292,612	353,038
MetroPlus statutory reserve investments (b)		65,896	60,448
By donors for specific operating activities and permanent endowments (c)		10,057	9,647
Total assets restricted as to use		368,565	423,133
Less current portion of assets restricted as to use		54,185	51,825
	$	314,380	371,308

(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 funds invested in accordance with the bond resolutions were substantially invested in U.S. government securities money market funds, U.S. government securities, a guaranteed investment contract (GIC) held by a trustee during 2011 and collateralized in excess of their carrying value by Federal Home Loan Mortgage Corporation notes, and a negotiable order of withdrawal (NOW) account. $0.6 million and $1.5 million were uninsured and uncollateralized at June 30, 2012 and 2011, respectively.

(b) MetroPlus statutory reserve investments are required by the DOH regulations for the protection of MetroPlus enrollees. $65.9 million and $60.4 million, respectively, are invested in U.S. government securities at June 30, 2012 and 2011.

(c) The donor-restricted funds are invested in securities purchased under repurchase agreements and certificates of deposit at June 30, 2012 and 2011. The repurchase agreements are collateralized in excess of their carrying value by U.S. government securities held by a custodian. $7.0 million were invested in a fully insured certificate of deposit at June 30, 2012 and 2011.

(7) Long-Term Debt and Other Liabilities

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

	2012	2011
Bonds payable:		
2010 Series A Fixed Rate Health System Bonds – weighted average interest of 3.89%, payable in installments to 2030: Uninsured Bonds (a)	$ 528,342	531,691
2008 Series A Fixed Rate Health System Bonds – weighted average interest of 4.51%, payable in installments to 2026: Uninsured Bonds (b)	187,966	212,730
2008 Series B, C, D, and E Variable Rate Health System Bonds – subject to short-term liquidity arrangements, weighted average interest of 0.83% in 2012, payable in installments to 2031: Uninsured Bonds (c)	174,144	178,736
2003 Series A Fixed Rate Health System Bonds – weighted average interest of 4.77%, payable in installments to 2023: Insured Bonds (d)	132,298	152,712
2002 Series A Fixed Rate Health System Bonds – weighted average interest of 5.14%, payable in installments to 2026 (e): Insured Bonds	1,635	4,655
Total bonds payable	1,024,385	1,080,524
Capital lease obligation (f)	75	175
New York Power Authority (NYPA) financing (g)	2,101	3,050
Equipment and renovation financing (h)	1,923	3,928
Clinical bed financing (i)	6,866	8,983
North General capital lease obligation (j)	48,258	—
	1,083,608	1,096,660
Less current installments	58,083	56,996
	$ 1,025,525	1,039,664

Long-term debt activity for the years ended June 30, 2012 and 2011 were as follows (in thousands):

	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
North General capital lease obligation	—	48,258	—	48,258	—
	$ 1,096,660	48,258	(61,310)	1,083,608	58,083

	June 30, 2010 balance	Additions	Reductions	June 30, 2011 balance	Amounts due within 1 year
Long-term debt:					
Bonds payable	$ 940,648	510,460	(370,584)	1,080,524	51,825
Capital lease obligation	275	—	(100)	175	100
NYPA financing	4,940	—	(1,890)	3,050	947
Equipment and renovation financing	6,154	—	(2,226)	3,928	2,006
Clinical bed financing	10,942	—	(1,959)	8,983	2,118
	$ 962,959	510,460	(376,759)	1,096,660	56,996

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) 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 Corporation completed the current refunding of the 1999 Series A bonds and the advance refunding of the 2002 Series A bonds to reduce its total debt service payments over the next 15 years by $35,608,385 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $32,579,656.

The following table summarizes debt service requirements as of June 30, 2012 (in thousands):

	Principal	Interest	Total
Year:			
2013	$ 1,480	24,921	26,401
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 – 2022	149,195	75,195	224,390
2023 – 2027	116,770	47,331	164,101
2028 – 2030	114,515	11,536	126,051
Total	507,315	250,695	758,010
Premium on 2010 Bonds	39,893	—	39,893
Unamortized refunding cost	(18,866)	—	(18,866)
	$ 528,342	250,695	779,037

(b) 2008 Series A Bonds

During 2008, 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.

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

On September 4, 2008, the Corporation issued $189,000,000 of tax-exempt variable rate Health System Bonds, 2008 Series B, C, D, and E bonds (the 2008 Variable Rate Bonds). This issuance included four subseries, consisting of $50,470,000 of 2008 Series B bonds, $50,470,000 of 2008 Series C bonds, $44,030,000 of 2008 Series D bonds, and $44,030,000 of 2008 Series E bonds. The 2008 Series B and C bonds are due February 15, 2025 through February 15, 2031 and the 2008 Series D and E bonds are due February 15, 2009 through February 15, 2026. The 2008 Variable Rate Bonds are supported by irrevocable direct-pay letters of credit issued from two banks. The 2008 Series B and C letters of credit will expire in September 2013 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 0.83% for 2012 and 0.93% for 2011.

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 as of June 30, 2012 (in thousands):

		Principal	Interest	Total
Year:				
2013	$	29,475	12,214	41,689
2014		30,800	10,951	41,751
2015		32,195	9,572	41,767
2016		12,380	8,104	20,484
2017		12,800	7,706	20,506
2018 – 2022		71,800	30,931	102,731
2023 – 2027		102,945	14,380	117,325
2028 – 2031		67,285	2,552	69,837
Total		359,680	96,410	456,090
Premium on 2008 Bonds		3,240	—	3,240
Unamortized refunding cost		(810)	—	(810)
	$	362,110	96,410	458,520

(d) 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.

The Corporation completed the current refunding to reduce its total debt service payments over the next 20 years by $12,875,878 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $12,015,674.

The following table summarizes debt service requirements as of June 30, 2012 (in thousands):

		Principal	Interest	Total
Year:				
2013	$	21,595	6,539	28,134
2014		435	5,676	6,111
2015		455	5,658	6,113
2016		470	5,640	6,110
2017		490	5,620	6,110
2018 – 2022		72,120	25,985	98,105
2023		37,840	1,875	39,715
Total		133,405	56,993	190,398
Premium on 2003 Bonds		1,345	—	1,345
Unamortized refunding cost		(2,452)	—	(2,452)
	$	132,298	56,993	189,291

(e) 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 (b) and (c)).

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

The following table summarizes debt service requirements as of June 30, 2012 (in thousands):

		Principal	Interest	Total
Year:				
2013	$	1,635	35	1,670
Total	$	1,635	35	1,670

(f) ***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, 2012, the payment of all principal and interest due is subordinate to the payment of principal and interest on the Corporation's 2002, 2003, 2008, and 2010 Bonds. The cost of the parking garage is included in capital assets in the amount of $12.8 million, with accumulated depreciation of $10.0 million at June 30, 2012. The future minimum lease payments are as follows as of June 30, 2012 (in thousands):

Year:		
2013	$	75
Total lease payments	$	75

(g) ***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, with a maximum of 8.0%. NYPA adjusts the variable rate effective January 1 each year. At June 30, 2012, approximately $2.1 million was due at 0.88% interest. The effective interest rate for 2012 was approximately 0.9%.

The following table summarizes debt service requirements as of June 30, 2012 (in thousands):

		Principal	Interest	Total
Year:				
2013	$	631	16	647
2014		626	10	636
2015		626	5	631
2016		218	—	218
	$	2,101	31	2,132

(h) 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, 2012 (in thousands):

		Principal	Interest	Total
Year:				
2013	$	961	98	1,059
2014		421	53	474
2015		405	26	431
2016		136	4	140
	$	1,923	181	2,104

(i) 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, 2012 (in thousands):

		Principal	Interest	Total
Year:				
2013	$	2,229	304	2,533
2014		2,346	187	2,533
2015		1,773	69	1,842
2016		442	18	460
2017		76	1	77
	$	6,866	579	7,445

(j) North General 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 North General 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 North General 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.

(8) Due to City of New York, net

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

		2012	2011
FDNY EMS operations (a)	$	44,797	47,754
Medical malpractice payable (b)		113,595	142,644
Other accrued expenses (c)		13,094	17,700
Utilities prepaid expenses (d)		167	(724)
	$	171,653	207,374

(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 2011 exceeded final and reconciled utilities bills, resulting in a prepaid expense of $0.7 million at June 30, 2011.

(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 $48.7 billion in assets. Employees who receive permanent appointment to a competitive position and have completed six months of service are required to participate in NYCERS, and all other employees are eligible to participate in NYCERS. NYCERS provides pay-related retirement benefits, as well as death and disability benefits. Total amounts of the Corporation's employees' covered payroll and total related payroll for the year ended June 30, 2012 are approximately $2.045 billion and $2.419 billion, respectively.

The frozen entry age actuarial cost method of funding with six-year amortization of a revised unfunded frozen initial accrued liability is used to calculate the contribution from the Corporation. The Corporation's annual pension costs for fiscal 2012, 2011, and 2010, which includes contributions toward the actuarially determined accrued liability, were approximately $424.6 million, $332.4 million and $299.5 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 $303.2 million, $620.6 million and $602.6 million in 2012, 2011, and 2010 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 $16 million, $16 million, and 15 million reduced OPEB expenses for 2012, 2011, and 2010, 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 2012, 2011, and 2010 is composed of the following, as calculated by the Office of the Actuary, City of New York (in thousands):

		2012	2011	2010
Normal cost	$	219,718	264,044	267,848
Amortization of unfunded actuarial accrued liability over one year		(78,706)	202,623	200,498
Interest at 4.0%		178,153	169,932	149,277
ARC		319,165	636,599	617,623
Less corporation payments for retired employees' health care benefits and implicit rate subsidy credit		110,128	105,418	99,562
Net OPEB obligation increase		209,037	531,181	518,061
Net OPEB obligation – beginning of year		4,312,816	3,781,635	3,263,574
Net OPEB obligation – end of year		4,521,853	4,312,816	3,781,635
Less current portion of postemployment benefits obligation, other than pension		99,700	94,400	93,000
	$	4,422,153	4,218,416	3,688,635

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

The schedule below presents the results of OPEB valuations as of June 30, 2011 for fiscal year 2012, as of June 30, 2010 for fiscal year 2011, and as of June 30, 2009 for fiscal year 2010 (in thousands):

Actuarial valuation date		Frozen entry age actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
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
June 30, 2009		3,464,072	3,464,072	1,989,955	174.1

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

The frozen entry age actuarial cost method was used in the June 30, 2012, 2011, and 2010 OPEB actuarial valuations as the basis for the 2012, 2011, and 2010 ARC calculations.

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 and ultimate rate of 5% after 11 years. The complete set of actuarial assumptions and methods used in the June 30, 2010 OPEB actuarial valuation are contained in the Report on the Sixth Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (the Sixth OPEB Report). The Sixth OPEB Report was prepared as of June 30, 2010 in accordance with GASB Statements Nos. 43 and 45 for the fiscal year ended June 30, 2011 by the New York City Office of the Actuary and is dated September 21, 2011.

(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. Medicare cost reports have been audited and settled through fiscal year 2006, with the exception of 2005 reports for two hospitals.

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 will be adjusted for severity of illness; however, implementation by New York State is pending.

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 non-hospital based chemical dependency and mental health clinic services is phased in over four years. Outpatient services for all nongovernmental payors are based on charges or negotiated rates.

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

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

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, Health Reform Law), which was signed into law on March 23, 2010, will change how healthcare services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, reductions in Medicare and Medicaid 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. Because of the many variables involved with the Health Reform Law, management is unable to predict the net effect on the Corporation of the expected increase in insured individuals using the Corporation's facilities, the reduction in Medicare spending and reductions in Medicare and Medicaid DSH funding, and numerous other provisions in the law that may affect the Corporation.

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,

(Continued)

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 $118.8 million for 2012 and $142.6 million for 2011. 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 $43.0 million in 2012 and $46.4 million in 2011.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2012 (in thousands):

		Amount
Year:		
2013		24,334
2014		18,496
2015		16,056
2016		14,106
2017		6,288
2018 – 2022		11,750
Total minimum payments required	$	91,030

(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 North General Hospital campus, with an estimated cost of completion of $369.4 million at June 30, 2012.

(12) Change in Claims Payable

Accounts payable and accrued expenses include MetroPlus claims payable of $112.4 million and $86.4 million at June 30, 2012 and 2011, 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):

		2012	2011
Balance, July 1	$	86,355	72,508
Less drug rebates receivable		(921)	(417)
Net balance		85,434	72,091
Incurred related to:			
Current year		977,693	548,731
Prior years		(11,683)	(9,347)
Total incurred		966,010	539,384
Paid related to:			
Current year		875,637	470,702
Prior years		66,558	55,339
Total paid		942,195	526,041
Net balance at June 30		109,249	85,434
Plus drug rebates receivable		3,174	921
Balance, June 30	$	112,423	86,355

Net reserves for unpaid claims and claim adjustment expenses attributable to insured claims of prior years decreased by $11.7 million in 2012 and $9.3 million in 2011. These changes are generally the result of ongoing analysis of recent loss development trends that include expected healthcare cost and utilization.

(13) Premium Revenue

Premium revenue, by percentage, from members and third-party payors for the years ended June 30, 2012 and 2011 was as follows:

	2012	2011
Medicaid	78%	80%
Medicare	4	5
Child Health Plus	2	3
Family Health Plus	7	8
Partnership In Care	9	4
	100%	100%

(14) Accounts Payable and Accrued Expenses

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

		2012	2011
Vendors payable	$	208,849	204,498
Accrued interest		15,762	16,643
Affiliations payable		29,585	26,425
MetroPlus claims payable		112,423	86,355
Pollution remediation liability		13,777	11,082
Other		109,508	81,754
	$	489,904	426,757

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

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

We have audited the financial statements of New York City Health and Hospitals Corporation (the Corporation), a component unit of the City of New York, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of MetroPlus Health Plan, Inc, and HHC Insurance Company, Inc., blended component units of the Corporation, were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

Management of the Corporation is res responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of 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

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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*.

We noted certain matters that we plan to report to management of the Corporation in a separate letter.

This report is intended solely for the information and use of the board of directors, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 13, 2012