Consolidated Financial Statements

Montefiore Medical Center
Years Ended December 31, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

Montefiore Medical Center

Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

Contents

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Building a better working world

Report of Independent Auditors

The Board of Trustees
Montefiore Medical Center

We have audited the accompanying consolidated financial statements of Montefiore Medical Center and its controlled organizations, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Montefiore Medical Center and its controlled organizations at December 31, 2016 and 2015, and the consolidated results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 21, 2017

Montefiore Medical Center

Consolidated Statements of Financial Position

	December 31 2016	December 31 2015
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 138,720**	$ 99,615
Marketable and other securities	**633,928**	713,828
Assets limited as to use, current portion	**52,159**	96,258
Receivables for patient care, less allowances for doubtful accounts (2016 – $27,431; 2015 – $20,639)	**224,771**	221,763
Other receivables	**81,747**	87,219
Estimated insurance claims receivable, current portion	**74,963**	71,220
Other current assets	**51,749**	45,944
Due from members, current portion	**52,007**	72,938
Total current assets	**1,310,044**	1,408,785
Assets limited as to use, net of current portion	**194,269**	192,719
Property, buildings and equipment, net	**1,122,239**	1,159,040
Estimated insurance claims receivable, net of current portion	**424,793**	403,582
Other noncurrent assets	**259,112**	226,507
Due from members, net of current portion	**86,878**	80,589
Total assets	**$ 3,397,335**	$ 3,471,222
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 289,838**	$ 295,607
Accrued salaries, wages and related items	**269,138**	248,951
Malpractice insurance premiums payable, current portion	**50,848**	65,776
Estimated insurance claims liabilities, current portion	**74,963**	71,220
Long-term debt, current portion	**65,786**	59,901
Due to members	**28,928**	16,239
Total current liabilities	**779,501**	757,694
Long-term debt, net of current portion	**753,021**	801,864
Noncurrent defined benefit and postretirement health plan liabilities	**167,051**	161,255
Professional and other insured liabilities	**136,512**	134,099
Employee deferred compensation	**37,789**	31,616
Estimated insurance claims liabilities, net of current portion	**424,793**	403,582
Estimated third-party payer liabilities	**215,066**	292,718
Other noncurrent liabilities	**84,320**	70,802
Total liabilities	**2,598,053**	2,653,630
Commitments and contingencies		
Net assets:		
Unrestricted	**689,397**	711,692
Temporarily restricted	**78,181**	74,510
Permanently restricted	**31,704**	31,390
Total net assets	**799,282**	817,592
Total liabilities and net assets	**$ 3,397,335**	$ 3,471,222

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Operations

	Year Ended December 31	
	2016	**2015**
	(In Thousands)	
Operating revenue		
Net patient service revenue before bad debt expense	**$ 3,681,067**	$ 3,475,823
Bad debt expense	**(49,307)**	(46,391)
Net patient service revenue	**3,631,760**	3,429,432
Grants and contracts	**89,151**	77,204
Contributions	**6,584**	6,376
Other revenue	**177,839**	159,427
Total operating revenue	**3,905,334**	3,672,439
Operating expenses		
Salaries and wages	**1,728,174**	1,666,288
Employee benefits	**526,615**	492,282
Supplies and other expenses	**1,449,018**	1,335,731
Depreciation and amortization	**148,955**	141,238
Interest	**34,589**	35,489
Total operating expenses	**3,887,351**	3,671,028
Excess of operating revenues over operating expenses before other items	**17,983**	1,411
Net realized and changes in net unrealized gains and losses on marketable and other securities	**14,009**	7,060
Malpractice insurance program adjustments associated with investment earnings shortfall	**(1,209)**	(20,259)
Gain on debt refinancing	**4,604**	–
Excess (deficiency) of revenues over expenses	**35,387**	(11,788)
Change in defined benefit pension and other postretirement plan liabilities to be recognized in future periods	**6,720**	23,348
Net assets released from restrictions used for purchases of property, buildings and equipment	**109**	71
Transfers to members, net	**(64,511)**	(107,305)
Decrease in unrestricted net assets	**$ (22,295)**	$ (95,674)

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2016 and 2015

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
	(In Thousands)			
Net assets at January 1, 2015	$ 807,366	$ 72,995	$ 25,350	$ 905,711
Decrease in unrestricted net assets	(95,674)	–	–	(95,674)
Restricted gifts, bequests, and similar items	–	5,446	6,040	11,486
Restricted investment income	–	938	–	938
Net assets released from restrictions	–	(4,869)	–	(4,869)
Total changes in net assets	(95,674)	1,515	6,040	(88,119)
Net assets at December 31, 2015	711,692	74,510	31,390	817,592
Decrease in unrestricted net assets	**(22,295)**	**–**	**–**	**(22,295)**
Restricted gifts, bequests, and similar items	**–**	**5,717**	**314**	**6,031**
Restricted investment income	**–**	**1,220**	**–**	**1,220**
Net assets released from restrictions	**–**	**(3,266)**	**–**	**(3,266)**
Total changes in net assets	**(22,295)**	**3,671**	**314**	**(18,310)**
Net assets at December 31, 2016	**$ 689,397**	**$ 78,181**	**$ 31,704**	**$ 799,282**

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2016	**2015**
	(In Thousands)	
Operating activities		
Decrease in net assets	**$ (18,310)**	$ (88,119)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	**148,955**	141,238
Bad debt expense	**49,307**	46,391
Change in defined benefit pension and other postretirement plan liabilities to be recognized in future periods	**(6,720)**	(23,348)
Transfers to members, net	**64,511**	107,305
Net realized gains and losses	**(4,614)**	(18,094)
Change in net unrealized gains and losses	**(9,395)**	11,034
Equity earnings from investments	**(27,672)**	(7,741)
Write-off of long-term mortgage premium and deferred financing costs as a result of debt refinancing	**1,284**	–
Amortization of long-term mortgage premium	**(502)**	(822)
Amortization of deferred financing costs	**1,171**	1,419
Changes in operating assets and liabilities:		
Receivables for patient care	**(52,315)**	(87,672)
Accounts payable and accrued expenses	**(5,769)**	39,485
Accrued salaries, wages and related items	**20,187**	32,970
Noncurrent defined benefit and postretirement health plan liabilities	**12,516**	(4,212)
Net change in all other operating assets and liabilities	**(57,146)**	(28,807)
Net cash provided by operating activities	**115,488**	121,027
Investing activities		
Acquisition of property, buildings and equipment, net	**(112,154)**	(212,190)
Advances to Montefiore Health System, Inc. on MHS Note and other	**(8,336)**	(14,214)
Payments from Montefiore Health System, Inc. on MHS Note	**1,948**	1,702
Decrease in marketable and other securities, net	**93,909**	196,838
Decrease (increase) in assets limited to use, net	**42,549**	(30,656)
Net cash provided by (used in) investing activities	**17,916**	(58,520)
Financing activities		
Payments of long-term debt	**(68,529)**	(52,418)
Extinguishment of long-term debt	**(224,964)**	–
Proceeds from long-term debt	**252,090**	119,680
Payments of deferred financing costs	**(3,508)**	(306)
Payments to members, net	**(49,388)**	(76,318)
Net cash used in financing activities	**(94,299)**	(9,362)
Net increase in cash and cash equivalents	**39,105**	53,145
Cash and cash equivalents at beginning of year	**99,615**	46,470
Cash and cash equivalents at end of year	**$ 138,720**	$ 99,615

See accompanying notes.

1. Organization and Significant Accounting Policies

Organization

Montefiore Medical Center (the Medical Center) and its controlled organizations comprise an integrated health care delivery system. The majority of the facilities are located in the Bronx, New York. The Medical Center is incorporated under New York State Not-for-Profit Corporation law and provides health care and related services, primarily to residents of the Metropolitan New York area. The Medical Center is a not-for-profit membership organization whose sole member is Montefiore Health System, Inc. (MHS). In addition, MHS is the sole member of several other health care related entities (members). Effective January 1, 2015, Montefiore Medicine Academic Health System, Inc. (MMAHS) became the sole member of MHS.

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

The accompanying consolidated financial statements include the accounts of the Medical Center and its controlled tax-exempt and taxable organizations.

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

For financial statement presentation, the entities described above are collectively termed the Medical Center, except as explicitly specified. All intercompany accounts and activities have been eliminated in consolidation.

1. Organization and Significant Accounting Policies (continued)

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

Tax Status: The Medical Center, a section 501(c)(3) organization, is exempt from Federal, New York State and local income taxes under Section 501(a) of the Internal Revenue Code, as are all of the organizations consolidated in these financial statements, except for MCV and its subsidiaries, which are taxable entities and CMO, MPRO and MHVC which are disregarded entities for tax purposes. Disregarded entity status provides that the Medical Center is subject to unrelated business income taxation on income derived from activities not specific to the Medical Center. Deferred tax assets in the amount of $35.4 million are fully reserved in the accompanying consolidated financial statements as it was determined to be more likely than not that these assets will not be realized in the near term. Provisions for income taxes related to the taxable entities are not material to the consolidated financial statements.

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

When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are classified as unrestricted contributions. Other revenue for the years ended December 31, 2016 and 2015 includes approximately $3.2 million and $4.8 million, respectively, of net assets released from restrictions used for operations.

Cash and Cash Equivalents: Cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less at the time of purchase which are not deemed to be assets limited as to use or part of the marketable securities portfolio. The Medical Center maintains cash on deposit with major banks and invests in highly rated commercial paper on an overnight basis or securities issued by either the United States Government or its agencies with a maturity of three months or less at the time of purchase. The Medical Center does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents.

1. Organization and Significant Accounting Policies (continued)

At December 31, 2016 and 2015, the Medical Center invested excess cash in deposits with major banks and in money market funds with high credit quality financial institutions.

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

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

Inventories: Inventories, included in other current assets, consist primarily of drugs and supplies, and are valued at the lower of cost (first-in, first-out method) or market.

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

Individual investment holdings within the alternative investments include both non-marketable and market-traded securities. Valuations of the non-marketable securities are determined by the investment manager or general partner. These values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, the carrying amount reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Medical Center to securities lending, short sales of securities, and trading in futures and forwards contracts, options

1. Organization and Significant Accounting Policies (continued)

and other derivative products. The Medical Center's risk is limited to its carrying value, in addition to any unfunded commitment. At December 31, 2016, the Medical Center had approximately $8.2 million of future commitments to invest in alternative investments. Certain investments are subject to notification periods or restrictions in order to divest. The financial statements of the investees are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Medical Center's annual consolidated financial statement reporting.

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

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

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

Property, Buildings and Equipment: Property, buildings and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date received. Annual provisions for depreciation are made based upon the straight-line method over the estimated useful lives of the assets. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations in the year of disposal.

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

1. Organization and Significant Accounting Policies (continued)

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

Deferred Revenue: Deferred revenue included with other noncurrent liabilities represents amounts the Medical Center has received for which all obligations have not yet been fulfilled. Accordingly, such amounts are included within deferred revenue until earned.

Vacation Benefits: These benefits are accrued as earned, except for individuals employed under certain research grants and contracts.

Premium Revenue and Health Care Service Cost Recognition: Under certain managed care contracts, the Medical Center receives from the insurer a monthly premium per enrollee during the term of enrollment. The premium revenue, which is based on individual contracts, is recognized in the period earned. Under such arrangements, the Medical Center manages and, directly and through arrangements with other health care providers, delivers health care services to enrollees in accordance with the terms of the subscriber agreements. The Medical Center reimburses these providers on either a capitated or negotiated fee-for-service basis. The cost of health care services is accrued based on processed and unprocessed claims and estimates for medical services, which have been incurred but not reported. Although it is not possible to measure with certainty the degree of variability inherent in such an estimate, such estimates are continually monitored and reviewed by management and independent actuaries, and any adjustments deemed necessary are reflected in current operations. Health care service costs included in supplies and other expenses were decreased by approximately $5.0 million for the year ended December 31, 2016 and increased by approximately $200,000 for the year ended December 31, 2015, reflecting the difference between claims paid and the liability originally estimated. Premium revenue included within net patient service revenue in the accompanying consolidated statements of operations aggregated approximately $546.4 million and $543.1 million for the years ended December 31, 2016 and 2015, respectively.

1. Organization and Significant Accounting Policies (continued)

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

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

Research and Contract Revenue Recognition: The Medical Center is the recipient of various research awards from various governmental and commercial sources and has various contracts with governmental agencies. Revenue is recognized only to the extent of expenditures under the specific contracts or awards. The accompanying consolidated financial statements do not include amounts related to grants (or portions thereof) that have been awarded to the Medical Center for which expenditures have not been incurred. Such grant awards approximated $25.2 million and $33.2 million at December 31, 2016 and 2015, respectively.

Charity Care and Other Community Benefit Programs: The Medical Center is guided by its mission and charitable purpose to provide charity care and other community benefit programs. These activities include access to medically necessary treatment for individuals unable to pay for services, care provided under means-tested government insurance programs that reimburse the Medical Center at less than the cost of the services provided, education for future health providers, research to advance knowledge and other programs designed to meet local community needs.

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

1. Organization and Significant Accounting Policies (continued)

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

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

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

Research and other community benefit program costs include expenses incurred to advance medical care and clinical knowledge. In addition, the Medical Center fosters community participation through advisory boards and linkages with community-based groups. It responds to identified community health related needs by offering specific services including, among others, wellness programs, community education programs, health screenings, community support services and subsidized health services. The research and other community benefit program costs presented below are included in operating expenses in the accompanying consolidated statements of operations.

1. Organization and Significant Accounting Policies (continued)

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

	Year Ended December 31 2016	2015
	(In Thousands)	
Charity care, at cost and net of subsidies	**$ 50,064**	$ 48,305
Unpaid cost of means-tested government-sponsored insurance programs	**288,128**	266,263
Health professions training, at cost	**38,571**	32,897
Community benefit programs	**92,299**	89,302
Research	**15,574**	15,068
	$ 484,636	$ 451,835

The New York State Department of Health (NYSDOH) Hospital Indigent Care Pool (the Pool) was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. For the years ended December 31, 2016 and 2015, the Medical Center received approximately $8.1 million and $15.3 million, respectively, in Pool distributions related to charity care. The Medical Center made payments into the Pool of approximately $19.0 million and $17.7 million for the years ended December 31, 2016 and 2015, respectively, for the 1% assessment.

Program Services: The Medical Center provides health care and related services primarily within its geographic area. Expenses related to providing these services for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
	(In Thousands)	
Health care and related services	**$ 3,529,604**	$ 3,353,244
Program support and general services	**357,747**	317,784
	$ 3,887,351	$ 3,671,028

1. Organization and Significant Accounting Policies (continued)

Use of Estimates: The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, such as estimated uncollectibles for accounts receivable for services to patients and estimated insurance recoveries receivable, and liabilities, such as estimated third-party payer liabilities, estimated insurance claims liabilities and the disclosure of contingent assets and liabilities, at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. Actual results could differ from those estimates. During 2016 and 2015, the Medical Center recorded net changes in estimates of $46.5 million and $24.9 million, respectively, which primarily related to changes in previously estimated third-party payer settlements and changes to estimated liabilities.

Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers*. 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 2015-04, will be effective for fiscal years beginning after December 15, 2017, and interim periods within that fiscal year, with early adoption permitted but not prior to annual periods beginning after December 15, 2016. The Medical Center is in the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern,* that requires management of public and nonpublic companies to evaluate and disclose where there is substantial doubt about an entity's ability to continue as a going concern. The Medical Center adopted ASU 2014-15 as of December 31, 2016. The Medical Center's adoption of ASU 2014-15 did not impact the Medical Center's 2016 consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If certain criteria are met, an entity may account for such an arrangement under the internal use software guidance included in Accounting Standards Codification (ASC) 350-40, *Internal Use Software*, whereby amounts are capitalized. If such criteria are not met, the cloud computing arrangement is considered a service contract and

1. Organization and Significant Accounting Policies (continued)

the related costs are expensed as incurred. ASU 2015-05 is effective for public business entities for fiscal years beginning after December 15, 2015 with the option to apply the guidance prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. The Medical Center adopted ASU 2015-05 prospectively as of January 1, 2016 with no impact to the 2016 consolidated financial statements.

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

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

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees;

1. Organization and Significant Accounting Policies (continued)

beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the Medical Center for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

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

In January 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The standard is effective for the Medical Center for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted. Adoption of ASU 2017-07 will require the Medical Center to include the service cost component of net periodic benefit cost related to its cash balance defined benefit plan and other postretirement benefit plan (aggregate of approximately $15.1 million for 2016) within salaries and wages on the consolidated statements of operations and to present all other components (aggregate of approximately $8.8 million for 2016) as a separate line item outside of the excess of operating revenue over operating expenses before other items. Total net periodic benefit cost is recorded currently as a component of employee benefits on the consolidated statements of operations.

1. Organization and Significant Accounting Policies (continued)

Reclassifications: For purposes of comparison, certain reclassifications have been made to the accompanying 2015 consolidated financial statements to conform to the 2016 presentation. These reclassifications have no effect on net assets previously reported.

Subsequent Events: Subsequent events have been evaluated through April 21, 2017, which is the date the consolidated financial statements were issued. No subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

2. Net Patient Service Revenue

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

Non-Medicare Reimbursement: In New York State, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payers are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the New York State Department of Health. Payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments.

Outpatient services also are paid based on a statewide prospective system. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services (CMS), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Medical Center is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payers will continue to be made in future years.

2. Net Patient Service Revenue (continued)

Medicare Reimbursement: Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. The Medical Center is paid for services rendered to Medicare beneficiaries on a Periodic Interim Payment (PIP) basis, plus certain add-ons and other items that are tentatively settled after submission of an annual cost report by the Medical Center and final settled after audits thereof by the Medicare Administrative Contractor (MAC) of the submitted cost report. The Medicare cost reports of the Medical Center have been final settled by the MAC through the year ended December 31, 2001.

Medicare and Medicaid regulations require annual retroactive settlements for cost-based reimbursements through cost reports filed by the Medical Center. These retroactive settlements are estimated and recorded in the consolidated financial statements in the year in which they occur. The estimated settlements recorded at December 31, 2016 and 2015 could differ from actual settlements based on the results of cost report audits.

Laws and regulations governing health care programs are extremely complex and are subject to interpretation. Noncompliance with such laws and regulations could result in repayment of amounts improperly reimbursed, fines, penalties and exclusion from such programs. In addition, the classification of patients of the Medical Center and the appropriateness of their admission are subject to an independent review by a peer review organization. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Medical Center is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations.

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

2. Net Patient Service Revenue (continued)

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

Net patient service revenue, net of contractual allowances and discounts, for the years ended December 31, 2016 and 2015, by major payer source, is as follows:

	2016	2015
	(In Thousands)	
Patient service revenue (net of contractual allowances and discounts):		
Medicaid and Medicaid managed care	**$ 1,170,216**	$ 1,145,863
Medicare and Medicare managed care	**1,187,785**	1,116,346
Commercial and managed care	**1,283,001**	1,169,991
Self-pay and other	**40,065**	43,623
	3,681,067	3,475,823
Bad debt expense	**(49,307)**	(46,391)
Net patient service revenue	**$ 3,631,760**	$ 3,429,432

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

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

	December 31 2016	December 31 2015
	(In Thousands)	
Marketable and other securities	**$ 633,928**	$ 713,828
Assets limited as to use	**246,428**	288,977
	$ 880,356	$ 1,002,805
Managed cash and cash equivalents held for investment	**$ 67,871**	$ 160,698
Corporate debt	**217,303**	285,964
U.S. Treasury securities	**109,401**	84,748
U.S. Government agency mortgage-backed securities	**51,848**	61,015
U.S. Government agency-backed securities	**40,167**	20,808
Equity securities	**60,659**	60,751
Non-equity mutual funds	**155,762**	83,555
Equity mutual funds	**27,163**	24,949
Limited partnerships and other alternative investments	**115,307**	157,776
Collective trust funds	**28,984**	49,065
Interest and other receivables	**5,891**	13,476
	$ 880,356	$ 1,002,805

The composition of assets limited as to use follows:

	December 31 2016	December 31 2015
	(In Thousands)	
Debt-related sinking funds	**$ 77,628**	$ 80,787
Donor restricted funds	**70,719**	68,614
Managed care cash reserves required by contracts	**47,139**	59,551
Lease escrow deposits	**13,153**	44,884
Employee deferred compensation plan assets	**37,789**	31,616
Marketable securities held as collateral	**–**	3,525
Total assets limited as to use	**246,428**	288,977
Less: current portion of assets limited as to use	**(52,159)**	(96,258)
Assets limited as to use, net of current portion	**$ 194,269**	$ 192,719

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

Investment returns for the years ended December 31, 2016 and 2015 are comprised as follows:

	Year Ended December 31	
	2016	**2015**
	(In Thousands)	
Interest and dividend income	**$ 12,912**	$ 14,793
Net realized gains and losses	**4,614**	18,094
Change in net unrealized gains and losses	**9,395**	(11,034)
	$ 26,921	$ 21,853

4. Property, Buildings and Equipment

A summary of property, buildings and equipment follows:

	December 31	
	2016	**2015**
	(In Thousands)	
Land and land improvements	**$ 40,214**	$ 40,042
Buildings, fixed equipment and improvements	**1,629,277**	1,591,587
Movable equipment	**1,281,401**	1,100,258
	2,950,892	2,731,887
Less accumulated depreciation and amortization	**(1,880,709)**	(1,734,099)
	1,070,183	997,788
Construction-in-progress	**52,056**	161,252
	$ 1,122,239	$ 1,159,040

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

5. Operating Leases

Total rental expense included in supplies and other expenses aggregated approximately $51.5 million and $45.8 million for the years ended December 31, 2016 and 2015, respectively.

Future minimum payments, by year and in the aggregate, under non-cancelable operating leases with initial or remaining terms of one year or more at December 31, 2016 consisted of the following (in thousands):

2017	$ 33,388
2018	29,038
2019	23,629
2020	20,497
2021	20,131
2022 and thereafter[1]	819,075
Total minimum lease payments	$ 945,758

[1] In September 2015, the Medical Center and Yeshiva University (YU) amended and restated a lease agreement for the Weiler Hospital campus. Terms of the agreement include approximately $2.5 million in annual rent, with a 2% increase, compounded annually through 2114.

6. Long-Term Debt

A summary of long-term debt follows:

	December 31 2016	December 31 2015
	(In Thousands)	
FHA Section 242 insured mortgage loan[a]	**$ 87,840**	$ 93,868
FHA Section 241 insured mortgage loan[b]	**60,975**	69,098
FHA Section 241 insured mortgage loan[c]	**59,163**	63,550
FHA Section 241 insured mortgage loan[d]	**9,708**	10,428
FHA Section 241 insured mortgage loan[e]	**131,209**	136,110
HDC residential revenue bonds payable[f]	**5,900**	6,200
Bank loans payable[g]	**79,470**	81,887
Housing II mortgages payable[h]	**18,421**	18,580
Housing I mortgage payable[i]	**1,160**	1,239
MCORP bonds payable[j]	**18,190**	18,720
NYC IDA bonds payable[j]	**12,755**	13,110
Build NYC bonds payable[k]	**73,718**	76,705
Equipment leasing programs[l]	**190,692**	199,885
Ambulatory care center financing[m]	**57,143**	57,604
Dormitory Authority mortgage [n]	**15,675**	16,444
Other	**1,931**	1,925
	823,950	865,353
Add long-term mortgage premiums[b, e, j]	**1,268**	5,297
Less deferred financing costs	**(6,411)**	(8,885)
Less current portion	**(65,786)**	(59,901)
	$ 753,021	$ 801,864

6. Long-Term Debt (continued)

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

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

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for the FHA insured mortgage loans. At December 31, 2016, the balance of approximately $19.8 million of the mortgage reserve fund met the funding requirements and minimum required mortgage reserve fund balances related to the FHA 242 Program insured mortgage loan. The funding requirements and the required minimum mortgage reserve fund balances for the next five years are:

	December 31	
	Funding Requirement	**Minimum Balance**
	(In Thousands)	
2017	$ –	$ 19,845
2018	–	19,845
2019	–	19,845
2020	–	19,845
2021	(2,315)	17,530

6. Long-Term Debt (continued)

[b] The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program, to finance a construction and renovation project. The interest rate on the mortgage is 4.55% per annum and principal and interest payments are due monthly through April 2023, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the loan may not be prepaid prior to February 1, 2018. Subsequent to February 1, 2018, the loan may be prepaid without penalty.

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for the FHA insured mortgage loans. At December 31, 2016, the balance of approximately $20.9 million of the mortgage reserve fund met the funding requirements and minimum mortgage reserve fund balances related to the FHA 241 Program insured mortgage loan. The funding requirements and the required minimum mortgage reserve fund balances for the next five years are:

	December 31	
	Funding Requirement	Minimum Balance
	(In Thousands)	
2017	$ (3,237)	$ 17,667
2018	(3,145)	14,522
2019	(3,145)	11,377
2020	(3,145)	8,232
2021	(3,237)	4,995

In connection with this financing, the Medical Center recorded a mortgage premium as a component of long-term debt related to the termination of a forward starting interest rate swap agreement. The balance outstanding was approximately $1.1 million and $1.5 million at December 31, 2016 and 2015, respectively. The mortgage premium is being amortized over the life of the mortgage using the effective interest method.

6. Long-Term Debt (continued)

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

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for the FHA insured mortgage loans. At December 31, 2016, the balance of approximately $14.0 million of the mortgage reserve fund met the funding requirements and minimum mortgage reserve fund balances related to the FHA 241 Program insured mortgage loan. The funding requirements and the required minimum mortgage reserve fund balances for the next five years are:

	December 31	
	Funding Requirement	**Minimum Balance**
	(In Thousands)	
2017	$ –	$ 13,969
2018	–	13,969
2019	–	13,969
2020	(1,164)	12,805
2021	(1,996)	10,809

[d]The Medical Center has a mortgage agreement insured under the provisions of the FHA 241 Program to finance a construction and renovation project. The interest rate is 4.22% per annum. Monthly payments of principal and interest will be made through May 1, 2027, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to April 30, 2021, after which the mortgage may be prepaid without penalty.

6. Long-Term Debt (continued)

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for the FHA insured mortgage loans. At December 31, 2016, the balance of approximately $2.3 million of the mortgage reserve fund met the funding requirements and minimum mortgage reserve fund balances related to the FHA 241 Program insured mortgage loan. The funding requirements and the required minimum mortgage reserve fund balances for the next five years are:

	December 31	
	Funding Requirement	**Minimum Balance**
	(In Thousands)	
2017	$ –	$ 2,292
2018	–	2,292
2019	–	2,292
2020	(191)	2,101
2021	(327)	1,774

[e]The Medical Center has a mortgage agreement insured under the provisions of the FHA 241 Program, to finance a construction and renovation project that was completed in 2007. Prior to May 2016, the mortgage agreement was with the Dormitory Authority and the interest rate was 5.37% per annum. In May 2016, the Medical Center issued the 2016 Bonds in order to refinance the mortgage loan and reduce the interest rate to 3.21%. The 2016 Bonds are secured by fully modified pass-through mortgage-backed securities guaranteed by GNMA. Mortgage principal and interest payments are due monthly through April 1, 2032, at which time any remaining principal and interest is due.

With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to March 31, 2026, after which the mortgage may be prepaid without penalty.

6. Long-Term Debt (continued)

In connection with the mortgage agreement, the Medical Center had a bank letter of credit which was terminated in May 2016. At December 31, 2015, the approximate $3.2 million letter of credit was secured by approximately $3.5 million of marketable securities included in assets limited as to use in the accompanying consolidated statements of financial position. There were no drawdowns under the letter of credit during the year ended December 31, 2015.

In connection with this financing, the Medical Center recorded approximately $7.6 million of mortgage premium as a component of long-term debt related to the termination of a forward starting interest rate swap agreement. The balance outstanding was approximately $3.7 million at December 31, 2015. The remaining balance was written off in May 2016 in connection with the refinancing of this debt.

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for the FHA insured mortgage loans. At December 31, 2016, the Medical Center met the funding requirements and minimum required mortgage reserve fund balance of $20.6 million related to the FHA 241 Program insured mortgage loan. The funding requirements and the required minimum mortgage reserve fund balances for the next five years are:

	December 31	
	Funding Requirement	Minimum Balance
	(In Thousands)	
2017	$ 896	$ 21,512
2018	–	21,512
2019	–	21,512
2020	–	21,512
2021	–	21,512

6. Long-Term Debt (continued)

(f) The proceeds of New York City Housing Development Corporation (HDC) revenue bonds were used by the Medical Center for a staff housing project. Interest is payable monthly at a variable rate (2.09% and 1.39% at December 31, 2016 and 2015, respectively). Principal is payable annually through May 1, 2030, at increasing annual amounts ranging from approximately $200,000 to $600,000. The amounts due are secured by a mortgage and a revenue pledge on the underlying property financed and an irrevocable direct pay letter of credit issued by a bank in the amount of approximately $6.0 million, which expires in September 2018. No unreimbursed draws were made under the direct pay letter of credit during the years ended December 31, 2016 and 2015. The revenue bonds can be prepaid without penalty at the option of the Medical Center.

(g) The Medical Center has a bank loan, of which approximately $7.9 million was outstanding at December 31, 2016. Interest is payable monthly at a fixed rate of 3.43%. Monthly principal payments of approximately $56,000 are due through the final maturity date in November 2021, at which time the remaining principal is due.

The Medical Center has a bank loan, of which approximately $4.0 million and $4.4 million was outstanding at December 31, 2016 and 2015, respectively. Interest is payable monthly at a variable rate (3.41% and 3.30% at December 31, 2016 and 2015, respectively). Annual principal payments of approximately $364,000 are due through the final maturity date in February 2019, at which time the remaining principal is due.

The Medical Center has a bank loan agreement, of which approximately $1.6 million and $1.9 million was outstanding at December 31, 2016 and 2015, respectively. Interest is payable monthly at a variable rate (2.95% and 2.96% at December 31, 2016 and 2015, respectively). Annual principal payments of approximately $267,000 are due through the final maturity date in February 2019, at which time the remaining principal is due.

During 2012, MCORP entered into a loan agreement with a bank to finance certain leasehold improvements. The balance outstanding at December 31, 2015 was $800,000 and was fully paid during 2016.

6. Long-Term Debt (continued)

During 2013, MCORP entered into a mortgage loan agreement with a bank for approximately $38.5 million in order to finance the purchase and renovation of real estate. At December 31, 2016 and 2015, approximately $35.9 million and $36.9 million was outstanding, respectively. Interest is payable monthly at a rate of approximately 2.49%. Monthly principal payments of approximately $78,000 commenced April 2014 and extend through March 2020, at which time the remaining principal is due. The mortgage loan may be prepaid prior to maturity, but may be subject to a prepayment penalty.

During 2013, the Medical Center entered into a mortgage loan agreement with a bank to borrow up to $30.0 million in order to finance real estate acquisitions and renovations. At December 31, 2016 and 2015, approximately $30.0 million was outstanding. Interest is payable monthly at a rate of 1.67% through February 2018, at which time the outstanding principal is due. The mortgage loan may be prepaid prior to maturity, but may be subject to a prepayment penalty.

At December 31, 2015, the Medical Center had a line of credit with a bank aggregating approximately $8.5 million, which was increased to $30.0 million during 2016. At December 31, 2016, no amounts were outstanding under this line. At December 31, 2015, the outstanding balance was $8.0 million and is included in long-term debt in the accompanying consolidated statement of financial position. Interest on the line is payable monthly at a variable rate (2.92% at December 31, 2015). The line of credit expires in June 2017.

(h) Housing II has primary and subordinate mortgage agreements with HDC. At December 31, 2016 and 2015, the primary mortgage amount outstanding was approximately $5.6 million and $5.8 million, respectively. The interest rate is 6.5%, and principal and interest payments of $44,300 are due monthly through January 1, 2035. After December 29, 2019, the primary mortgage may be prepaid without penalty if the subordinate mortgage is no longer outstanding. At December 31, 2016 and 2015, the subordinate mortgage amount outstanding was approximately $12.8 million and bears no interest.

6. Long-Term Debt (continued)

The subordinate mortgage is payable in full on April 30, 2035. After December 29, 2019, the subordinate mortgage may be prepaid without penalty. The effective interest rate of the combined obligation is 2.3%, assuming the obligation is prepaid in 2019. If the mortgages remain outstanding through 2035, the effective interest rate is 1.8%. Housing II has used 1.8% as the interest rate for the purpose of recognizing interest expense under the assumption that the mortgages will remain outstanding through 2035.

Substantially all of Housing II's property and equipment rents and profits are collateral for the mortgages. In addition, any requests for rental increases must be approved by HDC. During the years ended December 31, 2016 and 2015, Housing II maintained the reserve for replacement account in accordance with HDC requirements. Monthly deposits aggregating approximately $5,000 are required to be made into this account.

(i) Housing I has a mortgage loan agreement with a lender. At December 31, 2016 and 2015, the principal balance outstanding was approximately $1.2 million. The interest rate is 7.6%. Principal and interest payments are due monthly through July 2026. The mortgage loan may be prepaid upon 30-day notice subject to payment of a prepayment penalty of at least 1%. The mortgage loan is secured by a mortgage on the building and underlying property.

(j) MCORP financed the acquisition of certain real estate with the proceeds of two financings: New York City Industrial Development Agency (NYC IDA) revenue bonds and MCORP taxable bonds. Interest on the NYC IDA bonds has an average coupon rate of 4.96%, and payments of interest and principal are payable monthly through October 1, 2035. The NYC IDA bonds may be prepaid without penalty. The bonds were sold at a premium, of which approximately $148,000 and $160,000 was recorded as a component of the related long-term debt as of December 31, 2016 and 2015, respectively, and is being amortized using the effective interest method over the term of the NYC IDA bonds. Interest on the MCORP bonds is payable monthly at a variable rate (2.38% and 1.36% at December 31, 2016 and 2015, respectively). Principal is payable monthly through October 1, 2035. The MCORP bonds are subject to prepayment without penalty. Both bond issues are secured by direct pay letters of credit from a bank in the amounts of approximately $13.3 million and $18.6 million at December 31, 2016, and approximately $13.6 million and $19.1 million at December 31, 2015. The letters of credit are secured by a mortgage on the properties financed. The letters of credit expire September 25, 2018.

6. Long-Term Debt (continued)

No unreimbursed draws were made under the direct pay letters of credit during the years ended December 31, 2016 and 2015.

(k) During 2013, the Medical Center issued Build NYC Resource Corporation Revenue Bonds, Series 2013A and Series 2013B (2013 Bonds) of approximately $93.0 million through Build NYC Resource Corporation, to finance a leasehold renovation project secured by a leasehold mortgage. At December 31, 2016 and 2015, a total of approximately $73.7 million and $76.7 million was drawn and outstanding, respectively. Interest on the 2013 Bonds is payable monthly at variable rates (1.83% and 1.58% at December 31, 2016 and 2015, respectively). Monthly payments of principal of approximately $508,000 commenced in April 2015 and extend through the final maturity date in June 2030. The 2013 Bonds are subject to prepayment without penalty, upon satisfaction of certain notice provisions.

(l) In addition to amounts previously borrowed, the Medical Center borrowed approximately $14.8 million and $85.0 million during the years ended December 31, 2016 and 2015, respectively, under equipment leases to finance certain capital projects. The interest rates associated with the Medical Center's various equipment lease borrowings range from 1.06% to 2.20%.

(m) During 2014, the Medical Center entered into a real estate lease for an ambulatory care center. The lease was accounted for as a financing transaction; accordingly, an obligation of approximately $57.1 million and $57.6 million was outstanding at December 31, 2016 and 2015, respectively. Payments of principal and interest commenced in September 2015 and extend through September 2030.

(n) During 2015, the Medical Center entered into a loan agreement with the Dormitory Authority in the amount of approximately $16.4 million in connection with the transfer of a substance abuse treatment facility from Einstein to the Medical Center. The loan is secured by a mortgage on the facility. Interest payments are due semiannually at rates ranging from approximately 4.4% to 4.5% and principal payments are due annually, through February 15, 2030. To the extent that the Medical Center continues to meet certain conditions, its obligations to make interest and principal payments will be funded by the New York State Office of Alcoholism and Substance Abuse Services (OASAS) under a state aid grant lien. During 2016 and 2015, OASAS funded approximately $770,000 and $390,000, respectively, of principal, interest and fees associated with this loan.

6. Long-Term Debt (continued)

The aggregate amount of principal payments required under all long-term indebtedness, including capital leases and amortization of long-term mortgage premium and deferred financing costs, exclusive of sinking funds requirements, at December 31, 2016 are as follows (in thousands):

2017	$ 65,786
2018	101,353
2019	72,831
2020	101,892
2021	67,206
2022 and thereafter	409,739
	$ 818,807

Substantially all of the Medical Center's property, buildings and equipment and other assets serve as collateral under the various debt arrangements. In addition, the Medical Center must maintain certain financial ratios and, among other things, obtain approval to incur additional debt above specified amounts. The Medical Center was in compliance with such covenants at December 31, 2016 and 2015.

Interest paid during the years ended December 31, 2016 and 2015 amounted to approximately $32.9 million and $34.1 million, respectively.

7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	December 31	
	2016	**2015**
	(In Thousands)	
Collateralizing bank financing, teaching and research	**$ 37,224**	$ 37,224
Health care related services	**22,732**	17,994
Construction and renovation projects	**8,763**	10,482
Research	**8,449**	8,371
Other	**1,013**	439
	$ 78,181	$ 74,510

7. Temporarily and Permanently Restricted Net Assets (continued)

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

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

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

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

7. Temporarily and Permanently Restricted Net Assets (continued)

For the years ended December 31, 2016 and 2015, the Medical Center had the following endowment-related activities:

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

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Endowment balance, beginning of year	$ –	$ 1,764	$ 25,350	$ 27,114
Additions	–	–	6,040	6,040
Investment income	149	122	–	271
Amounts appropriated for expenditure	(149)	(50)	–	(199)
Net change in endowment funds	–	72	6,040	6,112
Endowment balance, end of year	$ –	$ 1,836	$ 31,390	$ 33,226

Permanently restricted net assets amounted to approximately $31.7 million and $31.4 million at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, the fair value of marketable securities (including reinvested earnings over the life of endowments) exceeded the amount of permanently restricted net assets at such dates.

8. Benefit Plans

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

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

Total expense, included in employee benefits expense in the accompanying consolidated statements of operations for the various pension plans aggregated approximately $137.2 million and $129.5 million for the years ended December 31, 2016 and 2015, respectively. Cash payments relative to the various pension plans aggregated approximately $136.7 million and $129.8 million for the years ended December 31, 2016 and 2015, respectively.

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

Multiemployer Plans

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

- Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

8. Benefit Plans (continued)

- If an entity of the multiemployer defined benefit pension plan chooses to stop participating in some of its multiemployer plans, the entity may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Medical Center's participation in these plans for the years ended December 31, 2016 and 2015 is outlined in the following table. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan numbers. Unless otherwise noted, the most recent Pension Protection Act zone status available in 2016 and 2015 is for the plan's year end at December 31, 2015 and 2014, respectively. The zone status is based on information that the Medical Center received from the plans and is certified by the plans' actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration dates of the collective-bargaining agreements to which the plans are subject.

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status January 1, 2016	January 1, 2015	FIP/RP Status Pending Implemented	Contributions from the Medical Center 2016	2015	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
					(In Thousands)			
NYSNA	13-6604799/001	Green	Green	N/A	**$ 24,562**	$ 23,092	No	12/31/2018
1199SEIU	13-3604862/001	Green	Green	N/A	**$ 55,289**	$ 52,348	No	9/30/2018

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

Pension Fund	Year Contributions to Plan Exceeded More Than 5% of Total Contributions (as of December 31 of the Plan's Year End)
NYSNA	2015 and 2014
1199SEIU	2015 and 2014

At the date the Medical Center's consolidated financial statements were issued, Forms 5500 were not available for the plans' year ended in 2016.

8. Benefit Plans (continued)

Defined Benefit Plans

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

Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of unrestricted net assets.

Included in unrestricted net assets at December 31, 2016 and 2015 are the following amounts that have not yet been recognized in net periodic benefit cost:

	Pension		Postretirement	
	2016	2015	**2016**	2015
	(In Thousands)			
Unrecognized actuarial loss	**$ 15,208**	$ 16,777	**$ 29,414**	$ 36,138
Unrecognized prior service cost (credit)	**206**	412	**(3,835)**	(5,614)
	$ 15,414	$ 17,189	**$ 25,579**	$ 30,524

The unrecognized net prior service cost (credit) and actuarial loss included in unrestricted net assets expected to be recognized as net periodic benefit (credit) cost during the year ending December 31, 2017 are approximately ($1.5) million and $2.9 million, respectively.

8. Benefit Plans (continued)

The following tables provide a reconciliation of the changes in the defined benefit pension plans' benefit obligations and fair value of plan assets (where applicable) and postretirement benefit plan for the years ended December 31, 2016 and 2015 and the funded status of the defined benefit plans as of December 31, 2016 and 2015:

	Pension		Postretirement	
	2016	**2015**	**2016**	**2015**
	(In Thousands)			
Changes in benefit obligation				
Benefit obligation at January 1	**$ 42,242**	$ 41,797	**$ 149,519**	$ 155,764
Service cost	**3,548**	3,398	**11,527**	11,859
Interest cost	**1,714**	1,559	**6,390**	6,121
Actuarial gain	**(1,268)**	(2,502)	**(3,861)**	(18,520)
Benefit payments, net	**(2,617)**	(2,726)	**(6,965)**	(5,705)
Plan amendments	**–**	716	**–**	–
Benefit obligation at December 31	**$ 43,619**	$ 42,242	**$ 156,610**	$ 149,519
Change in plan assets				
Fair value of plan assets at January 1	**$ 24,213**	$ 25,468	**$ –**	$ –
Actual return on plan assets	**855**	(1,342)	**–**	–
Employer contributions	**2,822**	2,813	**6,965**	5,705
Benefit payments, net	**(2,617)**	(2,726)	**(6,965)**	(5,705)
Fair value of plan assets at December 31	**$ 25,273**	$ 24,213	**$ –**	$ –
Funded status				
Amounts recognized in the consolidated statements of financial position	**$ (18,346)**	$ (18,029)	**$ (156,610)**	$ (149,519)

At December 31, 2016 and 2015, approximately $7.9 million and $6.3 million, respectively, was included in accrued salaries, wages and related items in the accompanying consolidated statements of financial position.

The actuarial gains in 2016 and 2015 are due to an increase in the discount rates.

8. Benefit Plans (continued)

The accumulated benefit obligation for the Medical Center's defined benefit plans as of December 31, 2016 and 2015 was approximately $28.4 million and $29.0 million, respectively.

The following table provides the components of the net periodic benefit cost for the defined benefit pension plans and postretirement benefit plan for the years ended December 31, 2016 and 2015:

	Pension		Postretirement	
	2016	**2015**	**2016**	**2015**
	(In Thousands)			
Service cost	**$ 3,548**	$ 3,398	**$ 11,527**	$ 11,859
Interest cost	**1,714**	1,559	**6,390**	6,121
Expected return on plan assets	**(1,722)**	(1,667)	**–**	–
Amortization of prior service cost (benefit)	**206**	485	**(1,779)**	(1,779)
Amortization of net loss	**1,168**	1,386	**2,863**	5,958
Net periodic benefit cost	**$ 4,914**	$ 5,161	**$ 19,001**	$ 22,159
Weighted-average assumptions used to determine benefit obligations as of December 31				
Discount rate	**4.17%–4.52%**	3.92%–4.45%	**4.50%**	4.35%
Rate of compensation increase	**3.00%–4.00%**	3.00%–4.00%	**3.00%**	3.00%
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31				
Discount rate	**3.92%–4.45%**	3.31%–4.06%	**4.35%**	4.00%
Expected long-term rate of return on plan assets	**6.50%**	6.50%	**–**	–
Rate of compensation increase	**3.00%–4.00%**	3.00%–4.00%	**–**	–

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

8. Benefit Plans (continued)

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

	December 31	
	2016	**2015**
Equity securities	**–%**	6%
Fixed income mutual funds	**23**	6
Alternative investments	**–**	9
Equity mutual/common trust funds	**53**	7
Cash and cash equivalents	**24**	72
	100%	100%

During 2016, the Medical Center's defined benefit plan assets were transferred from the Health Services Retirement Plan (which terminated during 2016) to Principal Financial Group.

Defined benefit pension plan assets are carried at fair value and generally consist of fixed income securities issued or guaranteed by government entities, money market funds, mutual funds, fixed income securities issued by corporations, equity securities, and alternative investments. Alternative investments are stated at fair value based upon, as a practical expedient, net asset values derived from the application of the equity method of accounting. Refer to Note 10 for additional fair value measurement information related to the defined benefit plan asset categories noted in the table above.

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

U.S. stocks	17–27%
Non-U.S. stocks	10–20%
Global stocks	6–9%
Bonds	19–30%
Hedge funds	12–22%
Private equity funds	0–10%

8. Benefit Plans (continued)

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

	2016	2015
Health care cost trend rate	**6.95%**	7.45%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.00%**	5.00%
Years that the rate reaches the ultimate trend rate	**2022-2023**	2022-2023

The measurement dates used to determine defined benefit pension and postretirement plan costs were December 31, 2016 and 2015.

During the year ending December 31, 2017, the Medical Center expects to contribute approximately $4.1 million and $5.7 million to the defined benefit pension and postretirement plans, respectively.

Expected benefit payments by year as of December 31, 2016 follow:

	Pension	Postretirement
	(In Thousands)	
2017	$ 4,052	$ 5,671
2018	5,095	6,064
2019	10,337	6,464
2020	10,046	6,870
2021	7,294	7,400
2022-2026	24,334	47,105

8. Benefit Plans (continued)

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

	2016		**2015**	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
	(In Thousands)			
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	**$ 3,464**	**$ (2,761)**	$ 3,700	$ (2,900)
Effect on the health care component of the accumulated postretirement benefit obligation	**23,980**	**(19,747)**	23,000	(18,900)

9. Commitments, Contingencies and Other

Litigation

Claims have been asserted against the Medical Center by various claimants arising out of the normal course of its operations. The claims are in various stages of processing and some may ultimately be brought to trial. Also, there are known incidents occurring through December 31, 2016 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. Medical Center management and counsel are unable to conclude about the ultimate outcome of the actions. However, it is the opinion of Medical Center management, based on prior experience that adequate insurance is maintained and adequate provisions for professional liabilities, where applicable, have been established to cover all significant losses and that the eventual liability, if any, will not have a material adverse effect on the Medical Center's consolidated financial position.

9. Commitments, Contingencies and Other (continued)

Professional and Other Insured Liabilities

The Medical Center participates in the Federation of Jewish Philanthropies, which is a pooled insurance program for professional and general liabilities with certain other health care facilities (the FOJP Program). Participation in this occurrence basis insurance program is through captive and commercial insurance companies. Participation in the FOJP Program began in April 1977. The Medical Center's malpractice insurance program offers a deferred premium arrangement in which 36% of the annual premium is paid in the current year and the balance is payable over five years. Total liabilities associated with the FOJP Program were approximately $187.4 million and $199.9 million at December 31, 2016 and 2015, respectively. The liabilities principally relate to the deferred premium arrangement, the participating hospitals' guarantee of certain investment returns of the captive companies and retroactive premium adjustments.

As of December 31, 2016, the Medical Center retained ownership interests in three captive insurance companies affiliated with the FOJP Program ranging from 17 – 26% ownership. The Medical Center has recognized its allocated share of the program's accumulated surplus using the equity method of accounting. Such amounts (approximately $161.8 million and $140.3 million at December 31, 2016 and 2015, respectively) are included in other noncurrent assets in the accompanying consolidated statements of financial position.

The Medical Center has recognized estimated insurance claims receivable and estimated insurance claims liabilities of approximately $499.8 million (approximately $75.0 million current and $424.8 million long-term) and approximately $474.8 million (approximately $71.2 million current and $403.6 million long-term) at December 31, 2016 and 2015, respectively. Such amounts represent the actuarially determined present value, discounted at approximately 2.8% at December 31, 2016 and 2015, of insurance claims that are anticipated to be covered by insurance. The amounts reported in the December 31, 2016 and 2015 consolidated statements of financial position for estimated insurance claims receivable and estimated insurance claims liabilities reflect the financial impact of the Medical Center's employed physicians.

During the years ended December 31, 2016 and 2015, the Medical Center recorded approximately $1.2 million and $20.3 million, respectively, of malpractice insurance program adjustments associated with investment earnings shortfalls. Such amounts were reflected in accounts payable and accrued expenses (approximately $7.7 million and $7.4 million at December 31, 2016 and 2015, respectively) and professional and other insured liabilities (approximately $15.7 million and $22.3 million at December 31, 2016 and 2015, respectively) in the consolidated statements of financial position.

9. Commitments, Contingencies and Other (continued)

In February 2014, the FOJP program and the various affiliated captive insurance companies began an internal investigation into several insurance regulatory and related matters that had come to the attention of the FOJP companies' management. The FOJP companies, at the direction of their Boards, engaged independent legal counsel and an independent forensic consulting firm to conduct an investigation into various matters. The FOJP Companies and legal counsel reported the preliminary investigative findings to the New York State Department of Financial Services (DFS), the primary State insurance regulator throughout the investigation and its conclusion in 2016. DFS also is conducting an investigation into the issues that were raised and related matters. The FOJP companies and DFS are engaged in ongoing discussions regarding the consequences, if any, of past activities identified in the investigation, appropriate remediation and potential impact on the future operations of the FOJP companies. As of December 31, 2016, the Medical Center believes that this matter will not have a material adverse effect on the Medical Center's consolidated financial position; however, such outcome cannot be assured with certainty at this time.

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

On October 9, 2015, the Medical Center submitted a filing to the New York State Department of Taxation and Finance (DT&F) to participate in the DT&F's Voluntary Disclosure and Compliance Program, which would allow the Medical Center to limit the period for which back taxes would be due and avoid penalties for non-payment. The Medical Center was accepted by the DT&F into the program with a limited look-back on the taxes owed of three years (2012-2014). The Medical Center completed a Voluntary Disclosure and Compliance Agreement in March 2016, resulting in a payment of approximately $6.7 million (including taxes and interest).

Albert Einstein College of Medicine, Inc. (Einstein)

On September 9, 2015, a controlled member of MMAHS, Einstein, acquired substantially all of the assets and assumed substantially all of the liabilities of the Albert Einstein College of Medicine, a division of YU. In connection with this transaction, Build NYC Resource Corporation loaned to Einstein, under a loan agreement, the proceeds of $175.0 million Build NYC Resource Corporation Revenue Bonds. In accordance with their terms, the bonds were tendered by the

9. Commitments, Contingencies and Other (continued)

original bondholder and remarketed on January 28, 2016. Prior to the remarketing, the required interest and principal payments on the bonds were guaranteed by the Medical Center. The Medical Center was not required to make any payments under the guarantee, which terminated upon the remarketing of the bonds on January 28, 2016.

In addition, on September 9, 2015, Einstein issued to YU a promissory note (the Note) under which it is obligated to pay to YU 20 annual payments of $12.5 million beginning September 2017, followed by a final, twenty-first payment of $20.0 million in September 2037. Discounted at 5%, the present value of the Note is approximately $165.7 million. Pursuant to a guaranty agreement (Guaranty Agreement), the Medical Center has guaranteed Einstein's obligation to make payments under the Note. If the Medical Center is required to make payments under the Guaranty Agreement, Einstein will be obligated to repay the Medical Center, in full, over five years with interest. The Medical Center's right to repayment is subordinate in certain respects to Einstein's obligation to make payments on the Build NYC Resource Corporation Revenue Bonds. At December 31, 2016, no amounts became due and payable under the Note and, accordingly, no amounts were paid under the Guaranty Agreement.

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

Other

At December 31, 2016 and 2015, approximately 66% and 62%, respectively, of the Medical Center's employees were covered by collective bargaining agreements. The collective bargaining agreement with NYSNA will expire in December 2018. The collective bargaining agreement with 1199SEIU will expire in September 2018.

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

10. Fair Value Measurements

For assets and liabilities required to be measured at fair value, the Medical Center measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the Medical Center's perspective.

The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

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

> *Level 1* – Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
>
> *Level 2* – Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.
>
> *Level 3* – Unobservable inputs are used when little or no market data is available.

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

10. Fair Value Measurements (continued)

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

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Assets				
Cash and cash equivalents	$ 138,720	$ –	$ –	$ 138,720
Managed cash and cash equivalents held for investment	67,871	–	–	67,871
Marketable and other securities:				
U.S. non-equity mutual funds	155,762	–	–	155,762
U.S. equity mutual funds	27,163	–	–	27,163
U.S. Government agency mortgage-backed securities	–	51,848	–	51,848
U.S. Treasury securities	109,401	–	–	109,401
U.S. Government agency-backed securities	–	40,167	–	40,167
U.S. equity securities	60,659	–	–	60,659
Corporate debt	–	217,303	–	217,303
Interest and other receivables	5,891	–	–	5,891
	565,467	309,318	–	874,785
Defined benefit plan assets				
Cash and cash equivalents	6,117	–	–	6,117
Equity mutual funds[(d)]	13,409	–	–	13,409
Fixed income mutual funds[(f)]	5,747	–	–	5,747
	25,273	–	–	25,273
	$ 590,740	$ 309,318	$ –	$ 900,058

10. Fair Value Measurements (continued)

Financial assets carried at fair value, including assets invested in the Medical Center's defined benefit plan, are classified in the table below in one of the three categories described above as of December 31, 2015:

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Assets				
Cash and cash equivalents	$ 99,615	$ –	$ –	$ 99,615
Managed cash and cash equivalents held for investment	160,698	–	–	160,698
Marketable and other securities:				
U.S. non-equity mutual funds	83,555	–	–	83,555
U.S. equity mutual funds	24,949	–	–	24,949
U.S. Government agency mortgage-backed securities	–	61,015	–	61,015
U.S. Treasury securities	84,748	–	–	84,748
U.S. Government agency-backed securities	–	20,808	–	20,808
U.S. equity securities	60,751	–	–	60,751
Corporate debt	–	285,964	–	285,964
Interest and other receivables	13,476	–	–	13,476
	527,792	367,787	–	895,579
Defined benefit plan assets				
Cash and cash equivalents	17,310	–	–	17,310
Equity securities(c)	1,425	–	–	1,425
Equity mutual funds(d)	1,643	–	–	1,643
Debt securities(e)	1,529	–	–	1,529
	21,907	–	–	21,907
	$ 549,699	$ 367,787	$ –	917,486

10. Fair Value Measurements (continued)

Investments whose fair value is measured at net asset value as a practical expedient (defined benefit plan assets):

Hedge funds[(a)]		2,231
Private equity funds[(b)]		75
Total financial instruments	$	919,792

[(a)] Hedge fund investments, consisting primarily of publicly traded equity holdings with both long and short positions.
[(b)] Venture capital partnerships.
[(c)] Includes small and large cap common stock of corporations primarily domiciled in the United States.
[(d)] Includes investments in mutual funds that invest primarily in domestic large cap common stocks.
[(e)] Includes investments in corporate bonds.
[(f)] Includes investments in mutual funds that invest primarily in fixed income securities.

At December 31, 2016 and 2015, the Medical Center's alternative investments and collective trusts, excluding those within the defined benefit plan, are reported using the equity method of accounting in the amount of approximately $144.3 million and $206.8 million, respectively, and, therefore, are not included in the tables above.

The following is a description of the Medical Center's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers and brokers. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Medical Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

10. Fair Value Measurements (continued)

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

	2016		2015	
	Fair Value	**Carrying Value**	**Fair Value**	**Carrying Value**
	(In Thousands)			
Long-term debt	**$ 817,429**	**$ 825,218**	$ 874,477	$ 870,650

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

11. Concentration of Credit Risk

At December 31, 2016 and 2015, excluding investments in bond mutual funds, approximately 24% and 21%, respectively, of the Medical Center's marketable securities were issued by either the United States Government or its agencies.

At December 31, 2016 and 2015, significant concentrations of receivables for patient care include approximately 11% and 14% from Medicaid, 10% and 12% from Medicare and 78% and 74% from commercial and managed care organizations, respectively, of which 12% and 13% was due from Blue Cross plans at December 31, 2016 and 2015, respectively.

Net patient service revenue from the Medicare and Medicare managed care programs accounted for approximately 32% for the years ended December 31, 2016 and 2015, and net patient service revenue from the Medicaid and Medicaid managed care programs accounted for approximately 32% and 33% of the Medical Center's net patient service revenue for the years ended December 31, 2016 and 2015, respectively. No other specific payer exceeded 10% of net patient service revenue.

12. Other Revenue

Other revenue included in the consolidated statements of operations for the years ended December 31, 2016 and 2015 consisted of the following:

	2016	2015
	(In Thousands)	
DSRIP revenue	**$ 18,483**	$ 6,528
Patient care quality incentive revenue	**18,393**	28,891
Staff housing and other rental income	**20,000**	19,791
Care management administrative fees	**16,250**	15,699
Equity earnings from investments	**27,672**	7,741
Continuing Medical Education programs	**13,925**	7,300
Interest and dividend income	**12,912**	14,793
Behavioral health program revenue	**9,986**	2,522
Government Electronic Health Record Incentive Program	**6,699**	12,312
Parking revenue	**6,279**	6,353
Cafeteria revenue	**6,196**	5,932
Net assets released from restrictions used for operations	**3,157**	4,798
Shared savings revenue	**(7,283)**	11,717
All other	**25,170**	15,050
	$ 177,839	$ 159,427

New York State distributes federally-funded amounts through a payment mechanism referred to as the Delivery System Reform Incentive Payment (DSRIP) program. The DSRIP program is a five-year program intended to promote community-level collaborations to focus on health system reform and enhance the value provided by the health care system. DSRIP funding is available to certain hospitals and providers participating in networks (referred to as Performing Provider Systems, PPS) that are able to establish performance improvement activities in certain predefined clinical improvement areas. The PPS that the Medical Center coordinates has submitted plans for clinical improvement projects in order to be eligible for payments under the DSRIP program. The Medical Center received approximately $25.9 million and $11.7 million during 2016 and 2015, respectively, and recorded approximately $18.5 million and $6.5 million, respectively, in other operating revenue during the years ended December 31, 2016 and 2015 for amounts received under the DSRIP program.

12. Other Revenue (continued)

Certain payments under the DSRIP program are subject to meeting specified performance criteria and other requirements which may be evaluated in future periods.

The Medical Center receives shared savings revenue from CMS based on the Pioneer Accountable Care Organization (Medicare Fee For Service) savings. The Medical Center estimated that no shared savings revenue was earned for performance year 5 (January 1, 2016 through December 31, 2016). During 2016, CMS finalized the shared savings calculation for performance year 4 (January 1, 2015 through December 31, 2015) and determined that the Medical Center did not earn a shared savings payment. The $12.9 million estimated receivable pertaining to performance year 4 was written off and recognized as a change in estimate during 2016. In addition, the Medical Center enters into shared savings programs with commercial payers. For the year ended December 31, 2016, the Medical Center recorded approximately $5.6 million of revenue related to these programs.

13. Related Party Transactions

The Medical Center purchases various management, administrative and staffing services from certain of its members. The members charge the Medical Center for such services at cost. For the year ended December 31, 2016 and 2015, the Medical Center incurred costs of approximately $137.8 million and $128.4 million, respectively, related to the various services provided by its members.

13. Related Party Transactions (continued)

At December 31, 2016 and 2015, amounts due from and due to members were comprised of the following:

	December 31 2016	2015
	(In Thousands)	
Note due from MHS	**$ 123,917**	$ 117,529
Due from:		
MHS	**1,268**	7,379
Montefiore New Rochelle Hospital	**4,454**	2,814
Montefiore Mount Vernon Hospital	**1,498**	817
Schaffer Extended Care Center	**538**	410
Montefiore HMO, LLC	**7,210**	7,195
Montefiore North Ambulatory Care Center, Inc.	–	14,141
Albert Einstein College of Medicine, Inc.	–	3,240
MMAHS	–	2
	138,885	153,527
Less current portion	**(52,007)**	(72,938)
Due from members, net of current portion	**$ 86,878**	$ 80,589
Due to:		
MHS	**$ 5,834**	$ –
Montefiore Mount Vernon Hospital	**6,238**	–
Montefiore Information Technology, LLC	**12,958**	16,016
Montefiore North Ambulatory Care Center, Inc.	**4**	–
Nyack Hospital, Inc.	**382**	–
Albert Einstein College of Medicine, Inc.	**3,450**	223
MMAHS	**62**	–
Due to members	**$ 28,928**	$ 16,239

During 2016 and 2015, the Medical Center provided advances to MHS under a note arrangement (the MHS Note), the proceeds of which were used by MHS to provide loans to several members to fund their ongoing operations.

13. Related Party Transactions (continued)

During 2014, the Medical Center advanced approximately $31.0 million to MHS, which MHS subsequently loaned to White Plains Hospital Center (White Plains) to assist in the development of certain projects, services and infrastructure under executed loan agreements. On January 1, 2015, MHS became the sole corporate member of White Plains and under the terms of the loan agreements, the loans were terminated. The amounts advanced to MHS by the Medical Center were forgiven and recorded as a capital contribution, which reduced unrestricted net assets by approximately $31.0 million. In addition, during 2016 and 2015, the Medical Center advanced approximately $39.6 million and $73.8 million, respectively, to MHS which was recorded as a capital contribution.

During 2016 and 2015, the Medical Center made capital contributions of approximately $8.3 million and $2.5 million, respectively, to Einstein in accordance with an agreement to provide operating subsidies to Einstein over a five-year period (see Note 9).

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

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

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