

CONSOLIDATED FINANCIAL STATEMENTS

Maimonides Medical Center
Years Ended December 31, 2017 and 2016
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

Maimonides Medical Center

Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

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Report of Independent Auditors

The Board of Trustees
Maimonides Medical Center

We have audited the accompanying consolidated financial statements of Maimonides Medical Center, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Maimonides Medical Center at December 31, 2017 and 2016, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

April 26, 2018

Maimonides Medical Center

Consolidated Statements of Financial Position
(In Thousands)

	December 31	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,195	\$ 19,394
Short-term investments (Notes 1 and 3)	82,175	79,368
Total cash, cash equivalents and short-term investments	<u>98,370</u>	<u>98,762</u>
Assets limited as to use, current portion (Note 3):		
Board designated	85,598	50,664
DSRIP funds (Note 10)	90,377	41,988
Receivables for patient care, net of allowance for doubtful accounts (2017 – \$95,267; 2016 – \$90,097) (Note 2)	156,321	160,983
Due from affiliates, net, current portion (Note 8)	16,373	15,394
Supplies, at average cost	11,207	10,812
Estimated insurance claims receivable, current portion (Note 7)	34,396	29,153
Other current assets (Notes 1 and 10)	52,633	33,492
Total current assets	<u>545,275</u>	<u>441,248</u>
Assets limited as to use, less current portion (Notes 3 and 5):		
Sinking funds	14,364	14,130
Due from affiliates, net, less current portion (Note 8)	431	1,072
Property, plant and equipment, net (Notes 4 and 5)	308,549	316,405
Equity in captive insurance program (Note 7)	172,539	151,670
Estimated insurance claims receivable, less current portion (Note 7)	194,910	165,200
Other assets (Note 1)	44,326	29,912
Total assets	<u><u>\$ 1,280,394</u></u>	<u><u>\$ 1,119,637</u></u>

	December 31	
	2017	2016
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 81,528	\$ 78,178
Construction payable	5,766	6,641
Accrued salaries and related liabilities	91,251	89,980
Current portion of long-term debt and capital lease obligations (Note 5)	25,269	48,730
Line of credit borrowings (Note 5)	25,516	25,516
Estimated insurance claims liabilities, current portion (Note 7)	34,396	29,153
Other current liabilities (Notes 1, 2, 7 and 10)	96,844	55,849
Total current liabilities	360,570	334,047
Long-term debt and capital lease obligations, less current portion (Note 5)	231,948	162,934
Accrued pension and postretirement benefits (Note 6)	89,638	82,491
Other noncurrent liabilities (Notes 2 and 5)	69,583	62,528
Professional liabilities (Note 7)	40,578	38,575
Estimated insurance claims liabilities, less current portion (Note 7)	194,910	165,200
Total liabilities	987,227	845,775
Commitments and contingencies (Notes 2, 5, 6, 7, 9, 14 and 15)		
Net assets (Note 9):		
Unrestricted	275,273	255,721
Temporarily restricted	16,762	17,009
Permanently restricted	1,132	1,132
Total net assets	293,167	273,862
Total liabilities and net assets	\$ 1,280,394	\$ 1,119,637

See accompanying notes.

Maimonides Medical Center
Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Year Ended December 31	
	2017	2016
Medical Center operating revenue:		
Net patient service revenue	\$ 1,095,170	\$ 1,062,169
Provision for bad debts (Note 1)	(2,093)	(2,199)
Net patient service revenue, less provision for bad debts (Notes 1 and 2)	1,093,077	1,059,970
Other revenue (Note 10)	106,209	74,841
Net assets released from restrictions	847	935
Total Medical Center operating revenue	<u>1,200,133</u>	<u>1,135,746</u>
Medical Center operating expenses:		
Salaries and wages	610,693	571,343
Employee benefits	180,408	166,770
Supplies and other expenses	349,543	331,595
Depreciation and amortization	47,373	45,666
Interest and amortization of deferred financing costs	7,500	8,144
Total Medical Center operating expenses	<u>1,195,517</u>	<u>1,123,518</u>
Medical Center excess of operating revenue over operating expenses before other items	4,616	12,228
M2 Medical Community Practice, P.C.:		
Operating revenue	48,619	45,100
Operating expenses	(61,362)	(57,006)
Net M2 Medical Community Practice, P.C. activities	(12,743)	(11,906)
Change in captive insurance program interest rate shortfall (Note 7)	(410)	(1,038)
Change in equity in captive insurance program (Note 7)	30,089	20,720
Severance costs for workforce reduction	(2,047)	-
Excess of revenue over expenses before net change in unrealized gains and losses on investments and change in fair value of interest rate swap agreements	19,505	20,004
Net change in unrealized gains and losses on investments and change in fair value of interest rate swap agreements (Note 5)	250	(539)
Excess of revenue over expenses	<u>19,755</u>	<u>19,465</u>
Change in accrued pension and postretirement benefits liabilities to be recognized in future periods	(238)	(2,897)
Grants for capital asset acquisitions and net assets released from restrictions used for capital asset acquisitions	35	3,923
Increase in unrestricted net assets	<u>19,552</u>	<u>20,491</u>
Temporarily restricted net assets:		
Restricted contributions, grants and other receipts	635	1,952
Net assets released from restrictions for:		
Operating expenses	(847)	(935)
Capital asset acquisitions	(35)	(48)
(Decrease) increase in temporarily restricted net assets	<u>(247)</u>	<u>969</u>
Increase in net assets	19,305	21,460
Net assets at beginning of year	273,862	252,402
Net assets at end of year	<u>\$ 293,167</u>	<u>\$ 273,862</u>

See accompanying notes.

Maimonides Medical Center

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended December 31	
	2017	2016
Operating activities		
Increase in net assets	\$ 19,305	\$ 21,460
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in accrued pension and postretirement benefits liabilities to be recognized in future periods	238	2,897
Depreciation and amortization	47,373	45,666
Amortization of deferred financing costs	191	203
Net change in unrealized gains and losses on investments and change in fair value of interest rate swap agreements	(250)	539
Restricted contributions, grants and other receipts	(635)	(1,952)
Unsecured loan forgiveness	(7,250)	(24,000)
Changes in operating assets and liabilities:		
Receivables for patient care	4,662	(372)
Due from affiliates	(338)	585
Other assets	(75,231)	(12,332)
Accounts payable and accrued expenses and accrued salaries and related liabilities	4,621	2,509
Other current liabilities	40,995	35,073
Other liabilities	51,353	10,339
Net cash provided by operating activities	85,034	80,615
Investing activities		
(Purchases) redemptions of investments	(3,016)	7,084
Acquisitions of property, plant and equipment – net	(31,738)	(30,722)
Purchases of assets limited as to use	(83,354)	(48,292)
(Purchases) redemptions of sinking funds	(324)	1,741
Net cash used in investing activities	(118,432)	(70,189)
Financing activities		
Repayments of long-term debt and capital lease obligations	(26,514)	(50,458)
Restricted contributions, grants and other receipts	635	1,952
Short-term loan repayment and line of credit drawdown	–	(6,960)
Unsecured loan drawdown	43,750	50,000
Proceeds from financing	12,328	–
Net cash provided by (used in) financing activities	30,199	(5,466)
Net (decrease) increase in cash and cash equivalents	(3,199)	4,960
Cash and cash equivalents at beginning of year	19,394	14,434
Cash and cash equivalents at end of year	\$ 16,195	\$ 19,394
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 6,333	\$ 7,181
Capital lease arrangements	\$ 7,781	\$ 9,019

See accompanying notes.

Maimonides Medical Center

Notes to Consolidated Financial Statements

December 31, 2017

1. Organization and Summary of Significant Accounting Policies

Organization

Maimonides Medical Center (the Medical Center) is a not-for-profit membership corporation, organized under the New York State not-for-profit corporation law, whose sole member is Maimonides Health Resources, Inc. (MHRI). Located in Brooklyn, New York, the Medical Center provides health care and related services to residents of the metropolitan New York area. The accompanying consolidated financial statements do not include the accounts of MHRI, the Maimonides Research and Development Foundation, a not-for-profit corporation which solicits funds and awards grants primarily to the Medical Center for research purposes, or MMC Holding of Brooklyn, Inc., a for-profit company, which provides certain support services to the Medical Center and the surrounding community (see Note 8).

In August 2013, M2 Medical Community Practice, P.C. (the PC) was formed pursuant to an agreement between the Medical Center and the PC. The agreement established a professional corporation to facilitate an alignment between the Medical Center and certain physicians. The sole shareholders of the PC are two Medical Center employed physicians. The accompanying consolidated financial statements include the accounts of the Medical Center and the PC, which are collectively referred to herein as the Medical Center.

In August 2015, the Medical Center entered into a three-year clinical affiliation and collaboration agreement with Northwell Health (formerly North Shore–LIJ Health Care, Inc.). This agreement enables Northwell Health to assist the Medical Center in expanding its clinical footprint and improving the Medical Center's clinical and financial condition. The ultimate goal of this affiliation is for Northwell Health to eventually become the sole member and/or parent of the Medical Center, at which time the Medical Center will be fully integrated into and will function as the Brooklyn hub of Northwell Health, although achievement of that goal is not certain. In 2018, management believes the affiliation agreement will be extended for two years.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, such as estimated uncollectibles for accounts receivable for services to patients, estimated settlements with third-party payors, estimated insurance claims liabilities and receivables and retirement liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. Actual results could differ from those estimates.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Medical Center considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents exclude assets limited as to use.

Investments

Investments consist of cash equivalents, U.S. government obligations and corporate bonds. Investments are recorded at fair value based on quoted market prices.

Investment income, which comprises interest and realized gains and losses on investments, is reported as a component of other revenue. The net change in unrealized gains and losses on investments is reported as a separate component of the excess of revenue over expenses.

Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

The Medical Center recognizes patient service revenue associated with services provided to patients who have third-party payor (insurance) coverage on the basis of contractual rates, governmental rates or established charges for the services rendered. For uninsured patients who are ineligible for any government assistance program, the Medical Center provides services without charge or at amounts less than its established rates to patients who meet the criteria of its charity care policy. For uninsured patients and patients who were determined by the Medical Center to have the ability to pay but do not, including those covered by insurance who might be responsible for copayments and deductibles, the estimated uncollectible amounts are recorded as bad debts.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Patient revenue for 2017, net of contractual and charity care allowances, from third-party payors (insured patients) was approximately \$1,091.8 million and from self-pay patients was approximately \$3.4 million, before the provision for bad debts (\$1,059.1 million and \$3.1 million, respectively, in 2016). For accounts receivable associated with services provided to patients who have third-party coverage, the Medical Center analyzes amounts due from third parties and provides an allowance for doubtful accounts and a provision for bad debts. For accounts receivable associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due after third-party coverage, the Medical Center records an allowance for doubtful accounts and provision for uncompensated care (charity care and bad debts) in the period of service based on historical experience.

The allowance for doubtful accounts represents the Medical Center's estimate of the uncollectible accounts receivable related to bad debts. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. The allowance for doubtful accounts is based upon the Medical Center's assessment of historical and expected net collections, business and economic conditions, trends in health care coverage and other collection indicators. In distinguishing charity care from the provision for bad debts, a number of factors are considered, certain of which require a high degree of judgment. Accounts that initially are estimated to be bad debts might ultimately be written off to charity care.

Uncompensated Care

For financial reporting purposes, the Medical Center reports as uncompensated care amounts related to care provided for which the patient's payment obligation has not been fully satisfied. Uncompensated care is the sum of the Medical Center's charity care, including free and reduced price medical care, and bad debts. During the registration, billing and collection process, a patient's eligibility for charity care is determined. For patients who are determined to be eligible for charity care under the Medical Center's charity care and financial assistance policy, care given but not paid for is classified as charity care. The Medical Center's charity care and financial assistance policy authorizes use of additional financial information for uninsured or under-insured patients who have not supplied the requisite information to qualify for charity care. The additional information obtained is used by the Medical Center to determine whether to qualify patients for charity care and/or financial assistance in accordance with the Medical Center's policies. For patients who were determined by the Medical Center to have the ability to pay but did not, the

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

uncollected amounts are classified as bad debts. Distinguishing between bad debt and charity care is difficult, in part because services are often rendered prior to full evaluation of a patient's ability to pay. The classification of individual accounts as either bad debt or charity care might be made long after services are provided and collections are pursued.

The Medical Center's estimated costs for charity care were \$51.1 million for 2017 and \$50.2 million for 2016. This does not include the loss of treating the Medicaid population. The cost of charity care includes the direct and indirect cost of providing charity care services. The cost is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care. Net of pool contributions, funds received from the New York State Indigent Care Pool to offset bad debts and charity care provided totaled approximately \$3.0 million (including \$0.5 million related to 2016 and 2015) and \$27.6 million (including \$15.8 million related to 2015 and 2014) for the years ended December 31, 2017 and 2016, respectively. The charity care component of the indigent care pool payments is estimated utilizing a ratio of charity care charges to total charity care and bad debt charges applied to the indigent care pool reimbursement and excludes amounts designated for teaching programs.

Assets Limited as to Use

Assets limited as to use include assets designated by the Board of Trustees, over which the Board retains control and which the Board, at its discretion, may designate for use for other purposes; assets held by trustees under bond indenture agreements; assets restricted by donors for specific purposes or endowment; and Delivery System Reform Incentive Payment Program (DSRIP) funds (see Note 10). Assets limited as to use are carried at fair value based on quoted market prices. Amounts which are available to be used to fund current liabilities are reported as current assets.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, except for donated equipment, which is recorded at the fair value established at the date of the gift. Assets acquired through capitalized lease obligations are recorded at the present value of the future minimum lease payments. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of, and any resulting gain or loss is included in operations. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Equipment acquired under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization expense in the accompanying consolidated statements of operations and changes in net assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Other Assets

Included in other assets are pledges receivable, other noncurrent investments and funding available to be spent on capital leased fixed assets. Pledges receivable are approximately \$0.9 million and \$0.7 million at December 31, 2017 and 2016, respectively. Pledges receivable are unconditional promises to give cash, which are reported at the present value of their estimated cash flows at the date the promise is received. Funding available to be spent on capital leased fixed assets was approximately \$21.8 million at December 31, 2017 (approximately \$7.3 million at December 31, 2016).

Equity Investments

Included in other assets is an amount related to the Medical Center's investment in a limited liability company (approximately \$7.6 million and \$7.5 million at December 31, 2017 and 2016, respectively). The Medical Center accounts for this investment using the equity method of accounting. During 2017 and 2016, the Medical Center recognized income of approximately \$0.4 million and \$0.9 million, respectively, and received distributions of approximately \$0.3 million and \$1.2 million, respectively. Effective January 1, 2015, the limited liability company distributed its ownership interest in a controlled entity to the limited liability company's owners, which then exchanged their interests with another related entity in exchange for a subvention certificate. As a result of this transaction, the Medical Center received a subvention certificate in the amount of \$3.0 million. The subvention certificate is included in other assets in the accompanying consolidated statements of financial position.

Temporarily and Permanently Restricted Net Assets

The Medical Center separately accounts for and reports upon donor restricted and unrestricted net assets. Temporarily restricted net assets are those whose use is temporarily limited by the donor. Permanently restricted net assets have been restricted by donors to be maintained by the Medical

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Center in perpetuity. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Faculty Practice Revenue

Employed physicians may participate in the Medical Center's faculty practice plan. Plan participants are authorized to conduct faculty practices and engage in professional consultation in accordance with established institutional guidelines. Professional service fee receipts are recorded and deposited in faculty practice funds established by the Medical Center for each individual participant or group practice when received by the Medical Center. These receipts are used to reimburse the Medical Center for costs incurred in supporting plan activities. The remaining amounts, after direct plan expenses, provide participant salary supplements and support departmental activities. Faculty practice revenue activities are included in net patient service revenue and are recorded on a modified cash basis, which approximates the accrual basis with respect to the accompanying consolidated statements of operations and changes in net assets. Physicians comprising the faculty practices participate in the Medical Center's professional and general liability insurance programs.

Performance Indicator

The consolidated statements of operations and changes in net assets include the excess of revenue over expenses as the performance indicator. Certain items that are peripheral to the Medical Center's operations (e.g., change in captive insurance program interest rate shortfall, change in equity in captive insurance program, severance costs for workforce reduction and net change in unrealized gains and losses on investments and change in fair value of interest rate swap agreements) are considered non-operating for purposes of financial statement presentation; however, the change in equity in captive insurance program that is distributed in cash is reported in other revenue (investment income), with a corresponding reduction in the amount reported as a non-operating item (\$16.0 million in 2017). Changes in unrestricted net assets which are excluded from the excess of revenue over expenses include contributions of long-lived assets (including grants for capital asset acquisitions and net assets released from restrictions used for capital asset acquisitions) and the change in accrued pension and postretirement benefits liabilities to be recognized in future periods.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Interest Rate Swap Agreements

The Medical Center uses interest rate swap agreements, which are derivative financial instruments, for interest rate risk exposure-management purposes. The Medical Center recognizes derivative instruments as either an asset or liability in the consolidated statements of financial position at fair value. The fair value of derivative instruments is determined using forward interest rate estimates and present value techniques and considers the risk of nonperformance by the parties, which the Medical Center considers to be low. The change in fair value is recognized as a component of the excess of revenue over expenses. The fair value of the interest rate swap agreements is included in other noncurrent liabilities in the accompanying consolidated statements of financial position.

Tax Status

The Medical Center is a Section 501(c)(3) organization exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. It also is exempt from New York State and City income taxes. The PC operates as a taxable entity. The provision for income taxes of the PC results in a deferred tax asset due to a net operating loss carryforward. The deferred tax asset is fully offset by a valuation allowance due to the uncertainty regarding future taxable income. The effects of income taxes on the accompanying consolidated financial statements are not material.

As a result of the recent Federal income tax reform enacted into law under the Tax Cuts and Jobs Act of 2017, certain provisions will impact tax-exempt organizations, including revisions to taxes on unrelated business activities, excise taxes on compensation of certain employees, and various other provisions. The regulations necessary to implement the law are expected to be promulgated throughout 2018 and the ultimate outcome of these regulations and the impact to the Medical Center cannot be determined presently.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in Accounting Standards Codification Topic

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

605, *Revenue Recognition*, and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-04, the provisions of ASU 2014-09 are effective for the Medical Center for fiscal years beginning after December 15, 2017, and interim periods within that fiscal year. The Medical Center plans to adopt ASU 2014-09 following the modified retrospective method of application. Subsequent to adoption, certain patient activity where collection is uncertain, which was previously reported in the Medical Center's consolidated statements of operations and changes in net assets as net patient service revenue with a corresponding provision for bad debts, will no longer meet the criteria for revenue recognition and, accordingly, the provision for bad debts after the adoption date will be significantly reduced with a corresponding reduction to net patient service revenue. Such patient activity will be classified as an implicit price concession. Additionally, the provision for bad debts will be presented as an expense item rather than a reduction to net patient service revenue. The Medical Center's adoption of ASU 2014-09 will have other impacts to net patient service revenue, which include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures. The Medical Center continues to assess the impact of the adoption of ASU 2014-09 in relation to other revenue activity, as applicable; however, other revenue is less significant to the Medical Center's consolidated statements of operations and changes in net assets.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require lessees to report most leases on their statements of financial position and recognize expenses on their income statements in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. Lessors in operating leases continue to recognize the underlying asset and recognize lease income on either a straight-line or another systematic and rational basis. The provisions of ASU 2016-02 are effective for the Medical Center for annual periods beginning after December 15, 2018, and interim periods in the following year. Early adoption is permitted. The Medical Center has not completed the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statement Presentation*, which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs will be required to classify net assets as net assets with donor restrictions or without donor restrictions. Entities that use the direct method of presenting operating cash flows will no longer be required to provide a reconciliation of the change in net assets to operating cash flows. The guidance also modifies required disclosures

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs also will be required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 are effective for the Medical Center for annual periods beginning after December 15, 2017 and interim periods thereafter. Early adoption is permitted. The Medical Center has not completed the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the Medical Center for annual periods beginning after December 15, 2017 and interim periods thereafter. Early adoption is permitted. The Medical Center has not completed the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for the Medical Center for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The Medical Center has not completed the process of evaluating the impact of ASU 2016-18 on its consolidated financial statements.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The standard is effective for the Medical Center for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued. Adoption of ASU 2017-07 will require the Medical Center to include the service cost component of net periodic benefit cost related to its defined benefit pension and other postretirement benefit plans (aggregate of approximately \$8.9 million for 2017) within salaries and wages on the consolidated statements of operations and changes in net assets and to present all other components of net periodic benefit cost (aggregate of approximately \$2.5 million for 2017) as a separate line item excluded from the subtotal for operating income (Medical Center excess of operating revenue over operating expenses before other items). Net periodic benefit cost is currently reported within employee benefits expense on the consolidated statements of operations and changes in net assets.

2. Third-Party Payor System

Non-Medicare Reimbursement: In New York State, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health. Payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments. Outpatient services also are paid based on a statewide prospective system, APGs (Ambulatory Payment Group). Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services (CMS), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Medical Center is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payors will continue to be made in future years.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

2. Third-Party Payor System (continued)

Medicare Reimbursement: Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data.

The Medical Center has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years' payment rates, based on industry-wide and Medical Center-specific data. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through 2009. Other years remain open for audit and settlement as are numerous issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained. The Medical Center has updated its calculations used to estimate third party liabilities using the most current information available and, consequently, reduced its third-party liabilities by \$6.6 million in 2017 and \$5.8 million in 2016.

There are various proposals at the Federal and State levels that could, among other things, significantly change payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Medical Center. Additionally, certain payors' payment rates for various years have been appealed by the Medical Center. If the appeals are successful, additional income applicable to those years might be realized.

For the years ended December 31, 2017 and 2016, revenue from the Medicare and Medicaid programs on a combined basis accounted for approximately 75% and 73%, respectively, of the Medical Center's net patient service revenue. The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. The Medical Center is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations. Action for noncompliance could result in repayment of amounts improperly reimbursed, fines, penalties and exclusion from such programs.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

3. Investments and Assets Limited as to Use

A summary of investments and assets limited as to use is as follows:

	December 31	
	2017	2016
	<i>(In Thousands)</i>	
Short-term investments:		
U.S. government obligations	\$ 50,955	\$ 49,446
Corporate bonds	30,716	29,447
Accrued interest	504	475
Total short-term investments	<u>\$ 82,175</u>	<u>\$ 79,368</u>
Assets limited as to use – current portion:		
Board designated:		
Cash and cash equivalents	\$ 79,020	\$ 44,239
U.S. government obligations	6,547	6,397
Accrued interest	31	28
Total Board designated	<u>85,598</u>	50,664
DSRIP funds:		
Cash and cash equivalents	90,377	41,988
Total assets limited as to use – current portion	<u>\$ 175,975</u>	<u>\$ 92,652</u>
Assets limited as to use – noncurrent portion (sinking funds):		
Cash and cash equivalents	\$ 549	\$ 2,406
U.S. government obligations	13,748	11,663
Accrued interest	67	61
Total assets limited as to use – noncurrent portion	<u>\$ 14,364</u>	<u>\$ 14,130</u>

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

3. Investments and Assets Limited as to Use (continued)

Investment income comprises the following:

	Year Ended December 31	
	2017	2016
	<i>(In Thousands)</i>	
Interest income	\$ 2,132	\$ 2,335
Net realized gains (losses) on investments reported at fair value and cash distributions from captive insurance program (Note 1)	20,260	(93)
Equity in earnings of investee	383	937
	\$ 22,775	\$ 3,179

4. Property, Plant and Equipment

A summary of property, plant and equipment is as follows:

	December 31	
	2017	2016
	<i>(In Thousands)</i>	
Land	\$ 4,980	\$ 4,980
Buildings and building improvements	431,646	423,493
Equipment	735,914	704,335
	1,172,540	1,132,808
Less accumulated depreciation and amortization	867,531	820,158
	305,009	312,650
Capital projects in progress	3,540	3,755
	\$ 308,549	\$ 316,405

Substantially all property, plant and equipment are pledged as collateral under various loan agreements (see Note 5).

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

4. Property, Plant and Equipment (continued)

Capitalized leases, included in property, plant and equipment, are as follows:

	December 31	
	2017	2016
	<i>(In Thousands)</i>	
Assets recorded under capital leases	\$ 114,723	\$ 136,352
Less accumulated amortization	108,387	105,932
	\$ 6,336	\$ 30,420

5. Long-Term Debt, Capital Lease Obligations, Other Borrowings and Related Matters

A summary of long-term debt is as follows:

	December 31	
	2017	2016
	<i>(In Thousands)</i>	
FHA Section 242 insured mortgage loans (a)	\$ 5,356	\$ 6,353
FHA Section 241 insured mortgage loans (b)	73,495	77,375
Capital lease obligations (c)	57,800	40,309
Construction bank loans (d)	4,634	7,613
Syndicated bank credit facility (d)	19,762	21,261
Unsecured loan (e)	95,639	58,147
Unamortized premium	1,900	2,166
Unamortized deferred financing costs	(1,369)	(1,560)
	257,217	211,664
Less current portion	25,269	48,730
	\$ 231,948	\$ 162,934

- (a) In March 2013, the Medical Center refinanced its 1996 Federal Housing Administration (FHA) loan in the amount of \$9.8 million. Proceeds were raised by the Medical Center through the issuance of GNMA collateralized taxable revenue bonds (GNMA Taxable Bonds). The proceeds of the 1996 FHA loan were used to finance the expansion and modernization of the Medical Center's facilities and refinance prior FHA loans. This loan remains insured by FHA. The loan bears interest at 3.595%, with monthly payments through October 1, 2022.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt, Capital Lease Obligations, Other Borrowings, and Related Matters (continued)

As a condition of this borrowing, the Medical Center is required to maintain a sinking fund. Amounts deposited into the sinking fund, together with investment earnings thereon, are available for principal payments and purchases of specific levels of capital assets. Assets on deposit in the sinking fund at December 31, 2017 and 2016 are in compliance with the required amounts.

- (b) In March 2013, the Medical Center also refinanced its 2004 FHA loan in the amount of \$90.7 million. Proceeds were raised by the Medical Center through the issuance of GNMA Taxable Bonds. The proceeds of the 2004 FHA loan were used to finance the Medical Center's major modernization project. This loan remains insured by FHA. The loan bears interest at 3.595%, with monthly payments through March 1, 2032.

As a condition of this borrowing, the Medical Center is required to maintain a sinking fund. Amounts deposited into the sinking fund, together with investment earnings thereon, are available for principal payments. Assets on deposit in the sinking fund at December 31, 2017 and 2016 are in compliance with the required amounts.

- (c) The Medical Center has various capital lease obligations, with interest rates ranging up to 5.8%.
- (d) On May 25, 2006, the Medical Center entered into a loan agreement in the amount of \$31.2 million. The proceeds of the loan, which were raised by the New York City Capital Resource Corporation through the issuance of tax-exempt revenue bonds, were used to renovate, improve, repair and equip the Medical Center's facilities. The loan bore interest at a variable rate, with monthly payments due through 2026. The loan was secured by a letter of credit of approximately \$26.6 million which was due to expire on May 25, 2016.

On June 1, 2012, this loan was prepaid and refinanced with a syndicated bank credit facility that bears interest at 3.56% and 2.82% at December 31, 2017 and 2016, respectively, with monthly payments through June 2019. The syndicated arrangement also included a construction loan of \$20.0 million, that bears interest at 3.56% and 2.82% at December 31, 2017 and 2016, respectively, with monthly payments through June 2019. At December 31, 2017, approximately \$24.4 million was outstanding on the syndicated credit facility, including the construction loan of approximately \$4.6 million. As part of

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt, Capital Lease Obligations, Other Borrowings, and Related Matters (continued)

these financing transactions, the Medical Center restructured its existing lines of credit with two banks (\$40.0 million) to one line of credit for \$30.0 million. Approximately \$25.5 million was outstanding at December 31, 2017 and 2016 (average interest rate of 3.13% and 2.56% for 2017 and 2016, respectively). This line of credit is due on June 22, 2018.

- (e) As part of the affiliation agreement with Northwell Health and pursuant to an unsecured loan agreement between the Medical Center and Northwell Health, Northwell Health will provide an unsecured loan to the Medical Center to a maximum amount of \$125.0 million over a two-year period. Approximately \$125.0 million and \$81.3 million were drawn at December 31, 2017 and 2016, respectively. The unused proceeds of the drawdown of approximately \$70.6 million and \$36.9 million at December 31, 2017 and 2016, respectively, are included in Board designated assets limited as to use in the accompanying consolidated statements of financial position.

The loan agreement has been amended to forgive repayment of \$31.3 million, of which \$24.0 million was forgiven as of December 30, 2016 and the remaining \$7.3 million as of February 18, 2017. The amounts forgiven in 2016 and 2017 are included in other revenue in the accompanying consolidated statements of operations and changes in net assets (see Note 10). Under certain conditions in which Northwell Health does not become the sole member and/or parent of the Medical Center, the Medical Center is contingently liable to pay a break-up fee representing liquidated damages for the efforts and resources expended and opportunities foregone in connection with the affiliation agreement.

Interest accrues at 1.27%, but is not currently payable; therefore, it is recorded within non-current liabilities. All principal and interest payments will be forgiven in full upon the occurrence of the full integration with Northwell Health. If full integration with Northwell Health does not occur, repayment of the balance of the debt will require payment of interest only for 10 years and principal and interest paid for the following 20 years.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

**5. Long-Term Debt, Capital Lease Obligations, Other Borrowings, and Related Matters
(continued)**

Scheduled principal payments on long-term debt and capital lease obligations (excluding unsecured loan) are as follows:

	Loans Payable	Capital Leases	Total
	<i>(In Thousands)</i>		
2018	\$ 9,713	\$ 16,982	\$ 26,695
2019	24,977	14,741	39,718
2020	5,432	10,019	15,451
2021	5,630	6,588	12,218
2022	5,634	3,961	9,595
Thereafter	51,861	10,309	62,170
Total minimum payments	103,247	62,600	165,847
Less amounts representing interest	–	4,800	4,800
Total long-term debt	103,247	57,800	161,047
Less current portion of long-term debt	9,713	15,486	25,199
Long-term debt, net of current portion	<u>\$ 93,534</u>	<u>\$ 42,314</u>	<u>\$ 135,848</u>

Required sinking fund balances for loan agreements for the next five years are as follows (in thousands):

2018	\$ 13,776
2019	13,572
2020	13,367
2021	13,197
2022	13,197

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt, Capital Lease Obligations, Other Borrowings, and Related Matters (continued)

In connection with various debt agreements, the Medical Center is required to maintain certain financial covenants. At December 31, 2017, the Medical Center was in compliance with all of the financial covenants. At December 31, 2016, the Medical Center was not in compliance with the current ratio financial covenant related to its FHA mortgage loans. The Medical Center notified the U.S. Department of Housing and Urban Development of the noncompliance for 2016. This noncompliance did not constitute an event of default under the terms of the related agreements. Additionally, the Medical Center attained modifications of the financial ratio requirements related to multiple banks' debt agreements from the respective banks for 2016 and 2017. The Medical Center met the modified financial ratio requirements at December 31, 2016 and 2017. However, based on its financial projections for the subsequent year at December 31, 2016, the Medical Center was not certain that it would meet the financial ratio requirements at the measurement dates scheduled through the subsequent period. As a result, the respective banks may have had the ability to accelerate repayment. Consequently, debt in the amount of approximately \$24.6 million in excess of scheduled repayments was classified as a current liability at December 31, 2016 in the accompanying consolidated statements of financial position.

Interest Rate Swap Agreements

The Medical Center uses interest rate swap agreements to manage risk associated with changes in interest rates associated with its long-term debt. Under the terms of the interest rate swaps, the Medical Center pays fixed rates monthly and receives from the counterparties variable payments based on percentages of LIBOR. Interest payments and the change in fair value of the swaps (gains of approximately \$0.6 million and \$0.7 million in 2017 and 2016, respectively) are recorded in the excess of revenue over expenses.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt, Capital Lease Obligations, Other Borrowings, and Related Matters (continued)

At December 31, 2017 and 2016, the swaps are reported in other noncurrent liabilities and are summarized as follows:

	Notional Amount	Maturity Date	Fixed Payment Rate	2017 Fair Value Liability (Asset)
\$	19,761,627	June 1, 2027	3.950%	\$ 2,257,180
	4,633,476	June 1, 2019	1.186	(15,091)
	5,928,488	June 1, 2019	1.280	(46,841)
				<u>\$ 2,195,248</u>

	Notional Amount	Maturity Date	Fixed Payment Rate	2016 Fair Value Liability (Asset)
\$	21,260,855	June 1, 2027	3.950%	\$ 2,784,549
	7,612,490	June 1, 2019	1.186	2,608
	6,378,257	June 1, 2019	1.280	(11,366)
				<u>\$ 2,775,791</u>

6. Pension Plans and Postretirement Health Care Benefits

The Medical Center provides retirement and similar benefits to its union employees through several defined benefit multiemployer pension plans and to its nonunion employees through a noncontributory defined benefit pension plan, tax deferred annuity plans, and a nonqualified defined contribution plan covering certain employees. Payments to the defined benefit multiemployer union plans are made in accordance with contractual arrangements under which contributions are generally based on gross salaries and are funded on a current basis. The Medical Center contributes amounts to the nonunion plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974.

The Medical Center's pension expense under all existing plans aggregated approximately \$48.8 million and \$47.8 million for the years ended December 31, 2017 and 2016, respectively.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

6. Pension Plans and Postretirement Health Care Benefits (continued)

In relation to the two multiemployer defined benefit pension plans that cover the Medical Center’s union-represented employees, the risks of participating in these multiemployer plans are different from single-employer plans in the following respects:

- a. Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If the Medical Center chooses to stop participating in some of its multiemployer plans, the Medical Center may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Medical Center’s participation in these plans for the years ended December 31, 2017 and 2016 is outlined in the table below. The “EIN Number” column provides the Employer Identification Number (EIN). Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2017 and 2016 is for a plan’s year-end at December 31, 2016 and 2015, respectively. The zone status is based on information that the Medical Center received from the plans and is certified by the plans’ actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The “FIP/RP Status Pending/Implemented” column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is pending or has been implemented. The last column lists the expiration dates of the collective bargaining agreements to which the plans are subject.

The number of employees covered by the Medical Center’s multiemployer plans did not change significantly from 2016 to 2017. Total contributions required to be paid to the plans have increased from 2016 to 2017.

Pension Fund	EIN Number	Plan Number	Pension Protection Act Zone Status		FIP/RP Pending/Implemented	Contributions by the Medical Center		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
			2017	2016		2017	2016		
The New York State Nurses Association Pension Plan	13-6604799	001	Green	Green	No	\$13,233,000	\$11,635,000	No	12/31/2018
1199 SEIU Health Care Employees Pension Fund	13-3604862	001	Green	Green	No	\$14,421,000	\$15,143,000	No	9/30/2018

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

6. Pension Plans and Postretirement Health Care Benefits (continued)

The Medical Center was listed in The New York State Nurses Association Pension Plan Form 5500 as providing more than 5% of the total contributions of the plan for the plan years ended December 31, 2016 and 2015, respectively.

In addition to the plans described above, the Medical Center sponsors a defined benefit health care plan that provides postretirement medical, dental and life insurance benefits to certain full-time employees hired prior to July 1, 1984 and who have worked ten years and attained age 65 while in service with the Medical Center. The plan contains cost-sharing features such as deductibles and coinsurance.

Effective January 1, 2017, for eligible non-union retirees, the Medical Center has eliminated dental coverage and modified the medical coverage. The Medical Center will contribute a defined amount towards the cost of medical coverage.

The Medical Center recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the defined benefit plans in its consolidated statements of financial position. Net unrecognized actuarial losses and the net unrecognized prior service costs at the reporting date will be subsequently recognized in the future as net periodic benefit cost pursuant to the Medical Center's accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of unrestricted net assets.

Included in other changes in unrestricted net assets at December 31, 2017 and 2016 are the following amounts that have not yet been recognized in net periodic pension and postretirement cost:

	Pension Benefits		Postretirement Health Care Benefits	
	2017	2016	2017	2016
	<i>(In Thousands)</i>			
Unrecognized prior service (cost) credit	\$ (28)	\$ (70)	\$ 3,847	\$ 4,097
Unrecognized actuarial loss	(49,136)	(48,991)	(2,056)	(2,171)
	\$ (49,164)	\$ (49,061)	\$ 1,791	\$ 1,926

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

6. Pension Plans and Postretirement Health Care Benefits (continued)

The net prior service cost and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension and postretirement benefit cost during the year ending December 31, 2018 is approximately \$2.8 million.

The following table sets forth the change in benefit obligations, change in plan assets and the funded status of the plans as of December 31, 2017 and 2016:

	Pension Benefits		Postretirement Health Care Benefits	
	2017	2016	2017	2016
	<i>(In Thousands)</i>			
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 194,148	\$ 175,392	\$ 8,510	\$ 11,638
Service cost	8,621	8,576	264	255
Interest cost	7,353	7,356	290	399
Plan amendments	—	—	—	(3,763)
Actuarial losses (gains)	13,774	10,107	(41)	366
Net benefits paid and expected expenses	(6,234)	(7,283)	(237)	(385)
Benefit obligation, end of year	<u>217,662</u>	<u>194,148</u>	<u>8,786</u>	<u>8,510</u>
Change in plan assets:				
Fair value of plan assets, beginning of year	119,680	111,590	—	—
Actual return on plan assets	18,671	8,657	—	—
Contributions	4,158	6,917	237	385
Benefits paid and actual expenses	(6,236)	(7,484)	(237)	(385)
Fair value of plan assets, end of year	<u>136,273</u>	<u>119,680</u>	<u>—</u>	<u>—</u>
Unfunded status	<u>\$ (81,389)</u>	<u>\$ (74,468)</u>	<u>\$ (8,786)</u>	<u>\$ (8,510)</u>

The following table provides the amounts recognized in the consolidated statements of financial position:

	Pension Benefits		Postretirement Health Care Benefits	
	2017	2016	2017	2016
	<i>(In Thousands)</i>			
Accrued benefit liability – noncurrent	\$ (81,389)	\$ (74,468)	\$ (8,249)	\$ (8,023)
Accrued benefit liability – current	—	—	(537)	(487)
	<u>\$ (81,389)</u>	<u>\$ (74,468)</u>	<u>\$ (8,786)</u>	<u>\$ (8,510)</u>

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

6. Pension Plans and Postretirement Health Care Benefits (continued)

The actuarial losses in 2017 and 2016 primarily relate to changes in assumptions including the discount rate and mortality table and mortality projection scale used to measure the benefit obligation at December 31, 2017 and 2016 as well as demographic experience different than expected.

The projected benefit obligation, accumulated benefit obligation and fair value of pension plan assets are as follows:

	December 31	
	2017	2016
	<i>(In Thousands)</i>	
Projected benefit obligation	\$ 217,662	\$ 194,148
Accumulated benefit obligation	189,665	165,936
Fair value of plan assets	136,273	119,680

Net periodic benefit cost, included in employee benefits expense, consists of the following components:

	Pension Benefits		Postretirement Health Care Benefits	
	2017	2016	2017	2016
	<i>(In Thousands)</i>			
Service cost	\$ 8,621	\$ 8,576	\$ 264	\$ 255
Interest cost on projected benefit obligation	7,353	7,356	290	399
Expected return on plan assets	(7,935)	(8,107)	-	-
Net amortization and deferral	2,938	3,508	(177)	(44)
Net periodic benefit cost	\$ 10,977	\$ 11,333	\$ 377	\$ 610

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

6. Pension Plans and Postretirement Health Care Benefits (continued)

The following are assumptions used in the measurement of the Medical Center's benefit obligations and net periodic benefit cost:

	Pension Benefits		Postretirement Health Care Benefits	
	2017	2016	2017	2016
Weighted-average assumptions used to determine benefit obligations as of December 31:				
Discount rate	3.50%	4.00%	3.30%	3.70%
Rate of compensation increase	4.00	4.00	4.00	4.00
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	4.00%	4.15%	3.70%	4.00%
Expected return on plan assets	7.00	7.50	N/A	N/A
Rate of compensation increase	4.00	4.00	4.00	4.00

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

6. Pension Plans and Postretirement Health Care Benefits (continued)

The overall long-term rate of return was developed by estimating the expected long-term real return for each asset class within the portfolio, computing an average weighted real rate of return for the portfolio as a whole, reflecting both the plan's expected asset class allocation and the correlations between the various asset classes and adding that expected real rate of return to the expected long-term rate of inflation component per year.

	<u>2017</u>	<u>2016</u>
Assumed health care cost trend rates at December 31:		
Pre-65 Medical:		
Initial rate for health care costs	4.4%	(15.5)%
Ultimate rate for health care costs	4.2%	4.3%
Ultimate year of health care increase	2094	2089
Post-65 Medical:		
Initial rate for health care costs	10.0%	5.6%
Ultimate rate for health care costs	4.3%	4.3%
Ultimate year of health care increase	2094	2089
Dental:		
Initial rate for health care costs	N/A	5.0%
Ultimate rate for health care costs	N/A	4.1%
Ultimate year of health care increase		2089

The 2016 trend of negative 15.5% is based on the actual change in premium rates from 2016 to 2017, weighted using actual enrollment. On a composite basis, premiums decreased by 15.5% from 2016 to 2017.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

6. Pension Plans and Postretirement Health Care Benefits (continued)

Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have the following effects at December 31, 2017:

	<u>1%</u> <u>Increase</u>	<u>1%</u> <u>Decrease</u>
	<i>(In Thousands)</i>	
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 62	\$ (52)
Effect on health care components of the accumulated postretirement benefit obligation	721	(622)

Plan Assets

The Medical Center's pension plan weighted-average asset allocation at December 31, 2017 and 2016, by asset category, is as follows:

	<u>2017</u>	<u>2016</u>
Asset category:		
Equities	52%	53%
Fixed income	47	46
Cash and cash equivalents	1	1
Total	<u>100%</u>	<u>100%</u>

Refer to Note 13 for fair value measurement information related to the defined benefit plan asset categories noted in the table above.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

6. Pension Plans and Postretirement Health Care Benefits (continued)

Investment Strategy

The overall investment philosophy of the Medical Center is to maximize return while minimizing risk in a diversified portfolio. The rate of return of the total fund is compared to the return of a policy portfolio consisting of 50% of Barclays Capital Bond Index, 33% of Russell 3000 Index and 17% of the Morgan Stanley Capital International Europe, Australia and Far East Index. The target asset allocation permissible ranges, by asset category, are as follows:

Asset Category	Permissible Range
Equities – Domestic	28%–38%
Equities – Non-U.S.	13%–20%
Fixed income	45%–55%

Cash Flows

Contributions: The Medical Center expects to contribute \$10.8 million to its defined benefit pension plan in 2018.

Expected Future Benefit Payments: The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Postretirement Health Care Benefits
	<i>(In Thousands)</i>	
Year:		
2018	\$ 7,960	\$ 546
2019	8,655	565
2020	9,368	591
2021	10,705	631
2022	11,072	640
2023 to 2027	66,271	3,355

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

6. Pension Plans and Postretirement Health Care Benefits (continued)

Other Benefits

The Medical Center accounts for other employee benefits, such as vacation and sick pay, on an accrual basis based on its benefits policies for different categories of employees (e.g., union, non-union, etc.). In 2017, liabilities for sick pay benefits that are not expected to be paid within one year are reflected as long-term liabilities (approximately \$8.8 million).

7. Professional Liabilities

Since 1977, the Medical Center has participated in a pooled professional and general liability program with certain other health care facilities (principally hospitals) affiliated with the Federation of Jewish Philanthropies of New York (the FOJP Program). This participation has been with captive and commercial insurance companies utilizing occurrence basis type coverage. At December 31, 2017, the Medical Center retained ownership in three captive insurance companies affiliated with the FOJP Program. The captive insurance companies are primarily accounted for using the equity method.

The aggregate net carrying value of the Medical Center's interests in the insurance program was approximately \$186.0 million and \$151.7 million at December 31, 2017 and 2016, respectively, of which approximately \$172.5 million and \$151.7 million is included in equity in captive insurance program and approximately \$13.5 million for 2017 is included in other current assets in the accompanying consolidated statements of financial position.

The Medical Center changed its malpractice insurance program for the period from January 1, 1998 through December 31, 1998. Under the terms of the revised program, a portion of the Medical Center's coverage became self-retained. Effective January 1, 1999, this program was terminated prospectively and the Medical Center no longer maintains a self-retained component. In conjunction with this program, the Medical Center, together with several other hospitals, invested approximately \$6.7 million at December 31, 1998 (Medical Center's portion) in pooled investment unit trusts. At December 31, 2017 and 2016, the Medical Center had no liabilities under this program and, in 2016, the Medical Center redeemed approximately \$2.3 million (the full amount remaining) from the pooled investment trust.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

7. Professional Liabilities (continued)

Effective January 1, 1999, the Medical Center's malpractice insurance program reverted to a coverage agreement similar to the arrangement that existed prior to January 1, 1998. This program currently provides for a deferral of premium payments through 2021 for years commencing in 2014. At December 31, 2017 and 2016, approximately \$48.2 million and \$40.4 million, respectively, represent the estimated present value of future payments. Amounts due in 2018 and 2017 are included in other current liabilities and the balance is included in long-term professional liabilities in the accompanying consolidated statements of financial position.

The Medical Center, as part owner of its malpractice captive, guarantees a certain level of investment return. Although the investment earnings were above the required return in 2017, the investment earnings did not meet the required return in 2016 and 2015. Therefore, the Medical Center had a liability of approximately \$8.3 million and \$10.2 million at December 31, 2017 and 2016, respectively.

The Medical Center presents in its consolidated statements of financial position its gross professional liabilities and insurance recoveries receivable. The estimate of professional liabilities and the estimate for incidents that have been incurred but not reported is included in estimated insurance claims liabilities in the accompanying consolidated statements of financial position at the actuarially determined present value of approximately \$229.3 million and \$194.4 million based on a discount rate of 2.75% at December 31, 2017 and 2016, respectively. The Medical Center has recorded related estimated insurance claims receivable of approximately \$229.3 million and \$194.4 million at December 31, 2017 and 2016, respectively, in consideration of the expected insurance recoveries. The current portion of estimated insurance claims liabilities and the related estimated insurance claims receivable represents an estimate of expected settlements and insurance recoveries over the next 12 months.

In February 2014, the FOJP program including Hospitals Insurance Company and the various affiliated captive insurance companies began an internal investigation into several insurance regulatory and related matters that had come to the attention of the FOJP companies' management. The New York State Department of Financial Services (DFS) also conducted its own investigation of the issues that were raised and related matters. During 2017, the FOJP companies and the DFS resolved the outstanding matters through an agreed upon stipulation which did not have a material effect on the Medical Center's consolidated financial statements.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

8. Transactions with Affiliates

Services provided by MMC Holding of Brooklyn, Inc. through its various subsidiaries to the Medical Center include pharmaceuticals, medical supplies and equipment, technical support services, contracted services and management services for various Medical Center properties. Expenses incurred by the Medical Center for such services approximated \$22.7 million and \$21.4 million during 2017 and 2016, respectively. Additionally, MMC Holding of Brooklyn, Inc. purchases various goods and services from the Medical Center. Revenue generated from such activity approximated \$1.4 million and \$1.0 million during 2017 and 2016, respectively.

The net amounts due from affiliates in the accompanying consolidated statements of financial position include a revolving loan receivable and accrued interest thereon from MMC Holding of Brooklyn, Inc. of approximately \$0.4 million and \$1.1 million at December 31, 2017 and 2016, respectively. The loan bears interest at 5.75% at December 31, 2017 and 2016 and has no specified repayment date. Also included in the balances each year are amounts due from and to MMC Holding of Brooklyn, Inc. and its subsidiaries for services provided by and to the Medical Center, as previously described.

9. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2017	2016
	<i>(In Thousands)</i>	
Research and education	\$ 1,513	\$ 1,690
Plant replacement and expansion	15,249	15,319
	\$ 16,762	\$ 17,009

Permanently restricted net assets at December 31, 2017 and 2016 consist of investments to be held in perpetuity, the income from which is to be used for health care related services.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

10. Other Revenue

Other revenue consisted of the following for the years ended December 31:

	2017	2016
	<i>(In Thousands)</i>	
Loan forgiveness (see Note 5(e))	\$ 7,250	\$ 24,000
Government grant income	8,748	8,016
Electronic health records incentive payments	1,216	155
SIPIP award	20,000	—
DSRIP – revenue loss funding	7,088	—
Real estate rentals	5,483	5,895
Investment income (see Notes 1 and 3)	22,775	3,179
Special funds income	11,811	9,270
Dining and parking lot income	1,614	1,234
Grants and contributions	6,500	6,046
Insurance company surplus distribution	2,610	7,855
Other	11,114	9,191
	\$ 106,209	\$ 74,841

The Medical Center was awarded \$20.0 million per year (2017 and 2018) of Special Infrastructure and Performance Improvement Program (SIPIP) funding from New York State. The Medical Center received \$18.3 million in December 2017 and \$1.7 million in March 2018 upon successful completion of the program requirement.

New York State also distributes federally-funded amounts through a payment mechanism referred to as the DSRIP program. The DSRIP program is a five-year program intended to promote community-level collaborations to focus on health system reform and enhance the value provided by the health care system. DSRIP funding is available to certain hospitals and providers participating in networks (referred to as Performing Provider Systems, PPS) that are able to establish performance improvement activities in certain predefined clinical improvement areas. The Medical Center is the lead in the PPS in which the Medical Center coordinates and has submitted plans for clinical improvement projects in order to be eligible for payments under the DSRIP program. The Medical Center received funding of approximately \$99.3 million and \$54.6 million during 2017 and 2016, respectively, and recognized approximately \$18.4 million

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

10. Other Revenue (continued)

and \$8.6 million respectively, in other revenue primarily for expenses incurred by the Medical Center as well as revenue loss funding resulting from the achievement of DSRIP goals. During 2017 and 2016, approximately \$32.5 million and \$15.7 million, respectively, was distributed to other participating providers. The balance of approximately \$90.4 million and \$42.0 million recorded at December 31, 2017 and 2016, respectively, as DSRIP funds in the assets limited as to use, as well as a liability in the other current liabilities in the accompanying consolidated statements of financial position is for future spending by the Medical Center and distributions to PPS participants. Certain payments under the DSRIP program are subject to meeting specified performance criteria and other requirements which may be evaluated in future periods.

Investment income includes approximately \$16.0 million related to distributions from the captive insurance company program (see Note 1) and \$4.4 million related to surplus notes receivable and accumulated interest earnings, also related to the captive insurance program. The \$4.4 million was reserved in prior years due to collection uncertainties; the reserve was reversed in 2017 when the notes and accumulated interest were deemed collectible.

11. Functional Expenses – Medical Center and PC

Functional expenses for the years ended December 31 are as follows:

	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
Health care and related services	\$ 1,039,106	\$ 965,948
Program support and general	217,773	214,576
	<u>\$ 1,256,879</u>	<u>\$ 1,180,524</u>

The operating expenses of the PC are primarily salaries, benefits and medical supplies of approximately \$52.1 million and \$48.2 million for the years ended December 31, 2017 and 2016, respectively.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

12. Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Net accounts receivable by payor were as follows:

	December 31	
	2017	2016
Medicare and Medicaid	49%	48%
Commercial and managed care	49	50
Self pay	2	2
	<u>100%</u>	<u>100%</u>

At December 31, 2017 and 2016, substantially all of the Medical Center's cash and cash equivalents were held in custodial accounts at four financial institutions. Management believes that credit risk related to these deposits is minimal.

The Medical Center routinely invests its operating cash in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations. Investments in money market funds are not insured or guaranteed by the U.S. government.

13. Fair Value Measurements

For assets and liabilities required to be measured at fair value, the Medical Center measures fair value based on 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. Fair value measurements are applied based on the unit of account from the Medical Center's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

The Medical Center follows a valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

13. Fair Value Measurements (continued)

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Medical Center utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. The investments of the Medical Center's defined benefit pension plan are invested in collective funds which are measured at net asset value and are not required to be disclosed in the fair value leveling hierarchy. Financial assets and liabilities carried at fair value as of December 31, 2017 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
Assets				
Cash and cash equivalents	\$ 186,141	\$ –	\$ –	\$ 186,141
U.S. government notes and bonds	71,250	–	–	71,250
Corporate bonds	–	30,716	–	30,716
Total assets at fair value	\$ 257,391	\$ 30,716	\$ –	\$ 288,107
Liabilities				
Interest rate swap agreements	\$ –	\$ 2,195	\$ –	\$ 2,195

Financial assets and liabilities carried at fair value as of December 31, 2016 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
Assets				
Cash and cash equivalents	\$ 108,027	\$ –	\$ –	\$ 108,027
U.S. government notes and bonds	67,506	–	–	67,506
Corporate bonds	–	29,447	–	29,447
Total assets at fair value	\$ 175,533	\$ 29,447	\$ –	\$ 204,980
Liabilities				
Interest rate swap agreements	\$ –	\$ 2,776	\$ –	\$ 2,776

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

13. Fair Value Measurements (continued)

The following is a description of the Medical Center's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets and net asset value as determined by the collective fund. Inputs are obtained from various sources, including market participants, dealers and brokers. Net asset value is based on the value of the underlying assets owned by the fund, less its liabilities. The collective funds pursue multiple strategies to diversify risk and reduce volatility. The holdings of the collective funds include domestic and international equity securities and fixed income securities. None of the collective funds have liquidity restrictions or unfunded commitments. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Medical Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The Medical Center's long-term debt obligations are reported at carrying value. The fair value of the Medical Center's long-term debt obligations (excluding capital leases and the unsecured borrowing) is approximately \$102.5 million and \$111.9 million at December 31, 2017 and 2016, respectively, based on quoted market prices and other valuation considerations. These fair values are categorized as Level 2 in the fair value hierarchy described above.

14. Operating Lease Obligations

The Medical Center has entered into various agreements under non-cancellable operating leases. Rent payments are recognized as expense on a straight-line basis over the term of the related lease. At December 31, 2017 and 2016, the Medical Center had an asset of approximately \$7.2 million and \$7.5 million, respectively, representing rental payments made in excess of rent expense on a straight-line basis.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

14. Operating Lease Obligations (continued)

Future minimum payments under non-cancellable operating leases with initial or recurring terms of one year or more are as follows (in thousands):

2018	\$ 15,453
2019	13,989
2020	13,628
2021	12,021
2022	10,318
Thereafter	48,010
Total minimum operating lease payments	<u>\$ 113,419</u>

Total rental expense charged to operations for the years ended December 31, 2017 and 2016 aggregated approximately \$19.7 million and \$19.0 million, respectively.

15. Commitments and Contingencies

Various investigations, lawsuits and claims arising out of the normal course of operations are pending or on appeal against the Medical Center. While the ultimate effect of such actions cannot be determined at this time, it is the opinion of management that the liabilities which may arise from such actions would not materially affect the Medical Center's consolidated financial position or results of operations.

Approximately 76% of the Medical Center's employees are members of various unions. The Local 1199 union contract expires on September 30, 2018. The New York State Nurses Association contract expires on December 31, 2018. The Committee on Interns and Residents contract expires on October 31, 2019.

16. Subsequent Events

Subsequent events have been evaluated through April 26, 2018, which is the date the consolidated financial statements were issued. Other than as disclosed, no subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

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