

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Northwell Health, Inc.
Years Ended December 31, 2017 and 2016
With Report of Independent Auditors

Ernst & Young LLP



Northwell Health, Inc.

Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2017 and 2016

Contents

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7
Supplementary Information	
Consolidating Statement of Financial Position.....	65
Combining Statement of Financial Position – Northwell Health Obligated Group	66
Consolidating Statement of Financial Position – Phelps Memorial Hospital.....	67
Consolidating Statement of Financial Position – Northern Westchester Hospital	68
Combining Statement of Financial Position – Joint Venture Ambulatory Surgery Centers.....	69
Consolidating Statement of Operations	70
Combining Statement of Operations – Northwell Health Obligated Group.....	71
Consolidating Statement of Operations – Phelps Memorial Hospital	72
Consolidating Statement of Operations – Northern Westchester Hospital.....	73
Combining Statement of Operations – Joint Venture Ambulatory Surgery Centers.....	74



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Report of Independent Auditors

The Board of Trustees
Northwell Health, Inc.

We have audited the accompanying consolidated financial statements of Northwell Health, Inc. and its member corporations and other affiliated entities (collectively, Northwell), 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 Northwell Health, Inc. and its member corporations and other affiliated entities 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 accompanying consolidating and combining statements of financial position and consolidating and combining statements of operations 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 30, 2018

Northwell Health, Inc.

Consolidated Statements of Financial Position
(In Thousands)

	December 31	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 399,856	\$ 383,295
Short-term investments	2,689,489	2,464,366
Accounts receivable for services to patients, net of allowance for doubtful accounts of \$117,600 in 2017 and \$122,200 in 2016	1,094,584	975,423
Accounts receivable for physician activities, net	149,504	127,718
Pledges receivable, current portion	63,459	46,197
Insurance claims receivable, current portion	78,468	71,014
Other current assets	288,197	269,472
Total current assets	<u>4,763,557</u>	<u>4,337,485</u>
Long-term investments	2,279,855	1,875,198
Pledges receivable, net of current portion	126,263	96,371
Property, plant and equipment, net	4,934,215	4,610,223
Insurance claims receivable, net of current portion	181,869	245,967
Other assets	283,229	199,020
Total assets	<u>\$ 12,568,988</u>	<u>\$ 11,364,264</u>
Liabilities and net assets		
Current liabilities:		
Short-term borrowings	\$ 110,608	\$ 110,218
Accounts payable and accrued expenses	998,686	857,584
Accrued salaries and related benefits	732,536	671,594
Current portion of capital lease obligations	3,742	3,470
Current portion of long-term debt	48,844	59,829
Current portion of insurance claims liability	78,468	71,014
Current portion of malpractice and other insurance liabilities	134,488	123,740
Current portion of estimated payables to third-party payers	358,518	320,126
Total current liabilities	<u>2,465,890</u>	<u>2,217,575</u>
Accrued retirement benefits, net of current portion	948,994	927,378
Capital lease obligations, net of current portion	171,873	173,108
Long-term debt, net of current portion	3,220,283	2,680,021
Insurance claims liability, net of current portion	181,869	245,967
Malpractice and other insurance liabilities, net of current portion	1,057,325	944,225
Other long-term liabilities	576,696	573,464
Total liabilities	<u>8,622,930</u>	<u>7,761,738</u>
Commitments and contingencies		
Net assets:		
Unrestricted	3,315,111	3,027,943
Temporarily restricted	435,172	393,610
Permanently restricted	195,775	180,973
Total net assets	<u>3,946,058</u>	<u>3,602,526</u>
Total liabilities and net assets	<u>\$ 12,568,988</u>	<u>\$ 11,364,264</u>

See accompanying notes.

Northwell Health, Inc.

Consolidated Statements of Operations
(In Thousands)

	Year Ended December 31	
	2017	2016
Operating revenue:		
Net patient service revenue	\$ 7,880,282	\$ 7,625,675
Physician practice revenue	1,495,740	1,282,059
Provision for bad debts	(129,033)	(120,411)
Total patient revenue, net of provision for bad debts	9,246,989	8,787,323
Other operating revenue	654,042	539,604
Net assets released from restrictions used for operations	61,375	55,469
	9,962,406	9,382,396
Operating expenses:		
Salaries	5,212,002	4,720,172
Employee benefits	1,230,621	1,163,503
Supplies and expenses	2,834,144	2,669,589
Depreciation and amortization	431,497	410,229
Interest	129,509	115,231
	9,837,773	9,078,724
Excess of operating revenue over operating expenses, excluding Health Insurance Companies	124,633	303,672
Health Insurance Companies operating revenue	828,077	555,872
Health Insurance Companies operating expenses	971,447	723,873
Health Insurance Companies excess of operating expenses over operating revenue	(143,370)	(168,001)
Total (deficiency) excess of operating revenue over operating expenses	(18,737)	135,671
Non-operating gains and losses:		
Investment income	109,051	67,680
Change in net unrealized gains and losses and change in value of equity method investments	281,520	117,864
Change in fair value of interest rate swap agreements designated as derivative instruments	-	190
Non-operating net periodic benefit cost	(27,863)	(39,804)
Loss on refunding of long-term debt	(42,619)	-
Contribution received in the acquisition of Peconic Bay Medical Center	-	36,343
Other non-operating gains and losses	(7,107)	24,690
Total non-operating gains and losses	312,982	206,963
Excess of revenue and gains and losses over expenses	294,245	342,634
Net assets released from restrictions for capital asset acquisitions	32,516	33,877
Change in fair value of interest rate swap agreements designated as cash flow hedges	2,218	2,402
Recovery of fair value of endowment corpus	-	608
Pension and other postretirement liability adjustments	(36,130)	(56,801)
Other changes in net assets	(5,681)	(5,698)
Increase in unrestricted net assets	\$ 287,168	\$ 317,022

See accompanying notes.

Northwell Health, Inc.

Consolidated Statements of Changes in Net Assets
(In Thousands)

Years Ended December 31, 2017 and 2016

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Net assets, January 1, 2016	\$ 3,239,040	\$ 2,710,921	\$ 363,573	\$ 164,546
Contributions and grants	137,746	–	122,106	15,640
Investment income	8,093	–	8,093	–
Change in net unrealized gains and losses and change in value of equity method investments	6,469	–	6,469	–
Contribution received in the acquisition of Peconic Bay Medical Center	3,285	–	2,498	787
Excess of revenue and gains and losses over expenses	342,634	342,634	–	–
Net assets released from restrictions for:				
Capital asset acquisitions	–	33,877	(33,877)	–
Operations	(55,469)	–	(55,469)	–
Non-operating activities	(19,175)	–	(19,175)	–
Change in fair value of interest rate swap agreements designated as cash flow hedges	2,402	2,402	–	–
Recovery of fair value of endowment corpus	–	608	(608)	–
Pension and other postretirement liability adjustments	(56,801)	(56,801)	–	–
Other changes in net assets	(5,698)	(5,698)	–	–
Increase in net assets	363,486	317,022	30,037	16,427
Net assets, December 31, 2016	\$ 3,602,526	\$ 3,027,943	\$ 393,610	\$ 180,973

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Net assets, January 1, 2017	\$ 3,602,526	\$ 3,027,943	\$ 393,610	\$ 180,973
Contributions and grants	137,807	–	122,031	15,776
Investment income	11,645	–	11,645	–
Change in net unrealized gains and losses and change in value of equity method investments	21,295	–	21,295	–
Excess of revenue and gains and losses over expenses	294,245	294,245	–	–
Net assets released from restrictions for:				
Capital asset acquisitions	–	32,516	(32,516)	–
Operations	(61,375)	–	(61,375)	–
Non-operating activities	(19,518)	–	(19,518)	–
Change in fair value of interest rate swap agreements designated as cash flow hedges	2,218	2,218	–	–
Pension and other postretirement liability adjustments	(36,130)	(36,130)	–	–
Other changes in net assets	(6,655)	(5,681)	–	(974)
Increase in net assets	343,532	287,168	41,562	14,802
Net assets, December 31, 2017	\$ 3,946,058	\$ 3,315,111	\$ 435,172	\$ 195,775

See accompanying notes.

Northwell Health, Inc.

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31	
	2017	2016
Operating activities		
Increase in net assets	\$ 343,532	\$ 363,486
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contribution received in the acquisition of Peconic Bay Medical Center	–	(39,628)
Permanently restricted contributions	(15,776)	(15,640)
Depreciation and amortization	432,260	410,939
Amortization of bond premiums, discounts and financing costs	(1,816)	(1,603)
Net realized gains and losses, change in net unrealized gains and losses and change in value of equity method investments	(393,217)	(168,349)
Change in fair value of interest rate swap agreements	(2,218)	(2,592)
Gain on sale of Broadlawn	(32,252)	–
Loss on refunding of long-term debt	42,619	–
Changes in operating assets and liabilities:		
Accounts receivable for services to patients, net	(119,161)	(86,266)
Accounts receivable for physician activities, net	(21,786)	(15,069)
Pledges receivable	(53,141)	(10,227)
Current portion of estimated payables to third-party payers	38,392	65,430
Accrued retirement benefits, net of current portion	21,616	140,385
Malpractice and other insurance liabilities	123,848	73,354
Net change in all other operating assets and liabilities	187,965	35,927
Net cash provided by operating activities	<u>550,865</u>	<u>750,147</u>
Investing activities		
Capital expenditures	(777,332)	(617,948)
Proceeds from sale of Broadlawn	54,032	–
Net cash invested in short-term and long-term investments	(271,052)	(592,662)
Cash received in the acquisition of Peconic Bay Medical Center	–	19,100
Payments for acquisitions and clinical joint venture investments, net	(74,268)	(56,556)
Net cash used in investing activities	<u>(1,068,620)</u>	<u>(1,248,066)</u>
Financing activities		
Principal payments on long-term debt and capital lease obligations	(58,675)	(57,552)
Payments on refunded and redeemed long-term debt	(377,966)	–
Payments on short-term borrowings	(19,500)	(10,000)
Proceeds from short-term borrowings	19,500	10,000
Proceeds from long-term debt	956,919	500,000
Payments for financing costs	(7,725)	(4,549)
Proceeds from permanently restricted contributions	21,763	10,486
Net cash provided by financing activities	<u>534,316</u>	<u>448,385</u>
Net increase (decrease) in cash and cash equivalents	16,561	(49,534)
Cash and cash equivalents, beginning of year	383,295	432,829
Cash and cash equivalents, end of year	<u>\$ 399,856</u>	<u>\$ 383,295</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest (exclusive of amounts capitalized)	<u>\$ 125,022</u>	<u>\$ 111,069</u>
Supplemental disclosure of noncash investing and financing activities		
Assets acquired under capital lease obligations and real estate financing transactions	<u>\$ –</u>	<u>\$ 8,419</u>

See accompanying notes.

Northwell Health, Inc.

Notes to Consolidated Financial Statements

(In Thousands)

December 31, 2017

1. Organization and Principles of Consolidation

Northwell Health, Inc. and its member corporations and other affiliated entities (collectively, Northwell) is an integrated health care delivery system in the New York metropolitan area. Most entities within Northwell are exempt from Federal income taxes on related income under the provisions of Section 501(a) of the Internal Revenue Code (the Code) as organizations described in Section 501(c)(3), while certain entities are not exempt from such income taxes. The exempt organizations also are exempt from New York State and local income taxes.

The accompanying consolidated financial statements include the accounts of the following principal operating organizations. All interorganization accounts and activities have been eliminated in consolidation.

Hospitals

- North Shore University Hospital (NSUH), including Syosset Hospital
- Long Island Jewish Medical Center (LIJMC), including Long Island Jewish Hospital, Long Island Jewish Forest Hills, Long Island Jewish Valley Stream, Steven and Alexandra Cohen Children's Medical Center of New York, Zucker Hillside Hospital and Orzac Center for Rehabilitation
- Staten Island University Hospital (Staten Island)
- Lenox Hill Hospital (Lenox)
- Southside Hospital (Southside)
- Glen Cove Hospital (Glen Cove)
- Huntington Hospital Association (Huntington)
- Plainview Hospital (Plainview)
- South Oaks Hospital (part of The Long Island Home)
- Phelps Memorial Hospital Association (Phelps, collectively with its subsidiaries)
- Northern Westchester Hospital Association (Northern Westchester, collectively with its subsidiaries)
- Peconic Bay Medical Center

Other Entities

- Northwell Health, Inc. and Northwell Healthcare, Inc. (HCI) – parent holding companies
- Northwell Health Stern Family Center for Rehabilitation (Stern) – skilled nursing facility and rehabilitation center
- Northwell Health Laboratories – laboratory services
- The Feinstein Institute for Medical Research – medical research
- Northwell Health Foundation – fundraising

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Principles of Consolidation (continued)

Other Entities (continued)

- Broadlawn Manor Nursing and Rehabilitation Center (Broadlawn, part of The Long Island Home) – skilled nursing facility and rehabilitation center
- North Shore Health System Enterprises, Inc., North Shore Health Enterprises, Inc. and True North Health Services Company, LLC – holding companies for certain related entities
- RegionCare, Inc. – infusion therapy, nurse staffing and licensed home health agency services
- North Shore Community Services, Inc. – real estate holdings and related services
- North Shore University Hospital Housing, Inc., North Shore University Hospital at Glen Cove Housing, Inc. and Hillside Hospital Houses, Inc. – housing and auxiliary facilities for staff members, students and employees
- Endoscopy Center of Long Island, LLC – outpatient endoscopy center 70% owned by Northwell
- North Shore Medical Accelerator, P.C. – outpatient radiation oncology center 70% owned by Northwell
- North Shore-LIJ and Yale New Haven Medical Air Transport, LLC – medical air transport company 90% owned by Northwell
- Visiting Nurse Association of Hudson Valley, Inc. and subsidiaries – home care and hospice services
- Hospice Care Network – hospice services
- North Shore-LIJ Health Plan Inc. (Health Plan) – tax-exempt health insurance entity authorized by the State of New York to operate a Medicaid Managed Long-Term Care Plan
- CareConnect Insurance Company Inc. (CareConnect) – for-profit health insurance entity licensed to issue commercial health insurance products in the State of New York
- Regional Insurance Company Ltd. (Regional Insurance) – captive insurance company providing excess professional liability insurance
- Huntington Hospital Dolan Family Health Center – community health center
- Endo Group, LLC (Garden City SurgiCenter) – outpatient ambulatory surgery center 56.5% owned by Northwell
- DHCH, LLC (Digestive Health Center of Huntington) – outpatient endoscopy center 51% owned by Northwell
- South Shore Surgery Center, LLC – outpatient ambulatory surgery center 50.1% owned by Northwell
- Suffolk Surgery Center, LLC – outpatient ambulatory surgery center 70% owned by Northwell
- Melville SC, LLC – outpatient ambulatory surgery center 51% owned by Northwell
- True North Health Pharmacy, Inc. – retail pharmacy
- Other affiliated professional corporations

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Principles of Consolidation (continued)

Certain members of Northwell (the Obligated Group) are jointly and severally liable for obligations under bond indentures (see Note 6). The Obligated Group consists of HCI, NSUH, LIJMC, Staten Island, Lenox, Southside, Huntington, Glen Cove, Plainview and Stern.

Effective January 14, 2016, Forest Hills Hospital and Franklin Hospital merged into LIJMC. In conjunction with the merger, the names of the hospitals were changed to Long Island Jewish Forest Hills and Long Island Jewish Valley Stream, respectively.

Northwell maintains a controlling ownership in various entities whose results of operations are included in the accompanying consolidated financial statements. Northwell's non-controlling interest in these entities at December 31, 2017 and 2016 is immaterial, both individually and in the aggregate, to Northwell's net assets and excess of revenue and gains and losses over expenses, as reported in the accompanying consolidated financial statements.

In September 2016, Northwell, through a supporting organization, True North Health Services Company, LLC (TNHS), invested approximately \$53,500 to acquire a 40.6% minority equity interest in a company established as a joint venture between Northwell and a private equity sponsor. The joint venture offers physician revenue cycle management services and patient access services to Northwell and unrelated entities through its acquisition of an existing company providing such services and the expertise of the management team from Northwell and its partner. TNHS accounts for its investment in the joint venture using the equity method of accounting, and it is reported within long-term investments in the accompanying consolidated statements of financial position. The investment was valued at approximately \$52,600 at December 31, 2017. Northwell incurred fees of \$4,679 to the joint venture for services for the year ended December 31, 2017 (none in 2016).

Northwell is party to an agreement with Optum360, LLC (Optum360), a provider of revenue cycle management solutions and technology, where Optum360 provides end-to-end revenue cycle services for most of Northwell's hospitals. As part of the agreement, Northwell contributed certain intellectual property related to its internal revenue cycle management functions in exchange for an 8% ownership interest in Optum360. Northwell accounts for the investment in Optum360 using the equity method of accounting. At December 31, 2017 and 2016, \$127,456 and \$123,976, respectively, is reported within long-term investments in the accompanying consolidated statements of financial position for this investment. Northwell incurred management fees of \$121,764 and \$113,938 to Optum360 for revenue cycle services for the years ended December 31, 2017 and 2016, respectively.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Organization and Principles of Consolidation (continued)

Acquisitions

On January 15, 2016 (the Acquisition Date), Northwell acquired Peconic Bay Medical Center (Peconic), a not-for-profit corporation that operates a 140 bed acute care hospital and a skilled nursing/rehabilitation center located in eastern Suffolk County, New York. Northwell acquired Peconic by means of an inherent contribution where no consideration was transferred by Northwell. Northwell accounted for the business combination by applying the acquisition method and, accordingly, the inherent contribution received was valued as the excess of Peconic's assets over liabilities. In determining the inherent contribution received, all assets and liabilities were measured at fair value as of the Acquisition Date. The results of Peconic's operations have been included in the consolidated financial statements since the Acquisition Date. Peconic is not a member of the Obligated Group.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

1. Organization and Principles of Consolidation (continued)

The following table summarizes the estimated fair values of Peconic's assets acquired and liabilities assumed at the Acquisition Date:

	January 15, 2016
Assets	
Cash and cash equivalents	\$ 19,100
Short-term investments	10,474
Accounts receivable for services to patients	13,027
Accounts receivable for physician activities	747
Other current assets	15,572
Long-term investments	787
Pledges receivable, net	1,000
Property, plant and equipment	79,629
Other assets	5,939
Total assets acquired	<u>146,275</u>
Liabilities	
Accounts payable and accrued expenses	22,008
Accrued salaries and related benefits	8,640
Estimated payables to third-party payers	7,711
Accrued retirement benefits	4,273
Capital lease obligations	4,645
Long-term debt	37,028
Malpractice and other insurance liabilities	11,097
Other long-term liabilities	11,245
Total liabilities assumed	<u>106,647</u>
Excess of assets acquired over liabilities assumed	<u>\$ 39,628</u>
Net assets acquired	
Unrestricted	\$ 36,343
Temporarily restricted	2,498
Permanently restricted	787
	<u>\$ 39,628</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

1. Organization and Principles of Consolidation (continued)

The following table summarizes amounts attributable to Peconic from the Acquisition Date through December 31, 2016 that are included in the accompanying 2016 consolidated statement of operations and changes in net assets:

	Year Ended December 31, 2016
Total operating revenue	\$ 178,298
Total operating expenses	175,256
Excess of operating revenue over operating expenses	3,042
Total non-operating gains and losses	5,024
Excess of revenue and gains and losses over expenses	<u>\$ 8,066</u>
Change in net assets:	
Unrestricted net assets	\$ 10,224
Temporarily restricted net assets	4,102
Permanently restricted net assets	—
Total change in net assets	<u>\$ 14,326</u>

On August 1, 2017, Northwell acquired Visiting Nurse Association of Hudson Valley, Inc. and subsidiaries (collectively, VNA), not-for-profit corporations that operate a certified home health agency, a licensed home health agency and a certified hospice program in Westchester and Putnam counties. Northwell acquired VNA by means of an inherent contribution where no consideration was transferred by Northwell. The inherent contribution received was valued at approximately \$2,400 for the net assets acquired and is reported within other non-operating gains and losses in the accompanying consolidated statement of operations for the year ended December 31, 2017. VNA is not a member of the Obligated Group.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Principles of Consolidation (continued)

On January 1, 2018, Northwell acquired John T. Mather Memorial Hospital (Mather), a 248-bed community teaching hospital located in Port Jefferson, New York. Northwell will account for the business combination by applying the acquisition method and will determine the inherent contribution received on January 1, 2018, based on the fair value of Mather's assets in excess of liabilities; such determination has not been finalized. Mather is not a member of the Obligated Group. The operating revenue of Mather for the year ended December 31, 2017 was approximately \$365,000; however, the operating results of Mather are not included in the accompanying consolidated financial statements of Northwell for the year ended December 31, 2017.

On January 1, 2018, Northwell acquired the assets of Orlin & Cohen Orthopedic Associates, LLP (Orlin & Cohen), a large medical group practice consisting of approximately 80 providers in four specialties (orthopedics, physical medicine and rehabilitation, neurology, and pain management), operating in multiple locations in Nassau and Suffolk Counties.

Sale of Broadlawn

In November 2017, The Long Island Home closed on an agreement to sell the assets of Broadlawn to an independent operator of skilled nursing facilities for approximately \$54,000. As part of the sale, \$21,080 of property, plant and equipment, net was transferred to the purchaser. A portion of the sale proceeds were used to pay off existing long-term debt of \$23,792 of The Long Island Home. As a result of the sale, a gain of \$32,252 was recognized within the other operating revenue line of the accompanying consolidated statement of operations for the year ended December 31, 2017.

Health Insurance Companies

In July 2017, Health Plan filed a termination plan with the New York State Department of Health (NYSDOH). Under the termination plan, which was approved by the NYSDOH in September 2017, Health Plan ceased new enrollment in its Medicaid Managed Long-Term Care Plan and, by January 2018, had transitioned its existing members to other plans.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Organization and Principles of Consolidation (continued)

In August 2017, Northwell announced that it would wind down CareConnect and withdraw from New York State's insurance markets. The New York State Department of Financial Services approved CareConnect's plan to withdraw from the insurance markets, which allowed CareConnect to stop writing and renewing large and small group policies effective December 1, 2017 and individual policies effective January 1, 2018. As no new policies will be written in 2018, and the health insurance premium revenue to be earned on existing policies is not expected to be sufficient to cover medical claims and other expenses incurred during the wind down of CareConnect, a premium deficiency reserve of \$38,513 was recorded in 2017 and included within accounts payable and accrued expenses in the accompanying consolidated statement of financial position as of December 31, 2017 and within Health Insurance Companies operating expenses in the accompanying consolidated statement of operations for the year ended December 31, 2017.

As a result of Northwell's decision to exit the health insurance business, the net operating results of CareConnect and Health Plan (collectively, the Health Insurance Companies) are separately reported within the accompanying consolidated statements of operations for the years ended December 31, 2017 and 2016. See Note 2 for further information regarding health insurance premium revenue and medical claims expense for the Health Insurance Companies.

2. Summary of Significant Accounting Policies

Consolidated Statements of Operations

The accompanying consolidated statements of operations include the excess of revenue and gains and losses over expenses as the performance indicator. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and operating expenses; peripheral or incidental transactions and unusual, nonrecurring items are reported as non-operating gains and losses.

Net assets released from restrictions for capital asset acquisitions, the change in fair value of interest rate swap agreements designated as cash flow hedges, the recovery of fair value of endowment corpus, pension and other postretirement liability adjustments and other changes in net assets are excluded from Northwell's performance indicator.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (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 and most industry-specific guidance. The provisions of ASU 2014-09, as amended by ASU 2015-14, are effective for Northwell for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The implementation of ASU 2014-09 will require Northwell to analyze its revenue streams and enhance disclosures related to revenue. Northwell plans to use the modified retrospective method of adoption in 2018. 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 Northwell'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. Additionally, the provision for bad debts will be presented as an expense item rather than a reduction of net patient service revenue. Northwell continues to assess the impact of the adoption of ASU 2014-09 in relation to other revenue activity, as applicable. However, aside from the changes noted above, Northwell does not expect the adoption of ASU 2014-09 to have a significant effect on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The standard also allows entities that are not public business entities, among other things, to no longer disclose the fair value and significant assumptions used to estimate the fair value of certain financial instruments carried at amortized cost. The standard is effective for fiscal years beginning after December 15, 2018 for non-public business entities. Northwell early adopted the provision of the standard that eliminates the disclosure requirement for the fair value of long-term debt. The other provisions of the standard that are not eligible for early adoption are not expected to have a significant impact on the consolidated financial statements.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases*, that will require lessees to report most leases on its statements of financial position but recognize expenses on its statements of operations in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. The provisions of ASU 2016-02 are effective for Northwell for annual periods beginning after December 15, 2018 and interim periods within those years. Early adoption is permitted. Northwell 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. 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 Northwell for annual periods beginning after December 15, 2017, and interim periods thereafter. Early adoption is permitted. Northwell has not completed the process of evaluating the impact of ASU 2016-14 on its 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 statement of operations. Employers will be required to present the service cost component of net periodic benefit cost in the same statement of operations line item as other employee benefit 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. Northwell early adopted the provisions of ASU 2017-07 in the first quarter of 2017 and retrospectively applied the presentation requirements to the consolidated statement of operations for the year ended December 31, 2016 (\$39,804 of costs were reclassified for 2016). The components of net periodic benefit cost other than service cost are reported within the non-operating net periodic benefit cost line of the accompanying consolidated statements of operations.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, including accounts receivable for services to patients, and liabilities, including accounts payable and accrued expenses, estimated payables to third-party payers, accrued retirement benefits and malpractice and other insurance liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

During 2017 and 2016, Northwell revised certain estimates made in prior years to reflect the passage of time and the availability of more recent information. For the years ended December 31, 2017 and 2016, the net change in estimates related to prior years, excluding the Health Insurance Companies, resulted in a decrease in liabilities by approximately \$50,000 and \$52,000, respectively, due to a reduction in estimated payables to third-party payers. For the Health Insurance Companies, the net change in estimates related to prior years resulted in a decrease in liabilities of approximately \$20,000 for the year ended December 31, 2017 and an increase in liabilities of approximately \$7,000 for the year ended December 31, 2016.

Cash and Cash Equivalents

Northwell classifies all highly liquid financial instruments purchased with a maturity of three months or less, other than those held in the investment portfolio, as cash equivalents. Northwell maintains cash on deposit with major banks and invests in money market securities with financial institutions which exceed federally-insured limits. Management believes the credit risk related to these deposits is minimal. Northwell does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable and Patient Revenue

Net patient service revenue and physician practice revenue (collectively, patient revenue) are reported at estimated net realizable amounts due from patients and third-party payers for services rendered and include 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 provided and are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Northwell recognizes accounts receivable and patient revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates, governmental rates or established charges for the services rendered. For uninsured patients who are ineligible for any government assistance program, Northwell provides services without charge or at amounts less than its established rates for patients who meet the criteria of its charity care policy. Because Northwell does not pursue collection of amounts determined to qualify as charity care, such services are not reported as patient revenue. For patients who were determined by Northwell to have the ability to pay but do not, the estimated uncollectible amounts are recorded as the provision for bad debts. In distinguishing charity care from the provision for bad debts, a number of factors are considered, certain of which require a high degree of judgment.

Patient revenue, net of contractual and charity care allowances, but before the provision for bad debts, from insured and self-pay patients was approximately \$9,286,000 and \$90,000, respectively, for the year ended December 31, 2017, and approximately \$8,825,000 and \$83,000, respectively, for the year ended December 31, 2016. Deductibles and copayments due from patients under third-party payment programs are included in the insured amount above.

The allowance for doubtful accounts represents Northwell's estimate of the uncollectible accounts receivable related to bad debts. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. The allowance for doubtful accounts is based upon Northwell's assessment of historical and expected net collections, business and economic conditions, trends in health care coverage and other collection indicators.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

For receivables associated with services provided to patients who have third-party payer coverage, Northwell analyzes amounts due from third-parties and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for third-party payers who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay balances, which includes amounts for patients without insurance, patients with deductible and copayment balances due after third-party coverage and balances for services not covered by insurance, Northwell records an allowance for doubtful accounts and a provision for bad debts in the period of service based on past experience. The allowances for both doubtful accounts and anticipated charity care for self-pay patients aggregated to approximately 84% of the gross self-pay accounts receivable balance as of December 31, 2017 and 2016.

Northwell's allowance for doubtful accounts relating to accounts receivable for services to patients and accounts receivable for physician activities totaled approximately \$122,000 and \$124,600 at December 31, 2017 and 2016, respectively.

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

Non-Medicare Reimbursement

In New York State, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate payment rates. If negotiated rates are not established, payers are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the NYSDOH. Effective December 1, 2009, the New York State prospective payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide rate, with retroactive adjustments for certain rate components paid concurrently with the settlement of the final rate. Outpatient services also are paid based on a statewide prospective system that was effective December 1, 2008. 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 Northwell is reasonably assured that such amounts are realizable.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Adjustments to the current and prior years' payment rates for those payers will continue to be made in future years.

Medicare Reimbursement

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

Northwell has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payers for adjustments to current and prior years' payment rates, based on industry-wide and Northwell-specific data. The current Medicaid, Medicare and other third-party payer programs are based upon extremely complex laws and regulations that are subject to interpretation. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. Northwell is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance with all applicable laws and regulations. Medicare cost reports, which are filed individually by the applicable Northwell entities and serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through years ranging from 2000 to 2015. Other years remain open for audit and settlement, as do certain issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained.

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

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Government payer programs account for a significant portion of net patient service revenue. For the years ended December 31, 2017 and 2016, revenue from the Medicare and Medicaid programs, including Medicare and Medicaid managed care programs, accounted for approximately 49% and 50% of Northwell's net patient service revenue, respectively.

Northwell grants credit without collateral to its patients, most of whom are insured under various third-party agreements. The significant concentrations of gross accounts receivable for services to patients from third-party payers and patients at December 31, 2017 and 2016 were as follows:

	December 31	
	2017	2016
Medicare and Medicare managed care	33%	33%
Medicaid and Medicaid managed care	21	21
Self-pay	6	6
Other third-party payers	40	40
	100%	100%

Charity Care

Together, charity care and the provision for bad debts represent uncompensated care. The estimated cost of total uncompensated care was approximately \$248,000 and \$220,000 for the years ended December 31, 2017 and 2016, respectively. The estimated cost of charity care provided was approximately \$189,000 and \$169,000 for the years ended December 31, 2017 and 2016, respectively. The estimated cost of uncompensated care and charity care is based on the ratio of cost to charges, as determined using Northwell-specific data.

The NYSDOH Hospital Indigent Care Pool (the Pool) was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. For the years ended December 31, 2017 and 2016, Northwell received \$60,550 and \$76,240, respectively, in Pool distributions, of which approximately \$45,000 and \$59,000 was related to charity care, respectively. Northwell made payments into the Pool of \$50,863 and \$48,767 for the years ended December 31, 2017 and 2016, respectively, for the 1% assessment.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Pledges Receivable

Pledges (promises to give), less an allowance for uncollectible amounts, are recorded as receivables in the year made at net present value and are recorded as temporarily or permanently restricted net assets. Pledges receivable that are due more than one year from the statement of financial position date are discounted to reflect the present value of future cash flows.

Short-term and Long-term Investments

Short-term and long-term investments include marketable securities and other investments. Marketable securities are classified as trading securities. Investments in debt securities, equity securities and mutual funds with readily determinable fair values are reported at fair value, based on quoted market prices.

Northwell has also invested in alternative investments, including investment funds of hedge funds (funds of hedge funds), hedge funds, private equity funds and private real estate funds. These other investments are not readily marketable and are reported under the equity method of accounting, which approximates fair value. The equity method reflects Northwell's share of the net asset value of the respective funds.

Individual investment holdings of the funds of hedge funds, hedge funds, private equity funds and private real estate funds may include investments in both nonmarketable and market-traded securities. Valuations of these investments, and therefore Northwell's holdings, may be determined by the investment managers or general partners. Values may be based on estimates that require varying degrees of judgment. Recorded estimates may change by a material amount in the near term. The investments may indirectly expose Northwell to securities lending, short sales of securities and trading in futures and forwards contracts, options and other derivative products. However, Northwell's risk is limited to its amounts invested. At December 31, 2017, Northwell has future commitments of \$97,207 and \$11,048 to invest in private equity and private real estate funds for pension and restricted assets, respectively.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Other investments also include certain direct equity method investments, as well as investments in commingled fixed income, equity and risk-parity funds. Direct equity method investments are non-controlling interests in joint ventures held by Northwell for investment purposes and include the investment in Optum360 and the TNHS investment, disclosed in Note 1. The underlying investment holdings of the commingled funds are predominantly marketable securities. These investments are reported under the equity method of accounting, which approximates fair value. The equity method reflects Northwell's share of the net asset value of these investments.

The financial statements of the alternative investments and commingled fixed income, equity and risk-parity funds noted above are audited annually by independent auditors, although the timing for reporting the results of such audits for certain investments does not coincide with Northwell's annual financial statement reporting.

Included in investments are assets limited as to use, which include funds held pursuant to debt financing arrangements, internally designated funds (including internally designated malpractice and other self-insurance assets), deferred employee compensation plans and temporarily and permanently restricted assets. Amounts required to meet current liabilities are reported as short-term investments.

Investment income (including realized gains and losses on investments, interest and dividends) and the change in net unrealized gains and losses and change in value of equity method investments are included in the performance indicator, unless the income or loss is restricted by donor or law. Interest and dividend income earned on Northwell's internally designated malpractice and other self-insurance assets is recorded in other operating revenue.

Inventory of Supplies

Inventory, included in other current assets, is stated at the lower of cost and net realizable value.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Insurance Claims Receivable and Liability

For medical malpractice and similar contingent liabilities, Northwell does not net insurance recoveries against related claims liabilities and determines such claims liabilities without consideration of insurance recoveries. Accordingly, Northwell recognizes insurance receivables at the same time that it recognizes the liabilities, measured on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible amounts in the accompanying consolidated statements of financial position. Such amounts represent the actuarially determined present value of medical malpractice and other claims that are anticipated to be covered by insurance, discounted at a rate of 2.0%.

Property, Plant and Equipment

Property, plant and equipment is stated at cost or, in the case of gifts, at fair value at the date of the gift, less accumulated depreciation and amortization. Property, plant and equipment from acquired entities that existed at their respective acquisition dates was recorded at fair value based upon an independent valuation. Depreciation and amortization of land improvements, buildings, fixed equipment and major movable equipment is computed by the straight-line method based upon the estimated useful lives of the assets, ranging from three to forty years.

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 financial statements.

During the period of construction of capital assets, interest costs are capitalized as a component of the cost of assets. When assets are disposed of, the carrying amounts of the assets and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss on disposal is included in the performance indicator. When assets become fully depreciated, the carrying amounts of such assets and the related accumulated depreciation are removed from the accounts (see Note 5).

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Long-Lived Assets

Gifts of long-lived assets are reported at fair value established at the date of contribution as changes in unrestricted net assets, excluded from the performance indicator, unless explicit donor stipulations specify how the donated asset must be used.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If long-lived assets are deemed to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less costs to sell.

Other Assets

Other assets included in the accompanying consolidated statements of financial position primarily consist of intangible assets and investments in clinical joint ventures.

In connection with various acquisitions, Northwell has recognized certain indefinite-lived intangible assets totaling approximately \$133,000 and \$93,000 at December 31, 2017 and 2016, respectively. The intangible assets are subject to impairment testing on an annual basis. At December 31, 2017 and 2016, Northwell determined that there has been no impairment of these intangible assets.

Deferred Financing Costs

Deferred financing costs, included in long-term debt and capital lease obligations, represent costs incurred to obtain financing for various Northwell projects and initiatives. Amortization of these costs is provided over the term of the applicable indebtedness.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Interest Rate Swap Agreements

Interest rate swap agreements are reported at fair value. Fair value is estimated using discounted cash flow analyses based on current and projected interest rates with consideration of the risk of non-performance. Changes in fair value of interest rate swap agreements designated as derivative instruments are recognized in Northwell's performance indicator. Changes in fair value of interest rate swap agreements designated as cash flow hedges are excluded from the performance indicator.

Other Long-Term Liabilities

Other long-term liabilities included in the accompanying consolidated statements of financial position primarily consist of the long-term portion of estimated payables to third-party payers, deferred rent payable, asset retirement obligations, deferred revenue and the fair value of the interest rate swap agreements.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are restricted by donors or other external parties to be used for designated purposes or over specified time periods. 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. Income from these net assets is available to support certain teaching, research and training programs.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Donor Gifts

Gifts of cash and other assets, including unconditional promises to give cash and other assets (pledges), are reported at fair value when the gift is received (or promise is made). Donor-restricted contributions whose restrictions are met within the same year as received are classified as unrestricted contributions in the accompanying consolidated financial statements. Northwell receives conditional pledges, which are not reflected in the accompanying consolidated financial statements. The conditional pledges primarily relate to the establishment of certain programs. As the conditions of the pledges are met, the pledges are recognized. At December 31, 2017 and 2016, \$25,508 and \$18,471, respectively, of conditional pledges have not been recognized in the consolidated statements of financial position.

Contributions and pledges raised through fundraising efforts for the years ended December 31, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Unrestricted	\$ 4,581	\$ 2,987
Temporarily restricted	97,721	93,752
Permanently restricted	15,776	15,640
	<u>\$ 118,078</u>	<u>\$ 112,379</u>

Health Insurance Premium Revenue

Health insurance premium revenue for the Health Insurance Companies is earned over the term of the related insurance policies and recorded in the month for which members are entitled to health care services at estimated net realizable value. Included in the Health Insurance Companies operating revenue line in the accompanying consolidated statements of operations for the years ended December 31, 2017 and 2016 is \$812,920 and \$548,884, respectively, of health insurance premium revenue. Unearned premium reserves, which are established to cover the unexpired portion of premiums written and are included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position, totaled \$4,887 and \$25,522 for the years ended December 31, 2017 and 2016, respectively. Included in other current assets in the accompanying consolidated statements of financial position at December 31, 2017 and 2016 is \$16,337 and \$10,361, respectively, of health insurance premium receivables.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Affordable Care Act (ACA) Risk Adjustment Program

The ACA risk adjustment program intends to reallocate funds from insurers with lower risk populations to insurers with higher risk populations, based on the relative risk scores of participants in non-grandfathered plans in the individual and small group markets, both on and off the exchanges. Included in the current portion of estimated payables to third-party payers in the accompanying consolidated statements of financial position at December 31, 2017 and 2016 is \$95,845 and \$120,747, respectively, related to CareConnect's estimated ACA risk adjustment program liability. Due to the limited publicly available information, such estimates could change in the future as more information becomes known and, as a result, there is at least a reasonable possibility that the recorded estimate may change by a material amount in the near term. Increases to the ACA risk adjustment program liability are recorded as a reduction of health insurance premium revenue included within the Health Insurance Companies operating revenue line in the accompanying consolidated statements of operations. Health insurance premium revenue was reduced by \$106,974 and \$125,188 for the years ended December 2017 and 2016, respectively, related to the ACA risk adjustment program.

Medical Claims Expense and Accrued Medical Claims

The Health Insurance Companies contract with various health care providers, including Northwell, to provide care to their members. The Health Insurance Companies compensate these providers on either a capitated or fee-for-service basis. The cost of health care services is accrued in the period provided to enrollees and includes estimates for such services which have been incurred but not reported. Adjustments to these estimates are recorded in future periods as amounts become known. Included in the Health Insurance Companies operating expenses line in the accompanying consolidated statements of operations for the years ended December 31, 2017 and 2016 is \$809,224 and \$618,298, respectively, of medical claims expense, inclusive of Northwell's cost to care for members served at its facilities.

Included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position at December 31, 2017 and 2016 is \$76,709 and \$86,161, respectively, of accrued medical claims liability, net of amounts payable to Northwell for services to members at its facilities.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Functional Expenses

Northwell provides health care services to residents primarily within its geographic areas. Expenses related to providing these services, including the expenses of the Health Insurance Companies, pertain to the following functional categories for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Health care services	\$ 9,587,100	\$ 8,629,337
General and administrative	<u>1,222,120</u>	<u>1,173,260</u>
Total operating expenses	<u>\$ 10,809,220</u>	<u>\$ 9,802,597</u>

Tax Status

Certain entities included in Northwell's consolidated financial statements are taxable entities under Federal or state laws. U.S. generally accepted accounting principles require that the asset and liability method of accounting for income taxes be utilized by these organizations and for unrelated business activities of the tax-exempt entities. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

The effect on deferred taxes of a change in tax rates is recognized in income in the period of enactment. At December 31, 2017 and 2016, Northwell has a deferred income tax asset of approximately \$123,000 and \$142,000, respectively, both of which have been fully offset by a related valuation allowance. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax asset will not be realized. Significant components of the deferred tax asset relate to the allowance for doubtful accounts and net operating loss carryforwards. Certain entities have net operating loss carryforwards aggregating approximately \$573,000, which expire in varying amounts through 2037, and are available to offset future taxable income.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

As a result of the recent Federal income tax reform enacted into law under the Tax Cuts and Jobs Act of 2017 (the Act), 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. In addition, the Act will reduce the Federal corporate income tax rate for taxable entities. At December 31, 2017, Northwell has valued its deferred tax asset accordingly based on the new tax rate. The regulations necessary to implement the law are expected to be promulgated throughout 2018; however, the ultimate outcome of these regulations is not expected to have a material impact on Northwell's consolidated financial statements in 2018.

Reclassifications

Certain 2016 amounts in the accompanying consolidated financial statements have been reclassified from amounts previously reported to conform to the 2017 presentation. In the accompanying consolidated statements of operations, such reclassifications include the presentation of certain components of net periodic benefit cost (those other than the service cost) as a component of non-operating gains and losses, rather than in employee benefits expense (see Note 2 – Recent Accounting Standards) and the separate presentation of the Health Insurance Companies operating revenue and expenses (see Note 1). These reclassifications have no impact on the net assets previously reported.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

3. Cash and Investments

Northwell's cash and investments are reported in the consolidated statements of financial position as presented below at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 399,856	\$ 383,295
Short-term investments	2,689,489	2,464,366
Long-term investments	2,279,855	1,875,198
Total cash and investments	<u>5,369,200</u>	<u>4,722,859</u>
Less assets limited as to use:		
Under bond indentures, third-party agreements and other*	1,180,193	1,032,961
Deferred employee compensation plan assets	174,495	135,718
Malpractice and other self-insurance assets	762,473	647,173
Temporarily and permanently restricted assets	268,553	207,177
Total assets limited as to use	<u>2,385,714</u>	<u>2,023,029</u>
Total unrestricted cash and investments	<u>\$ 2,983,486</u>	<u>\$ 2,699,830</u>

*Other assets limited as to use include sinking funds established by management to repay Northwell's taxable debt and proceeds from taxable bond issues designated by management to fund future capital expenditures.

The total unrestricted cash and investments is used in Northwell's days cash on hand calculation, a required financial ratio for certain debt compliance covenants (see Note 6).

Short-term investments include \$216,415 and \$256,967 of assets limited as to use at December 31, 2017 and 2016, respectively. Long-term investments include \$2,169,299 and \$1,766,062 of assets limited as to use at December 31, 2017 and 2016, respectively.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

3. Cash and Investments (continued)

Cash and cash equivalents, short-term investments and long term-investments, stated at fair value or under the equity method of accounting as applicable based on the appropriate measurement basis as described in Note 2, consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents (including amounts in the investment portfolio)	\$ 828,887	\$ 755,002
U.S. Government obligations	430,829	289,925
Corporate and other bonds	314,095	439,543
Fixed income mutual funds	466,595	470,311
Commingled fixed income funds	679,434	530,788
Equity securities	804,877	644,448
Equity mutual funds	671,122	525,925
Commingled equity funds	222,094	171,493
Target-age mutual funds	44,410	30,955
Commingled risk-parity funds	191,131	188,602
Funds of hedge funds	493,710	457,652
Hedge funds	993	10,768
Private equity funds	11,866	9,849
Private real estate funds	4,329	3,693
Direct equity method investments	196,170	179,049
Interest and other receivables	8,658	14,856
	<u>\$ 5,369,200</u>	<u>\$ 4,722,859</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

3. Cash and Investments (continued)

Investment income and the change in net unrealized gains and losses and change in value of equity method investments are comprised of the following for the years ended December 31, 2017 and 2016:

	2017		
	Unrestricted	Temporarily Restricted	Total
Investment income:			
Interest and dividend income	\$ 41,571	\$ 2,592	\$ 44,163
Net realized gains and losses	81,349	9,053	90,402
Less interest and dividend income on malpractice and other self-insurance assets (included in other operating revenue)	(13,869)	–	(13,869)
	<u>\$ 109,051</u>	<u>\$ 11,645</u>	<u>\$ 120,696</u>
Change in net unrealized gains and losses and change in value of equity method investments:			
Change in net unrealized gains and losses	\$ 181,740	\$ 14,869	\$ 196,609
Equity method investment gains	99,780	6,426	106,206
	<u>\$ 281,520</u>	<u>\$ 21,295</u>	<u>\$ 302,815</u>
	2016		
	Unrestricted	Temporarily Restricted	Total
Investment income:			
Interest and dividend income	\$ 40,045	\$ 3,699	\$ 43,744
Net realized gains and losses	39,622	4,394	44,016
Less interest and dividend income on malpractice and other self-insurance assets (included in other operating revenue)	(11,987)	–	(11,987)
	<u>\$ 67,680</u>	<u>\$ 8,093</u>	<u>\$ 75,773</u>
Change in net unrealized gains and losses and change in value of equity method investments:			
Change in net unrealized gains and losses	\$ 70,193	\$ 4,786	\$ 74,979
Equity method investment gains	47,671	1,683	49,354
	<u>\$ 117,864</u>	<u>\$ 6,469</u>	<u>\$ 124,333</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

4. Pledges Receivable

Pledges receivable at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Amounts expected to be collected in:		
Less than one year	\$ 78,943	\$ 49,041
One to five years	134,663	102,104
More than five years	37,608	50,954
	<u>251,214</u>	<u>202,099</u>
Less:		
Discount to present value of future cash flows (discount rates ranging from 0.75% to 4.68%)	16,663	15,073
Allowance for uncollectible amounts	44,829	44,458
Current portion of pledges receivable	63,459	46,197
Pledges receivable, net of current portion	<u>\$ 126,263</u>	<u>\$ 96,371</u>

5. Property, Plant and Equipment

Property, plant and equipment and accumulated depreciation and amortization at December 31, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 752,101	\$ 755,345
Land improvements	28,122	27,805
Buildings and fixed equipment	3,916,466	3,757,909
Movable equipment	1,768,414	1,608,419
Leasehold improvements	29,417	25,209
	<u>6,494,520</u>	<u>6,174,687</u>
Less accumulated depreciation and amortization	2,133,002	1,986,820
	<u>4,361,518</u>	<u>4,187,867</u>
Construction-in-progress	572,697	422,356
	<u>\$ 4,934,215</u>	<u>\$ 4,610,223</u>

Northwell wrote off approximately \$282,000 and \$255,000 of fully depreciated assets in 2017 and 2016, respectively.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

5. Property, Plant and Equipment (continued)

Net interest capitalized for the years ended December 31, 2017 and 2016 was approximately \$14,000 and \$9,900, respectively.

Certain leases are considered to be the equivalent of installment purchases for purposes of accounting presentation. The liabilities relating to these assets are included in capital lease obligations. The cost, less accumulated amortization, of these assets is included in property, plant and equipment at December 31, 2017 and 2016 as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 56,640	\$ 56,640
Buildings and fixed equipment	77,461	76,288
Movable equipment	10,237	13,012
	<u>144,338</u>	<u>145,940</u>
Less accumulated amortization	8,303	8,694
	<u>\$ 136,035</u>	<u>\$ 137,246</u>

6. Debt

Long-Term Debt

Long-term debt at December 31, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Bonds payable at varying dates through November 2047, at fixed and variable interest rates ranging from 1.38% to 6.15%	\$ 2,669,270	\$ 2,096,632
Other long-term debt payable at varying dates through August 2051 at variable and fixed interest rates ranging from 1.89% to 5.69%	590,876	629,525
Total long-term debt	<u>3,260,146</u>	<u>2,726,157</u>
Less current portion of bonds payable	33,159	40,377
Less current portion of other long-term debt	15,685	19,452
Less net unamortized debt issuance costs	24,951	27,893
Add net unamortized bond premium	33,932	41,586
	<u>\$ 3,220,283</u>	<u>\$ 2,680,021</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

6. Debt (continued)

Annual aggregate principal payments applicable to long-term debt for years subsequent to December 31, 2017 are as follows:

	Bonds Payable	Other Long-Term Debt	Total
Year ended December 31:			
2018	\$ 33,159	\$ 15,685	\$ 48,844
2019	34,948	17,692	52,640
2020	37,476	16,391	53,867
2021	27,854	27,888	55,742
2022	28,882	29,783	58,665
Thereafter	2,506,951	483,437	2,990,388
	<u>\$ 2,669,270</u>	<u>\$ 590,876</u>	<u>\$ 3,260,146</u>

Most of Northwell's debt arrangements include security agreements of various types. The agreements include, among other provisions, the pledging as collateral certain assets and revenues, and limitations on the use of assets, including restrictions on the transfer of assets to entities outside Northwell. At December 31, 2017 and 2016, the majority of Northwell's assets were pledged as collateral under the terms of various debt agreements. In addition, certain debt agreements contain covenants related to the maintenance of financial ratios, including debt service coverage ratios and days cash on hand, and the maintenance of certain debt service and other reserve funds included in assets limited as to use. At December 31, 2017 and 2016, Northwell was in compliance with the financial covenants.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

6. Debt (continued)

Bonds Payable

Bonds payable by Northwell consists of the following at December 31, 2017:

	Interest Structure	Final Maturity	Outstanding Principal
Obligated Group:			
Series 2017A (taxable)	Fixed	2047	\$ 956,919
Series 2016A (taxable)	Fixed	2046	500,000
Series 2015A	Fixed	2043	490,440
Series 2013A (taxable)	Fixed	2043	250,000
Series 2012A	Fixed	2023	27,600
Series 2012B (taxable)	Fixed	2042	135,000
Series 2009A	Fixed	2019	5,500
Series 2009B	Fixed	2039	50,000
Series 2009C	Fixed	2039	37,500
Series 2009D	Fixed	2039	37,500
Series 2009E	Fixed	2033	60,890
Series 2007B	Variable*	2018	11,610
Other:			
Phelps Series 2013	Fixed	2038	11,760
Phelps Series 2005	Fixed	2030	18,085
Northern Westchester Series 2014	Fixed	2039	31,686
Northern Westchester Series 2009	Variable	2034	10,545
Northern Westchester Series 2004	Variable*	2024	7,440
Peconic Series A**	Variable*	2031	5,855
Peconic Series B**	Variable*	2031	11,440
Peconic Series D**	Variable*	2032	9,500
			<u>\$ 2,669,270</u>

* Variable rate debt is swapped to a fixed rate via interest rate swap agreements.

** Peconic is party to a direct purchase agreement with a commercial bank maturing in 2022, for their three outstanding bond issues.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

6. Debt (continued)

The Series 2017A, 2016A, 2013A and 2012B bonds are taxable bonds and were each issued by HCI as a joint and several obligation of the Obligated Group. The bonds of Phelps, Northern Westchester and Peconic are tax-exempt and are not obligations of the Obligated Group. All other bonds are tax-exempt and were issued through the Dormitory Authority of the State of New York (DASNY) on behalf of the Obligated Group.

In September 2017, HCI issued \$956,919 of taxable Northwell Health Series 2017A bonds. The Series 2017A bonds were issued by HCI as a joint and several general obligation of the Obligated Group. The 2017A bonds bear interest at fixed rates, payable semi-annually, with a final maturity date of November 1, 2047. A portion of the proceeds of the Series 2017A bonds was used to refund \$341,490 in Series 2011A bonds of the Obligated Group. The remaining proceeds will primarily be used for capital expenditures and investments, and may be used for general corporate purposes. A loss on refunding of long-term debt of \$42,619 resulted from the Series 2017A bond transaction.

In September 2016, HCI issued \$500,000 of taxable Northwell Health Series 2016A bonds. The Series 2016A bonds were issued by HCI as a joint and several general obligation of the Obligated Group. The 2016A bonds bear interest at fixed interest rates, payable semi-annually, with a final maturity date of November 1, 2046. The proceeds of the Series 2016A bonds were primarily used for capital expenditures and investments.

For certain Obligated Group bonds that were included in Northwell's 2017 refunding transaction and a 2015 refunding transaction, funds were placed in escrow with a trustee to pay bondholders at future redemption dates. These funds and the liability for the corresponding bonds are excluded from Northwell's consolidated statements of financial position at December 31, 2017 and 2016. Outstanding principal amounts to be paid from escrow to bondholders are comprised of the following at December 31, 2017:

	Date of Final Redemption	Outstanding Principal
Series 2009A Bonds	May 1, 2019	\$ 200,955
Series 2011A Bonds	May 1, 2021	341,490
		<u>\$ 542,445</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

6. Debt (continued)

Other Long-Term Debt

Other long-term debt consists of the following at December 31, 2017:

	Interest Structure	Final Maturity	Outstanding Principal
HCI Notes Payable	Fixed	2030	\$ 250,000
LIJMC Mortgage	Fixed	2045	203,177
Real Estate Financing	Fixed	2051	72,630
Staten Island Term Loan	Fixed	2023	22,000
Lenox Mortgage	Variable	2029	21,986
LIJMC Tax-Exempt Lease Financing	Fixed	2019	3,631
Staten Island Tax-Exempt Lease Financing	Fixed	2018	212
Phelps Mortgage ^(a)	Fixed	2031	3,358
Northern Westchester Term Loan ^(a)	Variable	2022	5,000
Peconic Loans ^(a)	Variable	2027	7,913
Other Loans ^(a)	Fixed	2021	969
			<u>\$ 590,876</u>

^(a)Debt is not included in the Obligated Group.

Capital Lease Obligations

Northwell has entered into various capital lease agreements for land, buildings and equipment. Capital lease obligations at December 31, 2017 and 2016 consist of the following:

	2017	2016
Minimum lease payments	\$ 384,049	\$ 382,869
Less interest	207,386	205,179
Less current portion at net present value	3,742	3,470
Present value of net minimum long-term lease payments	172,921	174,220
Less net unamortized issuance costs	1,048	1,112
	<u>\$ 171,873</u>	<u>\$ 173,108</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

6. Debt (continued)

Future minimum lease payments under capital lease obligations as of December 31, 2017 are as follows:

Year ending December 31:	
2018	\$ 14,421
2019	13,965
2020	13,754
2021	13,965
2022	13,603
Thereafter	314,341
Total minimum lease payments	<u>\$ 384,049</u>

Short-Term Borrowings

Certain members of Northwell have entered into several unsecured revolving credit facilities with commercial banks with commitment availability through dates ranging from November 30, 2018 to February 26, 2021. Borrowings under these credit facilities are short-term and are primarily used to provide interim financing for capital improvement projects, with repayment to be provided from bond proceeds and/or the receipt of fundraising proceeds from capital campaigns. Additionally, amounts can be used to provide backup financing for the support of the certificate of need process as required by the NYSDOH and short-term working capital to support the monthly operating cash conversion cycle. Interest options include prime-based rates, LIBOR-based rates and bank cost of funds rates. Total credit available under such arrangements is \$287,390. Balances outstanding from these borrowings are \$110,608 and \$110,218 at December 31, 2017 and 2016, respectively.

7. Fair Values of Financial Instruments

For assets and liabilities required to be measured at fair value, Northwell measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from Northwell's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Fair Values of Financial Instruments (continued)

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

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

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

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

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

A financial instrument's categorization within the three levels of the valuation hierarchy is not indicative of the investment risk associated with the underlying assets.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

7. Fair Values of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of December 31, 2017 are classified in the following table in one of the three categories described previously:

	2017			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents (including amounts in the investment portfolio)	\$ 828,887	\$ —	\$ —	\$ 828,887
Fixed income obligations:				
U.S. Government obligations	142,702	288,127	—	430,829
Corporate and other bonds	—	314,095	—	314,095
Fixed income mutual funds	466,595	—	—	466,595
Equity securities:				
Value	335,751	—	—	335,751
Small cap	126,259	—	—	126,259
Global	235,469	—	—	235,469
Growth	107,398	—	—	107,398
Equity mutual funds	671,122	—	—	671,122
Target-age mutual funds	44,410	—	—	44,410
Interest and other receivables	8,658	—	—	8,658
Liabilities				
Interest rate swap agreements	—	(5,699)	—	(5,699)
	<u>\$ 2,967,251</u>	<u>\$ 596,523</u>	<u>\$ —</u>	<u>\$ 3,563,774</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

7. Fair Values of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of December 31, 2016 are classified in the following table in one of the three categories described previously:

	2016			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents (including amounts in the investment portfolio)	\$ 755,002	\$ —	\$ —	\$ 755,002
Fixed income obligations:				
U.S. Government obligations	171,403	118,522	—	289,925
Corporate and other bonds	—	439,543	—	439,543
Fixed income mutual funds	470,311	—	—	470,311
Equity securities:				
Value	283,791	—	—	283,791
Small cap	100,389	—	—	100,389
Global	177,922	—	—	177,922
Growth	82,346	—	—	82,346
Equity mutual funds	525,925	—	—	525,925
Target-age mutual funds	30,955	—	—	30,955
Interest and other receivables	14,856	—	—	14,856
Liabilities				
Interest rate swap agreements	—	(7,866)	—	(7,866)
	<u>\$ 2,612,900</u>	<u>\$ 550,199</u>	<u>\$ —</u>	<u>\$ 3,163,099</u>

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment.

The amounts reported in the previous tables exclude investments reported under the equity method of accounting in the amounts of \$1,799,727 and \$1,551,894 at December 31, 2017 and 2016, respectively (see Note 2), and assets invested in Northwell's pension plans (see Note 8).

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

8. Pension Plans and Other Postretirement Benefits

Pension Plans

Northwell maintains several pension plans for its employees. The following are descriptions of such plans and the respective pension expense for the years ended December 31, 2017 and 2016.

Certain members of Northwell provide pension and similar benefits to their employees through defined contribution plans. Contributions to the defined contribution plans are based on percentages of annual salaries. It is the policy of these members to fund accrued costs under these plans on a current basis. Pension expense for 2017 and 2016 related to the defined contribution plans amounted to \$154,533 and \$136,806, respectively.

Certain members of Northwell contribute to various multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If Northwell stops participating in any of its multiemployer plans, it may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

8. Pension Plans and Other Postretirement Benefits (continued)

Northwell’s significant participation in certain multiemployer plans for the annual period ended December 31, 2017 is outlined in the following table. The following information for the 1199SEIU Health Care Employees Pension Fund (the 1199 Plan) and the New York State Nurses Association Pension Plan (the NYSNA Plan) is included within the table:

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

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/Implemented	Contributions of Northwell		Surcharge Imposed	Expiration Date of Collective-Bargaining Agreements
		2017	2016		2017	2016		
1199 Plan ^(a)	13-3604862/001	Green	Green	N/A	\$ 69,056	\$ 68,174	No	9/30/2018 to 3/31/2019
NYSNA Plan ^(a)	13-6604799/001	Green	Green	N/A	\$ 12,784	\$ 11,214	No	10/12/2017 to 12/31/2019

^(a)Northwell contributions represent more than 5% of total contributions to the 1199 and NYSNA Plans for the plan years ended December 31, 2017 and 2016.

In addition to the plans noted in the table above, Northwell also participates in several other multiemployer plans. Contributions for these other plans totaled \$1,154 and \$1,002 for the years ended December 31, 2017 and 2016, respectively.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

8. Pension Plans and Other Postretirement Benefits (continued)

Certain of Northwell's employees participate in deferred compensation plans. The liability for these plans totaled \$8,396 and \$7,633 at December 31, 2017 and 2016, respectively. In connection with these plans, Northwell deposits amounts with trustees on behalf of the participating employees. Under the terms of the plans, Northwell is not responsible for investment gains or losses incurred. The assets are restricted for payments under the plans, but may revert to Northwell under certain specified circumstances.

In addition, Northwell maintains various deferred compensation plans pursuant to Section 457(b) of the Code (the 457(b) Plans). Eligible employees may defer compensation under a salary reduction agreement, subject to certain dollar limitations. Non-elective employer contributions may also be made for some of the 457(b) Plans. Payments upon retirement or termination of employment are based on amounts credited to the individual accounts. The assets and corresponding liability for the 457(b) Plans, included in long-term investments and accrued retirement benefits in the accompanying consolidated statements of financial position, totaled \$166,099 and \$128,085 at December 31, 2017 and 2016, respectively.

Certain employees are covered by noncontributory defined benefit pension plans (the Plans), with the Northwell Health Cash Balance Plan (the Cash Balance Plan) being the primary plan. Northwell recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the Plans in its consolidated statements of financial position.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

8. Pension Plans and Other Postretirement Benefits (continued)

Defined Benefit Pension Plans

The following tables provide a reconciliation of the changes in the Plans' projected benefit obligation and fair value of plan assets for the years ended December 31, 2017 and 2016 and the funded status and accumulated benefit obligation of the Plans as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Reconciliation of the projected benefit obligation		
Obligation at January 1	\$ 2,272,298	\$ 2,079,435
Inclusion of Peconic obligation at Acquisition Date	–	19,307
Service cost	77,960	72,035
Interest cost	98,662	100,634
Plan amendments	2,078	–
Actuarial loss	174,104	94,870
Benefit payments	(97,722)	(92,629)
Settlements	(2,498)	(1,354)
Obligation at December 31	<u>\$ 2,524,882</u>	<u>\$ 2,272,298</u>
Reconciliation of fair value of plan assets		
Fair value of plan assets at January 1	\$ 1,520,250	\$ 1,445,919
Inclusion of Peconic plan assets at Acquisition Date	–	15,034
Actual return on plan assets	210,739	96,463
Employer contributions	158,328	56,810
Benefit payments	(97,722)	(92,629)
Settlements	(2,504)	(1,347)
Fair value of plan assets at December 31	<u>\$ 1,789,091</u>	<u>\$ 1,520,250</u>
Funded status		
Funded status at December 31	<u>\$ (735,791)</u>	<u>\$ (752,048)</u>
Accumulated benefit obligation at December 31	<u>\$ 2,352,372</u>	<u>\$ 2,105,879</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

8. Pension Plans and Other Postretirement Benefits (continued)

The current portion of accrued retirement benefits related to the Plans, included in accrued salaries and related benefits in the accompanying consolidated statements of financial position, is \$3,812 and \$2,807 at December 31, 2017 and 2016, respectively.

The actuarial loss in 2017 is primarily due to the decrease in the discount rate used in the measurement of the Plans' benefit obligation. The actuarial loss in 2016 is primarily due to the decrease in the discount rate and demographic experience.

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

	<u>2017</u>	<u>2016</u>
Unrecognized actuarial loss	\$ (661,630)	\$ (625,393)
Unrecognized prior service cost	(7,176)	(10,276)
	<u>\$ (668,806)</u>	<u>\$ (635,669)</u>

The Plans' actuarial loss and prior service cost included in unrestricted net assets expected to be recognized in net periodic benefit cost during the year ended December 31, 2018 are as follows:

Actuarial loss	\$ 38,229
Prior service cost	3,524
Increase to net periodic benefit cost	<u>\$ 41,753</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

8. Pension Plans and Other Postretirement Benefits (continued)

The following table provides the components of the net periodic benefit cost for the Plans for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Service cost (included in employee benefits)	\$ 77,960	\$ 72,035
Interest cost on projected benefit obligation	98,662	100,634
Expected return on plan assets	(112,143)	(105,167)
Amortization of actuarial loss	39,323	41,489
Amortization of prior service cost	3,611	3,725
Settlement (gain) loss	(95)	510
Total included in non-operating net periodic benefit cost	<u>29,358</u>	<u>41,191</u>
Net periodic benefit cost	<u>\$ 107,318</u>	<u>\$ 113,226</u>

Prior service costs are amortized over the average remaining service period of active participants. Actuarial gains and losses in excess of 10% of the greater of the projected benefit obligations and the market-related value of assets are amortized over the average remaining service period of active participants.

The assumptions used in the measurement of the Cash Balance Plan's benefit obligations at December 31, 2017 and 2016 are shown in the following table:

	<u>2017</u>	<u>2016</u>
Discount rate	3.75%	4.25%
Rate of compensation increase	4.00%	4.00%

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

8. Pension Plans and Other Postretirement Benefits (continued)

The assumptions used in the measurement of the Cash Balance Plan's net periodic benefit cost for the years ended December 31, 2017 and 2016 are shown in the following table:

	<u>2017</u>	<u>2016</u>
Discount rate	4.25%	4.65%
Expected long-term rate of return on plan assets	7.00%	7.25%
Rate of compensation increase	4.00%	4.00%

The Cash Balance Plan comprises 89.4% of the Plans' total projected benefit obligation as of both December 31, 2017 and 2016, and 94.6% and 94.1% of the net periodic benefit cost for the years ended December 31, 2017 and 2016, respectively.

Benefit payments for the Plans, which reflect expected future service, as appropriate, are expected to be paid as follows:

2018	\$ 102,304
2019	109,300
2020	122,411
2021	122,834
2022	125,747
2023 to 2027	706,528

Northwell expects to make contributions of approximately \$96,000 to the Plans in 2018.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

8. Pension Plans and Other Postretirement Benefits (continued)

Defined Benefit Pension Plan Assets

The fair values of the Plans' assets at December 31, 2017, by asset category, are as follows:

Asset Category	Level 1	Level 2	Level 3	Total
Cash and short-term investments	\$ 81,612	\$ –	\$ –	\$ 81,612
Fixed income obligations:				
U.S. Government obligations	14,061	17,194	–	31,255
Corporate and other bonds	–	67,026	–	67,026
Fixed income mutual funds	103,029	–	–	103,029
Equity securities:				
Value	40,367	–	–	40,367
Small cap	46,841	–	–	46,841
Global	175,362	–	–	175,362
Growth	41,189	–	–	41,189
Equity mutual funds	208,454	–	–	208,454
Interest and other receivables	1,778	–	–	1,778
	\$ 712,693	\$ 84,220	\$ –	796,913
Assets measured at net asset value:				
Commingled fixed income funds				326,240
Commingled equity funds				142,195
Commingled commodity fund				680
Commingled risk-parity fund				85,104
Funds of hedge funds				281,262
Hedge funds				83
Private equity funds				109,548
Private real estate funds				47,066
Total assets at fair value				\$ 1,789,091

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

8. Pension Plans and Other Postretirement Benefits (continued)

The fair values of the Plans' assets at December 31, 2016, by asset category, are as follows:

Asset Category	Level 1	Level 2	Level 3	Total
Cash and short-term investments	\$ 23,466	\$ —	\$ —	\$ 23,466
Fixed income obligations:				
U.S. Government obligations	8,459	14,658	—	23,117
Corporate and other bonds	—	103,164	—	103,164
Fixed income mutual funds	125,978	—	—	125,978
Equity securities:				
Value	36,867	—	—	36,867
Small cap	42,086	—	—	42,086
Global	147,882	—	—	147,882
Growth	34,767	—	—	34,767
Equity mutual funds	172,854	—	—	172,854
Interest and other receivables	2,264	—	—	2,264
	\$ 594,623	\$ 117,822	\$ —	712,445
Assets measured at net asset value:				
Commingled fixed income funds				233,210
Commingled equity funds				118,144
Commingled commodity fund				764
Commingled risk-parity fund				77,431
Funds of hedge funds				221,743
Hedge funds				22,047
Private equity funds				99,552
Private real estate funds				34,914
Total assets at fair value				\$ 1,520,250

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

8. Pension Plans and Other Postretirement Benefits (continued)

Assets invested in the Plans are carried at fair value. Debt and equity securities with readily determinable values are carried at fair value, as determined based on independent published sources. Commingled funds and alternative investments are stated at fair value, as estimated in an unquoted market. Fair value for commingled funds and alternative investments is determined by using net asset value as a practical expedient, as permitted by generally accepted accounting principles, rather than using another valuation method to independently estimate fair value (see Note 2).

The following is a summary of assets in the Plans at December 31, 2017 (by asset category) with redemption restrictions:

	Fair Value	Redemption Period (Including Notice Period)
Commingled fixed income funds	\$ 326,240	1 day to 65 days
Commingled equity funds	142,195	3 days to 45 days
Commingled risk-parity fund	85,104	90 days to 120 days
Funds of hedge funds	281,262	1 day to 365 days

Private equity and private real estate funds have long lifecycles with distributions not expected for several years. In the instance of certain redemptions, some investments noted above may require an extended waiting period to receive a remainder portion of the redemption.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

8. Pension Plans and Other Postretirement Benefits (continued)

Basis Used to Determine the Expected Long-Term Rate of Return on Assets

The overall expected long-term rate of return on assets assumption is based upon a long-term building-block approach adjusted for current market conditions. First, return expectations for each asset class are developed with economic and fundamental drivers such as inflation, dividends and real earnings growth for stocks and real yields, defaults and recoveries for bonds. These expectations assume that market levels at the beginning of the forecast period are in a state of equilibrium. With the understanding that markets are more often than not in some state of disequilibrium, the “next ten year” return forecasts are adjusted to reflect the starting point for inflation expectations, interest rate levels and market risk premiums relative to historically normal market levels. The fundamental building blocks used to develop the long-term equilibrium return expectations are based on a combination of consensus forecasts and long-term historical averages. The historical data is adjusted to reflect any fundamental changes that have occurred in the relative markets.

Once long-term equilibrium forecasts are developed, returns are adjusted for the next ten years to reflect the current environment as it relates to the key economic variables that influence returns across the capital markets. In doing so, the expected path for breakeven inflation, real interest rates and investment grade corporate bond spreads are modeled for the next ten years. In this framework, the investment grade corporate spreads are used as a proxy for the risk premium priced broadly into all asset classes within the capital markets.

While the precise expected return derived using the above approach will fluctuate somewhat from year to year, the Plans’ policy is to hold this long-term assumption constant as long as it remains within a reasonable tolerance from the derived rate.

Description of Investment Policies and Strategies

The Plans’ overall investment strategy is to achieve wide diversification of asset types, fund strategies and fund managers. Equity securities include investments in domestic, international, global and emerging markets equities. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, emerging markets debt and U.S. Treasuries. Other types of investments include investments in commingled commodity funds and alternative investments that follow several different strategies.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

8. Pension Plans and Other Postretirement Benefits (continued)

There are specific guidelines and diversification standards for each investment manager. Eligible investments are specifically outlined. Each manager must disclose its strategies and report that it abides by the Employee Retirement Income Security Act of 1974 (ERISA) rules, where applicable.

The Cash Balance Plan's asset allocation at December 31, 2017 and 2016, by asset category, is as follows:

	2017	2016	Target Allocation
Cash and short-term investments	4.9%	1.4%	1.0%
Fixed income obligations, including commingled fixed income funds	29.3	31.9	32.9
Equity securities, including commingled equity funds	35.2	35.3	24.5
Commingled risk-parity funds	5.0	5.4	5.0
Alternative investments	25.6	26.0	36.6
	100.0%	100.0%	100.0%

The target allocation percentages are set as long-term diversification objectives to be met over time, as the portfolio increases the allocation to alternative investments.

The Cash Balance Plan comprises 89.6% and 89.1% of the Plans' total fair value of plan assets as of December 31, 2017 and 2016, respectively.

Other Postretirement Benefits

Certain employees are covered by the Northwell Health Retiree Medical and Life Insurance Plan and other postretirement benefit plans other than pensions. As of December 31, 2017 and 2016, the total funded status of the plans was a liability of \$44,165 and \$43,898, respectively. The current portion of accrued retirement benefits related to the plans, included in accrued salaries and related benefits in the accompanying consolidated statements of financial position, is \$1,645 and \$1,479 at December 31, 2017 and 2016, respectively.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

8. Pension Plans and Other Postretirement Benefits (continued)

For the years ended December 31, 2017 and 2016, there was a net periodic benefit credit related to the plans of \$483 and \$363, respectively, of which \$1,495 and \$1,387 was recorded within non-operating net periodic benefit cost in the accompanying consolidated statements of operations.

9. Malpractice and Other Insurance Liabilities

Malpractice

Northwell provides for potential medical malpractice losses through a combination of a self-insurance program and purchased primary and excess insurance, on both a claims-made and occurrence basis, as follows:

Primary Insurance Program

From January 2003 through December 2016, Northwell purchased primary malpractice insurance on an occurrence basis, covering most hospitals. The policies provided coverage with limits of \$1,000 per claim and a \$50,000 annual policy aggregate through 2009. Effective January 2010, the program retained \$750 of the primary coverage per indemnity claim, while aggregate limits increased to \$60,000. Effective January 2013, the retention level increased to \$900 per claim. Effective January 2017, Northwell decided to fully self-insure the primary layer of up to \$1,000 per claim.

In December 2002, Northwell purchased a tail insurance policy to cover unreported occurrences from its prior claims-made primary insurance program.

The estimated undiscounted liability for the retained primary coverage and losses in excess of the insured primary aggregate at December 31, 2017 and 2016 was \$622,487 and \$543,237, respectively. At December 31, 2017 and 2016, the liability was recorded at the actuarially determined present value of \$576,357 and \$501,956, respectively, based on a discount rate of 2.0%. Malpractice and other insurance liabilities are discounted based on the expected timing of the actuarially estimated future claim payments under the programs, using a risk-free rate. Such estimates are reviewed and updated on an annual basis.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

9. Malpractice and Other Insurance Liabilities (continued)

Excess Insurance Coverage

Regional Insurance covers certain excess malpractice losses above the primary per claim limit, on a claims-made basis. Additional commercial excess malpractice insurance is purchased on a claims-made basis for excess coverage layers above the Regional Insurance per claim limit.

Regional Insurance's estimated undiscounted reserves for losses and loss expenses outstanding at December 31, 2017 and 2016 were \$177,563 and \$212,293, respectively, and were recorded at the actuarially determined present value of \$170,149 and \$201,447, respectively, based on a discount rate of 2.0%.

Effective January 1, 2015, the aggregate excess coverage provided by Regional Insurance was reduced to \$6,500 per year, which resulted in an undiscounted liability for the Northwell hospitals for estimated losses in excess of the aggregate at December 31, 2017 and 2016 of \$180,794 and \$118,079, respectively, recorded at the actuarially determined present value of \$165,624 and \$107,526, respectively, based on a 2% discount rate.

The estimated undiscounted incurred but not reported liability for claims in excess of primary insurance layers at December 31, 2017 and 2016 was \$97,718 and \$96,186, respectively, and was recorded at the actuarially determined present value of \$84,864 and \$83,566, respectively, based on a discount rate of 2.0%.

Self-Insurance Coverage

For certain years, certain Northwell hospitals were covered for malpractice claims under various other insured and self-insured arrangements. For self-insured claims and incidents, Northwell has reserved \$37,972 and \$42,393 at December 31, 2017 and 2016, respectively, based on actuarial determinations and a discount rate of 2.0%, as its best estimates of the ultimate cost of such losses.

Malpractice claims have been asserted against Northwell by various claimants. These claims are in various stages of processing, and some may ultimately be brought to trial. There are known incidents that have occurred through December 31, 2017 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. It is the opinion of Northwell's management that adequate insurance, including self-insurance, and malpractice reserves are being maintained to cover potential malpractice losses.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

9. Malpractice and Other Insurance Liabilities (continued)

Workers' Compensation

In June 2013, Northwell changed its workers' compensation insurance program from a guaranteed cost program to a high deductible program with a \$1,000 per claim retention level. At December 31, 2017 and 2016, the liability for retained losses under this program was recorded at the actuarially determined present value of \$137,609 and \$119,158, respectively, based on a discount rate of 2.0%. The estimated undiscounted liability was \$156,572 and \$135,200 at December 31, 2017 and 2016, respectively.

Prior to joining Northwell's high deductible program, certain hospitals had various self-insured programs for workers' compensation claims. At December 31, 2017 and 2016, the liability for these self-insured losses was recorded at the actuarially determined present value of \$10,846 and \$10,815, respectively, based on a discount rate of 2.0%.

10. Other Operating Revenue

Other operating revenue consists of the following for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Laboratory services	\$ 244,799	\$ 206,069
Grants and contracts	126,534	86,785
Pharmacy sales	83,349	78,145
Rental income	36,249	34,956
Gain on sale of Broadlawn	32,252	—
Health plan risk pool distributions	20,739	26,956
Cafeteria and gift shop sales	17,849	17,830
Investment income (see Note 3)	13,869	11,987
Group purchasing rebates	11,692	13,124
Health plan care coordination revenue	6,940	3,944
All other	59,770	59,808
	<u>\$ 654,042</u>	<u>\$ 539,604</u>

The table above excludes other operating revenue of the Health Insurance Companies of \$15,157 and \$6,988 for the years ended December 31, 2017 and 2016, respectively.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

11. Net Assets

Temporarily restricted net assets at December 31, 2017 and 2016 are available for the following health care services:

	<u>2017</u>	<u>2016</u>
Teaching, research, training and other	\$ 279,664	\$ 266,179
Major modernization and purchases of equipment	155,508	127,431
	<u>\$ 435,172</u>	<u>\$ 393,610</u>

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

Northwell follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as they relate to its permanently restricted endowments. Northwell 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 funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Northwell classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. Northwell considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) the investment policies of Northwell.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

11. Net Assets (continued)

Northwell's investment and spending policies for endowment assets seek to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Northwell must hold in perpetuity or for a donor-specified term. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that expects to generate an average annual return over time in excess of 5.0%. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, Northwell 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). Northwell targets a diversified asset allocation that consists of equities, fixed income and alternative investments.

Northwell has a policy of appropriating for distribution each year, no more than a 7% return on its endowment funds' corpus. In establishing this policy, Northwell considered the long-term expected return on its endowments.

For the year ended December 31, 2017, Northwell had the following endowment-related activities:

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Endowment balance, beginning of year	\$ 40,640	\$ 180,973	\$ 221,613
Investment return:			
Investment income	11,645	–	11,645
Net appreciation	21,295	–	21,295
Total investment return	32,940	–	32,940
Contributions and other	–	14,802	14,802
Amounts appropriated for expenditure	(8,310)	–	(8,310)
Net change in endowment funds	24,630	14,802	39,432
Endowment balance, end of year	\$ 65,270	\$ 195,775	\$ 261,045

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

11. Net Assets (continued)

For the year ended December 31, 2016, Northwell had the following endowment-related activities:

	2016		
	Temporarily Restricted	Permanently Restricted	Total
Endowment balance, beginning of year	\$ 30,497	\$ 163,938	\$ 194,435
Investment return:			
Investment income	8,093	–	8,093
Net appreciation	6,469	–	6,469
Recovery of fair value of endowment corpus	–	608	608
Total investment return	14,562	608	15,170
Contributions and other	–	15,640	15,640
Contributions received in the acquisition of Peconic	–	787	787
Amounts appropriated for expenditure	(4,419)	–	(4,419)
Net change in endowment funds	10,143	17,035	27,178
Endowment balance, end of year	<u>\$ 40,640</u>	<u>\$ 180,973</u>	<u>\$ 221,613</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires Northwell to retain as a fund of perpetual duration. There was no such deficiency as of December 31, 2017 and 2016.

12. Commitments and Contingencies

Litigation and Claims

Northwell is involved in litigation and claims which are not considered unusual to its business. While the ultimate outcome of these lawsuits cannot be determined at this time, it is the opinion of management that the ultimate resolution of these claims will not have a material adverse effect on the accompanying consolidated financial statements.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

12. Commitments and Contingencies (continued)

Operating Leases

Northwell leases certain office facility space, patient care facility space and equipment under operating leases that have initial or remaining noncancelable terms in excess of one year. Aggregate minimum operating lease payments are amortized on the straight-line basis over the terms of the respective leases. Rent expense under such leases was \$119,257 and \$108,548 for 2017 and 2016, respectively.

Future minimum lease payments under noncancelable operating leases with terms of one year or more are as follows:

2018	\$	112,657
2019		107,060
2020		98,305
2021		92,059
2022		84,603
Thereafter		433,263

In June 2016, Northwell executed a long-term operating lease for the site of the former Victory Memorial Hospital in the Bay Ridge section of Brooklyn which became effective in June 2017. Plans are being developed to potentially use the site for a variety of health care programs to be delivered by Northwell, its strategic affiliate, Maimonides Medical Center (Maimonides), and possibly other partners as part of Northwell's expansion plans into Brooklyn.

Collective Bargaining Agreements

At December 31, 2017, approximately 35% of Northwell's employees are union employees who are covered under the terms of various collective bargaining agreements. Certain collective bargaining agreements which represent approximately 7% of union employees (3% of total employees) have expired at December 31, 2017 and are currently being renegotiated. Agreements representing approximately 80% of union employees (28% of total employees) will expire within the next year and are currently being renegotiated.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

12. Commitments and Contingencies (continued)

Letters of Credit

At December 31, 2017, \$9,015 in secured direct-pay letters of credit are maintained with a commercial bank, in lieu of debt service reserve funds for certain Obligated Group bond issues.

Four commercial banks are providing a total of \$233,000 in commitments, solely to support letters of credit required for Northwell's high deductible workers' compensation insurance program. At December 31, 2017, \$120,473 in secured direct-pay letters of credit were maintained with three of the banks, and \$112,527 of the commitments remain available for future letters of credit.

At December 31, 2017, \$18,216 in direct-pay letters of credit were maintained with a commercial bank to secure certain Northern Westchester bond issues.

Other Commitments

In 2008, Hofstra University (the University) and Northwell entered into a joint academic agreement to establish what is now known as the Donald and Barbara Zucker School of Medicine at Hofstra/Northwell (the Medical School), at the University, while remaining as separate corporations with separate governance. Under the agreement, Northwell agreed to reimburse the University for a portion of the Medical School's annual costs each year through June 30, 2017, which aggregated \$50,000. Reimbursement payments after June 30, 2017 will be a minimum of \$5,000 for each academic year, with amounts indexed to the Medical School tuition, and are contingent upon annual approval by the boards of Northwell and the University. Northwell shall not advance funds to the University that have not yet been spent in connection with the Medical School. Northwell also provides approximately \$4,000 annually for funding of Medical School scholarships and student loans, with amounts indexed to the Medical School tuition.

In April 2015, Northwell entered into a strategic affiliation with Cold Spring Harbor Laboratory (CSHL). Under the terms of this affiliation, Northwell and CSHL will continue as independent organizations governed by their respective boards of trustees. The goals of the affiliation include advancing cancer diagnostic and therapeutic research, developing a new clinical cancer research unit at Northwell to support early-phase clinical studies of new cancer therapies, and recruiting and training more clinician-scientists in oncology. Pursuant to the agreement, Northwell is committed to pay CSHL \$5,000 in year one, \$10,000 in year two and \$15,000 annually thereafter, throughout the term of the affiliation.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

12. Commitments and Contingencies (continued)

In August 2015, Northwell entered into a clinical affiliation and collaboration agreement with Maimonides, a not-for-profit acute care hospital located in Brooklyn, New York. The purpose of the affiliation is to pursue collaborative activities, such as clinical integration initiatives and ambulatory services joint ventures, as well as service agreements that may generate operational efficiencies. Under the terms of the affiliation agreement, Northwell and Maimonides will remain independent organizations governed by their respective boards of trustees. Pursuant to the affiliation agreement, the parties have also entered into an unsecured loan agreement, whereby Northwell has loaned a total of \$125,000 to Maimonides as of December 31, 2017. Payments on the loan and accrued interest thereon would not commence until the termination or expiration of the affiliation agreement. However, if Northwell becomes the sole member and corporate parent of Maimonides, outstanding amounts borrowed under the loan agreement, including accrued interest, will be forgiven.

Northwell has contracted to purchase property on the Upper East Side of Manhattan for approximately \$240,000. The sale is expected to close during the third quarter of 2018.

In the normal course of business, Northwell enters into multi-year contracts with vendors, suppliers and service providers for goods or services to be provided to Northwell. Under the terms of such agreements, Northwell may be contingently liable for termination or other fees in the event of contract termination or default. Northwell does not believe that such contingent liabilities, should they become due, would have a material impact on its consolidated financial statements.

13. Subsequent Events

Management has evaluated the impact of subsequent events through April 30, 2018 representing the date at which the consolidated financial statements were issued. No events, aside from the acquisitions of Mather and Orlin & Cohen, as disclosed in Note 1, and the real estate purchase commitment disclosed in Note 12, have occurred that require disclosure in or adjustment to the accompanying consolidated financial statements.

Supplementary Information

Northwell Health, Inc.

Consolidating Statement of Financial Position
(In Thousands)

December 31, 2017

	Northwell Health, Inc. Total	Eliminations	Northwell Health Obligated Group	Phelps Memorial Hospital Association and Subsidiaries	Northern Westchester Hospital Association and Subsidiaries	Peconic Bay Medical Center	The Long Island Home	Hospice Care Network	The Feinstein Institute for Medical Research	Northwell Health Foundation	Northwell Health Laboratories	Captive Insurance Companies	Dolan Family Health Center	Health Insurance Companies	Joint Venture Ambulatory Surgery Centers	Other Northwell Health Entities
Assets																
Current assets:																
Cash and cash equivalents	\$ 399,856	\$ -	\$ 173,909	\$ 25,954	\$ 24,936	\$ 34,134	\$ 19,407	\$ 4,510	\$ -	\$ 42,192	\$ -	\$ 3,025	\$ -	\$ 54,460	\$ 4,561	\$ 12,768
Short-term investments	2,689,489	-	2,322,194	48,216	64,227	551	90	39,029	20	7,535	-	41,428	509	165,690	-	-
Accounts receivable for services to patients, net of allowance for doubtful accounts	1,094,584	(21,170)	998,934	29,998	29,931	14,776	13,077	9,084	-	-	-	-	353	-	6,037	13,564
Accounts receivable for physician activities, net	149,504	(3,806)	110,064	3,062	1,835	3,700	-	-	-	-	-	-	-	-	-	34,649
Pledges receivable, current portion	63,459	-	-	-	-	1,250	-	96	-	61,909	-	-	-	-	-	204
Insurance claims receivable, current portion	78,468	-	75,457	105	717	175	1,581	35	90	6	302	-	-	-	-	-
Other current assets	288,197	(7,748)	187,513	5,581	7,350	8,042	1,858	189	14,242	828	21,649	1	687	30,196	1,377	16,432
Total current assets	4,763,557	(32,724)	3,868,071	112,916	128,996	62,628	36,013	52,943	14,352	112,470	21,951	44,454	1,549	250,346	11,975	77,617
Due from affiliates, net	-	(204,587)	-	2,395	-	-	-	-	-	345	69,967	15,018	-	116,862	-	-
Long-term investments	2,279,855	(292,618)	2,049,979	29,750	65,918	11,226	-	2,191	97,214	95,450	-	184,223	6,879	13,459	-	16,184
Pledges receivable, net of current portion	126,263	-	-	1,021	1,827	2,375	-	64	-	118,935	-	-	-	-	-	2,041
Property, plant and equipment, net	4,934,215	-	4,149,345	167,523	196,290	91,369	40,777	789	53,232	1,145	69,672	-	628	3,070	29,765	130,610
Insurance claims receivable, net of current portion	181,869	(166,327)	323,513	5,261	2,700	333	3,894	103	266	17	913	11,196	-	-	-	-
Other assets	283,229	(174,455)	349,488	7,762	8,260	9,678	4,782	216	12	77	-	-	-	-	63,506	13,903
Total assets	\$ 12,568,988	\$ (870,711)	\$ 10,740,396	\$ 326,628	\$ 403,991	\$ 177,609	\$ 85,466	\$ 56,306	\$ 165,076	\$ 328,439	\$ 162,503	\$ 254,891	\$ 9,056	\$ 383,737	\$ 105,246	\$ 240,355
Liabilities and net assets (deficit)																
Current liabilities:																
Short-term borrowings	\$ 110,608	\$ -	\$ 110,218	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 390
Accounts payable and accrued expenses	998,686	(32,745)	642,574	18,178	28,201	22,831	4,827	2,449	17,775	17,649	44,792	184	174	180,538	8,323	42,936
Accrued salaries and related benefits	732,536	-	623,063	13,832	15,368	13,305	6,305	1,328	5,639	1,140	6,707	-	403	2,304	637	42,505
Current portion of capital lease obligations	3,742	-	1,932	-	-	1,619	-	-	-	-	-	-	-	-	191	-
Current portion of long-term debt	48,844	-	40,606	1,842	3,584	2,183	-	-	-	-	-	-	-	-	629	-
Current portion of insurance claims liability	78,468	-	75,457	105	717	175	1,581	35	90	6	302	-	-	-	-	-
Current portion of malpractice and other insurance liabilities	134,488	-	93,154	1,715	3,441	1,111	642	-	-	-	-	34,407	-	-	18	-
Current portion of estimated payable to third-party payers	358,518	-	188,762	299	868	8,208	3,389	-	-	-	56,105	-	-	100,867	-	20
Total current liabilities	2,465,890	(32,745)	1,775,766	35,971	52,179	49,432	16,744	3,812	23,504	18,795	107,906	34,591	577	283,709	9,798	85,851
Due to affiliates, net	-	(187,313)	1,895	-	3,703	9,809	54,879	320	-	-	-	-	10,855	-	2,216	103,636
Accrued retirement benefits, net of current portion	948,994	-	885,659	6,164	48,348	1,801	6,718	219	-	-	-	-	-	85	-	-
Capital lease obligations, net of current portion	171,873	-	168,286	-	-	3,441	-	-	-	-	-	-	-	-	146	-
Long-term debt, net of current portion	3,220,283	-	3,104,971	31,363	51,086	32,525	-	-	-	-	-	-	-	-	338	-
Insurance claims liability, net of current portion	181,869	(166,327)	323,513	5,261	2,700	333	3,894	103	266	17	913	11,196	-	-	-	-
Malpractice and other insurance liabilities, net of current portion	1,057,325	(15,018)	887,377	13,522	21,265	10,646	3,791	-	-	-	-	135,742	-	-	-	-
Other long-term liabilities	576,696	-	518,320	4,764	10,426	5,260	-	873	28	22,941	1,304	-	-	381	10,748	1,651
Total liabilities	8,622,930	(401,403)	7,665,787	97,045	189,707	113,247	86,026	5,327	23,798	41,753	110,123	181,529	11,432	284,175	23,246	191,138
Commitments and contingencies																
Net assets (deficit):																
Unrestricted	3,315,111	(176,220)	2,633,962	216,714	181,344	57,423	(560)	49,092	22,509	(153)	52,380	73,362	(9,209)	99,562	82,000	32,905
Temporarily restricted	435,172	(253,574)	369,490	8,912	25,893	6,131	-	1,509	64,511	193,558	-	-	2,430	-	-	16,312
Permanently restricted	195,775	(39,514)	71,157	3,957	7,047	808	-	378	54,258	93,281	-	-	4,403	-	-	-
Total net assets (deficit)	3,946,058	(469,308)	3,074,609	229,583	214,284	64,362	(560)	50,979	141,278	286,686	52,380	73,362	(2,376)	99,562	82,000	49,217
Total liabilities and net assets (deficit)	\$ 12,568,988	\$ (870,711)	\$ 10,740,396	\$ 326,628	\$ 403,991	\$ 177,609	\$ 85,466	\$ 56,306	\$ 165,076	\$ 328,439	\$ 162,503	\$ 254,891	\$ 9,056	\$ 383,737	\$ 105,246	\$ 240,355

Northwell Health, Inc.

Combining Statement of Financial Position –
Northwell Health Obligated Group
(In Thousands)

December 31, 2017

	Total Obligated Group	Eliminations	Northwell Healthcare, Inc.	North Shore University Hospital	Long Island Jewish Medical Center	Staten Island University Hospital	Lenox Hill Hospital	Southside Hospital	Huntington Hospital Association	Glen Cove Hospital	Plainview Hospital	Northwell Health Stern Family Center for Rehabilitation
Assets												
Current assets:												
Cash and cash equivalents	\$ 173,909	\$ –	\$ 44,337	\$ 64,992	\$ 61,473	\$ 2,906	\$ 20	\$ 1	\$ 64	\$ 11	\$ 104	\$ 1
Short-term investments	2,322,194	–	–	843,849	758,559	396,376	47,423	3,496	199,038	72,433	654	366
Accounts receivable for services to patients, net of allowance for doubtful accounts	998,934	–	–	246,837	325,074	121,681	148,912	63,941	47,799	14,118	21,133	9,439
Accounts receivable for physician activities, net	110,064	–	–	104,447	2,159	–	1,887	788	562	141	80	–
Insurance claims receivable, current portion	75,457	–	913	18,794	20,386	11,137	12,358	4,842	3,505	1,225	2,026	271
Other current assets	187,513	(3,000)	31,041	52,773	44,846	18,437	20,682	8,202	7,549	3,845	3,053	85
Total current assets	3,868,071	(3,000)	76,291	1,331,692	1,212,497	550,537	231,282	81,270	258,517	91,773	27,050	10,162
Due from affiliates, net	–	(278,719)	–	97,958	153,561	–	–	–	–	–	7,560	19,640
Long-term investments	2,049,979	–	1,167,072	212,778	330,169	174,098	80,310	21,583	37,996	10,409	596	14,968
Property, plant and equipment, net	4,149,345	–	799,596	459,576	1,200,241	190,766	973,755	263,390	175,560	44,482	32,181	9,798
Insurance claims receivable, net of current portion	323,513	–	2,765	64,529	99,229	57,389	54,936	18,705	7,000	6,970	11,169	821
Other assets	349,488	(5,112)	80,359	199,590	13,678	12,906	46,677	1,390	–	–	–	–
Total assets	\$ 10,740,396	\$ (286,831)	\$ 2,126,083	\$ 2,366,123	\$ 3,009,375	\$ 985,696	\$ 1,386,960	\$ 386,338	\$ 479,073	\$ 153,634	\$ 78,556	\$ 55,389
Liabilities and net assets (deficit)												
Current liabilities:												
Short-term borrowings	\$ 110,218	\$ –	\$ –	\$ 7,500	\$ 102,718	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Accounts payable and accrued expenses	642,574	–	183,919	145,116	119,269	38,601	62,727	49,285	21,420	10,272	10,500	1,465
Accrued salaries and related benefits	623,063	–	225,794	107,253	131,815	39,707	47,947	27,754	22,722	6,667	11,310	2,094
Current portion of capital lease obligations	1,932	–	1,625	–	50	–	257	–	–	–	–	–
Current portion of long-term debt	40,606	–	771	10,039	20,594	4,212	1,820	35	35	754	1,531	815
Current portion of insurance claims liability	75,457	–	913	18,794	20,386	11,137	12,358	4,842	3,505	1,225	2,026	271
Current portion of malpractice and other insurance liabilities	93,154	–	21,886	19,745	21,653	11,941	6,364	5,065	3,546	1,285	1,669	–
Current portion of estimated payable to third-party payers	188,762	–	–	38,651	83,379	29,138	15,677	11,475	481	–	6,172	3,789
Total current liabilities	1,775,766	–	434,908	347,098	499,864	134,736	147,150	98,456	51,709	20,203	33,208	8,434
Due to affiliates, net	1,895	(403,510)	46,655	–	–	16,649	152,934	158,653	20,479	10,035	–	–
Accrued retirement benefits, net of current portion	885,659	–	220,502	162,031	80,040	2,467	188,694	69,186	118,851	14,622	24,707	4,559
Capital lease obligations, net of current portion	168,286	–	99,420	–	66,588	–	2,278	–	–	–	–	–
Long-term debt, net of current portion	3,104,971	–	1,789,719	105,063	856,019	72,485	114,934	71,245	78,246	5,852	8,347	3,061
Insurance claims liability, net of current portion	323,513	–	2,765	64,529	99,229	57,389	54,936	18,705	7,000	6,970	11,169	821
Malpractice and other insurance liabilities, net of current portion	887,377	–	122,939	211,321	237,085	106,843	81,161	56,277	41,855	12,391	17,505	–
Other long-term liabilities	518,320	–	2,088	129,621	211,873	44,335	60,214	40,846	13,463	7,168	8,000	712
Total liabilities	7,665,787	(403,510)	2,718,996	1,019,663	2,050,698	434,904	802,301	513,368	331,603	77,241	102,936	17,587
Commitments and contingencies												
Net assets (deficit):												
Unrestricted	2,633,962	116,679	(592,913)	1,200,829	814,661	538,256	484,561	(137,545)	134,670	62,656	(24,868)	36,976
Temporarily restricted	369,490	–	–	117,431	134,756	11,052	71,891	10,515	11,637	10,894	488	826
Permanently restricted	71,157	–	–	28,200	9,260	1,484	28,207	–	1,163	2,843	–	–
Total net assets (deficit)	3,074,609	116,679	(592,913)	1,346,460	958,677	550,792	584,659	(127,030)	147,470	76,393	(24,380)	37,802
Total liabilities and net assets (deficit)	\$ 10,740,396	\$ (286,831)	\$ 2,126,083	\$ 2,366,123	\$ 3,009,375	\$ 985,696	\$ 1,386,960	\$ 386,338	\$ 479,073	\$ 153,634	\$ 78,556	\$ 55,389

Northwell Health, Inc.

Consolidating Statement of Financial Position – Phelps Memorial Hospital
(In Thousands)

December 31, 2017

	Phelps Memorial Hospital Association and Subsidiaries	Eliminations	Phelps Memorial Hospital Association	Phelps Professional Building Co.	Phelps Medical Associates
Assets					
Current assets:					
Cash and cash equivalents	\$ 25,954	\$ –	\$ 23,396	\$ 960	\$ 1,598
Short-term investments	48,216	–	48,216	–	–
Accounts receivable for services to patients, net of allowance for doubtful accounts	29,998	–	29,998	–	–
Accounts receivable for physician activities, net	3,062	–	833	–	2,229
Insurance claims receivable, current portion	105	–	105	–	–
Other current assets	5,581	–	5,383	20	178
Total current assets	112,916	–	107,931	980	4,005
Due from affiliates, net	2,395	(3,481)	5,114	762	–
Long-term investments	29,750	–	29,750	–	–
Pledges receivable, net of current portion	1,021	–	1,021	–	–
Property, plant and equipment, net	167,523	–	155,953	9,203	2,367
Insurance claims receivable, net of current portion	5,261	–	5,261	–	–
Other assets	7,762	(1,868)	9,630	–	–
Total assets	\$ 326,628	\$ (5,349)	\$ 314,660	\$ 10,945	\$ 6,372
Liabilities and net assets (deficit)					
Current liabilities:					
Accounts payable and accrued expenses	\$ 18,178	\$ –	\$ 17,506	\$ 90	\$ 582
Accrued salaries and related benefits	13,832	–	11,523	–	2,309
Current portion of long-term debt	1,842	–	1,635	207	–
Current portion of insurance claims liability	105	–	105	–	–
Current portion of malpractice and other insurance liabilities	1,715	–	1,715	–	–
Current portion of estimated payable to third-party payers	299	–	299	–	–
Total current liabilities	35,971	–	32,783	297	2,891
Due to affiliates, net	–	(3,481)	–	–	3,481
Accrued retirement benefits, net of current portion	6,164	–	6,164	–	–
Long-term debt, net of current portion	31,363	–	28,210	3,153	–
Insurance claims liability, net of current portion	5,261	–	5,261	–	–
Malpractice and other insurance liabilities, net of current portion	13,522	–	13,522	–	–
Other long-term liabilities	4,764	–	4,763	–	1
Total liabilities	97,045	(3,481)	90,703	3,450	6,373
Commitments and contingencies					
Net assets (deficit):					
Unrestricted	216,714	(1,868)	211,088	7,495	(1)
Temporarily restricted	8,912	–	8,912	–	–
Permanently restricted	3,957	–	3,957	–	–
Total net assets (deficit)	229,583	(1,868)	223,957	7,495	(1)
Total liabilities and net assets (deficit)	\$ 326,628	\$ (5,349)	\$ 314,660	\$ 10,945	\$ 6,372

Northwell Health, Inc.

Consolidating Statement of Financial Position – Northern Westchester Hospital
(In Thousands)

December 31, 2017

	Northern Westchester Hospital Association and Subsidiaries	Eliminations	Northern Westchester Hospital Association	Northern Westchester Hospital Center Foundation	Other Subsidiaries
Assets					
Current assets:					
Cash and cash equivalents	\$ 24,936	\$ –	\$ 24,442	\$ –	\$ 494
Short-term investments	64,227	–	64,227	–	–
Accounts receivable for services to patients, net of allowance for doubtful accounts	29,931	–	29,931	–	–
Accounts receivable for physician activities, net	1,835	–	1,835	–	–
Insurance claims receivable, current portion	717	–	717	–	–
Other current assets	7,350	–	7,350	–	–
Total current assets	128,996	–	128,502	–	494
Due from affiliates, net	–	(5,186)	4,066	–	1,120
Long-term investments	65,918	–	34,812	31,106	–
Pledges receivable, net of current portion	1,827	–	–	1,827	–
Property, plant and equipment, net	196,290	–	181,906	6	14,378
Insurance claims receivable, net of current portion	2,700	–	2,700	–	–
Other assets	8,260	–	7,378	10	872
Total assets	\$ 403,991	\$ (5,186)	\$ 359,364	\$ 32,949	\$ 16,864
Liabilities and net assets					
Current liabilities:					
Accounts payable and accrued expenses	\$ 28,201	\$ –	\$ 27,732	\$ 60	\$ 409
Accrued salaries and related benefits	15,368	–	15,329	39	–
Current portion of long-term debt	3,584	–	3,584	–	–
Current portion of insurance claims liability	717	–	717	–	–
Current portion of malpractice and other insurance liabilities	3,441	–	3,441	–	–
Current portion of estimated payable to third-party payers	868	–	868	–	–
Total current liabilities	52,179	–	51,671	99	409
Due to affiliates, net	3,703	(5,186)	–	2,729	6,160
Accrued retirement benefits, net of current portion	48,348	–	48,348	–	–
Long-term debt, net of current portion	51,086	–	51,086	–	–
Insurance claims liability, net of current portion	2,700	–	2,700	–	–
Malpractice and other insurance liabilities, net of current portion	21,265	–	21,265	–	–
Other long-term liabilities	10,426	–	9,267	–	1,159
Total liabilities	189,707	(5,186)	184,337	2,828	7,728
Commitments and contingencies					
Net assets:					
Unrestricted	181,344	–	169,338	2,870	9,136
Temporarily restricted	25,893	–	4,779	21,114	–
Permanently restricted	7,047	–	910	6,137	–
Total net assets	214,284	–	175,027	30,121	9,136
Total liabilities and net assets	\$ 403,991	\$ (5,186)	\$ 359,364	\$ 32,949	\$ 16,864

Northwell Health, Inc.

Combining Statement of Financial Position –
Joint Venture Ambulatory Surgery Centers
(In Thousands)

Year Ended December 31, 2017

	Joint Venture Ambulatory Surgery Centers	Eliminations	Endoscopy Center of Long Island	Garden City SurgiCenter	South Shore Surgery Center	Suffolk Surgery Center	Digestive Health Center of Huntington	Greenwich Village Surgery Center	Melville Surgery Center
Assets									
Current assets:									
Cash and cash equivalents	\$ 4,561	\$ –	\$ 927	\$ 2,280	\$ 328	\$ 436	\$ 151	\$ 133	\$ 306
Accounts receivable for services to patients, net of allowance for doubtful accounts	6,037	–	–	400	1,160	1,034	393	–	3,050
Other current assets	1,377	–	10	–	514	377	59	–	417
Total current assets	11,975	–	937	2,680	2,002	1,847	603	133	3,773
Due from affiliates, net	–	(30)	–	–	30	–	–	–	–
Property, plant and equipment, net	29,765	–	353	1,500	2,891	784	163	22,851	1,223
Other assets	63,506	–	29,939	6,416	4,145	5,358	4,237	–	13,411
Total assets	\$ 105,246	\$ (30)	\$ 31,229	\$ 10,596	\$ 9,068	\$ 7,989	\$ 5,003	\$ 22,984	\$ 18,407
Liabilities and net assets									
Current liabilities:									
Accounts payable and accrued expenses	\$ 8,323	\$ –	\$ 221	\$ 711	\$ 785	\$ 127	\$ 175	\$ 5,574	\$ 730
Accrued salaries and related benefits	637	–	47	78	137	52	25	41	257
Current portion of capital lease obligations	191	–	–	–	72	–	–	–	119
Current portion of long-term debt	629	–	–	114	445	70	–	–	–
Current portion of malpractice and other insurance liabilities	18	–	–	–	–	–	–	–	18
Total current liabilities	9,798	–	268	903	1,439	249	200	5,615	1,124
Due to affiliates, net	2,216	(30)	264	6	–	94	46	1,816	20
Capital lease obligations, net of current portion	146	–	–	–	102	–	–	–	44
Long-term debt, net of current portion	338	–	–	210	–	128	–	–	–
Other long-term liabilities	10,748	–	–	–	5	93	–	10,522	128
Total liabilities	23,246	(30)	532	1,119	1,546	564	246	17,953	1,316
Commitments and contingencies									
Net assets:									
Unrestricted	82,000	–	30,697	9,477	7,522	7,425	4,757	5,031	17,091
Temporarily restricted	–	–	–	–	–	–	–	–	–
Permanently restricted	–	–	–	–	–	–	–	–	–
Total net assets	82,000	–	30,697	9,477	7,522	7,425	4,757	5,031	17,091
Total liabilities and net assets	\$ 105,246	\$ (30)	\$ 31,229	\$ 10,596	\$ 9,068	\$ 7,989	\$ 5,003	\$ 22,984	\$ 18,407

Northwell Health, Inc.

Consolidating Statement of Operations
(In Thousands)

Year Ended December 31, 2017

	Northwell Health, Inc. Total	Eliminations	Northwell Health Obligated Group	Phelps Memorial Hospital Association and Subsidiaries	Northern Westchester Hospital Association and Subsidiaries	Peconic Bay Medical Center	The Long Island Home	Hospice Care Network	The Feinstein Institute for Medical Research	Northwell Health Foundation	Northwell Health Laboratories	Captive Insurance Companies	Dolan Family Health Center	Health Insurance Companies	Joint Venture Ambulatory Surgery Centers	Other Northwell Health Entities
Operating revenue:																
Net patient service revenue	\$ 7,880,282	\$ (197,763)	\$ 7,114,404	\$ 242,605	\$ 266,551	\$ 176,257	\$ 106,166	\$ 51,337	\$ 6	\$ -	\$ -	\$ -	\$ 5,068	\$ -	\$ 51,484	\$ 64,167
Physician practice revenue	1,495,740	(60,785)	1,088,860	26,007	10,474	22,275	1,895	363	-	-	-	-	-	-	-	406,651
Provision for bad debts	(129,033)	31	(107,124)	(2,890)	(4,500)	(4,404)	(4,709)	(75)	-	-	(1,274)	-	(5)	-	-	(4,083)
Total patient revenue, net of provision for bad debts	9,246,989	(258,517)	8,096,140	265,722	272,525	194,128	103,352	51,625	6	-	(1,274)	-	5,063	-	51,484	466,735
Other operating revenue	654,042	(772,283)	667,538	7,387	5,962	5,857	33,078	94	52,714	-	412,912	(15,472)	2,386	-	50	253,819
Net assets released from restrictions used for operations	61,375	-	42,315	162	678	2,646	-	1,011	13,863	-	-	-	700	-	-	-
	9,962,406	(1,030,800)	8,805,993	273,271	279,165	202,631	136,430	52,730	66,583	-	411,638	(15,472)	8,149	-	51,534	720,554
Operating expenses:																
Salaries	5,212,002	(108,763)	4,332,430	147,332	123,502	88,634	74,483	19,930	60,263	-	95,703	-	4,484	-	10,010	363,994
Employee benefits	1,230,621	(77,292)	1,070,144	25,219	31,550	25,345	29,027	6,302	17,893	-	31,112	-	1,813	-	1,588	67,920
Supplies and expenses	2,834,144	(843,851)	2,707,453	76,017	92,613	78,149	22,705	21,380	31,002	-	266,215	(11,985)	2,257	-	21,848	370,341
Depreciation and amortization	431,497	-	381,247	11,441	13,607	5,649	2,741	284	6,228	-	1,783	-	90	-	1,837	6,590
Interest	129,509	(894)	123,481	1,117	1,860	1,998	1,867	-	-	-	-	-	-	-	72	8
	9,837,773	(1,030,800)	8,614,755	261,126	263,132	199,775	130,823	47,896	115,386	-	394,813	(11,985)	8,644	-	35,355	808,853
Excess (deficiency) of operating revenue over operating expenses, excluding Health Insurance Companies	124,633	-	191,238	12,145	16,033	2,856	5,607	4,834	(48,803)	-	16,825	(3,487)	(495)	-	16,179	(88,299)
Health Insurance Companies operating revenue	828,077	-	-	-	-	-	-	-	-	-	-	-	-	828,077	-	-
Health Insurance Companies operating expenses	971,447	-	-	-	-	-	-	-	-	-	-	-	-	971,447	-	-
Health Insurance Companies excess of operating expenses over operating revenue	(143,370)	-	-	-	-	-	-	-	-	-	-	-	-	(143,370)	-	-
Total (deficiency) excess of operating revenue over operating expenses	(18,737)	-	191,238	12,145	16,033	2,856	5,607	4,834	(48,803)	-	16,825	(3,487)	(495)	(143,370)	16,179	(88,299)
Non-operating gains and losses:																
Investment income	109,051	-	96,720	547	1,970	656	83	2,365	30	137	(20)	7,141	(10)	(378)	(171)	(19)
Change in net unrealized gains and losses and change in value of equity method investments	281,520	-	257,243	3,244	5,137	(130)	-	723	2	542	-	15,944	-	(1,411)	-	226
Change in interest in acquired entities	-	(19,455)	19,455	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-operating net periodic benefit (cost) credit	(27,863)	-	(28,854)	-	682	-	1,638	-	(410)	(150)	(530)	-	(96)	-	-	(143)
Loss on refunding of long-term debt	(42,619)	-	(42,619)	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-operating gains and losses	(7,107)	-	7,010	353	984	-	2	308	1	(15,817)	-	-	-	-	-	52
Total non-operating gains and losses	312,982	(19,455)	308,955	4,144	8,773	526	1,723	3,396	(377)	(15,288)	(550)	23,085	(106)	(1,789)	(171)	116
Excess (deficiency) of revenue and gains and losses over expenses	294,245	(19,455)	500,193	16,289	24,806	3,382	7,330	8,230	(49,180)	(15,288)	16,275	19,598	(601)	(145,159)	16,008	(88,183)
Net assets released from restrictions for capital asset acquisitions	32,516	-	32,080	147	-	-	-	-	289	-	-	-	-	-	-	-
Change in fair value of interest rate swap agreements designated as cash flow hedges	2,218	-	471	-	558	796	393	-	-	-	-	-	-	-	-	-
Transfers (to) from affiliates	-	-	(370,821)	26,090	9,800	6,278	89	-	43,895	15,100	-	3,000	-	190,500	7,426	68,643
Pension and other postretirement liability adjustments	(36,130)	-	(24,275)	-	(11,598)	395	(652)	-	-	-	-	-	-	-	-	-
Other changes in net assets	(5,681)	10,940	-	(219)	-	5	-	-	-	-	-	-	-	22	(15,362)	(1,067)
Increase (decrease) in unrestricted net assets	\$ 287,168	\$ (8,515)	\$ 137,648	\$ 42,307	\$ 23,566	\$ 10,856	\$ 7,160	\$ 8,230	\$ (4,996)	\$ (188)	\$ 16,275	\$ 22,598	\$ (601)	\$ 45,363	\$ 8,072	\$ (20,607)

Northwell Health, Inc.

Combining Statement of Operations –
Northwell Health Obligated Group
(In Thousands)

Year Ended December 31, 2017

	Total Obligated Group	Eliminations	Northwell Healthcare, Inc.	North Shore University Hospital	Long Island Jewish Medical Center	Staten Island University Hospital	Lenox Hill Hospital	Southside Hospital	Huntington Hospital Association	Glen Cove Hospital	Plainview Hospital	Northwell Health Stern Family Center for Rehabilitation
Operating revenue:												
Net patient service revenue	\$ 7,114,404	\$ (588)	\$ –	\$ 1,790,661	\$ 2,264,051	\$ 900,720	\$ 1,003,756	\$ 453,801	\$ 339,496	\$ 119,465	\$ 187,237	\$ 55,805
Physician practice revenue	1,088,860	–	–	409,369	370,180	–	81,233	110,522	74,325	18,468	23,826	937
Provision for bad debts	(107,124)	6,066	–	(36,003)	(36,368)	(9,266)	(13,079)	(9,326)	(4,464)	(2,004)	(2,262)	(418)
Total patient revenue, net of provision for bad debts	8,096,140	5,478	–	2,164,027	2,597,863	891,454	1,071,910	554,997	409,357	135,929	208,801	56,324
Other operating revenue	667,538	(1,283,847)	1,215,138	341,323	173,270	30,197	146,521	23,525	6,152	5,455	9,258	546
Net assets released from restrictions used for operations	42,315	–	970	14,186	17,017	585	9,378	96	39	–	–	44
Total operating revenue	8,805,993	(1,278,369)	1,216,108	2,519,536	2,788,150	922,236	1,227,809	578,618	415,548	141,384	218,059	56,914
Operating expenses:												
Salaries	4,332,430	(446,910)	423,565	1,265,124	1,341,526	421,934	599,688	303,472	200,761	81,667	108,423	33,180
Employee benefits	1,070,144	(89,413)	101,425	249,770	340,268	136,756	135,165	80,901	49,950	19,630	33,965	11,727
Supplies and expenses	2,707,453	(742,046)	531,298	851,298	892,317	292,781	421,963	194,030	141,213	41,635	70,831	12,133
Depreciation and amortization	381,247	–	104,407	65,396	92,094	26,817	45,340	18,932	16,602	6,202	3,956	1,501
Interest	123,481	–	55,692	6,085	45,019	3,497	5,360	3,275	3,627	282	459	185
Total operating expenses	8,614,755	(1,278,369)	1,216,387	2,437,673	2,711,224	881,785	1,207,516	600,610	412,153	149,416	217,634	58,726
Excess (deficiency) of operating revenue over operating expenses	191,238	–	(279)	81,863	76,926	40,451	20,293	(21,992)	3,395	(8,032)	425	(1,812)
Non-operating gains and losses:												
Investment income	96,720	–	13,158	27,689	26,888	16,839	1,349	276	7,691	2,672	(32)	190
Change in net unrealized gains and losses and change in value of equity method investments	257,243	–	42,072	75,394	65,659	45,050	4,048	862	17,463	6,681	–	14
Change in interest in acquired entities	19,455	–	–	19,455	–	–	–	–	–	–	–	–
Non-operating net periodic benefit cost	(28,854)	–	(2,385)	(4,792)	(2,827)	(32)	(8,363)	(3,399)	(5,199)	(519)	(1,175)	(163)
Loss on refunding long-term debt	(42,619)	–	–	–	(19,168)	(5,798)	(9,609)	(3,990)	(4,054)	–	–	–
Other non-operating gains and losses	7,010	–	2,432	–	4,578	–	–	–	–	–	–	–
Total non-operating gains and losses	308,955	–	55,277	117,746	75,130	56,059	(12,575)	(6,251)	15,901	8,834	(1,207)	41
Excess (deficiency) of revenue and gains and losses over expenses	500,193	–	54,998	199,609	152,056	96,510	7,718	(28,243)	19,296	802	(782)	(1,771)
Net assets released from restrictions for capital asset acquisitions	32,080	–	–	8,757	–	447	9,181	13,440	–	255	–	–
Change in fair value of interest rate swap agreements designated as cash flow hedges	471	–	–	170	301	–	–	–	–	–	–	–
Transfers (to) from affiliates	(370,821)	–	(327,020)	(23,899)	(19,902)	–	–	–	–	–	–	–
Pension and other postretirement liability adjustments	(24,275)	–	(3,436)	(4,422)	(6,543)	637	2,070	(4,553)	(7,255)	(241)	(435)	(97)
Increase (decrease) in unrestricted net assets	\$ 137,648	\$ –	\$ (275,458)	\$ 180,215	\$ 125,912	\$ 97,594	\$ 18,969	\$ (19,356)	\$ 12,041	\$ 816	\$ (1,217)	\$ (1,868)

Northwell Health, Inc.

Consolidating Statement of Operations – Phelps Memorial Hospital
(In Thousands)

December 31, 2017

	Phelps Memorial Hospital Association and Subsidiaries	Eliminations	Phelps Memorial Hospital Association	Phelps Professional Building Co.	Phelps Medical Associates
Operating revenue:					
Net patient service revenue	\$ 242,605	\$ –	\$ 242,605	\$ –	\$ –
Physician practice revenue	26,007	–	7,731	–	18,276
Provision for bad debts	(2,890)	–	(2,884)	–	(6)
Total patient revenue, net of provision for bad debts	265,722	–	247,452	–	18,270
Other operating revenue	7,387	(2,241)	7,104	2,266	258
Net assets released from restrictions used for operations	162	–	162	–	–
Total operating revenue	273,271	(2,241)	254,718	2,266	18,528
Operating expenses:					
Salaries	147,332	–	124,026	233	23,073
Employee benefits	25,219	–	21,050	59	4,110
Supplies and expenses	76,017	(2,241)	71,694	826	5,738
Depreciation and amortization	11,441	–	11,105	291	45
Interest	1,117	–	1,017	100	–
Total operating expenses	261,126	(2,241)	228,892	1,509	32,966
Excess (deficiency) of operating revenue over operating expenses	12,145	–	25,826	757	(14,438)
Non-operating gains and losses:					
Investment income	547	–	546	1	–
Change in net unrealized gains and losses and change in value of equity method investments	3,244	–	3,244	–	–
Change in interest in Phelps Professional Building Co.	–	(547)	547	–	–
Other non-operating gains and losses	353	–	353	–	–
Total non-operating gains and losses	4,144	(547)	4,690	1	–
Excess (deficiency) of revenue and gains and losses over expenses	16,289	(547)	30,516	758	(14,438)
Net assets released from restrictions for capital asset acquisitions	147	–	147	–	–
Transfers from affiliates	26,090	–	11,560	–	14,530
Other changes in net assets	(219)	539	–	(758)	–
Increase (decrease) in unrestricted net assets	\$ 42,307	\$ (8)	\$ 42,223	\$ –	\$ 92

Northwell Health, Inc.

Consolidating Statement of Operations – Northern Westchester Hospital
(In Thousands)

December 31, 2017

	Northern Westchester Hospital Association and Subsidiaries	Northern Westchester Hospital Association	Northern Westchester Hospital Center Foundation	Other Subsidiaries
Operating revenue:				
Net patient service revenue	\$ 266,551	\$ 266,551	\$ –	\$ –
Physician practice revenue	10,474	10,474	–	–
Provision for bad debts	(4,500)	(4,500)	–	–
Total patient revenue, net of provision for bad debts	272,525	272,525	–	–
Other operating revenue	5,962	4,410	–	1,552
Net assets released from restrictions used for operations	678	678	–	–
Total operating revenue	279,165	277,613	–	1,552
Operating expenses:				
Salaries	123,502	123,413	–	89
Employee benefits	31,550	31,550	–	–
Supplies and expenses	92,613	91,692	–	921
Depreciation and amortization	13,607	13,058	–	549
Interest	1,860	1,860	–	–
Total operating expenses	263,132	261,573	–	1,559
Excess (deficiency) of operating revenue over operating expenses	16,033	16,040	–	(7)
Non-operating gains and losses:				
Investment income	1,970	1,851	–	119
Change in net unrealized gains and losses and change in value of equity method investments	5,137	5,137	–	–
Non-operating net periodic benefit credit	682	682	–	–
Other non-operating gains and losses	984	1,346	(362)	–
Total non-operating gains and losses	8,773	9,016	(362)	119
Excess (deficiency) of revenue and gains and losses over expenses	24,806	25,056	(362)	112
Change in fair value of interest rate swap agreements designated as cash flow hedges	558	558	–	–
Transfers from affiliates	9,800	9,800	–	–
Pension and other postretirement liability adjustments	(11,598)	(11,598)	–	–
Increase (decrease) in unrestricted net assets	\$ 23,566	\$ 23,816	\$ (362)	\$ 112

Northwell Health, Inc.

Combining Statement of Operations –
Joint Venture Ambulatory Surgery Centers
(In Thousands)

Year Ended December 31, 2017

	Joint Venture Ambulatory Surgery Centers	Endoscopy Center of Long Island	Garden City SurgiCenter	South Shore Surgery Center	Suffolk Surgery Center	Digestive Health Center of Huntington	Greenwich Village Surgery Center	Melville Surgery Center
Operating revenue:								
Net patient service revenue	\$ 51,484	\$ 19,249	\$ 11,661	\$ 8,664	\$ 5,969	\$ 2,840	\$ 10	\$ 3,091
Total patient revenue, net of provision for bad debts	51,484	19,249	11,661	8,664	5,969	2,840	10	3,091
Other operating revenue	50	–	–	50	–	–	–	–
Total operating revenue	51,534	19,249	11,661	8,714	5,969	2,840	10	3,091
Operating expenses:								
Salaries	10,010	1,972	2,880	1,819	1,132	1,009	396	802
Employee benefits	1,588	338	471	296	256	138	55	34
Supplies and expenses	21,848	5,301	5,750	3,566	3,451	1,180	1,105	1,495
Depreciation and amortization	1,837	42	220	323	263	51	848	90
Interest	72	–	5	49	10	–	–	8
Total operating expenses	35,355	7,653	9,326	6,053	5,112	2,378	2,404	2,429
Excess (deficiency) of operating revenue over operating expenses	16,179	11,596	2,335	2,661	857	462	(2,394)	662
Non-operating gains and losses:								
Investment income	(171)	(19)	(105)	(16)	(11)	(11)	(1)	(8)
Total non-operating gains and losses	(171)	(19)	(105)	(16)	(11)	(11)	(1)	(8)
Excess (deficiency) of revenue and gains and losses over expenses	16,008	11,577	2,230	2,645	846	451	(2,395)	654
Transfers from affiliates	7,426	–	–	–	–	–	7,426	–
Other changes in net assets	(15,362)	(11,600)	(375)	(1,500)	(1,223)	(517)	–	(147)
Increase (decrease) in unrestricted net assets	\$ 8,072	\$ (23)	\$ 1,855	\$ 1,145	\$ (377)	\$ (66)	\$ 5,031	\$ 507

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