

CONSOLIDATED FINANCIAL STATEMENTS

Maimonides Medical Center
Years Ended December 31, 2019 and 2018
With Report of Independent Auditors

Ernst & Young LLP



Maimonides Medical Center
Consolidated Financial Statements
Years Ended December 31, 2019 and 2018

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Report of Independent Auditors

The Board of Trustees
Maimonides Medical Center

We have audited the accompanying consolidated financial statements of Maimonides Medical Center, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, 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, 2019 and 2018, 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. 2016-02, *Leases*

As discussed in Note 1 to the consolidated financial statements, Maimonides Medical Center changed its method of accounting for leases as a result of the adoption of the amendments to the Financial Accounting Standards Board Accounting Standards Codification resulting from Accounting Standards Update No. 2016-02, *Leases*, effective January 1, 2019. Our opinion is not modified with respect to this matter.

Ernst + Young LLP

May 18, 2020

Maimonides Medical Center

Consolidated Statements of Financial Position
(In Thousands)

	December 31	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 28,093	\$ 31,214
Short-term investments	50,185	79,365
Total cash, cash equivalents and short-term investments	<u>78,278</u>	110,579
Assets limited as to use, current portion:		
Board designated	288,178	141,336
DSRIP funds	121,106	99,494
Receivables for patient care, net	186,838	169,044
Due from affiliates, net, current portion	26,249	18,526
Supplies	13,549	11,915
Estimated insurance claims receivable, current portion	31,428	34,083
Other current assets	57,597	58,240
Total current assets	<u>803,223</u>	643,217
Assets limited as to use, less current portion:		
Sinking funds	15,233	14,531
Right-of-use assets – operating leases	108,953	–
Due from affiliates, net, less current portion	–	156
Property, plant and equipment, net	326,289	309,256
Equity in captive insurance program	36,061	173,505
Estimated insurance claims receivable, less current portion	178,092	193,135
Other assets	36,001	28,719
Total assets	<u><u>\$ 1,503,852</u></u>	<u><u>\$ 1,362,519</u></u>

	December 31	
	2019	2018
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 105,515	\$ 91,183
Construction payable	8,128	8,702
Accrued salaries and related liabilities	91,564	93,643
Current portion of long-term debt and finance lease obligations	25,765	39,848
Line of credit borrowings	25,516	25,516
Estimated insurance claims liabilities, current portion	31,428	34,083
Operating lease liabilities, current portion	20,867	–
Other current liabilities	140,632	108,885
Total current liabilities	<u>449,415</u>	<u>401,860</u>
Long-term debt and finance lease obligations, less current portion	224,377	199,491
Accrued pension and postretirement benefits	101,575	89,139
Other noncurrent liabilities	40,145	72,347
Professional liabilities	36,382	35,514
Operating lease liabilities, less current portion	86,200	–
Estimated insurance claims liabilities, less current portion	178,092	193,135
Total liabilities	<u>1,116,186</u>	<u>991,486</u>
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions	365,397	350,155
Net assets with donor restrictions	22,269	20,878
Total net assets	<u>387,666</u>	<u>371,033</u>
Total liabilities and net assets	<u>\$ 1,503,852</u>	<u>\$ 1,362,519</u>

See accompanying notes.

Maimonides Medical Center

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

	Year Ended December 31	
	2019	2018
Medical Center operating revenue:		
Net patient service revenue	\$ 1,206,398	\$ 1,123,632
Other revenue	87,348	125,223
Net assets released from restrictions	687	967
Total Medical Center operating revenue	1,294,433	1,249,822
Medical Center operating expenses:		
Salaries and wages	650,574	624,360
Employee benefits	181,975	171,900
Supplies and other expenses	387,442	362,649
Depreciation and amortization	49,974	48,963
Interest and amortization of deferred financing costs	7,695	7,873
Total Medical Center operating expenses	1,277,660	1,215,745
Medical Center excess of operating revenue over operating expenses before other items	16,773	34,077
M2 Medical Community Practice, P.C.:		
Operating revenue	64,752	52,367
Operating expenses	(89,125)	(67,695)
Net M2 Medical Community Practice, P.C. activities	(24,373)	(15,328)
Gain on sale of buildings and land, net	-	61,029
Change in captive insurance program interest rate shortfall	-	8,345
Change in equity in captive insurance program	28,236	(12,534)
Other nonoperating losses	(7,192)	(2,010)
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	13,444	73,579
Net change in unrealized gains and losses on investments and change in fair value of interest rate swap agreements	4,501	(827)
Excess of revenue over expenses	17,945	72,752
Change in accrued pension and postretirement benefits liabilities to be recognized in future periods	(11,026)	1,738
Net assets released from restrictions used for capital asset acquisitions	8,323	392
Increase in net assets without donor restrictions	15,242	74,882
Net assets with donor restrictions:		
Restricted contributions, grants and other receipts	10,401	4,343
Net assets released from restrictions for:		
Operating expenses	(687)	(967)
Capital asset acquisitions	(8,323)	(392)
Increase in net assets with donor restrictions	1,391	2,984
Increase in net assets	16,633	77,866
Net assets at beginning of year	371,033	293,167
Net assets at end of year	\$ 387,666	\$ 371,033

See accompanying notes.

Maimonides Medical Center

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended December 31	
	2019	2018
Operating activities		
Increase in net assets	\$ 16,633	\$ 77,866
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	11,026	(1,738)
Depreciation and amortization	49,974	48,963
Amortization of deferred financing costs	167	180
Net change in unrealized gains and losses on investments and change in fair value of interest rate swap agreements	(4,501)	827
Restricted contributions, grants and other receipts	(10,401)	(4,343)
Gain on sale of captive insurance company	(14,254)	-
Gain on sale of buildings and land, net	-	(61,029)
Changes in operating assets and liabilities:		
Receivables for patient care	(17,794)	(12,723)
Due from affiliates	(7,567)	(1,878)
Other assets	(7,447)	(5,191)
Accounts payable and accrued expenses and accrued salaries and related liabilities	12,253	12,047
Other current liabilities	31,747	12,041
Other liabilities	(47,350)	1,320
Net cash provided by operating activities	12,486	66,342
Investing activities		
Redemptions of investments, net	33,220	1,538
Proceeds from sale of HIC	163,595	-
Acquisitions of property, plant and equipment	(31,928)	(37,814)
Sale of buildings and land	-	64,300
Purchases of assets limited as to use, net	(276,172)	(178)
Purchases of sinking funds	3	(377)
Net cash (used in) provided by investing activities	(111,282)	27,469
Financing activities		
Repayments of long-term debt and finance lease obligations	(23,442)	(25,516)
Restricted contributions, grants and other receipts	10,401	4,343
Proceeds from financing	1,131	6,995
Net cash used in financing activities	(11,910)	(14,178)
Net (decrease) increase in cash, cash equivalents, restricted cash and restricted cash equivalents	(110,706)	79,633
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of year	265,774	186,141
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of year	\$ 155,068	\$ 265,774
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 6,285	\$ 6,480

See accompanying notes.

Maimonides Medical Center

Notes to Consolidated Financial Statements

December 31, 2019

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 September 2019, the affiliation agreement was extended through December 2021.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*, which requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the consolidated statements of financial position, including both finance and operating leases. ASU 2016-02 requires disclosure to help the financial statement users better understand the

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

amount, timing, and uncertainty of cash flows arising from leases. The recognition, measurement and presentation of expenses and cash flows arising from a lease primarily depends on its classification as a finance or operating lease. The Medical Center adopted ASU 2016-02 effective January 1, 2019, following the modified retrospective method of application. As such, the prior period consolidated financial statement amounts and disclosures have not been adjusted to reflect the provisions of the new standard. There was no cumulative-effect adjustment to the prior period consolidated net assets as a result of the adoption. The Medical Center has made the transition-specific election to apply the package of practical expedients which allows for the carryforward of historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. Additionally, for operating leases entered into prior to January 1, 2019, the Medical Center has elected to utilize the operating leases' remaining lease term as of the date of adoption to determine the discount rate used to initially measure the liability. Certain other accounting policy elections and quantitative and qualitative information pertaining to the Medical Center's adoption of ASU 2016-02 are described in Note 14.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The Medical Center adopted ASU 2016-15 effective December 31, 2019. The adoption of ASU 2016-15 did not have a material impact on the 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. The Medical Center adopted ASU 2016-18 effective December 31, 2019. Therefore, amounts generally described as restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statement of cash flows. The Medical Center adopted ASU 2016-18 using a retrospective transition method.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

Effective January 1, 2019, the Medical Center adopted 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 are 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 must present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any intermediate measure of operations, if one is presented. As a result of adopting ASU 2017-07, the Medical Center recorded the service cost component of net periodic benefit cost related to its defined benefit plan and other postretirement benefit plan (aggregate of approximately \$9.5 million and \$10.2 million for the years ended December 31, 2019 and 2018, respectively) within salaries and wages on the consolidated statements of operations and changes in net assets and presented all other components (aggregate of approximately \$3.2 million and \$2.0 million for the years ended December 31, 2019 and 2018, respectively) as a separate line item excluded from the subtotal for the Medical Center excess of operating revenue over operating expenses before other items but within the performance indicator.

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 (or a right of release of the promisor's obligation to transfer the assets). The Medical Center adopted ASU 2018-08 effective January 1, 2019. The adoption of ASU 2018-08 did not have a material impact on the Medical Center's 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*, which aligns the requirements 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

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

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 the amendments in ASU 2018-15. ASU 2018-15 requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. ASU 2018-15 also requires the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The amendments in ASU 2018-15 also require the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of operations as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is also required to present the capitalized implementation costs in the consolidated balance sheets in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. The Medical Center early adopted ASU 2018-15 effective January 1, 2019. The adoption of ASU 2018-15 did not have a material impact on the consolidated 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. Amounts within restricted cash and cash equivalents include cash and cash equivalents held within assets limited as to use and represent funds set aside based on board designation or contractual arrangements.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

The following is a reconciliation of cash and cash equivalents between the consolidated statements of financial position and the consolidated statements of cash flows at December 31:

	<u>2019</u>	<u>2018</u>
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 28,093	\$ 31,214
Restricted cash and restricted cash equivalents within assets limited as to use	<u>126,975</u>	<u>234,560</u>
Total cash, cash equivalents, restricted cash and restricted cash equivalents	<u>\$ 155,068</u>	<u>\$ 265,774</u>

Investments

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

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

Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported at the 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.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

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 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.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

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

	2019	2018
Medicare	\$ 492,198	\$ 430,782
Medicaid	371,893	405,643
Commercial carriers and health maintenance organizations	335,141	280,264
Self-pay	7,166	6,943
	\$ 1,206,398	\$ 1,123,632

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 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 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 years ended December 31, 2019 and 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 years ended December 31, 2019 and 2018 was not significant.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

The Medical Center 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.

Accounts receivable is comprised of the following components (in thousands):

	December 31	
	2019	2018
Patient receivables	\$ 173,699	\$ 157,343
Contract assets	13,139	11,701
	<u>\$ 186,838</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.

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 \$52.8 million for 2019 and \$52.3 million for 2018. This does not include the loss of treating the Medicaid population. The cost of charity care includes the direct and indirect cost of providing charity care services. The cost is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care. Net of pool contributions, funds received from the New York State Indigent Care Pool to offset bad debts and charity care provided totaled approximately \$3.1 million (including \$0.5 million related to 2018) and \$16.4 million (including \$13.4 million related to 2017) for the years ended December 31, 2019 and 2018, 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.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

Assets Limited as to Use

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost, except for donated equipment, which is recorded at the fair value established at the date of the gift. Assets acquired through finance 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 finance 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, escrow receivable in connection with the sale of one of the captive insurance companies as described in Note 7, noncurrent investments and funding available to be spent on finance leased fixed assets. Pledges receivable are approximately \$3.2 million and \$2.9 million at December 31, 2019 and 2018, 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 finance leased fixed assets was approximately \$2.6 million at December 31, 2019 (approximately \$6.1 million at December 31, 2018).

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

Equity Investments

Included in other assets is an amount related to the Medical Center's investment in a limited liability company (approximately \$9.3 million and \$8.1 million at December 31, 2019 and 2018, respectively). The Medical Center accounts for this investment using the equity method of accounting. During 2019 and 2018, the Medical Center recognized equity in earnings of investee income of approximately \$2.3 million and \$1.3 million, respectively, and received distributions of approximately \$1.2 million and \$0.8 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

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

amounts, after direct plan expenses, provide participant salary supplements and support departmental activities. Faculty practice revenue activities are included in net patient service revenue in the accompanying consolidated statements of operations and changes in net assets. Physicians comprising the faculty practices participate in the Medical Center's professional and general liability insurance programs.

Performance Indicator

The consolidated statements of operations and changes in net assets include the excess of revenue over expenses as the performance indicator. Certain items that are peripheral to the Medical Center's operations (e.g., gain on sale of buildings and land, change in captive insurance program interest rate shortfall, change in equity in captive insurance program, pension and postretirement costs 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). 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.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

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, 2019 and 2018, the PC has a net operating loss carryforward of approximately \$71.5 million and \$47.9 million, respectively, which expire through the year ending December 31, 2037. These losses generate a potential deferred tax asset of approximately \$24.2 million and \$17.1 million at December 31, 2019 and 2018, 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 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. The provisions of TCJA to categorize certain qualified transportation fringe benefit expenses, offered by exempt organizations, as a source of unrelated business income subject to tax, has been retroactively repealed effective December 20, 2019 by the Taxpayer Certainty & Disaster Tax Relief Act of 2019. The repeal is effective retroactive to December 22, 2017, allowing organizations that incurred unrelated business income subject to tax as a result of Section 512(a)(7) of the Internal Revenue Code, to be eligible to seek a refund for prior year income taxes as well as current year paid estimates for income taxes. Regulations necessary to implement certain aspects of TCJA continue to be promulgated by the Internal Revenue Service (IRS) in 2020. As of and for the year ended December 31, 2019, 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 accounting guidance included in Accounting Standards Codification (ASC) 740, *Income Taxes*. The Medical Center will continue to refine its calculations in future periods as additional regulations and guidance are issued by the IRS.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

Other Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The new credit losses standard changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, contract assets recognized as a result of applying ASC 606, loans and certain other instruments, entities will be required to use a new forward looking “expected loss” model that generally will result in earlier recognition of credit losses than under today’s incurred loss model. ASU 2016-13 is effective for annual periods beginning after December 31, 2021. The Medical Center has not completed the process of evaluating the impact of ASU 2016-13 on its consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the presentation in the 2019 financial statements.

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.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

2. Third-Party Payor System (continued)

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

The Medical Center has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years' payment rates, based on industry-wide and Medical Center-specific data. At December 31, 2019, 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, and from 2014 through 2016. 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, decreased its third-party liabilities by \$13.5 million in 2019 and increased its third-party liabilities by \$2.9 million in 2018.

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	
	2019	2018
	<i>(In Thousands)</i>	
Short-term investments:		
Certificate of deposit	\$ 7,800	\$ –
U.S. government obligations	13,504	53,619
Corporate bonds	27,927	25,180
Accrued interest	954	566
Total short-term investments	<u>\$ 50,185</u>	<u>\$ 79,365</u>
Assets limited as to use – current portion:		
Board designated:		
Cash and cash equivalents	\$ 5,358	\$ 134,894
Certificate of deposit	4,000	–
U.S. government obligations	278,752	6,405
Accrued interest	68	37
Total Board designated	<u>288,178</u>	<u>141,336</u>
DSRIP funds:		
Cash and cash equivalents	121,106	99,494
Total assets limited as to use – current portion	<u>\$ 409,284</u>	<u>\$ 240,830</u>
Assets limited as to use – noncurrent portion (sinking funds):		
Cash and cash equivalents	\$ 511	\$ 172
U.S. government obligations	14,646	14,285
Accrued interest	76	74
Total assets limited as to use – noncurrent portion	<u>\$ 15,233</u>	<u>\$ 14,531</u>

Investment income comprises the following:

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Interest income	\$ 6,666	\$ 3,434
Net realized gains and losses on investments reported at fair value and cash distributions from captive insurance program <i>(Note 1)</i>	502	30,892
Equity in earnings of investee	2,389	1,315
	<u>\$ 9,557</u>	<u>\$ 35,641</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	
	2019	2018
	<i>(In Thousands)</i>	
Land	\$ 4,980	\$ 4,980
Buildings and building improvements	445,091	431,751
Equipment	795,717	767,078
	1,245,788	1,203,809
Less accumulated depreciation and amortization	959,154	909,180
	286,634	294,629
Capital projects in progress	39,655	14,627
	\$ 326,289	\$ 309,256

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.

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

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Assets recorded under finance leases	\$ 86,887	\$ 81,942
Less accumulated amortization	36,308	27,948
	\$ 50,579	\$ 53,994

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

A summary of long-term debt is as follows:

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
FHA Section 242 insured mortgage loans (a)	\$ 3,252	\$ 4,322
FHA Section 241 insured mortgage loans (b)	65,303	69,472
Finance lease obligations (c)	48,321	48,516
Construction bank loans (d)	–	1,567
Syndicated bank credit facility (d)	34,848	18,170
Unsecured loan (e)	98,021	96,830
Unamortized premium	1,419	1,651
Unamortized deferred financing costs	(1,022)	(1,189)
	250,142	239,339
Less current portion	25,765	39,848
	\$ 224,377	\$ 199,491

- (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, 2019 and 2018 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, Finance 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, 2019 and 2018 are in compliance with the required amounts.

- (c) The Medical Center has various finance 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 bore interest at 4.55% at December 31, 2018. The syndicated arrangement also included a construction loan of \$20.0 million that bore interest at 4.55% at December 31, 2018. At December 31, 2018, the syndicated bank credit facility (Term A) and the construction loan had an outstanding amount of \$18.1 million and \$1.6 million, respectively. The construction loan was repaid in May 2019. Term A was further refinanced on May 31, 2019 for \$17.5 million with monthly payments through May 2029. Additionally, in connection with the refinancing, a new loan (Term B) was added for \$18.0 million with monthly payments through May 2029. At December 31, 2019, approximately \$17.0 million was outstanding on Term A and \$17.9 million was outstanding on Term B with interest rates of 3.39% and 4.21%, respectively.

As part of this syndicated bank credit facility, the Medical Center has a line of credit for \$25.5 million at a rate of one-month LIBOR plus 1.50%. As of December 31, 2019 and 2018, the line of credit was fully drawn.

- (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

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

unused proceeds of the drawdown of approximately \$44.5 million and \$61.4 million at December 31, 2019 and 2018, respectively, are included in Board designated assets limited as to use in the accompanying consolidated statements of financial position.

The loan agreement has been amended to forgive repayment of \$31.3 million. 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 finance lease obligations (excluding unsecured loan) are as follows:

	Loans Payable	Finance Leases	Total
	<i>(In Thousands)</i>		
2020	\$ 7,027	\$ 18,738	\$ 25,765
2021	7,224	9,652	16,876
2022	7,228	6,719	13,947
2023	6,405	4,973	11,378
2024	6,583	4,482	11,065
Thereafter	68,936	7,053	75,989
Total minimum payments	103,403	51,617	155,020
Less amounts representing interest	–	3,296	3,296
Total long-term debt	103,403	48,321	151,724
Less current portion of long-term debt	7,027	18,738	25,765
Long-term debt, net of current portion	\$ 96,376	\$ 29,583	\$ 125,959

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt, Finance 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):

2020	\$	13,367
2021		13,197
2022		13,197
2023		13,197
2024		13,197

In connection with various debt agreements, the Medical Center is required to maintain certain financial covenants. At December 31, 2019 and 2018, the Medical Center was in compliance with all of the financial covenants.

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 \$58.1 million and \$51.9 million for the years ended December 31, 2019 and 2018, 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.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

- c. If the Medical Center chooses to stop participating in some of its multiemployer plans, the Medical Center may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Medical Center’s participation in these plans for the years ended December 31, 2019 and 2018 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 2019 and 2018 is for a plan’s year-end at December 31, 2018 and 2017, 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 2018 to 2019. Total contributions required to be paid to the plans have increased from 2018 to 2019.

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
			2019	2018		2019	2018		
The New York State Nurses Association Pension Plan	13-6604799	001	Green	Green	No	\$ 14,310,000	\$ 13,793,000	No	12/31/2022
1199 SEIU Health Care Employees Pension Fund	13-3604862	001	Green	Green	No	\$ 19,688,000	\$ 15,758,000	No	9/30/2021

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, 2018 and 2017, 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, 2019 and 2018 are the following amounts that have not yet been recognized in net periodic pension and postretirement benefit cost:

	Pension Benefits		Postretirement Health Care Benefits	
	2019	2018	2019	2018
	<i>(In Thousands)</i>			
Unrecognized prior service (cost) credit	\$ -	\$ -	\$ 3,345	\$ 3,597
Unrecognized actuarial (loss) gains	(61,058)	(49,593)	1,052	361
	\$ (61,058)	\$ (49,593)	\$ 4,397	\$ 3,958

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, 2020 is approximately \$3.5 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, 2019 and 2018:

	Pension Benefits		Postretirement Health Care Benefits	
	2019	2018	2019	2018
	<i>(In Thousands)</i>			
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 212,055	\$ 217,662	\$ 6,656	\$ 8,786
Service cost	9,266	9,888	228	303
Interest cost	8,458	7,479	212	237
Actuarial (gains) losses	34,425	(12,713)	(758)	(2,417)
Net benefits paid and expected expenses	(7,704)	(10,261)	(328)	(253)
Benefit obligation, end of year	<u>256,500</u>	<u>212,055</u>	<u>6,010</u>	<u>6,656</u>
Change in plan assets:				
Fair value of plan assets, beginning of year	129,166	136,273	–	–
Actual return on plan assets	28,345	(7,469)	–	–
Contributions	10,948	10,841	328	253
Benefits paid and actual expenses	(7,930)	(10,479)	(328)	(253)
Fair value of plan assets, end of year	<u>160,529</u>	<u>129,166</u>	<u>–</u>	<u>–</u>
Unfunded status	<u>\$ (95,971)</u>	<u>\$ (82,889)</u>	<u>\$ (6,010)</u>	<u>\$ (6,656)</u>

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

	Pension Benefits		Postretirement Health Care Benefits	
	2019	2018	2019	2018
	<i>(In Thousands)</i>			
Accrued benefit liability – noncurrent	\$ (95,971)	\$ (82,889)	\$ (5,604)	\$ (6,250)
Accrued benefit liability – current	–	–	(406)	(406)
	<u>\$ (95,971)</u>	<u>\$ (82,889)</u>	<u>\$ (6,010)</u>	<u>\$ (6,656)</u>

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

The actuarial losses in 2019 and gains in 2018 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, 2019 and 2018. The projected benefit obligation, accumulated benefit obligation and fair value of pension plan assets are as follows:

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Projected benefit obligation	\$ 256,500	\$ 212,055
Accumulated benefit obligation	224,567	185,688
Fair value of plan assets	160,529	129,166

Net periodic benefit cost, consists of the following components:

	Pension Benefits		Postretirement Health Care Benefits	
	2019	2018	2019	2018
	<i>(In Thousands)</i>			
Service cost	\$ 9,266	\$ 9,888	\$ 228	\$ 303
Interest cost on projected benefit obligation	8,458	7,479	212	237
Expected return on plan assets	(8,485)	(8,876)	–	–
Net amortization and deferral	3,325	3,421	(318)	(250)
Net periodic benefit cost	\$ 12,564	\$ 11,912	\$ 122	\$ 290

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	
	2019	2018	2019	2018
Weighted-average assumptions used to determine benefit obligations as of December 31:				
Discount rate	3.10%	4.10%	2.80%	3.90%
Rate of compensation increase	4.00	4.00	4.00	4.00
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	4.10%	3.50%	3.90%	3.30%
Expected return on plan assets	6.75	6.75	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.

	2019	2018
Assumed health care cost trend rates at December 31:		
Pre-65 Medical:		
Initial rate for health care costs	6.6%	6.2%
Ultimate rate for health care costs	4.1%	3.9%
Ultimate year of health care increase	2098	2098
Post-65 Medical:		
Initial rate for health care costs	5.1%	(2.0)%
Ultimate rate for health care costs	4.2%	4.0%
Ultimate year of health care increase	2098	2098

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have the following effects at December 31, 2019:

	<u>1%</u> <u>Increase</u>	<u>1%</u> <u>Decrease</u>
	<i>(In Thousands)</i>	
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 371	\$ (320)
Effect on health care components of the accumulated postretirement benefit obligation	43	(36)

Plan Assets

The Medical Center's pension plan weighted-average asset allocation at December 31, 2019 and 2018, by asset category, is as follows:

	<u>2019</u>	<u>2018</u>
Asset category:		
Equities	51%	47%
Fixed income	49	52
Cash and cash equivalents	-	1
Total	<u>100%</u>	<u>100%</u>

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

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

Investment Strategy

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

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

Cash Flows

Contributions: The Medical Center expects to contribute \$12.1 million to its defined benefit pension plan in 2020.

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:		
2020	\$ 9,390	\$ 403
2021	10,866	446
2022	11,144	463
2023	12,530	485
2024	13,098	461
2025 to 2029	75,451	2,248

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

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

Other Benefits

The Medical Center accounts for other employee benefits, such as vacation and sick pay, on an accrual basis based on its benefits policies for different categories of employees (e.g., union, non-union, etc.). Liabilities for sick pay benefits that are not expected to be paid within one year are reflected as long-term liabilities (approximately \$8.8 million and \$8.9 million for 2019 and 2018, 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.

On November 27, 2018, the Medical Center, Beth Israel Medical Center, Mount Sinai Hospital and Montefiore Medical Center, collectively the indirect owners of Hospital Insurance Company (HIC) and FOJP Service Corporation (FOJP) announced their agreement to sell HIC and FOJP to The Doctors Company (TDC) for \$719 million, after closing adjustments. The transaction closed on July 31, 2019 and the hospitals shared in the proceeds ratably according to their ownership. The Medical Center has a 25% indirect ownership in Hospitals Insurance Holding Company, the parent of HIC, and received its allocable share of the sale proceeds of approximately \$163.6 million in 2019. Such amounts are included within Board designated assets limited as to use in the accompanying consolidated statements of financial position at December 31, 2019. Additionally, an escrow agreement was executed to have \$65.0 million placed in escrow for indemnification purposes. As a result, the Medical Center recorded its share of the escrow of \$16.2 million within other assets in the accompanying consolidated statements of financial position as of December 31, 2019. Further, as a result of the sale, the Medical Center recorded a gain of sale of approximately \$14.2 million, which is included within other revenue in the accompanying consolidated statements of operations and changes in net assets for the year ended December 31, 2019. In connection with the sale, TDC has created a new business unit, Healthcare Risk Advisors (“HRA”). HRA will succeed FOJP and will provide similar services to the Medical Center.

At December 31, 2019, the Medical Center retained ownership in two captive insurance companies affiliated with HRA. The captive insurance companies are primarily accounted for using the equity method with 25% ownership in the captive insurance companies. The aggregate net carrying value

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

7. Professional Liabilities (continued)

of the Medical Center's interests in the insurance program was approximately \$36.1 million and \$173.5 million at December 31, 2019 and 2018, respectively, and is included in equity in captive insurance program 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, 2019 and 2018, approximately \$54.6 million and \$53.8 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 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 of the captive insurance companies and may be required to fund shortfalls resulting from differences between guaranteed and actual investment returns. The Medical Center was not required to fund any differences in 2019 and 2018. The investment earnings did not meet the required return in 2017 and 2016; 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 \$209.5 million and \$227.2 million based on a discount rate of 2.75% at December 31, 2019 and 2018, respectively. The Medical Center has recorded related estimated insurance claims receivable of approximately \$209.5 million and \$227.2 million at December 31, 2019 and 2018, 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.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

8. Transactions with Affiliates

Services provided by MMC Holding of Brooklyn, Inc. through its various subsidiaries to the Medical Center include pharmaceuticals, medical supplies and equipment, technical support services, contracted services and management services for various Medical Center properties. Expenses incurred by the Medical Center for such services approximated \$21.3 million and \$21.5 million during 2019 and 2018, 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 during each of 2019 and 2018.

The net amounts due from affiliates in the accompanying consolidated statements of financial position included a revolving loan receivable and accrued interest thereon from MMC Holding of Brooklyn, Inc. of approximately \$0.2 million at December 31, 2018. The loan bore interest of 5.75% with no specified repayment date. This loan was repaid in 2019. Also included in the balances each year are amounts due from and to MMC Holding of Brooklyn, Inc. and its subsidiaries for services provided by and to the Medical Center, as previously described.

9. Net Assets with Donor Restrictions

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

	2019	2018
	<i>(In Thousands)</i>	
Research and education	\$ 1,556	\$ 1,020
Plant replacement and expansion	19,581	18,726
Investments to be held in perpetuity	1,132	1,132
	<u>\$ 22,269</u>	<u>\$ 20,878</u>

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

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

10. Other Revenue

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

	2019	2018
	<i>(In Thousands)</i>	
Government grant income	\$ 9,574	\$ 9,673
Electronic health records incentive payments	611	642
SIPIP award	–	20,000
DSRIP – revenue loss funding	4,300	9,348
Real estate rentals	3,890	4,718
Investment income <i>(see Notes 1 and 3)</i>	9,557	35,641
Gain on sale of HIC <i>(see Note 7)</i>	14,254	–
Special funds income	10,838	11,218
Dining and parking lot income	1,658	1,636
Grants and contributions	7,135	7,157
Insurance company surplus distribution	14,624	13,331
Other	10,907	11,859
	\$ 87,348	\$ 125,223

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 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 consolidated statement of financial position as of December 31, 2019.

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.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

10. Other Revenue (continued)

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 \$77.4 million and \$77.9 million during 2019 and 2018, respectively, and recognized approximately \$16.8 million and \$22.4 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 2019 and 2018, approximately \$39.0 million and \$46.3 million, respectively, was distributed to other participating providers. The balance of approximately \$121.1 million and \$99.5 million recorded at December 31, 2019 and 2018, 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 for 2018, related to distributions from the captive insurance company program (see Note 1).

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, 2019 are as follows (in thousands):

	Health Care and Related Services	Program Support and General	Total
Salaries and wages	\$ 611,700	\$ 85,178	\$ 696,878
Employee benefits	159,755	25,887	185,642
Supplies and other expenses	329,175	97,421	426,596
Depreciation and amortization	39,673	10,301	49,974
Interest and amortization of deferred financing costs	27	7,668	7,695
	\$ 1,140,330	\$ 226,455	\$ 1,366,785

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	\$ 576,714	\$ 82,460	\$ 659,174
Employee benefits	149,319	25,268	174,587
Supplies and other expenses	305,724	87,119	392,843
Depreciation and amortization	38,998	9,965	48,963
Interest and amortization of deferred financing costs	36	7,837	7,873
	\$ 1,070,791	\$ 212,649	\$ 1,283,440

The financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function are allocated to a function based on units of service basis or are otherwise allocated based on revenue.

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 (in thousands):

	2019	2018
Financial assets available:		
Cash and cash equivalents	\$ 28,093	\$ 31,214
Short-term investments	50,185	79,365
Assets limited as to use:		
Board designated	288,178	141,336
Receivables for patient care	186,838	169,044
Total financial assets	553,294	420,959
Less: Investments to be held in perpetuity	1,132	1,132
	\$ 552,162	\$ 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	
	2019	2018
Medicare and Medicaid	51%	49%
Commercial and managed care	46	50
Self pay	3	1
	100%	100%

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

12. Concentration of Credit Risk (continued)

At December 31, 2019 and 2018, 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, 2019 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	\$ 155,068	\$ —	\$ —	\$ 155,068
Certificates of deposit	11,800	—	—	11,800
U.S. government notes and bonds	306,902	—	—	306,902
Corporate bonds	—	27,927	—	27,927
Total assets at fair value	<u>\$ 473,770</u>	<u>\$ 27,927</u>	<u>\$ —</u>	<u>\$ 501,697</u>
Liabilities				
Interest rate swap agreements	\$ —	\$ 1,716	\$ —	\$ 1,716

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	<u>\$ 340,083</u>	<u>\$ 25,180</u>	<u>\$ —</u>	<u>\$ 365,263</u>
Liabilities				
Interest rate swap agreements	\$ —	\$ 1,603	\$ —	\$ 1,603

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

13. Fair Value Measurements (continued)

Financial assets in each of the tables above exclude approximately \$1.1 million and \$0.6 million in accrued interest as of December 31, 2019 and 2018, respectively, which are included within short-term investments and assets limited as to use in the accompanying consolidated statements of financial position.

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. Leases

For the year ended December 31, 2019

As described in Note 1, the Medical Center adopted ASU 2016-02 effective January 1, 2019. The Medical Center leases certain property and equipment under finance and operating leases. Leases are classified as either finance or operating leases based on the underlying terms of the agreement and certain criteria, such as the term of the lease relative to the useful life of the asset and the total lease payments to be made as compared to the fair value of the asset, amongst other criteria. Finance leases result in an accounting treatment similar to an acquisition of the asset.

For leases with initial terms greater than a year (or initially, greater than one year remaining under the lease at the date of adoption of ASU 2016-02), the Medical Center records the related right-of-use assets and liabilities at the present value of the lease payments to be paid over the life of the

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

14. Leases (continued)

related lease. The Medical Center's leases may include variable lease payments and renewal options. Variable lease payments are excluded from the amounts used to determine the right-of-use assets and liabilities unless the variable lease payments depend on an index or rate or are in substance fixed payments. Lease payments related to periods subject to renewal options are also excluded from the amounts used to determine the right-of-use assets and liabilities unless the Medical Center is reasonably certain to exercise the option to extend the lease. The present value of lease payments is calculated by utilizing the discount rate stated in the lease, when readily determinable. For leases for which this rate is not readily available, the Medical Center has elected to use a risk-free discount rate determined using a period comparable with that of the lease term. The Medical Center has made an accounting policy election not to separate lease components from nonlease components in contracts when determining its lease payments for all of its asset classes, as permitted by ASU 2016-02. As such, the Medical Center accounts for the applicable nonlease components together with the related lease components when determining the right-of-use assets and liabilities.

The Medical Center has made an accounting policy election not to record leases with an initial term of less than a year as right-of-use assets and liabilities.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

14. Leases (continued)

The following schedule summarizes information related to the lease assets and liabilities as of and for the year ended December 31, 2019 (in thousands):

Lease cost for the year ended December 31, 2019:

Finance lease cost:	
Amortization of right-of-use asset	\$ 12,102
Interest on lease liabilities	1,358
Operating lease cost	24,111
Short-term lease cost	1,516
Total lease cost	<u>\$ 39,087</u>

Right-of-use assets and liabilities as of December 31, 2019:

Right-of-use assets – finance leases	\$ 50,579
Lease liability – finance leases	48,321
Right-of-use assets – operating leases	108,953
Lease liability – operating leases	107,067

Other information:

Cash paid for amounts included in the measurement of lease liabilities (year ended December 31, 2019):

Operating cash flows from finance leases	\$ 1,358
Operating cash flows from operating leases	25,267

Right-of-use assets obtained in exchange for new finance lease liabilities (year ended December 31, 2019)	17,079
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Right-of-use assets obtained in exchange for new operating lease liabilities (year ended December 31, 2019)	2,564
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Weighted-average remaining lease term – finance leases	4.71 years
Weighted-average remaining lease term – operating leases	8.52 years
Weighted-average discount rate – finance leases	3.17%
Weighted-average discount rate – operating leases	2.58%

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

14. Leases (continued)

For finance leases, right-of-use assets are recorded in property, plant and equipment, net and lease liabilities are recorded in long-term debt and finance lease obligations in the accompanying consolidated statements of financial position. For operating leases, right-of-use assets are recorded in right-of-use asset and lease liabilities are recorded in operating lease liability in the accompanying consolidated statements of financial position. The following table reconciles the undiscounted operating lease payments to the lease liabilities recorded on the accompanying consolidated statements of financial position at December 31, 2019 (in thousands) (see Note 5 for finance lease payments):

	<u>Operating leases</u>
2020	\$ 21,397
2021	17,359
2022	15,373
2023	12,882
2024	10,779
Thereafter	<u>42,976</u>
Total lease payments	120,766
Less imputed interest	<u>13,699</u>
Total lease obligation	<u>\$ 107,067</u>

Total rental expense charged to operations for the year ended December 31, 2019 aggregated approximately \$25.6 million.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

14. Leases (continued)

For the year ended December 31, 2018

The Medical Center had entered into various agreements under non-cancellable operating leases. Future minimum payments under non-cancellable operating leases with initial or recurring terms of one year or more were 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>

Total rental expense charged to operations for the year ended December 31, 2018 aggregated approximately \$20.9 million.

15. Commitments and Contingencies

The Medical Center has executed a contract of sale, dated July 30, 2019, to acquire property adjoining the main hospital campus for a purchase price of \$14.5 million. Title of the property will transfer to the Medical Center when all deposits, installment payments and final payment has been made, and certain other conditions have been met, which is expected to occur on or about April 2022.

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, 2022. The New York State Nurses Association contract expires on December 31, 2022.

Maimonides Medical Center

Notes to Consolidated Financial Statements (continued)

16. Subsequent Events

Subsequent events have been evaluated through May 18, 2020, which is the date the consolidated financial statements were issued. Except as disclosed below, no subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

The Medical Center executed a non-binding Letter of Intent with New York Community Hospital on March 4, 2020 to explore ways to combine both entities to better sustain and enhance the healthcare operations in service to their communities on a financially sustainable basis building on their respective strengths. In connection with the executed Letter of Intent, a secured loan agreement was executed whereby the Medical Center will lend New York Community Hospital a maximum loan amount of \$20 million.

Due to the global viral outbreak caused by Coronavirus Disease 2019 (COVID-19) in 2020, there have been resulting effects which could negatively impact the Medical Center's financial condition. Management continues to closely monitor the impact of COVID-19 in many respects. The ultimate impact of these matters to the Medical Center and its financial condition is presently unknown. To enhance liquidity, the Medical Center, inclusive of the PC, is participating in the Centers for Medicare & Medicaid Services' Accelerated and Advance Payment Program under which it received approximately \$110.7 million in April 2020 in expedited payments for future services. The majority of the advance payment amount will be reconciled with Medicare upon submission of the Medical Center's cost report at May 31, 2021. The Medical Center, inclusive of the PC, also received grant distributions under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, totaling \$155.5 million in April and May 2020. The accompanying consolidated financial statements as of and for the year ended December 31, 2019 do not reflect the effects of these subsequent events.

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