

CONSOLIDATED FINANCIAL STATEMENTS

Maimonides Medical Center
Years Ended December 31, 2018 and 2017
With Report of Independent Auditors

Ernst & Young LLP



Maimonides Medical Center

Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

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Ernst & Young LLP
5 Times Square
New York, NY 10036-6530

Tel: +1 212 773 3000
Fax: +1 212 773 6350
ey.com

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, 2018 and 2017, 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, 2018 and 2017, 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.

Adoption of ASU No. 2014-09, *Revenue from Contracts with Customers* and ASU No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*

As discussed in Note 1 to the consolidated financial statements, Maimonides Medical Center changed its method of revenue recognition as a result of the adoption of the amendments to the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) resulting from Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*, effective January 1, 2018 and adopted the amendments to the FASB ASC resulting from ASU No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, effective December 31, 2018. Our opinion is not modified with respect to these matters.

Ernst + Young LLP

May 3, 2019

Maimonides Medical Center

Consolidated Statements of Financial Position
(In Thousands)

	December 31	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 31,214	\$ 16,195
Short-term investments (Notes 1 and 3)	79,365	82,175
Total cash, cash equivalents and short-term investments	110,579	98,370
Assets limited as to use, current portion (Note 3):		
Board designated	141,336	85,598
DSRIP funds (Note 10)	99,494	90,377
Receivables for patient care, net (Notes 1 and 2)	169,044	156,321
Due from affiliates, net, current portion (Note 8)	18,526	16,373
Supplies	11,915	11,207
Estimated insurance claims receivable, current portion (Note 7)	34,083	34,396
Other current assets (Notes 1 and 10)	58,240	52,633
Total current assets	643,217	545,275
Assets limited as to use, less current portion (Notes 3 and 5):		
Sinking funds	14,531	14,364
Due from affiliates, net, less current portion (Note 8)	156	431
Property, plant and equipment, net (Notes 4 and 5)	309,256	308,549
Equity in captive insurance program (Note 7)	173,505	172,539
Estimated insurance claims receivable, less current portion (Note 7)	193,135	194,910
Other assets (Note 1)	28,719	44,326
Total assets	\$ 1,362,519	\$ 1,280,394

	December 31	
	2018	2017
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 91,183	\$ 81,528
Construction payable	8,702	5,766
Accrued salaries and related liabilities	93,643	91,251
Current portion of long-term debt and capital lease obligations (Note 5)	39,848	25,269
Line of credit borrowings (Note 5)	25,516	25,516
Estimated insurance claims liabilities, current portion (Note 7)	34,083	34,396
Other current liabilities (Notes 1, 2, 7 and 10)	108,885	96,844
Total current liabilities	401,860	360,570
Long-term debt and capital lease obligations, less current portion (Note 5)	199,491	231,948
Accrued pension and postretirement benefits (Note 6)	89,139	89,638
Other noncurrent liabilities (Notes 2 and 5)	72,347	69,583
Professional liabilities (Note 7)	35,514	40,578
Estimated insurance claims liabilities, less current portion (Note 7)	193,135	194,910
Total liabilities	991,486	987,227
Commitments and contingencies (Notes 2, 5, 6, 7, 9, 14 and 15)		
Net assets (Note 9):		
Net assets without donor restrictions	350,155	275,273
Net assets with donor restrictions	20,878	17,894
Total net assets	371,033	293,167
Total liabilities and net assets	\$ 1,362,519	\$ 1,280,394

See accompanying notes.

Maimonides Medical Center

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

	Year Ended December 31	
	2018	2017
Medical Center operating revenue:		
Net patient service revenue <i>(Notes 1 and 2)</i>	\$ 1,123,632	\$ 1,095,170
Provision for bad debts <i>(Note 1)</i>	–	(2,093)
Net patient services revenue, less provision for bad debts	1,123,632	1,093,077
Other revenue <i>(Note 10)</i>	125,223	106,209
Net assets released from restrictions	967	847
Total Medical Center operating revenue	1,249,822	1,200,133
Medical Center operating expenses:		
Salaries and wages	614,169	610,693
Employee benefits	184,101	180,408
Supplies and other expenses	362,649	349,543
Depreciation and amortization	48,963	47,373
Interest and amortization of deferred financing costs	7,873	7,500
Total Medical Center operating expenses	1,217,755	1,195,517
Medical Center excess of operating revenue over operating expenses before other items	32,067	4,616
M2 Medical Community Practice, P.C.:		
Operating revenue	52,367	48,619
Operating expenses	(67,695)	(61,362)
Net M2 Medical Community Practice, P.C. activities	(15,328)	(12,743)
Gain on sale of buildings and land, net <i>(Note 4)</i>	61,029	–
Change in captive insurance program interest rate shortfall <i>(Note 7)</i>	8,345	(410)
Change in equity in captive insurance program <i>(Note 7)</i>	(12,534)	30,089
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	73,579	19,505
Net change in unrealized gains and losses on investments and change in fair value of interest rate swap agreements <i>(Note 5)</i>	(827)	250
Excess of revenue over expenses	72,752	19,755
Change in accrued pension and postretirement benefits liabilities to be recognized in future periods	1,738	(238)
Net assets released from restrictions used for capital asset acquisitions	392	35
Increase in net assets without donor restrictions	74,882	19,552
Net assets with donor restrictions:		
Restricted contributions, grants and other receipts	4,343	635
Net assets released from restrictions for:		
Operating expenses	(967)	(847)
Capital asset acquisitions	(392)	(35)
Increase (decrease) in net assets with donor restrictions	2,984	(247)
Increase in net assets	77,866	19,305
Net assets at beginning of year	293,167	273,862
Net assets at end of year	\$ 371,033	\$ 293,167

See accompanying notes.

Maimonides Medical Center

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended December 31	
	2018	2017
Operating activities		
Increase in net assets	\$ 77,866	\$ 19,305
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	(1,738)	238
Depreciation and amortization	48,963	47,373
Amortization of deferred financing costs	180	191
Net change in unrealized gains and losses on investments and change in fair value of interest rate swap agreements	827	(250)
Restricted contributions, grants and other receipts	(4,343)	(635)
Unsecured loan forgiveness	–	(7,250)
Gain on sale of buildings and land, net	(61,029)	–
Changes in operating assets and liabilities:		
Receivables for patient care	(12,723)	4,662
Due from affiliates	(1,878)	(338)
Other assets	(5,191)	(75,231)
Accounts payable and accrued expenses and accrued salaries and related liabilities	12,047	4,621
Other current liabilities	12,041	40,995
Other liabilities	1,320	51,353
Net cash provided by operating activities	66,342	85,034
Investing activities		
Redemptions (purchases) of investments	1,538	(3,016)
Acquisitions of property, plant and equipment	(37,814)	(31,738)
Sale of buildings and land	64,300	–
Purchases of assets limited as to use	(64,890)	(83,354)
Purchases of sinking funds	(279)	(324)
Net cash used in investing activities	(37,145)	(118,432)
Financing activities		
Repayments of long-term debt and capital lease obligations	(25,516)	(26,514)
Restricted contributions, grants and other receipts	4,343	635
Unsecured loan drawdown	–	43,750
Proceeds from financing	6,995	12,328
Net cash (used in) provided by financing activities	(14,178)	30,199
Net increase (decrease) in cash and cash equivalents	15,019	(3,199)
Cash and cash equivalents at beginning of year	16,195	19,394
Cash and cash equivalents at end of year	\$ 31,214	\$ 16,195
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 6,480	\$ 6,333
Capital lease arrangements	\$ 15,127	\$ 7,781

See accompanying notes.

Maimonides Medical Center

Notes to Consolidated Financial Statements

December 31, 2018

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, the affiliation agreement was extended through August 2020.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 prior revenue recognition requirements and most industry-specific guidance. The

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

provisions of ASU 2014-09 became effective for the Medical Center for annual reporting periods beginning after December 15, 2017, and interim periods within that fiscal year. The Medical Center adopted ASU 2014-09 effective January 1, 2018. The Medical Center adopted ASU 2014-09 following the modified retrospective method of application. As a result of implementing ASU 2014-09, certain patient activity where collection is uncertain previously reported through December 31, 2017 as net patient service revenue and the provision for bad debts in the Medical Center's consolidated statements of operations and changes in net assets no longer meets the criteria for revenue recognition and, accordingly, the provision for bad debts after the adoption date is significantly reduced with a corresponding reduction to net patient service revenue. Such patient activity is now classified as an implicit price concession. Additionally, the provision for bad debts for the year ended December 31, 2018 is now presented as an expense item rather than a reduction to net patient service revenue. Other aspects of the Medical Center's implementation of ASU 2014-09 impacting net patient service revenue, which include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures, are included below. The adoption of ASU 2014-09 in relation to other applicable revenue activity did not have a material impact to the Medical Center's accompanying consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, 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. The guidance also modified required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs are also required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 became effective for the Medical Center for annual periods beginning after December 15, 2017 and interim periods thereafter. As such, the Medical Center adopted ASU 2016-14 in its December 31, 2018 consolidated financial statements. The effects of the adoption of ASU 2016-14 were applied retrospectively, except for the disclosure of expenses by both functional and natural classification and the disclosures about liquidity and availability of resources, which were omitted for the year ended December 31, 2017 as permitted by ASU 2016-14. As a result of the adoption of ASU 2016-14, the net asset categories in the consolidated statements of financial position, the consolidated statements of operations and changes in net assets and throughout the notes to the consolidated financial statements have been updated as described above. Additionally, the addition of quantitative and qualitative disclosures related to the analysis

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

of expenses by both functional and natural classification and liquidity and availability of resources can be found in Note 11. The adoption of ASU 2016-14 had no impact on the total net assets previously reported by the Medical Center as of December 31, 2017.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 requires entities to classify gains and losses from certain equity investments within its performance indicator. As the Medical Center accounts for its equity investments as trading securities, this change does not have an impact on the recognition of income related to the Medical Center's equity investments. ASU 2016-01 contains an additional provision that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for the Medical Center. The amendments of this ASU are applicable for fiscal years beginning after December 15, 2018; however, early adoption is permitted for the provision relating to the elimination of the requirement to disclose the fair value of financial instruments measured at amortized cost. The Medical Center has elected to early adopt this provision and will no longer disclose the fair value of debt within its financial statements.

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, including collections on accounts receivable for services to patients, estimated settlements with third-party payors, estimated insurance claims liabilities and receivables, 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.

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.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

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

For periods commencing January 1, 2018

Effective January 1, 2018 upon the adoption of ASU 2014-09, net patient service revenue is reported at the amount that reflects the consideration to which the Medical Center expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others, and include variable consideration (reductions to revenue) for retroactive revenue adjustments due to settlement of ongoing and future audits, reviews and investigations.

The Medical Center uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios primarily consist of major payor classes for both inpatient and outpatient revenue. Based on historical collection trends and other analyses, the Medical Center believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

The Medical Center's initial estimate of the transaction price for services provided to patients subject to revenue recognition is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions and other reductions to the Medical Center's standard charges. The Medical Center determines the transaction price associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered. The estimates for contractual allowances and discounts are based on contractual agreements, the Medical Center's discount policies and historical experience. For uninsured and under-insured patients who do not qualify for charity care, the Medical Center determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on the Medical Center's historical collection experience for applicable patient portfolios. 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

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

patients who meet the criteria of its charity care policy. Patients who meet the Medical Center's criteria for free care are provided care without charge; such amounts are not reported as revenue.

Generally, the Medical Center bills patients and third-party payors several days after the services are performed and/or the patient is discharged. Net patient service revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Medical Center. Net patient service revenue for performance obligations satisfied over time is recognized based on estimated expected payment at that point in time. The Medical Center believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in the Medical Center's outpatient and ambulatory care centers. The Medical Center measures the performance obligation from admission into the Medical Center or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or the completion of the outpatient visit.

Net patient service revenue for the year ended December 31, 2018, by payor is as follows (in thousands):

Medicare	\$ 430,782
Medicaid	405,643
Commercial carriers and health maintenance organizations	280,264
Self-pay	6,943
	<u>\$ 1,123,632</u>

Deductibles, copayments and coinsurance under third-party payment programs which are the patient's responsibility are included within the third-party payors amounts above.

As substantially all of its performance obligations relate to contracts with a duration of less than one year, the Medical Center has elected to apply the optional exemption provided in ASU 2014-09 and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients). The performance obligations for in-house patients are generally completed when the patients are discharged, which for the majority of the Medical Center's in-house patients occurs within days or weeks after the end of the reporting period.

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to patient service revenue in the period of the change. For the year ended December 31, 2018, changes in the Medical Center's estimates of expected payments for performance obligations satisfied in prior periods were not significant. Portfolio collection estimates are updated based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the year ended December 31, 2018 was not significant.

For services provided through December 31, 2017, net patient service revenue and the related accounts receivable estimates are subject to the accounting requirements prior to the adoption of ASU 2014-09. Estimates for the allowance for uncollectible accounts pertaining to this service period are reevaluated monthly and certain revisions to such estimates continue to be made based on recent collection trends and management's expectations for the ultimate collection of accounts receivable balances existing at December 31, 2017.

The Medical Center has elected the practical expedient allowed under ASU 2014-09 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Medical Center's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Medical Center does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

At December 31, 2018, accounts receivable is comprised of the following components (in thousands):

Patient receivables	\$ 157,343
Contract assets	<u>11,701</u>
	<u>\$ 169,044</u>

Contract assets are related to in-house patients who were provided services during the reporting period but were not discharged as of the reporting date and for which the Medical Center may not have the right to bill.

Settlements with third-party payors for cost report filings and retroactive adjustments due to ongoing and future audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Medical Center's historical settlement activity (for example, cost report final settlements or repayments related to recovery audits), including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations.

For periods through December 31, 2017

Prior to the adoption of ASU 2014-09, net patient service revenue was 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 were considered in the recognition of revenue on an estimated basis in the period the related services were rendered and such amounts were adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

The Medical Center recognized 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 were recorded as bad debts.

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. Additionally, for the year ended December 31, 2017, revenue from the Medicare and Medicaid programs on a combined basis accounted for approximately 75% of the Medical Center's net patient service revenue. For accounts receivable associated with services provided to patients who have third-party coverage, the Medical Center analyzed amounts due from third parties and provided 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 recorded 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.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

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, certain implicit price concessions 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 uncollected amounts are classified as implicit price concessions. Distinguishing such amounts is difficult, in part because services are often rendered prior to full evaluation of a patient's ability to pay. Therefore, classification of individual accounts as charity care might be made long after services are provided and collections are pursued.

The Medical Center's estimated costs for charity care were \$52.3 million for 2018 and \$51.1 million for 2017. 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 \$16.4 million (including \$13.4 million related to 2017) and \$3.0 million (including \$0.5 million related to 2016 and 2015) for the years ended December 31, 2018 and 2017, 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;

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

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.

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 \$2.9 million and \$0.9 million at December 31, 2018 and 2017, 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 \$6.1 million at December 31, 2018 (approximately \$21.8 million at December 31, 2017).

Equity Investments

Included in other assets is an amount related to the Medical Center's investment in a limited liability company (approximately \$8.1 million and \$7.6 million at December 31, 2018 and 2017, respectively). The Medical Center accounts for this investment using the equity method of

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

accounting. During 2018 and 2017, the Medical Center recognized equity in earnings of investee income of approximately \$1.3 million and \$0.4 million, respectively, and received distributions of approximately \$0.8 million and \$0.3 million, respectively. Equity in earnings of investee income is included in other revenue (investment income) in the accompanying consolidated statements of operations and changes in net assets.

Net Assets without Donor Restrictions

Net assets without donor restrictions are those that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Medical Center. These net assets may be used at the discretion of the Medical Center's management and Board of Trustees.

Net Assets with Donor Restrictions

The Medical Center separately accounts for and reports upon net assets with donor restrictions and net assets without donor restrictions. Net assets with donor restrictions are those whose use by the Medical Center has been limited by donors to a specific time frame or purpose. When donor restrictions expire, that is, when a time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions. Certain net assets with donor restrictions have been restricted by donors to be maintained in perpetuity.

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.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

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., gain on sale of buildings and land, 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 (\$31.3 million in 2018 and \$16.0 million in 2017). Changes in net assets without donor restrictions which are excluded from the excess of revenue over expenses include contributions of long-lived assets (including 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.

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. At December 31, 2018 and 2017, the PC has a net operating loss carryforward of approximately \$47.9 million and \$33.1 million, respectively, which expire through the year ending December 31, 2037. These losses generate a

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

potential deferred tax asset of approximately \$17.1 million and \$11.5 million at December 31, 2018 and 2017, respectively. No deferred tax asset has been recorded as this amount is offset by a valuation allowance of the same amount due to the uncertainty of utilizing the deferred tax asset in future periods. The effects of income taxes on the accompanying consolidated financial statements are not material.

The Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017. For tax-exempt entities, TCJA requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income subject to tax, pay an excise tax on compensation above certain thresholds, and record income or losses for tax determination purposes from unrelated business activities on an activity-by-activity basis, among other provisions. Regulations necessary to implement certain aspects of TCJA are expected to be promulgated by the Internal Revenue Service (IRS) in 2019. As of and for the year ended December 31, 2018, the Medical Center has made reasonable estimates of the provision for income taxes, the compensation excise tax, and the effects, if any, on existing deferred tax balances based on relevant accounting guidance. These estimates did not have a material impact on the consolidated financial statements. The Medical Center will continue to refine its calculations in future periods as additional regulations and guidance are issued by the IRS. There were no material uncertain tax positions as of December 31, 2018 and 2017.

Other Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require lessees to report most leases on their statements of financial position, but 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 basis 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 within the period. Early adoption is permitted. As a result of the adoption of ASU 2016-02, the Medical Center's assets and liabilities are expected to increase by approximately \$112.0 million to reflect the Medical Center's right to use certain assets and the corresponding liabilities associated with operating leases, with no significant impact to net assets or the performance indicator on the 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;

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

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, 2018 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.

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 \$10.2 million and \$8.9 million

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

for the years ended December 31, 2018 and 2017, respectively) 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 \$2.0 million and \$2.5 million for the years ended December 31, 2018 and 2017, respectively) 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.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958); Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies existing guidance in order to address diversity in practice in classifying grants (including governmental grants) and contracts received by not-for-profit entities, and requires entities to evaluate whether the resource provider receives commensurate value. In addition, the standard clarifies the guidance on how entities determine when a contribution is conditional, including whether the agreement includes a barrier (or barriers) that must be overcome for the recipient to be entitled to the transferred assets and a right of return of the transferred assets (or a right of release of the promisor's obligation to transfer the assets). The standard should be applied on a modified prospective basis to agreements that are not completed as of the effective date and to agreements entered into after the effective date. Retrospective application is permitted. ASU 2018-08 applies to all entities that make or receive contributions and is effective for the Medical Center for fiscal years beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2018-08 on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The standard aligns the requirement for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this standard. The standard requires the customer in a hosting arrangement that is a service contract to follow the guidance in ASC Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense by determining which project stage an implementation activity relates to and the nature of the costs. The standard also requires the customer to expense the capitalized implementation costs of a hosting

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

arrangement that is a service contract over the term of the hosting arrangement. ASU 2018-15 is effective for the Medical Center for fiscal years beginning after December 15, 2020, and interim periods thereafter. Early adoption is permitted, including adoption in any interim period. Either retrospective or prospective adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2018-15 on its consolidated financial statements.

The FASB has amended certain guidance related to various disclosures in ASU 2018-09, *Codification Improvements, ASU 2018-13, Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities*, and ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20) – Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. Among various provisions, ASU 2018-09 may result in additional assets included in an entity's fair value disclosure table if, among other criteria, net asset value has public visibility. ASU 2018-13 includes several disclosure changes involving transfers between the fair value levels and other updates related to fair value Level 3 investments. ASU 2018-13 also requires entities that use the practical expedient to measure the fair value of certain investments at their net asset values to disclose (1) the timing of liquidation of an investee's assets and (2) the date when redemption restrictions will lapse, but only if the investee has communicated this information to the entity or announced it publicly. The guidance in ASU 2018-14 requires all sponsors of defined benefit plans to provide certain new disclosures: the weighted-average interest crediting rate for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. Among other changes, ASU 2018-14 eliminates the required disclosure for all sponsors of defined benefit plans to disclose the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. The updates noted above have effective dates as follows with early adoption permitted: ASU 2018-09: fiscal years beginning after December 15, 2018; ASU 2018-13: fiscal years beginning after December 15, 2019; and ASU 2018-14: fiscal years ending after December 15, 2021. The Medical Center has not completed the process of evaluating the impact of ASU 2018-09, ASU 2018-13 and ASU 2018-14 on its consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the presentation in the 2018 financial statements.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

2. Third-Party Payor System

The Medical Center has agreements with third-party payors that provide for payments for services rendered at amounts different from its established charges. A summary of the payment arrangements with major third-party payors is as follows:

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.

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. At December 31, 2018, 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, 2014 and 2015. 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, increased its third-party liabilities by \$2.9 million in 2018 and reduced them by \$6.6 million in 2017.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

2. Third-Party Payor System (continued)

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.

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	
	2018	2017
	<i>(In Thousands)</i>	
Short-term investments:		
U.S. government obligations	\$ 53,619	\$ 55,733
Corporate bonds	25,180	25,938
Accrued interest	566	504
Total short-term investments	<u>\$ 79,365</u>	<u>\$ 82,175</u>
Assets limited as to use – current portion:		
Board designated:		
Cash and cash equivalents	\$ 134,894	\$ 79,020
U.S. government obligations	6,405	6,547
Accrued interest	37	31
Total Board designated	<u>141,336</u>	<u>85,598</u>
DSRIP funds:		
Cash and cash equivalents	99,494	90,377
Total assets limited as to use – current portion	<u>\$ 240,830</u>	<u>\$ 175,975</u>
Assets limited as to use – noncurrent portion (sinking funds):		
Cash and cash equivalents	\$ 172	\$ 549
U.S. government obligations	14,285	13,748
Accrued interest	74	67
Total assets limited as to use – noncurrent portion	<u>\$ 14,531</u>	<u>\$ 14,364</u>

Investment income comprises the following:

	Year Ended December 31	
	2018	2017
	<i>(In Thousands)</i>	
Interest income	\$ 3,434	\$ 2,132
Net realized gains and losses on investments reported at fair value and cash distributions from captive insurance program (Note 1)	30,892	20,260
Equity in earnings of investee	1,315	383
	<u>\$ 35,641</u>	<u>\$ 22,775</u>

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

4. Property, Plant and Equipment

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

	December 31	
	2018	2017
	<i>(In Thousands)</i>	
Land	\$ 4,980	\$ 6,691
Buildings and building improvements	431,751	429,935
Equipment	767,078	735,914
	1,203,809	1,172,540
Less accumulated depreciation and amortization	909,180	867,531
	294,629	305,009
Capital projects in progress	14,627	3,540
	\$ 309,256	\$ 308,549

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

In November 2018, the Medical Center sold certain buildings and land with a net book value of \$3.3 million to a third party and received net proceeds of \$64.3 million. Proceeds from the sale are included in Board designated assets limited as to use in the accompanying consolidated statements of financial position. In conjunction with the sale of the buildings, the Medical Center entered into an agreement with the buyer to lease certain of the units within the buildings for a period of two years. The transaction was accounted for as a sale-leaseback; however, the Medical Center recognized approximately \$61.0 million of gain on sale in its consolidated statements of operations and changes in net assets for the year ended December 31, 2018 related to the transaction, as the leaseback portion of the transaction was considered minor.

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

	December 31	
	2018	2017
	<i>(In Thousands)</i>	
Assets recorded under capital leases	\$ 81,942	\$ 62,040
Less accumulated amortization	27,948	17,802
	\$ 53,994	\$ 44,238

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

A summary of long-term debt is as follows:

	December 31	
	2018	2017
	<i>(In Thousands)</i>	
FHA Section 242 insured mortgage loans (a)	\$ 4,322	\$ 5,356
FHA Section 241 insured mortgage loans (b)	69,472	73,495
Capital lease obligations (c)	48,516	57,800
Construction bank loans (d)	1,567	4,634
Syndicated bank credit facility (d)	18,170	19,762
Unsecured loan (e)	96,830	95,639
Unamortized premium	1,651	1,900
Unamortized deferred financing costs	(1,189)	(1,369)
	239,339	257,217
Less current portion	39,848	25,269
	<u>\$ 199,491</u>	<u>\$ 231,948</u>

- (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.

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, 2018 and 2017 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.

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. Assets on deposit in the sinking fund at December 31, 2018 and 2017 are in compliance with the required amounts.

- (c) The Medical Center has various capital lease obligations, with interest rates ranging up to 7.0%.
- (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 4.55% and 3.56% at December 31, 2018 and 2017, respectively, with monthly payments through June 2019. The syndicated arrangement also included a construction loan of \$20.0 million, that bears interest at 4.55% and 3.56% at December 31, 2018 and 2017, respectively, with monthly payments through June 2019. At December 31, 2018, approximately \$19.7 million was outstanding on the syndicated credit facility, including the construction loan of approximately \$1.6 million. As part of 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. The drawdown of this line of credit was limited to approximately \$25.5 million, the outstanding amount at December 31, 2018 and 2017 (average interest rate of 4.1% and 3.13% for 2018 and 2017, respectively). This line of credit is due on June 21, 2019.

- (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. The maximum amount was drawn as of December 31, 2017. The unused proceeds of the drawdown of approximately \$61.4 million and \$70.6 million at December 31, 2018 and 2017, respectively, are included in Board designated assets limited as to use in the accompanying consolidated statements of financial position.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

The loan agreement has been amended to forgive repayment of \$31.3 million, with \$7.3 million forgiven on February 18, 2017. The amount forgiven in 2017 is included in other revenue in the accompanying consolidated statement of operations and changes in net assets for the year ended December 31, 2017 (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 as an addition to amounts owed under the unsecured loan. 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.

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>		
2019	\$ 24,977	\$ 16,037	\$ 41,014
2020	5,432	11,326	16,758
2021	5,630	7,884	13,514
2022	5,634	5,064	10,698
2023	4,813	3,925	8,738
Thereafter	47,045	8,032	55,077
Total minimum payments	93,531	52,268	145,799
Less amounts representing interest	–	3,752	3,752
Total long-term debt	93,531	48,516	142,047
Less current portion of long-term debt	24,977	14,806	39,783
Long-term debt, net of current portion	\$ 68,554	\$ 33,710	\$ 102,264

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

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

2019		\$ 13,572
2020		13,367
2021		13,197
2022		13,197
2023		13,197

In connection with various debt agreements, the Medical Center is required to maintain certain financial covenants. At December 31, 2018 and 2017, the Medical Center was in compliance with all of the financial covenants.

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 in 2018 and 2017) are recorded in the excess of revenue over expenses.

At December 31, 2018 and 2017, the swaps are reported in other noncurrent liabilities and are summarized as follows:

Notional Amount	Maturity Date	Fixed Payment Rate	2018 Fair Value Liability (Asset)
\$ 18,169,930	June 1, 2027	3.950%	\$ 1,636,139
1,566,913	June 1, 2019	1.186	(4,510)
5,450,979	June 1, 2019	1.280	(28,706)
			\$ 1,602,923

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

	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>

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 \$51.9 million and \$48.8 million for the years ended December 31, 2018 and 2017, respectively.

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.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

The Medical Center’s participation in these plans for the years ended December 31, 2018 and 2017 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 2018 and 2017 is for a plan’s year-end at December 31, 2017 and 2016, 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 2017 to 2018. Total contributions required to be paid to the plans have increased from 2017 to 2018.

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
			2018	2017		2018	2017		
The New York State Nurses Association Pension Plan	13-6604799	001	Green	Green	No	\$ 13,793,000	\$ 13,233,000	No	*
1199 SEIU Health Care Employees Pension Fund	13-3604862	001	Green	Green	No	\$ 15,758,000	\$ 14,421,000	No	9/30/2021

* The collective bargaining agreement with The New York State Nurses Association expired on December 31, 2018. A new agreement is currently under negotiation.

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, 2017 and 2016, 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.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

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 gains and 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 net assets without donor restrictions.

Included in other changes in net assets without donor restrictions at December 31, 2018 and 2017 are the following amounts that have not yet been recognized in net periodic pension and postretirement cost:

	Pension Benefits		Postretirement Health Care Benefits	
	2018	2017	2018	2017
	<i>(In Thousands)</i>			
Unrecognized prior service (cost) credit	\$ —	\$ (28)	\$ 3,597	\$ 3,847
Unrecognized actuarial (loss) gains	(49,593)	(49,136)	361	(2,056)
	\$ (49,593)	\$ (49,164)	\$ 3,958	\$ 1,791

The net prior service cost and actuarial loss included in net assets without donor restrictions and expected to be recognized in net periodic pension and postretirement benefit cost during the year ending December 31, 2019 is approximately \$2.8 million.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

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, 2018 and 2017:

	Pension Benefits		Postretirement Health Care Benefits	
	2018	2017	2018	2017
	<i>(In Thousands)</i>			
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 217,662	\$ 194,148	\$ 8,786	\$ 8,510
Service cost	9,888	8,621	303	264
Interest cost	7,479	7,353	237	290
Actuarial (gains) losses	(12,713)	13,774	(2,417)	(41)
Net benefits paid and expected expenses	(10,261)	(6,234)	(253)	(237)
Benefit obligation, end of year	212,055	217,662	6,656	8,786
Change in plan assets:				
Fair value of plan assets, beginning of year	136,273	119,680	—	—
Actual return on plan assets	(7,469)	18,671	—	—
Contributions	10,841	4,158	253	237
Benefits paid and actual expenses	(10,479)	(6,236)	(253)	(237)
Fair value of plan assets, end of year	129,166	136,273	—	—
Unfunded status	\$ (82,889)	\$ (81,389)	\$ (6,656)	\$ (8,786)

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

	Pension Benefits		Postretirement Health Care Benefits	
	2018	2017	2018	2017
	<i>(In Thousands)</i>			
Accrued benefit liability – noncurrent	\$ (82,889)	\$ (81,389)	\$ (6,250)	\$ (8,249)
Accrued benefit liability – current	—	—	(406)	(537)
	\$ (82,889)	\$ (81,389)	\$ (6,656)	\$ (8,786)

The actuarial gains in 2018 and losses in 2017 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, 2018 and 2017.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

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

	December 31	
	2018	2017
	<i>(In Thousands)</i>	
Projected benefit obligation	\$ 212,055	\$ 217,662
Accumulated benefit obligation	185,688	189,665
Fair value of plan assets	129,166	136,273

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

	Pension Benefits		Postretirement Health Care Benefits	
	2018	2017	2018	2017
	<i>(In Thousands)</i>			
Service cost	\$ 9,888	\$ 8,621	\$ 303	\$ 264
Interest cost on projected benefit obligation	7,479	7,353	237	290
Expected return on plan assets	(8,876)	(7,935)	—	—
Net amortization and deferral	3,421	2,938	(250)	(177)
Net periodic benefit cost	\$ 11,912	\$ 10,977	\$ 290	\$ 377

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	
	2018	2017	2018	2017
Weighted-average assumptions used to determine benefit obligations as of December 31:				
Discount rate	4.10%	3.50%	3.90%	3.30%
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	3.50%	4.00%	3.30%	3.70%
Expected return on plan assets	6.75	7.00	N/A	N/A
Rate of compensation increase	4.00	4.00	4.00	4.00

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.

	2018	2017
Assumed health care cost trend rates at December 31:		
Pre-65 Medical:		
Initial rate for health care costs	6.2%	4.4%
Ultimate rate for health care costs	3.9%	4.2%
Ultimate year of health care increase	2098	2094
Post-65 Medical:		
Initial rate for health care costs	(2.0)%	10.0%
Ultimate rate for health care costs	4.0%	4.3%
Ultimate year of health care increase	2098	2094

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

The 2018 trend of negative 2% is based on the actual change in premium rates from 2017 to 2018, weighted using actual enrollment.

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, 2018:

	1% Increase	1% Decrease
	<i>(In Thousands)</i>	
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 57	\$ (48)
Effect on health care components of the accumulated postretirement benefit obligation	432	(376)

Plan Assets

The Medical Center's pension plan weighted-average asset allocation at December 31, 2018 and 2017, by asset category, is as follows:

	2018	2017
Asset category:		
Equities	47%	52%
Fixed income	52	47
Cash and cash equivalents	1	1
Total	100%	100%

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 \$10.7 million to its defined benefit pension plan in 2019.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

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:		
2019	\$ 9,080	\$ 414
2020	9,369	472
2021	10,872	528
2022	11,332	551
2023	11,663	580
2024 to 2028	72,078	2,814

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.). Liabilities for sick pay benefits that are not expected to be paid within one year are reflected as long-term liabilities (approximately \$8.9 million and \$8.8 million for 2018 and 2017, respectively).

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, 2018, 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 \$173.5 million and \$186.0 million at December 31, 2018 and 2017, respectively,

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

7. Professional Liabilities (continued)

of which approximately \$173.5 million and \$172.5 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 and 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 2022 for years commencing in 2015. At December 31, 2018 and 2017, approximately \$53.8 million and \$48.2 million, respectively, represent the estimated present value of future payments. Amounts due in 2019 and 2018 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 at December 31, 2017. This liability was forgiven in 2018 and included in the change in captive insurance program interest rate shortfall in the accompanying consolidated statements of operations and changes in net assets.

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 \$227.2 million and \$229.3 million based on a discount rate of 2.75% at December 31, 2018 and 2017, respectively. The Medical Center has recorded related estimated insurance claims receivable of approximately \$227.2 million and \$229.3 million at December 31, 2018 and 2017, 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 (HIC) and the various affiliated captive insurance companies began an internal investigation into several

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

7. Professional Liabilities (continued)

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.

On November 27, 2018, the Medical Center, Beth Israel Medical Center, Mount Sinai Hospital and Montefiore Medical Center, collectively the indirect owners of HIC and the members of FOJP, announced their agreement to sell HIC and FOJP to The Doctors Company for \$650 million, subject to closing adjustments. The transaction is subject to regulatory approvals and is expected to close in 2019. HIC has provided the hospitals and related physicians with medical malpractice insurance for more than 30 years. The hospitals will share in the proceeds ratably according to their ownership.

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 \$21.5 million and \$22.7 million during 2018 and 2017, respectively. Additionally, MMC Holding of Brooklyn, Inc. purchases various goods and services from the Medical Center. Revenue generated from such activity approximated \$1.6 million and \$1.4 million during 2018 and 2017, 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 \$0.2 million and \$0.4 million at December 31, 2018 and 2017, respectively. The loan bears interest at 5.75% at December 31, 2018 and 2017 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.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

9. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31:

	2018	2017
	<i>(In Thousands)</i>	
Research and education	\$ 1,020	\$ 1,513
Plant replacement and expansion	18,726	15,249
Investments to be held in perpetuity	1,132	1,132
	\$ 20,878	\$ 17,894

The income from investments to be held in perpetuity is to be used for health care related services.

10. Other Revenue

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

	2018	2017
	<i>(In Thousands)</i>	
Loan forgiveness (see Note 5(e))	\$ —	\$ 7,250
Government grant income	9,673	8,748
Electronic health records incentive payments	642	1,216
SIPIP award	20,000	20,000
DSRIP – revenue loss funding	9,348	7,088
Real estate rentals	4,718	5,483
Investment income (see Notes 1 and 3)	35,641	22,775
Special funds income	11,218	11,811
Dining and parking lot income	1,636	1,614
Grants and contributions	7,157	6,500
Insurance company surplus distribution	13,331	2,610
Other	11,859	11,114
	\$ 125,223	\$ 106,209

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

10. Other Revenue (continued)

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 for the 2017 award. The Medical Center recorded a \$20.0 million receivable related to the SIPIP funding upon successful completion of the program requirement for the 2018 award. Such amounts are included within other current assets in the accompanying statement of financial position for the year ended December 31, 2018.

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 \$77.9 million and \$99.3 million during 2018 and 2017, respectively, and recognized approximately \$22.4 million and \$18.4 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 2018 and 2017, approximately \$46.3 million and \$32.5 million, respectively, was distributed to other participating providers. The balance of approximately \$99.5 million and \$90.4 million recorded at December 31, 2018 and 2017, 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 \$31.3 million and \$16.0 million for 2018 and 2017, respectively, related to distributions from the captive insurance company program (see Note 1). Additionally, investment income for 2017 includes approximately \$4.4 million related to surplus notes receivable and accumulated interest earnings, 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.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

11. Functional Expenses – Medical Center and PC and Liquidity of Financial Assets

Functional expenses for the year ended December 31, 2018 are as follows (in thousands):

	Health Care and Related Services	Program Support and General	Total
Salaries and wages	\$ 566,523	\$ 82,460	\$ 648,983
Employee benefits	159,145	27,643	186,788
Supplies and other expenses	305,699	87,144	392,843
Depreciation and amortization	38,873	10,090	48,963
Interest and amortization of deferred financing costs	36	7,837	7,873
	<u>\$ 1,070,276</u>	<u>\$ 215,174</u>	<u>\$ 1,285,450</u>

Functional expenses for the year ended December 31, 2017 are as follows (in thousands):

Health care and related services	\$ 1,039,106
Program support and general	<u>217,773</u>
	<u>\$ 1,256,879</u>

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

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

11. Functional Expenses – Medical Center and PC and Liquidity of Financial Assets (continued)

The table below represents financial assets available for general expenditures within one year at December 31, 2018 (in thousands):

Financial assets available:	
Cash and cash equivalents	\$ 31,214
Short-term investments	79,365
Assets limited as to use:	
Board designated	141,336
Receivables for patient care	169,044
	420,959
Less: Investments to be held in perpetuity	1,132
	\$ 419,827

The Medical Center has certain assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the information above for financial assets to meet general expenditures within one year. The Medical Center has other assets limited to use for sinking funds and for payments related to DSRIP. These assets are not available for general expenditure within the next year and are excluded from the above table.

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	
	2018	2017
Medicare and Medicaid	49%	49%
Commercial and managed care	50	49
Self pay	1	2
	100%	100%

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

12. Concentration of Credit Risk (continued)

At December 31, 2018 and 2017, 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.

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.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

13. Fair Value Measurements (continued)

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, 2018 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	\$ 265,774	\$ —	\$ —	\$ 265,774
U.S. government notes and bonds	74,309	—	—	74,309
Corporate bonds	—	25,180	—	25,180
Total assets at fair value	\$ 340,083	\$ 25,180	\$ —	\$ 365,263
Liabilities				
Interest rate swap agreements	\$ —	\$ 1,603	\$ —	\$ 1,603

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	76,028	—	—	76,028
Corporate bonds	—	25,938	—	25,938
Total assets at fair value	\$ 262,169	\$ 25,938	\$ —	\$ 288,107
Liabilities				
Interest rate swap agreements	\$ —	\$ 2,195	\$ —	\$ 2,195

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.

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, 2018 and 2017, the Medical Center had an asset of approximately \$6.5 million and \$7.2 million, respectively, representing rental payments made in excess of rent expense on a straight-line basis.

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

2019	\$ 20,017
2020	19,613
2021	15,863
2022	13,858
2023	11,553
Thereafter	48,933
Total minimum operating lease payments	<u>\$ 129,837</u>

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

14. Operating Lease Obligations (continued)

Total rental expense charged to operations for the years ended December 31, 2018 and 2017 aggregated approximately \$20.9 million and \$19.7 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, 2021. The Committee on Interns and Residents contract expires on October 31, 2019. The New York State Nurses Association contract expired on December 31, 2018 (currently in negotiations).

16. Subsequent Events

Subsequent events have been evaluated through May 3, 2019, which is the date the consolidated financial statements were issued. No subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

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