

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

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

Ernst & Young LLP



Montefiore Medical Center
Consolidated Financial Statements and
Supplementary Information
Years Ended December 31, 2019 and 2018

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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, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Montefiore Medical Center and its controlled organizations at December 31, 2019 and 2018, 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. 2016-02, *Leases*

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

Ernst + Young LLP

April 15, 2020

Montefiore Medical Center

Consolidated Statements of Financial Position

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 144,569	\$ 184,019
Marketable and other securities	1,424,522	1,355,526
Assets limited as to use, current portion	21,740	10,930
Receivables for patient care, net	306,712	231,548
Other receivables	46,153	44,007
Estimated insurance claims receivable, current portion	72,105	86,575
Other current assets	66,974	68,014
Due from members, current portion	88,982	25,861
Total current assets	2,171,757	2,006,480
Assets limited as to use, net of current portion	156,131	153,938
Property, buildings and equipment, net	1,253,521	1,017,751
Right-of-use assets – operating leases	390,044	–
Estimated insurance claims receivable, net of current portion	328,478	394,399
Other noncurrent assets	139,364	215,213
Due from members, net of current portion	154,837	129,487
Total assets	\$ 4,594,132	\$ 3,917,268
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 304,674	\$ 305,583
Accrued salaries, wages and related items	289,240	270,386
Self-insured professional and other insured liabilities, current portion	75,394	61,989
Estimated insurance claims liabilities, current portion	72,105	86,575
Estimated third-party payer liabilities, current portion	48,762	33,334
Long-term debt, current portion	16,365	15,796
Finance lease liabilities, current portion	10,310	1,399
Operating lease liabilities, current portion	34,520	–
Total current liabilities	851,370	775,062
Long-term debt, net of current portion	1,365,565	1,326,514
Finance lease liabilities, net of current portion	245,792	53,991
Operating lease liabilities, net of current portion	364,529	–
Noncurrent defined benefit pension and other postretirement health plan liabilities	215,284	190,279
Self-insured professional and other insured liabilities, net of current portion	149,892	117,454
Employee deferred compensation	62,576	46,329
Estimated insurance claims liabilities, net of current portion	328,478	394,399
Estimated third-party payer liabilities, net of current portion	225,628	211,014
Other noncurrent liabilities	29,349	62,523
Total liabilities	3,838,463	3,177,565
Commitments and contingencies		
Net assets:		
Without donor restrictions	646,668	628,902
With donor restrictions	109,001	110,801
Total net assets	755,669	739,703
Total liabilities and net assets	\$ 4,594,132	\$ 3,917,268

See accompanying notes.

Montefiore Medical Center
Consolidated Statements of Operations

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Operating revenue		
Net patient service revenue	\$ 3,729,984	\$ 3,499,992
Grants and contracts	91,232	87,361
Other revenue	337,716	332,226
Total operating revenue	4,158,932	3,919,579
Operating expenses		
Salaries and wages	1,956,131	1,849,552
Employee benefits	553,392	531,248
Supplies and other expenses	1,418,217	1,338,110
Depreciation and amortization	153,807	150,151
Interest	71,747	48,585
Total operating expenses	4,153,294	3,917,646
Excess of operating revenues over operating expenses before other items	5,638	1,933
Net realized and changes in net unrealized gains and losses on marketable and other securities	53,750	(14,945)
Malpractice insurance program adjustments	31,095	49,354
Gain on sale of equity interest in captive insurance company	39,200	-
Net periodic pension and other postretirement benefit costs (non-service related)	(16,158)	(11,845)
Other nonoperating gains and losses, net	(23,791)	2,134
Excess of revenues over expenses	89,734	26,631
Change in defined benefit pension and other postretirement health plan liabilities to be recognized in future periods	(6,560)	9,485
Other changes in net assets without donor restrictions	33,460	-
Transfers to members, net	(98,868)	(139,963)
Increase (decrease) in net assets without donor restrictions	\$ 17,766	\$ (103,847)

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2019 and 2018

	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
	<i>(In Thousands)</i>		
Net assets at January 1, 2018	\$ 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	<u>(103,847)</u>	<u>(867)</u>	<u>(104,714)</u>
Net assets at December 31, 2018	628,902	110,801	739,703
Increase in net assets without donor restrictions	17,766	–	17,766
Restricted gifts, bequests, and similar items	–	1,333	1,333
Restricted investment income	–	1,233	1,233
Net assets released from restrictions	–	(4,366)	(4,366)
Total changes in net assets	<u>17,766</u>	<u>(1,800)</u>	<u>15,966</u>
Net assets at December 31, 2019	<u>\$ 646,668</u>	<u>\$ 109,001</u>	<u>\$ 755,669</u>

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Operating activities		
Increase (decrease) in net assets	\$ 15,966	\$ (104,714)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	153,807	150,151
Change in defined benefit pension and other postretirement health plan liabilities to be recognized in future periods	6,560	(9,485)
Transfers to members, net	98,868	139,963
Lease transition adjustment	(35,038)	-
Net realized gains and losses on marketable and other securities	(8,137)	(12,169)
Change in net unrealized gains and losses on marketable and other securities	(45,613)	27,114
Equity earnings from investments	(20,904)	(42,674)
Gain on sale of equity interest in captive insurance company	(39,200)	-
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 and debt discount	(2,343)	(1,141)
Amortization of deferred financing costs	1,197	1,081
Changes in operating assets and liabilities:		
Receivables for patient care	(75,164)	11,547
Accounts payable and accrued expenses	(3,994)	28,434
Accrued salaries, wages and related items	18,854	(15,465)
Noncurrent defined benefit and postretirement health plan liabilities	18,445	9,611
Net change in all other operating assets and liabilities	17,139	(19,221)
Net cash provided by operating activities	<u>100,443</u>	<u>167,037</u>
Investing activities		
Acquisition of property, buildings and equipment, net	(167,823)	(111,547)
Proceeds from sale of equity interest in captive insurance company	177,701	-
Funding of self-insurance trust	(35,448)	(7,718)
Payments from Montefiore Health System, Inc. on MHS Note	30,582	2,153
Increase in marketable and other securities, net	(113,097)	(406,870)
(Increase) decrease in assets limited to use, net	(15,994)	67,799
Net cash used in investing activities	<u>(124,079)</u>	<u>(456,183)</u>
Financing activities		
Payments of long-term debt and finance lease obligations	(19,354)	(49,152)
Extinguishment of long-term debt	-	(545,139)
Proceeds from long-term debt	-	1,213,837
Net proceeds from credit line	55,400	-
Payments of deferred financing costs	-	(24,482)
Loans and payments to members, net	(152,702)	(51,967)
Net cash (used in) provided by financing activities	<u>(116,656)</u>	<u>543,097</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	(140,292)	253,951
Cash, cash equivalents and restricted cash at beginning of year	548,659	294,708
Cash, cash equivalents and restricted cash at end of year	<u>\$ 408,367</u>	<u>\$ 548,659</u>
Reconciliation of cash and cash equivalents at end of year to the consolidated statements of financial position:		
Cash and cash equivalents	\$ 144,569	\$ 184,019
Marketable and other securities: cash and cash equivalents	224,000	321,851
Assets limited as to use: cash and cash equivalents	39,798	42,789
Total cash, cash equivalents and restricted cash	<u>\$ 408,367</u>	<u>\$ 548,659</u>
Supplemental cash flow and noncash information		
Property, building and equipment purchases in accounts payable and accrued expenses	\$ 3,305	\$ -
Finance lease obligations incurred	<u>\$ 4,460</u>	<u>\$ -</u>

See accompanying notes.

Montefiore Medical Center

Notes to Consolidated Financial Statements

December 31, 2019

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)

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.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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 (IRC), as are all of the organizations consolidated in these financial statements, except for 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 Taxpayer Certainty and Disaster Tax Relief Act of 2019 was enacted on December 20, 2019. It retroactively repealed IRC Section 512(a)(7), which required organizations to categorize certain fringe benefit expenses as a source of unrelated business income. 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.

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, 2019 and 2018, includes approximately \$4.4 million and \$3.9 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

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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. Amounts within restricted cash include cash and cash equivalents held within marketable and other securities and assets limited as to use and represent funds set aside within the investment portfolio based on management's policy or contractual arrangements. Book overdrafts of approximately \$28.9 million and \$65.6 million as of December 31, 2019 and 2018, respectively, are included within accounts payable and accrued expenses in the consolidated statements of financial position.

At December 31, 2019 and 2018, 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 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, 2019 and 2018, the Medical Center had approximately \$46.4 million and \$25.9 million, respectively, of future commitments to invest in

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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, 2019 and 2018, approximately 24% and 35% 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.

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.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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.

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, other changes in net assets without donor restrictions and transfers to members, net.

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

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

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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.

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.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Charity care, at cost and net of subsidies	\$ 66,493	\$ 65,975
Unpaid cost of means-tested government-sponsored insurance programs	353,194	335,878
Health professions training, at cost	104,439	53,372
Community benefit programs	103,473	99,493
Research	19,267	19,077
	<u>\$ 646,866</u>	<u>\$ 573,795</u>

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, 2019 and 2018, the Medical Center received approximately \$10.6 million and \$10.2 million, respectively, in Pool distributions related to charity care. The Medical Center made payments into the Pool of approximately \$20.5 million and \$20.6 million for the years ended December 31, 2019 and 2018, respectively, for the 1% assessment.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

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, 2019, are as follows:

	Health Care and Related Services	Research	Program Support and General Services	Total
	<i>(In Thousands)</i>			
Salaries and wages	\$ 1,783,750	\$ 1,931	\$ 170,450	\$ 1,956,131
Employee benefits	506,064	613	46,715	553,392
Supplies and other expenses	1,198,021	2,020	218,176	1,418,217
Depreciation and amortization	99,278	–	54,529	153,807
Interest	71,275	–	472	71,747
	\$ 3,658,388	\$ 4,564	\$ 490,342	\$ 4,153,294

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
	<i>(In Thousands)</i>			
Salaries and wages	\$ 1,687,763	\$ 1,765	\$ 160,024	\$ 1,849,552
Employee benefits	486,673	576	43,999	531,248
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
	\$ 3,503,061	\$ 4,518	\$ 410,067	\$ 3,917,646

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.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Use of Estimates: The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, such as 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. The Medical Center recorded net changes in estimates that decreased the excess of revenues over expenses by approximately \$7.6 million during 2019 and increased the excess of revenues over expenses by approximately \$1.9 million during 2018. The changes were primarily related to changes in previously estimated third-party payer settlements and changes to estimated liabilities.

Recently Adopted Accounting Pronouncements:

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). ASU 2016-01 makes targeted improvements to the accounting for, and presentation and disclosure of, financial instruments. ASU 2016-01 requires that most equity instruments be measured at fair value, with subsequent changes in fair value recognized in excess of operating revenue over operating expenses before other items. ASU 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounted for under the equity method. The standard also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The Medical Center adopted ASU 2016-01 on January 1, 2019. With the exception of certain disclosures, the adoption of ASU 2016-01 did not have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02), which requires the rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the consolidated balance sheet, including both finance and operating leases. ASU 2016-02 requires disclosures to help the financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The recognition, measurement and presentation of expenses and cash flows arising from a lease primarily depend on its classification as a finance or operating lease. The Medical Center adopted ASU 2016-02 on January 1, 2019, utilizing the modified retrospective approach. ASU 2016-02 had a material impact on the Medical Center's consolidated statement of financial position, but did not have a

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

material impact on the consolidated statement of operations. Under the modified retrospective approach, prior period amounts were not required to be adjusted. The Medical Center applied the transitional package of practical expedients allowed by ASU 2016-02 relating to the identification, classification and initial direct costs of leases commencing before the effective date of ASU 2016-02; however, the Medical Center did not elect the hindsight transitional practical expedient. The Medical Center also elected the practical expedient to utilize a risk-free rate as the incremental borrowing rate for all leases in transition and prospectively. Under ASU 2016-02, the Medical Center derecognized its build to suit asset and liability as of the transition date, which resulted in an increase to net assets without donor restrictions of approximately \$19.7 million and is included in other changes in net assets without donor restrictions. Certain other transitional adjustments were made as a result of adopting ASU 2016-02 which were not considered significant and are included in other changes in net assets without donor restrictions.

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

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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 Medical Center adopted ASU 2018-08 on a retrospective basis. The adoption of ASU 2018-08 in relation to other revenue activity did not have a material impact on the Medical Center's consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted:

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

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other* (ASU 2017-04). ASU 2017-04 will simplify the accounting for goodwill impairment and will remove Step 2 of the current goodwill impairment test, which requires a hypothetical purchase price allocation. Under ASU 2017-04, a goodwill impairment charge will now be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. This guidance is effective for the Medical Center for annual periods beginning after December 15, 2021, with early adoption permitted for any impairment tests performed after January 1, 2017. The Medical Center has not completed the process of evaluating the impact of ASU 2017-04 on its consolidated financial statements.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

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 amendments ASU 2018-15. ASU 2018-15 requires an entity (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. ASU 2018-15 also requires the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The amendments in ASU 2018-15 also require the entity (customer) to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity (customer) is also required to present the capitalized implementation costs in the consolidated balance sheet in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. 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.

In May 2019, the FASB issued ASU 2019-06, *Intangibles — Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958), Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities* (ASU 2019-06). Under ASU 2019-06, entities that elect the goodwill accounting alternative will amortize goodwill and perform a one-step impairment test, at either the entity level or the reporting unit level, only when an impairment indicator exists. Entities that elect the intangible asset accounting alternative may recognize fewer intangible assets in an acquisition, and they would be required to elect the goodwill accounting alternative. Entities that elect to adopt the alternatives do not have to demonstrate preferability and will follow the alternatives’

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

transition guidance. Entities that elect this accounting alternative will amortize goodwill on a straight-line basis over 10 years or over a shorter period if they are able to demonstrate that another useful life is more appropriate. ASU 2019-06 was effective immediately upon issuance. The Medical Center did not elect to adopt the accounting alternatives noted above.

Reclassifications: For purposes of comparison, certain reclassifications have been made to the accompanying 2018 consolidated financial statements to conform to the 2019 presentation. These reclassifications have no effect on the excess of revenues over expenses or net assets for the year ended December 31, 2018.

2. Net Patient Service Revenue

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.

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

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue (continued)

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, *Revenue from Contracts with Customers* (ASU 2014-09), and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients). The performance obligations for in-house patients are generally completed when the patients are discharged, which for the majority of the Medical Center's in-house patients occurs within days or weeks after the end of the reporting period.

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2019 and 2018, changes in the Medical Center's estimates of expected payments for performance obligations satisfied in prior years were not significant. Portfolio collection estimates are updated based on collection trends. Subsequent

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue (continued)

changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2019 and 2018, was not significant.

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 by payer is as follows:

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Medicare and Medicare managed care	\$ 1,220,035	\$ 1,133,826
Medicaid and Medicaid managed care	1,212,037	1,216,274
Commercial carriers and managed care	1,258,990	1,120,740
Self-pay and other	38,922	29,152
	\$ 3,729,984	\$ 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.

Net patient service revenue by line of business is as follows:

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Inpatient services	\$ 2,082,135	\$ 2,046,255
Physician and other outpatient services	1,309,174	1,173,174
Premium revenue	177,577	120,115
Emergency department	98,738	98,078
All other	62,360	62,370
	\$ 3,729,984	\$ 3,499,992

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue (continued)

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.

Receivables for patient care, net is comprised of the following components:

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Patient receivables	\$ 234,715	\$ 173,448
Contract assets	71,997	58,100
	\$ 306,712	\$ 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.

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 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 years ended December 31, 2019 and 2018.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

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.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

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, 2014, 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.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

3. Availability and Liquidity of Financial Assets

Financial assets available for general expenditures within one year are as follows:

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Financial assets at year-end:		
Cash and cash equivalents	\$ 144,569	\$ 184,019
Marketable and other securities	1,424,522	1,355,526
Assets limited as to use	177,871	164,868
Receivables for patient care, net	306,712	231,548
Pledges receivable, net	3,821	6,938
Total financial assets	2,057,495	1,942,899
Less amounts not available to be used within one year:		
Donor restricted funds	(72,197)	(70,597)
Lease escrow deposits	(6,958)	(7,012)
Employee deferred compensation plan assets	(62,576)	(46,329)
Security agreement escrow deposit	(14,400)	(30,000)
Alternative investments held in illiquid private equity funds	(36,336)	(30,440)
Financial assets not available to be used within one year	(192,467)	(184,378)
Financial assets available to meet general expenditures over the next twelve months	\$ 1,865,028	\$ 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, in June 2019 the Medical Center entered into a \$200 million revolving credit agreement, as discussed in more detail in Note 7. As of December 31, 2019, approximately \$144.6 million remained available on the Medical Center's revolving credit agreement. At December 31, 2018, the Medical Center had \$30.0 million available on a prior line of credit.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

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	
	2019	2018
	<i>(In Thousands)</i>	
Marketable and other securities	\$ 1,424,522	\$ 1,355,526
Assets limited as to use	177,871	164,868
	\$ 1,602,393	\$ 1,520,394
Managed cash and cash equivalents held for investment	\$ 263,798	\$ 364,640
Corporate debt	780,425	792,556
U.S. Treasury securities	121,466	44,512
U.S. Government agency mortgage-backed securities	83,392	39,513
U.S. Government agency-backed securities	1,056	35,330
U.S. Equity securities	59,921	55,564
Non-equity mutual funds	65,587	49,099
Equity mutual funds	25,929	17,782
Alternative investments	164,166	87,515
Collective trust funds	36,653	31,384
Interest and other receivables	–	2,499
	\$ 1,602,393	\$ 1,520,394

The composition of assets limited as to use follows:

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Donor restricted funds	\$ 72,197	\$ 70,597
Managed care cash reserves required by contracts	15,612	10,838
Lease escrow deposits	13,086	7,104
Employee deferred compensation plan assets	62,576	46,329
Security agreement escrow deposit	14,400	30,000
Total assets limited as to use	177,871	164,868
Less: current portion of assets limited as to use	(21,740)	(10,930)
Assets limited as to use, net of current portion	\$ 156,131	\$ 153,938

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

5. Property, Buildings and Equipment

A summary of property, buildings and equipment follows:

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Land and land improvements	\$ 45,846	\$ 43,771
Buildings, fixed equipment and improvements	1,909,735	1,680,741
Movable equipment	1,531,309	1,425,555
	3,486,890	3,150,067
Less accumulated depreciation and amortization	(2,317,320)	(2,178,988)
	1,169,570	971,079
Construction-in-progress	83,951	46,672
	\$ 1,253,521	\$ 1,017,751

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

6. Leases

The Medical Center determines if an arrangement is a lease at inception. The Medical Center utilizes operating and finance leases for the use of certain hospitals, medical and administrative offices, medical and office equipment and automobiles. For leases with terms greater than 12 months, the Medical Center records the related right-of-use assets and right-of-use obligations at the present value of lease payments over the term. Leases with an initial term of 12 months or less are not recorded in the consolidated statements of financial position. Lease expense for operating leases is recognized on a straight-line basis over the lease term and included in supplies and other expenses in the consolidated statements of operations while the expense for finance leases is recognized as depreciation and amortization expense and interest expense in the consolidated statements of operations.

The lease terms used to calculate the right-of-use asset and related lease liability include options to extend or terminate the lease when it is reasonably certain that the Medical Center will exercise that option. The Medical Center does not separate lease and nonlease components of contracts.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

6. Leases (continued)

The following table presents the Medical Center's lease-related assets and liabilities at December 31, 2019 (in thousands):

	<u>Statement of Financial Position Classification</u>	<u>December 31, 2019</u>
Assets:		
Operating leases	Right-of-use assets – operating leases	\$ 390,044
Finance leases	Property, buildings and equipment, net	249,746
Total lease assets		<u>\$ 639,790</u>
Liabilities:		
Current:		
Operating leases	Operating lease liabilities, current portion	\$ 34,520
Finance leases	Finance lease liabilities, current portion	10,310
Noncurrent:		
Operating leases	Operating lease liabilities, net of current portion	364,529
Finance leases	Finance lease liabilities, net of current portion	245,792
Total lease liabilities		<u>\$ 655,151</u>

The weighted-average lease terms and discount rates for operating and finance leases are presented in the following table:

	<u>December 31, 2019</u>
Weighted-average remaining lease term (years)	
Operating leases	11.6
Finance leases ⁽¹⁾	58.6
Weighted-average discount rate	
Operating leases	2.7%
Finance leases	3.1%

⁽¹⁾ Includes a lease agreement that extends through 2114. Excluding this lease agreement, the weighted-average remaining lease term of all other leases is 10.5 years.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

6. Leases (continued)

The following table presents certain information related to lease expense for finance and operating leases for the year ended December 31, 2019 (in thousands):

Finance lease expense:	
Amortization of right-of-use assets	\$ 11,076
Interest on finance lease liabilities	7,888
Operating lease cost	53,281
Variable and short-term lease expense	943
Total lease expense	<u>\$ 73,188</u>

The following table presents cash flow information for the year ended December 31, 2019 (in thousands):

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	\$ 37,746
Operating cash flows for finance leases	7,888
Financing cash flows for finance leases	4,720

Future minimum lease payments under non-cancellable leases as of December 31, 2019, are as follows (in thousands):

	Operating Leases	Finance Leases
2020	\$ 44,627	\$ 13,477
2021	45,976	14,348
2022	41,066	14,671
2023	38,004	14,995
2024	36,993	15,094
2025 and thereafter	260,749	805,216
Total lease payments	<u>467,415</u>	<u>877,801</u>
Less imputed interest	(68,366)	(621,699)
Present value of lease payments	<u>\$ 399,049</u>	<u>\$ 256,102</u>

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt

A summary of long-term debt follows:

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
DASNY Series 2018A bonds payable ^(a)	\$ 309,045	\$ 309,045
DASNY Series 2018B bonds payable ^(a)	376,105	376,105
Montefiore Obligated Group Series 2018C bonds payable ^(a)	481,950	481,950
Bank loans payable ^(b)	58,055	2,774
Housing II mortgages payable ^(c)	17,878	18,071
Build NYC bonds payable ^(d)	58,081	63,613
Equipment loan programs ^(e)	49,099	56,515
DASNY mortgages ^(f)	25,577	26,921
Other	1,092	1,122
	1,376,882	1,336,116
Add long-term mortgage premiums ^(a)	29,437	31,842
Less long-term debt discount ^(a)	(1,418)	(1,480)
Less deferred financing costs	(22,971)	(24,168)
Less current portion	(16,365)	(15,796)
	\$ 1,365,565	\$ 1,326,514

^(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), (collectively, the Series 2018 Bonds). The proceeds from the Series 2018 Bonds were used to refund or refinance certain existing indebtedness, 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, included within other nonoperating gains and losses, net in the accompanying consolidated statements of operations. 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.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt (continued)

The Series 2018A Bonds were sold at a premium, of which approximately \$29.4 million and \$31.8 million was recorded as a component of the related long-term debt as of December 31, 2019 and 2018, respectively, 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%. Semiannual interest payments began on 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 \$1.4 million and \$1.5 million was recorded as a component of the related long-term debt as of December 31, 2019 and 2018, respectively, 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. Semiannual interest payments began on 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. Semiannual interest payments began in May 2019. The Series 2018C Bonds may be prepaid at any time, subject to certain restrictions.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt (continued)

(b) Bank loans payable consist of the following at December 31, 2019 and 2018:

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Revolving credit agreement	\$ 55,400	\$ –
MCORP bank loan payable due in May 2028 at a fixed rate of 4.13%	2,431	2,475
Medical Center bank loan payable due in September 2022 at a fixed rate of 4.00%	224	299
	<u>\$ 58,055</u>	<u>\$ 2,774</u>

In June 2019, the Medical Center entered into a \$200 million revolving credit agreement with a bank which expires in June 2021. Interest is variable and is based on LIBOR plus 0.60% and was 2.38% at December 31, 2019. The revolving credit agreement is secured on parity with the 2018 Series Bonds with a general obligation of the Medical Center and a mortgage on certain real property. Approximately \$55.4 million was drawn down on the revolving credit agreement at December 31, 2019.

(c) Housing II has primary and subordinate mortgage agreements with HDC. At December 31, 2019 and 2018, the primary mortgage amount outstanding was approximately \$5.1 million and \$5.3 million, respectively. The primary mortgage has a final maturity date in January 2035 and the interest rate is 6.5%. At December 31, 2019 and 2018, the subordinate mortgage amount outstanding was approximately \$12.8 million and bears no interest. The subordinate mortgage is payable in full in April 2035 and Housing II has used 1.8% as the interest rate for the purposes of recognizing interest expense under the assumption that the mortgages will remain outstanding through 2035.

Substantially all of Housing II's property and equipment rents and profits are collateral for the mortgages. In addition, any requests for rental increases must be approved by HDC. During the years ended December 31, 2019 and 2018, 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.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt (continued)

- ^(d) 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, 2019 and 2018, a total of approximately \$58.1 million and \$63.6 million was outstanding, respectively. Interest on the 2013 Bonds is payable monthly at variable rates (2.88% and 3.46% at December 31, 2019 and 2018, respectively). Principal is payable monthly through June 2030. The 2013 Bonds are subject to prepayment without penalty, upon satisfaction of certain notice provisions.
- ^(e) The Medical Center has previously borrowed amounts under equipment loans to finance certain capital projects (no amounts were borrowed during the years ended December 31, 2019 or 2018). The interest rates associated with the Medical Center's various equipment loan borrowings range from 1.06% to 2.23%.
- ^(f) 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, 2019 and 2018, a total of approximately \$25.6 million and \$26.9 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 2019 and 2018, OASAS funded approximately \$2.5 million and \$3.2 million, respectively, of principal, interest and fees associated with these loans.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt (continued)

The aggregate amount of principal payments required under all long-term indebtedness at December 31, 2019, are as follows (in thousands):

2020	\$ 15,198
2021	70,847
2022	15,683
2023	15,888
2024	14,797
2025 and thereafter	<u>1,244,469</u>
	<u>\$ 1,376,882</u>

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, 2019 and 2018.

Interest paid during the years ended December 31, 2019 and 2018, amounted to approximately \$75.6 million and \$26.3 million, respectively.

In February 2020 two series of bonds were issued; the DASNY Montefiore Obligated Group Revenue Bonds, Series 2020A (Tax-Exempt); and the Montefiore Obligated Group Taxable Bonds, Series 2020B (collectively, the Series 2020 Bonds) in the aggregate amount of approximately \$706.5 million. The proceeds from the issuance of the Series 2020 Bonds were used to refund or refinance approximately \$121.1 million of existing indebtedness; the remainder is being used to fund future capital projects. The Series 2020 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.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

8. Net Assets with Donor Restrictions

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

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Health care related services	\$ 53,458	\$ 56,426
Collateralizing bank financing, teaching and research	38,087	38,075
Construction and renovation projects	10,079	8,914
Research	6,338	6,602
Other	1,039	784
	\$ 109,001	\$ 110,801

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.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

8. Net Assets with Donor Restrictions (continued)

For the years ended December 31, 2019 and 2018, the Medical Center had the following endowment-related activities:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(In Thousands)</i>		
Endowment balance, beginning of year	\$ —	\$ 35,260	\$ 35,260
Additions	—	—	—
Investment income	357	1,745	2,102
Amounts appropriated for expenditure	(357)	(38)	(395)
Net change in endowment funds	—	1,707	1,707
Endowment balance, end of year	<u>\$ —</u>	<u>\$ 36,967</u>	<u>\$ 36,967</u>

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(In Thousands)</i>		
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	<u>\$ —</u>	<u>\$ 35,260</u>	<u>\$ 35,260</u>

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.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

9. Benefit Plans (continued)

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 \$171.1 million and \$149.1 million for the years ended December 31, 2019 and 2018, respectively. Cash payments relative to the various pension plans aggregated approximately \$165.2 million and \$152.3 million for the years ended December 31, 2019 and 2018, respectively.

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

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.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

9. Benefit Plans (continued)

The Medical Center’s participation in these plans for the years ended December 31, 2019 and 2018, 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 2019 and 2018 is for the plans’ year end at December 31, 2018 and 2017, respectively. The zone status is based on information that the Medical Center received from the plans and is certified by the plans’ actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less

than 80% funded, and plans in the green zone are at least 80% funded. The “FIP/RP Status Pending/Implemented” column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration dates of the collective bargaining agreements to which the plans are subject.

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending Implemented	Contributions from the Medical Center		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		January 1, 2019	January 1 2018		2019	2018		
<i>(In Thousands)</i>								
NYSNA	13-6604799/001	Green	Green	N/A	\$ 29,995	\$ 28,125	No	12/31/2022
1199SEIU	13-3604862/001	Green	Green	N/A	\$ 70,738	\$ 55,755	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:

<u>Pension Fund</u>	<u>Year Contributions to Plan Exceeded More Than 5% of Total Contributions (as of December 31 of the Plan’s Year End)</u>
NYSNA	2018 and 2017
1199SEIU	2018 and 2017

At the date the Medical Center’s consolidated financial statements were issued, Forms 5500 were not available for the plans’ year ended in 2019.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

9. Benefit Plans (continued)

Defined Benefit Plans

The Medical Center recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the defined benefit plans in its consolidated statements of financial position. Net unrecognized actuarial losses and net unrecognized prior service costs at the reporting date will be subsequently recognized in the future as net periodic pension benefit cost pursuant to the Medical Center's accounting policy for amortizing such amounts.

Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension benefit cost in the same periods will be recognized as a component of net assets without donor restrictions.

Included in net assets without donor restrictions at December 31, 2019 and 2018, are the following amounts that have not yet been recognized in net periodic pension benefit cost:

	Pension		Postretirement	
	2019	2018	2019	2018
	<i>(In Thousands)</i>			
Unrecognized actuarial loss	\$ 11,633	\$ 18,036	\$ 43,113	\$ 30,381
Unrecognized prior service cost (credit)	—	45	—	(276)
	\$ 11,633	\$ 18,081	\$ 43,113	\$ 30,105

The unrecognized actuarial loss included in net assets without donor restrictions expected to be recognized as net periodic pension benefit cost during the year ending December 31, 2020, is approximately \$4.3 million.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

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, 2019 and 2018, and the funded status of such plans as of December 31, 2019 and 2018:

	Pension		Postretirement	
	2019	2018	2019	2018
	<i>(In Thousands)</i>			
Changes in benefit obligation				
Benefit obligation at January 1	\$ 42,562	\$ 47,745	\$ 190,784	\$ 186,484
Service cost	6,708	6,300	10,611	12,450
Interest cost	1,500	1,400	8,360	7,155
Actuarial loss (gain)	2,750	1,648	14,477	(9,893)
Benefit payments, net	(7,696)	(14,531)	(7,247)	(5,412)
Settlements	(13,691)	—	—	—
Benefit obligation at December 31	<u>\$ 32,133</u>	<u>\$ 42,562</u>	<u>\$ 216,985</u>	<u>\$ 190,784</u>
Change in plan assets				
Fair value of plan assets at January 1	\$ 26,658	\$ 28,547	\$ —	\$ —
Actual return on plan assets	4,495	(2,050)	—	—
Employer contributions	7,995	14,692	7,247	5,412
Benefit payments, net	(7,696)	(14,531)	(7,247)	(5,412)
Settlements	(13,817)	—	—	—
Fair value of plan assets at December 31	<u>\$ 17,635</u>	<u>\$ 26,658</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status				
Amounts recognized in the consolidated statements of financial position	<u>\$ (14,498)</u>	<u>\$ (15,904)</u>	<u>\$ (216,985)</u>	<u>\$ (190,784)</u>

At December 31, 2019 and 2018, approximately \$16.2 million and \$16.4 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 losses in 2019 are due to a decrease in the discount rates.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

9. Benefit Plans (continued)

The accumulated benefit obligation for the Medical Center's defined benefit plans as of December 31, 2019 and 2018, was approximately \$19.1 million and \$28.8 million, respectively.

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, 2019 and 2018:

	Pension		Postretirement	
	2019	2018	2019	2018
	<i>(In Thousands)</i>			
Service cost	\$ 6,708	\$ 6,300	\$ 10,611	\$ 12,450
Interest cost	1,500	1,400	8,360	7,155
Expected return on plan assets	(1,939)	(1,901)	-	-
Amortization of prior service cost (benefit)	45	45	(276)	(1,779)
Amortization of net loss	1,481	1,805	1,745	3,545
Settlement cost	5,242	1,575	-	-
Net periodic pension benefit cost	<u>\$ 13,037</u>	<u>\$ 9,224</u>	<u>\$ 20,440</u>	<u>\$ 21,371</u>

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

Discount rate	2.42%–3.45%	3.65%–4.45%	3.37%	4.46%
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	3.65%–4.45%	3.31%–3.90%	4.46%	3.90%
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%	-	-

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

9. Benefit Plans (continued)

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.

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

	December 31	
	2019	2018
Fixed income mutual funds	36%	60%
Equity mutual/common trust funds	61	35
Cash and cash equivalents	3	5
	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	28%
Return-seeking credit	8%
Global real estate	4%
Fixed income	60%

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

9. Benefit Plans (continued)

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

	<u>2019</u>	<u>2018</u>
Health care cost trend rate	6.50%	6.80%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.35%	4.30%
Years that the rate reaches the ultimate trend rate	2026	2026

The measurement dates used to determine defined benefit pension and postretirement plan costs were December 31, 2019 and 2018.

During the year ending December 31, 2020, the Medical Center expects to contribute approximately \$11.1 million and \$6.5 million to the defined benefit pension and postretirement plans, respectively.

Expected benefit payments by year as of December 31, 2019, are as follows:

	<u>Pension Postretirement</u>	
	<i>(In Thousands)</i>	
2020	\$ 10,185	\$ 6,473
2021	7,332	7,055
2022	4,842	7,628
2023	5,261	8,232
2024	5,500	8,928
2025–2029	19,080	52,752

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

9. Benefit Plans (continued)

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:

	2019		2018	
	1% Increase	1% Decrease	1% Increase	1% Decrease
	<i>(In Thousands)</i>			
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 4,079	\$ (3,231)	\$ 3,382	\$ (2,709)
Effect on the health care component of the accumulated postretirement benefit obligation	35,137	(28,812)	28,545	(23,541)

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, 2019, 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.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

10. Commitments, Contingencies and Other (continued)

Professional and Other Insured Liabilities

The Medical Center utilizes Healthcare Risk Advisors (HRA) (formerly The Federation of Jewish Philanthropies or FOJP), a service organization that provides third party comprehensive insurance and risk management advisory services. Primary liability coverage is provided to the Medical Center through Hospitals Insurance Company (HIC), a New York State admitted and licensed insurance company. Primary general liability is also through HIC, while the umbrella/excess liability coverage is purchased from multiple admitted insurance carriers through the commercial market.

Prior to January 2018, the Medical Center participated in a pooled excess insurance program for hospital professional liability with certain other health care facilities affiliated with FOJP. Participation was through ownership of captive insurance companies.

In November 2018, Mount Sinai Health System, Beth Israel Medical Center, Maimonides Medical Center and the Medical Center, collectively the owners of HIC and FOJP, announced their agreement to sell HIC and FOJP to The Doctors Company for \$650 million, subject to closing adjustments. The transaction closed on July 31, 2019, and the hospitals shared in the proceeds ratably according to their ownership. The Medical Center received approximately \$177.7 million in proceeds from the sale and recorded a gain on the sale of approximately \$39.2 million. HRA continues to provide the same services to the Medical Center and the member hospitals as prior to the transaction.

Effective January 1, 2018, the Montefiore Medicine Academic Health System Self Insurance Trust (MMAHS Trust) was established to provide coverage in excess of HIC program limits. MMAHS is the sole member of the MMAHS Trust. Currently, only the Medical Center participates in the MMAHS Trust, which is irrevocable. Amounts funded by the Medical Center into the MMAHS Trust are based upon actuarially determined liabilities. As of December 31, 2019 and 2018, the Medical Center recorded its share of the MMAHS Trust, which consists of cash and investments held on behalf of the Medical Center of approximately \$45.0 million and \$7.6 million, respectively. Such amounts are recorded within other noncurrent assets in the consolidated statements of financial position. As of December 31, 2019 and 2018, the MMAHS Trust had actuarially determined liabilities specific to the Medical Center of approximately \$141.8 million and \$67.0 million, respectively discounted at 3.5%; such amounts are recorded within self-insured professional and other insured liabilities on the consolidated statements of financial position. The

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

10. Commitments, Contingencies and Other (continued)

net amounts outstanding between the Medical Center's beneficial interest in the MMAHS Trust and total actuarially determined claims liabilities are required to be funded over a certain period of time in accordance with the respective MMAHS Trust agreement.

The Medical Center's malpractice insurance programs offer a deferred premium arrangement with its captive insurance companies 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 HRA were approximately \$83.5 million and \$115.1 million at December 31, 2019 and 2018, respectively. The liabilities principally relate to the deferred premium arrangement and retroactive premium adjustments.

As of December 31, 2019, the Medical Center retained 25% ownership interests in two captive insurance companies affiliated with HRA. The Medical Center has recognized its allocated share of the program's accumulated surplus using the equity method of accounting. Such amounts (approximately \$34.3 million and \$171.9 million at December 31, 2019 and 2018, respectively) are included in other noncurrent assets in the accompanying consolidated statements of financial position.

The Medical Center has recognized estimated insurance claims receivable and estimated insurance claims liabilities of approximately \$400.6 million (approximately \$72.1 million current and \$328.5 million long-term) and approximately \$481.0 million (approximately \$86.6 million current and \$394.4 million long-term) at December 31, 2019 and 2018, respectively. Such amounts represent the actuarially determined present value, discounted at approximately 4.00% at December 31, 2019 and 2018, of insurance claims that are anticipated to be covered by insurance. The amounts reported in the December 31, 2019 and 2018, consolidated statements of financial position for estimated insurance claims receivable and estimated insurance claims liabilities reflect the financial impact of the Medical Center's employed physicians.

During the years ended December 31, 2019 and 2018, the Medical Center recorded approximately \$31.1 million and \$49.4 million, respectively, of positive malpractice insurance program adjustments. All of the 2019 adjustment and approximately \$30.8 million of the 2018 adjustment related to retroactive premium adjustments. Approximately \$18.6 million of the 2018 adjustment related to a net reduction in the amount owed for the guarantee of certain investment returns of the captive insurance companies.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

10. Commitments, Contingencies and Other (continued)

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, 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 approximately \$4.2 million 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.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

10. Commitments, Contingencies and Other (continued)

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 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.

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 2019 and 2018, the Medical Center provided approximately \$40.0 million and \$33.0 million, respectively, to Einstein which was recorded within transfers to members, net in the consolidated statements of operations.

Other

At December 31, 2019 and 2018, approximately 67% and 66%, respectively, of the Medical Center's employees were covered by collective bargaining agreements. The collective bargaining agreement with NYSNA expires in December 2022 and the collective bargaining agreement with 1199SEIU expires in September 2021.

In connection with agreements entered into between The Montefiore IPA, Inc., Hudson Valley IPA, Inc. 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 agreed to guarantee payments made by MHS. As of December 31, 2019 and 2018, approximately \$14.4 million and \$30.0 million, respectively, was held in escrow as security for the purchase agreement.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

10. Commitments, Contingencies and Other (continued)

On April 1, 2020, St. Luke's Cornwall Hospital, a controlled member of MHS, entered into a commitment with a third party lender to refinance long term debt in the aggregate amount up to \$43 million. In accordance with the commitment, the Medical Center is listed as a guarantor of the related indebtedness.

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.

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

Level 1 – Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

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

Level 3 – Unobservable inputs are used when little or no market data is available.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Medical Center uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

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, 2019:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
Assets				
Cash and cash equivalents	\$ 144,569	\$ —	\$ —	\$ 144,569
Managed cash and cash equivalents held for investment	263,798	—	—	263,798
Marketable and other securities:				
U.S. non-equity mutual funds	65,587	—	—	65,587
U.S. equity mutual funds	25,929	—	—	25,929
U.S. Government agency mortgage-backed securities	—	83,392	—	83,392
U.S. Treasury securities	121,466	—	—	121,466
U.S. Government agency-backed securities	—	1,056	—	1,056
U.S. equity securities	59,921	—	—	59,921
Corporate debt	—	780,425	—	780,425
	<u>681,270</u>	<u>864,873</u>	<u>—</u>	<u>1,546,143</u>
Defined benefit pension plan assets				
Cash and cash equivalents	566	—	—	566
Equity mutual funds	10,786	—	—	10,786
Fixed income mutual funds	2,053	—	—	2,053
	<u>13,405</u>	<u>—</u>	<u>—</u>	<u>13,405</u>
	<u>\$ 694,675</u>	<u>\$ 864,873</u>	<u>\$ —</u>	<u>1,559,548</u>
Investments measured at net asset value (defined benefit pension plan assets)				<u>4,230</u>
				<u>\$ 1,563,778</u>

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

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
	<i>(In Thousands)</i>			
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

At December 31, 2019 and 2018, 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 \$200.8 million and \$118.9 million, respectively, and, therefore, are not included in the tables above.

For FVM to tie to the balance sheet, this “approximate” value has to be 200,819,000

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

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.

12. Concentration of Credit Risk

At December 31, 2019 and 2018, excluding investments in bond mutual funds, approximately 14% and 8% respectively, of the Medical Center's marketable securities were issued by either the United States Government or its agencies.

At December 31, 2019 and 2018, significant concentrations of receivables for patient care include approximately 14% and 12% from Medicare, 6% and 7% from Medicaid and 75% and 76% from commercial and managed care organizations, respectively, of which 6% and 7% was due from Blue Cross plans at December 31, 2019 and 2018, respectively.

Net patient service revenue from the Medicare and Medicare managed care programs accounted for approximately 33% and 32% for the years ended December 31, 2019 and 2018, respectively, and net patient service revenue from the Medicaid and Medicaid managed care programs accounted for approximately 32% and 35% of the Medical Center's net patient service revenue for the years ended December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, approximately 11% of net patient service revenue was from Blue Cross plans. No other specific payer exceeded 10% of net patient service revenue.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

13. Other Revenue

Other revenue included in the consolidated statements of operations for the years ended December 31, 2019 and 2018, consisted of the following:

	2019	2018
	<i>(In Thousands)</i>	
DSRIP revenue	\$ 83,445	\$ 48,074
Care management administrative fees	75,456	69,422
Patient care quality incentive revenue	43,421	46,285
Interest and dividend income	41,716	30,395
Equity earnings from investments	20,904	42,674
Staff housing and other rental income	12,675	13,437
Continuing Medical Education programs	9,182	13,321
Parking revenue	6,396	6,336
Cafeteria revenue	6,274	7,807
Contributions	5,909	10,081
Net assets released from restrictions used for operations	4,366	3,892
Government Electronic Health Record Incentive Program	3,391	10,000
Gain on sales of property, buildings and equipment	–	9,349
All other	24,581	21,153
	\$ 337,716	\$ 332,226

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 \$56.2 million and \$43.4 million during 2019 and 2018, respectively, and recorded approximately \$54.2 million and \$35.8 million, respectively, in other revenue during the years ended December 31, 2019 and 2018, for amounts received under this DSRIP program.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

13. Other Revenue (continued)

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 \$29.2 million and \$12.2 million in other revenue during the years ended December 31, 2019 and 2018, respectively related to participation in this program.

14. Related-Party Transactions

At December 31, 2019 and 2018, amounts due from (to) members, net were comprised of the following:

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Note due from MHS ^(a)	\$ 93,353	\$ 123,935
Note due from White Plains ^(k)	55,244	–
Due from (to) members, net:		
MHS ^(b)	3,158	(18,139)
Montefiore New Rochelle Hospital ^(c)	24,958	8,829
Montefiore Mount Vernon Hospital ^(c)	5,238	10,952
Schaffer Extended Care Center ^(c)	589	1,002
Montefiore HMO, LLC ^(d)	9,565	6,231
The Montefiore IPA, Inc. ^(e)	41,357	49,203
Bronx Accountable Healthcare Network IPA, Inc. ^(f)	34,863	21,208
University Behavioral Associates, Inc. ^(g)	(10,464)	(16,989)
Montefiore Behavioral Care IPA No. 1, Inc.	562	562
Montefiore Nyack Hospital ^(c)	9,597	698
St. Luke's Cornwall Hospital ^(c)	2,076	(1,265)
Albert Einstein College of Medicine, Inc. ^(h)	(1,165)	(3,431)
MMAHS ⁽ⁱ⁾	(12,761)	(2,492)
Montefiore Innovations, Inc.	(1,484)	(1,819)
Montefiore Information Technology, LLC ^(j)	(7,280)	(19,008)
MMC GI Holdings, East, Inc.	(1,881)	(2,189)
MMC GI Holdings, West, Inc.	(1,706)	(1,940)
	243,819	155,348
Less current portion	(88,982)	(25,861)
Due from members, net of current portion	\$ 154,837	\$ 129,487

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

14. Related-Party Transactions (continued)

- (a) The Medical Center has 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 2019 and 2018, the Medical Center advanced approximately \$1.2 million and \$3.2 million, respectively, to MHS, which was subsequently advanced to White Plains Hospital Center. During 2019 and 2018, the Medical Center also advanced approximately \$36.3 million and \$26.3 million, respectively, to MHS to repay loans owed by MHS to third parties. The amounts advanced to MHS were recorded as a capital contribution. Capital contributions are recorded within transfers to members, net, on the consolidated statement of operations.

- (b) The Medical Center purchases various management, administrative and staffing services from MHS. For the years ended December 31, 2019 and 2018, transactions charged (at cost) by MHS to the Medical Center were approximately \$28.2 million and \$19.8 million, respectively, and include payroll and benefits charges (93% and 89% for the years ended December 31, 2019 and 2018, respectively) and various other shared services (7% and 11% for the years ended December 31, 2019 and 2018, respectively). During 2019, The Medical Center purchased various goods and services on behalf of MHS, offsetting the services purchased from MHS; therefore, MHS owed the Medical Center \$3.2 million at December 31, 2019.
- (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, 2019 and 2018, transactions charged by the Medical Center to these members were approximately \$34.3 million and \$16.8 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, 2019 and 2018, the Medical Center recorded net patient service revenue derived from such contract of approximately \$679,000 and \$1.0 million, respectively.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

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, 2019 and 2018, CMO recorded other revenue of approximately \$12.4 million and \$11.0 million, respectively.

In 2012, the Medical Center issued a surplus note to MHMO (the Surplus Note) of approximately \$6.1 million which bears interest at an annual rate of Wall Street Journal Prime plus 1% (5.75% and 6.25% at December 31, 2019 and 2018, respectively). The aggregate amount of the Surplus Note was approximately \$8.1 million and \$7.7 million at December 31, 2019 and 2018, respectively.

- (e) The Montefiore IPA, Inc. (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, 2019 and 2018, the Medical Center recorded net patient service revenue derived from such contract of approximately \$224.7 million and \$247.0 million, respectively.

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, 2019 and 2018, CMO recorded other revenue of approximately \$45.1 million and \$42.0 million, respectively. The amounts due from MIPA at December 31, 2019 and 2018, relate to unpaid services provided by CMO.

- (f) CMO provides all management and administrative services to Bronx Accountable Healthcare Network IPA, Inc. (ACO-IPA). For the years ended December 31, 2019 and 2018, CMO recorded other revenue of approximately \$5.4 million and \$3.1 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.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

14. Related-Party Transactions (continued)

- (g) Through the support of the Medical Center, University Behavioral Associates, Inc. (UBA) 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. CMO also provides management and administrative services to UBA. For the years ended December 31, 2019 and 2018, CMO recorded other revenue of approximately \$3.7 million and \$4.2 million, respectively. The amounts due to UBA at December 31, 2019 and 2018, relate to cash received on UBA's behalf by the Medical Center offset by amounts due to CMO from UBA.
- (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 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, the Medical Center reserved amounts owed from Einstein of approximately \$42.3 million, recorded within transfers to members, net in the consolidated statements of operations. During 2019 and 2018, the Medical Center also made capital contributions of approximately \$20.0 million 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, 2019 and 2018, transactions charged (at cost) by MMAHS to the Medical Center were approximately \$34.7 million and \$32.8 million, respectively, comprised of payroll and benefits charges.
- (i) The Medical Center purchases information technology and support services (at cost) from Montefiore Information Technology, LLC. For the years ended December 31, 2019 and 2018, the expense incurred by the Medical Center related to such services was approximately \$119.0 million and \$111.2 million, respectively, and is included within supplies and other expense in the consolidated statements of operations.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

14. Related-Party Transactions (continued)

- ^(k) 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%. Beginning February 1, 2019 to July 1, 2021 (the construction period), interest shall accrue and be paid monthly on the amounts drawn and outstanding. Principal payments are not due until August 1, 2021. Approximately \$55.2 million was drawn under this agreement at December 31, 2019. No amount was drawn or outstanding at December 31, 2018.

During 2018, the Medical Center forgave amounts owed from Montefiore Behavioral Care IPA No. 1, Inc. of approximately \$13.2 million, recorded within transfers to members, net in the consolidated statements of operations.

During the years ended December 31, 2019 and 2018, the Medical Center's performing provider system (PPS), MHVC, received approximately \$69.0 million and \$70.3 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.

15. Subsequent Events

The Medical Center evaluated subsequent events through April 15, 2020, 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, 2019. Other than as disclosed in Note 7, Note 10 and below, no subsequent events occurred that require disclosure in or adjustment to the consolidated financial statements.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

15. Subsequent Events (continued)

COVID-19

Due to the global viral outbreak caused by Coronavirus Disease 2019 (COVID-19) in 2020, there have been resulting effects which could negatively impact the Medical Center's financial condition. The ultimate impact of these matters to the Medical Center and its financial condition is presently unknown. The accompanying consolidated financial statements do not reflect the effects of these subsequent events.

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, 2019 and 2018, and have issued an unmodified opinion thereon dated April 15, 2020. 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, 2019, 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 15, 2020

Montefiore Medical Center

Consolidating Statement of Financial Position (In Thousands)

December 31, 2019

	Montefiore Medical Center	CMO	MCORP	MPC	Other Consolidated Companies	Eliminations	Consolidated Total
Assets							
Current assets:							
Cash and cash equivalents	\$ 56,430	\$ 5,483	\$ 127	\$ 771	\$ 81,758	\$ –	\$ 144,569
Marketable and other securities	1,423,632	–	–	–	890	–	1,424,522
Assets limited as to use, current portion	15,685	–	–	6,055	–	–	21,740
Receivables for patient care, net	304,018	–	–	–	2,694	–	306,712
Other receivables	37,390	2,632	699	228	4,938	266	46,153
Estimated insurance claims receivable, current portion	72,105	–	–	–	–	–	72,105
Other current assets	65,028	1,453	–	225	268	–	66,974
Due from members, current portion	220,688	–	–	–	2,911	(134,617)	88,982
Total current assets	2,194,976	9,568	826	7,279	93,459	(134,351)	2,171,757
Assets limited as to use, net of current portion	147,172	–	–	–	8,959	–	156,131
Property, buildings and equipment, net	1,140,091	2,730	86,719	4,585	19,749	(353)	1,253,521
Right-of-use assets – operating leases	385,933	–	4,111	–	–	–	390,044
Estimated insurance claims receivable, net of current portion	328,478	–	–	–	–	–	328,478
Other noncurrent assets	131,329	–	1,830	165	6,470	(430)	139,364
Due from members, net of current portion	217,356	–	–	–	–	(62,519)	154,837
Total assets	\$ 4,545,335	\$ 12,298	\$ 93,486	\$ 12,029	\$ 128,637	\$ (197,653)	\$ 4,594,132

Montefiore Medical Center

Consolidating Statement of Financial Position (continued)

(In Thousands)

December 31, 2019

	Montefiore Medical Center	CMO	MCORP	MPC	Other Consolidated Companies	Eliminations	Consolidated Total
Liabilities and net assets (deficiency)							
Current liabilities:							
Accounts payable and accrued expenses	\$ 224,189	\$ 2,480	\$ 1,619	\$ 52	\$ 76,334	\$ –	\$ 304,674
Accrued salaries, wages and related items	280,942	7,784	–	28	486	–	289,240
Self-insured professional and other insured liabilities, current portion	75,394	–	–	–	–	–	75,394
Estimated insurance claims liabilities, current portion	72,105	–	–	–	–	–	72,105
Estimated third-party payer liabilities, current portion	48,762	–	–	–	–	–	48,762
Long-term debt, current portion	16,101	–	29	29	206	–	16,365
Finance lease liabilities, current portion	10,310	–	–	–	–	–	10,310
Operating lease liabilities, current portion	33,824	–	696	–	–	–	34,520
Due to members, current portion	–	104,518	4,404	270	25,425	(134,617)	–
Total current liabilities	761,627	114,782	6,748	379	102,451	(134,617)	851,370
Long-term debt, net of current portion	1,344,587	–	2,268	1,038	17,672	–	1,365,565
Finance lease liabilities, net of current portion	245,792	–	–	–	–	–	245,792
Operating lease liabilities, net of current portion	361,114	–	3,415	–	–	–	364,529
Noncurrent defined pension benefit and other postretirement health plan liabilities	215,284	–	–	–	–	–	215,284
Self-insured professional and other insured liabilities, net of current portion	149,892	–	–	–	–	–	149,892
Employee deferred compensation	62,576	–	–	–	–	–	62,576
Estimated insurance claims liabilities, net of current portion	328,478	–	–	–	–	–	328,478
Estimated third-party payer liabilities, net of current portion	225,628	–	–	–	–	–	225,628
Other noncurrent liabilities	26,215	2,621	–	165	348	–	29,349
Due to members, net of current portion	–	–	62,519	–	–	(62,519)	–
Total liabilities	3,721,193	117,403	74,950	1,582	120,471	(197,136)	3,838,463
Net assets (deficiency):							
Without Donor Restrictions	723,619	(105,105)	18,536	10,447	(312)	(517)	646,668
With Donor Restrictions	100,523	–	–	–	8,478	–	109,001
Total net assets (deficiency)	824,142	(105,105)	18,536	10,447	8,166	(517)	755,669
Total liabilities and net assets (deficiency)	\$ 4,545,335	\$ 12,298	\$ 93,486	\$ 12,029	\$ 128,637	\$ (197,653)	\$ 4,594,132

Montefiore Medical Center
Consolidating Statement of Operations

(In Thousands)

Year Ended December 31, 2019

	Montefiore Medical Center	CMO	MCORP	MPC	Other Consolidated Companies	Eliminations	Consolidated Total
Operating revenue							
Net patient service revenue	\$ 3,749,702	\$ –	\$ –	\$ –	\$ 13,558	\$ (33,276)	\$ 3,729,984
Grants and contracts	90,611	450	–	171	–	–	91,232
Other revenue	206,472	75,670	11,012	2,111	64,889	(22,438)	337,716
Total operating revenue	<u>4,046,785</u>	<u>76,120</u>	<u>11,012</u>	<u>2,282</u>	<u>78,447</u>	<u>(55,714)</u>	<u>4,158,932</u>
Operating expenses							
Salaries and wages	1,909,178	38,182	–	527	8,244	–	1,956,131
Employee benefits	572,184	11,646	–	161	2,516	(33,115)	553,392
Supplies and other expenses	1,328,329	39,647	4,893	1,535	63,207	(19,394)	1,418,217
Depreciation and amortization	148,405	649	3,197	266	1,290	–	153,807
Interest	71,275	–	3,330	49	298	(3,205)	71,747
Total operating expenses	<u>4,029,371</u>	<u>90,124</u>	<u>11,420</u>	<u>2,538</u>	<u>75,555</u>	<u>(55,714)</u>	<u>4,153,294</u>
Excess (deficiency) of operating revenues over operating expenses before other items	17,414	(14,004)	(408)	(256)	2,892	–	5,638
Net realized and changes in net unrealized gains and losses on marketable and other securities	53,734	–	–	16	–	–	53,750
Malpractice insurance program adjustments	31,095	–	–	–	–	–	31,095
Gain on sale of equity interest in captive insurance company	39,200	–	–	–	–	–	39,200
Net periodic pension and other postretirement health benefit costs (non-service related)	(16,158)	–	–	–	–	–	(16,158)
Other nonoperating gains and losses, net	(20,275)	(3,516)	–	–	–	–	(23,791)
Excess (deficiency) of revenues over expenses	<u>105,010</u>	<u>(17,520)</u>	<u>(408)</u>	<u>(240)</u>	<u>2,892</u>	<u>–</u>	<u>89,734</u>
Change in defined benefit pension and other postretirement plan liabilities to be recognized in future periods	(6,560)	–	–	–	–	–	(6,560)
Other changes in net assets without donor restrictions	33,460	–	–	–	–	–	33,460
Transfers to members, net	(98,868)	–	–	–	–	–	(98,868)
Increase (decrease) in net assets without donor restrictions	<u>\$ 33,042</u>	<u>\$ (17,520)</u>	<u>\$ (408)</u>	<u>\$ (240)</u>	<u>\$ 2,892</u>	<u>\$ –</u>	<u>\$ 17,766</u>

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