Consolidated Financial Statements and Supplementary Information

The New York and Presbyterian Hospital
Years Ended December 31, 2017 and 2016
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

The New York and Presbyterian Hospital

Consolidated Financial Statements and
Supplementary Information

Years Ended December 31, 2017 and 2016

Contents

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Report of Independent Auditors

The Board of Trustees
The New York and Presbyterian Hospital

We have audited the accompanying consolidated financial statements of The New York and Presbyterian Hospital, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The New York and Presbyterian Hospital at December 31, 2017 and 2016, and the consolidated results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and operations as of and for the year ended December 31, 2017 are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated 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 consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Ernst & Young LLP

April 25, 2018

The New York and Presbyterian Hospital

Consolidated Statements of Financial Position

	December 31	
	2017	**2016**
	(In Thousands)	
Assets		
Current assets:		
Cash, cash equivalents and short-term investments:		
Cash and cash equivalents	**$ 433,181**	$ 462,754
Short-term investments *(Notes 3 and 13)*	**2,130,290**	1,680,559
Total cash, cash equivalents and short-term investments	**2,563,471**	2,143,313
Patient accounts receivable, less allowance for uncollectibles (2017 – $325,066; 2016 – $306,404)	**898,899**	811,977
Other current assets	**258,830**	177,243
Assets limited as to use – current portion *(Notes 3, 5, 8, and 13)*	**73,700**	75,469
Professional liabilities insurance recoveries receivable and related deposits – current portion *(Note 8)*	**94,221**	86,902
Beneficial interest in net assets held by related organizations – current portion *(Note 7)*	**65,798**	68,974
Total current assets	**3,954,919**	3,363,878
Assets limited as to use – noncurrent *(Notes 3, 5, 8, and 13)*	**3,076,186**	3,067,058
Property, buildings and equipment – net *(Note 4)*	**4,314,934**	3,670,276
Other noncurrent assets – net	**25,037**	26,203
Professional liabilities insurance recoveries receivable and related deposits – noncurrent *(Note 8)*	**259,956**	232,616
Beneficial interest in net assets held by related organizations – noncurrent *(Note 7)*	**2,054,141**	1,697,674
Total assets	**$ 13,685,173**	$ 12,057,705

	December 31 2017	2016
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Long-term debt – current portion *(Note 5)*	**$ 70,491**	$ 66,352
Accounts payable and accrued expenses	**697,047**	581,305
Accrued salaries and related liabilities	**375,066**	361,248
Pension and postretirement benefit liabilities – current portion *(Note 9)*	**23,915**	22,842
Professional and other insurance liabilities – current portion *(Note 8)*	**132,704**	132,499
Other current liabilities *(Note 2)*	**246,948**	241,461
Due to related organizations – net *(Note 10)*	**23,985**	18,603
Total current liabilities	**1,570,156**	1,424,310
Long-term debt *(Note 5)*	**2,759,731**	2,542,287
Professional and other insurance liabilities *(Note 8)*	**641,417**	617,030
Pension liability *(Note 9)*	**220,921**	304,916
Postretirement benefit liability *(Note 9)*	**64,754**	56,734
Deferred revenue *(Note 5)*	**1,001**	1,509
Other noncurrent liabilities *(Note 2)*	**544,784**	506,198
Total liabilities	**5,802,764**	5,452,984
Commitments and contingencies *(Notes 2,3, 4, 5,6, 7, 8, 9, 10, 12, 13 and 14)*		
Net assets:		
Unrestricted	**5,706,420**	4,782,099
Temporarily restricted	**1,896,796**	1,553,698
Permanently restricted	**279,193**	268,924
Total net assets	**7,882,409**	6,604,721
Total liabilities and net assets	**$ 13,685,173**	$ 12,057,705

See accompanying notes.

The New York and Presbyterian Hospital

Consolidated Statements of Operations

	Year Ended December 31	
	2017	**2016**
	(In Thousands)	
Operating revenues		
Net patient service revenue *(Note 2)*	**$ 7,826,454**	$ 7,203,435
Provision for bad debts *(Note 2)*	**(152,993)**	(135,515)
Net patient service revenue, less provision for bad debts	**7,673,461**	7,067,920
Other revenue *(Note 11)*	**367,145**	356,911
Total operating revenues	**8,040,606**	7,424,831
Operating expenses		
Salaries and wages	**3,625,812**	3,422,557
Employee benefits	**1,027,965**	940,909
Supplies and other expenses	**2,521,533**	2,300,173
Interest and amortization of deferred financing fees	**98,296**	89,019
Depreciation and amortization	**362,479**	347,560
Total operating expenses	**7,636,085**	7,100,218
Operating income	**404,521**	324,613
Investment return *(Note 3)*	**438,533**	201,129
Gain on extinguishment of debt – net *(Note 5)*	**–**	8,151
Excess of revenues over expenses	**843,054**	533,893
Other changes in unrestricted net assets:		
Net asset transfers to related parties *(Note 10)*	**(4,856)**	(7,420)
Net assets released from restrictions for the purchase of fixed assets	**1,899**	3,106
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets *(Note 10)*	**96,476**	107,353
Reclassification of net assets *(Note 1)*	**2,318**	–
Change in pension and postretirement benefit liabilities to be recognized in future periods *(Note 9)*	**(14,570)**	(2,690)
Change in unrestricted net assets	**$ 924,321**	$ 634,242

See accompanying notes.

The New York and Presbyterian Hospital

Consolidated Statements of Changes in Net Assets

				Beneficial Interest in Temporarily and Permanently Restricted Net Assets Held by Related Organizations					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Plant Replacement	Specific Purpose	Endowment Earnings	Total Temporarily Restricted	Permanently Restricted	Total Net Assets
					(In Thousands)				
Net assets at January 1, 2016	$ 4,147,857	$ 34,133	$ 22,051	$ 753,154	$ 540,439	$ 193,049	$ 1,486,642	$ 246,966	$ 5,937,649
Change in unrestricted net assets	634,242	–	–	–	–	–	–	–	634,242
Restricted investment return and other	–	2,896	–	–	–	–	–	–	2,896
Net assets released from restrictions for the purchase of fixed assets	–	(3,106)	–	–	–	–	–	–	(3,106)
Changes in beneficial interest in net assets held by related organizations *(Note 7)*	–	–	–	31,079	458	1,596	33,133	(93)	33,040
Changes in net assets	634,242	(210)	–	31,079	458	1,596	33,133	(93)	667,072
Net assets at December 31, 2016	4,782,099	33,923	22,051	784,233	540,897	194,645	1,519,775	246,873	6,604,721
Change in unrestricted net assets	924,321	–	–	–	–	–	–	–	924,321
Reclassification of net assets *(Note 1)*	–	(3,082)	764	–	–	–	–	–	(2,318)
Restricted investment return and other	–	4,293	–	–	–	–	–	–	4,293
Net assets released from restrictions for the purchase of fixed assets	–	(1,899)	–	–	–	–	–	–	(1,899)
Changes in beneficial interest in net assets held by related organizations *(Note 7)*	–	–	–	73,273	245,015	25,498	343,786	9,505	353,291
Changes in net assets	924,321	(688)	764	73,273	245,015	25,498	343,786	9,505	1,277,688
Net assets at December 31, 2017	$ 5,706,420	$ 33,235	$ 22,815	$ 857,506	$ 785,912	$ 220,143	$ 1,863,561	$ 256,378	$ 7,882,409

See accompanying notes.

The New York and Presbyterian Hospital

Consolidated Statements of Cash Flows

	Year Ended December 31 2017	2016
	(In Thousands)	
Operating activities		
Change in net assets	**$ 1,277,688**	$ 667,072
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**362,479**	347,560
Amortization of deferred financing costs, deferred revenue, fair value adjustment to debt related to NYP/Lower Manhattan Hospital acquisition and mortgage discount	**3,941**	3,451
Gain on extinguishment of debt	**–**	(8,151)
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets	**(96,476)**	(107,353)
Equity in earnings of common collective/commingled trusts and alternative investments and investment return on captive insurance companies	**(254,566)**	(91,214)
Net realized (gains) losses on sales of investment companies	**(9,145)**	2,856
Net change in unrealized gains and losses	**(78,363)**	(48,209)
Change in interest in pooled investments held by New York-Presbyterian Fund, Inc.	**(2,045)**	(1,140)
Equity in income from investee	**(6,213)**	(5,129)
Restricted contributions and other	**62**	(465)
Net asset transfers to related parties	**4,856**	7,420
Increase in debt for interest accretion *(Note 5)*	**8,874**	–
Changes in operating assets and liabilities:		
Patient accounts receivable	**(86,922)**	(98,244)
Other assets	**(83,708)**	(16,514)
Beneficial interest in net assets held by related organizations	**(353,291)**	(33,040)
Accounts payable and accrued expenses	**116,053**	56,128
Accrued salaries and related liabilities	**13,818**	58,727
Due to related organizations – net	**5,382**	17,498
Other liabilities	**44,073**	23,297
Professional and other insurance liabilities and related insurance recoveries receivable and deposit	**(10,067)**	4,092
Pension and postretirement benefit liabilities	**(74,902)**	(39,405)
Net cash provided by operating activities	**781,528**	739,237
Investing activities		
Net purchases of investments and assets limited as to use	**(112,971)**	(594,918)
Acquisitions of property, buildings and equipment, net	**(723,877)**	(737,015)
Distribution from investee	**9,500**	4,162
Net cash used in investing activities	**(827,348)**	(1,327,771)
Financing activities		
Repayments of long-term debt	**(74,305)**	(297,400)
Proceeds from issuance of long-term debt	**–**	850,000
Payment of deferred financing costs	**(1,006)**	(8,016)
Restricted contributions and other	**(62)**	465
Net asset transfers to related parties	**(4,856)**	(7,420)
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets	**96,476**	107,353
Net cash provided by financing activities	**16,247**	644,982
Net (decrease) increase in cash and cash equivalents	**(29,573)**	56,448
Cash and cash equivalents at beginning of year	**462,754**	406,306
Cash and cash equivalents at end of year	**$ 433,181**	$ 462,754
Supplemental disclosure of cash flow information		
Accruals for the acquisition of property and equipment	**$ –**	$ 311
Assets acquired under capitalized lease obligations	**$ 33,703**	$ 28,008
Purchase of leasehold condominium interest through issuance of promissory note payable *(Note 5)*	**$ 249,868**	**$** –
Increase in debt for interest accretion *(Note 5)*	**$ 8,874**	**$** –

See accompanying notes.

1. Organization and Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation: The accompanying consolidated financial statements include the accounts of The New York and Presbyterian Hospital (NYPH), NYP Community Services, Inc. (Community Services) and NYP Community Programs, Inc. (Community Programs). NYPH is the sole member of Community Services and Community Programs. The reporting entity resulting from the consolidation of these entities is referred to herein as the "Hospital." All significant intercompany balances and transactions have been eliminated in consolidation.

NYPH is a tax-exempt organization that was incorporated under New York State not-for-profit corporation law. NYPH is a major academic medical center, providing a full range of inpatient and outpatient services, mainly to residents of the New York metropolitan area. The Board of Trustees of NYPH consists of persons who have first been elected as members of New York-Presbyterian Foundation, Inc. (Foundation, Inc.), a New York State not-for-profit corporation. Foundation, Inc. is related to a number of organizations.

Through December 5, 2016, Community Services was the sole member of NewYork-Presbyterian/Lawrence Hospital and Subsidiaries, which consists of a 291-bed acute care hospital located in Bronxville, New York (LH), a certified home health agency (LCHS), a certified hospice program, a bereavement center, a durable medical equipment company and Lawrence Medical Associates, P.C. (d/b/a NewYork-Presbyterian Medical Group/Westchester), a State of New York professional corporation (collectively referred to herein as NYP/Lawrence Hospital or Lawrence). Effective December 6, 2016, Community Programs became the sole member, active parent and co-operator of NYP/Lawrence Hospital. In September 2017, NYPH filed a certificate of need application to the New York State Department of Health seeking approval for a merger of LH into NYPH, with NYPH receiving all assets and liabilities of LH. In addition, NYPH requested the approval of the disestablishment of NYP Community Programs, Inc. as the active parent of NYP/Lawrence Hospital. Effective April 1, 2018, LH and NYPH received the final regulatory and other approvals necessary to merge LH into NYPH. In connection with and effective on the same date as this change, the by-laws of Lawrence Care, Inc., the parent company of LCHS, were amended such that the entity has no corporate member and a majority of its Board of Directors will consist of individuals concurrently participating in the supervision, control or management of NYPH. This change will have no impact on the Hospital's consolidated financial statements as LH was previously included in the consolidated financial statements.

On December 6, 2016 (the Methodist Acquisition Date), sole membership of The New York Methodist Hospital and its controlled affiliates was transferred to Community Programs.

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

Community Programs became the entity's active parent and renamed it NewYork-Presbyterian/Brooklyn Methodist (referred to herein as Methodist or NYP/Brooklyn Methodist) Methodist consists of a 591-bed acute care hospital located in Kings County, New York, physician practices and certain other entities. As Methodist and NYPH were entities under common control as of the Methodist Acquisition Date, the change in control was accounted for in a manner similar to a pooling of interests with retrospective adjustment in prior period financial statements for the period in which the entities were under common control. Therefore, the accompanying financial statements as of and for the years ended December 31, 2017 and 2016 reflect the financial position, operations, changes in net assets and cash flows of the Hospital, including NYP/Brooklyn Methodist, as if the acquisition had been completed prior to January 1, 2016, the earliest period presented.

Community Programs is also the sole member of Hudson Valley Hospital Center, Westchester Putnam Health Management System, Inc. and their subsidiaries (collectively referred to herein as NYP/Hudson Valley or Hudson Valley) and NewYork-Presbyterian/Queens and its controlled affiliates (collectively referred to herein as NYP/Queens or Queens). Hudson Valley consists of a 128-bed acute care hospital located in Cortlandt Manor, Westchester County, New York, a foundation, a physician practice and certain other entities primarily formed to purchase and lease space. NYP/Queens consists of a 535-bed acute care hospital located in Queens County, New York, a physician practice and certain other entities.

Although NYPH and Community Programs have been consolidated for financial statement presentation, there may be limitations on the use of one entity's funds by another member of the consolidated group resulting from the charitable nature of some of the entities or other factors.

Lawrence, Hudson Valley, Queens and Methodist are collectively referred to as the Regional Hospitals.

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

The following is a summary of significant accounting policies:

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, such as estimated uncollectibles for accounts receivable for services to patients, valuation of alternative investments, estimated settlements with third-party payors, professional liabilities and pension and postretirement benefit liabilities, and disclosures 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. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term.

Cash and Cash Equivalents and Short-term Investments: The Hospital classifies as cash equivalents all highly liquid financial instruments with a maturity of three months or less when purchased, excluding those held in short-term investments and assets limited as to use. Investments that are readily marketable and that are not classified as assets limited as to use are considered short-term investments and are classified as current assets. Short-term investments are used for cash management purposes and consist of cash and cash equivalents, fixed income, equity securities, hedge funds and funds of funds. At December 31, 2017 and 2016, the Hospital's cash and cash equivalents include money market funds and interest-bearing accounts that are not fully insured by the U.S. government. The Hospital does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents.

Receivables for Patient Care: Patient accounts receivable for which the Hospital receives payment under cost reimbursement, prospective payment formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payors, which are generally less than the established billing rates of the Hospital.

The amount of the allowance for uncollectibles is based on management's assessment of historical and expected collections, business economic conditions, trends in health care coverage, and other collection indicators. Additions to the allowance for uncollectibles result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for uncollectibles.

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

Supplies: Supplies, which are determined on the first-in, first-out method, are stated at the lower of cost or net realizable value. Supplies are used in the provision of patient care and are not held for sale. Supplies are included in other current assets in the accompanying consolidated statements of financial position at December 31, 2017 and 2016.

Investments and Investment Return: All investments are classified as trading investments and, excluding interests in common collective/commingled trusts and alternative investments, are carried at fair value determined as described in Note 13. Common collective/ commingled trusts are reported in the accompanying consolidated statements of financial position based upon net asset values derived from the application of the equity method of accounting.

Alternative investment interests generally are structured such that the Hospital holds a limited partnership interest or an interest in an investment management company, including hedge funds, private equity funds and private real estate funds. The Hospital's ownership structure does not provide for control over the related investees and the Hospital's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment.

Individual investment holdings within the alternative investments include non-marketable and market-traded debt, equity and real asset securities and interests in other alternative investments. The Hospital may be exposed indirectly to securities lending, short sales of securities and trading in futures and forward contracts, options and other derivative products. Alternative investments often have liquidity restrictions under which the Hospital's capital may be divested only at specified times.

Alternative investments are reported in the accompanying consolidated statements of financial position based upon net asset values derived from the application of the equity method of accounting. Financial information used by the Hospital to evaluate its alternative investments is provided by the investment manager or general partner and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits for certain investee companies does not coincide with the Hospital's annual financial statement reporting.

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

See Note 9 for a description of the accounting policies related to assets held in the Hospital's defined benefit pension plans.

There is uncertainty in the accounting for alternative investments arising from factors such as lack of active markets (primary and 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.

Investments received as a gift are recorded at fair value on the date of contribution.

All investment transactions are recorded on the dates such trades take place. Realized gains and losses on sales of marketable securities are based on the average cost method. Interest income is recorded as earned. Dividends are recorded on the ex-dividend date. Investment return is included within the performance indicator in the accompanying consolidated statements of operations, unless restricted by donor or law. Investment returns are reported net of investment expenses.

Assets Limited as to Use: Assets so classified represent investments whose use is restricted for specific purposes under internal and/or external designation, terms of loan agreements and for self-insured professional liabilities. Assets limited as to use which are internally designated for funded depreciation represent amounts that will be expended in future periods for acquisitions of property, buildings and equipment. Assets limited as to use required to meet current liabilities and current year pledges receivable held by NYP/Lawrence Hospital are reported as current assets.

Beneficial Interest in Net Assets Held by Related Organizations: New York-Presbyterian Fund, Inc. (Fund, Inc.) was incorporated under New York State not-for-profit corporation law to solicit, receive and administer funds to be applied exclusively for charitable, educational and scientific purposes, primarily for the benefit of health care related charitable organizations. The directors of Fund, Inc. consist of persons who have first been elected as members of Foundation, Inc. Fund, Inc. is related to NYPH and a number of other organizations.

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

The Hospital recognizes its accumulated interest in the net assets held by Fund, Inc. and The New York Weill Cornell Medical Center Fund, Inc. (WCMC Fund) as beneficial interest in net assets held by related organizations in its consolidated statements of financial position and also recognizes the periodic changes in such interests in its consolidated statements of changes in net assets.

Related-Party Transactions: The entities comprising the Hospital provide various inter-entity services to their affiliated entities. The services consist of certain financial planning, information systems and telecommunications, general accounting, and other services. Charges for such services are based on the approximate cost to provide the services and are allocated between the entities based on an agreed-upon method which reflects the approximate level of usage by each entity. Such inter-entity charges and all intercompany balances between the entities comprising the Hospital eliminate in consolidation.

Property, Buildings and Equipment: Property, buildings and equipment purchased are initially recorded at cost. Assets acquired through acquisitions of businesses not previously under common control, gifts and bequests are initially recorded at appraised or fair value established at the date of the transaction. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. Depreciation of buildings, building improvements, and fixed equipment is recorded using the straight-line method over the estimated useful lives of the assets. Depreciation of NYPH movable equipment is recorded using the sum-of-the-years-digits method. Depreciation of the Regional Hospitals' movable equipment is recorded using the straight-line method over the estimated useful lives of the assets. Equipment under capital lease obligations and leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful life of the asset or the lease term. Such amortization is included in depreciation and amortization in the accompanying consolidated statements of operations.

Deferred Financing Costs: Capitalized financing costs are included as a deduction to long-term debt in the accompanying consolidated statements of financial position and are amortized using the effective interest method over the term that the related debt is expected to be outstanding.

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

Classification of Net Assets: The Hospital separately accounts for and reports donor restricted and unrestricted net assets. Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Unrestricted net assets include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the Hospital and an outside party other than the donor or grantor.

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time frame or purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

In connection with obtaining regulatory approvals for the merger of LH into NYPH as previously described in Note 1, LH reviewed documentation related to donor contributions and restricted funds received in the past. Certain amounts were reclassified in order to conform to the current interpretation of the underlying donor restrictions and intentions. Such reclassifications are reported on the accompanying 2017 consolidated statements of operations and consolidated statements of changes in net assets and are summarized as follows:

Unrestricted net assets	$ 2,318
Temporarily restricted net assets	(3,082)
Permanently restricted net assets	764
	$ –

Additionally, as part of the approved merger terms, LH's restricted net assets will be transferred to Fund, Inc. in 2018.

Net Patient Service Revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

Operating Leases: Scheduled base rent increases under operating leases are recognized as rental expense on a straight-line basis over the lease term.

Program Services: The Hospital's program services consist of providing health care and related services, including graduate medical education. For the years ended December 31, 2017 and 2016, expenses related to providing these services are summarized as follows (in thousands):

	2017	**2016**
Health care and related services	**$ 6,140,914**	$ 5,734,470
Program support and general services	**1,495,171**	1,365,748
	$ 7,636,085	$ 7,100,218

The Hospital maintains academic affiliations with two medical colleges: The Columbia University College of Physicians & Surgeons and the Joan and Sanford I. Weill Medical College of Cornell University (collectively, the Schools). Transactions occur on a routine basis between the Hospital and the Schools, based upon arrangements between the parties.

Performance Indicator: The accompanying consolidated statements of operations include excess of revenues over expenses as the performance indicator. Excluded from the performance indicator are permanent transfers of assets to or from related entities, net assets released from restrictions for the purchase of fixed assets, reclassifications of net assets, and the change in pension and postretirement benefit liabilities to be recognized in future periods.

Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and operating expenses and included in operating income. Investment return and certain transactions of an infrequent nature are excluded from operating income.

Tax Status: The majority of the entities comprising the Hospital are Section 501(c)(3) organizations exempt from Federal income taxes on related income under Section 501(a) of the Internal Revenue Code. These entities also are exempt from New York State income taxes. NYPH, Community Services, Community Programs, NYP/Queens and Methodist are exempt from New York City income taxes.

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

There are various subsidiaries of the Hospital that are for-profit entities. Taxable operations and the potential for income taxes from these entities and from unrelated business activities of the tax exempt entities are not significant to the accompanying consolidated financial statements.

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

Reclassifications: Certain reclassifications have been made to the 2016 amounts previously reported in order to conform with the current year presentation.

Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition*, and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 are effective for the Hospital for annual reporting periods beginning after December 15, 2017 and interim periods within that reporting period. Management will adopt ASU 2014-09 following the modified retrospective method of application. Subsequent to adoption, certain patient activity where collection is uncertain which was previously reported as net patient service revenue and provision for bad debts in the Hospital's consolidated statements of operations will no longer meet the criteria for revenue recognition and, accordingly, the provision for bad debts after the adoption date will be significantly reduced with a corresponding reduction to net patient service revenue. Reductions to revenue resulting from such patient activity will be classified as an implicit price concession. Additionally, the provision for bad debts will be presented as an expense item rather than a reduction of net patient service revenue. The Hospital's adoption of ASU 2014-09 will have other impacts to net patient service revenue, which include judgments regarding collection

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures. The Hospital continues to assess the impact of the adoption of ASU 2014-09 in relation to other revenue activity, as applicable; however, other revenue is less significant to the Hospital's consolidated statements of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require lessees to report most leases on their statements of financial position, but recognize expenses on their income statements in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. Lessors in operating leases continue to recognize the underlying asset and recognize lease income on either a straight-line basis or another systematic and rational basis. The provisions of ASU 2016-02 are effective for the Hospital for annual periods beginning after December 15, 2018, and interim periods in the following year. Early adoption is permitted. The Hospital has not completed the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

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

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, 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;

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the Hospital for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. Adoption of ASU 2016-15 will not have a material impact on the Hospital's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for the Hospital for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. Adoption of ASU 2016-18 will not have a material impact on the Hospital's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The standard is effective for the Hospital for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued. Adoption of ASU 2017-07 will require the Hospital to include the service cost component of net periodic benefit cost related to its defined benefit plan and other postretirement benefit plan (aggregate of approximately $85.0 million for 2017) within salaries and wages on the consolidated statements of operations and to present all other components of net periodic benefit cost

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

(aggregate of approximately $(14.6) million for 2017) as a separate line item excluded from the subtotal for operating income. Net periodic benefit cost is reported currently within employee benefits expense on the consolidated statements of operations.

2. Net Patient Service Revenue

Net Patient Service Revenue and Accounts Receivable

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payor payment programs below). For uninsured and under-insured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of charges. Under the charity care policy, a patient who has no insurance or is under-insured and is ineligible for any government assistance program has his or her bill reduced to (1) the lesser of charges or the Medicaid diagnostic-related group for inpatient and (2) a discount from Medicaid fee-for-service rates for outpatient. The effect of this policy on the consolidated financial statements is lower net patient service revenue, as the discount is considered an allowance.

Patient service revenue for the years ended December 31, 2017 and 2016, net of contractual allowances and discounts (but before the provision for bad debts), recognized from these major payor sources based on primary insurance designation, is as follows (in thousands):

	2017	2016
Third-party payors	**$ 7,722,427**	$ 7,096,637
Self-pay	**104,027**	106,798
	$ 7,826,454	$ 7,203,435

Accounts receivable is recorded at its expected net realizable value. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

2. Net Patient Service Revenue (continued)

The allowance for doubtful accounts for self-pay patients was approximately 50% and 46% of self-pay accounts receivable as of December 31, 2017 and 2016, respectively. The Hospital did not experience significant changes in write-off trends and did not change its charity care policy in 2017 or 2016.

Third-Party Payment Programs

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

Medicare: 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: In New York State, hospitals and all non-Medicare payors (including Medicare and Medicaid managed care plans), except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health (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 Hospital is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payors will continue to be made in future years.

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years' payment rates, based on industry-wide and Hospital-specific data. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal

2. Net Patient Service Revenue (continued)

intermediary and settled through 2001 for NYPH and for various years ranging from 2006 to 2014 for the Regional Hospitals, 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.

The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. Non-compliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Hospital 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, except for the matter disclosed in Note 12.

During 2017 and 2016, the Hospital revised estimates made in prior years to reflect the passage of time and the availability of more recent information, such as settlement activity, associated with the related payment items. For the years ended December 31, 2017 and 2016, the net effect of the Hospital's revisions to prior year estimates resulted in net patient service revenue increasing by approximately $59.7 million and $30.7 million, respectively.

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 Hospital. Additionally, certain payors' payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years could be realized.

2. Net Patient Service Revenue (continued)

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. Significant concentrations of patient accounts receivable at December 31, 2017 and 2016 are as follows:

	2017	2016
Medicare	**26%**	25%
Medicaid	**17**	17
Commercial carriers and health maintenance organizations	**49**	49
Self-pay patients	**8**	9
	100%	100%

Revenue from the Medicare and Medicaid programs accounted for approximately 47% of the Hospital's net patient service revenue for each of the years ended December 31, 2017 and 2016.

Uncompensated Care and Community Benefit Expense

The Hospital's commitment to community service is evidenced by services provided to special populations such as minorities, the elderly, persons with disabilities, the mentally ill, persons with AIDS and poor persons (Special Populations) and benefits provided to the broader community. Services provided to such Special Populations include services provided to persons who cannot afford health care because of inadequate resources and who are uninsured or underinsured.

The Hospital provides quality medical care regardless of race, creed, sex, sexual orientation, national origin, handicap, age or ability to pay. Although reimbursement for services rendered is critical to the operations and stability of the Hospital, the Hospital recognizes that not all individuals have the ability to pay for medically necessary services and, furthermore, the Hospital's mission is to serve the community with respect to health care. Therefore, in keeping with the Hospital's commitment to serve members of the community, the Hospital provides uncompensated care through: medical care to the indigent for free or at discounted prices (charity care/financial aid) and care to persons covered by governmental programs that pay the Hospital less than the full cost of services provided. In addition, the Hospital provides significant

2. Net Patient Service Revenue (continued)

community benefit activities which include wellness programs, community education programs, health screenings and a broad variety of community support services, health professionals' education, school based programs, and subsidized health services.

The Hospital believes it is important to quantify comprehensively the benefits it provides to the community, which is an area of emphasis for not-for-profit health care providers. The costs of uncompensated care and community benefit activities are derived from various Hospital records. Amounts for activities as reported below are based on estimated and actual data, subject to changes in estimates upon the finalization of the Hospital's cost report and other government filings. The amounts reported below are calculated in accordance with guidelines prescribed by the Internal Revenue Service (IRS); 2016 estimates have been updated to reflect reported amounts. The net cost of charity care includes the direct and indirect cost of providing charity care services, offset by revenues received from indigent care pools and other subsidies. The cost is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care. Funds received to offset bad debt and charity services totaled approximately $85.6 million and $59.9 million for the years ended December 31, 2017 and 2016, respectively, including approximately $84.0 million and $58.0 million, respectively, from the Indigent Care Pool under the New York State Medicaid program. The charity care component of the Indigent Care Pool payments (approximately 55% for 2017 and 56% for 2016) is estimated utilizing a ratio of charity care charges to total charity care and bad debt charges applied to the indigent care pool payment.

Net costs related to uncompensated care and community benefit activities are summarized for the years ended December 31, 2017 and 2016 as follows (in thousands):

	2017	2016
Charity care, net[a]	**$ 50,575**	$ 53,530
Means-tested programs[b]	**473,985**	446,311
Other community benefits[c][d]	**610,497**	537,271
Total charity care and other community benefits	**$ 1,135,057**	$ 1,037,112

2. Net Patient Service Revenue (continued)

Charity care, at cost, and means-tested programs include the following (and exclude losses incurred on providing services to Medicare patients):

(a) *Charity Care:* As part of its charity care and financial aid policy, the Hospital obtains and uses additional financial information for uninsured or under-insured patients who have not supplied the requisite information to qualify for charity care. The additional information obtained is used by the Hospital to determine whether to qualify patients for charity care and/or financial aid in accordance with the Hospital's policies.

The Hospital makes available free care programs for qualifying patients under its charity care and financial aid policy. During the registration, billing and collection process, a patient's eligibility for free care funds is determined. For patients who do not receive free care and who are determined to be eligible for charity care in the form of discounted medical services under the Hospital's charity care and financial aid policy, care given but not paid for is classified as charity care. For patients who were determined by the Hospital to have the ability to pay but did not, the uncollected amounts are classified as provision for bad debt (approximately $153.0 million in 2017 and $135.5 million in 2016). Distinguishing between bad debt and charity care is difficult, in part because services are often rendered prior to full evaluation of a patient's ability to pay.

Annually, the Hospital accrues for potential losses that meet the definition of charity care (including free and discounted medical care) allowances.

(b) *Means-Tested Programs:* Community benefits include losses incurred in providing services to patients who participate in certain public health programs such as Medicaid. Payments received by the Hospital for patient services provided to Medicaid program participants are less than the actual cost of providing such services. Therefore, to the extent Medicaid payments are less than the cost of care provided to Medicaid patients, the uncompensated cost of that care is considered to be a community benefit.

2. Net Patient Service Revenue (continued)

Other community benefits include the following:

(c) *Community Health Improvement Services and Community Benefit Operations:* The Hospital is committed to serving the vast array of neighborhoods comprising its service area and recognizes the importance of preserving a local community focus to effectively meet community need. The Hospital adheres to a single standard for assessing and meeting community need, while retaining a geographically focused approach for soliciting community participation and involvement and providing community outreach.

The Hospital has fostered continued community participation and outreach activities through linkages with numerous community-based groups. Community health improvement services and related operations include clinical services, screening and exams, and other education or support services in areas such as the following: asthma, behavioral health, cancer, children's health, community-based outreach and health education, digestive diseases, emergency services/emergency preparedness, heart disease, HIV/AIDS, neuroscience, vascular disease and women's health (a complete description of each service can be found in the Hospital's annual community service plan). The net cost of such services is accumulated based on estimates using the Hospital's cost to charge ratio and related gross charges associated with the services, offset by payments received and actual expenditures.

(d) *Health Professional Education:* Helping to prepare future health care professionals is a distinguishing characteristic of major academic not-for-profit teaching hospitals and constitutes a significant community benefit. The Hospital has a world renowned residency program and trains approximately 1,700 residents each year in all clinical programs (the programs are in two medical schools and cover 149 accredited graduate medical education programs). The Hospital is committed to offering quality graduate medical education programs as part of its education mission. The estimated cost of health professional education consists primarily of personnel costs provided to residents and interns, offset by amounts received from CMS and the DOH for medical education programs.

3. Investments and Assets Limited as to Use

The composition and reported value of short-term investments consists of approximately $48.8 million and $44.1 million in hedge funds and funds of funds, which are accounted for using the equity method, and approximately $2,081.5 million and $1,636.5 million of marketable securities, which are accounted for at fair value (see Note 13), at December 31, 2017 and 2016, respectively.

The composition and reported value of assets limited as to use, which excludes the beneficial interest in net assets held by related organizations (see Note 7), at December 31, 2017 and 2016, consist of the following (in thousands):

	2017	2016
Marketable securities, carried at fair value *(Note 13)*	**$ 1,350,281**	$ 1,715,885
Investments held by captive insurance companies, at allocated fair value *(Note 13)*	**231,275**	207,814
Total investments accounted for at fair value	**1,581,556**	1,923,699
Investments accounted for using the equity method:		
Equities and bonds held in common collective/commingled trusts:		
U.S. equities	**433,889**	367,298
Non-U.S. equities	**492,823**	357,171
Non-U.S. government bonds	**–**	6,060
Total equities and bonds held in common collective/commingled trusts	**926,712**	730,529
Pooled investments held by Fund, Inc. on behalf of Queens	**25,770**	23,003
Hedge funds	**236,704**	194,991
Private equity	**231,814**	160,337
Private real assets	**146,787**	108,447
Total investments accounted for using the equity method	**1,567,787**	1,217,307
Pledges receivable – net	**543**	1,521
Total assets limited as to use	**3,149,886**	3,142,527
Less current portion	**73,700**	75,469
Assets limited as to use – noncurrent	**$ 3,076,186**	$ 3,067,058

3. Investments and Assets Limited as to Use (continued)

See Note 13 for a description of the common collective/commingled trusts, hedge funds, private equity and private real asset categories which are held by the Hospital's pension plans and are invested in a similar manner as such holdings in the assets limited as to use portfolio summarized in the table above. Additionally, see Note 13 for a summary of investments (by major class) that have restrictions on the Hospital's ability to redeem its investments and unfunded capital commitments.

Assets limited as to use at December 31, 2017 and 2016 are limited to the following uses (in thousands):

	2017	2016
Funded depreciation	**$ 1,189,355**	$ 1,068,490
Funds held under loan agreements	**79,895**	255,461
Other Board designated funds *(Note 5)*	**1,520,656**	1,460,294
Employee benefit funds	**38,021**	37,981
Funded self-insurance (professional liabilities) *(Note 8)*	**60,854**	77,913
Investments held by captive insurance company *(Note 8)*	**231,275**	207,814
Donor restricted	**29,830**	34,574
	$ 3,149,886	$ 3,142,527

The funded depreciation balance includes approximately $348.9 million and $426.4 million at December 31, 2017 and December 31, 2016, respectively, in funds required to be designated for capital projects under a mortgage issued in 2013 (see Note 5).

Funds held under loan agreements at December 31, 2017 and 2016 are for the following purposes (in thousands):

	2017	2016
Construction escrow *(Note 5)*	**$ 1,151**	$ 174,744
Mortgage reserve funds	**67,829**	66,769
Escrow fund *(Note 5)*	**703**	3,803
Capital reserve fund	**3,500**	3,487
Debt service fund	**6,712**	6,658
	$ 79,895	$ 255,461

3. Investments and Assets Limited as to Use (continued)

Unrestricted investment return for the years ended December 31, 2017 and 2016 consisted of the following (in thousands):

	2017	2016
Interest and dividend income	**$ 94,414**	$ 63,422
Net realized gains (losses) on sales of investments	**9,145**	(2,856)
Equity in earnings of common collective/commingled trusts and alternative investment companies and investment return of captive insurance companies	**254,566**	91,214
Change in interest in pooled investments held by Fund, Inc.	**2,045**	1,140
Net change in unrealized gains and losses	**78,363**	48,209
Total unrestricted investment return	**$ 438,533**	$ 201,129

4. Property, Buildings and Equipment

A summary of property, buildings and equipment at December 31, 2017 and 2016 follows (in thousands):

	2017	2016
Land and land improvements	**$ 234,741**	$ 234,257
Buildings, building improvements and fixed equipment	**4,109,651**	3,962,579
Movable equipment	**1,201,596**	1,128,968
Leasehold improvements	**263,633**	15,184
	5,809,621	5,340,988
Less accumulated depreciation and amortization	**2,750,440**	2,563,743
	3,059,181	2,777,245
Construction-in-progress	**1,255,753**	893,031
	$ 4,314,934	$ 3,670,276

During 2017, the Hospital wrote off approximately $170.2 million of fully depreciated assets.

Substantially all property, buildings and equipment have been pledged as collateral under various debt agreements (see Note 5).

4. Property, Buildings and Equipment (continued)

At December 31, 2017 and 2016, assets recorded in connection with capital leases aggregated approximately $210.6 million and $189.5 million, respectively, with accumulated amortization aggregating approximately $140.4 million and $127.9 million, respectively.

The Hospital leases certain buildings from Royal Charter Properties – Westchester, Inc., a related entity (see Note 10).

The Hospital is in the process of constructing two significant capital projects. The total expected cost of the projects is approximately $1,562.7 million. As of December 31, 2017, contracts of approximately $1,034.4 million exist for the above projects. As of December 31, 2017, the remaining unrecorded commitment under these contracts is approximately $303.9 million.

In October 2017, the Hospital entered into a software licensing and hosting contract with Epic Systems Corporation for their integrated electronic medical records and revenue cycle solution. The new system is scheduled to be a multiyear installation with net incremental cost to the Hospital of approximately $476.6 million over the life of the agreement. Software licensing costs under the contract total approximately $52.1 million.

5. Long-Term Debt

A summary of long-term debt at December 31, 2017 and 2016 follows (in thousands):

	2017	2016
The New York and Presbyterian Hospital taxable bonds, Series 2016 (a)	**$ 850,000**	$ 850,000
The New York and Presbyterian Hospital taxable bonds, Series 2015 (b)	**750,000**	750,000
FHA Section 242 insured mortgage loan – 1998 – Downtown Campus (c)	**179,804**	199,510
FHA Section 241 insured mortgage loan – 2007 (d)	**218,405**	228,003
Secured hospital revenue refunding bonds – 2011 – Lower Manhattan Campus (e)	**19,875**	23,295
FHA Section 241 insured mortgage loan – 2013 (f)	**449,288**	462,105
Term loan payable – NYP/Lawrence Hospital (g)	**18,258**	20,173
FHA Section 241 insured mortgage loan – 1999 – NYP/Queens (h)	**29,506**	32,223
Build NYC Resource Corporation 2014 Revenue Refunding Bonds, Series 2014 – Methodist (i)	**25,945**	27,375
Leasehold condominium note payable (j)	**258,742**	–
Capital leases (k)	**82,561**	70,924
Other	**–**	269
	2,882,384	2,663,877
Add unamortized fair value adjustment related to acquisitions and unamortized bond premium	**3,117**	3,789
Less deferred financing costs, net of accumulated amortization (2017 – $23,226; 2016 – $18,555)	**55,279**	59,027
Less current portion, net of current deferred financing costs (2017 – $4,443; 2016 – $4,591)	**70,491**	66,352
Long-term portion	**$ 2,759,731**	$ 2,542,287

5. Long-Term Debt (continued)

(a) *The New York and Presbyterian Hospital Taxable Bonds, Series 2016:* In June 2016, NYPH issued $850.0 million in unsecured, taxable bonds (the Series 2016 Bonds). The bonds have three separate final maturity dates, $250.0 million due August 1, 2036, $350.0 million due August 1, 2056 and $250.0 million due August 1, 2116 and bear interest at approximate fixed rates of 3.6%, 4.1% and 4.8%, respectively. NYPH incurred approximately $8.0 million of financing cost in connection with the issuance of the bonds that will be amortized over the life of the bonds using the effective interest method. NYPH is the only member of the obligated group for this debt. Bond proceeds that have not been expended are included in assets limited as to use as Board designated funds. The proceeds of the Series 2016 Bonds may be used for eligible corporate purposes of NYPH and its affiliates, which have included the following: (a) making a loan to NYP/Hudson Valley to refinance its outstanding 1993 and 2007 U.S. Department of Housing and Urban Development Federal Housing Agency (FHA) insured mortgage loans, (b) making a loan to NYP/Queens to refinance its outstanding 2007 FHA-insured mortgage loan, (c) making a loan to NYP/Lawrence to refinance its outstanding Westchester County Industrial Development Agency bonds, (d) refinancing outstanding debt of NYPH and other outstanding debt of certain NYPH affiliates, and (e) financing of one or more projects of NYPH and certain NYPH affiliates, and (f) making a loan to Methodist for a capital project in 2017.

In September 2016, NYPH loaned NYP/Lawrence Hospital $6.3 million from the proceeds of the Series 2016 Bonds to finance the repayment of certain of NYP/Lawrence Hospital's obligations. In connection with the loan, NYP/Lawrence Hospital issued a mortgage note (the Lawrence Mortgage) to NYPH to repay the obligation. The Lawrence Mortgage is secured by substantially all of the property, buildings and equipment and the gross receipts of NYP/Lawrence Hospital. The Lawrence Mortgage bears interest at a fixed rate of 4.21% (the rate represents the weighted-average cost of the Series 2016 Bonds) and calls for monthly payments of interest and principal of approximately $0.1 million through January 1, 2028. As part of LH's merger into NYPH in 2018, the mortgage was relieved effective April 1, 2018.

In November 2016, NYPH loaned NYP/Hudson Valley $56.5 million from the proceeds of the Series 2016 Bonds to finance the repayment of certain of NYP/Hudson Valley's obligations. In connection with the loan, NYP/Hudson Valley issued a mortgage loan (the Hudson Valley Mortgage) to NYPH to repay the obligation. The Hudson Valley

5. Long-Term Debt (continued)

Mortgage is secured by substantially all of the property, buildings and equipment and the gross receipts of NYP/Hudson Valley. The Hudson Valley Mortgage bears interest at a fixed rate of 4.21% and calls for monthly payments of interest and principal of approximately $0.4 million through January 1, 2035.

In November 2016, NYPH loaned NYP/Queens $124.9 million from the proceeds of the Series 2016 Bonds to finance the repayment of certain of NYP/Queens's obligations. In connection with the loan, NYP/Queens issued a mortgage note (the Queens Mortgage) to NYPH to repay the obligation. The Queens Mortgage is secured by substantially all of the property, buildings and equipment and the gross receipts of NYP/Queens. The Queens Mortgage bears interest at a fixed rate of 4.21% and calls for monthly payments of interest and principal of approximately $0.8 million through May 1, 2035.

In connection with NYP/Hudson Valley's and NYP/Queens' repayments of obligations as described above, a net gain on extinguishment of debt of approximately $8.2 million was recognized in the accompanying consolidated statement of operations for the year ended December 31, 2016.

In January 2017, proceeds from the Series 2016 Bonds were used to loan Methodist $327.0 million to finance the design, construction and equipping of the Center for Community Health, an approximately 400,000 square foot ambulatory care facility to be located in Brooklyn, New York. The loan bears interest at a fixed rate of 4.21% and calls for monthly payments of interest only through January 1, 2020, and monthly payments of interest and principal of approximately $1.7 million through January 1, 2047.

In September 2017, proceeds from the Series 2016 Bonds were used to loan NYP/Queens $16.0 million to finance contributions into NYP/Queens' pension plan. In connection with the loan, NYP/Queens issued a promissory note to NYPH. The note bears interest at an initial rate of 1.00% through November 30, 2018. Thereafter, the rate will be reset annually on December 1 to a variable LIBOR-based rate. In no event shall the rate be less than 1.00% or greater than 4.21%. The loan calls for monthly payments of interest through December 1, 2037 with the entire principal amount of the loan due on that date.

5. Long-Term Debt (continued)

In September 2017, proceeds from the Series 2016 Bonds were used to advance NYP/Lawrence Hospital approximately $26.8 million to finance contributions into their pension plan. The advance has no specified terms.

The outstanding principal balance and related interest related to all of the loans and advances to the Regional Hospitals are eliminated in the consolidation of the accompanying consolidated financial statements as of and for the years ended December 31, 2017 and 2016.

(b) *The New York and Presbyterian Hospital Taxable Bonds, Series 2015:* In February 2015, NYPH issued $750.0 million in unsecured, taxable bonds. The bonds bear interest at a fixed rate of 4.02%, payable semi-annually. The bonds have a final maturity date of August 1, 2045, at which time the full principal balance is due. NYPH is the only member of the obligated group for this debt. Bond proceeds that have not been expended are included in assets limited as to use as Board designated funds.

(c) *FHA Section 242 Insured Mortgage Loan – 1998:* In 1998 the Dormitory Authority of the State of New York (DASNY) issued revenue bonds to fund a mortgage loan to NYPH. NYPH's original mortgage agreement with DASNY was insured under the provisions of the FHA Section 242 mortgage insurance program.

During 2005, NYPH received $8.4 million from DASNY in relation to a release of assets held by DASNY in reserve under the mortgage note and recorded the receipts as an increase to NYPH's deferred revenue balance in the accompanying consolidated statements of financial position. The deferred revenue is being amortized over the remaining life of the mortgage using the effective interest method.

In August 2009, NYPH completed the final endorsement of the FHA Section 242 Insured Mortgage Loan – 1998. The remaining amortization schedule was finalized with principal and interest payments due through July 1, 2025. The terms of the mortgage were amended and, effective September 1, 2009, interest was to be paid at a fixed annual rate of 5.99% of the unpaid balance until the loan was fully paid. As a result of the final endorsement, DASNY released to NYPH an additional $40.8 million of unused proceeds from the initial mortgage loan and NYPH received approximately $2.9 million from the IRS related to prior years' bond proceeds arbitrage, all used for certain capital projects and as additional equity for the December 2010 transaction (see below). Additionally, the final endorsement resulted

5. Long-Term Debt (continued)

in NYPH's debt escrow fund (approximately $12.5 million at final endorsement) being released for partial payment of the debt obligation at various future intervals.

In December 2010, DASNY assigned NYPH's mortgage to Prudential Huntoon Paige Associates, Ltd. (Prudential); the mortgage continues to be FHA-insured. In connection with the assignment of the mortgage, the associated DASNY bonds were defeased and Prudential issued new Government National Mortgage Association bonds to fund the mortgage loan. This transaction resulted in a reduction in the interest rate of the mortgage loan, effective December 15, 2010, to a fixed rate of 4.22% over the remaining term and required NYPH to make an equity contribution of $23.8 million ($15.1 million of the equity contribution was made, with the remaining balance of amounts held in assets limited as to use as part of the final endorsement). The equity contribution is being amortized over the remaining life of the mortgage using the effective interest method and has a balance that is a reduction to long-term debt, net of accumulated amortization, of approximately $6.6 million and $8.4 million at December 31, 2017 and 2016, respectively. All other material terms of the mortgage remained the same.

(d) *FHA Section 241 Insured Mortgage Loan – 2007:* In September 2007, DASNY issued $296.1 million of The New York and Presbyterian Hospital FHA-Insured Mortgage Hospital Revenue Bonds, Series 2007. A portion of the proceeds of the bonds was used to fund a mortgage loan from DASNY to NYPH. The maximum principal amount of $278.5 million incorporated a discount of $5.4 million. The mortgage is insured under the provisions of the FHA Section 241 mortgage insurance program. The mortgage bore interest at a rate of 6.5% through May 31, 2010 and 4.9% through July 31, 2012 (in addition, NYPH paid an incremental rate of 1.6% until final endorsement). On August 7, 2012, NYPH completed final endorsement and the terms of the mortgage were amended and, effective August 1, 2012, interest was paid at a rate of 4.55%. The remaining amortization schedule was finalized, with principal and interest payments through June 1, 2035.

In December 2012, DASNY assigned NYPH's mortgage loan to Prudential; the mortgage continues to be FHA-insured. In connection therewith, the DASNY bonds were refunded and Prudential issued new Government National Mortgage Association securities to fund NYPH's mortgage. This transaction resulted in a reduction in the interest rate on the mortgage loan to a fixed rate of 2.74% over the remaining term of the loan, effective December 13, 2012. All other material terms of the mortgage remained the same.

5. Long-Term Debt (continued)

(e) *Secured Hospital Revenue Refunding Bonds – 2011:* In March 2011, NewYork-Presbyterian/Lower Manhattan Hospital (NYP/LMH), a campus of NYPH, issued $32.6 million of Secured Hospital Revenue Refunding Bonds – 2011 through DASNY. The bonds bear interest at a fixed interest rate of 5%, payable semi-annually, with a final maturity date of February 15, 2022. NYP/LMH has granted to DASNY, with certain permitted exceptions, a security interest in gross receipts and certain fixtures, furnishings and equipment that secure the payment of the debt. The bonds are further secured by amounts, if required, that would be payable under a service contract between DASNY and the State of New York.

(f) *FHA Section 241 Insured Mortgage Loan – 2013:* In September 2013, NYPH executed a $500.0 million mortgage note with Prudential. The mortgage note bears interest at a fixed interest rate of 4.5%, payable semi-annually. The loan has a final maturity of September 1, 2038, with principal payable annually. The proceeds of the loan were deposited into a construction escrow account and are being used to construct an ambulatory care center and pay related costs (see Notes 3 and 4).

(g) *Term Loan Payable:* In September 2013, Lawrence signed a term loan agreement with TD Bank, NA. The initial principal amount of the loan was $25.7 million to be used for the construction of a new three-story building to house a new surgery and oncology center and a six-room operating suite on Lawrence's property. The loan is payable over 144 months. Interest is charged on the amount outstanding at a fixed rate of 4.29% per annum. As a result of LH's merger into NYPH effective April 1, 2018, the term loan was assumed by NYPH.

(h) *FHA Section 241 Insured Mortgage Loan – 1999:* In August 1999, Queens entered into a mortgage agreement with DASNY. The mortgage is insured by the FHA under the provisions of the Section 241 mortgage insurance program. The loan is secured by a first mortgage lien on certain real and personal property of NYP/Queens. Effective December 7, 2006, the loan was subject to a fixed interest rate of 5.6%. In 2007, the loan was final endorsed by the FHA, at which time the remaining amortization schedule was finalized with principal payments due through October 2026. In December 2010, the DASNY bonds underlying the loan were defeased and Prudential issued new Government National Mortgage Association securities. In connection with the defeasance, DASNY assigned

5. Long-Term Debt (continued)

Queens' mortgage to Prudential; the mortgage continues to be FHA-insured. The transaction resulted in a reduction in the interest rate of the mortgage loan, effective December 2, 2010, to a fixed rate of 4.1% over the remaining term. All other material terms of the mortgage remained the same.

(i) *Build NYC Resource Corporation Bonds, Series 2014:* On September 17, 2014, the Build NYC Resource Corporation issued $29.72 million of Tax-Exempt Revenue Refunding Bonds, Series 2014 (The New York Methodist Hospital Project) (the Series 2014 Bonds) on behalf of Methodist with an original issue premium of approximately $3.8 million. The proceeds of the Series 2014 Bonds were lent to Methodist pursuant to a loan agreement and related master trust indenture, among other agreements, under which an obligated group was formed (Methodist is currently the only member of the obligated group). The Series 2014 Bonds have a coupon interest rate of 5.0% and an effective interest cost of 3.65%.

(j) *Leasehold Condominium Note Payable:* In June 2017, the Hospital entered into a transaction pursuant to which the Hospital purchased a 30-year leasehold condominium interest (with an option to extend) in approximately 480,000 square feet of space located at 466 Lexington Avenue (the Leasehold Condominium) to be used to consolidate corporate services of the Hospital. The new space will replace existing leased and owned office space. To finance the acquisition of the Leasehold Condominium, the Hospital issued to the seller a promissory note in the principal amount of $249.9 million (the Promissory Note) which bears interest at a rate of 7% per annum. Interest payments for the period from July 2017 through December 2018 are deferred. The debt service terms require principal and interest payments in escalating amounts over the life of the note, ranging from $1.5 million to $2.5 million commencing January 2019 through December 2048. Unpaid interest incurred during the period accrues to the outstanding principal balance on the Promissory Note. Under this arrangement, the amount due will increase to an ultimate principal balance of $283.3 million in December 2023. As of December 31, 2017, the balance due includes the original principal amount of the Promissory Note and accrued interest of approximately $8.9 million. The Promissory Note is secured by a mortgage granted by the Hospital in its interest in the Leasehold Condominium.

In connection with this transaction, the seller/landlord provided the Hospital with a tenant allowance for leasehold improvements of approximately $75.6 million, which is recorded in the accompanying consolidated statements of financial position within other current

5. Long-Term Debt (continued)

assets and other noncurrent assets based on the timing of the related cash receipts from the seller/landlord and other noncurrent liabilities for the deferred benefit, to be amortized over the term of the Promissory Note. As of December 31, 2017, the accompanying consolidated statement of financial position includes a $56.4 million receivable recorded in current assets, a $19.2 million receivable recorded in noncurrent assets at a net present value of approximately $3.2 million and noncurrent liabilities totaling approximately $75.6 million.

Estimated principal payments under all long-term debt (reflective of amounts obligated to date) for the next five years and thereafter, excluding capital leases, consist of the following (in thousands):

2018	$ 53,749
2019	55,985
2020	58,883
2021	60,789
2022	63,325
Thereafter	2,507,092

Pursuant to the debt agreements, NYPH and the Regional Hospitals are required to maintain certain debt service funds, including mortgage reserve funds. In addition, NYPH and the Regional Hospitals are required to maintain certain working capital, debt service coverage and other financial ratios and financial conditions, and to obtain approvals to incur additional debt above specified levels if certain covenant requirements are not met. At December 31, 2017 and 2016, NYPH, NYP/Hudson Valley, NYP/Queens and Methodist were in compliance with the applicable financial covenants. At December 31, 2017, NYP/Lawrence Hospital was in compliance with the applicable financial covenants. At December 31, 2016, NYP/Lawrence was not in compliance with certain financial covenants. As such, Lawrence obtained compliance waivers and addressed other matters such that the Lawrence debt was classified based on scheduled repayment terms.

The various debt instruments described above are collateralized by substantially all of NYPH's and the Regional Hospitals' property, buildings and equipment and gross receipts derived from operations on an entity-specific basis.

5. Long-Term Debt (continued)

(k) *Capital Leases:* Certain equipment leases are the equivalent of an installment purchase for purposes of financial statement reporting. The lenders hold a first security interest in the financed equipment. The Hospital entered into several capital leases in 2017 and 2016 totaling approximately $33.7 million and $28.0 million, respectively. Interest rates related to the Hospital's outstanding capital lease obligations range from 0.0% to 6.9%. Following is a summary of payments due under capital lease obligations for the years ending December 31 (in thousands):

2018	$ 22,761
2019	19,859
2020	17,011
2021	13,160
2022	9,090
Thereafter	6,046
	87,927
Less imputed interest	5,366
	$ 82,561

Interest paid under all borrowings for the years ended December 31, 2017 and 2016 aggregated approximately $109.3 million and $82.7 million, respectively.

Through June 2017, the Hospital had a $100.0 million unsecured line of credit agreement with a commercial bank. During June 2017, the agreement was amended and the amount available under the line of credit was increased to $200.0 million and the term was extended for three years through June 30, 2020. In August 2017, the Hospital obtained a line of credit with a second commercial bank. The amount available under the line of credit is $150.0 million and it has a three-year term through August 15, 2020. Both lines of credit are unsecured. There were no borrowings on lines of credit during 2017 or 2016. Certain Regional Hospitals maintain lines of credit with an aggregate availability of approximately $14.1 million and there were no outstanding draws as of December 31, 2017 and 2016.

6. Operating Leases

Total rental expense for the years ended December 31, 2017 and 2016 aggregated approximately $108.2 million and $92.7 million, respectively. Sublease income and contingent rentals were not significant. The Hospital leases certain properties owned by related entities (see Note 10).

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

2018	$ 88,381
2019	79,868
2020	74,191
2021	61,364
2022	48,632
Thereafter	139,404

7. Beneficial Interest in Net Assets Held by Related Organizations

The Hospital recognizes its accumulated interest in certain net assets held by Fund, Inc. and WCMC Fund, which were as follows at December 31, 2017 and 2016 (in thousands):

	2017	**2016**
Temporarily restricted:		
Fund, Inc.:		
Building and equipment replacement	**$ 857,506**	$ 784,233
Specific purpose health care services	**785,912**	540,897
Endowment earnings restricted for specific-purpose health care services	**220,143**	194,645
	1,863,561	1,519,775
Permanently restricted:		
Fund, Inc. – Investments to be held in perpetuity	**219,497**	212,716
WCMC Fund – Investments held in perpetual trust	**36,881**	34,157
	256,378	246,873
Total beneficial interest in net assets held by related organizations	**2,119,939**	1,766,648
Less current portion	**65,798**	68,974
	$ 2,054,141	$ 1,697,674

7. Beneficial Interest in Net Assets Held by Related Organizations (continued)

Permanently restricted net assets that are included in the beneficial interest in net assets held by related organizations represent endowments that have been restricted by donors to be maintained in perpetuity and are held by Fund, Inc. and WCMC Fund on behalf of the Hospital. The Hospital follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as they relate to permanently restricted contributions and net assets.

The Hospital has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. The Hospital classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Accumulations to the permanent endowment are used in accordance with the direction of the applicable donor gift. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until the amounts are appropriated for expenditure in accordance with a standard of prudence prescribed by NYPMIFA. The Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (i) the duration and preservation of the fund; (ii) the purposes of the Hospital and the donor-restricted endowment fund; (iii) general economic conditions; (iv) the possible effects of inflation and deflation; (v) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Hospital; (vi) the expected total return from income and the appreciation of investments; (vii) other resources of the Hospital and (viii) the investment and spending policies of the Hospital. Fund, Inc.'s endowment investment returns distribution policy, which applies to the Hospital, allows for expenditures of investment return only, at a rate not to exceed 4.5% of the permanently restricted net asset balance on an annual basis.

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding related to the endowment funds, while seeking to maintain the purchasing power of the funds. To satisfy long-term return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital employs a long-term equity oriented strategy of investing in both traditional and alternative asset classes.

7. Beneficial Interest in Net Assets Held by Related Organizations (continued)

Assets held by Fund, Inc. and WCMC Fund for the benefit of the Hospital consist of pledges and investments (at fair value) that represent allocated amounts from Fund, Inc.'s pooled investments portfolio and WCMC Fund's interest in a perpetual trust. These assets are comprised of the following at December 31, 2017 and 2016 (in thousands):

	2017	2016
Fund, Inc. pooled investment portfolio allocation:		
Marketable securities:		
Cash and cash equivalents	**$ 107,059**	$ 87,478
Fixed income:		
U.S. government	**197,637**	117,752
Common collective/commingled trusts	**–**	8,328
Equities:		
U.S. equities	**48,083**	141,046
Non-U.S. equities	**128,050**	1,162
Common collective/commingled trusts	**358,160**	367,709
Real assets	**26,525**	30,484
Total marketable securities	**865,514**	753,959
Hedge funds	**315,567**	247,809
Private equity	**280,261**	181,209
Private real assets	**208,784**	146,647
Total Fund, Inc. pooled investment portfolio allocation	**1,670,126**	1,329,624
Fund, Inc. pledges receivable, net	**412,932**	402,867
	2,083,058	1,732,491
WCMC Fund:		
Investment held in perpetual trusts	**36,881**	34,157
Total beneficial interests in net assets held by related organizations	**2,119,939**	1,766,648
Less current portion	**65,798**	68,974
	$ 2,054,141	$ 1,697,674

The current portion of beneficial interest in net assets held by related organizations represents amounts the Hospital expects to receive and expend on operations in the subsequent year.

7. Beneficial Interest in Net Assets Held by Related Organizations (continued)

Pledges receivable by Fund, Inc. at December 31, 2017 and 2016 are to be paid as follows (in thousands):

	2017	2016
Less than one year	**$ 113,495**	$ 89,858
One to five years	**210,554**	207,873
Thereafter and bequests	**169,579**	197,644
	493,628	495,375
Allowance for uncollectible pledges and discounts	**(80,696)**	(92,508)
	$ 412,932	$ 402,867

Estimated cash flows from pledges receivable due after one year are discounted using a risk-adjusted rate, ranging from 1.93% to 7.35%.

7. Beneficial Interest in Net Assets Held by Related Organizations (continued)

Changes in the net assets held by Fund, Inc. and WCMC Fund on the Hospital's behalf are recognized in the Hospital's consolidated statements of changes in net assets for the years ended December 31, 2017 and 2016 and are summarized as follows (in thousands):

	Temporarily Restricted					
	Plant Replacement	Specific Purpose	Endowment Earnings	Total Temporarily Restricted	Permanently Restricted	Total Interest in Net Assets
Year ended December 31, 2017						
Gifts, bequests and similar items	**$ 85,791**	**$ 269,253**	**$ –**	**$ 355,044**	**$ 1,329**	**$ 356,373**
Investment return	**77,187**	**66,572**	**31,689**	**175,448**	**8,176**	**183,624**
Net assets released from restrictions for administrative and fundraising costs	**(10,287)**	**(7,381)**	**(5,541)**	**(23,209)**	**–**	**(23,209)**
Net assets released from restrictions for program expenditures	**(10,615)**	**(55,735)**	**(647)**	**(66,997)**	**–**	**(66,997)**
Net assets released from restrictions for distribution to the Hospital for the purchase of fixed assets	**(84,037)**	**(12,460)**	**(3)**	**(96,500)**	**–**	**(96,500)**
Transfer of donor-related net assets	**15,234**	**(15,234)**	**–**	**–**	**–**	**–**
Changes in net assets	**$ 73,273**	**$ 245,015**	**$ 25,498**	**$ 343,786**	**$ 9,505**	**$ 353,291**
Year ended December 31, 2016						
Gifts, bequests and similar items	$ 67,278	$ 75,479	$ –	$ 142,757	$ 2,545	$ 145,302
Investment return	58,465	7,524	6,901	72,890	(2,638)	70,252
Net assets released from restrictions for administrative and fundraising costs	(8,997)	(6,457)	(4,847)	(20,301)	–	(20,301)
Net assets released from restrictions for program expenditures	(6,322)	(63,414)	(437)	(70,173)	–	(70,173)
Net assets released from restrictions for distribution to the Hospital for the purchase of fixed assets	(79,345)	(13,391)	(21)	(92,757)	–	(92,757)
Net assets transferred to New-York Presbyterian Fund, Inc.	–	717	–	717	–	717
Changes in net assets	$ 31,079	$ 458	$ 1,596	$ 33,133	$ (93)	$ 33,040

8. Insurance

Professional Liability Insurance: In 1978, NYPH, in conjunction with a number of unrelated health care entities, participated in the formation of captive insurance companies (collectively, the Captive) to provide professional liability and general liability insurance to its participants. The premiums are based on a modified claims-made coverage and are actuarially determined based on the actual experience of the Captive, NYPH-specific experience, and estimated current exposure. The Captive has reinsurance coverage from reinsurers for certain amounts above its coverage level per claim limits.

In January 1996, rights to equity in the Captive were transferred to Fund, Inc. Accordingly, insurance premiums are paid by the Hospital initially to Fund, Inc. (see Note 10).

Effective July 1, 2013, August 1, 2014, February 1, 2015 and December 1, 2015, NYP/LMH, NYP/Lawrence, NYP/Hudson Valley and NYP/Queens, respectively, became insured by the Captive. Prior to each entity's respective effective date with the Captive, the entities were covered by various self-insured, claims-made and excess insurance policies.

Exposure for claims that occurred prior to and reported after the respective dates of NYP/Lawrence Hospital, NYP/Hudson Valley and NYP/Queens being insured by the Captive is retained by each hospital and will be paid under a deposit program with the Captive (assets totaling $34.9 million and $22.6 million that are on deposit with the Captive at December 31, 2017 and 2016, respectively, are reported within professional liabilities insurance recoveries receivable and related deposit in the accompanying consolidated statements of financial position).

In 1983, Methodist and a number of other health care providers unrelated to Methodist or the Hospital formed Combined Coordinating Council, Inc. of New York ("CCCI") to coordinate the access of insurance for professional and comprehensive general liability risks and to serve as a risk management advisor to the providers who participate in CCCI. The shareholders of CCCI are also the shareholders of CCC Insurance Company, Ltd. of Bermuda, a captive insurer formed in 1983, and its subsidiary, CCC Corporation of Barbados, formed in 1987. Through June 30, 2004, the CCCI insurance program provided insurance under a common occurrence-basis structure with reinsurance from outside reinsurers for specified amounts above per-claim limits.

Effective July 1, 2004, CCCI formed CCC Insurance SCC and implemented a "cell captive" structure which replaced the previous coverage structure. Under this program, primary coverage for individual claims for each participating hospital is provided through a commercial insurance carrier on an occurrence basis. The first layer of excess coverage under the program utilizes individual segregated

8. Insurance (continued)

cells for each participating hospital, under which invested assets and insurance-related liabilities are segregated for each participant and there is no shared risk among the entities. In addition, to coverage for the participating hospitals' professional liability, the program also includes segregated coverage of voluntary attending physicians' professional liability with premiums paid by the participating physicians. Commencing July 1, 2015, Methodist's segregated cell is obligated to reinsure the physician cell.

The Hospital records its investment under the cell captive structure, the related changes in its segregated account as reported by CCC Insurance SCC and its investments in other insurance companies within the CCC insurance group in the accompanying consolidated statements of financial position. At December 31, 2017 and 2016, investments held in the CCC segregated cell totaling approximately $231.3 million and $207.8 million, respectively, are included in assets limited as to use in the accompanying consolidated statements of financial position (see Note 3).

The Hospital's undiscounted estimate for professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately $840.1 million and $814.4 million at December 31, 2017 and 2016, respectively, and is included in professional liabilities in the accompanying consolidated statements of financial position at the actuarially determined present value of approximately $764.0 million and $739.2 million, respectively, based on a composite discount rate of approximately 3.0% at December 31, 2017 and 2016. The Hospital has recorded related insurance recoveries receivable of approximately $316.3 million and $297.9 million at December 31, 2017 and 2016, respectively. Funded amounts have been placed in a separate account and are included in assets limited as to use in the accompanying consolidated statements of financial position (Note 3). The current portion of professional liabilities and the related insurance recoveries receivable represents an estimate of expected settlements and insurance recoveries over the next 12 months.

The Hospital's estimates for professional liabilities are based upon complex actuarial calculations which utilize factors such as historical claims experience for the Hospital and related industry factors, trending models, estimates for the payment patterns of future claims and present value discount factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

8. Insurance (continued)

Workers' Compensation Insurance: Prior to April 1, 1999, NYPH was self-insured for workers' compensation claims. Since April 1, 1999, NYPH has purchased insurance through the New York State Insurance Fund in a program that effectively transfers risk from NYPH. At December 31, 2017 and 2016, the estimate for workers' compensation claims and incurred but not reported liabilities pertaining to NYPH and the Regional Hospitals aggregated approximately $10.1 million and $10.3 million, respectively.

In connection with the workers' compensation self-insurance programs, the Hospital maintains two letters of credit through banks in the aggregate amount of approximately $13.2 million, which satisfies the collateral deposit requirement.

9. Pension and Similar Benefit Plans

Pension Plans: The Hospital provides pension and similar benefits to its employees through several plans, including various multiemployer plans for union employees (see Note 14), a qualified noncontributory defined benefit plan primarily for eligible non-union employees of NYPH (the Qualified Pension Plan), a nonqualified defined benefit plan for certain NYPH executives (the Nonqualified Pension Plan), a defined benefit retirement plan under a collective bargaining agreement for certain employees of NYP/LMH (the NYP/LMH Pension Plan), a non-contributory defined benefit retirement plan for eligible NYP/Lawrence employees (the Lawrence Pension Plan), a nonqualified defined benefit plan for certain Lawrence executives (the Lawrence Nonqualified Pension Plan), a defined benefit plan for union and nonunion employees of NYP/Queens that was frozen for future benefit accruals in 2003 (the Queens Pension Plan) and a defined benefit plan primarily for eligible nonunion employees of Methodist (the Methodist Pension Plan) (these non-multiemployer plans are collectively referred to as the Pension Plans).

The Hospital funds the noncontributory defined benefit plans in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA), as amended, plus additional amounts that the Hospital may deem appropriate from time to time. Amounts contributed to the Pension Plans are based on actuarial valuations. The benefits for participants or their beneficiaries in the Pension Plans sponsored by the Hospital are based on years of service and employees' compensation during their years of employment as applicable to each plan.

9. Pension and Similar Benefit Plans (continued)

On November 15, 2017, the Lawrence Pension Plan was amended such that effective after December 31, 2017, benefit accruals for certain participants will be frozen, resulting in a plan curtailment. Non-union participants who were at least age 59 with 10 years of credited service as of December 31, 2017 are grandfathered and will continue to accrue benefits. Current retirees and employees who meet the current grandfathering rules will retain their current retiree medical and life insurance benefits.

The Hospital also sponsors several other contributory and non-contributory defined contribution plans.

Postretirement Benefits: NYPH, NYP/Queens, Lawrence and Methodist provide certain health care and life insurance benefits to certain eligible retired non-union employees through several plans (the Postretirement Benefit Plans).

The Hospital recognizes in the accompanying consolidated statements of financial position an asset, for a defined benefit postretirement plan's overfunded status, or a liability, for a plan's underfunded status; measures a defined benefit postretirement plan's assets and obligations that determine funded status as of the end of the fiscal year; and recognizes the periodic change in the funded status of a defined benefit postretirement plan as a component of changes in unrestricted net assets in the year in which the change occurs. Amounts that are recognized as a component of changes in unrestricted net assets will be subsequently recognized as net periodic pension and postretirement cost.

9. Pension and Similar Benefit Plans (continued)

The reconciliation of the beginning and ending balances of the Pension Plans' aggregated benefit obligation and the fair value of the Pension Plans' assets and of NYPH's and NYP/Queens' Postretirement Benefit Plans' aggregated benefit obligation and the fair value of such plans' assets for the years ended December 31, 2017 and 2016 is as follows (in thousands):

	Pension Plans		NYPH and NYP/Queens Postretirement Benefit Plans	
	2017	**2016**	**2017**	**2016**
Benefit obligation				
Benefit obligation at beginning of year	**$ 1,947,509**	$ 1,862,721	**$ 51,565**	$ 49,693
Service cost	**83,022**	77,361	**1,927**	1,778
Interest cost	**82,084**	79,148	**2,224**	2,000
Actuarial losses (gains)	**177,139**	12,430	**6,030**	(137)
Plan amendments	**–**	(83)	**1,582**	1,128
Settlements paid	**(3,233)**	(1,607)	**–**	–
Effect of curtailments	**(37,726)**	–	**–**	–
Medicare Part D subsidy	**–**	–	**164**	106
Plan participant contributions	**–**	–	**855**	802
Benefits paid	**(87,623)**	(82,461)	**(4,048)**	(3,805)
Benefit obligation at end of year	**2,161,172**	1,947,509	**60,299**	51,565
Fair value of plan assets				
Fair value of plan assets at beginning of year	**1,624,011**	1,496,611	**–**	–
Actual return on plan assets	**231,792**	99,370	**–**	–
Hospital contributions	**156,477**	112,098	**3,193**	3,003
Plan participant contributions	**–**	–	**855**	802
Settlements paid	**(3,233)**	(1,607)	**–**	–
Benefits paid	**(87,623)**	(82,461)	**(4,048)**	(3,805)
Fair value of plan assets at end of year	**1,921,424**	1,624,011	**–**	–
Funded status	**$ (239,748)**	$ (323,498)	**$ (60,299)**	$ (51,565)

The net actuarial losses in 2017 and 2016 primarily relate to changes in the discount rate used to measure the projected benefit obligation.

9. Pension and Similar Benefit Plans (continued)

At December 31, 2017 and 2016, the funded status of the Pension Plans are reported in the accompanying consolidated statements of financial position as follows (in thousands):

	Pension Plans	
	2017	**2016**
Current liability	**$ 18,827**	$ 18,582
Noncurrent liability	**220,921**	304,916
	$ 239,748	$ 323,498

The total estimated liability of the Postretirement Benefit Plans, including the Lawrence and the Methodist plans, was approximately $69.8 million and $61.0 million, at December 31, 2017 and 2016, respectively, the current portion of which totaled approximately $5.1 million and $4.3 million, respectively.

Included in other changes in unrestricted net assets for the years ended December 31, 2017 and 2016 are the following amounts that have not yet been recognized in net periodic pension cost (in thousands):

	Pension Plans	
	2017	**2016**
Unrecognized prior service cost	**$ 1,632**	$ 2,181
Unrecognized actuarial losses	**604,952**	596,222
	$ 606,584	$ 598,403

The change in net assets from pension and postretirement benefit liabilities to be recognized in future periods as reported in the accompanying consolidated statements of operations is a decrease in net assets of approximately $14.6 million and $2.7 million for 2017 and 2016, respectively, and represents the combined change in the amounts for the Pension Plans and the Postretirement Benefit Plans.

9. Pension and Similar Benefit Plans (continued)

The prior service cost and actuarial losses included in changes in unrestricted net assets at December 31, 2017 that are expected to be recognized in net periodic pension cost during the year ending December 31, 2018 are as follows (in thousands):

	Pension Plans
Unrecognized prior service cost	$ 521
Unrecognized actuarial losses	34,743

The projected benefit obligation, accumulated benefit obligation, and fair value of the plans' assets by type of defined benefit pension plan follow (in thousands):

	December 31, 2017	
	Qualified Pension Plans	**Nonqualified Pension Plan**
Projected benefit obligation	**$ 2,115,560**	**$ 45,612**
Accumulated benefit obligation	**2,061,244**	**34,339**
Fair value of plans' assets	**1,921,424**	**–**

	December 31, 2016	
	Qualified Pension Plans	**Nonqualified Pension Plan**
Projected benefit obligation	$ 1,901,130	$ 46,379
Accumulated benefit obligation	1,855,144	33,409
Fair value of plans' assets	1,624,011	–

9. Pension and Similar Benefit Plans (continued)

Weighted-average assumptions used in determining the pension and postretirement benefits obligations as of December 31, 2017 and 2016 were as follows:

	Pension Plans		Postretirement Benefit Plans	
	2017	**2016**	**2017**	**2016**
Discount rates	**3.75%**	4.25-4.45%	**3.50-3.75%**	3.75-4.04%
Rates of compensation increase	**3.00-4.00**	2.50-3.75	**–**	–

Net periodic pension cost for the Pension Plans and net periodic postretirement benefits cost for the NYPH and NYP/Queens Postretirement Benefit Plans for the years ended December 31, 2017 and 2016 consist of the following (in thousands):

	Pension Plans		NYPH and NYP/Queens Postretirement Benefit Plans	
	2017	**2016**	**2017**	**2016**
Service cost	**$ 83,022**	$ 77,361	**$ 1,927**	$ 1,778
Interest cost	**82,084**	79,148	**2,224**	2,000
Expected return on plan assets	**(130,420)**	(124,889)	**–**	–
Net amortization of prior service cost	**549**	573	**(556)**	(831)
Recognized actuarial loss	**29,798**	35,965	**1,486**	1,231
Recognized actuarial gain due to curtailment	**(779)**	–	**–**	–
Recognized actuarial loss due to settlement	**292**	230	**–**	–
Net periodic pension cost and postretirement benefits cost	**$ 64,546**	$ 68,388	**$ 5,081**	$ 4,178

9. Pension and Similar Benefit Plans (continued)

The aggregated periodic postretirement benefit cost of the Postretirement Benefit Plans, including the NYP/Lawrence and the Methodist plans, was approximately $5.8 million and $4.9 million for the years ended December 31, 2017 and 2016, respectively.

Weighted-average assumptions used in determining the net periodic pension and postretirement benefits cost for the years ended December 31, 2017 and 2016 were as follows:

	Pension Plans		Postretirement Benefit Plans	
	2017	**2016**	**2017**	**2016**
Discount rates	**4.25-4.45%**	4.25-4.50%	**3.75-4.04%**	3.75-4.22%
Expected rates of return on plan assets	**7.25-7.50**	7.50-7.75	–	–
Rates of compensation	**2.50-3.75**	2.50-3.75	–	–

The overall expected long-term rate of return on assets of the Pension Plans 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 Hospital's desired risk and return characteristics. The Hospital reviews the expected long-term rate periodically and, based on the building block approach, updates the rate for changes in the marketplace. The market conditions in 2017 and 2016 and changes in the pension asset allocations were considered in the Hospital's evaluation of the expected long-term rate of return assumption.

The measurement date used to determine the pension and postretirement benefits measurements is December 31.

Plan Assets: The overall objectives of the investment policies are to produce an asset allocation that will generate return annually in order to meet the expense and income needs and provide for sufficient annual asset growth. Funds are invested with a long-term (five years or greater) return objective.

9. Pension and Similar Benefit Plans (continued)

The investment policies include the following strategic asset allocation guideline target:

Asset Category	NYPH Master Trust Investment Pool[1]
Equities	34%
Fixed income	10
Hedge Funds	19
Private equity	17
Natural resources	8
Real estate	8
Credit	3
Cash	1

[1] Effective January 1, 2017, NYP/Queens began participating in the NYPH Master Trust Investment Pool (NYPH Master Trust). At December 31, 2017, NYPH, Queens and Lawrence participate in the NYPH Master Trust.

The policy target percentages are reevaluated at least quarterly. Investment performance is reviewed quarterly with performance results and benchmarks.

In January 2018, NYP/LMH and Methodist's plan assets were invested in the NYPH Master Trust. As the transfer of the plans' assets occurred in January 2018, approximately 99% of such assets were held in cash and cash equivalents at December 31, 2017. Subsequent to December 31, 2017 the assets were invested into the NYPH Master Trust in accordance with its asset allocation.

Assets invested in the Pension Plans are carried at fair value. Fixed income and equity securities and real assets with readily determinable values are carried at fair value as determined based on independent published sources. Alternative investments are stated at fair value, as estimated in an unquoted market. Fair value for alternative investments is determined for each investment using net asset values as a practical expedient, as permitted by U.S. generally accepted accounting principles, rather than using another valuation method to independently estimate fair value.

The composition and reported value of the Pension Plans' assets at December 31, 2017 and 2016 are disclosed in Note 13.

The Hospital does not expect to contribute to its Pension Plans in 2018.

9. Pension and Similar Benefit Plans (continued)

The Hospital expects to pay the following benefit payments, which reflect expected future service as appropriate (in thousands):

	Pension Plans
Year:	
2018	$ 118,139
2019	113,867
2020	121,717
2021	135,240
2022	133,376
2023 to 2027	710,935

10. Related Organizations

Fund, Inc. is an affiliated not-for-profit public charity whose revenue is derived from soliciting, receiving and administering funds. Royal Charter Properties, Inc. (RCP, Inc.), Royal Charter Properties-East, Inc. (RCP-East) and Royal Charter Properties-Westchester, Inc. (RCP-West) are affiliated not-for-profit support corporations that derive revenue from acquiring and holding direct and indirect interests in real estate and related personal property, which are primarily used to provide residential housing, office space and parking to NYPH and its employees based on the market value of such services. RCP, Inc., RCP-East and RCP-West provide services primarily to or for the benefit of NYPH.

Amounts received by NYPH from or amounts contributed by NYPH to related support organizations, reflected in other revenue in the accompanying consolidated statements of operations for the years ended December 31, 2017 and 2016 are as follows (see Note 11) (in thousands):

	2017	**2016**
Distributions from (payments to) according to organization's bylaws:		
RCP, Inc.	**$ 74**	$ –
RCP-East	**34,702**	38,925
RCP-West	**(60)**	(63)
	$ 34,716	$ 38,862

10. Related Organizations (continued)

Fund, Inc. also pays certain program related costs on behalf of NYPH (see Note 7). Fund, Inc. paid approximately $11.9 million in each of the years ended December 31, 2017 and 2016 related to malpractice and postretirement costs incurred by NYPH. Other distributions made by Fund, Inc. to NYPH include approximately $96.5 million and $107.4 million in 2017 and 2016, respectively, for the purchase of fixed assets.

Services provided to NYPH by related entities for the years ended December 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
Fund, Inc. – insurance *(Note 8)*	**$ 65,842**	$ 62,778
RCP, Inc. – rentals (net)	**4,409**	4,124
RCP-East – rentals	**9,989**	10,017
RCP-West – rentals	**332**	325
	$ 80,572	$ 77,244

In connection with a financing completed by RCP, Inc. in 2001 for the renovation and improvement of a parking garage facility, NYPH entered into a noncancellable lease with RCP, Inc., for a period not longer than 29 years, whereby NYPH will lease 50% of the parking spaces at an amount sufficient to cover the debt service on the financing.

In connection with the financing completed by RCP-East in 1998, NYPH entered into a lease through April 2035, whereby NYPH is required to pay a fixed rent in the event that RCP-East does not meet certain covenants.

NYPH received income distributions of $10.0 million and $12.5 million in 2017 and 2016, respectively, from Weill Cornell Imaging at New York-Presbyterian, a radiology and imaging joint venture affiliated with NYPH and Weill Cornell Medical College.

The Hospital provides employee and other services to related entities for which the Hospital receives reimbursement, and the costs of providing such services are recorded directly by those entities. Accordingly, such amounts are not included in the accompanying consolidated financial statements of the Hospital. Charges for such services are based on the approximate cost to

10. Related Organizations (continued)

provide the services and totaled approximately $30.2 million and $27.2 million for the years ended December 31, 2017 and 2016, respectively. The services consist of patient accounting, financial planning, information systems and telecommunications, general accounting, medical supplies, biomedical engineering services, house staff, ambulance services, institutional billings, engineering and other services.

The following net balances are due (to) from related organizations at December 31, 2017 and 2016 (in thousands):

	2017	2016
Fund, Inc.(a)	**$ (139)**	$ (11,165)
RCP, Inc.	**(15,013)**	(3,945)
RCP-East	**3,716**	3,530
RCP-West	**(154)**	94
Network Recovery Services, Inc.	**849**	429
Silvercrest Extended Care Facility	**529**	280
The Hospital for Special Surgery	**561**	446
The New York Community Hospital of Brooklyn, Inc. (CHOB) (b)	**398**	81
The New York Gracie Square Hospital, Inc. (Gracie)(c)	**5,075**	1,296
New York-Presbyterian Healthcare System, Inc.	**(3,263)**	(3,098)
The Rogosin Institute	**548**	422
	(6,893)	(11,630)
Less noncurrent portion included in other noncurrent assets, before valuation allowance	**17,092**	6,973
Due to related organizations – net	**$ (23,985)**	$ (18,603)

(a) During 2016, NYPH transferred approximately $0.7 million in net assets to Fund, Inc.

(b) Effective January 1, 2018, CHOB will no longer be a related entity of the Hospital. All amounts due to or from CHOB from transactions after this date will be reflected as other noncurrent assets or liabilities.

(c) During 2017 and 2016, NYPH transferred approximately $4.9 million and $6.7 million, respectively, to Gracie.

10. Related Organizations (continued)

The Hospital periodically assesses the collectibility of amounts due from related organizations. The amounts included in other noncurrent assets are adjusted to state the receivables at their estimated net realizable value. The balances due from certain related organizations are provided for through a valuation allowance.

11. Other Revenue

Other revenue consisted of the following for the years ended December 31, 2017 and 2016 (in thousands):

	2017	2016
Grants and contracts	**$ 39,241**	$ 34,860
Amounts received from related organizations, net *(Note 10)*	**44,716**	51,362
Rental of space	**57,552**	56,669
Cafeteria and vending	**18,563**	17,321
Net assets released from restrictions, included in changes in beneficial interest in net assets held by related organizations *(Note 7)*	**67,418**	70,173
Affiliation agreements	**36,614**	30,065
Professional fees and other receipts	**12,224**	16,422
Other	**90,817**	80,039
	$ 367,145	$ 356,911

12. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital. Such lawsuits and claims are either specifically covered by insurance or are not deemed material. While the outcome of these lawsuits cannot be determined at this time, management, based on advice from legal counsel, believes that any loss which may arise from these actions will not have a material adverse effect on the financial position or results of operations of the Hospital.

At December 31, 2017 and 2016, approximately 41% of the Hospital's employees were covered by collective bargaining agreements. Collective bargaining agreements covering all such employees are set to expire at various dates through 2018.

12. Commitments and Contingencies (continued)

Effective January 1, 2009, the IRS issued final regulations for purposes of determining common control for qualified retirement plans sponsored by tax-exempt organizations. In general, tax-exempt entities that are under common control are treated as one entity for certain of the requirements of qualified plans. The regulations determine control based on facts and circumstances; for this purpose, common control would exist if, among other situations, at least 80% of the directors or trustees of one organization were either representatives of, or directly or indirectly controlled by, another organization. These regulations could have an effect on the operations of the Hospital's and its related entities' retirement plans and the responsibilities of those entities for associated liabilities, although such effects are uncertain at this time.

In April 2016, Methodist, on behalf of a controlled professional corporation (PC), submitted a letter to the United States Department of Health and Human Services, Office of Counsel to the Inspector General, Office of Inspector General (the OIG) through the OIG's Self-Disclosure Protocol (SDP) notifying the OIG of potential issues concerning certain physician compensation, billing and other matters that potentially violate the Federal Civil Monetary Penalties Law (CMPL). A copy of the submission was also sent to the New York State Office of the Medicaid Inspector General (OMIG). Corrective action relating to the matters discussed in the April 2016 letter has been taken. On May 10, 2016, the OIG accepted Methodist into the SDP. On August 30, 2016, Methodist and the PC reported the results of their internal investigation into the self-disclosed conduct to the OIG, including, among other things, their estimates of potential damages to Federal health care programs relating thereto. The OIG SDP was established to encourage providers to voluntarily identify, disclose and resolve certain matters involving Federal health care programs under the OIG's civil monetary penalties authorities. As previously described in Note 2, noncompliance with Medicare and Medicaid laws and regulations can result in repayment obligations, fines, penalties or exclusion from such programs. However, the OIG's SDP indicates that a provider's good faith participation in the SDP can potentially mitigate the provider's exposure under the OIG's civil monetary penalties authorities as compared to what might otherwise be required in resolving a Government-initiated investigation and may result in faster resolution of such issues.

In the accompanying consolidated financial statements, net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments which may arise from future audits, reviews and investigations. However, at December 31, 2017, and as of the issuance of the accompanying consolidated financial statements, the amount of potential repayment obligations to (or other actions that may be taken by) the OIG, other government agencies and/or others in

12. Commitments and Contingencies (continued)

connection with the referenced self-disclosure is unknown. In addition, the amount of any fines or penalties which may be assessed in connection with the referenced self-disclosure is also presently unknown and will be recorded by the Hospital when reasonably estimable.

13. Fair Value Measurements

The Hospital uses various methods of calculating fair value of its financial assets and liabilities, when applicable. The Hospital defines fair value as 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 and establishes a framework for measuring fair value. Fair value measurements are applied based on the unit of account from the Hospital'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).

The Hospital uses a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

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

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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

13. Fair Value Measurements (continued)

The following table presents financial instruments carried at fair value, excluding assets invested in the Pension Plans, as of December 31, 2017 and 2016 (in thousands):

	December 31, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents – held for investment	**$ 169,504**	**$ 169,504**	**$ –**	**$ –**
Fixed income:				
U.S. government	**840,809**	**840,809**	**–**	**–**
Non U.S. governmental bonds	**547**	**547**	**–**	**–**
Corporate	**640,984**	**138,673**	**502,311**	**–**
Mortgage and asset-backed	**290,502**	**266,962**	**23,540**	**–**
Other	**2,493**	**–**	**2,493**	**–**
Equities:				
U.S. equities[a]	**208,039**	**208,039**	**–**	**–**
Non-U.S. equities[b]	**235,254**	**235,254**	**–**	**–**
Real assets	**299,437**	**299,437**	**–**	**–**
Mutual funds	**744,171**	**744,171**	**–**	**–**
Alternative investments – investments held by captive insurance companies[c]	**231,275**	**–**	**215,314**	**15,961**
	$ 3,663,015	**$ 2,903,396**	**$ 743,658**	**$ 15,961**

	December 31, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents – held for investment	$ 556,917	$ 519,547	$ 37,370	$ –
Fixed income:				
U.S. government	769,800	752,936	16,864	–
Corporate	823,055	376,176	446,879	–
Mortgage and asset-backed	350,020	–	350,020	–
Other	14,118	–	14,118	–
Equities:				
U.S. equities[a]	260,971	260,971	–	–
Non-U.S. equities[b]	96,622	96,622	–	–
Real assets	86,990	86,990	–	–
Mutual funds	393,901	393,901	–	–
Alternative investments – investments held by captive insurance companies[c]	207,814	–	193,043	14,771
	$ 3,560,208	$ 2,487,143	$ 1,058,294	$ 14,771

The Hospital's alternative investments, common collective/commingled trusts and pooled investments held by Fund, Inc. are reported using the equity method of accounting and, therefore, are not included in the tables above (see Note 1).

13. Fair Value Measurements (continued)

Financial instruments invested in the Hospital's Pension Plans at fair value are classified in the table below in one of the three categories described above as of December 31, 2017 and 2016 (in thousands):

	December 31, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	**$ 293,247**	**$ 293,247**	**$ –**	**$ –**
Fixed income:				
U.S. government	**208,355**	**208,355**	**–**	**–**
Equities:				
U.S. equities[a]	**37,086**	**37,086**	**–**	**–**
Non-U.S. equities[b]	**119,202**	**119,202**	**–**	**–**
Real assets	**48,575**	**48,575**	**–**	**–**
	706,465	**$ 706,465**	**$ –**	**$ –**
Assets measured at net asset value as a practical expedient:				
Common collective equity funds[e]	**504,454**			
Hedge funds[f]	**311,616**			
Private equity[g]	**236,463**			
Private real assets[h]	**162,426**			
	$ 1,921,424			

	December 31, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 60,341	$ 60,341	$ –	$ –
Fixed income:				
U.S. government	143,452	143,452	–	–
Equities:				
U.S. equities[a]	104,343	104,343	–	–
Non-U.S. equities[b]	3,122	3,122	–	–
Real assets	48,447	48,447	–	–
Mutual funds	150,523	150,523	–	–
	510,228	$ 510,228	$ –	$ –
Assets measured at net asset value as a practical expedient:				
Common collective fixed income funds[d]	20,661			
Common collective equity funds[e]	558,993			
Hedge funds[f]	265,138			
Private equity[g]	149,952			
Private real assets[h]	119,039			
	$ 1,624,011			

13. Fair Value Measurements (continued)

[a] Equity portfolios invested in common stock of corporations primarily domiciled in the United States.

[b] Equity portfolios invested in common stock of corporations primarily domiciled outside the United States, including emerging market countries.

[c] Investments held by captive insurance companies consist of assets which are pooled with other assets maintained by the companies and include investments in marketable securities and alternative investments that are recorded by the captive insurance companies at fair value based on quoted market prices or other means for the companies' holdings of alternative investments. The Hospital reports an allocation of the fair value of the pooled investments in its consolidated statements of financial position.

[d] Common collective/commingled trusts invested in corporate bonds and mortgage and asset backed securities.

[e] Common collective/commingled trusts invested in common stock of corporations domiciled in the United States and outside the United States, including emerging market countries.

[f] Hedge funds include long and short equity, multi-strategy, event driven and relative value funds invested with managers who invest with different strategies and typically employ some leverage. In long and short equity, fund managers create a portfolio of long positions in stocks expected to appreciate over time and short positions in stocks expected to depreciate. Event driven managers create a portfolio designed to profit from corporate events such as mergers, spin-offs, defaults and bankruptcy. Relative value managers invest in long and short positions, but typically have a more neutral net market position than long and short. Multi-strategy is a fund employing a variety of hedge fund strategies.

[g] Private equity investments include limited partnership investments in funds pursuing strategies in corporate buyouts, venture capital, growth equity, distressed and turnaround investments.

[h] Real estate and natural resources investments.

The following is a description of the Hospital's valuation methodologies for assets measured at fair value. The fair value methodologies are not necessarily indicators of investment risk, but are descriptive of the measures used to arrive at fair value pricing. Fair value for Level 1 is based upon quoted market prices. Investments classified as Level 2 are primarily valued using techniques that are consistent with the market approach. Valuations for Level 2 are 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, which include broker/dealer quotes, reported/comparable trades, and benchmark yields are obtained from various sources including market participants, dealers and brokers. The Pension Plans' common collective/commingled trusts and alternative investments are measured at net asset value. The valuation for alternative investments is described in Note 9. The methods described above may produce a fair value that is not indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital 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.

13. Fair Value Measurements (continued)

The following is a summary of investments (by major class) that have restrictions on the Hospital's or the Hospital's Pension Plans' ability to redeem its investments at the measurement date, any unfunded capital commitments and the investments strategies of the investees as of December 31, 2017 (including investments accounted for using the equity method) (in thousands):

Description of Investment	December 31, 2017 Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Common collective/ commingled trusts	$ 1,431,166	$ –	Daily to annually	3 to 90 days
Hedge funds	597,151	–	Monthly to annually	30 to 180 days
Private equity	468,277	424,812	*	*
Private real assets	309,213	282,373	*	*
	$ 2,805,807	$ 707,185		

* The Hospital's liquidity restrictions range from several months to ten years for certain private equity and real asset investments. Liquidity restrictions may apply to all or portions of a particular invested amount.

Following is a rollforward of the statement of financial position amounts for financial instruments classified by the Hospital in Level 3 of the valuation hierarchy defined above (in thousands):

	2017	2016
Fair value at beginning of year	**$ 14,771**	$ 8,085
Purchases	**–**	6,609
Total realized and unrealized gains or losses	**1,174**	77
Other receipts	**16**	–
Fair value at end of year	**$ 15,961**	$ 14,771
Change in unrealized gains (losses) related to financial instruments held at end of year	**$ 1,097**	$ (885)

13. Fair Value Measurements (continued)

The carrying values of cash and cash equivalents, receivables, accounts payable and accrued expenses, other current assets and liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments. Carrying value approximates fair value for other noncurrent financial instruments, excluding long-term debt obligations and financial instruments included in the fair value tables. At December 31, 2017 and 2016, the fair value of long-term debt obligations totaled approximately $2,887.4 million and $2,628.9 million, respectively, excluding capital leases and unamortized fair value adjustments (see Note 5 for the carrying value of long-term debt). The fair value of long-term debt is classified as Level 2 in the fair value hierarchy, using techniques consistent with the market approach. Valuations for long-term debt, excluding the term loan payable and the Promissory Note, are based on quoted market prices for related bonds. The carrying amount of the term loan payable approximates fair value based on consideration of current market data and discounted cash flow estimates. The fair value of the Promissory Note was estimated based on consideration of current market data and discounted cash flow estimates.

14. Multiemployer Pension Plans

Applicable entities comprising the Hospital contribute to the New York State Nurses Association Pension Plan (NYSNA), the 1199 SEIU Healthcare Employees Pension Fund (1199 SEIU) and the International Union of Operating Engineers Local 30 Pension Fund (Local 30). These are multiemployer defined benefit pension plans under the terms of collective bargaining agreements that cover the Hospital's union-represented employees. Contributions to union plans are based on union employee gross salary levels and rates required under union contractual arrangements.

The risks of participating in these multiemployer plans are different from single-employer plans in the following respects:

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

14. Multiemployer Pension Plans (continued)

The Hospital's participation in these plans for the annual period ended December 31, 2017 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2017 and 2016 is for the plan's year-end at December 31, 2016 and 2015, respectively. The zone status is based on information that the Hospital received from the plan and is certified by the plan's actuary. 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" 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 NYPH expiration dates of the collective bargaining agreements to which the plans are subject (applicable Regional Hospital expiration dates range from August 30, 2018 to September 30, 2018).

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status	Contributions by the Hospital		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2017	**2016**		**2017**	**2016**		
					(In Thousands)			
NYSNA	13-6604799/ Plan No. 001	**Green**	Green	No	**$ 39,703**	$ 35,699	No	12/31/2018
1199 SEIU	13-3604862/ Plan No. 001	**Green**	Green	No	**45,071**	46,156	No	9/30/2018
Local 30	51-6045848/ Plan No. 001	**Green**	Green	No	**1,715**	1,605	No	9/30/2018
					$ 86,489	$ 83,460		

NYPH was listed in the NYSNA plan's Forms 5500 as providing more than 5% of the total contributions during each of the plans 2016 and 2015 plan years. Forms 5500 are not yet available for the plan years ended in 2017.

15. Events Subsequent to December 31, 2017

Subsequent events have been evaluated through April 25, 2018, which is the date the consolidated financial statements were issued. Except as disclosed in Notes 1, 5, 9 and 10, no events have occurred that require disclosure in or adjustment to the accompanying consolidated financial statements.

Supplementary Information

The New York and Presbyterian Hospital

Consolidating Statement of Financial Position

December 31, 2017
(In Thousands)

	NYPH	NYP Community Programs, Inc. NYP/Lawrence	NYP/Hudson Valley	NYP/Queens	NYP/Brooklyn Methodist	Eliminations/ reclassifications	Consolidated
Assets							
Current assets:							
Cash, cash equivalents and short-term investments:							
Cash and cash equivalents	$ 216,308	$ 24,427	$ 38,140	$ 16,675	$ 137,631	$ –	$ 433,181
Short-term investments	1,509,227	–	39,159	57,439	524,465	–	2,130,290
Total cash, cash equivalents and short-term investments	1,725,535	24,427	77,299	74,114	662,096	–	2,563,471
Patient accounts receivable, less allowance for uncollectibles	645,223	44,345	26,868	116,778	65,685	–	898,899
Other current assets	204,950	5,997	6,734	12,853	28,296	–	258,830
Assets limited as to use – current portion	35,189	1,250	–	15,142	22,119	–	73,700
Professional liabilities insurance recoveries receivable and related deposits – current portion	74,255	3,857	2,047	14,062	–	–	94,221
Beneficial interest in net assets held by related organizations – current portion	65,798	–	–	–	–	–	65,798
Due from related organizations	25,409	–	–	–	–	(25,409)	–
Loans receivable from Regional Hospitals – current portion	8,366	–	–	–	–	(8,366)	–
Total current assets	2,784,725	79,876	112,948	232,949	778,196	(33,775)	3,954,919
Assets limited as to use – noncurrent	2,459,672	78,111	1,675	69,974	466,754	–	3,076,186
Property, buildings and equipment – net	3,478,956	143,916	143,054	275,030	273,978	–	4,314,934
Other noncurrent assets – net	21,630	–	2,000	12,513	4,894	(16,000)	25,037
Loans receivable from Regional Hospitals – noncurrent	497,793	–	–	–	–	(497,793)	–
Professional liabilities insurance recoveries receivable and related deposits – noncurrent	191,366	24,296	10,087	26,252	7,955	–	259,956
Beneficial interest in net assets held by related organizations – noncurrent	2,054,141	–	–	–	–	–	2,054,141
Total assets	$ 11,488,283	$ 326,199	$ 269,764	$ 616,718	$ 1,531,777	$ (547,568)	$ 13,685,173

The New York and Presbyterian Hospital

Consolidating Statement of Financial Position (continued)

December 31, 2017
(In Thousands)

		NYP Community Programs, Inc.					
	NYPH	**NYP/Lawrence**	**NYP/Hudson Valley**	**NYP/Queens**	**NYP/Brooklyn Methodist**	**Eliminations/ reclassifications**	**Consolidated**
Liabilities and net assets							
Current liabilities:							
Long-term debt – current portion	$ 60,459	$ 3,196	$ –	$ 4,035	$ 2,830	$ (29)	$ 70,491
Loans payable to NYPH – current portion	–	473	3,095	4,769	–	(8,337)	–
Accounts payable and accrued expenses	504,712	26,506	13,167	67,314	85,348	–	697,047
Accrued salaries and related liabilities	256,576	17,784	19,145	18,156	63,405	–	375,066
Pension and postretirement benefit liabilities – current portion	22,191	335	–	999	390	–	23,915
Professional and other insurance liabilities – current portion	76,230	4,335	2,087	27,933	22,119	–	132,704
Other current liabilities	203,153	1,307	3,469	7,517	31,502	–	246,948
Due to related organizations – net	–	42,981	2,691	1,639	2,083	(25,409)	23,985
Total current liabilities	1,123,321	96,917	43,654	132,362	207,677	(33,775)	1,570,156
Long-term debt	2,687,173	20,531	–	26,722	25,775	(470)	2,759,731
Loans payable to NYPH	–	5,301	49,895	131,127	327,000	(513,323)	–
Professional and other insurance liabilities	317,601	40,200	14,349	82,549	186,718	–	641,417
Pension liability	100,728	71,548	–	44,854	3,791	–	220,921
Postretirement benefit liability	26,665	3,784	–	29,271	5,034	–	64,754
Deferred revenue	1,001	–	–	–	–	–	1,001
Other noncurrent liabilities	347,698	9,461	8,559	81,856	97,210	–	544,784
Total liabilities	4,604,187	247,742	116,457	528,741	853,205	(547,568)	5,802,764
Net assets:							
Unrestricted	4,764,157	63,184	150,042	76,003	653,034	–	5,706,420
Temporarily restricted	1,863,561	9,825	1,590	2,869	18,951	–	1,896,796
Permanently restricted	256,378	5,448	1,675	9,105	6,587	–	279,193
Total net assets	6,884,096	78,457	153,307	87,977	678,572	–	7,882,409
Total liabilities and net assets	$ 11,488,283	$ 326,199	$ 269,764	$ 616,718	$ 1,531,777	$ (547,568)	$ 13,685,173

The New York and Presbyterian Hospital

Consolidating Statement of Operations

Year Ended December 31, 2017
(In Thousands)

		NYP Community Programs, Inc.				
	NYPH	NYP/Lawrence	NYP/Hudson Valley	NYP/Queens	NYP/Brooklyn Methodist	Consolidated
Operating revenues						
Net patient service revenue	$ 5,416,908	$ 322,067	$ 246,328	$ 840,812	$ 1,000,339	$ 7,826,454
Provision for bad debts	(76,006)	(13,130)	(4,824)	(25,426)	(33,607)	(152,993)
Net patient service revenue, less provision for bad debts	5,340,902	308,937	241,504	815,386	966,732	7,673,461
Other revenue	275,559	4,863	4,197	31,161	51,365	367,145
Total operating revenues	5,616,461	313,800	245,701	846,547	1,018,097	8,040,606
Operating expenses						
Salaries and wages	2,497,045	160,017	115,560	419,385	433,805	3,625,812
Employee benefits	691,566	53,058	30,929	132,059	120,353	1,027,965
Supplies and other expenses	1,713,628	97,860	76,622	249,279	384,144	2,521,533
Interest and amortization of deferred financing fees	76,423	1,341	2,557	6,713	11,262	98,296
Depreciation and amortization	290,720	11,809	9,039	26,298	24,613	362,479
Total operating expenses	5,269,382	324,085	234,707	833,734	974,177	7,636,085
Operating income (loss)	347,079	(10,285)	10,994	12,813	43,920	404,521
Investment return	342,859	1,726	1,420	7,841	84,687	438,533
Excess (deficiency) of revenues over expenses	689,938	(8,559)	12,414	20,654	128,607	843,054
Other changes in unrestricted net assets:						
Net asset transfers (to) from related parties	(12,639)	4,443	–	3,340	–	(4,856)
Net assets released from restrictions for the purchase of fixed assets	–	–	–	–	1,899	1,899
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets	96,476	–	–	–	–	96,476
Reclassification of net assets	–	2,318	–	–	–	2,318
Change in pension and postretirement benefit liabilities to be recognized in future periods	(11,076)	6,030	–	(18,922)	9,398	(14,570)
Change in unrestricted net assets	$ 762,699	$ 4,232	$ 12,414	$ 5,072	$ 139,904	$ 924,321

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