Consolidated Financial Statements and Supplementary Information

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

Ernst & Young LLP

Building a better working world

Montefiore Medical Center

Consolidated Financial Statements and
Supplementary Information

Years Ended December 31, 2018 and 2017

Contents

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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, 2018 and 2017, 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.

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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, 2018 and 2017, 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.

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

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

Ernst + Young LLP

April 12, 2019

Montefiore Medical Center

Consolidated Statements of Financial Position

	December 31 2018	December 31 2017
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 184,019**	$ 253,978
Marketable and other securities	**1,355,526**	656,290
Assets limited as to use, current portion	**10,930**	15,976
Receivables for patient care, net	**231,548**	243,095
Other receivables	**44,007**	48,616
Estimated insurance claims receivable, current portion	**86,575**	81,097
Other current assets	**68,014**	56,305
Due from members, current portion	**25,861**	32,476
Total current assets	**2,006,480**	1,387,833
Assets limited as to use, net of current portion	**153,938**	200,092
Property, buildings and equipment, net	**1,017,751**	1,056,355
Estimated insurance claims receivable, net of current portion	**394,399**	459,548
Other noncurrent assets	**215,213**	218,432
Due from members, net of current portion	**129,487**	167,464
Total assets	**$ 3,917,268**	$ 3,489,724
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 305,583**	$ 277,149
Accrued salaries, wages and related items	**270,386**	285,851
Professional and other insured liabilities, current portion	**61,989**	52,022
Estimated insurance claims liabilities, current portion	**86,575**	81,097
Estimated third-party payer liabilities, current portion	**33,334**	41,492
Long-term debt, current portion	**17,195**	74,475
Total current liabilities	**775,062**	812,086
Long-term debt, net of current portion	**1,380,505**	724,216
Noncurrent defined benefit pension and other postretirement health plan liabilities	**190,279**	190,153
Professional and other insured liabilities, net of current portion	**117,454**	139,541
Employee deferred compensation	**46,329**	45,570
Estimated insurance claims liabilities, net of current portion	**394,399**	459,548
Estimated third-party payer liabilities, net of current portion	**211,014**	211,014
Other noncurrent liabilities	**62,523**	63,179
Total liabilities	**3,177,565**	2,645,307
Commitments and contingencies		
Net assets:		
Without donor restrictions	**628,902**	732,749
With donor restrictions	**110,801**	111,668
Total net assets	**739,703**	844,417
Total liabilities and net assets	**$ 3,917,268**	$ 3,489,724

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Operations

	Year Ended December 31	
	2018	**2017**
	(In Thousands)	
Operating revenue		
Net patient service revenue before bad debt expense		$ 3,446,406
Bad debt expense		(33,486)
Net patient service revenue	**$ 3,499,992**	3,412,920
Grants and contracts	**87,361**	82,247
Contributions	**10,081**	6,902
Other revenue	**318,908**	260,778
Total operating revenue	**3,916,342**	3,762,847
Operating expenses		
Salaries and wages	**1,849,552**	1,761,775
Employee benefits	**528,011**	506,502
Supplies and other expenses	**1,338,110**	1,283,949
Depreciation and amortization	**150,151**	150,921
Interest	**48,585**	32,078
Total operating expenses	**3,914,409**	3,735,225
Excess of operating revenues over operating expenses before other items	**1,933**	27,622
Net realized and changes in net unrealized gains and losses on marketable and other securities	**(14,945)**	37,141
Malpractice insurance program adjustments	**49,354**	1,209
Net periodic pension and other postretirement benefit costs (non-service related)	**(11,845)**	(9,444)
Gain on debt refinancing	**2,134**	–
Excess of revenues over expenses	**26,631**	56,528
Change in defined benefit pension and other postretirement health plan liabilities to be recognized in future periods	**9,485**	(16,678)
Transfer of Montefiore Consolidated Ventures, Inc. to MHS *(Note 1)*	**–**	41,435
Transfers to members, net	**(139,963)**	(37,933)
(Decrease) increase in net assets without donor restrictions	**$ (103,847)**	$ 43,352

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2018 and 2017

	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
	(In Thousands)		
Net assets at January 1, 2017	$ 689,397	$ 109,885	$ 799,282
Increase in net assets without donor restrictions	43,352	–	43,352
Restricted gifts, bequests, and similar items	–	4,962	4,962
Restricted investment income	–	473	473
Net assets released from restrictions	–	(3,652)	(3,652)
Total changes in net assets	43,352	1,783	45,135
Net assets at December 31, 2017	732,749	111,668	844,417
Decrease in net assets without donor restrictions	**(103,847)**	**–**	**(103,847)**
Restricted gifts, bequests, and similar items	**–**	**3,513**	**3,513**
Restricted investment income	**–**	**(488)**	**(488)**
Net assets released from restrictions	**–**	**(3,892)**	**(3,892)**
Total changes in net assets	**(103,847)**	**(867)**	**(104,714)**
Net assets at December 31, 2018	**$ 628,902**	**$ 110,801**	**$ 739,703**

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Cash Flows

	Year Ended December 31 2018	2017
	(In Thousands)	
Operating activities		
(Decrease) increase in net assets	**$ (104,714)**	$ 45,135
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**150,151**	150,921
Bad debt expense	**–**	33,486
Change in defined benefit pension and other postretirement health plan liabilities to be recognized in future periods	**(9,485)**	16,678
Transfers to members, net	**139,963**	37,933
Transfer of Montefiore Consolidated Ventures, Inc. to MHS	**–**	(41,435)
Net realized gains and losses on marketable and other securities	**(12,169)**	(14,019)
Change in net unrealized gains and losses on marketable and other securities	**27,114**	(23,122)
Equity earnings from investments	**(42,674)**	(31,625)
Write-off of long-term mortgage premium and deferred financing costs as a result of debt refinancing	**4,005**	–
Amortization of long-term mortgage premium	**(1,141)**	(329)
Amortization of deferred financing costs	**1,081**	1,072
Changes in operating assets and liabilities:		
Receivables for patient care	**11,547**	11,471
Accounts payable and accrued expenses	**28,434**	(44,564)
Accrued salaries, wages and related items	**(15,465)**	16,713
Noncurrent defined benefit and postretirement health plan liabilities	**9,611**	6,424
Net change in all other operating assets and liabilities	**(26,939)**	13,299
Net cash provided by operating activities	**159,319**	178,038
Investing activities		
Acquisition of property, buildings and equipment, net	**(111,547)**	(85,037)
Advances to Montefiore Health System, Inc. on MHS Note and other	**–**	(4,218)
Payments from Montefiore Health System, Inc. on MHS Note	**2,153**	2,047
(Increase) decrease in marketable and other securities, net	**(714,181)**	14,779
Decrease in assets limited to use, net	**51,200**	30,360
Net cash used in investing activities	**(772,375)**	(42,069)
Financing activities		
Payments of long-term debt	**(49,152)**	(67,729)
Extinguishment of long-term debt	**(545,139)**	–
Proceeds from long-term debt	**1,213,837**	47,078
Payments of deferred financing costs	**(24,482)**	(208)
Payments to members, net	**(51,967)**	(31,727)
Net cash provided by (used in) financing activities	**543,097**	(52,586)
Net (decrease) increase in cash and cash equivalents	**(69,959)**	83,383
Cash and cash equivalents at beginning of year	**253,978**	170,595
Cash and cash equivalents at end of year	**$ 184,019**	$ 253,978

See accompanying notes.

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:
  - Hudson Valley IPA, Inc. (HIPA)
  - 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)
  - CRHT Acquisition, Inc. (CRHT)

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 (in thousands):

	March 1, 2017*
Assets	
Cash and cash equivalents	$ 6,631
Marketable and other securities	23,712
Assets limited as to use	39,345
Other receivables	12,488
Due from members	8,340
Property, buildings and equipment, net	142
Other noncurrent assets	2,022
Total assets	$ 92,680
Liabilities	
Accounts payable and accrued expenses	$ 73,965
Accrued salaries, wages, and related items	469
Due to members	59,681
Total liabilities	134,115
Net deficiency	
Net deficiency without donor restrictions	(41,435)
Total liabilities and net deficiency	$ 92,680

* 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.

1. Organization and Significant Accounting Policies (continued)

The following table summarizes the operating revenue and excess 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 (in thousands):

	Period From January 1, 2017 to March 1, 2017
Total operating revenue	$ 90,590
Excess of revenues over expenses	$ 1,671

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. The Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017. For tax-exempt entities, TCJA requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income subject to tax, pay an excise tax on compensation above certain thresholds, and record income or losses for tax determination purposes from unrelated business activities on an activity-by-activity basis, among other provisions. Regulations necessary to implement certain aspects of the TCJA are expected to be promulgated by the Internal Revenue Service (IRS) in 2019. The effects of income taxes are not material to the consolidated financial statements.

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

1. Organization and Significant Accounting Policies (continued)

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

When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, donor restricted net assets are reclassified as net assets without donor restrictions and reported as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are classified as contributions without donor restrictions. Other revenue for the years ended December 31, 2018 and 2017 includes approximately $3.9 million and $3.7 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 of approximately $65.6 million and $35.2 million as of December 31, 2018 and 2017, respectively, are included within accounts payable and accrued expenses in the consolidated statements of financial position.

At December 31, 2018 and 2017, the Medical Center invested excess cash in deposits with major banks and in money market funds with high credit quality financial institutions.

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.

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

1. Organization and Significant Accounting Policies (continued)

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, 2018 and 2017, the Medical Center had approximately $25.9 million and $9.8 million, respectively, 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, 2018 and 2017, approximately 35% and 22%, respectively, 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.

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

1. Organization and Significant Accounting Policies (continued)

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.

Premium Revenue: 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. Premium revenue included within net patient service revenue in the accompanying consolidated statements of operations aggregated approximately $53.4 million and $153.5 million for the years ended December 31, 2018 and 2017, 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 and transfers to members, net.

1. Organization and Significant Accounting Policies (continued)

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 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.

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.

1. Organization and Significant Accounting Policies (continued)

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, 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 2018	2017
	(In Thousands)	
Charity care, at cost and net of subsidies	**$ 65,975**	$ 54,803
Unpaid cost of means-tested government-sponsored insurance programs	**335,878**	346,330
Health professions training, at cost	**53,372**	47,441
Community benefit programs	**99,493**	95,667
Research	**19,077**	18,888
	$ 573,795	$ 563,129

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, 2018 and 2017, the Medical Center received approximately \$10.2 million and \$8.7 million, respectively, in Pool distributions related to charity care. The Medical Center made payments into the Pool of approximately \$20.6 million and \$19.8 million for the years ended December 31, 2018 and 2017, respectively, for the 1% assessment.

1. Organization and Significant Accounting Policies (continued)

Program Services: The Medical Center provides health care and related services primarily within its geographic area. Expenses related to providing these services for the year ended December 31, 2018 are as follows:

	Health Care and Related Services	Research	Program Support and General Services	Total
		(In Thousands)		
Salaries and wages	**$ 1,687,763**	**$ 1,765**	**$ 160,024**	**$ 1,849,552**
Employee benefits	**483,436**	**576**	**43,999**	**528,011**
Supplies and other expenses	**1,188,268**	**2,177**	**147,665**	**1,338,110**
Depreciation and amortization	**93,729**	**–**	**56,422**	**150,151**
Interest	**46,628**	**–**	**1,957**	**48,585**
	$ 3,499,824	**$ 4,518**	**$ 410,067**	**$ 3,914,409**

Expenses related to providing these services for the year ended December 31, 2017 are as follows:

	Health Care and Related Services	Research	Program Support and General Services	Total
		(In Thousands)		
Salaries and wages	$ 1,616,230	$ 1,776	$ 143,769	$ 1,761,775
Employee benefits	466,491	568	39,443	506,502
Supplies and other expenses	1,147,449	1,698	134,802	1,283,949
Depreciation and amortization	99,515	–	51,406	150,921
Interest	29,226	–	2,852	32,078
	$ 3,358,911	$ 4,042	$ 372,272	$ 3,735,225

The financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, interest, and other occupancy costs, are allocated to a function based on a square footage or units of service basis.

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 the valuation of 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 2018 and 2017, the Medical Center recorded net changes in estimates that increased the excess of revenues over expenses by $1.9 million and $12.5 million, respectively, which primarily related to changes in previously estimated third-party payer settlements and changes to estimated liabilities.

Recently Adopted Accounting Pronouncements:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (*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 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 became effective for the Medical Center for annual reporting periods beginning after December 15, 2017. The Medical Center adopted ASU 2014-09 effective January 1, 2018. The Medical Center adopted ASU 2014-09 following the modified retrospective method of application, and as such the prior period financial statements have not been adjusted for the adoption of ASU 2014-09. As a result of implementing ASU 2014-09, certain patient activity where collection is uncertain previously reported as net patient service revenue and bad debt expense in the Medical Center's consolidated statements of operations no longer meets the criteria for revenue recognition and, accordingly, bad debt expense after the adoption date is significantly reduced with a corresponding reduction to net patient service revenue. For the year ended December 31, 2018, the Medical Center recorded approximately $30.6 of implicit price concessions as a direct reduction to net patient service revenue that would have been recorded as bad debt expense prior to the adoption of ASU 2014-09. Additionally, bad debt expense for the year ended December 31, 2018 is now presented as an expense item (included as a component of supplies and other expenses) rather than a reduction to net patient service revenue. Other aspects

1. Organization and Significant Accounting Policies (continued)

of the Medical Center's implementation of ASU 2014-09 impacting net patient service revenue, which include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures, are reflected below within Note 2. The adoption of ASU 2014-09 did not have a material impact in relation to other applicable revenue activity.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statement Presentation* (ASU 2016-14), which changes the presentation and disclosure requirements of not-for-profit entities (NFPs). The standard changes the requirement for NFPs to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs are required to classify net assets as net assets with donor restrictions or without donor restrictions. The guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs are also required to report all expenses by both functional and natural classification in one location. The Medical Center adopted ASU 2016-14 on December 31, 2018, retrospectively for certain provisions as permitted. With the exception of certain presentation items, the adoption of ASU 2016-14 did not have a significant impact on the consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted:

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 beginning January 1, 2019 and will be applied using a modified retrospective approach. The primary effect of the new standard will be to record right-of-use assets and obligations for current operating leases which will have a material impact on the consolidated statement of financial position and significant incremental disclosures in the consolidated financial statement footnotes. The transition adjustment is not expected to have a material impact on the consolidated statement of operations.

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

1. Organization and Significant Accounting Policies (continued)

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.

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

1. Organization and Significant Accounting Policies (continued)

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* (ASU 2018-15). The standard aligns the requirement for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this standard. The standard requires the customer in a hosting arrangement that is a service contract to follow the guidance in ASC Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense by determining which project stage an implementation activity relates to and the nature of the costs. The standard also requires the customer to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. ASU 2018-15 is effective for the Medical Center for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted, including adoption in any interim period. Either retrospective or prospective adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2018-15 on its consolidated financial statements.

Reclassifications: For purposes of comparison, certain reclassifications have been made to the accompanying 2017 consolidated financial statements to conform to the 2018 presentation. These reclassifications have no effect on the excess of revenues over expenses or net assets for the year ended December 31, 2017.

2. Net Patient Service Revenue

Effective January 1, 2018, upon the adoption of ASU 2014-09, net patient service revenue is reported at the amount that reflects the consideration to which the Medical Center expects to be entitled in exchange for providing patient care.

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

2. Net Patient Service Revenue (continued)

The Medical Center's initial estimate of the transaction price for services provided to patients subject to revenue recognition is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, and other reductions to the Medical Center's standard charges. The Medical Center determines the transaction price associated with services provided to patients who have third-party payer coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payer payment programs below). The estimates for contractual allowances and discounts are based on contractual agreements, the Medical Center's discount policies and historical experience. For uninsured and under-insured patients who do not qualify for charity care, the Medical Center determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on the Medical Center's historical collection experience for applicable patient portfolios. Under the Medical Center's charity care policy, a patient who has no insurance or is under-insured and is ineligible for any government assistance program has his or her bill reduced to (1) the lesser of charges or the Medicaid diagnostic-related group for inpatient and (2) a discount from Medicaid fee-for-service rates for outpatient. Patients who meet the Medical Center's criteria for free care are provided care without charge; such amounts are not reported as revenue.

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

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

2. Net Patient Service Revenue (continued)

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

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

The Medical Center has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payers, lines of business and timing of when revenue is recognized. Tables providing details of these factors are presented below.

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

Medicare and Medicare managed care	$ 1,133,826
Medicaid and Medicaid managed care	1,216,274
Commercial carriers and managed care	1,120,740
Self-pay and other	29,152
	$ 3,499,992

Deductibles, copayments and coinsurance under third-party payment programs which are the patient's responsibility are included within the self-pay and other category above.

2. Net Patient Service Revenue (continued)

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

Inpatient services	$ 2,112,970
Physician and other outpatient services	1,226,574
Emergency department	98,078
All other	62,370
	$ 3,499,992

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

At December 31, 2018, receivables for patient care, net is comprised of the following components (in thousands):

Patient receivables	$ 173,448
Contract assets	58,100
	$ 231,548

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

The allowance for doubtful accounts was not significant at December 31, 2018. The allowance for doubtful accounts was approximately $25.1 million at December 31, 2017.

Settlements with third-party payers (see description of third-party payer payment programs below) for cost report filings and retroactive adjustments due to ongoing and future audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on

2. Net Patient Service Revenue (continued)

the terms of the payment agreement with the payer, correspondence from the payer and the Medical Center's historical settlement activity (for example, cost report final settlements or repayments related to recovery audits), including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant for the year ended December 31, 2018.

Prior to the adoption of ASU 2014-09, the Medical Center recognized patient service revenue at the estimated net realizable amounts associated with services provided to patients who have third-party payer coverage on the basis of contractual or formula-driven rates for the services rendered and included estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments were considered in the recognition of revenue on an estimated basis in the period that related services were rendered, and such amounts adjusted in future periods as adjustments became known or as years were no longer subject to such audits, reviews and investigations.

Net patient service revenue, net of contractual allowances and discounts, for the year ended December 31, 2017, is as follows (in thousands):

Medicare and Medicare managed care	$ 1,151,544
Medicaid and Medicaid managed care	1,129,844
Commercial carriers and managed care	1,129,106
Self-pay and other	35,912
	3,446,406
Bad debt expense	(33,486)
Net patient service revenue	$ 3,412,920

2. Net Patient Service Revenue (continued)

Third-Party Payer Programs

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

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

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 (DOH). 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.

Other Third-Party Payers: The Medical Center also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge or days of hospitalization and discounts from established charges.

2. Net Patient Service Revenue (continued)

Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through December 31, 2001, although revisions to final settlements or other retroactive changes could be made. Other years and various issues remain open for audit and settlement, as are numerous issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled, audits are completed and additional information is obtained.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Medical Center's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Medical Center. The Medical Center is not aware of any allegations of non-compliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance with all applicable laws and regulations. In addition, certain contracts the Medical Center has with commercial payers also provide for retroactive audit and review of claims.

There are various proposals at the federal and state levels that could, among other things, significantly change payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of or revisions to health care reform that has been or will be enacted by the federal and state governments, cannot be determined presently. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Medical Center. Additionally, certain payers' payment rates for various years have been appealed by the Medical Center. If the appeals are successful, additional income applicable to those years could be realized.

3. Availability and Liquidity of Financial Assets

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

Financial assets at year-end:	
Cash and cash equivalents	$ 184,019
Marketable and other securities	1,355,526
Assets limited as to use	164,868
Receivables for patient care, net	231,548
Pledges receivable, net	6,938
Total financial assets	1,942,899
Less amounts not available to be used within one year:	
Donor restricted funds	(70,597)
Lease escrow deposits	(7,012)
Employee deferred compensation plan assets	(46,329)
Security agreement escrow deposit	(30,000)
Alternative investments held in illiquid private equity funds	(30,440)
Financial assets not available to be used within one year	(184,378)
Financial assets available to meet general expenditures over the next twelve months	$ 1,758,521

The Medical Center has certain donor restricted assets limited as to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above for financial assets to meet general expenditures within one year. The Medical Center has other assets limited as to use which are detailed in Note 4. These assets limited as to use are not available for general expenditure within the next year. As part of the Medical Center's liquidity management plan, operating cash in excess of daily requirements are invested in short-term investments and money market funds. Additionally, the Medical Center maintains a $30.0 million line of credit, as discussed in more detail in Note 7. As of December 31, 2018, $30.0 million remained available on the Medical Center's line of credit.

4. 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	
	2018	**2017**
	(In Thousands)	
Marketable and other securities	**$ 1,355,526**	$ 656,290
Assets limited as to use	**164,868**	216,068
	$ 1,520,394	$ 872,358
Managed cash and cash equivalents held for investment	**$ 364,640**	$ 40,730
Corporate debt	**792,556**	256,335
U.S. Treasury securities	**44,512**	120,133
U.S. Government agency mortgage-backed securities	**39,513**	50,714
U.S. Government agency-backed securities	**35,330**	25,500
U.S. Equity securities	**55,564**	82,195
Non-equity mutual funds	**49,099**	119,805
Equity mutual funds	**17,782**	22,434
Alternative investments	**87,515**	116,453
Collective trust funds	**31,384**	36,752
Interest and other receivables	**2,499**	1,307
	$ 1,520,394	$ 872,358

The composition of assets limited as to use follows:

	December 31	
	2018	**2017**
	(In Thousands)	
Debt-related sinking funds	**$ –**	$ 75,287
Donor restricted funds	**70,597**	71,099
Managed care cash reserves required by contracts	**10,838**	10,765
Lease escrow deposits	**7,104**	13,347
Employee deferred compensation plan assets	**46,329**	45,570
Security agreement escrow deposit	**30,000**	–
Total assets limited as to use	**164,868**	216,068
Less: current portion of assets limited as to use	**(10,930)**	(15,976)
Assets limited as to use, net of current portion	**$ 153,938**	$ 200,092

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

Unrestricted investment returns for the years ended December 31, 2018 and 2017 are comprised as follows:

	Year Ended December 31 2018	2017
	(In Thousands)	
Interest and dividend income	**$ 30,395**	$ 14,917
Net realized gains and losses	**12,169**	14,019
Change in net unrealized gains and losses	**(27,114)**	23,122
	$ 15,450	$ 52,058

5. Property, Buildings and Equipment

A summary of property, buildings and equipment follows:

	December 31 2018	2017
	(In Thousands)	
Land and land improvements	**$ 43,771**	$ 40,228
Buildings, fixed equipment and improvements	**1,680,741**	1,652,318
Movable equipment	**1,425,555**	1,362,789
	3,150,067	3,055,335
Less accumulated depreciation and amortization	**(2,178,988)**	(2,030,293)
	971,079	1,025,042
Construction-in-progress	**46,672**	31,313
	$ 1,017,751	$ 1,056,355

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

6. Operating Leases

Total rental expense included in supplies and other expenses aggregated approximately $56.0 million and $49.5 million for the years ended December 31, 2018 and 2017, 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, 2018 consisted of the following (in thousands):

2019	$ 47,554
2020	50,119
2021	50,573
2022	46,689
2023	43,789
2024 and thereafter	1,048,061
Total minimum lease payments	$ 1,286,785

7. Long-Term Debt

A summary of long-term debt follows:

	December 31 2018	December 31 2017
	(In Thousands)	
DASNY Series 2018A bonds payable[a]	**$ 309,045**	$ –
DASNY Series 2018B bonds payable[a]	**376,105**	–
Montefiore Obligated Group Series 2018C bonds payable[a]	**481,950**	–
FHA Section 242 insured mortgage loan[b]	–	79,998
FHA Section 241 insured mortgage loans[c]	–	240,587
HDC residential revenue bonds payable[d]	–	5,600
Bank loans payable[e]	**2,774**	77,613
Housing II mortgages payable[f]	**18,071**	18,252
Housing I mortgage payable[g]	–	1,074
MCORP bonds payable[h]	–	17,630
NYC IDA bonds payable[h]	–	12,380
Build NYC bonds payable[i]	**63,613**	67,620
Equipment leasing programs[j]	**56,515**	209,384
Ambulatory care center financing[k]	**55,390**	56,419
DASNY mortgages [l]	**26,921**	14,868
Other	**1,122**	1,874
	1,391,506	803,299
Add long-term mortgage premiums[a, c, h]	**31,842**	939
Less long-term debt discount[a]	**(1,480)**	–
Less deferred financing costs	**(24,168)**	(5,547)
Less current portion	**(17,195)**	(74,475)
	$ 1,380,505	$ 724,216

[a] In August 2018, three series of bonds were issued; the Dormitory Authority of the State of New York (DASNY) Montefiore Obligated Group Revenue Bonds, Series 2018A (Tax-Exempt) (the Series 2018A Bonds); the DASNY Montefiore Obligated Group Revenue Bonds, Series 2018B (Federally Taxable) (the Series 2018B Bonds); and the Montefiore Obligated Group Taxable Bonds, Series 2018C (the Series 2018C Bonds),

7. Long-Term Debt (continued)

(collectively, the Series 2018 Bonds). The proceeds from the Series 2018 Bonds were used to refund or refinance certain existing indebtedness (see sections b – e, h and j below), provide working capital, and fund future projects. As a result of the refinancing, the Medical Center recorded a gain on debt refinancing of approximately $2.1 million during 2018. The Series 2018 Bonds are general obligations of the Montefiore Obligated Group (of which the Medical Center is currently the only member) and further secured by a mortgage on certain real property.

The Series 2018A Bonds were sold at a premium, of which approximately $31.8 million was recorded as a component of the related long-term debt as of December 31, 2018, and is being amortized using the effective interest method over the term of the Series 2018A Bonds. The Series 2018A Bonds maturing from 2024 through 2035 carry a coupon rate of 5.00% and the Series 2018A Bonds maturing from 2036 through 2038 carry a coupon rate of 4.00%. Interest payments are due semiannually beginning February 1, 2019. With the exception of certain limited circumstances, the Series 2018A Bonds may not be prepaid prior to August 1, 2028. Subsequent to August 1, 2028, the Series 2018A Bonds may be prepaid without penalty.

The Series 2018B Bonds were sold at a discount, of which approximately $1.5 million was recorded as a component of the related long-term debt as of December 31, 2018, and is being amortized using the effective interest method over the term of the Series 2018B Bonds. The Series 2018B Bonds maturing August 1, 2034 carry a 5.10% coupon rate and begin to amortize in 2030. The Series 2018B Bonds maturing August 1, 2048 have a 4.96% coupon rate and begin to amortize in 2035. The Series 2018B Bonds maturing in 2034 may be prepaid at any time subject to certain restrictions. Interest payments are due semiannually beginning February 1, 2019. With the exception of certain limited circumstances, the Series 2018B Bonds maturing in 2048 may not be prepaid prior to August 1, 2028, after which they may be prepaid without penalty. The principal and interest of the Series 2018B Bonds maturing in 2048 is insured by a third party.

The Series 2018C Bonds mature in 2048 and carry a coupon rate of 5.25% and begin to amortize November 1, 2035. Interest payments are due semiannually beginning in May 2019. The Series 2018C Bonds may be prepaid at any time, subject to certain restrictions.

7. Long-Term Debt (continued)

(b) Prior to the August 2018 refinancing noted in section (a) above, the Medical Center had a mortgage agreement insured under the provisions of the Federal Housing Administration (FHA) 242 Program to finance certain construction and renovation projects. The loan was secured by a first mortgage on substantially all of the Medical Center's real property and certain other assets and carried an interest rate of 2.47%. On August 1, 2018, the mortgage loan was satisfied through the issuance of the Series 2018 Bonds.

(c) Prior to the August 2018 refinancing noted in section (a) above, the Medical Center had four mortgage agreements insured under the provisions of the FHA 241 Program to finance certain construction and renovation projects. The interest rates on the mortgage loans ranged from 3.21% to 4.55%. 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 at December 31, 2017. The mortgage premium was being amortized over the life of the mortgage using the effective interest method. On August 1, 2018, the mortgage loans were satisfied through the issuance of the Series 2018 Bonds and the remaining mortgage premium was written off.

(d) Prior to the August 2018 refinancing noted in section (a) above, the proceeds of New York City Housing Development Corporation (HDC) revenue bonds were used by the Medical Center for a staff housing project. Interest was payable monthly at a variable rate (3.08% at December 31, 2017). The amounts due were 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 amount of approximately $5.7 million at December 31, 2017. No unreimbursed draws were made under the direct pay letter of credit during the years ended December 31, 2018 and 2017. On August 1, 2018, the HDC revenue bonds were refunded with the proceeds of the Series 2018 Bonds and the letter of credit was terminated.

7. Long-Term Debt (continued)

[e] Bank loans payable consist of the following at December 31, 2018 and 2017:

	December 31 2018	2017
	(In Thousands)	
Medical Center bank loans payable at varying dates through November 2021, at fixed and variable rates ranging from 3.43% – 3.73% at December 31, 2017	**$ –**	$ 12,624
Medical Center bank loan payable due in September 2022 at a fixed rate of 4.00%	**299**	–
Medical Center mortgage loan payable due in February 2019 at a fixed rate of 1.67%	–	30,000
MCORP mortgage loan payable due in March 2020 at a fixed rate of 2.49%	–	34,989
MCORP bank loan payable due in May 2028 at a fixed rate of 4.13%	**2,475**	–
	$ 2,774	$ 77,613

On August 1, 2018, several of the loans were paid off with the proceeds of the Series 2018 Bonds. The Medical Center has a line of credit with a bank aggregating approximately $30.0 million. At December 31, 2018 and 2017, no amounts were outstanding under this line. The line of credit expires in June 2019.

[f] Housing II has primary and subordinate mortgage agreements with HDC. At December 31, 2018 and 2017, the primary mortgage amount outstanding was approximately $5.3 million and $5.5 million, respectively. The primary mortgage has a final maturity date in January 2035 and the interest rate is 6.5%. At December 31, 2018 and 2017, 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.

7. Long-Term Debt (continued)

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, 2018 and 2017, 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.

(g) Housing I had a mortgage loan agreement with a lender with a final maturity date in July 2026 which was paid off in full during 2018. At December 31, 2017, the principal balance outstanding was approximately $1.1 million and the interest rate was 7.6%.

(h) Prior to the August 2018 refinancing noted in section (a) above, 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 had an average coupon rate of 4.96% at December 31, 2017. Interest on the MCORP taxable bonds was payable monthly at a variable rate of 3.08% at December 31, 2017. The bonds were sold at a premium, of which approximately $135,000 was recorded as a component of the related long-term debt as of December 31, 2017.

Both bond issues were secured by direct pay letters of credit from a bank in the amounts of approximately $12.9 million and $18.0 million at December 31, 2017. The letters of credit were secured by a mortgage on the properties financed. No unreimbursed draws were made under the direct pay letters of credit during the years ended December 31, 2018 and 2017. On August 1, 2018, both series of MCORP bonds were refunded with the proceeds of the Series 2018 Bonds, the remaining mortgage premium was written off and the letters of credit were terminated.

(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, 2018 and 2017, a total of approximately $63.6 million and $67.6 million was outstanding, respectively. Interest on the 2013 Bonds is payable monthly at variable rates (3.46% and 2.42% at December 31, 2018 and 2017, respectively). Principal is payable monthly through June 2030. The 2013 Bonds are subject to prepayment without penalty, upon satisfaction of certain notice provisions.

7. Long-Term Debt (continued)

(j) In addition to amounts previously borrowed, the Medical Center borrowed approximately $46.7 million during the year ended December 31, 2017, under equipment leases to finance certain capital projects (no amounts were borrowed during the year ended December 31, 2018). The interest rates associated with the Medical Center's various equipment lease borrowings range from 1.06% to 2.23%. On August 1, 2018, certain of these leases were paid off with the proceeds of the Series 2018 Bonds.

(k) 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 $55.4 million and $56.4 million was outstanding at December 31, 2018 and 2017, respectively. Payments of principal and interest commenced in September 2015 and extend through September 2030.

(l) The Medical Center has two loan agreements with DASNY in connection with substance abuse treatment facilities, one of which was entered into during 2018. The loans are secured by mortgages on the facilities. At December 31, 2018 and 2017, a total of approximately $26.9 million and $14.9 million was outstanding, respectively. Interest payments are due semiannually at rates ranging from approximately 3.85% to 4.40% and principal payments are due annually through February 2030 on the first loan and February 2036 on the second loan. To the extent that the Medical Center continues to meet certain 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 2018 and 2017, OASAS funded approximately $3.2 million and $1.5 million, respectively, of principal, interest and fees associated with this loan.

The aggregate amount of principal payments required under all long-term indebtedness, including capital leases, at December 31, 2018 are as follows (in thousands):

2019	$ 16,035
2020	17,010
2021	17,721
2022	18,473
2023	19,252
2024 and thereafter	1,303,015
	$ 1,391,506

7. Long-Term Debt (continued)

Prior to August 1, 2018, the Medical Center was 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. In connection with the refinancing of the FHA insured loans on August 1, 2018, the mortgage reserve funds were released.

Certain 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 in certain circumstances. The Medical Center was in compliance with such covenants at December 31, 2018 and 2017.

Interest paid during the years ended December 31, 2018 and 2017, amounted to approximately \$26.3 million and \$31.0 million, respectively.

8. Net Assets with Donor Restrictions

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

	December 31	
	2018	**2017**
	(In Thousands)	
Health care related services	**$ 56,426**	$ 56,863
Collateralizing bank financing, teaching and research	**38,075**	38,073
Construction and renovation projects	**8,914**	8,782
Research	**6,602**	6,704
Other	**784**	1,246
	$ 110,801	$ 111,668

8. Net Assets with Donor Restrictions (continued)

The Medical Center follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as it relates to its 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 net assets with donor restrictions (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. 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.

For the years ended December 31, 2018 and 2017, the Medical Center had the following endowment-related activities:

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
		(In Thousands)	
Endowment balance, beginning of year	**$ –**	**$ 35,554**	**$ 35,554**
Additions	**–**	**–**	**–**
Investment income	**468**	**(205)**	**263**
Amounts appropriated for expenditure	**(468)**	**(89)**	**(557)**
Net change in endowment funds	**–**	**(294)**	**(294)**
Endowment balance, end of year	**$ –**	**$ 35,260**	**$ 35,260**

8. Net Assets with Donor Restrictions (continued)

	2017		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
		(In Thousands)	
Endowment balance, beginning of year	$ –	$ 33,572	$ 33,572
Additions	–	1,590	1,590
Investment income	192	448	640
Amounts appropriated for expenditure	(192)	(56)	(248)
Net change in endowment funds	–	1,982	1,982
Endowment balance, end of year	$ –	$ 35,554	$ 35,554

9. Benefit Plans

The Medical Center is a contributing employer to two union multiemployer defined benefit 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 plans 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 $149.1 million and $137.1 million for the years ended December 31, 2018 and 2017, respectively. Cash payments relative to the various pension plans aggregated approximately $152.3 million and $136.0 million for the years ended December 31, 2018 and 2017, respectively.

9. Benefit Plans (continued)

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.

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, 2018 and 2017 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 2018 and 2017 is for the plans' year end at December 31, 2017 and 2016, respectively. The zone status is based on information that the Medical Center received from the plans and is certified by the plans' actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less

9. Benefit Plans (continued)

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 January 1, 2018	Pension Protection Act Zone Status January 1 2017	FIP/RP Status Pending Implemented	Contributions from the Medical Center 2018	Contributions from the Medical Center 2017	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
					(In Thousands)			
NYSNA	13-6604799/001	Green	Green	N/A	**$ 28,125**	$ 26,466	No	12/31/2018
1199SEIU	13-3604862/001	Green	Green	N/A	**$ 55,755**	$ 51,144	No	9/30/2021

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	2017 and 2016
1199SEIU	2017 and 2016

At the date the Medical Center's consolidated financial statements were issued, Forms 5500 were not available for the plans' year ended in 2018.

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.

9. Benefit Plans (continued)

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 net assets without donor restrictions.

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

	Pension		Postretirement	
	2018	**2017**	**2018**	**2017**
	(In Thousands)			
Unrecognized actuarial loss	**$ 18,036**	$ 15,818	**$ 30,381**	$ 43,819
Unrecognized prior service cost (credit)	**45**	89	**(276)**	(2,055)
	$ 18,081	$ 15,907	**$ 30,105**	$ 41,764

The unrecognized net prior service cost (credit) and actuarial loss included in net assets without donor restrictions expected to be recognized as net periodic benefit cost during the year ending December 31, 2019 are approximately ($0.2) million and $3.3 million, respectively.

9. 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, 2018 and 2017, and the funded status of such plans as of December 31, 2018 and 2017:

	Pension		Postretirement	
	2018	**2017**	**2018**	**2017**
	(In Thousands)			
Changes in benefit obligation				
Benefit obligation at January 1	**$ 47,745**	$ 43,619	**$ 186,484**	$ 156,610
Service cost	**6,300**	5,211	**12,450**	11,313
Interest cost	**1,400**	1,709	**7,155**	6,921
Actuarial loss (gain)	**1,648**	4,447	**(9,893)**	16,290
Benefit payments, net	**(14,531)**	(7,241)	**(5,412)**	(4,650)
Benefit obligation at December 31	**$ 42,562**	$ 47,745	**$ 190,784**	$ 186,484
Change in plan assets				
Fair value of plan assets at January 1	**$ 28,547**	$ 25,273	**$ –**	$ –
Actual return on plan assets	**(2,050)**	3,245	**–**	–
Employer contributions	**14,692**	7,270	**5,412**	4,650
Benefit payments, net	**(14,531)**	(7,241)	**(5,412)**	(4,650)
Fair value of plan assets at December 31	**$ 26,658**	$ 28,547	**$ –**	$ –
Funded status				
Amounts recognized in the consolidated statements of financial position	**$ (15,904)**	$ (19,198)	**$ (190,784)**	$ (186,484)

At December 31, 2018 and 2017, approximately $16.4 million and $15.5 million, respectively, related to the funded status of the plans was included in accrued salaries, wages and related items in the accompanying consolidated statements of financial position.

The actuarial gains in 2018 are due to an increase in the discount rates.

The accumulated benefit obligation for the Medical Center's defined benefit plans as of December 31, 2018 and 2017 was approximately $28.8 million and $30.7 million, respectively.

9. 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, 2018 and 2017:

	Pension		Postretirement	
	2018	**2017**	**2018**	**2017**
	(In Thousands)			
Service cost	**$ 6,300**	$ 5,211	**$ 12,450**	$ 11,313
Interest cost	**1,400**	1,709	**7,155**	6,921
Expected return on plan assets	**(1,901)**	(1,799)	**–**	–
Amortization of prior service cost (benefit)	**45**	116	**(1,779)**	(1,779)
Amortization of net loss	**1,805**	1,253	**3,545**	1,884
Settlement cost	**1,575**	1,139	**–**	–
Net periodic pension benefit cost	**$ 9,224**	$ 7,629	**$ 21,371**	$ 18,339
Weighted-average assumptions used to determine benefit obligations as of December 31				
Discount rate	**3.65%–4.45%**	3.31%–3.90%	**4.46%**	3.90%
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	**3.31%–3.90%**	4.17%–4.52%	**3.90%**	4.50%
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.

9. Benefit Plans (continued)

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

	December 31	
	2018	**2017**
Fixed income mutual funds	**60%**	57%
Equity mutual/common trust funds	**35**	39
Cash and cash equivalents	**5**	4
	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 11 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	29%
Return-seeking credit	8%
Global real estate	4%
Fixed income	59%

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

	2018	**2017**
Health care cost trend rate	**6.80%**	7.60%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**4.30%**	4.50%
Years that the rate reaches the ultimate trend rate	**2026**	2025

The measurement dates used to determine defined benefit pension and postretirement plan costs were December 31, 2018 and 2017.

9. Benefit Plans (continued)

During the year ending December 31, 2019, the Medical Center expects to contribute approximately $11.1 million and $6.8 million to the defined benefit pension and postretirement plans, respectively.

Expected benefit payments by year as of December 31, 2018 are as follows:

	Pension	Postretirement
	(In Thousands)	
2019	$ 11,298	$ 6,808
2020	10,208	7,431
2021	8,109	7,952
2022	7,058	8,444
2023	7,319	8,938
2024–2028	28,078	52,271

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:

	2018		**2017**	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
	(In Thousands)			
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	**$ 3,382**	**$ (2,709)**	$ 3,540	$ (2,829)
Effect on the health care component of the accumulated postretirement benefit obligation	**28,545**	**(23,541)**	28,042	(23,171)

10. 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, 2018, 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 (FOJP), which is a pooled insurance program for professional and general liabilities with other health care facilities (the FOJP Program). Participation in this occurrence basis insurance program is through captive and commercial insurance companies.

Effective January 1, 2018, the Montefiore Medicine Academic Health System Self Insurance Trust (MMAHS Trust) was established to provide coverage in excess of FOJP Program limits. MMAHS is the sole member of the MMAHS Trust. Currently, only the Medical Center participates in the MMAHS Trust. As of December 31, 2018, the Medical Center recorded its net share of the irrevocable MMHAS Trust which consists of cash and investments of $7.6 million on behalf of the Medical Center, a receivable from the Medical Center of $60.8 million and had actuarially determined liabilities of approximately $67.0 million. Such amount is recorded within other noncurrent assets in the consolidated statements of financial position.

The Medical Center's malpractice insurance programs offer a deferred premium arrangement in which 36% of the annual premium is paid in the current year and the balance is payable over four years. Total liabilities associated with the FOJP Program were approximately $115.1 million and $191.6 million at December 31, 2018 and 2017, respectively. Total liabilities associated with the MMAHS Trust were approximately $64.4 million at December 31, 2018. 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.

10. Commitments, Contingencies and Other (continued)

As of December 31, 2018, 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 $173.3 million and $166.6 million at December 31, 2018 and 2017, 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.

The Medical Center has recognized estimated insurance claims receivable and estimated insurance claims liabilities of approximately $481.0 million (approximately $86.6 million current and $394.4 million long-term) and approximately $540.6 million (approximately $81.1 million current and $459.5 million long-term) at December 31, 2018 and 2017, respectively. Such amounts represent the actuarially determined present value, discounted at approximately 4.0% and 4.9% at December 31, 2018 and 2017, respectively, of insurance claims that are anticipated to be covered by insurance. The amounts reported in the December 31, 2018 and 2017, 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.

In February 2014, the FOJP program and the various affiliated captive insurance companies began an internal investigation into several insurance regulatory and related matters that had come to the attention of the FOJP companies' management. The 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 throughout the investigation. 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 stipulation which did not have a material effect on the Medical Center's consolidated financial statements.

The Medical Center guarantees a certain level of investment return of the captive insurance companies and may be required to fund shortfalls resulting from differences between guaranteed and actual investment returns. To the extent that the actual investment returns exceed the guaranteed return, liabilities from prior shortfalls may be forgiven. Such amounts are recorded as malpractice insurance program adjustments in the consolidated statements of operations.

10. Commitments, Contingencies and Other (continued)

During the years ended December 31, 2018 and 2017, the Medical Center recorded approximately $49.4 million and $1.2 million, respectively, of positive malpractice insurance program adjustments. Approximately $30.8 million of the 2018 adjustment related to retroactive premium adjustments. Approximately $18.6 million of the 2018 adjustment and all of the 2017 adjustment related to a net reduction in the amount owed for the guarantee of certain investment returns of the captive insurance companies.

The cumulative amounts owed for the guarantee of investment returns of the captive insurance companies are reflected in accounts payable and accrued expenses (none at December 31, 2018 and approximately $8.3 million at December 31, 2018 and 2017, respectively) and professional and other insured liabilities (none at December 31, 2018 and approximately $8.4 million as of December 31, 2017) in the accompanying consolidated statements of financial position.

On November 27, 2018, Mount Sinai Health System, Beth Israel Medical Center, Maimonides Medical Center and the Medical Center, collectively the owners of Hospitals Insurance Company (HIC) and FOJP, announced their agreement to sell HIC and FOJP to The Doctors Company for $650 million, subject to closing adjustments. The transaction is subject to regulatory approvals and is expected to close in 2019. HIC has provided the hospitals and related physicians with medical malpractice insurance for 40 years. The hospitals will share in the proceeds ratably according to their ownership.

Albert Einstein College of Medicine, Inc. (Einstein)

In 2015, Einstein, a controlled member of MMAHS, acquired substantially all of the assets and assumed substantially all of the liabilities of a medical school previously operating as a division of Yeshiva University (YU). In connection with this transaction $175.0 million Build NYC Resource Corporation Revenue Bonds were issued. The Build NYC Resource Corporation Revenue Bonds carry a 5.50% coupon rate and mature on September 1, 2045. Interest is payable semiannually and principal is payable annually commencing on September 1, 2020.

In addition, in 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,

10. Commitments, Contingencies and Other (continued)

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 2036, followed by a final payment of $20.0 million in 2037.

During 2018 and 2017, approximately $4.2 million and $1.5 million, respectively, was paid by the Medical Center on Einstein's behalf pursuant to the Guaranty Agreement, as amended. During 2018, the Medical Center forgave the amounts owed from Einstein of approximately $5.5 million under this agreement, which was recorded within transfers to members, net in the consolidated statements of operations.

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 14).

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. The loan was secured by a subordinate mortgage on certain of Einstein's real property. During 2018, the Medical Center reserved the amounts owed from Einstein of approximately $36.8 million under this agreement, which was recorded within transfers to members, net in the consolidated statements of operations.

10. Commitments, Contingencies and Other (continued)

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. During 2018, the Medical Center provided approximately $33.0 million to Einstein which was recorded within transfers to members, net in the consolidated statements of operations.

Other

At December 31, 2018 and 2017, approximately 66% of the Medical Center's employees were covered by collective bargaining agreements. The collective bargaining agreement with NYSNA expired in December 2018. A new contract is currently being negotiated. For the duration of the negotiations, NYSNA employees are being compensated under the terms of the previous contract. The collective bargaining agreement with 1199SEIU will expire in September 2021.

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

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.

11. 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.

11. Fair Value Measurements (continued)

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.

11. 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, 2018:

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Assets				
Cash and cash equivalents	$ 184,019	$ –	$ –	$ 184,019
Managed cash and cash equivalents held for investment	364,640	–	–	364,640
Marketable and other securities:				
U.S. non-equity mutual funds	49,099	–	–	49,099
U.S. equity mutual funds	17,782	–	–	17,782
U.S. Government agency mortgage-backed securities	–	39,513	–	39,513
U.S. Treasury securities	44,512	–	–	44,512
U.S. Government agency-backed securities	–	35,330	–	35,330
U.S. equity securities	55,564	–	–	55,564
Corporate debt	–	792,556	–	792,556
Interest and other receivables	2,499	–	–	2,499
	718,115	867,399	–	1,585,514
Defined benefit pension plan assets				
Cash and cash equivalents	1,313	–	–	1,313
Equity mutual funds	9,386	–	–	9,386
Fixed income mutual funds	3,153	–	–	3,153
	13,852	–	–	13,852
	$ 731,967	$ 867,399	$ –	1,599,366
Investments measured at net asset value (defined benefit pension plan assets)				12,806
				$ 1,612,172

11. 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
	(In Thousands)			
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)				13,626
				$ 1,001,678

At December 31, 2018 and 2017, the Medical Center's alternative investments and collective trust funds, excluding those within the defined benefit pension plan, are reported using the equity method of accounting in the amount of approximately $118.9 million and $153.2 million, respectively, and, therefore, are not included in the tables above.

11. Fair Value Measurements (continued)

The following is a description of the Medical Center's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. 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:

	2018		2017	
	Fair Value	**Carrying Value**	**Fair Value**	**Carrying Value**
	(In Thousands)			
Long-term debt	**$ 1,448,439**	**$ 1,421,868**	$ 798,553	$ 804,238

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.

12. Concentration of Credit Risk

At December 31, 2018 and 2017, excluding investments in bond mutual funds, approximately 8% and 23%, respectively, of the Medical Center's marketable securities were issued by either the United States Government or its agencies.

12. Concentration of Credit Risk (continued)

At December 31, 2018 and 2017, significant concentrations of receivables for patient care include approximately 12% and 19% from Medicare, 7% and 6% from Medicaid and 76% and 74% from commercial and managed care organizations, respectively, of which 7% and 9% was due from Blue Cross plans at December 31, 2018 and 2017, respectively.

Net patient service revenue from the Medicare and Medicare managed care programs accounted for approximately 32% and 33% for the years ended December 31, 2018 and 2017, respectively, and net patient service revenue from the Medicaid and Medicaid managed care programs accounted for approximately 35% and 33% of the Medical Center's net patient service revenue for the years ended December 31, 2018 and 2017, respectively. Approximately 11% of net patient service revenue was from Blue Cross plans at December 31, 2018. No other specific payer exceeded 10% of net patient service revenue.

13. Other Revenue

Other revenue included in the consolidated statements of operations for the years ended December 31, 2018 and 2017 consisted of the following:

	2018	2017
	(In Thousands)	
Care management administrative fees	**$ 69,422**	$ 52,127
DSRIP revenue	**48,074**	44,800
Patient care quality incentive revenue	**46,285**	43,455
Equity earnings from investments	**42,674**	31,625
Interest and dividend income	**30,395**	14,917
Staff housing and other rental income	**13,437**	15,182
Continuing Medical Education programs	**13,321**	14,459
Government Electronic Health Record Incentive Program	**10,000**	5,004
Gain on sales of property, buildings and equipment	**9,349**	2,360
Cafeteria revenue	**7,807**	1,719
Parking revenue	**6,336**	6,217
Net assets released from restrictions used for operations	**3,892**	3,652
Shared savings programs	**–**	(412)
Net realized and changes in unrealized gains and losses on employee deferred compensation plan assets	**(3,237)**	6,557
All other	**21,153**	19,116
	$ 318,908	$ 260,778

13. Other Revenue (continued)

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 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 $43.4 million and $52.3 million during 2018 and 2017, respectively, and recorded approximately $35.8 million and $36.0 million, respectively, in other revenue during the years ended December 31, 2018 and 2017 for amounts received under this 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 $12.2 million and $8.8 million in other revenue during the years ended December 31, 2018 and 2017, respectively related to participation in this program.

14. Related-Party Transactions

At December 31, 2018 and 2017, amounts due from (to) members, net were comprised of the following:

	December 31 2018	December 31 2017
	(In Thousands)	
Note due from MHS[a]	**$ 123,935**	$ 126,088
Due from (to) members, net:		
MHS[b]	**(17,930)**	(3,420)
Montefiore New Rochelle Hospital[c]	**8,829**	3,128
Montefiore Mount Vernon Hospital[c]	**10,952**	1,409
Schaffer Extended Care Center [c]	**1,002**	1,018
Montefiore HMO, LLC[d]	**6,231**	7,404
The Montefiore IPA, Inc.[e]	**49,203**	32,646
Bronx Accountable Healthcare Network IPA, Inc. [f]	**21,208**	22,009
University Behavioral Associates, Inc.[g]	**(16,989)**	(10,869)
Montefiore Behavioral Care IPA No. 1, Inc. [g]	**562**	1,504
Montefiore Nyack Hospital	**698**	–
St. Luke's Cornwall Hospital[c]	**(1,265)**	1,325
Albert Einstein College of Medicine, Inc.[h]	**(3,431)**	38,598
MMAHS [i]	**(2,492)**	1,915
Montefiore Innovations, Inc.	**(1,819)**	–
Montefiore Information Technology, LLC[j]	**(19,008)**	(17,748)
Montefiore North Ambulatory Care Center, Inc.	**(209)**	(4)
MMC GI Holdings, East, Inc.	**(2,189)**	(2,632)
MMC GI Holdings, West, Inc.	**(1,940)**	(2,431)
	155,348	199,940
Less current portion	**(25,861)**	(32,476)
Due from members, net of current portion	**$ 129,487**	$ 167,464

14. Related-Party Transactions (continued)

[a] During 2018 and 2017, 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.

During 2018 and 2017, the Medical Center advanced approximately $3.2 million and $17.4 million, respectively, to MHS, which was subsequently advanced to White Plains Hospital Center. The amounts advanced to MHS were recorded as a capital contribution. In addition, in connection with the 2018 debt refinancing (Note 7), the Medical Center repaid an outstanding loan between MHS and a bank. Approximately $26.3 million was recorded as a capital contribution related to this.

[b] The Medical Center purchases various management, administrative and staffing services from MHS. For the years ended December 31, 2018 and 2017, transactions charged (at cost) by MHS to the Medical Center were approximately $19.8 million and $9.3 million, respectively, and include payroll and benefits charges (89% and 94% for the years ended December 31, 2018 and 2017, respectively) and various other shared services (11% and 6% for the years ended December 31, 2018 and 2017, respectively).

[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, 2018 and 2017, transactions charged by the Medical Center to these members were approximately $16.8 million and $21.2 million, respectively, and included as an offset to supplies and other expenses in 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, 2018 and 2017, the Medical Center recorded net patient service revenue derived from such contract of approximately $1.0 million and $1.1 million, respectively.

14. Related-Party Transactions (continued)

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, 2018 and 2017, CMO recorded other revenue of approximately $11.0 million and $9.6 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% (6.25% and 5.50% at December 31, 2018 and 2017, respectively). The aggregate amount of the Surplus Note was approximately $7.7 million and $7.4 million at December 31, 2018 and 2017, respectively.

(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, 2018 and 2017, the Medical Center recorded net patient service revenue derived from such contract of approximately $247.0 million and $203.8 million, respectively. Approximately $34.1 million was eliminated in the consolidated statements of operations for the year ended December 31, 2017 (none in 2018). 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, 2018 and 2017, CMO recorded other revenue of approximately $42.0 million and $36.9 million, respectively. Approximately $7.2 million was eliminated in the consolidated financial statements (none in 2018). 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, 2018 and 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, 2018 and 2017, CMO recorded other revenue of approximately $3.1 million and $4.0 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.

14. Related-Party Transactions (continued)

(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, 2018 relate to cash received on UBA's behalf by the Medical Center.

(h) Transactions between Einstein and the Medical Center relate to costs for clinical training, research, professional services and related supporting services (at cost). 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. During 2018 and 2017, the Medical Center reserved amounts owed from Einstein of approximately \$42.3 million and \$4.8 million, respectively, recorded within transfers to members, net in the consolidated statements of operations. During 2018 and 2017, the Medical Center also made capital contributions of approximately \$20.0 million and \$14.4 million, respectively, to Einstein in accordance with an agreement to provide operating subsidies to Einstein over a five-year period (see Note 10).

(i) The Medical Center purchases various management, administrative and staffing services from MMAHS. For the years ended December 31, 2018 and 2017, transactions charged (at cost) by MMAHS to the Medical Center were approximately \$32.8 million and \$21.7 million, respectively, comprised of payroll and benefits charges.

(j) The Medical Center purchases information technology and support services (at cost) from Montefiore Information Technology, LLC. For the years ended December 31, 2018 and 2017, the expense incurred by the Medical Center related to such services was approximately \$111.2 million and \$107.1 million, respectively, and is included within supplies and other expense in the consolidated statements of operations.

14. Related-Party Transactions (continued)

During 2018, the Medical Center forgave amounts owed from MBCIPA of approximately $13.2 million, recorded within transfers to members, net in the consolidated statements of operations. During 2017, the Medical Center forgave amounts owed from Montefiore North Ambulatory Care Center, Inc. of approximately $1.3 million, respectively, recorded within transfers to members, net in the consolidated statements of operations.

During the years ended December 31, 2018 and 2017, the Medical Center's performing provider system (PPS), MHVC, received approximately $70.3 million and $68.4 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.

In December 2018, the Medical Center entered into a mortgage loan agreement with White Plains Hospital Center to fund up to $248.5 million for a certain construction project (the Loan Agreement). Interest on the Loan Agreement is based on a fixed rate of 4.50%. During the construction period, interest shall accrue on the amounts drawn and outstanding. As of December 31, 2018, no funds have been drawn.

15. Subsequent Events

The Medical Center evaluated subsequent events through April 12, 2019, 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, 2018. No subsequent events 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, 2018 and 2017, and have issued an unmodified opinion thereon dated April 12, 2019. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying consolidating statement of financial position as of December 31, 2018 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, 2019

Montefiore Medical Center

Consolidating Statement of Financial Position

(In Thousands)

December 31, 2018

	Montefiore Medical Center	CMO	MCORP	MPC	Other Consolidated Companies	Eliminations	Consolidated Total
Assets							
Current assets:							
Cash and cash equivalents	$ 104,482	$ 6,500	$ 1,533	$ 8,364	$ 63,140	$ –	$ 184,019
Marketable and other securities	1,354,687	–	–	–	839	–	1,355,526
Assets limited as to use, current portion	10,917	–	–	13	–	–	10,930
Receivables for patient care, net	230,408	–	–	–	1,140	–	231,548
Other receivables	39,860	2,896	345	262	378	266	44,007
Estimated insurance claims receivable, current portion	86,575	–	–	–	–	–	86,575
Other current assets	66,197	776	2	200	839	–	68,014
Due from members, current portion	194,270	–	–	–	1,981	(170,390)	25,861
Total current assets	2,087,396	10,172	1,880	8,839	68,317	(170,124)	2,006,480
Assets limited as to use, net of current portion	146,488	–	–	–	7,450	–	153,938
Property, buildings and equipment, net	921,606	2,093	73,247	3,192	17,966	(353)	1,017,751
Estimated insurance claims receivable, net of current portion	394,399	–	–	–	–	–	394,399
Other noncurrent assets	206,843	–	2,238	144	6,418	(430)	215,213
Due from members, net of current portion	129,487	–	–	–	–	–	129,487
Total assets	$ 3,886,219	$ 12,265	$ 77,365	$ 12,175	$ 100,151	$ (170,907)	$ 3,917,268

Montefiore Medical Center

Consolidating Statement of Financial Position (continued)

(In Thousands)

December 31, 2018

	Montefiore Medical Center	CMO	MCORP	MPC	Other Consolidated Companies	Eliminations	Consolidated Total
Liabilities and net assets (deficiency)							
Current liabilities:							
Accounts payable and accrued expenses	$ 249,369	$ 3,088	$ 1,213	$ 44	$ 51,869	$ –	$ 305,583
Accrued salaries, wages and related items	264,249	5,698	–	23	416	–	270,386
Professional and other insured liabilities, current portion	61,989	–	–	–	–	–	61,989
Estimated insurance claims liabilities, current portion	86,575	–	–	–	–	–	86,575
Estimated third-party payer liabilities, current portion	33,332	–	–	–	2	–	33,334
Long-term debt, current portion	16,949	–	26	27	193	–	17,195
Due to members	–	89,552	54,885	184	25,769	(170,390)	–
Total current liabilities	712,463	98,338	56,124	278	78,249	(170,390)	775,062
Long-term debt, net of current portion	1,359,264	–	2,297	1,066	17,878	–	1,380,505
Noncurrent defined pension benefit and other postretirement health plan liabilities	190,279	–	–	–	–	–	190,279
Professional and other insured liabilities, net of current portion	117,454	–	–	–	–	–	117,454
Employee deferred compensation	46,329	–	–	–	–	–	46,329
Estimated insurance claims liabilities, net of current portion	394,399	–	–	–	–	–	394,399
Estimated third-party payer liabilities, net of current portion	211,014	–	–	–	–	–	211,014
Other noncurrent liabilities	60,536	1,512	–	144	331	–	62,523
Total liabilities	3,091,738	99,850	58,421	1,488	96,458	(170,390)	3,177,565
Net assets (deficiency):							
Without Donor Restrictions	690,577	(87,585)	18,944	10,687	(3,204)	(517)	628,902
With Donor Restrictions	103,904	–	–	–	6,897	–	110,801
Total net assets (deficiency)	794,481	(87,585)	18,944	10,687	3,693	(517)	739,703
Total liabilities and net assets (deficiency)	$ 3,886,219	$ 12,265	$ 77,365	$ 12,175	$ 100,151	$ (170,907)	$ 3,917,268

Montefiore Medical Center

Consolidating Statement of Operations

(In Thousands)

Year Ended December 31, 2018

	Montefiore Medical Center	CMO	MCORP	MPC	Other Consolidated Companies	Eliminations	Consolidated Total
Operating revenue							
Net patient service revenue	$ 3,519,536	$ 2	$ –	$ –	$ 14,111	$ (33,657)	$ 3,499,992
Grants and contracts	87,141	25	–	195	–	–	87,361
Contributions	10,068	–	–	12	1	–	10,081
Other revenue	203,044	69,181	10,664	10,472	45,607	(20,060)	318,908
Total operating revenue	3,819,789	69,208	10,664	10,679	59,719	(53,717)	3,916,342
Operating expenses							
Salaries and wages	1,802,690	38,843	–	403	7,616	–	1,849,552
Employee benefits	546,360	11,781	–	123	2,334	(32,587)	528,011
Supplies and other expenses	1,270,529	34,868	4,997	1,563	45,934	(19,781)	1,338,110
Depreciation and amortization	144,724	882	2,980	243	1,322	–	150,151
Interest	46,628	–	2,913	64	329	(1,349)	48,585
Total operating expenses	3,810,931	86,374	10,890	2,396	57,535	(53,717)	3,914,409
Excess (deficiency) of operating revenues over operating expenses before other items	8,858	(17,166)	(226)	8,283	2,184	–	1,933
Net realized and changes in net unrealized gains and losses on marketable and other securities	(14,946)	–	–	–	1	–	(14,945)
Malpractice insurance program adjustments	49,354	–	–	–	–	–	49,354
Net periodic pension and other postretirement health benefit costs (non-service related)	(11,845)	–	–	–	–	–	(11,845)
Gain on debt refinancing	2,901	–	(767)	–	–	–	2,134
Excess (deficiency) of revenues over expenses	34,322	(17,166)	(993)	8,283	2,185	–	26,631
Change in defined benefit pension and other postretirement plan liabilities to be recognized in future periods	9,485	–	–	–	–	–	9,485
Transfers to members, net	(137,655)	(2,308)	–	–	–	–	(139,963)
(Decrease) increase in net assets without donor restrictions	$ (93,848)	$ (19,474)	$ (993)	$ 8,283	$ 2,185	$ –	$ (103,847)

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