

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

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

Ernst & Young LLP



Montefiore Medical Center
Consolidated Financial Statements and
Supplementary Information
Years Ended December 31, 2017 and 2016

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Report of Independent Auditors

The Board of Trustees
Montefiore Medical Center

We have audited the accompanying consolidated financial statements of Montefiore Medical Center and its controlled organizations, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of operations, 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 Montefiore Medical Center and its controlled organizations at December 31, 2017 and 2016, and the consolidated results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 12, 2018

Montefiore Medical Center

Consolidated Statements of Financial Position

	December 31	
	2017	2016
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 253,978	\$ 170,595
Marketable and other securities	656,290	633,928
Assets limited as to use, current portion	15,976	52,159
Receivables for patient care, less allowances for doubtful accounts (2017 – \$25,064; 2016 – \$27,431)	243,095	288,052
Other receivables	48,616	59,052
Estimated insurance claims receivable, current portion	81,097	74,963
Other current assets	56,305	51,749
Due from members, current portion	32,476	23,079
Total current assets	1,387,833	1,353,577
Assets limited as to use, net of current portion	200,092	194,269
Property, buildings and equipment, net	1,056,355	1,122,239
Estimated insurance claims receivable, net of current portion	459,548	424,793
Other noncurrent assets	218,432	259,112
Due from members, net of current portion	167,464	86,878
Total assets	\$ 3,489,724	\$ 3,440,868
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 277,149	\$ 321,713
Accrued salaries, wages and related items	285,851	269,138
Professional and other insured liabilities, current portion	52,022	50,848
Estimated insurance claims liabilities, current portion	81,097	74,963
Estimated third-party payer liabilities, current portion	41,492	40,586
Long-term debt, current portion	74,475	65,786
Total current liabilities	812,086	823,034
Long-term debt, net of current portion	724,216	753,021
Noncurrent defined benefit pension and other postretirement health plan liabilities	190,153	167,051
Professional and other insured liabilities, net of current portion	139,541	136,512
Employee deferred compensation	45,570	37,789
Estimated insurance claims liabilities, net of current portion	459,548	424,793
Estimated third-party payer liabilities, net of current portion	211,014	215,066
Other noncurrent liabilities	63,179	84,320
Total liabilities	2,645,307	2,641,586
Commitments and contingencies		
Net assets:		
Unrestricted	732,749	689,397
Temporarily restricted	78,062	78,181
Permanently restricted	33,606	31,704
Total net assets	844,417	799,282
Total liabilities and net assets	\$ 3,489,724	\$ 3,440,868

See accompanying notes.

Montefiore Medical Center
Consolidated Statements of Operations

	Year Ended December 31	
	2017	2016
	<i>(In Thousands)</i>	
Operating revenue		
Net patient service revenue before bad debt expense	\$ 3,446,406	\$ 3,646,568
Bad debt expense	(33,486)	(49,307)
Net patient service revenue	3,412,920	3,597,261
Grants and contracts	82,247	89,151
Contributions	6,902	6,584
Other revenue	260,778	189,472
Total operating revenue	3,762,847	3,882,468
Operating expenses		
Salaries and wages	1,761,775	1,730,837
Employee benefits	495,898	467,825
Supplies and other expenses	1,294,553	1,470,653
Depreciation and amortization	150,921	148,955
Interest	32,078	34,589
Total operating expenses	3,735,225	3,852,859
Excess of operating revenues over operating expenses before other items	27,622	29,609
Net realized and changes in net unrealized gains and losses on marketable and other securities	37,141	11,224
Malpractice insurance program adjustments associated with investment earnings shortfall	1,209	(1,209)
Net periodic pension and other postretirement benefit costs (non-service related)	(9,444)	(8,841)
Gain on debt refinancing	–	4,604
Excess of revenues over expenses	56,528	35,387
Change in defined benefit pension and other postretirement health plan liabilities to be recognized in future periods	(16,678)	6,720
Net assets released from restrictions used for purchases of property, buildings and equipment	–	109
Transfer of Montefiore Consolidated Ventures, Inc. to MHS <i>(Note 1)</i>	41,435	–
Transfers to members, net	(37,933)	(64,511)
Increase (decrease) in unrestricted net assets	\$ 43,352	\$ (22,295)

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2017 and 2016

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
	<i>(In Thousands)</i>			
Net assets at January 1, 2016	\$ 711,692	\$ 74,510	\$ 31,390	\$ 817,592
Decrease in unrestricted net assets	(22,295)	–	–	(22,295)
Restricted gifts, bequests, and similar items	–	5,717	314	6,031
Restricted investment income	–	1,220	–	1,220
Net assets released from restrictions	–	(3,266)	–	(3,266)
Total changes in net assets	<u>(22,295)</u>	<u>3,671</u>	<u>314</u>	<u>(18,310)</u>
Net assets at December 31, 2016	689,397	78,181	31,704	799,282
Increase in unrestricted net assets	43,352	–	–	43,352
Restricted gifts, bequests, and similar items	–	4,936	26	4,962
Restricted investment income	–	161	312	473
Transfers	–	(1,564)	1,564	–
Net assets released from restrictions	–	(3,652)	–	(3,652)
Total changes in net assets	<u>43,352</u>	<u>(119)</u>	<u>1,902</u>	<u>45,135</u>
Net assets at December 31, 2017	<u>\$ 732,749</u>	<u>\$ 78,062</u>	<u>\$ 33,606</u>	<u>\$ 844,417</u>

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2017	2016
	<i>(In Thousands)</i>	
Operating activities		
Increase (decrease) in net assets	\$ 45,135	\$ (18,310)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	150,921	148,955
Bad debt expense	33,486	49,307
Change in defined benefit pension and other postretirement health plan liabilities to be recognized in future periods	16,678	(6,720)
Transfers to members, net	37,933	64,511
Transfer of Montefiore Consolidated Ventures, Inc. to MHS	(41,435)	–
Net realized gains and losses on marketable and other securities	(14,019)	(4,614)
Change in net unrealized gains and losses on marketable and other securities	(23,122)	(6,610)
Equity earnings from investments	(31,625)	(27,672)
Write-off of long-term mortgage premium and deferred financing costs as a result of debt refinancing	–	1,284
Amortization of long-term mortgage premium	(329)	(502)
Amortization of deferred financing costs	1,072	1,171
Changes in operating assets and liabilities:		
Receivables for patient care	11,471	(84,806)
Accounts payable and accrued expenses	(44,564)	30,607
Accrued salaries, wages and related items	16,713	20,187
Noncurrent defined benefit and postretirement health plan liabilities	6,424	12,516
Net change in all other operating assets and liabilities	13,299	(59,931)
Net cash provided by operating activities	178,038	119,373
Investing activities		
Acquisition of property, buildings and equipment, net	(85,037)	(112,154)
Advances to Montefiore Health System, Inc. on MHS Note and other	(4,218)	(8,336)
Payments from Montefiore Health System, Inc. on MHS Note	2,047	1,948
Decrease in marketable and other securities, net	14,779	93,909
Decrease in assets limited to use, net	30,360	42,549
Net cash (used in) provided by investing activities	(42,069)	17,916
Financing activities		
Payments of long-term debt	(67,729)	(68,529)
Extinguishment of long-term debt	–	(224,964)
Proceeds from long-term debt	47,078	252,090
Payments of deferred financing costs	(208)	(3,508)
Payments to members, net	(31,727)	(49,388)
Net cash used in financing activities	(52,586)	(94,299)
Net increase in cash and cash equivalents	83,383	42,990
Cash and cash equivalents at beginning of year	170,595	127,605
Cash and cash equivalents at end of year	\$ 253,978	\$ 170,595

See accompanying notes.

Montefiore Medical Center

Notes to Consolidated Financial Statements

December 31, 2017

1. Organization and Significant Accounting Policies

Organization

Montefiore Medical Center and its controlled organizations (collectively, the Medical Center) comprise an integrated health care delivery system. The majority of the facilities are located in the Bronx, New York. The Medical Center is incorporated under New York State Not-for-Profit Corporation law and provides health care and related services, primarily to residents of the Metropolitan New York area. The Medical Center is a not-for-profit membership organization whose sole member is Montefiore Health System, Inc. (MHS). In addition, MHS is the sole member of several other health care related entities (members). Montefiore Medicine Academic Health System, Inc. (MMAHS) is the sole member of MHS.

The Medical Center, together with the members, provides patient care, teaching, research, community services and care management. The Medical Center operates many community benefit programs, including wellness programs, community education programs and health screenings, as well as a variety of community support services, health professionals' education, school health programs and subsidized health services.

The accompanying consolidated financial statements include the accounts of the following tax-exempt and taxable organizations.

- Montefiore Medical Center
- MMC Corporation (MCORP)
- Gunhill MRI P.C. (Gunhill)
- Mosholu Preservation Corporation (MPC)
- CMO The Care Management Company, LLC (CMO)
- Montefiore Proton Acquisition, LLC (MPRO)
- MMC Residential Corp. I, Inc. (Housing I)
- Montefiore Hospital Housing Section II, Inc. (Housing II)
- Montefiore Hudson Valley Collaborative LLC (MHVC)
- Montefiore CERC Operations, Inc. (CERC)
- Montefiore Consolidated Ventures, Inc. (MCV), which is the parent to the following organizations:
 - The Montefiore IPA, Inc. (MIPA)
 - Bronx Accountable Healthcare Network IPA, Inc. (ACO-IPA)
 - University Behavioral Associates, Inc. (UBA)
 - Montefiore Behavioral Care IPA No. 1, Inc. (MBCIPA)
 - MMC GI Holdings East, Inc. (GI East)
 - MMC GI Holdings West, Inc. (GI West)

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

All intercompany accounts and activities have been eliminated in consolidation. Captive insurance companies in which the Medical Center has an equity interest of more than 20%, but less than 50%, are accounted for under the equity method of accounting. In addition, investments in limited liability companies not wholly owned are recorded under the equity method.

On March 1, 2017, the Medical Center entered into an agreement by which it assigned and transferred all of its rights, title and interest in the shares of the common stock of MCV and its controlled organizations to MHS. In accordance with Accounting Standards Codification Topic 805, *Business Combinations*, this transaction was accounted for as a net asset transfer between entities under common control, with no retrospective adjustment to the prior period consolidated financial statements. Accordingly, the activities of MCV are included in the consolidated statements of operations and changes in net assets through the date of transfer. The following table summarizes the assets, liabilities and net deficiency of MCV and its controlled organizations as of the date of transfer, March 1, 2017, and December 31, 2016:

	March 1, 2017*	December 31, 2016
<i>(In Thousands)</i>		
Assets		
Cash and cash equivalents	\$ 6,631	\$ 5,254
Marketable and other securities	23,712	23,457
Assets limited as to use	39,345	39,155
Other receivables	12,488	12,155
Due from members	8,340	8,256
Property, buildings and equipment, net	142	142
Other noncurrent assets	2,022	1,996
Total assets	\$ 92,680	\$ 90,415
Liabilities		
Accounts payable and accrued expenses	\$ 73,965	\$ 65,999
Accrued salaries, wages, and related items	469	380
Due to members	59,681	67,045
Total liabilities	134,115	133,424
Net deficiency		
Unrestricted net deficiency	(41,435)	(43,009)
Total liabilities and net deficiency	\$ 92,680	\$ 90,415

* Represents assets, liabilities and net deficiency transferred to MHS on March 1, 2017 and excluded from the consolidated statement of financial position as of December 31, 2017.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The following table summarizes the operating revenue and excess (deficiency) of revenues over expenses related to MCV included within the consolidated statements of operations of the Medical Center through the date of transfer, March 1, 2017, and December 31, 2016:

	Period From	
	January 1,	Year Ended
	2017 to	December 31,
	March 1, 2017	2016
	<i>(In Thousands)</i>	
Total operating revenue	\$ 90,590	\$ 534,472
Excess (deficiency) of revenues over expenses	\$ 1,671	\$ (2,849)

Tax Status: The Medical Center, a section 501(c)(3) organization, is exempt from Federal, New York State and local income taxes under Section 501(a) of the Internal Revenue Code, as are all of the organizations consolidated in these financial statements, except for MCV and its subsidiaries, which are taxable entities and CMO, MPRO and MHVC which are disregarded entities for income tax purposes. Disregarded entity status provides that the Medical Center is subject to unrelated business income taxation on income derived from activities not specific to the Medical Center. Provisions for income taxes related to the taxable entities are not material to the consolidated financial statements.

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

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use has been limited by donors to a specific time frame or purpose. Permanently restricted net assets have been restricted by the donors to be maintained by the Medical Center in perpetuity. The Medical Center records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are classified as unrestricted contributions. Other revenue for the years ended December 31, 2017 and 2016 includes approximately \$3.7 million and \$3.2 million, respectively, of net assets released from restrictions used for operations.

Cash and Cash Equivalents: Cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less at the time of purchase which are not deemed to be assets limited as to use or part of the marketable securities portfolio. The Medical Center maintains cash on deposit with major banks and invests in highly rated commercial paper on an overnight basis or securities issued by either the United States Government or its agencies with a maturity of three months or less at the time of purchase. The Medical Center does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents. Book overdrafts in the amount of \$35.2 million and \$31.9 million as of December 31, 2017 and 2016, respectively, are included within accounts payable and accrued expenses in the consolidated statements of financial position.

At December 31, 2017 and 2016, the Medical Center invested excess cash in deposits with major banks and in money market funds with high credit quality financial institutions.

Revenue and Receivables for Patient Care: Patient accounts receivable for which the Medical Center receives payment under various formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amount receivable from such payers, which is generally less than the established billing rates of the Medical Center. Fees for patient services not covered by payer reimbursement and insurance programs are recorded on a sliding scale dependent on the individual's ability to pay. For purposes of presentation in the accompanying consolidated statements of financial position, receivables for patient care are net of advances from third-party payers which are directly related to receivables for patient care.

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions and other collection indicators.

Inventories: Inventories, included in other current assets, consist primarily of drugs and supplies, and are valued at the lower of cost and net realizable value.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Marketable and Other Securities: All marketable and other securities are classified as trading securities. Marketable securities are carried at fair value and generally consist of fixed income securities issued or guaranteed by government entities, money market funds, mutual funds, fixed income securities issued by corporations, collective trust funds and equity securities. Marketable securities received as a gift are initially recorded at fair value at the date of the gift. The carrying amount of alternative investments (nontraditional, not readily marketable asset classes), some of which are structured such that the Medical Center holds limited partnership interests, are determined by Medical Center management for each investment, based upon net asset values derived from the application of the equity method of accounting.

Individual investment holdings within the alternative investments include both non-marketable and market-traded securities. Valuations of the non-marketable securities are determined by the investment manager or general partner. These values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, the carrying amount reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Medical Center to securities lending, short sales of securities, and trading in futures and forwards contracts, options and other derivative products. The Medical Center's risk is limited to its carrying value, in addition to any unfunded commitment. At December 31, 2017, the Medical Center had approximately \$9.8 million of future commitments to invest in alternative investments. Certain investments are subject to notification periods or restrictions in order to divest. The redemption notice period for this asset class ranges from 30 days to 90 days. Funds are generally available within 30 days after the redemption date. At December 31, 2017, approximately 22% of alternative investments are held in illiquid private equity funds and distributions are based on the investment managers' discretion. The financial statements of the investees are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Medical Center's annual consolidated financial statement reporting.

There is uncertainty in the accounting for alternative investments arising from factors such as lack of active markets (primary or secondary), lack of transparency into underlying holdings and time lags associated with reporting by the investee companies. As a result, there is at least a reasonable possibility that estimates will change in the near term.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Investment Gains, Losses and Income: Net realized and unrealized gains and losses on marketable and other securities and equity in earnings or losses of alternative investments are recorded in the excess of revenues over expenses unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income limited by donor-imposed restrictions is recorded as an increase in temporarily restricted net assets. Realized gains and losses on sales of marketable and other securities are based on the average cost method.

Assets Limited as to Use: Assets so classified represent assets whose use is restricted for specific purposes under terms of agreements, donor restrictions, or employee deferred compensation plans.

Property, Buildings and Equipment: Property, buildings and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date received. Annual provisions for depreciation are made based upon the straight-line method over the estimated useful lives of the assets. 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 in the year of disposal.

Deferred Financing Costs: Deferred financing costs represent costs incurred to obtain financing for various construction and renovation projects. Amortization of these costs is determined by the effective interest method extending over the terms of the related indebtedness. Deferred financing costs are included as a reduction to long-term debt in the accompanying consolidated statements of financial position.

Employee Deferred Compensation Plan: Pursuant to various deferred compensation plans in which certain Medical Center employees or former employees participate, the Medical Center deposited employee contributions with trustees on behalf of the participating employees. The Medical Center is not responsible for investment gains or losses incurred. The assets, which are carried at fair value with a corresponding liability, are restricted for payments under the plans and may only revert to the Medical Center under certain specified circumstances. The assets are included in assets limited as to use in the accompanying consolidated statements of financial position.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Premium Revenue and Health Care Service Cost Recognition: Under certain managed care contracts, the Medical Center receives from the insurer a monthly premium per enrollee during the term of enrollment. The premium revenue, which is based on individual contracts, is recognized in the period earned. Under such arrangements, the Medical Center manages and, directly and through arrangements with other health care providers, delivers health care services to enrollees in accordance with the terms of the subscriber agreements. The Medical Center reimburses these providers on either a capitated or negotiated fee-for-service basis. The cost of health care services is accrued based on processed and unprocessed claims and estimates for medical services, which have been incurred but not reported. Although it is not possible to measure with certainty the degree of variability inherent in such an estimate, such estimates are continually monitored and reviewed by management and independent actuaries, and any adjustments deemed necessary are reflected in current operations. Health care service costs included in supplies and other expenses were increased by approximately \$671,000 for the year ended December 31, 2017 and decreased by approximately \$5.0 million for the year ended December 31, 2016, reflecting the difference between claims paid and the liability originally estimated. Premium revenue included within net patient service revenue in the accompanying consolidated statements of operations aggregated approximately \$153.5 million and \$560.7 million for the years ended December 31, 2017 and 2016, respectively. The decrease in premium revenue is reflective of the change in membership of MCV and its controlled organizations in 2017.

Performance Indicator: The consolidated statements of operations include excess of revenues over expenses as the performance indicator. Items excluded from excess of revenues over expenses are change in defined benefit pension and other postretirement health plan liabilities to be recognized in future periods; net assets released from restrictions used for purchases of property, buildings and equipment; and transfers to members, net.

Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and operating expenses and are included in excess of operating revenues over operating expenses before other items. Peripheral transactions or transactions of an infrequent nature are excluded from excess of operating revenues over expenses before other items.

Charity Care and Other Community Benefit Programs: The Medical Center is guided by its mission and charitable purpose to provide charity care and other community benefit programs. These activities include access to medically necessary treatment for individuals unable to pay for

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

services, care provided under means-tested government insurance programs that reimburse the Medical Center at less than the cost of the services provided, education for future health providers, research to advance knowledge and other programs designed to meet local community needs.

The Medical Center is committed to serving all patients in need of health care services. Consistent with its mission and values, and taking into account an individual's ability to pay for medically necessary health care services, the Medical Center provides charity care, including free or discounted care, to all patients not covered by insurance. A key aspect of the policy includes assisting patients in obtaining insurance they are eligible to receive. Care provided under the charity care policy is not reported as net patient service revenue in the accompanying consolidated statements of operations. The cost of charity care is estimated based on charges associated with the care provided, applied to the ratio of total patient care expenses to total charges for all services rendered.

Care provided to patients identified as having the means to pay, but for which payment is not received, is classified as bad debt expense. The Medical Center uses information from patients and from other sources for patients who are unable to provide financial information, to determine eligibility for charity care to classify activity between charity care and bad debt expense. Bad debt expense is included as a deduction from net patient service revenue in the accompanying consolidated statements of operations.

Medicaid and other means-tested programs comprise approximately one-third of the Medical Center's patient service revenue. The costs are estimated based on charges for services provided under the means-tested programs, applied to the ratio of total patient care expenses to total charges for all services rendered. The unpaid cost presented in the table below is based on estimated total costs, less reimbursement received for the services provided.

The Medical Center operates one of the largest medical residency and health professions training programs in the United States. The costs of the training programs are included in operating expenses in the accompanying consolidated statements of operations. The costs presented below are net of graduate medical education funding from the Medicare and Medicaid programs.

Research and other community benefit program costs include expenses incurred to advance medical care and clinical knowledge. In addition, the Medical Center fosters community participation through advisory boards and linkages with community-based groups. It responds to identified community health related needs by offering specific services including, among others,

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

wellness programs, community education programs, health screenings, community support services and subsidized health services. The research and other community benefit program costs presented below are included in operating expenses in the accompanying consolidated statements of operations.

A summary of the costs associated with the provision of charity care and other community benefit programs is as follows:

	Year Ended December 31	
	2017	2016
	<i>(In Thousands)</i>	
Charity care, at cost and net of subsidies	\$ 54,803	\$ 50,064
Unpaid cost of means-tested government-sponsored insurance programs	346,330	288,128
Health professions training, at cost	47,441	38,571
Community benefit programs	95,667	92,299
Research	18,888	15,574
	\$ 563,129	\$ 484,636

The New York State Department of Health (NYSDOH) Hospital Indigent Care Pool (the Pool) was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. For the years ended December 31, 2017 and 2016, the Medical Center received approximately \$8.7 million and \$8.1 million, respectively, in Pool distributions related to charity care. The Medical Center made payments into the Pool of approximately \$19.8 million and \$19.0 million for the years ended December 31, 2017 and 2016, respectively, for the 1% assessment.

Program Services: The Medical Center provides health care and related services primarily within its geographic area. Expenses related to providing these services for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
	<i>(In Thousands)</i>	
Health care and related services	\$ 3,358,911	\$ 3,498,283
Program support and general services	376,314	354,576
	\$ 3,735,225	\$ 3,852,859

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Use of Estimates: The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, such as estimated uncollectibles for accounts receivable for services to patients and estimated insurance recoveries receivable, and liabilities, such as estimated third-party payer liabilities, estimated insurance claims liabilities and the 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. During 2017 and 2016, the Medical Center recorded net changes in estimates that increased the excess of revenues over expenses by \$12.5 million and \$46.5 million, respectively, which primarily related to changes in previously estimated third-party payer settlements and changes to estimated liabilities.

Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition*, and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 are effective for the Medical Center for the fiscal year beginning after December 15, 2017, and interim periods within that fiscal year. In accordance with ASU 2014-09, the Medical Center will analyze revenue streams utilizing the portfolio approach to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Management will adopt ASU 2014-09 following the modified retrospective method of application. Subsequent to adoption, certain patient activity where collection is uncertain which was previously reported as net patient service revenue and bad debt expense in the Medical Center's consolidated statements of operations will no longer meet the criteria for revenue recognition and, accordingly, the bad debt expense after the adoption date will be significantly reduced with a corresponding reduction to net patient service revenue. The Medical Center's adoption of ASU 2014-09 will have other impacts to net patient service revenue, which include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures. The impact of the adoption of ASU 2014-09 in relation to other applicable revenue activity is still being evaluated by the Medical Center.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02), which will require lessees to report most leases on their balance sheet, but recognize expenses on their income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The provisions of ASU 2016-02 are effective for the Medical Center for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statement Presentation* (ASU 2016-14), which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs will be required to classify net assets as net assets with donor restrictions or without donor restrictions. Entities that use the direct method of presenting operating cash flows will no longer be required to provide a reconciliation of the change in net assets to operating cash flows. The guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs will also be required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 are effective for the Medical Center for annual periods beginning after December 15, 2017. Application of ASU 2016-14 to interim periods within the initial year of adoption is permitted, but not required. Early adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the Medical Center for annual periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash* (ASU 2016-18), which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for the Medical Center for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2016-18 on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The Medical Center adopted ASU 2017-07 on January 1, 2017 and retrospectively applied the presentation requirements to the consolidated statement of operations for the year ended December 31, 2016. As a result of the adoption of ASU 2017-07, the Medical Center recorded the service cost component of net periodic benefit cost related to its defined benefit pension and other postretirement benefit plan (aggregate of approximately \$16.5 million and \$15.1 million for the years ended December 31, 2017 and 2016, respectively) within salaries and wages on the consolidated statements of operations and presented all other components (aggregate of approximately \$9.4 million and \$8.8 million for the years ended December 31, 2017 and 2016, respectively) as net periodic pension and other postretirement benefit costs (non-service related) below the excess of operating revenues over operating expenses before other items on the consolidated statements of operations.

Reclassifications: For purposes of comparison, certain reclassifications have been made to the accompanying 2016 consolidated financial statements to conform to the 2017 presentation. These reclassifications primarily relate to book overdrafts, which were recorded previously as a component of cash and cash equivalents and are now recorded within accounts payable and accrued expenses; patient refunds, which were recorded previously within receivables for patient

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

care, less allowances for doubtful accounts and are now recorded within estimated third-party payer liabilities, current portion; and employee health claims which were recorded previously within net patient service revenue before bad debt expense and employee benefits and are now recorded net of one another. There were other reclassifications that were not significant. These reclassifications have no effect on the excess of revenues over expenses or net assets for the year ended December 31, 2016.

2. Net Patient Service Revenue

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. Net patient service revenue is reported at estimated net realizable amounts due from third-party payers, patients, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period that related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Non-Medicare Reimbursement: In New York State, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payers are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payers 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. 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 payers will continue to be made in future years.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue (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 is paid for services rendered to Medicare beneficiaries on a Periodic Interim Payment (PIP) basis, plus certain add-ons and other items that are tentatively settled after submission of an annual cost report by the Medical Center and final settled after audits thereof by the Medicare Administrative Contractor (MAC) of the submitted cost report. The Medicare cost reports of the Medical Center have been final settled by the MAC through the year ended December 31, 2001.

Medicare and Medicaid regulations require annual retroactive settlements for reimbursements through cost reports filed by the Medical Center. These retroactive settlements are estimated and recorded in the consolidated financial statements in the year in which they occur. The estimated settlements recorded at December 31, 2017 and 2016 could differ from actual settlements based on the results of cost report audits.

Laws and regulations governing health care programs are extremely complex and are subject to interpretation. Noncompliance with such laws and regulations could result in repayment of amounts improperly reimbursed, fines, penalties and exclusion from such programs. In addition, the classification of patients of the Medical Center and the appropriateness of their admission are subject to an independent review by a peer review organization. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. 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.

There are various proposals at the Federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the Federal and state governments, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse effect on the Medical Center.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue (continued)

Bad Debt Expense: The collection of patient service revenue due from patients, including copayments and deductibles, from those who are ineligible for charity care, is subject to uncertainty. The Medical Center records bad debt expense in the period services are rendered based on past experience, to account for amounts that patients may ultimately be unable or unwilling to pay. For self-pay patients, which includes both patients without insurance and patients with copayments and deductibles after third-party coverage, the Medical Center records an estimate for bad debt expense in the current period based on past experience. Amounts ultimately written off as uncollectible and recoveries of such amounts are deducted from, or added to, the allowance for doubtful accounts.

Net patient service revenue, net of contractual allowances and discounts, for the years ended December 31, 2017 and 2016, by major payer source, is as follows:

	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
Patient service revenue (net of contractual allowances and discounts):		
Medicaid and Medicaid managed care	\$ 1,129,844	\$ 1,159,012
Medicare and Medicare managed care	1,151,544	1,178,165
Commercial and managed care	1,129,106	1,269,942
Self-pay and other	35,912	39,449
	<u>3,446,406</u>	<u>3,646,568</u>
Bad debt expense	(33,486)	(49,307)
Net patient service revenue	<u>\$ 3,412,920</u>	<u>\$ 3,597,261</u>

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

3. Marketable and Other Securities and Assets Limited as to Use

The composition of marketable and other securities and assets limited as to use follows:

	December 31	
	2017	2016
	<i>(In Thousands)</i>	
Marketable and other securities	\$ 656,290	\$ 633,928
Assets limited as to use	216,068	246,428
	\$ 872,358	\$ 880,356
Managed cash and cash equivalents held for investment	\$ 40,730	\$ 67,871
Corporate debt	256,335	217,303
U.S. Treasury securities	120,133	109,401
U.S. Government agency mortgage-backed securities	50,714	51,848
U.S. Government agency-backed securities	25,500	40,167
Equity securities	82,195	60,659
Non-equity mutual funds	119,805	155,762
Equity mutual funds	22,434	27,163
Alternative investments	116,453	115,307
Collective trust funds	36,752	28,984
Interest and other receivables	1,307	5,891
	\$ 872,358	\$ 880,356

The composition of assets limited as to use follows:

	December 31	
	2017	2016
	<i>(In Thousands)</i>	
Debt-related sinking funds	\$ 75,287	\$ 77,628
Donor restricted funds	71,099	70,719
Managed care cash reserves required by contracts	10,765	47,139
Lease escrow deposits	13,347	13,153
Employee deferred compensation plan assets	45,570	37,789
Total assets limited as to use	216,068	246,428
Less: current portion of assets limited as to use	(15,976)	(52,159)
Assets limited as to use, net of current portion	\$ 200,092	\$ 194,269

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

3. Marketable and Other Securities and Assets Limited as to Use (continued)

Unrestricted investment returns for the years ended December 31, 2017 and 2016 are comprised as follows:

	Year Ended December 31	
	2017	2016
	<i>(In Thousands)</i>	
Interest and dividend income	\$ 14,917	\$ 12,912
Net realized gains and losses	14,019	4,614
Change in net unrealized gains and losses	23,122	6,610
	<u>\$ 52,058</u>	<u>\$ 24,136</u>

4. Property, Buildings and Equipment

A summary of property, buildings and equipment follows:

	December 31	
	2017	2016
	<i>(In Thousands)</i>	
Land and land improvements	\$ 40,228	\$ 40,214
Buildings, fixed equipment and improvements	1,652,318	1,629,277
Movable equipment	1,362,789	1,281,401
	<u>3,055,335</u>	<u>2,950,892</u>
Less accumulated depreciation and amortization	<u>(2,030,293)</u>	<u>(1,880,709)</u>
	1,025,042	1,070,183
Construction-in-progress	31,313	52,056
	<u>\$ 1,056,355</u>	<u>\$ 1,122,239</u>

Substantially all property, buildings, and equipment are pledged as collateral under various debt agreements.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

5. Operating Leases

Total rental expense included in supplies and other expenses aggregated approximately \$49.5 million and \$51.5 million for the years ended December 31, 2017 and 2016, respectively.

Future minimum payments, by year and in the aggregate, under non-cancelable operating leases with initial or remaining terms of one year or more at December 31, 2017 consisted of the following (in thousands):

2018	\$ 39,613
2019	39,542
2020	37,905
2021	37,572
2022	33,792
2023 and thereafter	<u>971,326</u>
Total minimum lease payments	<u>\$ 1,159,750</u>

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

6. Long-Term Debt

A summary of long-term debt follows:

	December 31	
	2017	2016
	<i>(In Thousands)</i>	
FHA Section 242 insured mortgage loan ^(a)	\$ 79,998	\$ 87,840
FHA Section 241 insured mortgage loan ^(b)	52,474	60,975
FHA Section 241 insured mortgage loan ^(c)	54,588	59,163
FHA Section 241 insured mortgage loan ^(c)	8,958	9,708
FHA Section 241 insured mortgage loan ^(d)	124,567	131,209
HDC residential revenue bonds payable ^(e)	5,600	5,900
Bank loans payable ^(f)	77,613	79,470
Housing II mortgages payable ^(g)	18,252	18,421
Housing I mortgage payable ^(h)	1,074	1,160
MCORP bonds payable ⁽ⁱ⁾	17,630	18,190
NYC IDA bonds payable ⁽ⁱ⁾	12,380	12,755
Build NYC bonds payable ^(j)	67,620	73,718
Equipment leasing programs ^(k)	209,384	190,692
Ambulatory care center financing ^(l)	56,419	57,143
Dormitory Authority mortgage ^(m)	14,868	15,675
Other	1,874	1,931
	803,299	823,950
Add long-term mortgage premiums ^(b, i)	939	1,268
Less deferred financing costs	(5,547)	(6,411)
Less current portion	(74,475)	(65,786)
	\$ 724,216	\$ 753,021

In May 2016, the Medical Center issued Montefiore Medical Center GNMA Collateralized Taxable Revenue Bonds, Series 2016 (2016 Bonds) in order to refinance bonds secured by two of its FHA insured mortgage loans (see sections a and d below). As a result of the refinancing, the Medical Center recorded a gain on refinancing of approximately \$4.6 million during 2016.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

6. Long-Term Debt (continued)

- (a) The Medical Center has a mortgage agreement insured under the provisions of the Federal Housing Administration (FHA) 242 Program to finance certain construction and renovation projects. This insured mortgage loan is secured by a first mortgage on substantially all of the Medical Center's real property and unrestricted assets. Prior to May 2016, the mortgage agreement was with the Dormitory Authority of the State of New York (the Dormitory Authority) and the interest rate was 4.57% per annum. In May 2016, the Medical Center issued the 2016 Bonds in order to refinance bonds secured by the mortgage loan and reduce the interest rate to 2.47%. The 2016 Bonds are secured by fully modified pass-through mortgage-backed securities guaranteed by the Government National Mortgage Association (GNMA). Mortgage principal and interest payments are due monthly through October 1, 2026, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to March 31, 2026, after which the mortgage may be prepaid without penalty.
- (b) The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program, to finance a construction and renovation project. The interest rate on the mortgage is 4.55% per annum and principal and interest payments are due monthly through April 2023, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to February 1, 2018. Subsequent to February 1, 2018, the loan may be prepaid without penalty.

In connection with this financing, the Medical Center recorded a mortgage premium as a component of long-term debt related to the termination of a forward starting interest rate swap agreement. The balance outstanding was approximately \$804,000 and \$1.1 million at December 31, 2017 and 2016, respectively. The mortgage premium is being amortized over the life of the mortgage using the effective interest method.

- (c) The Medical Center has two mortgage agreements insured under the provisions of the FHA 241 Program to finance construction and renovation projects. The interest rate is 4.22% per annum. Monthly payments of principal and interest will be made through May 1, 2027, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loans may not be prepaid prior to April 30, 2021, after which the mortgages may be prepaid without penalty.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

6. Long-Term Debt (continued)

- ^(d) The Medical Center has a mortgage agreement insured under the provisions of the FHA 241 Program, to finance a construction and renovation project that was completed in 2007. Prior to May 2016, the mortgage agreement was with the Dormitory Authority and the interest rate was 5.37% per annum. In May 2016, the Medical Center issued the 2016 Bonds in order to refinance bonds secured by the mortgage loan and reduce the interest rate to 3.21%. The 2016 Bonds are secured by fully modified pass-through mortgage-backed securities guaranteed by GNMA. Mortgage principal and interest payments are due monthly through April 1, 2032, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to March 31, 2026, after which the mortgage may be prepaid without penalty.
- ^(e) The proceeds of New York City Housing Development Corporation (HDC) revenue bonds were used by the Medical Center for a staff housing project. Interest is payable monthly at a variable rate (3.08% and 2.09% at December 31, 2017 and 2016, respectively). Principal is payable annually through May 1, 2030. The amounts due are secured by a mortgage and a revenue pledge on the underlying property financed and an irrevocable direct pay letter of credit issued by a bank in the amounts of approximately \$5.7 million and \$6.0 million at December 31, 2017 and 2016, respectively. The letter of credit expires in September 2018. No unreimbursed draws were made under the direct pay letter of credit during the years ended December 31, 2017 and 2016.
- ^(f) Bank loans payable consist of the following at December 31, 2017 and 2016:

	December 31	
	2017	2016
	<i>(In Thousands)</i>	
Medical Center bank loans payable at varying dates through November 2021, at fixed and variable rates ranging from 3.43% – 3.73% and 2.95% – 3.43% at December 31, 2017 and 2016, respectively	\$ 12,624	\$ 13,550
Medical Center mortgage loan payable due in February 2019 at a fixed rate of 1.67%	30,000	30,000
MCORP mortgage loan payable due in March 2020 at a fixed rate of 2.49%	34,989	35,920
	\$ 77,613	\$ 79,470

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

6. Long-Term Debt (continued)

The Medical Center has a line of credit with a bank aggregating approximately \$30.0 million. At December 31, 2017 and 2016, no amounts were outstanding under this line. The line of credit expires in June 2018.

- (g) Housing II has primary and subordinate mortgage agreements with HDC. At December 31, 2017 and 2016, the primary mortgage amount outstanding was approximately \$5.5 million and \$5.6 million, respectively. The primary mortgage has a final maturity date in January 2035 and the interest rate is 6.5%. At December 31, 2017 and 2016, the subordinate mortgage amount outstanding was approximately \$12.8 million and bears no interest. The subordinate mortgage is payable in full in April 2035 and Housing II has used 1.8% as the interest rate for the purposes of recognizing interest expense under the assumption that the mortgages will remain outstanding through 2035.

Substantially all of Housing II's property and equipment rents and profits are collateral for the mortgages. In addition, any requests for rental increases must be approved by HDC. During the years ended December 31, 2017 and 2016, Housing II maintained the reserve for replacement account in accordance with HDC requirements. Monthly deposits aggregating approximately \$5,000 are required to be made into this account.

- (h) Housing I has a mortgage loan agreement with a lender with a final maturity date in July 2026. At December 31, 2017 and 2016, the principal balance outstanding was approximately \$1.1 million and \$1.2 million, respectively. The interest rate is 7.6%. The mortgage loan is secured by a mortgage on the building and underlying property.
- (i) MCORP financed the acquisition of certain real estate with the proceeds of two financings: New York City Industrial Development Agency (NYC IDA) revenue bonds and MCORP taxable bonds. Interest on the NYC IDA bonds has an average coupon rate of 4.96%, and payments of interest and principal are payable monthly through October 1, 2035. The bonds were sold at a premium, of which approximately \$135,000 and \$148,000 was recorded as a component of the related long-term debt as of December 31, 2017 and 2016, respectively, and is being amortized using the effective interest method over the term of the NYC IDA bonds. Interest on the MCORP bonds is payable monthly at a variable rate (3.08% and 2.38% at December 31, 2017 and 2016, respectively). Principal is payable monthly through October 2035. The MCORP bonds are subject to prepayment without penalty. Both bond issues are secured by direct pay

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

6. Long-Term Debt (continued)

letters of credit from a bank in the amounts of approximately \$12.9 million and \$18.0 million at December 31, 2017, and approximately \$13.3 million and \$18.6 million at December 31, 2016. The letters of credit are secured by a mortgage on the properties financed. The letters of credit expire September 30, 2020.

No unreimbursed draws were made under the direct pay letters of credit during the years ended December 31, 2017 and 2016.

- (i) During 2013, the Medical Center issued Build NYC Resource Corporation Revenue Bonds, Series 2013A and Series 2013B (2013 Bonds) through Build NYC Resource Corporation, to finance a leasehold renovation project secured by a leasehold mortgage. At December 31, 2017 and 2016, a total of approximately \$67.6 million and \$73.7 million was outstanding, respectively. Interest on the 2013 Bonds is payable monthly at variable rates (2.42% and 1.83% at December 31, 2017 and 2016, respectively). Principal is payable monthly through June 2030. The 2013 Bonds are subject to prepayment without penalty, upon satisfaction of certain notice provisions.
- (k) In addition to amounts previously borrowed, the Medical Center borrowed approximately \$46.7 million and \$14.8 million during the years ended December 31, 2017 and 2016, respectively, under equipment leases to finance certain capital projects. The interest rates associated with the Medical Center's various equipment lease borrowings range from 1.06% to 2.23%.
- (l) The Medical Center has a real estate lease for an ambulatory care center. The lease was accounted for as a financing transaction; accordingly, an obligation of approximately \$56.4 million and \$57.1 million was outstanding at December 31, 2017 and 2016, respectively. Payments of principal and interest commenced in September 2015 and extend through September 2030.
- (m) The Medical Center has a loan agreement with the Dormitory Authority in connection with the transfer of a substance abuse treatment facility from Albert Einstein College of Medicine, Inc. (Einstein) to the Medical Center. The loan is secured by a mortgage on the facility. At December 31, 2017 and 2016, a total of approximately \$14.9 million and \$15.7 million was outstanding, respectively. Interest payments are due semiannually at rates ranging from approximately 4.4% to 4.5% and principal payments are due annually through February 2030. To the extent that the Medical Center continues to meet certain

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

6. Long-Term Debt (continued)

conditions, its obligations to make interest and principal payments will be funded by the New York State Office of Alcoholism and Substance Abuse Services (OASAS) under a state aid grant lien. During 2017 and 2016, OASAS funded approximately \$1.5 million of principal, interest and fees associated with this loan.

The aggregate amount of principal payments required under all long-term indebtedness, including capital leases, exclusive of sinking funds requirements, at December 31, 2017 are as follows (in thousands):

2018	\$ 75,193
2019	105,856
2020	108,282
2021	73,970
2022	68,054
2023 and thereafter	371,944
	<u>\$ 803,299</u>

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for the FHA insured mortgage loans. At December 31, 2017, the Medical Center met the funding requirements and minimum mortgage reserve fund balances related to the FHA insured mortgage loans. The funding requirements for the next five years are as follows (in thousands):

	FHA 242^(a)	FHA 241^(b)	FHA 241^(c)	FHA 241^(c)	FHA 241^(d)	Total Funding Requirement
2018	\$ —	\$ (3,145)	\$ —	\$ —	\$ —	(3,145)
2019	—	(3,145)	—	—	—	(3,145)
2020	—	(3,145)	(1,164)	(191)	—	(4,500)
2021	(2,315)	(3,237)	(1,996)	(328)	—	(7,876)
2022	(3,969)	(3,145)	(1,997)	(327)	—	(9,438)

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

6. Long-Term Debt (continued)

The required minimum mortgage reserve fund balances for the next five years are as follows (in thousands):

	FHA 242^(a)	FHA 241^(b)	FHA 241^(c)	FHA 241^(c)	FHA 241^(d)	Total Funding Requirement
2018	\$ 19,845	\$ 14,522	\$ 13,970	\$ 2,293	\$ 21,512	\$ 72,142
2019	19,845	11,377	13,970	2,293	21,512	68,997
2020	19,845	8,232	12,806	2,102	21,512	64,497
2021	17,530	4,995	10,810	1,774	21,512	56,621
2022	13,561	1,850	8,813	1,447	21,512	47,183

Substantially all of the Medical Center’s property, buildings and equipment and other assets serve as collateral under the various debt arrangements. In addition, the Medical Center must maintain certain financial ratios and, among other things, obtain approval to incur additional debt above specified amounts. The Medical Center was in compliance with such covenants at December 31, 2017 and 2016.

Interest paid during the years ended December 31, 2017 and 2016, amounted to approximately \$31.0 million and \$32.9 million, respectively.

7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	December 31	
	2017	2016
	<i>(In Thousands)</i>	
Collateralizing bank financing, teaching and research	\$ 38,073	\$ 37,224
Health care related services	23,257	22,732
Construction and renovation projects	8,782	8,763
Research	6,704	8,449
Other	1,246	1,013
	\$ 78,062	\$ 78,181

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

7. Temporarily and Permanently Restricted Net Assets (continued)

The Medical Center follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as it relates to its permanently restricted endowments.

The Medical Center's endowments consist of donor-restricted funds established for a variety of purposes. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Medical Center requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Medical Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) if applicable, any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted funds that are not classified in permanently restricted net assets is classified as temporarily restricted net assets until the purpose or time restriction expires. Endowment assets include those assets of donor-restricted funds that the Medical Center must hold in perpetuity or for a donor-specified term.

The Medical Center's investment and spending policies for endowment assets seek to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Medical Center must hold in perpetuity or for a donor-specified term.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

7. Temporarily and Permanently Restricted Net Assets (continued)

For the years ended December 31, 2017 and 2016, the Medical Center had the following endowment-related activities:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
	<i>(In Thousands)</i>			
Endowment balance, beginning of year	\$ —	\$ 1,868	\$ 31,704	\$ 33,572
Additions	—	—	1,590	1,590
Investment income	192	136	312	640
Amounts appropriated for expenditure	(192)	(56)	—	(248)
Net change in endowment funds	—	80	1,902	1,982
Endowment balance, end of year	<u>\$ —</u>	<u>\$ 1,948</u>	<u>\$ 33,606</u>	<u>\$ 35,554</u>

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
	<i>(In Thousands)</i>			
Endowment balance, beginning of year	\$ —	\$ 1,836	\$ 31,390	\$ 33,226
Additions	—	—	314	314
Investment income	138	98	—	236
Amounts appropriated for expenditure	(138)	(66)	—	(204)
Net change in endowment funds	—	32	314	346
Endowment balance, end of year	<u>\$ —</u>	<u>\$ 1,868</u>	<u>\$ 31,704</u>	<u>\$ 33,572</u>

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

7. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets amounted to approximately \$33.6 million and \$31.7 million at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the fair value of marketable securities (including reinvested earnings over the life of endowments) exceeded the amount of permanently restricted net assets at such dates.

8. Benefit Plans

The Medical Center is a contributing employer to two union multiemployer pension plans. In addition, the Medical Center also maintains two tax deferred annuity plans under Section 403(b) of the Internal Revenue Code, as well as two noncontributory defined benefit pension plans.

Contributions to union multiemployer pension plans are made in accordance with contractual agreements under which contributions are based on a percentage of salaries or a negotiated amount. Contributions to the noncontributory tax deferred annuity plan are based on percentages of salary. Contributions to the noncontributory defined benefit plans are based on actuarial valuations. Benefits under the noncontributory defined benefit plans are based on years of service and salary levels. The Medical Center's policy is to contribute amounts sufficient to meet funding requirements in accordance with the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006.

Total expense, included in the accompanying consolidated statements of operations for the various pension plans aggregated approximately \$137.1 million and \$134.4 million for the years ended December 31, 2017 and 2016, respectively. Cash payments relative to the various pension plans aggregated approximately \$136.0 million and \$132.6 million for the years ended December 31, 2017 and 2016, respectively.

The Medical Center also sponsors two unfunded defined benefit postretirement health and welfare plans that cover certain full-time and part-time employees and eligible dependents.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

8. Benefit Plans (continued)

Multiemployer Plans

The Medical Center contributes to two multiemployer defined benefit pension plans under the terms of collective bargaining agreements that cover its union-represented employees: New York State Nurses Association Pension Plan (NYSNA) and the 1199SEIU Healthcare Employees Pension Fund (1199SEIU). The risks of participating in these multiemployer plans are different from single-employer plans in the following respects:

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

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

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending Implemented	Contributions from the Medical Center		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		January 1, 2017	January 1 2016		2017	2016		
<i>(In Thousands)</i>								
NYSNA	13-6604799/001	Green	Green	N/A	\$ 26,466	\$ 24,562	No	12/31/2018
1199SEIU	13-3604862/001	Green	Green	N/A	\$ 51,144	\$ 55,289	No	9/30/2018

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

8. Benefit Plans (continued)

The Medical Center was listed in the plans' Forms 5500 as providing more than 5% of the total contributions for the following plan years:

Pension Fund	Year Contributions to Plan Exceeded More Than 5% of Total Contributions (as of December 31 of the Plan's Year End)
NYSNA	2016 and 2015
1199SEIU	2016 and 2015

At the date the Medical Center's consolidated financial statements were issued, Forms 5500 were not available for the plans' year ended in 2017.

Defined Benefit Plans

The Medical Center recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the defined benefit plans in its consolidated statements of financial position. Net unrecognized actuarial losses and net unrecognized prior service costs at the reporting date will be subsequently recognized in the future as net periodic pension 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 pension benefit cost in the same periods will be recognized as a component of unrestricted net assets.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

8. Benefit Plans (continued)

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

	Pension		Postretirement	
	2017	2016	2017	2016
	<i>(In Thousands)</i>			
Unrecognized actuarial loss	\$ 15,818	\$ 15,208	\$ 43,819	\$ 29,414
Unrecognized prior service cost (credit)	89	206	(2,055)	(3,835)
	<u>\$ 15,907</u>	<u>\$ 15,414</u>	<u>\$ 41,764</u>	<u>\$ 25,579</u>

The unrecognized net prior service cost (credit) and actuarial loss included in unrestricted net assets expected to be recognized as net periodic benefit cost during the year ending December 31, 2018 are approximately (\$1.7) million and \$4.8 million, respectively.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

8. Benefit Plans (continued)

The following tables provide a reconciliation of the changes in the benefit obligations and fair value of plan assets (where applicable) of the defined benefit pension plans and postretirement benefit plan for the years ended December 31, 2017 and 2016, and the funded status of such plans as of December 31, 2017 and 2016:

	Pension		Postretirement	
	2017	2016	2017	2016
	<i>(In Thousands)</i>			
Changes in benefit obligation				
Benefit obligation at January 1	\$ 43,619	\$ 42,242	\$ 156,610	\$ 149,519
Service cost	5,211	3,548	11,313	11,527
Interest cost	1,709	1,714	6,921	6,390
Actuarial loss (gain)	4,447	(1,268)	16,290	(3,861)
Benefit payments, net	(7,241)	(2,617)	(4,650)	(6,965)
Benefit obligation at December 31	<u>\$ 47,745</u>	<u>\$ 43,619</u>	<u>\$ 186,484</u>	<u>\$ 156,610</u>
Change in plan assets				
Fair value of plan assets at January 1	\$ 25,273	\$ 24,213	\$ —	\$ —
Actual return on plan assets	3,245	855	—	—
Employer contributions	7,270	2,822	4,650	6,965
Benefit payments, net	(7,241)	(2,617)	(4,650)	(6,965)
Fair value of plan assets at December 31	<u>\$ 28,547</u>	<u>\$ 25,273</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status				
Amounts recognized in the consolidated statements of financial position	<u>\$ (19,198)</u>	<u>\$ (18,346)</u>	<u>\$ (186,484)</u>	<u>\$ (156,610)</u>

At December 31, 2017 and 2016, approximately \$15.5 million and \$7.9 million, respectively, was included in accrued salaries, wages and related items in the accompanying consolidated statements of financial position.

The actuarial losses in 2017 are due to a decrease in the discount rates.

The accumulated benefit obligation for the Medical Center's defined benefit plans as of December 31, 2017 and 2016 was approximately \$30.7 million and \$28.4 million, respectively.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

8. Benefit Plans (continued)

The following table provides the components of the net periodic pension benefit cost for the defined benefit pension plans and postretirement benefit plan for the years ended December 31, 2017 and 2016:

	Pension		Postretirement	
	2017	2016	2017	2016
	<i>(In Thousands)</i>			
Service cost	\$ 5,211	\$ 3,548	\$ 11,313	\$ 11,527
Interest cost	1,709	1,714	6,921	6,390
Expected return on plan assets	(1,799)	(1,722)	—	—
Amortization of prior service cost (benefit)	116	206	(1,779)	(1,779)
Amortization of net loss	1,253	1,169	1,884	2,863
Settlement cost	1,139	—	—	—
Net periodic pension benefit cost	<u>\$ 7,629</u>	<u>\$ 4,915</u>	<u>\$ 18,339</u>	<u>\$ 19,001</u>

Weighted-average assumptions used to determine benefit obligations as of December 31

Discount rate	3.31%–3.90%	4.17%–4.52%	3.90%	4.50%
Rate of compensation increase	3.00%–4.00%	3.00%–4.00%	3.00%	3.00%

Weighted-average assumptions used to determine net periodic pension benefit cost for the years ended December 31

Discount rate	4.17%–4.52%	3.92%–4.45%	4.50%	4.35%
Expected long-term rate of return on plan assets	6.50%	6.50%	—	—
Rate of compensation increase	3.00%–4.00%	3.00%–4.00%	—	—

The overall expected long-term rate of return on plan assets is based on the historical returns of each asset class weighted by the target asset allocation. The target asset allocation has been selected consistent with the plan's desired risk and return characteristics. The Medical Center's independent consulting actuaries review the expected long-term rate periodically and based on the building block approach, updated the rate for changes in the marketplace.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

8. Benefit Plans (continued)

The Medical Center’s defined benefit pension plan weighted-average asset allocations, by asset category, are as follows:

	December 31	
	2017	2016
Fixed income mutual funds	57%	23%
Equity mutual/common trust funds	39	53
Cash and cash equivalents	4	24
	100%	100%

Defined benefit pension plan assets are carried at fair value and generally consist of fixed income securities issued or guaranteed by government entities, money market funds, mutual funds, fixed income securities issued by corporations, equity securities and common collective funds measured at net asset value. Refer to Note 10 for additional fair value measurement information related to the defined benefit plan asset categories noted in the table above.

The target allocations for the defined benefit pension plan’s assets are as follows:

Global public equity	35%
Return-seeking credit	10%
Global real estate	5%
Fixed income	50%

Assumed health care cost trend rates at December 31 are as follows:

	2017	2016
Health care cost trend rate	7.60%	6.95%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50%	5.00%
Years that the rate reaches the ultimate trend rate	2025	2022–2023

The measurement dates used to determine defined benefit pension and postretirement plan costs were December 31, 2017 and 2016.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

8. Benefit Plans (continued)

During the year ending December 31, 2018, the Medical Center expects to contribute approximately \$11.0 million and \$6.1 million to the defined benefit pension and postretirement plans, respectively.

Expected benefit payments by year as of December 31, 2017 are as follows:

	<u>Pension</u>		<u>Postretirement</u>	
	<i>(In Thousands)</i>			
2018	\$	11,241	\$	6,131
2019		6,061		6,685
2020		13,452		7,238
2021		11,645		7,836
2022		6,373		8,403
2023–2027		26,813		54,784

Assumed health care cost trend rates have a significant effect on the amounts reported for the defined benefit postretirement plans. A 1% change in assumed health care cost trend rates would have the following effects relating to the postretirement plans:

	<u>2017</u>		<u>2016</u>	
	<u>1%</u>	<u>1%</u>	<u>1%</u>	<u>1%</u>
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</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	\$	3,540	\$	(2,829)
			\$	3,464
			\$	(2,761)
Effect on the health care component of the accumulated postretirement benefit obligation		28,042		(23,171)
			23,980	(19,747)

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

9. Commitments, Contingencies and Other

Litigation

Claims have been asserted against the Medical Center by various claimants arising out of the normal course of its operations. The claims are in various stages of processing and some may ultimately be brought to trial. Also, there are known incidents occurring through December 31, 2017, that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. Medical Center management and counsel are unable to conclude about the ultimate outcome of the actions. However, it is the opinion of Medical Center management, based on prior experience that adequate insurance is maintained and adequate provisions for professional liabilities, where applicable, have been established to cover all significant losses and that the eventual liability, if any, will not have a material adverse effect on the Medical Center's consolidated financial position.

Professional and Other Insured Liabilities

The Medical Center participates in the Federation of Jewish Philanthropies, which is a pooled insurance program for professional and general liabilities with certain other health care facilities (the FOJP Program). Participation in this occurrence basis insurance program is through captive and commercial insurance companies. The Medical Center's malpractice insurance program offers a deferred premium arrangement in which 36% of the annual premium is paid in the current year and the balance is payable over five years. Total liabilities associated with the FOJP Program were approximately \$191.6 million and \$187.4 million at December 31, 2017 and 2016, respectively. The liabilities principally relate to the deferred premium arrangement, the participating hospitals' guarantee of certain investment returns of the captive companies and retroactive premium adjustments.

As of December 31, 2017, the Medical Center retained ownership interests of 25% in three captive insurance companies affiliated with the FOJP Program. The Medical Center has recognized its allocated share of the program's accumulated surplus using the equity method of accounting. Such amounts (approximately \$166.6 million and \$161.8 million at December 31, 2017 and 2016, respectively) are included in other noncurrent assets in the accompanying consolidated statements of financial position. In December 2017, one of the captive insurance companies declared a dividend of approximately \$54.0 million to be distributed based on each owner's respective ownership interest. As a result, the Medical Center recorded a dividend receivable of approximately \$13.5 million which is recorded within other receivables in the accompanying consolidated statement of financial position as of December 31, 2017.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

9. Commitments, Contingencies and Other (continued)

The Medical Center has recognized estimated insurance claims receivable and estimated insurance claims liabilities of approximately \$540.6 million (approximately \$81.1 million current and \$459.5 million long-term) and approximately \$499.8 million (approximately \$75.0 million current and \$424.8 million long-term) at December 31, 2017 and 2016, respectively. Such amounts represent the actuarially determined present value, discounted at approximately 2.8% at December 31, 2017 and 2016, of insurance claims that are anticipated to be covered by insurance. The amounts reported in the December 31, 2017 and 2016, consolidated statements of financial position for estimated insurance claims receivable and estimated insurance claims liabilities reflect the financial impact of the Medical Center's employed physicians.

During the years ended December 31, 2017 and 2016, the Medical Center recorded approximately (\$1.2 million) and \$1.2 million, respectively, of malpractice insurance program adjustments associated with investment earnings (gains) shortfalls. The cumulative amounts owed are reflected in accounts payable and accrued expenses (approximately \$8.3 million and \$7.7 million at December 31, 2017 and 2016, respectively) and professional and other insured liabilities (approximately \$8.4 million and \$15.7 million at December 31, 2017 and 2016, respectively) in the accompanying consolidated statements of financial position.

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

Additionally, as a result of the investigation, the Medical Center, together with the other hospitals affiliated with FOJP, identified an unpaid state tax liability for independently-procured insurance under Article 33-A of the New York Tax Law relating to insurance purchased from three off-shore captive insurance companies owned by the Medical Center and the other FOJP-affiliated hospitals.

On October 9, 2015, the Medical Center submitted a filing to the New York State Department of Taxation and Finance (DT&F) to participate in the DT&F's Voluntary Disclosure and Compliance Program, which would allow the Medical Center to limit the period for which back taxes would be due and avoid penalties for non-payment. The Medical Center was accepted by the DT&F into

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

9. Commitments, Contingencies and Other (continued)

the program with a limited look-back on the taxes owed of three years (2012-2014). The Medical Center completed a Voluntary Disclosure and Compliance Agreement in March 2016, resulting in a payment of approximately \$6.7 million (including taxes and interest).

Albert Einstein College of Medicine, Inc. (Einstein)

On September 9, 2015, a controlled member of MMAHS, Einstein, acquired substantially all of the assets and assumed substantially all of the liabilities of a medical school operating as a division of YU. In connection with this transaction, Build NYC Resource Corporation loaned to Einstein, under a loan agreement, the proceeds of \$175.0 million Build NYC Resource Corporation Revenue Bonds. In accordance with their terms, the bonds were tendered by the original bondholder and remarketed on January 28, 2016. Prior to the remarketing, the required interest and principal payments on the bonds were guaranteed by the Medical Center. The Medical Center was not required to make any payments under the guarantee, which terminated upon the remarketing of the bonds on January 28, 2016.

In addition, on September 9, 2015, Einstein issued to YU a promissory note (the Note) under which it was obligated to pay to YU twenty annual payments of \$12.5 million beginning September 2017, followed by a final, twenty-first payment of \$20.0 million in September 2037. Pursuant to a guaranty agreement (Guaranty Agreement), the Medical Center guaranteed Einstein's obligation to make payments under the Note. If the Medical Center was required to make payments under the Guaranty Agreement, Einstein would have been obligated to repay the Medical Center, in full, over five years with interest. The Medical Center's right to repayment was subordinate in certain respects to Einstein's obligation to make payments on the Build NYC Resource Corporation Revenue Bonds.

In April 2017, the Note was cancelled and exchanged with three Replacement Negotiable Promissory Notes (the Replacement Notes) in the total principal amount of \$162.2 million. The Replacement Notes carry interest rates ranging from 4.52% to 5.74% effective March 17, 2017. The Guaranty Agreement was amended to cover payments made by Einstein under the Replacement Notes. On May 1, 2017, the aggregate amounts payable by Einstein under the Replacement Notes were amended to \$3.8 million in 2017, with annual payments of \$8.3 million from 2018 to 2020, \$36.0 million in 2021, \$12.5 million from 2022 to 2026, followed by a final payment of \$20.0 million in 2037.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

9. Commitments, Contingencies and Other (continued)

In September 2017, approximately \$1.5 million was paid by the Medical Center on Einstein's behalf pursuant to the Guaranty Agreement, as amended. Einstein is obligated to repay the Medical Center in full, over five years beginning in September 2018 with an interest rate of 4.73%. At December 31, 2017, amounts due and receivable under the Note were \$1.5 million (none at December 31, 2016).

The Medical Center has an agreement to provide operating subsidies to Einstein over a five-year period commencing September 2015 in an aggregate amount of up to \$80.0 million. The Medical Center will provide this subsidy in varying amounts to be funded upon the receipt and approval of documentation of unreimbursed research expenses incurred. The subsidy will total an amount not to exceed \$10.0 million per year in each of the first two years, and not to exceed \$20.0 million per year in each of the third, fourth and fifth years (see Note 13).

The Medical Center has also agreed to provide loans to Einstein in an aggregate amount of up to \$75.0 million as necessary to allow it to meet its cash flow requirements. The first loan was funded in 2017 in the amount of \$35.0 million, to be repaid by Einstein over a five year period in equal annual installments, commencing in December 2020 at an annual interest rate of 5.2% (see Note 13).

In March 2018, the Medical Center entered into a commitment to provide financial support, including working capital and bridge financing, as necessary, to Einstein in order for Einstein to meet its operational needs.

Other

At December 31, 2017 and 2016, approximately 66% of the Medical Center's employees were covered by collective bargaining agreements. The collective bargaining agreement with NYSNA will expire in December 2018. The collective bargaining agreement with 1199SEIU will expire in September 2018.

In connection with agreements entered into between MIPA and several health insurance companies, the Medical Center has agreed to guarantee the performance and payment of certain hospital, physician and administrative services.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

10. 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.

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.

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 uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

10. Fair Value Measurements (continued)

Financial assets carried at fair value, including assets invested in the Medical Center's defined benefit pension plan, are classified in the table below in one of the three categories described above as of December 31, 2017:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
Assets				
Cash and cash equivalents	\$ 253,978	\$ —	\$ —	\$ 253,978
Managed cash and cash equivalents held for investment	40,730	—	—	40,730
Marketable and other securities:				
U.S. non-equity mutual funds	119,805	—	—	119,805
U.S. equity mutual funds	22,434	—	—	22,434
U.S. Government agency mortgage-backed securities	—	50,714	—	50,714
U.S. Treasury securities	120,133	—	—	120,133
U.S. Government agency-backed securities	—	25,500	—	25,500
U.S. equity securities	82,195	—	—	82,195
Corporate debt	—	256,335	—	256,335
Interest and other receivables	1,307	—	—	1,307
	640,582	332,549	—	973,131
Defined benefit pension plan assets				
Cash and cash equivalents	1,051	—	—	1,051
Equity mutual funds	11,207	—	—	11,207
Fixed income mutual funds	2,663	—	—	2,663
	14,921	—	—	14,921
	\$ 655,503	\$ 332,549	\$ —	\$ 988,052
Investments measured at net asset value (defined benefit pension plan assets)				<u>13,626</u>
				<u>\$ 1,001,678</u>

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

10. Fair Value Measurements (continued)

Financial assets carried at fair value, including assets invested in the Medical Center's defined benefit pension plan, are classified in the table below in one of the three categories described above as of December 31, 2016:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
Assets				
Cash and cash equivalents	\$ 170,595	\$ —	\$ —	\$ 170,595
Managed cash and cash equivalents held for investment	67,871	—	—	67,871
Marketable and other securities:				
U.S. non-equity mutual funds	155,762	—	—	155,762
U.S. equity mutual funds	27,163	—	—	27,163
U.S. Government agency mortgage-backed securities	—	51,848	—	51,848
U.S. Treasury securities	109,401	—	—	109,401
U.S. Government agency-backed securities	—	40,167	—	40,167
U.S. equity securities	60,659	—	—	60,659
Corporate debt	—	217,303	—	217,303
Interest and other receivables	5,891	—	—	5,891
	597,342	309,318	—	906,660
Defined benefit pension plan assets				
Cash and cash equivalents	6,117	—	—	6,117
Equity mutual funds	13,409	—	—	13,409
Fixed income mutual funds	5,747	—	—	5,747
	25,273	—	—	25,273
	\$ 622,615	\$ 309,318	\$ —	\$ 931,933

At December 31, 2017 and 2016, the Medical Center's alternative investments and collective trusts, excluding those within the defined benefit pension plan, are reported using the equity method of accounting in the amount of approximately \$153.2 million and \$144.3 million, respectively, and, therefore, are not included in the tables above.

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 and model-based valuation

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

10. Fair Value Measurements (continued)

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. Inputs are obtained from various sources, including market participants, dealers and brokers. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Medical Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The carrying values and fair values of the Medical Center's financial instruments that are not required to be carried at fair value are as follows at December 31:

	2017		2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	<i>(In Thousands)</i>			
Long-term debt	\$ 798,553	\$ 804,238	\$ 817,429	\$ 825,218

The fair value of the Medical Center's bonds payable is based on quoted market prices for the related bonds. The fair value of other debt is based upon discounted cash flow analyses, using estimated borrowing rates for similar types of debt. Fair value of bonds payable is classified as Level 1, while fair value of other debt is classified as Level 2.

11. Concentration of Credit Risk

At December 31, 2017 and 2016, excluding investments in bond mutual funds, approximately 23% and 24%, respectively, of the Medical Center's marketable securities were issued by either the United States Government or its agencies.

At December 31, 2017 and 2016, significant concentrations of receivables for patient care include approximately 19% and 21% from Medicare, 6% and 10% from Medicaid and 74% and 68% from commercial and managed care organizations, respectively, of which 9% and 10% was due from Blue Cross plans at December 31, 2017 and 2016, respectively.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

11. Concentration of Credit Risk (continued)

Net patient service revenue from the Medicare and Medicare managed care programs accounted for approximately 33% and 32% for the years ended December 31, 2017 and 2016, respectively, and net patient service revenue from the Medicaid and Medicaid managed care programs accounted for approximately 33% and 32% of the Medical Center's net patient service revenue for the years ended December 31, 2017 and 2016, respectively. No other specific payer exceeded 10% of net patient service revenue.

12. Other Revenue

Other revenue included in the consolidated statements of operations for the years ended December 31, 2017 and 2016 consisted of the following:

	2017	2016
	<i>(In Thousands)</i>	
Care management administrative fees	\$ 52,127	\$ 16,250
DSRIP revenue	44,800	23,413
Patient care quality incentive revenue	43,455	26,445
Equity earnings from investments	31,625	27,672
Staff housing and other rental income	15,182	20,000
Continuing Medical Education programs	14,459	13,925
Interest and dividend income	14,917	12,912
Behavioral health program revenue	—	9,986
Gains on employee deferred compensation plan assets	6,557	2,784
Government Electronic Health Record Incentive Program	5,004	6,699
Parking revenue	6,217	6,279
Cafeteria revenue	1,719	2,062
Net assets released from restrictions used for operations	3,652	3,157
Shared savings programs	(412)	(7,283)
All other	21,476	25,171
	\$ 260,778	\$ 189,472

New York State distributes federally-funded amounts through a payment mechanism referred to as the Delivery System Reform Incentive Payment (DSRIP) program. The DSRIP program is a five-year program intended to promote community-level collaborations to focus on health system

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

12. Other Revenue (continued)

reform and enhance the value provided by the health care system. DSRIP funding is available to certain hospitals and providers participating in networks (referred to as Performing Provider Systems, PPS) that are able to establish performance improvement activities in certain predefined clinical improvement areas. The PPS that the Medical Center coordinates has submitted plans for clinical improvement projects in order to be eligible for payments under the DSRIP program. The Medical Center received approximately \$52.3 million and \$25.9 million during 2017 and 2016, respectively, and recorded approximately \$36.0 million and \$23.1 million, respectively, in other revenue during the years ended December 31, 2017 and 2016 for amounts received under the DSRIP program.

Certain payments under the DSRIP program are subject to meeting specified performance criteria and other requirements which may be evaluated in future periods. The Medical Center also participates in a PPS and recorded approximately \$8.8 million and \$340,000 in other revenue during the years ended December 31, 2017 and 2016, respectively related to participation in this program.

The Medical Center receives shared savings revenue from CMS based on the Pioneer Accountable Care Organization (Medicare Fee For Service) savings. The Medical Center estimated that shared savings revenue of approximately \$512,000 was earned for performance year 5 (January 1, 2016 through December 31, 2016). During 2016, CMS finalized the shared savings calculation for performance year 4 (January 1, 2015 through December 31, 2015) and determined that the Medical Center did not earn a shared savings payment. The \$12.9 million estimated receivable pertaining to performance year 4 was written off and recognized as a change in estimate during 2016. In addition, the Medical Center enters into shared savings programs with commercial payers. For the year ended December 31, 2017, the Medical Center recorded a loss of approximately \$924,000 related to these programs and for the year ended 2016, the Medical Center recorded approximately \$5.6 million of revenue related to these programs.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

13. Related-Party Transactions

At December 31, 2017 and 2016, amounts due from (to) members, net were comprised of the following:

	December 31	
	2017	2016
	<i>(In Thousands)</i>	
Note due from MHS ^(a)	\$ 126,088	\$ 123,917
Due from (to) members, net:		
MHS ^(b)	(3,420)	(4,566)
Montefiore New Rochelle Hospital ^(c)	3,128	4,454
Montefiore Mount Vernon Hospital ^(c)	1,409	(4,740)
Schaffer Extended Care Center ^(c)	1,018	538
Montefiore HMO, LLC ^(d)	7,404	7,210
The Montefiore IPA, Inc. ^(e)	32,646	–
Bronx Accountable Healthcare Network IPA, Inc. ^(f)	22,009	–
University Behavioral Associates, Inc. ^(g)	(10,869)	–
Montefiore Behavioral Care IPA No. 1, Inc.	1,504	–
Montefiore Nyack Hospital	–	(382)
St. Luke's Cornwall Hospital ^(c)	1,325	–
Albert Einstein College of Medicine, Inc. ^(h)	38,598	(3,450)
MMAHS ⁽ⁱ⁾	1,915	(62)
Montefiore Information Technology, LLC ^(j)	(17,748)	(12,958)
Montefiore North Ambulatory Care Center, Inc.	(4)	(4)
MMC GI Holdings, East, Inc.	(2,632)	–
MMC GI Holdings, West, Inc.	(2,431)	–
	199,940	109,957
Less current portion	(32,476)	(23,079)
Due from members, net of current portion	\$ 167,464	\$ 86,878

^(a) During 2017 and 2016, the Medical Center provided advances to MHS under a note arrangement (the MHS Note), the proceeds of which were used by MHS to provide loans to several members to fund their ongoing operations.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

13. Related-Party Transactions (continued)

During 2017 and 2016, the Medical Center advanced approximately \$17.4 million and \$39.6 million, respectively, to MHS, which was subsequently advanced to White Plains Hospital Center. The amounts advanced to MHS were recorded as a capital contribution.

- (b) The Medical Center purchases various management, administrative and staffing services from MHS. For the years ended December 31, 2017 and 2016, transactions charged (at cost) by MHS to the Medical Center were approximately \$9.3 million and \$10.1 million, respectively, and include payroll and benefits charges (94%) and various other shared services (6%).
- (c) The Medical Center provides various shared services to the members. Management determines the allocation of costs based on each member's usage of services; however, actual amounts charged to the members may vary from the allocation of costs based on management's assessment of the member's ability to pay or other contractual agreements. For the years ended December 31, 2017 and 2016, transactions charged by the Medical Center to these members were approximately \$21.2 million and \$4.0 million, respectively, and included as an offset to supplies and other expenses on the consolidated statements of operations.
- (d) Montefiore HMO, LLC (MHMO), an Article 44 insurance company, contracts with the Medical Center to facilitate the provision of managed long-term home health care services. For the years ended December 31, 2017 and 2016, the Medical Center recorded net patient service revenue derived from such contract of approximately \$1.1 million and \$0.9 million, respectively.

In addition, CMO provides a health risk management infrastructure (claims administration and care management) to MHMO, of which its fees are based on a percentage of premiums. For the years ended December 31, 2017 and 2016, CMO recorded other revenue of approximately \$9.6 million and \$7.1 million, respectively.

In 2012, the Medical Center issued a surplus note to MHMO (the Surplus Note) of approximately \$6.1 million which bears interest at an annual rate of Wall Street Journal Prime plus 1% (5.50% and 4.75% at December 31, 2017 and 2016, respectively). The aggregate amount of the Surplus Note was approximately \$7.4 million and \$7.0 million at December 31, 2017 and 2016, respectively.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

13. Related-Party Transactions (continued)

^(e) MIPA contracts with multiple insurance companies, under capitated and risk-sharing arrangements to be responsible for the cost of the provision of healthcare services to a defined group of individuals. MIPA also contracts with healthcare providers, including the Medical Center, to provide services to covered individuals. For the years ended December 31, 2017 and 2016, the Medical Center recorded net patient service revenue derived from such contract of approximately \$203.8 million and \$208.0 million, respectively, of which approximately \$34.1 million and \$208.0 million, respectively, was eliminated in the consolidated statements of operations. The decrease in amounts eliminated in consolidation is reflective of the change in membership of MCV and its controlled organizations in 2017 (see Note 1).

In addition, CMO provides a health risk management infrastructure (claims administration and care management) to MIPA, of which its fees are based on a percentage of premiums. For the years ended December 31, 2017 and 2016, CMO recorded other revenue of approximately \$36.9 million and \$37.9 million, respectively, of which approximately \$7.2 million and \$37.9 million, respectively, was eliminated in the consolidated financial statements. The decrease in amounts eliminated in consolidation is reflective of the change in membership of MCV and its controlled organizations in 2017 (see Note 1).

The amounts due from MIPA at December 31, 2017 relate to unpaid services provided by CMO.

^(f) CMO provides all management and administrative services to ACO-IPA. For the years ended December 31, 2017 and 2016, CMO recorded other revenue of approximately \$4.0 million and \$11.7 million, respectively. Amounts due to the Medical Center relate to advances to ACO-IPA during the year to meet the funding requirements for payment to CMO.

^(g) UBA provides management services to MBCIPA and through the support of the Medical Center has entered into several Federal, state and city grant contracts to provide services in the areas of drug counseling, career counseling and family related matters. The amounts due to UBA at December 31, 2017 relate to cash received on UBA's behalf by the Medical Center.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

13. Related-Party Transactions (continued)

- (h) Transactions between Einstein and the Medical Center relate to costs for clinical training, research, professional services and related supporting services (at cost). In addition, the Medical Center has agreed to provide loans to Einstein in an aggregate amount of up to \$75.0 million as necessary to allow it to meet its cash flow requirements. The first loan was funded in December 2017 in the amount of \$35.0 million. During 2017 and 2016, the Medical Center also made capital contributions of approximately \$14.4 million and \$8.3 million, respectively, to Einstein in accordance with an agreement to provide operating subsidies to Einstein over a five-year period (see Note 9). In addition, during 2017, the Medical Center forgave amounts owed from Einstein of approximately \$4.8 million recorded within transfers to members, net in the consolidated statements of operations.
- (i) The Medical Center purchases various management, administrative and staffing services from MMAHS. For the years ended December 31, 2017 and 2016, transactions charged (at cost) by MMAHS to the Medical Center were approximately \$21.7 million and \$25.5 million, respectively, comprised of payroll and benefits charges.
- (i) The Medical Center purchases information technology and support services (at cost) from Montefiore Information Technology, LLC. For the years ended December 31, 2017 and 2016, the expense incurred by the Medical Center related to such services was approximately \$107.1 million and \$102.2 million, respectively, and is included within supplies and other expense on the consolidated statements of operations.

During 2017 and 2016, the Medical Center forgave the amounts owed from Montefiore North Ambulatory Care Center, Inc. of approximately \$1.3 million and \$16.6 million, respectively, recorded within transfers to members, net in the consolidated statements of operations.

During the years ended December 31, 2017 and 2016, the Medical Center's performing provider system (PPS), MHVC, received approximately \$68.4 million and \$59.5 million in DSRIP Value Based Payment Quality Improvement Program (VBP QIP) funding, which was distributed to Montefiore New Rochelle Hospital, Montefiore Mount Vernon Hospital, Montefiore Nyack Hospital and St. Luke's Cornwall Hospital. VBP QIP was created by New York State to provide financially distressed hospitals and the PPSs with which they are associated the opportunity to collaborate with Medicaid managed care organizations for the successful implementation of VBP contracts as a means toward long-term financial sustainability. VBP QIP revenue and related expenditures have no net impact on the consolidated statements of operations of the Medical Center.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

14. Subsequent Events

The Medical Center evaluated subsequent events through April 12, 2018, which is the date the consolidated financial statements were issued, for potential recognition or disclosure in the accompanying consolidated financial statements for the year ended December 31, 2017.

Effective January 1, 2018, a controlled member of MHS acquired an equity interest in a joint venture with Crystal Run Healthcare, LLP. In accordance with the purchase agreement, the Medical Center entered into a security agreement by which the Medical Center deposited \$30.0 million in escrow as security for the purchase price.

No other events, except as disclosed in Note 9, occurred that require disclosure in or adjustment to the consolidated financial statements.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

The Board of Trustees
Montefiore Medical Center

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of Montefiore Medical Center and its controlled organizations, as of and for the years ended December 31, 2017 and 2016, and have issued an unmodified opinion thereon dated April 12, 2018. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position as of December 31, 2017 and consolidating statement of operations for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

April 12, 2018

Montefiore Medical Center

Consolidating Statement of Financial Position (In Thousands)

December 31, 2017

	Montefiore Medical Center	CMO	MCORP	MPC	Other Consolidated Companies	Eliminations	Consolidated Total
Assets							
Current assets:							
Cash and cash equivalents	\$ 205,933	\$ 4,231	\$ 194	\$ 442	\$ 43,178	\$ –	\$ 253,978
Marketable and other securities	655,530	–	–	–	760	–	656,290
Assets limited as to use, current portion	15,435	–	541	–	–	–	15,976
Receivables for patient care, less allowances for doubtful accounts	241,499	–	–	–	1,596	–	243,095
Other receivables	45,588	2,131	515	78	38	266	48,616
Estimated insurance claims receivable, current portion	81,097	–	–	–	–	–	81,097
Other current assets	55,161	88	6	250	800	–	56,305
Due from members, current portion	101,325	–	16,570	–	3,558	(88,977)	32,476
Total current assets	1,401,568	6,450	17,826	770	49,930	(88,711)	1,387,833
Assets limited as to use, net of current portion	192,668	–	–	–	7,424	–	200,092
Property, buildings and equipment, net	968,473	1,712	65,632	4,312	16,579	(353)	1,056,355
Estimated insurance claims receivable, net of current portion	459,548	–	–	–	–	–	459,548
Other noncurrent assets	209,058	–	2,606	174	7,024	(430)	218,432
Due from members, net of current portion	167,464	–	–	–	–	–	167,464
Total assets	\$ 3,398,779	\$ 8,162	\$ 86,064	\$ 5,256	\$ 80,957	\$ (89,494)	\$ 3,489,724

Montefiore Medical Center

Consolidating Statement of Financial Position (continued) (In Thousands)

December 31, 2017

	Montefiore Medical Center	CMO	MCORP	MPC	Other Consolidated Companies	Eliminations	Consolidated Total
Liabilities and net assets (deficiency)							
Current liabilities:							
Accounts payable and accrued expenses	\$ 236,064	\$ 2,465	\$ 1,968	\$ 17	\$ 36,635	\$ –	\$ 277,149
Accrued salaries, wages and related items	279,841	5,588	–	25	397	–	285,851
Professional and other insured liabilities, current portion	52,022	–	–	–	–	–	52,022
Estimated insurance claims liabilities, current portion	81,097	–	–	–	–	–	81,097
Estimated third-party payer liabilities, current portion	41,492	–	–	–	–	–	41,492
Long-term debt, current portion	72,366	–	1,783	55	271	–	74,475
Due to members	–	65,963	–	793	22,221	(88,977)	–
Total current liabilities	762,882	74,016	3,751	890	59,524	(88,977)	812,086
Long-term debt, net of current portion	641,003	–	62,376	1,788	19,049	–	724,216
Noncurrent defined pension benefit and other postretirement health plan liabilities	190,153	–	–	–	–	–	190,153
Professional and other insured liabilities, net of current portion	139,541	–	–	–	–	–	139,541
Employee deferred compensation	45,570	–	–	–	–	–	45,570
Estimated insurance claims liabilities, net of current portion	459,548	–	–	–	–	–	459,548
Estimated third-party payer liabilities, net of current portion	211,014	–	–	–	–	–	211,014
Other noncurrent liabilities	60,399	2,257	–	174	349	–	63,179
Total liabilities	2,510,110	76,273	66,127	2,852	78,922	(88,977)	2,645,307
Net assets (deficiency):							
Unrestricted	784,425	(68,111)	19,937	2,404	(5,389)	(517)	732,749
Temporarily restricted	77,793	–	–	–	269	–	78,062
Permanently restricted	26,451	–	–	–	7,155	–	33,606
Total net assets (deficiency)	888,669	(68,111)	19,937	2,404	2,035	(517)	844,417
Total liabilities and net assets (deficiency)	\$ 3,398,779	\$ 8,162	\$ 86,064	\$ 5,256	\$ 80,957	\$ (89,494)	\$ 3,489,724

Montefiore Medical Center

Consolidating Statement of Operations (In Thousands)

Year Ended December 31, 2017

	Montefiore Medical Center	MIPA	CMO	ACO-IPA	Other Managed Care Entities	MCORP	MPC	Other Consolidated Companies	Eliminations	Consolidated Total
Operating revenue										
Net patient service revenue before bad debt expense	\$ 3,408,297	\$ 85,600	\$ 7	\$ –	\$ 2,124	\$ –	\$ –	\$ 13,363	\$ (62,985)	\$ 3,446,406
Bad debt expense	(33,486)	–	–	–	–	–	–	–	–	(33,486)
Net patient service revenue	3,374,811	85,600	7	–	2,124	–	–	13,363	(62,985)	3,412,920
Grants and contracts	82,140	–	–	–	–	–	107	–	–	82,247
Contributions	6,902	–	–	–	–	–	–	–	–	6,902
Other revenue	167,530	452	59,994	512	1,797	9,623	2,617	45,196	(26,943)	260,778
Total operating revenue	3,631,383	86,052	60,001	512	3,921	9,623	2,724	58,559	(89,928)	3,762,847
Operating expenses										
Salaries and wages	1,715,684	–	37,560	–	832	–	315	7,384	–	1,761,775
Employee benefits	511,663	–	11,457	–	254	–	96	2,251	(29,823)	495,898
Supplies and other expenses	1,183,325	84,042	31,531	668	3,969	5,005	2,140	43,978	(60,105)	1,294,553
Depreciation and amortization	144,998	–	1,469	–	–	2,816	310	1,328	–	150,921
Interest	29,226	1	1	–	1	2,332	98	419	–	32,078
Total operating expenses	3,584,896	84,043	82,018	668	5,056	10,153	2,959	55,360	(89,928)	3,735,225
Excess (deficiency) of operating revenues over operating expenses before other items	46,487	2,009	(22,017)	(156)	(1,135)	(530)	(235)	3,199	–	27,622
Net realized and changes in net unrealized gains and losses on marketable and other securities	36,829	312	–	–	–	–	–	–	–	37,141
Malpractice insurance program adjustments associated with investment earnings shortfall	1,209	–	–	–	–	–	–	–	–	1,209
Net periodic pension and other postretirement health benefit costs (non-service related)	(9,444)	–	–	–	–	–	–	–	–	(9,444)
Excess (deficiency) of revenues over expenses	75,081	2,321	(22,017)	(156)	(1,135)	(530)	(235)	3,199	–	56,528
Change in defined benefit pension and other postretirement plan liabilities to be recognized in future periods	(16,678)	–	–	–	–	–	–	–	–	(16,678)
Transfer of Montefiore Consolidated Ventures, Inc. to MHS	–	22,948	–	21,821	5,979	–	–	(9,313)	–	41,435
Transfers to members, net	(37,933)	–	–	–	–	–	–	–	–	(37,933)
Increase (decrease) in unrestricted net assets	\$ 20,470	\$ 25,269	\$ (22,017)	\$ 21,665	\$ 4,844	\$ (530)	\$ (235)	\$ (6,114)	\$ –	\$ 43,352

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