

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

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

June 30, 2021 and 2020

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors

New York City Health and Hospitals Corporation

Report on the financial statements

We have audited the accompanying financial statements of New York City Health and Hospitals Corporation ("NYC Health + Hospitals"), a discretely presented component unit of the City of New York, and the discretely presented component unit as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprises NYC Health + Hospitals' basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements as of and for the years ended June 30, 2021 and 2020 of MetroPlus Health Plan, Inc., a discretely presented component unit, and HHC Insurance Company, Inc., a blended component unit, were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of NYC Health + Hospitals and its discretely presented component unit as of June 30, 2021 and 2020, and the respective changes in financial position, and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 and the schedule of NYC Health + Hospitals' contributions, the schedule of NYC Health + Hospitals' proportionate share of the net pension liability and the schedule of NYC Health + Hospitals' changes in total OPEB liability and related ratios on pages 74, 75 and 76, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other reporting required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2021 on our consideration of NYC Health + Hospitals' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NYC Health + Hospitals' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering NYC Health + Hospitals' internal control over financial reporting and compliance.



New York, New York
October 20, 2021

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Management's Discussion and Analysis (Unaudited)
Statements of Net Position
As of June 30, 2021, 2020, and 2019
(In thousands)

	2021	2020	2019
	Business-type Activities - H+H	Business-type Activities - H+H	Business-type Activities - H+H
ASSETS			
Current assets	\$ 3,984,673	\$ 2,826,981	\$ 2,421,163
Capital assets, net	4,146,600	3,903,927	3,709,259
Other assets	216,511	156,815	149,146
Total assets	<u>8,347,784</u>	<u>6,887,723</u>	<u>6,279,568</u>
Deferred outflows			
Deferred outflows from pension	430,216	223,784	35,828
Deferred outflows from postemployment benefits, other than pension	596,883	783,244	868,440
Unamortized refunding cost	468	5,369	6,851
Asset retirement obligation	5,000	5,000	-
LIABILITIES			
Current liabilities	4,071,661	2,893,574	2,335,491
Long-term debt, net of current installments	619,376	634,217	726,552
Other noncurrent liabilities	526,224	381,872	485,084
Pension, net of current portion	349,877	2,273,422	2,027,556
Postemployment benefits, other than pension, net of current portion	5,060,790	5,077,724	5,355,472
Total liabilities	<u>10,627,928</u>	<u>11,260,809</u>	<u>10,930,155</u>
Deferred inflows			
Deferred inflows from pension	1,932,151	342,681	503,452
Deferred inflows from postemployment benefits, other than pension	1,254,063	1,239,560	1,118,514
Unamortized refunding cost	1,360	-	-
Net position			
Net investment in capital assets	3,262,196	2,834,053	2,731,552
Restricted	123,758	152,770	150,554
Unrestricted	(7,821,105)	(7,924,753)	(8,243,540)
Total net deficit position	<u>\$ (4,435,151)</u>	<u>\$ (4,937,930)</u>	<u>\$ (5,361,434)</u>

See accompanying Management's Discussion and Analysis.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Management's Discussion and Analysis (Unaudited)
Summary of Statements of Revenue, Expenses, and Changes in Net Position
For the years ended June 30, 2021, 2020, and 2019
(In thousands)

	2021	2020	2019
	Business-type	Business-type	Business-type
	Activities - H+H	Activities - H+H	Activities - H+H
OPERATING REVENUES			
Net patient service revenue	\$ 7,747,016	\$ 6,676,714	\$ 6,039,217
Appropriations from the City of New York, net	581,249	673,269	1,064,186
Grants revenue	2,301,793	1,499,213	649,597
Other revenue	259,851	204,242	143,762
Total operating revenue	<u>10,889,909</u>	<u>9,053,438</u>	<u>7,896,762</u>
OPERATING EXPENSES			
Personal services, fringes benefits, and employer payroll taxes	4,273,161	3,868,998	3,754,009
Other than personal services	4,468,596	2,915,080	1,853,317
Pension	(51,724)	367,234	513,750
Postemployment benefits, other than pension	222,748	236,268	375,706
Affiliation contracted services	1,320,717	1,232,026	1,160,986
Depreciation	473,003	385,375	328,993
Total operating expenses	<u>10,706,501</u>	<u>9,004,981</u>	<u>7,986,761</u>
Operating income (loss)	183,408	48,457	(89,999)
Nonoperating expenses, net	<u>(126,966)</u>	<u>(85,413)</u>	<u>(108,584)</u>
Gain/(loss) before other changes in net deficit	56,442	(36,956)	(198,583)
Other changes in net deficit:			
Capital contributions	<u>446,337</u>	<u>460,460</u>	<u>375,336</u>
Increase in net position	502,779	423,504	176,753
Net deficit position at beginning of year	<u>(4,937,930)</u>	<u>(5,361,434)</u>	<u>(5,538,187)</u>
Net deficit position at end of year	<u>\$ (4,435,151)</u>	<u>\$ (4,937,930)</u>	<u>\$ (5,361,434)</u>

See accompanying Management's Discussion and Analysis.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

(A Component Unit of the City of New York)

Management's Discussion and Analysis (Unaudited)

June 30, 2021 and 2020

This section of the New York City Health and Hospitals Corporation's ("NYC Health + Hospitals") annual financial report presents Management's Discussion and Analysis ("MD&A") of the financial performance during the years ended June 30, 2021 and 2020. The purpose is to provide an objective analysis of the financial activities of NYC Health + Hospitals based on currently known facts, decisions, and conditions. Please read it in conjunction with the financial statements, which follow this section.

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

Overview of the Financial Statements

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

The basic financial statements include *Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, Statements of Cash Flows*, and notes to financial statements. These statements present, on a comparative basis, the financial position of NYC Health + Hospitals at June 30, 2021 and 2020, and the changes in net position and its financial activities for each of the years then ended. The *Statements of Net Position* include all of NYC Health + Hospitals' assets, liabilities, and deferred inflows and outflows of resources in accordance with U.S. generally accepted accounting principles. The *Statements of Revenue, Expenses, and Changes in Net Position* present each year's activities on the accrual basis of accounting, that is, when services are provided or obligations are incurred, not when cash is received or bills are paid. The financial statements also report the net position of NYC Health + Hospitals and how it has changed. Net position, or the difference between assets and liabilities and deferred inflows and deferred outflows of resources, is a way to measure the financial health of NYC Health + Hospitals. The *Statements of Cash Flows* provide relevant information about each year's cash receipts and cash payments and classifies them as to operating, non-capital financing, capital and related financing, and investing activities. The notes to the financial statements explain information in the statements and provide more detailed data.

Overall Financial Position and Operations

NYC Health + Hospitals' total net deficit position improved by \$502.8 million from June 30, 2020 to June 30, 2021, and improved by \$423.5 million from June 30, 2019 to June 30, 2020, as adjusted. Net investment in capital assets increased by \$428.1 million and \$102.5 million in fiscal years 2021 and 2020, respectively, due to increases in spending on the IT implementation and on-going work on Federal Emergency Management Agency ("FEMA") related projects. NYC Health + Hospitals' unrestricted net deficit position decreased by \$103.6 million between June 30, 2021 and June 30, 2020 due to receipt of Coronavirus Aid, Relief, and Economic Security ("CARES") Act funding and capital contributions made during the fiscal year. It ended fiscal year 2021 with an operating income of \$183.0 million compared with an operating income of \$48.5 million for the year ended June 30, 2020. The net deficit position benefited from \$446.3 million in capital contributions from the City of New York (the "City") made in fiscal year 2021.

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Management’s Discussion and Analysis (Unaudited)
June 30, 2021 and 2020

Significant financial ratios are as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current ratio	0.98	0.98	1.04
Quick ratio	0.40	0.57	0.67
Days of cash on hand	27.12	28.23	37.15
Net number of days of revenue in patient receivables	60.26	78.69	72.78

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

Variances in Financial Statements

In this section, NYC Health + Hospitals explains the reasons for certain financial statement items with variances relating to fiscal year 2021 amounts when compared to fiscal year 2020 amounts and, where appropriate, fiscal year 2020 amounts when compared to fiscal year 2019 amounts.

Statements of Net Position

Cash and cash equivalents - Increased by \$93.8 million from June 30, 2020 to June 30, 2021 due to various advance cash receipts from the City and the federal government related to our Test and Trace program. It decreased by \$113.2 million from June 30, 2019 to June 30, 2020 due to decreased funds received from the City and various advance payments to vendors related to COVID-19.

Patient accounts receivable, net - Decreased by \$91.7 million from fiscal year 2020 to 2021 mainly due to a decrease in risk incentive pools receivable of \$229.0 million offset by additional revenues related to treating COVID-19 patients of \$139 million not yet collected. Patient accounts receivable increased by \$197.0 million from fiscal year 2019 to 2020 mainly due to and increases in patient CMI related to treating COVID-19 patients and increases in risk incentive pools receivables in fiscal year 2020.

Estimated third-party payor settlements, receivable - Increased \$324.2 million and decreased \$75.8 million in fiscal years 2021 and 2020, respectively, due to the change in Upper Payment Limit (“UPL”) receivables when compared to the same period during the prior fiscal years.

Estimated pools receivable - Increased by \$147.7 million from June 30, 2020 to June 30, 2021 due to an increase in Disproportionate Share Hospital (“DSH”) receivables as a result of a change in estimate for Disproportionate Share Hospital Maximum (“DSH Max”) payments. It increased by \$293.4 million from June 30, 2019 to June 30, 2020 due to an increase in DSH receivables as a result of a change in estimate for DSH Max payments.

Grants receivable - Increased \$583.7 million from June 30, 2020 to June 20, 2021 mainly due to a \$266.2 million in a COVID FEMA grant receivable related to the treatment of COVID patients, \$156.4 million related to the FEMA receivable in connection with the Test and Trace program, and \$111.9 million of State Fiscal year 2020-2021 VBP-QIP. It decreased \$100.0 million from June 30, 2019 to June 20, 2020 due to a delay in the New York State Department of Health Achievement Value Scorecard associated with the Delivery System Reform Incentive Payment program (“DSRIP”).

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Assets restricted as to use (current and long term) - Increased by \$69.3 million from June 30, 2020 to June 30, 2021 primarily due to the issuance of 2020 revenue bonds and remained consistent from June 30, 2019 to June 30, 2020.

Other current assets - Increased by \$144.5 million during fiscal 2021 when compared to fiscal 2020 due to increases in supplies required to be on hand during the COVID pandemic. It increased by \$178.2 million during fiscal 2020 when compared to fiscal 2019 due to increases in supplies as well as prepayments made to vendors related to the COVID-19 reponse.

Capital assets, net - Increased by \$242.7 million from June 30, 2020 to June 30, 2021 and by \$194.7 million from June 30, 2019 to June 30, 2020 due primarily to increases in Construction in Progress ("CIP") for the Electronic Medical Records ("EMR") and FEMA projects.

Deferred outflows of resources - Increased \$15.2 million from June 30, 2020 to June 30, 2021 primarily due to the changes in pension and OPEB liabilities as determined by the New York City Office of the Actuary.

Deferred inflows of resources - Increased \$1.6 billion from June 30, 2020 to June 30, 2021 mainly due to a decrease of deferred inflows from pensions and a corresponding increase of deferred inflows from postemployment benefits, other than pension. Deferred inflows of resources are determined by the New York City Office of the Actuary.

Accrued salaries, fringe benefits, payroll taxes, and accrued compensated absences (current and long-term) - Decreased by \$44.1 million from June 30, 2020 to June 30, 2021 due in part to extinguishment of the long-term accrual for collective bargaining and decreased by \$50.6 million from June 30, 2019 to June 30, 2020 because there were no additional collective bargaining agreements settled in fiscal years 2021 and 2020 versus fiscal year 2019.

Accounts payable and accrued expenses - Increased by \$1.1 billion in fiscal year 2021 and \$263.9 million in fiscal year 2020 due to costs associated with capital projects and increases in cash advances received throughout the year.

Estimated third-party payor settlements, net payable - Decreased by \$11.2 million from June 30, 2020 to June 30, 2021 primarily due to increase in Medicare rates. It increased by \$19.7 million from June 30, 2019 to June 30, 2020 primarily due to a \$17.2 million decrease in Medicaid rates.

Due to/Due from the City of New York, net - Increased \$358.8 million from June 30, 2020 to June 30, 2021 primarily due to a debt service obligation of \$212.4 million that was newly negotiated with the City for fiscal year 2021. It increased \$82.2 million from June 30, 2019 to June 30, 2020 primarily due to a delay in reimbursement of EMS services to the City for fiscal year 2019.

Long-term debt (includes current installments) - Decreased \$30.1 million during fiscal year 2021 due largely to scheduled principal payments and extinguishment of a direct borrowing. It decreased \$81.2 million during fiscal year 2020 due largely to scheduled principal payments and extinguishment of a direct borrowing.

Pension (current and long-term) - Decreased \$2.0 billion from June 30, 2020 to June 30, 2021 primarily due to changes and actual earning on pension plan investments. It increased \$267.4 million from June 30, 2019 to June 30, 2020 primarily due changes and actual earning on pension plan investments.

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June 30, 2021 and 2020

Postemployment benefits, other than pension (current and long-term) - Decreased \$59.8 million in fiscal year 2021 and decreased \$196.9 million in fiscal year 2020 due to changes in expected and actual experience and assumptions made in the actuarial calculation such as retirement age, mortality, disability, withdrawal and salary scale. The annual other post employment benefits (“OPEB”) costs are determined by the New York City Office of the Actuary (Note 11).

Changes in Components of Net Position

Net investment in capital assets - Increased by \$428.1 million in fiscal year 2021, due to the Electronic Medical Records (“EMR”), Network Refresh, and FEMA projects. It increased by \$102.5 million in fiscal years 2020 due to the EMR and FEMA projects.

Restricted - Restricted net position remained consistent from June 30, 2020 to June 30, 2021 and from June 30, 2019 to June 30, 2020.

Unrestricted - Net position activities, other than those mentioned above, resulted in a deficit decrease of \$103.7 million and a deficit decrease of \$318.8 in the unrestricted net deficit when comparing fiscal years 2021 and 2020 balances, respectively.

Capital Assets, Net and Long-Term Debt Activity

Capital Assets, Net

At June 30, 2021, NYC Health + Hospitals had capital assets, net of accumulated depreciation, of \$4.1 billion compared to \$3.9 billion at June 30, 2020 and \$3.7 billion at June 30, 2019, as shown in the table below (in thousands):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 24,223	\$ 24,863	\$ 26,200
Buildings and leasehold improvements	1,918,622	1,925,662	1,956,214
Equipment	1,398,744	1,216,197	1,005,379
Construction in progress	805,011	737,205	721,466
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 4,146,600</u>	<u>\$ 3,903,927</u>	<u>\$ 3,709,259</u>

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Management's Discussion and Analysis (Unaudited)
June 30, 2021 and 2020

2021's major capital asset additions include the following:

- NYC Health + Hospitals continued work on its Electronic Medical Record (“EMR”) system. Known as H2O Epic (Clinical and Revenue), it has been implemented at all acute care hospitals, Gotham clinics, outpatient facilities, Henry J. Carter Long Term Acute Care facility, Roosevelt Island Medical Center, which is onsite at Coler Hospital, and Covid-19 Support Hotels. NYC Health + Hospitals continues to enhance and develop additional modules for the H2O Epic Electronic Medical Records system which has two components: a Clinical budget of approximately \$764.0 million and a Revenue Cycle budget of approximately \$289.1 million. Fiscal year 2021 added \$10.2 million of CIP related to this project which was inclusive of capitalizable expenditures of \$7.7 million for the Clinical portion and \$2.5 million for the Revenue Cycle portion. As of June 30, 2021, the total amount placed in service was \$10.2 million which consisted of \$5.0 million related to Clinical and \$5.2 million related to Revenue Cycle capital. This amount excluded the costs of capitalized in-house payroll assigned to this project.
- NYC Health + Hospitals had a project to upgrade its system-wide network infrastructure called Network Refresh. During fiscal year 2021, \$4 million was added to the CIP total and \$70 million was placed in service as of June 30, 2021. It was funded through City capital in the total amount of \$160 million as of June 30, 2021.
- There were also FEMA projects at multiple facilities for priority mitigation and major work components which represented \$245.7 million of CIP in fiscal year 2021, with CIP totaling \$415.2 million as of June 30, 2021. As of 2021's fiscal year end, \$9.0 million was placed in service with an estimated cost to complete of \$1.4 billion.
- The energy projects being undertaken are mostly comprehensive energy upgrades that seek to reduce our greenhouse gas emissions and energy consumption. These comprehensive energy upgrades focus on lighting upgrades, upgrades to air handling units, chillers, cooling towers and other HVAC equipment. We also have specialty projects, namely the Combined Heat and Power (“CHP”) installation at Bellevue and the Boiler upgrade at Harlem which also has a CHP component. Energy efficiency upgrade projects at multiple facilities represented an addition of \$11.3 million for fiscal year 2021 in CIP, with a total CIP of \$39.1 million placed in service during fiscal year 2021. These projects have total budget of \$317.0 million and total \$222.2 million estimated for completion.
- Health + Hospitals' Center of Excellence sites continued to build projects for three locations Bronx, Queens and Brooklyn. These comprehensive health centers were initiated and completed as an emergency in response to COVID-19. They are designed to meet the unique needs of patients recovering from COVID-19, including specialized services like cardiology care and diagnostic services. These projects are located in communities most heavily impacted by COVID-19 and are in alignment with the Mayor's initiative and rapid response to the COVID-19 pandemic. These three projects are being managed by NYC Department of Design and Construction (“NYC DDC”) and NYC Health + Hospitals. The construction was managed by NYC DDC, whereas the design and furniture, fixtures, and equipment purchases were managed by NYC Health + Hospitals. During fiscal year 2021, \$133.0 million was added to the CIP total. The projects are to be funded through City capital with a total estimated amount of \$141.0 million as of June 30, 2021.

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June 30, 2021 and 2020

- Construction work was conducted throughout multiple acute facilities, long-term acute care hospitals, and Gotham sites to help facilitate the care of COVID-19 patients. Work included creating infrastructure to support additional patient beds, adding equipment to improve indoor air quality and adjusting existing oxygen farms to increase oxygen capacity, thereby allowing NYC Health + Hospitals to care for an increased number of COVID-19 patients. This work represents \$58.6 million of CIP that was added in fiscal year 2021, as of June 30, 2021.

2020's major capital asset additions include the following:

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

2019's major capital asset additions include the following:

- NYC Health + Hospitals continued to develop an EMR system which had two components: a Clinical budget of approximately \$764.0 million and a Revenue Cycle budget of approximately \$289.1 million. Fiscal year 2019 added \$78.5 million to CIP related to this project; which was inclusive of capitalizable expenditures of \$56.0 million for the Clinical portion and \$22.4 million for the Revenue Cycle portion. As of June 30, 2019, total capital CIP reported was \$156.1 million. This amount excluded the costs of capitalized in-house payroll assigned to this project.

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- NYC Health + Hospitals continued the development of an ERP system with a capital addition to CIP of \$6.9 million in fiscal year 2019 and total CIP as of June 30, 2019 of \$4.7 million. The ERP project budget allocated through fiscal year 2025, which includes post implementation expenses, was approximately \$114.9 million. This amount excluded the costs of capitalized in-house payroll and consultant costs assigned to the project.
- NYC Health + Hospitals continued to capitalize net interest costs on TFA debt, City General Obligation Bonds, and NYC Health + Hospitals' own bonds in fiscal year 2019. Such debt was issued to finance construction of various NYC Health + Hospitals facilities, with such debt to be paid by the City on behalf of NYC Health + Hospitals. Amounts capitalized in fiscal year 2019 approximated \$14.6 million.
- There were also FEMA projects at multiple facilities for priority mitigation and major work components which represented \$70.2 million of CIP in fiscal year 2019, total CIP as of June 30, 2019 of \$95.0 million, with an estimated cost to complete of \$1.4 billion.
- Energy efficiency upgrade projects at multiple facilities represented a CIP of \$5.9 million for fiscal year 2019, total CIP as of June 30, 2019 of \$10.3 million, and had a total budget of \$93.0 million estimated for completion.

NYC Health + Hospitals fiscal year 2022 capital budget projects spending of \$730.0 million, which includes acquisition of medical equipment, information technology upgrades, continued additions to the EMR system, and construction work on rehab-infrastructure projects. The 2022 capital budget is expected to be primarily financed by New York City General Obligation Bonds, CARES Act funding, TFA bonds, a New York State Grant called the Capital Restructuring Financing Program, and FEMA grants.

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

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
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Current and Long-Term Debt

At June 30, 2021, NYC Health + Hospitals had approximately \$709.7 million in current and long-term debt financing related to its capital assets, as shown with comparative amounts at June 30, 2020 and 2019 (in thousands):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Bonds payable	\$ 586,343	\$ 574,897	\$ 637,393
New York Power Authority (“NYPA”) financing	39,418	40,892	42,647
Equipment and renovation financing (Sodexo)	4,476	4,165	5,116
Henry J. Carter capital lease obligation	16,632	16,632	25,096
New Market Tax Credit	-	-	14,700
Key Bank CISCO leases	-	-	7,155
JP Morgan Equipment financing	12,483	24,715	36,683
Revolving loan (Citibank)	19,500	24,000	28,000
Term Loan (Citibank)	12,395	18,390	24,260
CISCO Maintenance	18,441	36,124	-
	<u>\$ 709,688</u>	<u>\$ 739,815</u>	<u>\$ 821,050</u>
Total	<u>\$ 709,688</u>	<u>\$ 739,815</u>	<u>\$ 821,050</u>

At June 30, 2021, NYC Health + Hospitals’ outstanding bonds at par were approximately \$513.5 million, with 74.8% uninsured fixed rate and 25.2% variable rate secured by letters of credit. NYC Health + Hospitals is rated Aa3, A+, and A+ by Moody’s, S&P, and Fitch, respectively. The variable rate bonds are secured by TD Bank’s and JPMorgan Chase Bank’s letters of credit. As of September 8, 2021, the Moody’s, S&P, and Fitch long-term/short-term ratings for TD Bank and JPMorgan Chase Bank are A1/P-1, AA-/A-1+, and AA-/F1+ and Aa1/P-1, A+/A-1, and AA/F1+, respectively. There are no statutory debt limitations that may affect NYC Health + Hospitals’ financing of planned facilities or services.

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

Statements of Revenue, Expenses, and Changes in Net Position

Net patient service revenue - Increased by \$1.1 billion during fiscal year 2021 due to additional DSH and UPL revenue of \$170.3 million, increases due to CMI of \$297.5 million and increased outpatient revenue due to Test and Trace-related patient revenue of \$571.4 million. It increased by \$637.5 million during fiscal year 2020 due to additional DSH revenue of approximately \$145.0 million and increased CMI.

Appropriations from the City of New York, net - Decreased \$92.0 million from June 30, 2020 to June 30, 2021 due to an increase in cash received from the City balanced against an increase in amounts paid to the City for annual debt service requirements that occurred during fiscal year 2021. It decreased \$390.9 million from June 30, 2019 to June 30, 2020 due to a decrease in cash received from the City.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Management's Discussion and Analysis (Unaudited)
June 30, 2021 and 2020

Grants revenue - Increased by \$802.6 million from June 30, 2020 to June 30, 2021 primarily due to Test and Trace program revenue and FEMA grant revenue offset by decreases in CARES funding when compared to fiscal year 2020. Increased by \$849.6 million from June 30, 2019 to June 30, 2020 primarily due to a \$1.0 billion receipt of federal government funds related to the emergency COVID-19 response funded by CARES Act offset by a decrease in DSRIP funding.

Other revenue - Increased by \$55.6 million during fiscal year 2021 due largely to increases in the 340B Drug Discount Program ("340B"). It increased by \$60.5 million during fiscal year 2020 due largely to increases in 340B.

Personal services - Increased by \$246.9 million in fiscal year 2021 due to increased headcount. It increased by \$132.5 million in fiscal year 2020 due to increased headcount and use of overtime.

Other-than-personal services - Increased by \$1.6 billion during fiscal year 2021 due to expenditures resulting from the COVID-19 pandemic, inclusive of costs related to the Test and Trace program. It increased by \$1.1 billion during fiscal year 2020 due to expenditures resulting from the COVID-19 pandemic.

Fringe benefits and employer payroll taxes - Increased by \$157.2 million during fiscal year 2021 due to increased headcount. It decreased by \$17.5 million during fiscal year 2020 due to overpayments of portions of fringe benefits during the previous fiscal year.

Pension - Decreased by \$419.0 million resulting from increases in investment income over the course of fiscal year 2021. It increased by \$146.5 million from June 30, 2019 to June 30, 2020 due to a one time change in actuarial census data. Pension plan expense as of June 30, 2021 and 2020 is determined by the New York City Office of the Actuary (Note 10).

Postemployment benefits, other than pension - Decreased by \$13.5 million from June 30, 2020 to June 30, 2021 and decreased by \$139.4 million from June 30, 2019 to June 30, 2020 due to changes in expected and actual experience and assumptions made in the actuarial calculation such as retirement age, mortality, disability, withdrawal and salary scale. Postemployment benefits, other than pension as of June 30, 2021 and 2020 are determined by the New York City Office of the Actuary (Note 11).

Affiliation contracted services - Increased by \$88.7 million from June 30, 2020 to June 30, 2021 due to contractual increases and COLA settlements. It increased by \$71.0 million from June 30, 2019 to June 30, 2020 due to implementation of new programs and cost of living increases.

Capital contributions funded by the City of New York, net - Decreased by \$47.3 million during fiscal year 2021 because there were more projects funded by NYC H+H bonds, CARES and the Capital Restructuring Financing Program-Delivery System Reform Incentive Payment program ("CRFP-DSRIP") funding when compared with the prior year. Remained consistent from fiscal year 2019 to fiscal year 2020.

Capital contributions funded by grantors and donors - Increased by \$33.2 million in fiscal year 2021 due to FEMA and CRFP-DSRIP spending. It increased by \$85.1 million in fiscal year 2020 due to increased FEMA spending.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Management’s Discussion and Analysis (Unaudited)
June 30, 2021 and 2020

Corporation Issues and Challenges

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

- Insufficient Medicaid and Medicare reimbursements to meet the costs of caring for low-income New Yorkers;
- Potential risks in Medicaid supplemental funding;
- Operational and financial uncertainties due to the COVID-19 pandemic;
- Replacing and updating infrastructure to meet the healthcare needs of the public we serve.

NYC Health + Hospitals continues to respond to these challenges by implementing strategic financial initiatives to strengthen revenue cycle operations and invest in building a competitive, sustainable public health system. Despite the challenges of COVID, NYC Health + Hospitals remains on track to achieve a balanced financial plan through fiscal year 2022 and further stabilize the health system for the City of New York.

Federally Qualified Health Center

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

Contacting NYC Health + Hospitals Financial Management

This financial report provides the citizens of the City, NYC Health + Hospitals’ patients, bondholders, and creditors with a general overview of NYC Health + Hospitals’ finances and operations. If you have questions about this report or need additional financial information, please contact Mr. John Ulberg, Senior Vice President/Chief Financial Officer, NYC Health + Hospitals, 50 Water Street, 3rd Floor, New York, New York 10004.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Statement of Net Position
As of June 30, 2021
(In thousands)

	2021			
	Business-type Activities - H+H	Discretely Presented Component Unit-MetroPlus	Eliminations	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 760,367	\$ 340,073	\$ -	\$ 1,100,440
U.S. government securities	-	282,145	-	282,145
Patient accounts receivable, net	883,157	-	(269,561)	613,596
Premiums receivable	-	453,340	(6,276)	447,064
Estimated third-party payor settlements, receivable	637,200	-	(120,000)	517,200
Estimated pools receivable	581,300	-	-	581,300
Grants receivable	663,292	234	(62,178)	601,348
Assets restricted as to use and required for current liabilities	22,187	-	-	22,187
Due from City of New York	13,011	-	-	13,011
Other current assets	424,159	61,871	-	486,030
Total current assets	3,984,673	1,137,663	(458,015)	4,664,321
Assets restricted as to use, net of current portion	216,511	160,470	-	376,981
U.S. government securities	-	338,774	-	338,774
Capital assets, net	4,146,600	13,690	-	4,160,290
Other assets	-	-	-	-
Total assets	8,347,784	1,650,597	(458,015)	9,540,366
Deferred outflows of resources				
Deferred outflows from pension	430,216	10,895	-	441,111
Deferred outflows from postemployment benefits, other than pension	596,883	-	-	596,883
Unamortized refunding cost	468	-	-	468
Asset retirement obligation	5,000	-	-	5,000
	<u>\$ 9,380,351</u>	<u>\$ 1,661,492</u>	<u>\$ (458,015)</u>	<u>\$ 10,583,828</u>
LIABILITIES				
Current liabilities				
Current installments of long-term debt	\$ 90,312	\$ -	\$ -	\$ 90,312
Accrued salaries, fringe benefits, and payroll taxes	405,538	8,817	(6,276)	408,079
Accounts payable and accrued expenses	2,055,366	899,484	(451,739)	2,503,111
Estimated third-party payor settlements, net payable	89,773	-	-	89,773
Due to the City of New York, net	754,605	-	-	754,605
Current portion of pension	490,050	12,411	-	502,461
Current portion of postemployment benefits, other than pension	186,017	4,711	-	190,728
Total current liabilities	4,071,661	925,423	(458,015)	4,539,069
Long-term debt, net of current installments	619,376	-	-	619,376
Accrued compensated absences, net of current portion	526,224	10,549	-	536,773
Accrued salaries, fringe benefits, and payroll taxes, net of current portion	-	-	-	-
Long-term pension, net of current portion	349,877	6,288	-	356,165
Postemployment benefits, other than pension, net of current portion	5,060,790	46,146	-	5,106,936
Total liabilities	10,627,928	988,406	(458,015)	11,158,319
Deferred inflows of resources				
Deferred inflows from pension	1,932,151	46,484	-	1,978,635
Deferred inflows from postemployment benefits, other than pension	1,254,063	10,418	-	1,264,481
Unamortized refunding cost	1,360	-	-	1,360
	<u>13,815,502</u>	<u>1,045,308</u>	<u>(458,015)</u>	<u>14,402,795</u>
Net position				
Net investment in capital assets	3,262,196	3,071	-	3,265,267
Restricted:				
For debt service	109,442	-	-	109,442
Expendable for specific operating activities	13,388	-	-	13,388
Non-expendable permanent endowments	928	-	-	928
Contingent surplus reserve	-	409,781	-	409,781
Unrestricted	(7,821,105)	203,332	-	(7,617,773)
Total net deficit position	<u>\$ (4,435,151)</u>	<u>\$ 616,184</u>	<u>\$ -</u>	<u>\$ (3,818,967)</u>

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

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

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

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

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Statement of Revenues, Expenses, and Changes in Net Position
For the year ended June 30, 2021
(In thousands)

	2021			
	Business-type Activities -	Discretely Presented Component Unit -	Eliminations	Total
	H+H	MetroPlus		
OPERATING REVENUE				
Net patient service revenue	\$ 7,747,016	\$ -	\$ (980,126)	\$ 6,766,890
Appropriations from the City of New York, net	581,249	-	-	581,249
Premium revenue	-	3,516,200	(53,650)	3,462,550
Grants revenue	2,301,793	426	(124,290)	2,177,929
Other revenue	259,851	2,717	-	262,568
Total operating revenue	<u>10,889,909</u>	<u>3,519,343</u>	<u>(1,158,066)</u>	<u>13,251,186</u>
OPERATING EXPENSES				
Personal services	3,226,915	92,463	-	3,319,378
Other than personal services	4,468,596	3,363,714	(1,104,416)	6,727,894
Fringe benefits and employer payroll taxes	1,046,246	32,162	(53,650)	1,024,758
Pension	(51,724)	(1,258)	-	(52,982)
Postemployment benefits, other than pension	222,748	5,244	-	227,992
Affiliation contracted services	1,320,717	-	-	1,320,717
Depreciation	473,003	2,053	-	475,056
Total operating expenses	<u>10,706,501</u>	<u>3,494,378</u>	<u>(1,158,066)</u>	<u>13,042,813</u>
Operating income	<u>183,408</u>	<u>24,965</u>	<u>-</u>	<u>208,373</u>
NONOPERATING REVENUE (EXPENSES)				
Investment income	627	1,384	-	2,011
Interest expense	(135,442)	-	-	(135,442)
Contributions restricted for specific operating activities	7,849	-	-	7,849
Total nonoperating revenue/(expenses), net	<u>(126,966)</u>	<u>1,384</u>	<u>-</u>	<u>(125,582)</u>
Gain/(Loss) before other changes in net position	<u>56,442</u>	<u>26,349</u>	<u>-</u>	<u>82,791</u>
OTHER CHANGES IN NET POSITION				
Capital contributions funded by City of New York, net	244,471	9,104	-	253,575
Capital contributions funded by grantors and donors	201,866	-	-	201,866
Total other changes in net position	<u>446,337</u>	<u>9,104</u>	<u>-</u>	<u>455,441</u>
Increase in net position	<u>502,779</u>	<u>35,453</u>	<u>-</u>	<u>538,232</u>
Net deficit position at beginning of period	<u>(4,937,930)</u>	<u>580,731</u>	<u>-</u>	<u>(4,357,199)</u>
Net deficit position at end of period	<u>\$ (4,435,151)</u>	<u>\$ 616,184</u>	<u>\$ -</u>	<u>\$ (3,818,967)</u>

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

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

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

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

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Statements of Cash Flows
For the years ended June 30, 2021 and 2020
(In thousands)

	2021	2020
	Business-type	Business-type
	Activities -	Activities -
	H+H	H+H
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$ 7,353,297	\$ 6,271,661
Cash appropriations received from the City of New York	680,168	575,022
Cash appropriations remitted to the City of New York	(41,114)	(164,419)
Receipts from grants	2,315,118	1,561,614
Other receipts	261,215	200,395
Cash paid for personal services, fringe benefits, employer payroll taxes, and postemployment benefits obligation, other than pension	(4,316,679)	(4,032,421)
Cash paid for pension	(516,867)	(493,792)
Cash paid for other than personal services	(3,955,096)	(2,557,133)
Cash paid for affiliation contracted services	(1,326,436)	(1,238,286)
Net cash provided by operating activities	<u>453,606</u>	<u>122,641</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY		
Proceeds from contributions restricted for specific operating activities	7,849	29,652
Net cash provided by noncapital financing activity	<u>7,849</u>	<u>29,652</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(672,203)	(537,486)
Capital contributions by grantors and donors	126,061	168,713
Capital contributions by the City of New York	248,366	232,380
Cash paid for capital retainage	(613)	(368)
Payments of long-term debt	(361,730)	(104,643)
Proceeds from the issuance of long-term debt	384,997	-
Interest paid including capitalized interest	(21,431)	(28,983)
Net cash used in capital and related financing activities	<u>(296,553)</u>	<u>(270,387)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of assets restricted as to use	(151,674)	(53,696)
Proceeds from sales of assets restricted as to use	80,245	53,924
Interest received	331	4,825
Net cash provided by (used in) investing activities	<u>(71,098)</u>	<u>5,053</u>
Net increase (decrease) in cash and cash equivalents	93,804	(113,041)
Cash and cash equivalents at beginning of year	666,563	779,604
Cash and cash equivalents at end of year	<u>\$ 760,367</u>	<u>\$ 666,563</u>
Supplemental disclosure:		
Change in fair value of assets restricted as to use	\$ (1,748)	\$ 477
Capital assets included within accounts payable and accrued expenses	43,103	43,473

The accompanying notes are an integral part of these financial statements.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Statements of Cash Flows
For the years ended June 30, 2021 and 2020
(In thousands)

	2021	2020
	Business-type	Business-type
	Activities -	Activities -
	H+H	H+H
	<u> </u>	<u> </u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating income	\$ 183,408	\$ 48,457
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	473,003	385,375
Provision for bad debts	249,351	458,848
Changes in assets and liabilities:		
Patient accounts receivable, net	(157,668)	(655,909)
Estimated third-party payor settlements, net	(335,423)	95,490
Estimated pools receivable	(147,700)	(293,400)
Grants receivable	(583,733)	99,986
Other current assets	(144,454)	(196,625)
Accrued salaries, fringe benefits, payroll taxes, and compensated absences	(44,075)	(50,644)
Pension	(568,013)	(81,265)
Accounts payable and accrued expenses	1,140,605	340,181
Due to the City of New York	247,226	(37,150)
Postemployment benefits obligation, other than pension	141,079	9,297
	<u> </u>	<u> </u>
Net cash provided by operating activities	<u>\$ 453,606</u>	<u>\$ 122,641</u>

The accompanying notes are an integral part of these financial statements.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Notes to Financial Statements
June 30, 2021 and 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Organization

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

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

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

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

- HHC Capital Corporation (“HHC Capital”) was created by NYC Health + Hospitals as a public benefit corporation, of which NYC Health + Hospitals is the sole member, in 1993, in order to secure its 1993 Series A bonds. The sole purpose of HHC Capital is to accept all payments assigned to it by NYC Health + Hospitals and its providers and to remit monthly, from such assigned payments, amounts required for debt service on the 2008, 2013, and 2020 Bond issues to the bond trustee, with the balance transferred to NYC Health + Hospitals.

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

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

- The HHC Physicians Purchasing Group, Inc. (“HHC Purchasing”), a public benefit corporation, was formed in 2003 to act as a purchasing group within the State of New York. The business of HHC Purchasing is to obtain, on behalf of its members who are employees of NYC Health + Hospitals or NYC Health + Hospitals’ affiliates, primary professional liability insurance from HHC Insurance. HHC Purchasing was registered and approved for operations by the New York State Department of Insurance on August 31, 2005. NYC Health + Hospitals is the sole voting member of HHC Purchasing.
- HHC ACO Inc. (“HHC ACO”), a New York not-for-profit corporation, was formed in June 2012 by NYC Health + Hospitals as an Accountable Care Organization for purposes of applying to the federal Centers for Medicare and Medicaid Services (“CMS”) to participate in the Medicare Shared Savings Program (“MSSP”). HHC ACO was approved to participate in the MSSP as of January 1, 2013 and began operations in fiscal year 2014. CMS subsequently approved HHC ACO for renewal terms through December 31, 2024. NYC Health + Hospitals is its sole member.
- HHC Assistance Corporation (“HHCAC”), a membership not-for-profit corporation, was formed in October 2012 by NYC Health + Hospitals and is the sole corporate member. All members of HHCAC’s board of directors are officers of NYC Health + Hospitals. The HHCAC’s purpose is to perform activities that are helpful to NYC Health + Hospitals in the fulfillment of its statutory purposes. In 2015, HHCAC took on the function of the “Central Service Organization” in the NYC Health + Hospitals-led Participating Provider System under the New York State Department of Health’s Delivery System Reform Incentive Payment (“DSRIP”) program. In that capacity, HHCAC operates under the d/b/a “OneCity Health” (“OneCity Health”) and performs various functions on NYC Health + Hospitals’ behalf to advance its participation in the DSRIP program (Note 12).

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

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

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

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

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

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

MetroPlus and HHC Insurance issue separate statutory annual financial statements as of December 31st which are available through the Office of the Corporate Comptroller, 50 Water Street, 3rd Floor, New York, New York 10004. Additionally, while not a statutory requirement, HHC ACO issues financial statements as of June 30th which are also available through the Office of the Corporate Comptroller.

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

(b) Basis of Presentation

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

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

(c) Assets Restricted as to Use and Contributions

Assets restricted as to use primarily include assets held by a trustee under bond resolutions and statutory reserve investments. Amounts required to meet current liabilities of NYC Health + Hospitals have been classified as current assets in the Statements of Net Position at June 30, 2021 and 2020. Assets restricted as to use are stated at fair value, with unrealized and realized gains and losses included in investment income.

Donor-restricted net positions are used to differentiate resources, the use of which is restricted by donors, from resources of unrestricted assets on which donors place no restrictions or that arise as a result of the operations of NYC Health + Hospitals for its stated purposes. Donor-restricted net positions represent contributions to provide healthcare services, of which \$0.9 million are held in perpetuity, as non-expendable permanent endowments, at June 30, 2021 and 2020. Resources restricted by donors for plant replacement and expansion are recognized as capital contributions and are added to the net investment in capital assets, net position balance. Resources restricted by donors for specific operating activities are reported as non-operating revenue. NYC Health + Hospitals utilizes available donor-restricted assets before utilizing unrestricted resources for expenses incurred.

(d) Charity Care

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

(e) Use of Estimates

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

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Included in net patient service revenue are adjustments to prior year estimated third-party payor settlements, estimated pools receivables, and payables that were originally recorded in the period the related services were rendered. The adjustments to prior year estimates and other third-party reimbursement receipts or recoveries that relate to prior years resulted in an increase to net patient service revenue of \$480.4 million and \$264.2 million for the years ended June 30, 2021 and 2020, respectively.

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

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

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

NYC Health + Hospitals has agreements with certain third-party payors that provide for payments at amounts different from its charges or established rates. Payment arrangements include prospectively determined rates, discounted charges, per diem payments, and value-based payment arrangements; a payment relationship in which there is a shift from a pure volume-based payment (i.e., fee for service) to an outcome-based payment where health providers are paid based on improvement of health of the patient rather than volume of services provided to the patient. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated third-party payor settlements resulting from audits, reviews, and investigations. These estimated third-party payor settlements are accrued in the period the related services are rendered and adjusted in future periods as revised information becomes known or as years are no longer subject to such audits, reviews, and investigations. Net patient service revenue was reported net of the provision for bad debts of \$249.4 million in 2021 and \$458.8 million in 2020.

The allowance for doubtful accounts is the NYC Health + Hospitals estimate of the amount of probable credit losses in its patient accounts receivable. NYC Health + Hospitals determines the allowance based on collection studies and historical write-off experience. Past-due balances are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts at June 30, 2021 and 2020 was approximately \$638.8 million and \$744.4 million, respectively.

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

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

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

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

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

- Medical malpractice settlements, negligence, and other torts up to an agreed-upon amount are negotiated annually and paid by the City on behalf of NYC Health + Hospitals. In 2021 and 2020, the medical malpractice and general liability settlements paid by the City were \$91.1 million and \$96.1 million, respectively. The reimbursements to the City are recorded by NYC Health + Hospitals as a reduction of Due to the City of New York, net. Such medical malpractice, negligence, and other torts reimbursements by NYC Health + Hospitals do not alter the indemnification by the City of NYC Health + Hospitals' malpractice settlements under the Agreement (Note 12).
- Interest and principal on debt service, which funds NYC Health + Hospitals capital acquisitions, is negotiated annually with and is paid by the City on behalf of the NYC Health + Hospitals. During 2021 and 2020, the City paid \$212.4 million and \$187.7 million of debt service, respectively. In fiscal year 2021, NYC Health + Hospitals reimbursed the City for the \$212.4 million in debt service paid on its behalf, however in fiscal year 2020, the City's assumption of payments alleviated amounts owed to the City of \$187.7 million for 2020. The debt service reimbursements to the City are recorded by NYC Health + Hospitals as a reduction of appropriations from the City.

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

(i) Capital Assets and Depreciation

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

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

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

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

Construction in Progress ("CIP") is recorded on all projects under construction. Such CIP costs are transferred to depreciable assets and depreciated when the related assets are placed in service. Beginning in fiscal year 2021, in accordance with newly issued GASB reporting requirements, interest on borrowed funds related to construction is no longer capitalized.

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

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

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

NYC Health + Hospitals evaluates long-lived assets for impairment when circumstances suggest that the service utility or the usable capacity originally expected may have significantly or unexpectedly declined. If circumstances suggest that assets may be impaired, an impairment charge is recorded on those assets based upon a method that most appropriately reflects the decline in service utility of the capital asset. No material changes to capital assets were recorded for the fiscal years ended June 30, 2021 and 2020.

(j) Custodial Funds

NYC Health + Hospitals holds funds for safekeeping, primarily cash held for the benefit of its long-term care patients, amounting to approximately \$2.0 million and \$1.7 million as of June 30, 2021 and 2020, respectively. These amounts are included in other current assets and accounts payable and accrued expenses in the accompanying Statements of Net Position.

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(k) Affiliation Contracted Services

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

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

(l) Supplies

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

(m) Income Taxes

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

(n) Grants Receivable

Grants receivable relate to various healthcare provision programs under contract with the State and other grantors, including amounts related to DSRIP, the Value Based Payment Quality Improvement Program (“VBP QIP”) and FEMA (Note 18). Grants receivable also include grants from the City, which are reimbursements to NYC Health + Hospitals for providing such services as mental health, child health, and HIV-AIDS services.

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(o) Net Position

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

(p) Compensated Absences

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

(q) Fair Value

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

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

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

(r) Reclassifications

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

(s) New Accounting Standard Adopted

In 2021, NYC Health + Hospitals adopted *GASB Statement 89- Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement changed accounting requirements related to interest costs incurred before the end of a construction period. Prior to the adoption of this Statement, such interest costs were part of the costs capitalized in the construction of a new asset. After the adoption, interest costs incurred are expensed during the period in which they are incurred and will not be included in the historical cost of a capital asset.

(t) Subsequent Events

NYC Health + Hospitals has evaluated subsequent events through October 20, 2021, which is the date the financial statements were issued. NYC Health + Hospitals is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, certificates of deposit ("CDs"), and all highly liquid debt instruments with original maturities of three months or less when purchased. The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturity of the investments. Custodial credit risk is the risk that, in the event of a bank failure, NYC Health + Hospitals' deposits may not be returned. NYC Health + Hospitals' policy to mitigate custodial credit risk is to collateralize all balances when permitted (i.e., collected balances). Deposits in the process of collection within the banking system are not collateralized. At June 30, 2021 and 2020, 100% of NYC Health + Hospitals cash and cash equivalents bank balances were insured or collateralized and efforts continue to cover all remaining balances, when permitted.

3. CHARITY CARE

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

	<u>2021</u>	<u>2020</u>
Charges foregone, based on established rates	\$ 880,511	\$ 730,368
Estimated expenses incurred to provide charity care	581,637	494,553

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

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

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

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

	2021		2020	
Medicaid	\$ 1,199,375	15.5 %	\$ 1,377,361	20.6 %
Medicare	1,042,990	13.5	818,036	12.3
Bad debt/charity care pools	436,967	5.6	418,108	6.3
Disproportionate share supplemental pool	1,432,507	18.5	1,233,422	18.5
Other third-party payors that include Medicaid and Medicare managed care	2,764,097	35.7	1,971,745	29.4
MetroPlus	855,867	11.0	833,463	12.5
Self-pay	15,213	0.2	24,579	0.4
	\$ 7,747,016	100.0 %	\$ 6,676,714	100.0 %

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

	2021		2020	
Medicaid	\$ 136,828	15.5 %	\$ 177,901	18.2 %
Medicare	79,127	9.0	54,017	5.5
Other third-party payors, that include Medicaid and Medicare managed care	396,215	44.9	203,305	20.9
MetroPlus	269,561	30.5	531,834	54.6
Self-pay	1,426	0.1	7,783	0.8
	<u>\$ 883,157</u>	<u>100.0 %</u>	<u>\$ 974,840</u>	<u>100.0 %</u>

5. CAPITAL ASSETS

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

	2021	2020
Land and land improvements	\$ 59,014	\$ 58,296
Buildings and leasehold improvements	4,735,250	4,613,145
Equipment	4,868,748	4,406,979
	9,663,012	9,078,420
Less: accumulated depreciation	6,321,423	5,911,698
	3,341,589	3,166,722
Construction in progress	805,011	737,205
Capital assets, net	<u>\$ 4,146,600</u>	<u>\$ 3,903,927</u>

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

	Land and Land Improvements	Buildings and Leasehold Improvements	Equipment	Construction in Progress	Total
June 30, 2019 balance	\$ 58,251	\$ 4,514,761	\$ 4,013,649	\$ 721,466	\$ 9,308,127
Acquisitions, net of transfers	257	93,588	475,734	16,836	586,415
Sales, retirements, and adjustments	(212)	4,796	(82,404)	(1,097)	(78,917)
June 30, 2020 balance	58,296	4,613,145	4,406,979	737,205	9,815,625
Acquisitions, net of transfers	660	140,035	522,779	67,806	731,280
Sales, retirements, and adjustments	58	(17,930)	(61,010)	-	(78,882)
June 30, 2021 balance	<u>\$ 59,014</u>	<u>\$ 4,735,250</u>	<u>\$ 4,868,748</u>	<u>\$ 805,011</u>	<u>\$ 10,468,023</u>

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

	Land and Land Improvements	Buildings and Leasehold Improvements	Equipment	Total
June 30, 2019 balance	\$ 32,052	\$ 2,558,547	\$ 3,008,269	\$ 5,598,868
Depreciation expense	1,432	134,705	249,238	385,375
Sales, retirements, and adjustments	(50)	(5,770)	(66,725)	(72,545)
June 30, 2020 balance	33,434	2,687,482	3,190,782	5,911,698
Depreciation expense	1,361	139,159	332,483	473,003
Sales, retirements, and adjustments	(4)	(10,013)	(53,261)	(63,278)
June 30, 2021 balance	<u>\$ 34,791</u>	<u>\$ 2,816,628</u>	<u>\$ 3,470,004</u>	<u>\$ 6,321,423</u>

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

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

NYC Health + Hospitals capitalized net interest costs on TFA debt and City General Obligation Bonds in 2020, as well as NYC Health + Hospitals' own bonds. Such debt was issued to finance construction of various NYC Health + Hospitals facilities, with such debt to be paid by the City on behalf of NYC Health + Hospitals. Due to implementation of the new accounting standard promulgated by GASB, interest costs are no longer permitted to be capitalized in 2021 forward but were approximated to be \$14.2 million in fiscal year 2020, the last fiscal year this reporting treatment was permitted.

NYC Health + Hospitals continued Electronic Medical Record system H2O Epic (Clinical and Revenue) has been implemented at all Acute Care Hospitals, Gotham Clinics, Outpatient Facilities, Henry J. Carter Long Term Acute Care facility, Roosevelt Island Medical Center (RIMC) onsite at Coler and Covid-19 Support Hotels. NYC Health + Hospitals continues to enhance and develop additional modules for the H2O Epic Electronic Medical Records system which has two components: a Clinical budget of approximately \$764.0 million and a Revenue Cycle budget of approximately \$289.1 million. Fiscal year 2021 added \$10.2 million of CIP related to this project which was inclusive of capitalizable expenditures of \$7.7 million for the Clinical portion and \$2.5 million for the Revenue Cycle portion. As of June 30, 2021, the total placed in service was \$10.2 million which consisted of \$5.0 million related to Clinical and \$5.2 million related to Revenue Cycle capital. This amount excluded the costs of capitalized in-house payroll assigned to this project.

NYC Health + Hospitals continued to capitalize net interest costs on TFA debt, City of New York General Obligation Bonds, and NYC Health + Hospitals' own bonds in fiscal year 2020, however this process stopped in fiscal year 2021 due to newly issued guidance by the GASB. Such debt was issued to finance construction of various NYC Health + Hospitals facilities, with such debt to be paid by the City on behalf of NYC Health + Hospitals.

NYC Health + Hospitals has a project to upgrade its system-wide network infrastructure called Network Refresh. During fiscal year 2021, \$4.0 million was added to the CIP total and \$70 million was placed in service as of June 30, 2021. It was funded through City capital in the total amount of \$160 million as of June 30, 2020.

There were also FEMA projects at multiple facilities for priority mitigation and major work components which represented \$245.7 million of CIP in fiscal year 2021, with CIP totaling \$415.2 million as of June 30, 2021. As of 2021's fiscal year end, \$9.0 million was placed in service with an estimated cost to complete of \$1.4 billion.

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The energy projects being undertaken are mostly comprehensive energy upgrades that seek to reduce our greenhouse gas emissions and energy consumption. These comprehensive energy upgrades focus on Lighting upgrades, Upgrades to air handling units, chillers, cooling towers and other HVAC equipment. We also have some specialty projects namely the Combined Heat and Power (“CHP”) installation at Bellevue and the Boiler upgrade at Harlem which also has a CHP component. Energy efficiency upgrade projects at multiple facilities represented an addition of \$11.3 million for fiscal year 2021 in CIP, with a total CIP of \$39.1 million was placed in service during FY21. These projects have total budget of \$317 million and total \$222.2 million estimated for completion.

COE Sites Health + Hospitals continued to build Center of Excellence projects for three locations in the boroughs of the Bronx, Queens and Brooklyn. These comprehensive health centers were initiated and completed as an emergency in response to COVID-19. They are designed to meet the unique needs of patients recovering from COVID-19, including specialized services like cardiology care and diagnostic services. These projects are located in communities most heavily impacts by COVID-19 and are in alignment with the Mayor’s initiative and rapid response to the COVID-19 pandemic. These three projects are being managed by DDC and HHC. The Construction was managed by DDC, whereas the design and furniture, fixtures, and equipment were managed by HHC. During fiscal year 2021, \$133 million was added to the CIP total. The projects are to be funded via through City capital in the total estimated amount of \$141 million as of June 30, 2021.

Construction work was conducted throughout multiple acute facilities, long-term acute care facilities and Gotham sites to help facilitate the care of COVID-19 patients. Work included creating infrastructure to support additional patient beds, adding equipment to improve indoor air quality and adjusting existing oxygen farms to increase oxygen capacity, thereby allowing HHC to care for an increased number of COVID-19 patients. This work represents \$58.6 million of CIP that was added during the year ended June 30th, 2021.

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6. ASSETS RESTRICTED AS TO USE

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

	<u>2021</u>	<u>2020</u>
Under bond resolutions ^a		
Construction funds	\$ 98,602	\$ 793
Capital reserve funds	66,957	88,322
Revenue funds	<u>37,243</u>	<u>45,883</u>
	202,802	134,998
Letters of credit ^b	18,735	14,374
Permanent endowments ^b	928	928
Equipment financing ^c	<u>16,233</u>	<u>19,099</u>
Total assets restricted as to use	238,698	169,399
Less: current portion of assets restricted as to use	<u>22,187</u>	<u>31,034</u>
Assets restricted as to use, net of current portion	<u>\$ 216,511</u>	<u>\$ 138,365</u>

- a. Assets restricted as to use under the terms of the bond resolutions are to provide for debt service requirements and the acquisition of capital assets. Terms of the bond resolutions provide that assets be maintained in separate funds held by the trustee. The construction funds are invested in an interest-bearing negotiable order of withdrawal (“NOW”) account, which is fully collateralized. The capital reserve funds are invested primarily in a 10-year U.S. Treasury note and a two-year U.S. Treasury note. Security maturity date decisions are based on the final maturity of the specific bond series, potential need for liquidity due to refunding, and/or an assessment of the current market interest rate conditions. The majority of the revenue funds are invested in U.S. Treasury bills for the time period between one month and a maximum of twelve months. Investments are timed so that funds are available for required semi-annual debt service payments. Possible exposure to fair value losses arising from interest rate volatility is limited by investments in securities having maturities of less than one year and at most ten years and by intending to hold the security to maturity.
- b. As of June 30, 2021, \$7.2 million of restricted funds related to letters of credit and permanent endowments were invested in T-Bills, \$4.3 million in CDs, and \$8.2 million in collateralized checking accounts. As of June 30, 2020, \$7.2 million of restricted funds related to letters of credit and permanent endowments were invested in T-Bills, \$4.25 million in CDs, and \$3.9 million in collateralized checking accounts.
- c. The equipment financing escrow funds are mostly invested in United States Treasury Money Market Fund accounts (Note 8).

The current portion is related to the 2020 Series A bonds, 2013 Series A bonds, and the 2008 Series B, C, D, and E bonds debt service payable in fiscal year 2021.

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

	Fair Value	June 30, 2021	
		Level 1	Level 2
U.S. government obligations and securities	\$ 238,698	\$ 127,781	\$ 110,917

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

7. U.S. GOVERNMENT SECURITIES

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

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

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

Year	Investment Type	Fair Value	Investment Maturing in (Years)	
			Less than 1	1 to 3
2021	U.S. Treasury bills, notes, bonds and strips	\$ 620,919	\$ 281,180	\$ 339,739
2020	U.S. Treasury bills, notes, bonds, and strips	620,241	243,661	376,580

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8. LONG-TERM DEBT

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

	<u>2021</u>	<u>2020</u>
<i>Bonds Payable</i>		
2020 Series A Fixed Rate Health System Bonds - weighted average interest of 1.79%, payable in installments to 2048		
Uninsured Bonds (a)	\$ 381,127	\$ -
2013 Series A Fixed Rate Health System Bonds – weighted average interest of 2.44%, payable in installments to 2023:		
Uninsured Bonds (b)	75,936	112,582
2010 Series A Fixed Rate Health System Bonds – average interest of 3.89%, payable in installments to 2030:		
Uninsured Bonds (c)	-	261,453
2008 Series A Fixed Rate Health System Bonds – weighted average interest of 4.51%, payable in installments to 2026:		
Uninsured Bonds (d)	-	66,262
2008 Series B, C, D, and E Variable Rate Health System Bonds – subject to short-term liquidity arrangements, weighted average of 0.75% in 2021 and 1.79% in 2020 payable in installments to 2031:		
Uninsured Bonds (e)	129,280	134,600
Total Bonds Payable	<u>586,343</u>	<u>574,897</u>
<i>Direct Borrowings</i>		
JP Morgan Equipment Financing (f)	12,483	24,715
Term Loan and Revolving Loan (Citibank) (g)	31,895	42,390
New York Power Authority ("NYPA") financing (h)	39,418	40,892
Total Direct Borrowings	<u>83,796</u>	<u>107,997</u>
<i>Other Debt Agreements</i>		
Equipment and renovation financing (Sodexo) (i)	4,476	4,165
Henry J. Carter capital lease obligation (j)	16,632	16,632
CISCO Maintenance Financing (k)	18,441	36,124
Total Other Debt Agreements	<u>39,549</u>	<u>56,921</u>
Total Long-Term Debt	<u>709,688</u>	<u>739,815</u>
Less: current installments	90,312	105,598
Total Long-Term Debt, net of current installments	<u>\$ 619,376</u>	<u>\$ 634,217</u>

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Long-term debt activity for the years ended June 30, 2021, 2020, and 2019 was as follows (in thousands):

	June 30, 2020 Balance	Additions	Reductions	June 30, 2021 Balance	Amounts Due Within 1 year
Long-term debt:					
Bonds payable	\$ 574,897	\$ 384,997	\$ (373,551)	\$ 586,343	\$ 41,610
Direct borrowings:					
NYPA financing	40,892	-	(1,474)	39,418	2,009
Equipment and renovation financing	107,394	-	(40,099)	67,295	40,926
Henry J. Carter capital lease obligation	16,632	-	-	16,632	5,767
New Market Tax Credit	-	-	-	-	-
	<u>\$ 739,815</u>	<u>\$ 384,997</u>	<u>\$ (415,124)</u>	<u>\$ 709,688</u>	<u>\$ 90,312</u>
	June 30, 2019 Balance	Additions	Reductions	June 30, 2020 Balance	Amounts Due Within 1 year
Long-term debt:					
Bonds payable	\$ 637,393	\$ -	\$ (62,496)	\$ 574,897	\$ 61,435
Direct borrowings:					
NYPA financing	42,647	-	(1,755)	40,892	1,615
Equipment and renovation financing	101,214	48,908	(42,728)	107,394	38,257
Henry J. Carter capital lease obligation	25,096	-	(8,464)	16,632	4,291
New Market Tax Credit	14,700	-	(14,700)	-	-
	<u>\$ 821,050</u>	<u>\$ 48,908</u>	<u>\$ (130,143)</u>	<u>\$ 739,815</u>	<u>\$ 105,598</u>

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Bonds

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

(a) 2020 Series A Bonds

On January 5, 2021, NYC Health + Hospitals issued \$310.2 million of tax-exempt fixed rate Health System Bonds, 2020 Series A bonds (the "2020 Bonds"). This issuance generated a premium of \$74.8 million. This bond issue included \$273.7 million of 3.0% to 5.0% uninsured serial bonds, due through February 15, 2040; and a \$5.0 million of 3.0% and \$16.5 million of 4.0% uninsured term bonds due February 15, 2045, and a \$15.0 million of 4.0% uninsured term bonds due February 15, 2048, with interest payable on February 15th and August 15th of each year.

Proceeds of the 2020 Bonds, \$20.5 million released from the Capital Reserve Fund, and \$26.5 million in residual funds were used: (i) to refund and redeem all of NYC Health + Hospitals' 2008 Series A bonds totaling \$66.2 million; (ii) to refund and redeem all of NYC Health + Hospitals' 2010 Series A bonds totaling \$255.7 million; and (iii) to pay the cost of issuance of \$2.4 million. Proceeds used to refund and redeem the 2008 Series A bonds and 2010 Series A bonds were deposited with the bond trustee in an amount sufficient to pay the interest and principal of the refunded 2008 Series A bonds to and including their final redemption date of February 22, 2013. Also, proceeds used to refund and redeem 2010 Series A bonds were deposited with the bond trustee sufficient to pay the interest and principal of the refunded 2008 Series A bonds to and including their final redemption date of February 15, 2015.

NYC Health + Hospitals completed the current refunding of the 2008 Series A bonds and the 2010 Series A bonds to reduce its total debt service payments over the next 10 years by \$83.1 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$60.5 million, which is being amortized over the life of the 2020 Bonds.

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The following table summarizes debt service requirements for the 2020 Series A bonds as of June 30, 2021 (in thousands). The interest payments are based on the interest rate in effect at June 30, 2021:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years			
2022	\$ -	\$ 14,557	\$ 14,557
2023	-	14,557	14,557
2024	14,800	14,324	29,124
2025	39,725	13,227	52,952
2026	30,330	11,525	41,855
2027 - 2031	160,415	31,742	192,157
2032 - 2036	14,230	12,534	26,764
2037 - 2041	18,160	8,548	26,708
2042 - 2046	22,345	4,362	26,707
2047 - 2048	10,190	463	10,653
	<u>310,195</u>	<u>125,839</u>	<u>436,034</u>
Total	310,195	125,839	436,034
Unamortized premium on 2020 Bonds	70,932	-	70,932
	<u>\$ 381,127</u>	<u>\$ 125,839</u>	<u>\$ 506,966</u>

2013 Series A Bonds

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

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

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

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The following table summarizes debt service requirements as of June 30, 2021 (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years			
2022	\$ 36,195	\$ 2,901	\$ 39,096
2023	37,850	1,145	38,995
Total	74,045	4,046	78,091
Unamortized premium on 2013 Bonds	1,891	-	1,891
	<u>\$ 75,936</u>	<u>\$ 4,046</u>	<u>\$ 79,982</u>

(b) 2010 Series A Bonds

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

On January 5, 2021, NYC Health + Hospitals refunded and redeemed the remaining \$255.7 million 2010 Series A bonds.

(c) 2008 Series A Bonds

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

On January 5, 2021, NYC Health + Hospitals refunded and redeemed the remaining \$66.2 million 2008 Series A bonds.

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

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

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NYC Health + Hospitals maintains letters of credit to ensure the availability of funds to purchase any bonds tendered by bondholders that the remarketing agents are unable to remarket to new bondholders. Draws related to such tenders under the letters of credit will become Bank Bonds. As Bank Bonds, they can still be remarketed by the remarketing agents. If not remarketed successfully as Bank Bonds, NYC Health + Hospitals will have the opportunity to refinance them during a period of up to 365 days from initial draw date. If the Bank Bonds are not refunded and remain outstanding exceeding 365 days from initial draw date, NYC Health + Hospitals will be required to make quarterly payments over four years commencing one year after the initial draw date. There were no draws under the letters of credit as of June 30, 2021.

The initial interest rates for the 2008 Variable Rate Bonds were set at 1.45% – 1.50%, bearing interest at a weekly interest rate mode. However, the 2008 Variable Rate Bonds of any series may be converted by NYC Health + Hospitals to bear interest at either a daily interest rate, a bond interest term rate, an NRS (nonputable remarketed securities) rate, an auction rate, an index rate, or a fixed rate. The overall weighted average interest rate was 0.75% for 2021 and 1.79% for 2020.

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

The following table summarizes debt service requirements for all of the 2008 Series Bonds as of June 30, 2021 (in thousands). The interest payments are based on the interest rate in effect at June 30, 2021:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years			
2022	\$ 5,415	\$ 27	\$ 5,442
2023	5,545	25	5,570
2024	5,665	24	5,689
2025	9,000	22	9,022
2026	20,475	19	20,494
2027 - 2031	<u>83,180</u>	<u>45</u>	<u>83,225</u>
Total	<u>\$ 129,280</u>	<u>\$ 162</u>	<u>\$ 129,442</u>

Direct Borrowings

(e) Equipment Financing Agreement (JPMorgan Chase Bank)

On July 9, 2015, NYC Health + Hospitals (“Borrower”) entered into a \$60.0 million Equipment Financing Agreement (“JPMorgan Agreement”) with JPMorgan Chase Bank (“Lender”) for the purpose of financing medical, information technology, and other equipment with useful lives ranging from 5 to 10 years. The JPMorgan Agreement is a drawdown loan, which allows NYC Health + Hospitals to make multiple draws

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(i.e., borrowings) up to August 1, 2017 for an aggregated not-to-exceed amount of \$60.0 million. During the drawdown period, all borrowings will incur monthly interest expense based on an agreed-upon variable rate formula. On July 9, 2015, NYC Health + Hospitals drew down \$10.0 million at the initial interest rate of 0.9318%. On July 31, 2017, NYC Health + Hospitals drew down the remaining \$50.0 million and thereafter converted the \$60.0 million outstanding loan to a fixed rate loan at the interest rate of 2.088%, which was based on an agreed-upon fixed rate formula with a final maturity of July 1, 2022. The debt is secured by a lien on the equipment financed and a second lien on Health Care Reimbursement Revenues.

The following table summarizes debt service requirements for the equipment financing agreement as of June 30, 2021 (in thousands):

Years	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 9,338	\$ 147	\$ 9,485
2023	<u>3,145</u>	<u>16</u>	<u>3,162</u>
Total	<u>\$ 12,483</u>	<u>\$ 163</u>	<u>\$ 12,647</u>

(f) Term Loan and Revolving Loan (Citibank)

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

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

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

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

On October 30, 2018, NYC Health + Hospitals borrowed the remaining \$30.0 million Revolving Loan to finance Community Reinvestment Act-eligible capital projects. The initial interest rate for the Revolving Loan was set at 2.20% and is to be reset weekly based on the SIFMA index plus a margin. The final maturity of the Revolving Loan is October 30, 2023. The overall average interest rate was 0.68% for 2021 and 1.75% for 2020.

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

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

The following table summarizes debt service requirements for the Citibank loan as of June 30, 2021 (in thousands):

Years	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 12,130	\$ 656	\$ 12,786
2023	12,765	359	13,124
2024	<u>7,000</u>	<u>56</u>	<u>7,056</u>
Total	<u>\$ 31,895</u>	<u>\$ 1,071</u>	<u>\$ 32,966</u>

(g) New York Power Authority Financing

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

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

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

The interest rates of the variable rate loans were reset in April 2021 for 2.49%. Monthly debt service for Elmhurst and Metropolitan Hospitals are \$0.114 million and \$0.121 million, respectively.

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The following table summarizes debt service requirements for NYPA as of June 30, 2021 (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years			
2022	\$ 2,009	\$ 1,038	\$ 3,048
2023	1,903	910	2,813
2024	1,951	862	2,813
2025	2,000	813	2,813
2026	2,051	762	2,813
2027 - 2031	11,055	3,011	14,066
2032 - 2036	12,519	1,546	14,066
2037 - 2039	5,928	167	6,095
	<u>39,418</u>	<u>9,110</u>	<u>48,528</u>
Total	<u>\$ 39,418</u>	<u>\$ 9,110</u>	<u>\$ 48,528</u>

Other Debt Agreements

(h) Equipment and Renovation (Sodexo)

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

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

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

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The following table summarizes debt service requirements as of June 30, 2021 (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years			
2022	\$ 1,016	\$ -	\$ 1,016
2023	1,016	-	1,016
2024	1,019	-	1,019
2025	1,425	-	1,425
	<u>1,425</u>	<u>-</u>	<u>1,425</u>
Total	<u>\$ 4,476</u>	<u>\$ -</u>	<u>\$ 4,476</u>

(i) Henry J. Carter Capital Lease Obligation

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

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

The following table summarizes debt service requirements as of June 30, 2021 (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years			
2022	\$ 5,767	\$ 1,988	\$ 7,755
2023	1,525	334	1,859
2024	1,575	283	1,858
2025	1,628	230	1,858
2026	1,682	176	1,858
2027-2029	4,455	191	4,646
	<u>4,455</u>	<u>191</u>	<u>4,646</u>
Total	<u>\$ 16,632</u>	<u>\$ 3,202</u>	<u>\$ 19,834</u>

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(j) Key Bank CISCO Leasing

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

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

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

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

(k) Letter of Credit 55 Water

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

(l) Letter of Credit Captive

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

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9. DUE TO THE CITY OF NEW YORK, NET

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

	<u>2021</u>	<u>2020</u>
FDNY EMS operations ^a	\$ 345,911	\$ 375,742
Medical malpractice payable ^b	91,067	41,114
Debt Service	212,378	-
Other accrued expenses ^c	34,511	14,604
Capital contributions from the City of New York	(13,011)	(48,680)
T2 Advance	70,738	-
	<u>\$ 741,594</u>	<u>\$ 382,780</u>

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

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

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

10. PENSION PLAN

NYC Health + Hospitals participates in the New York City Employees Retirement System (“NYCERS”) Qualified Pension Plan (“QPP”), which is a cost-sharing, multiple-employer public employees’ retirement system. NYCERS provides defined-pension benefits to 196,038 active municipal employees, 156,359 pensioners, 18,665 deferred vested members, and 18,665 members who are no longer on payroll through \$77.4 billion in assets. Employees who receive permanent appointment to a competitive position and have completed six months of service are required to participate in NYCERS, and all other employees are eligible to participate in NYCERS. NYCERS provides pay-related retirement benefits, as well as death and disability benefits. Total amounts of NYC Health + Hospitals’ covered payroll for the years ended June 30, 2021 and 2020 were approximately \$2.4 billion in each year. NYCERS issues a financial report that includes financial statements and required supplementary information, which may be obtained by writing to NYCERS, 335 Adams Street, Brooklyn, New York 11201 or from the following website: <https://www.nycers.org/comprehensive-annual-financial-report>.

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

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

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

NYC Health + Hospitals’ net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense is calculated by the City of New York’s Office of the Actuary (the “Actuary”) and includes the information for MetroPlus. At June 30, 2021 and 2020, NYC Health + Hospitals reported a liability of \$0.9 billion and \$2.9 billion, respectively, for its proportionate share of the NYCERS net pension liability. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2020 and June 30, 2019, and rolled forward to each respective fiscal year. NYC Health + Hospitals’ proportion for the net pension liability for each fiscal year was based on NYC Health + Hospitals’ actual contributions to NYCERS relative to the total contributions of all participating employers for 2021 and 2020, which was 13.4% and 13.6%, respectively. NYC Health + Hospitals made contributions of \$503.8 million and \$505.6 million for 2021 and 2020, respectively.

(a) Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation, measurement date of the pension liability, was determined using the following actuarial assumptions:

Projected salary increases ¹	In general, merit and promotion increases plus assumed general wage increase of 3.0% per annum
Investment rate of return ¹	7.0%, net of Investment Expenses
Cost of living adjustment ¹	1.5% per annum for Tier 1, Tier II, Tier IV, and certain Tier III and Tier VI retirees 2.5% per annum for certain Tier III and Tier VI retirees

¹ Developed assuming a long-term Consumer Price Inflation assumption of 2.5% per annum.

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Mortality tables for service, disability pensioners and beneficiaries were developed from experience studies of the Plan. Pursuant to Section 96 of the New York City Charter, studies of the actuarial assumptions used to value liabilities of the five actuarially-funded New York City Retirement Systems (“NYCRS”) are conducted every two years. The most recent of these studies was performed by Bolton, Inc. and included experience through June 30, 2017. For more details, see the NYCRS “2019 Assumptions and Methods (A&M)” reports available on the Office of the Actuary’s website: <https://www1.nyc.gov/site/actuary/reports/reports.page>.

(b) Expected Rate of Return on Investments

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

<u>Asset Class</u>	<u>Target Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Public Markets:		
U.S. Public Market Equities	27.0%	7.1%
Developed Public Market Equities	12.0	7.2
Emerging Public Market Equities	5.0	9.0
Fixed Income	30.5	1.8
Private Markets (Alternative Investments):		
Private Equity	8.0	11.3
Private Real Estate	7.5	6.9
Infrastructure	4.0	6.0
Opportunistic Fixed Income	6.0	7.1
	<u>100.0%</u>	

(c) Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2021 was 7.00%. The projection of cash flow used to determine the discount rate assumed that employee contributions will be made at the rates applicable to the current Tier for each member and that employer contributions will be made based on rates determined by the Actuary. Based on those assumptions, the NYCERS fiduciary net position is projected to be available to make all projected future benefit payments of current active and non-active NYCERS members. Therefore, the long-term expected rate of return on NYCERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
NYC Health + Hospitals' proportionate share of the net pension liability	\$ 2.253	\$ 0.859	\$ 0.324

(d) Deferred Outflows and Inflows of Resources

The following are components of deferred outflows and (inflows) at June 30, 2021 and 2020 (in thousands):

	2021	2020
Differences between projected and actual earnings on pension plan investments	\$ (1,274,124)	\$ 113,444
Differences between expected and actual experience	122,901	145,159
Changes in assumptions	(106,549)	(85,948)
Differences between employer contributions and proportionate share of contributions	(177,596)	(189,981)
Adjustment for Census Data Fix	(102,156)	(102,157)

The deferred inflows and (outflows) of resources at June 30, 2021 will be recognized in expense as follows (in thousands):

Year Ended June 30,	Amount
2022	\$ (478,309)
2023	(348,816)
2024	(321,272)
2025	(371,492)
2026	(16,929)
2027	(706)
	<u>\$ (1,537,524)</u>

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(e) Annual Pension Expense

NYC Health + Hospitals’ annual pension expense for fiscal years ended 2021 and 2020, which includes contributions toward the actuarially determined accrued liability, including the information for MetroPlus, was approximately \$(53.0) million and \$376.0 million, respectively.

11. POSTEMPLOYMENT BENEFITS, OTHER THAN PENSION

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

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

At June 30, 2020, the following employees were covered by the benefit terms:

Employees covered by benefit terms	
Active	31,158
Actives Off Payroll	-
Deferreds	3,218
Retirees	<u>22,972</u>
Total	<u><u>57,348</u></u>

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

Contributions: NYC Health + Hospitals funds the postretirement benefits program on a pay-as-you go basis. In 2021 and 2020, NYC Health + Hospitals’ contributions were \$116.8 million and \$230.8 million, respectively, which includes amounts for the implicit rate subsidy. The implicit rate subsidy is the incremental increase in the premium cost of coverage for retirees who are not yet eligible for Medicare. This cost is taken into account when calculating the actuarial liability for an OPEB plan. For the years ended June 30, 2021 and 2020, the NYC Health + Hospitals’ average contribution rate was 4.8 percent and 9.9 percent, respectively, of covered-employee payroll. Employees are not required to contribute to the plan.

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Total OPEB Liability: NYC Health + Hospitals total OPEB liability measured at June 30, 2021 and 2020 of \$5.3 billion and \$5.4 billion, respectively, were determined by actuarial valuations as of June 30, 2020 and June 30, 2019, respectively.

(a) Actuarial Assumptions

The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5 percent
Salary increases	3.0 percent per annum
Investment rate of return	4.0 percent, net of investment expenses includes an inflation rate of 2.5 percent
Healthcare cost trend rates	
Pre-Medicare Plans	6.75 percent for 2021, and decreasing 0.25 percent per year thereafter to an ultimate rate of 4.5 percent for 2030 and later years
Medicare Plans	4.9 percent for 2021 and 2022, decreasing by .1 percent every two year period thereafter to an ultimate rate of 4.5 percent for 2030 and later years
Welfare Fund Contributions	3.5 percent for 2021 and thereafter

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

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

	2021	2020
	Activity	Activity
	Total OPEB	Total OPEB
	Liability	Liability
Balances at end of prior fiscal year	<u>\$ 5,359,524</u>	<u>\$ 5,559,104</u>
Changes for the year		
Service cost	279,635	264,512
Interest	148,458	159,281
Difference between expected and actual experience	(189,272)	(450,871)
Change in assumptions	(183,865)	99,391
Actual benefit payments	(116,817)	(230,815)
Other changes	<u>-</u>	<u>(41,078)</u>
Net changes	<u>(61,861)</u>	<u>(199,580)</u>
Balances at June 30, 2021 and 2020, respectively	<u><u>\$ 5,297,664</u></u>	<u><u>\$ 5,359,524</u></u>

(c) Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2021 and 2020 was 2.18% and 2.66%, respectively, based on the Municipal Bond 20-year high grade index rate.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents NYC Health + Hospitals' total OPEB liability calculated using the discount rate of 2.18%, as well as what NYC Health + Hospitals' total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.18%) or 1 percentage point higher (3.18%) than the current rate (in millions):

	1% Decrease	Discount Rate	1% Increase
	(1.18%)	(2.18%)	(3.18%)
NYC Health + Hospitals' total OPEB liability	<u>\$ 6,023</u>	<u>\$ 5,298</u>	<u>\$ 4,699</u>

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

	1% Decrease (5.75% Decreasing to 2.5%)	Healthcare Cost Trend Rates (6.75% Decreasing to 3.5%)	1% Increase (7.75% Decreasing to 4.5%)
NYC Health + Hospitals' total OPEB liability	\$ 4,514	\$ 5,298	\$ 6,300

(d) Deferred Outflows and Inflows of Resources

The following are components of deferred outflows and inflows at June 30, 2021 and 2020 (in thousands):

	June 30, 2021		June 30, 2020	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 488,687	\$ 529,861	\$ 641,531	\$ 436,175
Changes in assumptions	108,196	734,620	141,713	808,733
Net	<u>\$ 596,883</u>	<u>\$ 1,264,481</u>	<u>\$ 783,244</u>	<u>\$ 1,244,908</u>

The net deferred outflows and (inflows) of resources at June 30, 2021 will be recognized as follows (in thousands):

Year Ending June 30,	Amount
2022	\$ (203,837)
2023	(148,789)
2024	(102,888)
2025	(120,641)
2026	(76,519)
Thereafter	<u>(14,924)</u>
	<u>\$ (667,598)</u>

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(e) Annual OPEB Expense

NYC Health + Hospitals' annual OPEB expenses for fiscal years ended 2021 and 2020, including the information for MetroPlus, were \$228.0 million and \$242.3 million, respectively. Implicit rate subsidy credits of \$31.0 million and \$3.5 million contributed to the reduction of OPEB expenses for 2021 and 2020, respectively.

12. COMMITMENTS AND CONTINGENCIES

(a) Reimbursement

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

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

Medicare adjusts the reimbursement rates for capital, medical education, and the costs related to treating a disproportionate share of indigent patients. Additionally, some physician services are reimbursed on a cost basis. Due to these adjustments and other factors, final determination of the reimbursement settlement for a given year is not known until Medicare performs its annual audit. Medicare cost report audits and final settlements have been completed for most NYC Health + Hospitals facilities through fiscal year 2018; one facility is still awaiting final settlement for fiscal year 2017, and three facilities are still in audit for fiscal year 2018. In fiscal year 2019, the SNFs, FQHCs and two Acute facilities have final settlements.

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

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

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

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

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

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

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

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

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(b) Risks to Supplemental Medicaid Reimbursement

As the country's largest municipal provider of safety net care to low income and uninsured patients, NYC Health + Hospitals relies heavily on a variety of supplemental safety net funding programs, to augment below cost reimbursements received from government and subsidized insurances, and to support care for the uninsured and underinsured. Chief among these is the Medicaid DSH program, from which NYC Health + Hospitals' facilities received \$1.8 billion in fiscal year 2021. These programs are subject to many laws and regulations at both the State and federal level, changes to which may result in significant implications for NYC Health + Hospitals.

i. Federal Medicaid DSH Reductions

The ACA included reductions in Medicaid DSH funds that were originally scheduled to begin in federal fiscal year 2014, and totaled \$18.0 billion through federal fiscal year 2020. The ACA DSH cuts were premised on the expectation that growth in insurance coverage through Medicaid expansion and the new ACA offerings would reduce hospital need for DSH funds. However, since passage of the ACA, lawmakers have recognized hospitals' ongoing need for Medicaid DSH funding, by delaying or eliminating the cuts six times. The most recent DSH cut delays came via the Coronavirus Aid, Relief, and Economic Security ("CARES") Act which deferred all 2020 Medicaid DSH cuts and scheduled \$4.0 billion in Medicaid DSH cuts for the period December 1, 2020 to September 30, 2021, and \$8.0 billion annually in federal fiscal years 2022 through 2025. The Consolidated Appropriations Act of 2021 included a further delay in DSH cuts until October 1, 2023. Cuts are now slated to be \$8.0 billion annually in federal fiscal years 2024 through 2027.

NYC Health + Hospitals, along with the entire hospital industry and a broad coalition of stakeholders in the provision of care to low income patients, has advocated for further delay and ultimate repeal of the federal Medicaid DSH cuts. The coronavirus pandemic has only highlighted the urgent need to maintain and support critical safety net hospital services, and strengthened the case against Medicaid DSH cuts. It is the system's continued belief that the cuts will likely be delayed beyond October 1, 2023 or potentially repealed.

ii. MetroPlus Enhanced Rate Pass Through

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

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(c) Audits

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

i. Medicare Recovery Audit Contractor Program (“RAC”)

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

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

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

Pursuant to federal regulations, all New York State hospital recipients of DSH participate in Medicaid DSH Audits to determine the final calculation of limits on hospital-specific DSH payments. Since 2014, these audits have been conducted for each Medicaid State Plan Rate Year (“SPRY”) on an approximate three-year lag. DSH Audits have been completed through SPRY 2017; the SPRY 2018 audit is currently in progress.

(d) Budget Control Act

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

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the suspension period to March 31, 2021. An Act to Prevent Across-the-Board Direct Spending Cuts, and for Other Purposes, signed into law on April 14, 2021, further extended the suspension period to December 31, 2021.

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

In April 2014, the federal government approved a New York State Medicaid waiver request to reinvest \$8.0 billion in federal savings to support implementation of transformative reforms to the State’s healthcare system. Delivery system reforms will primarily be implemented through \$7.4 billion of DSRIP incentive payments for community-level collaborations to achieve programmatic objectives with a goal of reducing avoidable hospital use by 25% over five years.

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

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

In June 2015, the NYSDOH announced DSRIP valuation awards, which represent the total potential amount that each DSRIP PPS is eligible to earn in performance payments over the five years of the DSRIP program. OneCity Health, the HHC-led DSRIP PPS received a valuation award of \$1.2 billion. Through the fiscal year ended June 30, 2020, NYC Health + Hospitals recorded DSRIP grant revenue totaling \$824.7 million, based on meeting the applicable eligibility requirements for the first four and a half years of the DSRIP program.

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During 2021, NYC Health + Hospitals received a final DSRIP Year 5 payment of \$313.6 million and remitted required intergovernmental transfer (“IGT”) payments in the amount of \$209.0 million. The net amount of these transactions, \$104.5 million, was recorded as DSRIP grant revenue for the fiscal year ended June 30, 2021. With this amount, NYC Health + Hospitals earned a total of \$929.3 million of DSRIP grant revenue for the five-year program. New York State’s request to continue the DSRIP program was denied by CMS and the program ended March 31, 2020.

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

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

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

Beginning in program Year 5, VBP QIP award allocations were reduced due to limitations in the State’s mechanism for program payments. During the fiscal year ended June 30, 2021, NYC Health + Hospitals earned \$101.9 million – the maximum available amount – as grant revenue related to meeting the reporting and performance metrics established by NYSDOH for Year 5. NYSDOH subsequently extended the VBP QIP program through March 2022, maintaining the Year 5 reporting and performance requirements for both extension years. The system recognized \$101.9 million of grant revenue for VBP QIP Year 6 ending on March 31, 2021. Agreements between NYC Health + Hospitals and NYSDOH, and the City and NYSDOH related to IGT funding for Year 7 had not been executed as of June 30, 2021, but are expected to be executed during fiscal year 2022.

(g) Legal Matters

There are a significant number of outstanding legal claims against NYC Health + Hospitals for alleged negligence, medical malpractice, and other torts, and for alleged breach of contract, which are provided for in the financial statements as amounts are determined to be probable and estimable. Pursuant to the Agreement, NYC Health + Hospitals is indemnified by the City for such costs. In fiscal years 2021 and 2020, NYC Health + Hospitals agreed to reimburse the City \$91.1 million and \$96.1 million, respectively. NYC Health + Hospitals records these costs when settled by the City as appropriations from the City and as other than personal services expenses in the accompanying financial statements (Note

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9). Accordingly, no provision has been made in the accompanying financial statements for unsettled claims, whether asserted or unasserted.

(h) Operating Leases

NYC Health + Hospitals leases equipment, off-site clinic space, and office space under various operating leases. Total rental expense for operating leases was approximately \$41.5 million in 2021 and \$96.0 million in 2020 and is included in other than personal services in the accompanying financial statements.

The following is a schedule, by years, of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2021 (in thousands):

Years	<u>Amount</u>
2022	\$ 30,938
2023	28,598
2024	26,589
2025	26,549
2026	<u>26,080</u>
Total minimum payments required	<u><u>\$ 138,754</u></u>

13. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	<u>2021</u>	<u>2020</u>
Vendors payable	\$ 1,315,632	\$ 784,738
Accrued interest	12,112	10,475
Affiliations payable	61,572	57,971
Affiliations vacation accrual	31,015	29,615
Pollution remediation liability	7,607	17,386
Other	<u>627,428</u>	<u>14,946</u>
	<u><u>\$ 2,055,366</u></u>	<u><u>\$ 915,131</u></u>

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

14. INCENTIVE PAYMENTS FOR MEANINGFUL USE OF ELECTRONIC HEALTH RECORDS

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

During the years ended June 30, 2021 and 2020, NYC Health + Hospitals recognized revenue of approximately \$10.4 million and \$11.7 million, respectively, of HITECH incentives from the Medicare and Medicaid programs that are related to NYC Health + Hospitals meeting the requirements of the Meaningful Use Incentive program. NYC Health + Hospitals elected to recognize the revenue associated with the EHR incentive payment under the grant model and included such amounts in grants revenue in the accompanying Statements of Revenue, Expenses, and Changes in Net Position. EHR amounts received are subject to audit by CMS or its intermediaries and amounts recognized are subject to change.

15. CORRECTIONAL HEALTH SERVICES

On August 9, 2015, NYC Health + Hospitals, via a Memo of Understanding with the City, assumed from the New York City Department of Health and Mental Hygiene (“NYCDOHMH”) its contracts for the provision of medical, mental health, and dental services for the inmates of correctional health facilities maintained and owned by the City of New York’s Correctional Health Services, from other providers of care for the duration of their terms. Included is the understanding that NYC Health + Hospitals assumed the transfer of staff from NYCDOHMH otherwise engaged in the performance of correctional health functions, together with the transfer of all real and personal property, as used by NYCDOHMH, in its provision of correctional health services. Total expenses funded through appropriations by the City was \$242.6 million and an additional \$61.8 million was funded through grants and intra-city agreements for a total funding for the year ended June 30, 2021 of \$304.4 million. Total expenses funded through appropriations by the City was \$237.1 million and an additional \$54.1 million was funded through grants and intra-city agreements for a total funding for the year ended June 30, 2020 of \$291.2 million.

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16. METROPLUS

Cash and Cash Equivalents

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

U.S. Government Securities

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

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

Year	Investment Type	Fair Value	Investment Maturities (in Years)	
			Less than 1	1 to 5
2021	U.S. Treasury bills, notes, bonds and strips	\$ 620,919	\$ 282,145	\$ 338,774
2020	U.S. Treasury bills, notes, bonds, and strips	620,241	243,661	376,580

Premiums Receivable and Premium Revenue

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

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

The Essential Plan covers major health benefits, including inpatient and outpatient care, physician services, diagnostic services, and prescription drugs among others, with no annual deductible and low out-of-pocket costs. Preventive care, such as routine office visits and recommended screenings, are free. Essential Plan members with income at or below 150% of the federal poverty level do not pay any monthly premiums.

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Essential Plan members with incomes at 200% of the federal poverty level pay a monthly premium of \$20. Starting from June 1, 2021, these members will be no longer required to pay \$20 monthly premium.

Premium revenue, by percentage, from members and third-party payors for the years ended June 30, 2021 and 2020 was as follows:

Medicaid	54%	54%
Essential Plan	15%	14%
HARP	11%	11%
HIV-SNP	6%	7%
Medicare	3%	3%
MLTC	2%	4%
Others*	9%	7%
	100%	100%

*Includes in Others are MetroPlus Gold, CHIP, SHOP, GoldCare I and GoldCare II

Assets Restricted As to Use

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

	2021	2020
MetroPlus Statutory reserve investments	\$ 160,470	\$ 159,739

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

The statutory escrow reserve account of \$160.5 million and \$159.7 million at June 30, 2021 and 2020, respectively, is invested in U.S. government securities with original maturity dates of six months or more and are measured at fair value based on Level 2 inputs. The account is in the form of an escrow deposit, maintained in a trust account under a custodian arrangement with Citibank approved by the NYSDFS.

In accordance with NYSDOH Rules and Regulations, MetroPlus is also required to maintain a contingent surplus reserve equal to 12.5% of net premiums earned for the prior year. The contingent surplus reserve as of June 30, 2021 and 2020 was \$409.8 million and \$400.5 million, respectively.

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Change in Claims Payable

Activity in the liability for claims payable, which primarily includes medical claims, the risk sharing agreement with NYC Health + Hospitals, and claim adjustment expenses is summarized as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Balance, July 1	\$ 911,503	\$ 783,156
Less: Drug rebates receivable	<u>(48,930)</u>	<u>(29,205)</u>
Net balance	<u>862,573</u>	<u>753,951</u>
Incurred related to:		
Current year	3,208,354	2,970,810
Prior years	<u>(2,098)</u>	<u>(1,244)</u>
Total incurred	<u>3,206,256</u>	<u>2,969,566</u>
Paid related to:		
Current year	2,802,093	2,432,318
Prior years	<u>622,050</u>	<u>428,626</u>
Total paid	<u>3,424,143</u>	<u>2,860,944</u>
Net balance at June 30	644,686	862,573
Plus drug rebates receivable	<u>26,256</u>	<u>48,930</u>
Balance, June 30	<u>\$ 670,942</u>	<u>\$ 911,503</u>

MetroPlus claims payable were \$670.9 million and \$911.5 million at June 30, 2021 and 2020, respectively and is reported in the Accounts Payable and Accrued Expenses line in the MetroPlus column of the Statement of Net Position. Net reserves for unpaid claims and claim adjustment expenses attributable to insured claims of prior years decreased by \$2.1 million and \$1.2 million in 2021 and 2020, respectively. These changes are generally the result of ongoing analysis of recent loss development trends that include expected healthcare cost and utilization.

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Risk Sharing Agreement with NYC Health + Hospitals

MetroPlus entered into a risk sharing agreement with NYC Health + Hospitals in July 2000. The agreement is open to annual negotiation. The agreement shifts all medical risk from MetroPlus to NYC Health + Hospitals, for Medicaid, CHP, HIV-SNP, HARP, Essential Plan, MetroPlus Gold, Gold Care I, and Gold Care II. The risk sharing agreement is 87.75% for Medicaid, 88% for CHP and HIV-SNP, 91% for Essential Plan and HARP, 92% for MetroPlus Gold, 86% for Gold Care I, and Gold Care II in 2021 calendar year of the premiums collected for those members. NYC Health + Hospitals is also entitled to one-time maternity and newborn supplemental payments, 94.59% for Medicaid, 94.38% for HARP and 100% for HIV-SNP as of June 30, 2021. After the end of the calendar year risk period, both parties settle the net amount remaining after payment of all capitated and fee-for-service medical expenses regardless of whether the provider was part of NYC Health + Hospitals network or not.

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

The risk sharing agreement provides for an annual settlement, within six months of the end of the risk period, or later as mutually agreed upon. Risk sharing payables were \$198.7 million and \$428.0 million at June 30, 2021 and 2020, respectively, representing net amounts payable to NYC Health + Hospitals pursuant to the agreement. NYC Health + Hospitals has reported a corresponding receivable at June 30, 2021 and 2020, respectively. Amounts are included in eliminations in the Statement of Net Position. Net payments pursuant to the agreement were \$495.0 million and \$142.2 million in 2021 and 2020, respectively.

Risk-Sharing Program of the Affordable Care Act

MetroPlus is required to participate in the Risk Adjustment program under the ACA: permanent risk adjustment, temporary reinsurance, and temporary risk corridors. The risk adjustment program spreads risk of adverse selection among all QHP plans within the same state; the reinsurance program protects the Plan from unexpectedly high medical costs on QHP members; and under the risk corridors program, the Plan shares risk, associated with uncertainty in pricing during the initial years of the ACA implementation, with HHS. The reinsurance and risk corridors programs ended in 2016. MetroPlus received \$29.9 million of risk corridor settlement net of 5% legal expense in November 2020.

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

MetroPlus estimates its risk adjustment amount based on an estimate of its risk score relative to an estimate of the average risk score of all QHP and SHOP plans in New York State. MetroPlus reported a risk adjustment liability including high risk pool and risk adjustment data validation of \$3.2 million and \$3.9 million as of June 30, 2021 and 2020, respectively. The 2020 and 2019 calendar benefit year estimates of \$2.3 million and \$3.0 million were paid in August 2021 and 2020, respectively. The 2020 calendar

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benefit year payment in August 2021 consisted of risk adjustment for SHOP and high risk pool for QHP and SHOP. The August 2021 payment excluded final risk adjustment receivable of \$1.2 million for QHP.

Stop-Loss and Reinsurance

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

- Medical inpatient is reimbursed at 80% of the lower of contractual or Medicaid calculated rate for expenses between \$100,000 and \$250,000 in any one calendar year. Over \$250,000, the coverage is increased to 100% of the excess amount over \$250,000.
- Residential Health Care Facility inpatient stays are covered for members who exceed 60 inpatient days in any one calendar year.
- Stop-loss insurance is also provided by the State of New York for HIV-SNP members, with coverage for hospital inpatient at 85% of the lower of contractual or Medicaid calculated rate for expenses between \$100,000 and \$300,000 in any one calendar year. Over \$300,000, the coverage is increased to 100% of the excess amount over \$300,000.
- Stop-Loss insurance is also provided by the State of New York for certain mental health costs of its Medicaid members. For episodes of inpatient psychiatric care commencing on or after January 1, 2018, the State reimburses for 100% of payments made in the episode of care beyond the 100th day.

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

Premiums for the reinsurance provided by the State of New York are netted against premiums earned and any related recoveries on paid losses are netted and reported within other than personal services expenses. Premiums for the reinsurance coverage provided by Zurich were reimbursed to MetroPlus by NYC Health + Hospitals, for lines under the risk sharing agreement, and related recoveries on paid losses were passed through to NYC Health + Hospitals pursuant to the agreement. MetroPlus has two years from the close of the benefit year to file a claim for all stop-loss coverages. Reinsurance recoverable, mainly from the State of New York, was \$46.7 million and \$32.2 million at fiscal years ended June 30, 2021 and 2020, respectively.

Value-based Payment Quality Improvement Program (VBP QIP)

MetroPlus and NYC Health + Hospitals were selected to participate as part of the VBP QIP program administered by the NYSDOH. During the fiscal years ended June 30, 2021 and 2020, MetroPlus released the award pass-through payments of \$62.1 million and \$70.6 million to NYC Health + Hospitals. MetroPlus is entitled to retain surplus and administrative fees of \$2.6 million and \$4.0 million for fiscal years ended June 30, 2021 and 2020, respectively.

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As of June 30, 2021, MetroPlus recorded \$62.2 million due to NYC Health + Hospitals for State fiscal year 2020-2021.

Due to State of New York

The State of New York has advised MetroPlus of instances where it will need to return premium payments as a result of State audits and adjustments of its payments made to MetroPlus. Management’s estimate of such amounts is included in due to the State of New York and reported within accounts payable and accrued expenses, is \$89.6 million and \$69.4 million at June 30, 2021 and 2020, respectively. Premiums returned to the State of New York are charged against premiums earned.

Medical Loss Ratio

The ACA Medical Loss Ratio (“MLR”) standards require that the MLR for MetroPlus’ commercial lines of business individual (“QHP”), small group (“SHOP”), and large group (MetroPlus Gold, GoldCare I, and GoldCare II) meet specified minimums for the fiscal year ended June 30, 2020 of 82% for QHP and SHOP and 85% for large group. In addition, MetroPlus is also required to meet the MLR minimum of 85% for Medicare and Essential Plan, 86% for Medicaid lines of business, and 89% for HARP. The MLR represents the percentage of premium dollars spent on healthcare claims and quality improvement activities. MetroPlus is in compliance with these requirements with the exception of MLTC starting from the State fiscal year 2020. MetroPlus estimated \$13.9 million of MLR payment for MLTC which is included in accounts payable and accrued expenses as of June 30, 2021.

Operating Leases

MetroPlus leases equipment and office space under various operating leases. Total rental expense for operating leases was approximately \$30.8 million in 2021 and \$11.3 million in 2020 and is included in other than personal services. Included in the total rent expense is the deferred rent expense of \$20.2 million for the recent move to a new office space. The new office lease commenced on October 1, 2019 and expires on December 31, 2043.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2021 (in thousands):

Years	
2022	\$ 21,811
2023	17,334
2024	14,303
2025	12,407
2026	11,913
Thereafter	<u>203,765</u>
Total minimum payments required	<u><u>\$ 281,533</u></u>

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17. OTHER LONG-TERM LIABILITIES

Other long-term liabilities for the years ended June 30, 2021 and 2020 was as follows (in thousands):

	June 30, 2020			June 30, 2021
	Balance	Additions	Reductions	Balance
Accrued compensated absences	\$ 313,461	\$ 214,439	\$ (1,676)	\$ 526,224
Accrued salaries, fringe benefits, and payroll taxes	68,411	-	(68,411)	-
	<u>\$ 381,872</u>	<u>\$ 214,439</u>	<u>\$ (70,087)</u>	<u>\$ 526,224</u>

18. COVID-19

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

NYC Health + Hospitals received a total of \$1.0 billion of grant revenues in fiscal year 2020 and \$532.3 million in fiscal year 2021 to support the system's response to the COVID-19 pandemic. The vast majority of the funds were awarded under various federal programs detailed below. The system also received \$29.3 million of cash and in-kind private donations for COVID-19 response in fiscal year 2020 and \$6.3 million in fiscal year 2021.

A significant source of COVID-19 federal funding for healthcare providers is the Provider Relief Fund ("PRF") which was originated by the CARES Act, with additional funding authorized in several subsequent acts. The PRF ensured that NYC Health + Hospitals had the cash flow needed for its COVID related expenses through the initial phases of the pandemic. The Provider Relief Fund is used to prevent, prepare for, and respond to coronavirus, and is only for health care related expenses or lost revenues that are attributable to coronavirus and not covered by other funding sources, including FEMA.

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In fiscal year 2020, PRF payments were received in the amount of \$1.0 billion and were included in grants revenue in the Statement of Revenues, Expenses and Changes in Net Position for that year. In fiscal year 2021, NYC Health + Hospitals received PRF payments of \$171.0 million which may be used for eligible expenses through December 31, 2021, and \$1.3 million which may be used for eligible expenses through June 30, 2022. Those funds are planned to be used for expenses occurring in fiscal year 2022, and therefore were not recognized in fiscal year 2021 revenue. These payments are subject to audit and compliance with federal regulations.

In addition to aforementioned PRF funding, NYC Health and Hospitals also recognized \$532.3 million of COVID-19 grant revenues from FEMA and recognized \$266 million of that in fiscal year 2021, reflecting FEMA's initial obligation of the system's Expedited Project Worksheet for COVID-19 responses. NYC Health + Hospitals continues to work with FEMA on review of additional eligible costs submitted as an amendment to the original Expedited Project Worksheet, and will recognize any additional FEMA revenue upon obligation of the grant amendment. Costs claimed under FEMA are unreimbursed by any other funding source, and not claimed through PRF or other grants.

The system also received a number of small grant awards and supplements to existing grants under the Coronavirus Preparedness and Response Supplemental Appropriations Act, CARES Act, and American Rescue Plan Act; grants from the City of New York, including allocations of federal funds awarded to the City; and private grants. The CARES Act also provided for an expansion of the Medicare Accelerated and Advance Payment Program for patient services. NYC Health + Hospitals did not participate in this program.

While strides have been made, the course of the COVID-19 virus and its potential effect in the coming months remain unknown. While there is optimism that the impact of COVID-19 on NYC Health + Hospitals' finances will be considerably diminished after fiscal year 2021, due to the uncertainty and evolving nature of the pandemic, the total impact on the system's financial position and operations (including regulatory requirements, federal and state funding, reduced revenue stream, constraints on operations, higher cost of resources) cannot be fully determined at this time.

Test and Trace Corps

In May 2020, Mayor DeBlasio announced the City's comprehensive plan to contain COVID-19 through testing, contact tracing, and isolation services, to be led by NYC Health + Hospitals. On June 1, 2020 the NYC COVID-19 Test & Trace Corps was launched, with the goal of suppressing the virus and delaying and diminishing future waves. The overall response was part of a multi-agency, "all-hands-on-deck" approach to COVID-19. Certain components of the Test and Trace strategy were managed by multiple City agencies. The NYC Mayor's Office of Management and Budget ("NYC OMB") and NYC Health + Hospitals signed a Memorandum of Understanding outlining that the City would provide NYC Health + Hospitals funding for all expenses incurred in connection with this program and both parties would work together to secure any eligible grants, third-party billing or other funding sources.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
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Some of the major components of the strategy included community-based testing sites throughout the City, hiring up to 4,000 contract tracers and monitors (both directly and through a vendor), maintaining multiple hotels in order to offer safe spaces to quarantine those who tested positive for COVID-19 and their close contacts, as well as the provision of resources to those isolating at home. Over time, additional strategies such as canvassing, mobile testing and school-based testing were deployed. Overall, the Test and Trace Corps has administered over 4 million Polymerase Chain Reaction, also known as PCR, tests at over 100 sites, including 1.5 million in public schools. They have successfully reached 90% of positive cases and provided isolation hotel rooms to 25,000 New Yorkers. The NYC Health + Hospitals Test and Trace Corps also stood up 3 mass vaccination sites in the Spring that are still in operation. The magnitude of what was required to respond adequately evolved throughout the year corresponding to the surge of cases in the Winter, the roll-out of the vaccines, and the emergence of new variants. NYC Health + Hospitals incurred \$1.4 billion of expenses in fiscal year 2021 to provide these services on behalf of the City.

NYC Health + Hospitals worked closely with NYC OMB to ensure sufficient funding for all incurred expenses, despite uncertainty at times regarding the availability of federal funds. NYC Health + Hospitals recognized grant revenue of \$757.5 million in Epidemiology and Laboratory Capacity grants and \$417.6 million in FEMA reimbursement during the year ended June 30th, 2021 that will be submitted by the City. NYC Health + Hospitals has also received over \$300 million in third party receipts for COVID-19 tests performed in fiscal year 2021 that offset testing expenditures. Approximately \$43 million was recognized in fiscal year 2021 for the prior year.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Schedule of NYC Health + Hospitals' Contributions NYCERS Pension Plan (Unaudited)
Years ended June 30, 2021, 2020, 2019, 2018, 2017 and 2016
(Dollar amounts in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 503,758	\$ 505,624	\$ 515,454	\$ 507,335	\$ 492,161	\$ 497,715
Actual contributions as related to the contractually required contribution	<u>529,957</u>	<u>505,624</u>	<u>515,454</u>	<u>507,335</u>	<u>492,161</u>	<u>497,715</u>
Contribution deficiency (excess)	<u>\$ (26,199)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
HHC covered payroll	<u>\$ 2,444,860</u>	<u>\$ 2,367,816</u>	<u>\$ 2,207,943</u>	<u>\$ 2,122,448</u>	<u>\$ 2,177,897</u>	<u>\$ 2,232,187</u>
Contributions as a percentage of covered payroll	21.68 %	21.35 %	23.35 %	23.90 %	22.60 %	22.30 %

See accompanying notes to the basic financial statements.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
(A Component Unit of the City of New York)
Schedule of NYC Health + Hospitals' Proportionate Share of the Net Pension Liability
NYCERS Pension Plan (Unaudited)
Years ended June 30, 2021, 2020, 2019, 2018, 2017 and 2016
(Dollar amounts in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
HHC proportion of the net pension liability	13.387 %	13.564 %	13.959 %	15.023 %	14.788 %	14.789 %
HHC proportionate share of the net pension liability	\$ 858,625	\$ 2,859,284	\$ 2,585,414	\$ 2,751,874	\$ 3,070,928	\$ 3,593,257
HHC covered payroll	2,444,860	2,367,816	2,207,943	2,122,448	2,177,897	2,232,187
HHC proportionate share of the net pension liability as a percentage of its covered payroll	35.12 %	120.76 %	117.10 %	129.66 %	141.00 %	160.97 %
Plan fiduciary net position as a percentage of the total pension liability	93.14%	76.93%	78.84%	78.83%	74.80%	69.57%

See accompanying notes to the basic financial statements.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
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Schedule of NYC Health + Hospitals' Changes in Total OPEB Liability and Related Ratios (Unaudited)
Years ended June 30, 2021, 2020, 2019 and 2018
(Dollar amounts in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability				
Service cost	\$ 279,635	\$ 264,512	\$ 307,105	\$ 279,874
Interest	148,458	159,281	161,840	158,153
Differences between expected and actual experience	(189,272)	(450,871)	858,811	104,933
Changes of assumptions	(183,865)	99,391	(806,009)	110,707
Benefit payments	(116,817)	(230,815)	(171,559)	(235,395)
Other Changes	-	(41,078)	-	-
Net change in total OPEB liability	(61,861)	(199,580)	350,188	418,272
Total OPEB liability - beginning	<u>5,359,524</u>	<u>5,559,104</u>	<u>5,208,916</u>	<u>4,790,644</u>
Total OPEB liability - ending	<u>\$ 5,297,663</u>	<u>\$ 5,359,524</u>	<u>\$ 5,559,104</u>	<u>\$ 5,208,916</u>
Covered employee payroll	\$ 2,444,860	\$ 2,320,005	\$ 2,222,409	\$ 2,211,014
Total OPEB liability as a percentage of covered employee payroll	216.7 %	231.0 %	250.1 %	235.6 %
Changes of assumptions				
Changes of assumptions reflect the effects of changes in the discount rate.				
The following are the discount rates used in each period:	2.18 %	2.66 %	2.79 %	2.98 %

See accompanying notes to the basic financial statements.

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

The Board of Directors
New York City Health and Hospitals Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of New York City Health and Hospitals Corporation (“NYC Health + Hospitals”), a discretely presented component unit of the City of New York, and the discretely presented component unit as of and for the years ended June 30, 2021 and the related notes to the financial statements, which collectively comprise NYC Health + Hospitals’ basic financial statements, and have issued our report thereon dated October 20, 2021.

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

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered NYC Health + Hospitals’ internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of NYC Health + Hospitals’ internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002, that we consider to be significant deficiencies in NYC Health + Hospitals’ internal control.

Compliance and other matters

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

NYC Health + Hospitals' response to findings

NYC Health + Hospitals' response to our findings, which is described in the accompanying schedule of findings and responses, was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the NYC Health + Hospitals' response.

Intended purpose

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



New York, New York
October 20, 2021

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

Schedule of Findings and Responses

June 30, 2021

Finding #: 2021-001

Internal Controls over Financial Reporting (Significant Deficiency)

Criteria:

The Standards for Internal Control, issued by the Comptroller General of the United States, require an auditee to design and implement an internal control environment to achieve effective and efficient operations; reliability of financial reporting; and compliance with applicable laws and regulations. The control environment sets the tone of an organization, which influences the control consciousness of its people. The key factors impacting the control environment include, among other things, management's philosophy and operating style, organizational structure, assignment of authority and responsibility and appropriate policies and procedures.

Condition, Context, Cause and Effect:

During our fiscal 2021 audit, we noted that NYC Health + Hospitals did not have appropriate controls and procedures in place during the fiscal year, which resulted in a finding that we determined to be a significant deficiency in internal control over financial reporting.

The finding identified was as follows:

Grant revenue supporting documentation by funding source

We noted that supporting documentation was not maintained in sufficient detail by funding source, thereby causing a delay in the receipt of auditable documentation to support the revenue accrued.

Recommendation:

We recommend that a formal analysis, by funding source, be performed, reviewed and approved on a monthly basis, inclusive of appropriate documentation. This improved oversight and rigor will help to ensure that the financial statements include an accurate reporting of NYC Health + Hospitals' operations.

Views of responsible officials:

NYC Health + Hospitals agrees with the finding and, to the extent possible, will develop new processes to conduct regular reconciliations.

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

Schedule of Findings and Responses (continued)

June 30, 2021

Finding #: 2021-002

Internal Controls over Financial Reporting (Significant Deficiency)

Criteria:

The Standards for Internal Control, issued by the Comptroller General of the United States, require an auditee to design and implement an internal control environment to achieve effective and efficient operations; reliability of financial reporting; and compliance with applicable laws and regulations. The control environment sets the tone of an organization, which influences the control consciousness of its people. The key factors impacting the control environment include, among other things, management's philosophy and operating style, organizational structure, assignment of authority and responsibility and appropriate policies and procedures.

Condition, Context, Cause and Effect:

During our fiscal 2021 audit, we noted that NYC Health + Hospitals did not have appropriate controls and procedures in place during the fiscal year, which resulted in a finding that we determined to be a significant deficiency in internal control over financial reporting.

The finding identified was as follows:

Inventory purchases and usage - lack of timely accounting and reporting

We noted that inventory purchases and usage throughout the year were not accounted for on a timely basis, resulting in a large management prepared adjustment at year-end.

Recommendation:

We recommend that management implement additional controls to ensure inventory purchases and usage activity is recorded on a monthly basis to ensure timely, proper and complete accounting for inventory balances and related other than personal service expenses.

Views of responsible officials:

NYC Health + Hospitals agrees with the finding and, to the extent possible, will develop new processes to conduct regular reconciliations.