Montefiore
THE UNIVERSITY HOSPITAL FOR
ALBERT EINSTEIN COLLEGE OF MEDICINE

August 10, 2017

Mr. Larry N. Volk
Senior Director, Portfolio Monitoring
Dormitory Authority of the State of New York
515 Broadway
Albany, NY 12207-2964

Ms. Diana O'Brien
Vice President
Digital Assurance Certification
390 North Orange Avenue, Suite 1750
Orlando, FL 32801

Re: FHA Insured Mortgage and related Hospital Revenue Bonds

Dear Mr. Volk and Ms. O'Brien:

Enclosed are the following documents for Montefiore Medical Center for the period ended June 30, 2017:

- Interim Financial Statements
- Utilization and Payor Mix Statistics
- Certificate of Compliance

These documents satisfy the reporting requirements under the following agreement:

- DASNY Loan Agreement, dated as of November 28, 2007

If you have any questions, please call me at (718) 920-5426.

Sincerely,

Alan Sileo

Alan Sileo
Associate Director - Finance

Enclosures

cc: Lindsay Baker Dominick Setari

Financial Planning & Analysis
111 East 210th Street
Bronx, New York 10467

Alan Sileo
Associate Director
718-920-5426 Office
718-654-9758 Fax
asileo@montefiore.org

Montefiore Medical Center

Consolidated Statements of Operations
June 30, 2017
(In thousands)

	Six Months Ended June 30			
	2017			
	Actual	Budget	Variances	%
Revenue				
Net patient service revenue	$ 1,823,746	$ 1,834,502	$ (10,756)	-0.6%
Grants and contracts	44,752	39,201	5,551	14.2%
Contributions	1,116	1,384	(268)	-19.4%
Other	117,110	115,329	1,781	1.5%
Total operating revenue	1,986,724	1,990,416	(3,692)	-0.2%
Operating expenses				
Salaries and wages	861,441	873,931	12,490	1.4%
Employee benefits	265,711	277,856	12,145	4.4%
Supplies and other expenses	745,388	746,039	651	0.1%
Depreciation and amortization	77,152	77,340	188	0.2%
Interest	16,369	17,558	1,189	6.8%
Total operating expenses	1,966,061	1,992,724	26,663	1.3%
Excess (deficiency) of operating revenues over operating expenses before other items	20,663	(2,308)	22,971	995.3%
Net realized and unrealized gains (losses)	21,925	-	21,925	100.0%
Net periodic benefit costs (non-service related)	(4,129)	-	(4,129)	-100.0%
Excess (deficiency) of revenues over expenses	38,459	(2,308)	40,767	1766.3%

MONTEFIORE MEDICAL CENTER
UTILIZATION AND PAYOR MIX STATISTICS
(FHA Insured Mortgages and related Hospital Revenue Bonds)

UTILIZATION STATISTICS

	YTD JUNE 2017	YTD JUNE 2016
LICENSED BEDS	1,536	1,525
ADMISSIONS (1)	44,161	45,134
DISCHARGES (1)	44,116	44,937
PATIENT DAYS (1)	260,406	251,027
AVG LENGTH OF STAY (1)	5.90	5.59
CASE MIX VALUED AT FEDERAL MS DRG GROUPER	1.55	1.49
AVG. OCCUPANCY %	93.67%	90.44%
OUTPATIENT VISITS	181,385	151,972
ER VISITS-NET (2)	132,350	138,405
AMBULATORY PROCEDURES	24,165	23,569
MMG VISITS	389,530	402,744
HOME CARE VISITS	110,350	108,972

(1) EXCLUDES NEWBORN
(2) EXCLUDES EMERGENCY ROOM PATIENTS ADMITTED TO THE MEDICAL CENTER.

DISCHARGES - DETAIL

	YTD JUNE 2017	YTD JUNE 2016
MEDICARE	7,522	7,535
MEDICARE HMO	10,689	10,269
MEDICAID	3,859	4,182
MEDICAID HMO	14,176	14,515
COMMERCIAL	4,052	4,407
COMMERCIAL HMO	3,191	3,288
OTHER	627	741
TOTAL (1)	44,116	44,937

PERCENT OF DISCHARGES BY PAYOR SOURCE

	YTD JUNE 2017	YTD JUNE 2016
MEDICARE	17.05%	16.77%
MEDICARE HMO	24.23%	22.85%
MEDICAID	8.75%	9.31%
MEDICAID HMO	32.13%	32.30%
COMMERCIAL	9.18%	9.81%
COMMERCIAL HMO	7.23%	7.32%
OTHER	1.42%	1.65%
TOTAL (1)	100.00%	100.00%

AVG. OCCUPANCY % - DETAIL

	YTD JUNE 2017	YTD JUNE 2016
MED SURG	95.51%	92.13%
MATERNITY	52.60%	58.55%
PSYCHIATRY	107.26%	95.82%
REHAB	92.71%	86.92%
TOTAL	93.67%	90.44%

CERTIFICATE OF COMPLIANCE
FOR 501 (c)(3) INSTITUTIONS
For the Quarter Ending June 30, 2017

Re: Montefiore Medical Center
FHA-Insured Mortgage Hospital Revenue Bonds, Series 2008 (collectively, the "Bonds")

The undersigned hereby certifies as follows:

I am the Chief Financial Officer of Montefiore Medical Center, hereinafter referred to as the Institution, and I am an Authorized Officer of the Institution.

By virtue of my position at the Institution, I would expect to become aware, in the ordinary course of business, of any breach of the terms, conditions and covenants contained in the following documents (check all that apply) associated with the Bonds (collectively, the "Bond Documents"):

- [x] Loan Agreement(s)
- [x] Mortgage (s)
- [ ] Reimbursement Agreement(s)
- [x] Tax Certificate
- [x] Master Trust Indenture and Supplemental Indentures
- [x] Bond Purchase and Continuing Covenants Agreement

In connection with responding to this Certificate of Compliance, I am familiar with the Institution's obligations set forth in the Bond Documents executed on behalf of the Institution in connection with the above-referenced Bonds.

Use of Property

1. Does the Institution own, occupy and use the Project(s) financed with the proceeds of the above-referenced Bonds in a manner related to its tax-exempt charitable purpose?

   [x] Yes [ ] No

2. Has the Institution sold, leased or otherwise disposed of any portion of any such Project(s) or does the Institution have plans to do so?

   [ ] Yes [x] No

3. Has the Institution granted or permitted any liens against the Mortgaged Property, except those which were (a) filed prior to, or in connection with, the issuance of the Bonds, or (b) subsequently consented to by DASNY and any other parties required to consent thereto?

   [ ] Yes [x] No

Use By Third Parties

1. Does any other party, business or individual have the right – by contract or otherwise – to use or occupy any portion of such Project(s) for which the Institution is entitled to receive

payment for such use? *(Please note this includes any use of the Project(s) by other than an employee, student, patient or consumer of the Institution, for example, operation of a book store, operation of a sports camp or other similar program, operation of a cafeteria or food court, professional and/or management contracts with non-employees, lease of any portion of Project(s) space and similar agreements).*

☑ Yes, but within the levels permitted within the Tax Cert. ☐ No

2. Has the Institution entered into any contracts with respect to the use, management or operation of the Project(s) or amended or extended any such contracts after the date of issue of the relevant bond issue?

☑ Yes ☐ No

   a. If management contracts are involved, has the Institution determined that such contract, amendment or extension complies with the applicable safe harbor requirements of the IRS?

   ☑ Yes ☐ No ☐ N/A

   b. If sponsored research contracts are involved, has the Institution determined that such sponsored research contract, amendment or extension complies with the applicable safe harbor requirements of the IRS?

   ☑ Yes ☐ No ☐ N/A

IRS Compliance

1. Has the Institution implemented policies and procedures to enable the Institution to comply with post-issuance tax compliance requirements including any reporting requirements (i) of the Internal Revenue Service applicable to the Bonds, or (ii) related to Form 990-Schedule K (Supplemental Information on Tax Exempt Bonds)?

☑ Yes ☐ No

Record Retention

1. Has the Institution implemented procedures to retain adequate records and information to support the tax-exempt status of the Bonds <u>for at least as long as the above referenced Bonds and any refunding bonds are outstanding, plus three (3) years after the final retirement date of such obligations as required by Internal Revenue Code. The records and information to be retained</u> includes, but is not limited to documentation evidencing: (i) expenditure of bond proceeds, (ii) use of the bond financed property (e.g., copies of management contracts and sponsored research contracts), (iii) documentation pertaining to any investments of bond proceeds, and (iv) documentation pertaining to any derivative contracts?

☑ Yes ☐ No

IRS Filings and Tax Exempt Status

1. Does the Institution's most recently filed Schedule K report private business use and unrelated trade or business use levels above the limits permitted in the Tax Certificate(s)?

☐ Yes ☑ No

2. Has the Institution received any correspondence from the Internal Revenue Service questioning its status as an organization described in Section 501(c)(3) of the Internal Revenue Code?

☐ Yes, please attach a copy ☑ No

3. Does the Institution hereby reaffirm its status as an organization described in Section 501 (c)(3) of the Internal Revenue Code?

☑ Yes ☐ No

Use of Proceeds

1. Has the Institution made a final allocation of bond proceeds by the prescribed time period provided in IRS regulations and does the Institution maintain adequate records reflecting such final allocation? (Refer to Institution's obligations identified in the Tax Certificate for further details)

☑ Yes ☐ No

2. Has the Institution received an insurance payment, eminent domain award or property damage award for any part of the Project(s) or Mortgaged Property, as defined in the Bond Documents?

☐ Yes ☑ No

Bond Document Compliance

To the best of my knowledge, having made reasonable inquiry, there has been no breach of any of the terms, conditions or covenants contained in the Bond Documents.

C. Colleen Blye 8/10/17

Signature **Date**

COLLEEN M. BLYE

Print Name

EXECUTIVE VP, CFO

Title

Montefiore Medical Center

Quarterly Financial Disclosure

(unaudited)

June 30, 2017

August 10, 2017

Montefiore Medical Center

Quarterly Financial Disclosure

For the Six Months Ended June 30, 2017

Contents

Montefiore Medical Center

Consolidated Statements of Financial Position

		Unaudited June 30, 2017		Audited December 31, 2016
		(In Thousands)		
Assets				
Current assets:				
Cash and cash equivalents	**$**	**160,826**	$	170,595
Marketable and other securities		**660,610**		633,928
Assets limited as to use, current portion		**59,053**		52,159
Receivables for patient care, less allowances for doubtful accounts (2017 – $27,971; 2016 – $27,431)		**208,091**		224,771
Other receivables		**93,977**		81,747
Estimated insurance claims receivable, current portion		**74,963**		74,963
Other current assets		**47,161**		51,749
Due from members, current portion		**73,199**		52,007
Total current assets		**1,377,880**		1,341,919
Assets limited as to use, net of current portion		**196,729**		194,269
Property, buildings and equipment, net		**1,097,225**		1,122,239
Estimated insurance claims receivable, net of current portion		**424,793**		424,793
Other noncurrent assets		**234,048**		259,112
Due from members, net of current portion		**88,096**		86,878
Total assets	**$**	**3,418,771**	$	3,429,210
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued expenses	**$**	**295,463**	$	333,789
Accrued salaries, wages and related items		**255,681**		269,138
Malpractice insurance premiums payable, current portion		**55,109**		50,848
Estimated insurance claims liabilities, current portion		**74,963**		74,963
Long-term debt, current portion		**71,771**		65,786
Due to members		**47,286**		28,928
Total current liabilities		**800,273**		823,452
Long-term debt, net of current portion		**747,906**		753,021
Noncurrent defined benefit and postretirement health plan liabilities		**172,312**		167,051
Professional and other insured liabilities		**132,651**		136,512
Employee deferred compensation		**40,353**		37,789
Estimated insurance claims liabilities, net of current portion		**424,793**		424,793
Estimated third-party payer liabilities		**216,059**		215,066
Other noncurrent liabilities		**66,329**		72,244
Total liabilities		**2,600,676**		2,629,928
Commitments and contingencies				
Net assets:				
Unrestricted		**705,683**		689,397
Temporarily restricted		**80,702**		78,181
Permanently restricted		**31,710**		31,704
Total net assets		**818,095**		799,282
Total liabilities and net assets	**$**	**3,418,771**	$	3,429,210

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Operations

	Unaudited Six Months Ended June 30, 2017	2016
	(In Thousands)	
Operating revenue		
Net patient service revenue before bad debt expense	**$ 1,858,937**	$ 1,844,321
Bad debt expense	**(35,191)**	(34,855)
Net patient service revenue	**1,823,746**	1,809,466
Grants and contracts	**44,752**	37,175
Contributions	**1,116**	1,170
Other revenue	**117,110**	73,665
Total operating revenue	**1,986,724**	1,921,476
Operating expenses		
Salaries and wages	**861,441**	844,963
Employee benefits	**265,711**	246,306
Supplies and other expenses	**745,388**	721,698
Depreciation and amortization	**77,152**	75,982
Interest	**16,369**	17,802
Total operating expenses	**1,966,061**	1,906,751
Excess of operating revenues over operating expenses before other items	**20,663**	14,725
Net realized and changes in net unrealized gains and losses on marketable and other securities	**21,925**	(4,814)
Net periodic benefit costs (non-service related)	**(4,129)**	(4,807)
Malpractice insurance program adjustments associated with investment earnings shortfall	**–**	(6,215)
Gain on debt refinancing	**–**	4,604
Excess of revenues over expenses	**38,459**	3,493
Transfers to members, net	**(22,173)**	(37,171)
Increase (decrease) in unrestricted net assets	**$ 16,286**	$ (33,678)

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Changes in Net Assets

Six Months Ended June 30, 2017 and 2016

			Unaudited					
		Unrestricted Net Assets		**Temporarily Restricted Net Assets**		**Permanently Restricted Net Assets**		**Total Net Assets**
				(In Thousands)				
Net assets at January 1, 2016	$	711,692	$	74,510	$	31,390	$	817,592
Decrease in unrestricted net assets		(33,678)		–		–		(33,678)
Restricted gifts, bequests, and similar items		–		2,163		–		2,163
Restricted investment income		–		387		–		387
Net assets released from restrictions		–		(1,845)		–		(1,845)
Total changes in net assets		(33,678)		705		–		(32,973)
Net assets at June 30, 2016	$	678,014	$	75,215	$	31,390	$	784,619
Net assets at January 1, 2017	**$**	**689,397**	**$**	**78,181**	**$**	**31,704**	**$**	**799,282**
Increase in unrestricted net assets		**16,286**		**–**		**–**		**16,286**
Restricted gifts, bequests, and similar items		**–**		**3,005**		**6**		**3,011**
Restricted investment income		**–**		**600**		**–**		**600**
Net assets released from restrictions		**–**		**(1,084)**		**–**		**(1,084)**
Total changes in net assets		**16,286**		**2,521**		**6**		**18,813**
Net assets at June 30, 2017	**$**	**705,683**	**$**	**80,702**	**$**	**31,710**	**$**	**818,095**

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Cash Flows

	Unaudited Six Months Ended June 30 2017	2016
	(In Thousands)	
Operating activities		
Increase (decrease) in net assets	**$ 18,813**	$ (32,973)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**77,152**	75,982
Bad debt expense	**35,191**	34,855
Transfers to members, net	**22,173**	37,171
Net realized gains and losses	**(3,794)**	837
Change in net unrealized gains and losses	**(18,131)**	3,977
Write-off of long-term mortgage premium and deferred financing costs as a result of debt refinancing	**–**	1,284
Equity earnings from investments	**(2,072)**	(2,020)
Amortization of long-term mortgage premium	**(153)**	(315)
Amortization of deferred financing costs	**503**	613
Changes in operating assets and liabilities:		
Receivables for patient care	**(18,511)**	(72,297)
Accounts payable and accrued expenses	**(38,326)**	(38,384)
Accrued salaries, wages and related items	**(13,457)**	1,269
Net change in all other operating assets and liabilities	**16,349**	(24,950)
Net cash provided by (used in) operating activities	**75,737**	(14,951)
Investing activities		
Acquisition of property, buildings and equipment, net	**(52,138)**	(67,537)
Advances to Montefiore Health System, Inc. on MHS Note and other	**(2,281)**	(4,048)
Payments from Montefiore Health System, Inc. on MHS Note	**1,011**	962
(Increase) decrease in marketable and other securities, net	**(4,757)**	93,626
(Increase) decrease in assets limited to use, net	**(9,354)**	33,319
Net cash (used in) provided by investing activities	**(67,519)**	56,322
Financing activities		
Payments of long-term debt	**(32,484)**	(31,320)
Extinguishment of long-term debt	**–**	(224,964)
Proceeds from long-term debt	**33,212**	228,150
Payments of deferred financing costs	**(208)**	(3,502)
Payments to members, net	**(18,507)**	(37,171)
Net cash used in financing activities	**(17,987)**	(68,807)
Net decrease in cash and cash equivalents	**(9,769)**	(27,436)
Cash and cash equivalents at beginning of year	**170,595**	99,615
Cash and cash equivalents at end of period	**$ 160,826**	$ 72,179

See accompanying notes.

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. Montefiore Medicine Academic Health System, Inc. (MMAHS) is the sole member of MHS.

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)

Effective March 17, 2017, MHS became the sole member of MCV and its controlled organizations. The Medical Center is in the process of evaluating the impact of this transaction on its consolidated financial statements. 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.

Interim Financial Statements:

The Medical Center presumes that users of this unaudited interim consolidated financial information have read or have access to the Medical Center's audited consolidated financial statements which include certain disclosures required by U.S. generally accepted accounting principles. The audited consolidated financial statements of the Medical Center for the years ended December 31, 2016 and 2015 are on file with the Municipal Securities Rulemaking Board and are accessible through its Electronic Municipal Market Access Database. Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in the Medical Center's most recent consolidated financial statements have been omitted from the unaudited interim consolidated financial information. In the opinion of management, all material adjustments considered necessary for a fair presentation have been included.

Health care operations and the financial results thereof are subject to seasonal variations. Quarterly and other periodic operating results are not necessarily representative of operations for a full year for various reasons including patient volumes associated with seasonal illnesses, elective services, variations in interest rates, infrequent or one-time events and changes in regulatory or industry policies.

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 and liabilities, as well as 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. Management believes that amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual should not have a material effect on the Medical Center's consolidated financial position.

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 February 2016, the FASB issued ASU 2016-02, *Leases*, which will require a lessee 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.

Recent Accounting Pronouncements (continued):

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; 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 Medical Center adopted ASU 2017-07 as of January 1, 2017 and retrospectively applied the presentation requirements to the consolidated statement of operations for the six months ended June 30, 2016. As a result of the adoption of ASU 2017-07, the Medical Center recorded 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 $7.5 million and $7.4 million for the six months ended June 30, 2017 and 2016, respectively) within salaries and wages on the consolidated statements of operations and presented all other components (aggregate of approximately $4.1 million and $4.8 million for the six months ended June 30, 2017 and 2016, respectively) as net periodic benefit costs (non-service related) on the consolidated statements of operations.

Reclassifications:

For purposes of comparison, certain reclassifications have been made to the accompanying 2016 consolidated financial statements to conform to the 2017 presentation. These reclassifications are not material and have no effect on net assets previously reported.

Subsequent Events:

Generally accepted accounting principles establish standards for accounting for, and disclosure of, events that occur after the reporting period end date but before financial statements are issued or are available to be issued. The standards are to be applied to subsequent events not addressed in other applicable accounting principles generally accepted in the United States. The standards set forth the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosure an entity should make about events or transactions that occurred after the balance sheet date. Management considered the environment and events occurring through August 10, 2017, which is the date the unaudited financial statements were issued. No subsequent events material to Montefiore Medical Center have occurred that require disclosure in the financial statements.

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.

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. Patient service revenue, as presented below, is net of approximately $26.2 million and $23.2 million for charity care provided to patients, at cost, not covered by insurance, for the six months ended June 30, 2017 and 2016, respectively.

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 six months ended June 30, 2017 and 2016, is as follows:

	2017	2016
	(In Thousands)	
Patient service revenue (net of contractual allowances and discounts)	**$ 1,858,937**	$ 1,844,321
Bad debt expense	**(35,191)**	(34,855)
Net patient service revenue	**$ 1,823,746**	$ 1,809,466

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

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 for the various pension plans aggregated approximately $67.9 million and $68.0 million for the six months ended June 30, 2017 and 2016. Cash payments relative to the various pension plans aggregated approximately $68.6 million and $67.2 million for the same periods.

The following table provides the components of the net periodic benefit cost for the defined benefit pension plans and postretirement benefit plan for the six months ended June 30, 2017 and 2016:

	Pension		Postretirement	
	2017	**2016**	**2017**	**2016**
	(In Thousands)			
Service cost	$ 1,848	$ 1,789	$ 5,657	$ 5,614
Interest cost	891	865	3,461	3,336
Expected return on plan assets	(904)	(863)	–	–
Amortization of prior service cost (benefit)	168	103	(890)	(890)
Amortization of net loss	461	579	942	1,677
Net periodic benefit cost	$ 2,464	$ 2,473	$ 9,170	$ 9,737

Commitments and Contingencies:

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 June 30, 2017 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. 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.

Commitments and Contingencies (continued):

Federation of Jewish Philanthropies: In February 2014, the FOJP program and the various affiliated captive insurance companies began an internal investigation into several insurance regulatory and related matters that had come to the attention of the FOJP companies' management. The FOJP Companies and legal counsel reported the preliminary investigative findings to the New York State Department of Financial Services (DFS), the primary State insurance regulator throughout the investigation. DFS also conducted its own review of the issues that were raised and related matters. During 2017, the FOJP companies and DFS resolved the outstanding matters through an agreed stipulation which did not have a material effect on the Medical Center's consolidated financial statements.

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.: On September 9, 2015, a controlled member of MMAHS, Albert Einstein College of Medicine, Inc. (Einstein), acquired substantially all of the assets and assumed substantially all of the liabilities of Albert Einstein College of Medicine, a division of Yeshiva University (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 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 June 30, 2017 and December 31, 2016, no amounts became due and payable under the Note and, accordingly, no amounts were paid under the Guaranty Agreement.

Commitments and Contingencies (continued):

The Medical Center has an agreement to provide operating subsidies to Einstein over a five-year period commencing September 2015 in an aggregate amount of up to $80.0 million. The Medical Center will provide this subsidy in varying amounts to be funded upon the receipt and approval of documentation of unreimbursed research expenses incurred. The subsidy will total an amount not to exceed $10.0 million per year in each of the first two years, and not to exceed $20.0 million per year in each of the third, fourth and fifth years. During the six months ended June 30, 2017 and 2016, the Medical Center made capital contributions of approximately $10.4 million and $10.6 million, respectively, to Einstein in accordance with this agreement.

Other: 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.

During 2017, a controlled affiliate of Montefiore Health System entered into an agreement to acquire an equity interest in a joint venture with Crystal Run Healthcare. Under the purchase agreement, the Medical Center is required to enter into a security agreement and make a deposit of $30.0 million into a controlled account as security for the purchase price. The agreement with Crystal Run Healthcare is subject to regulatory approval.

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.

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 June 30, 2017:

	June 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Assets				
Cash and cash equivalents	$ 160,826	$ –	$ –	$ 160,826
Managed cash and cash equivalents held for investment	66,270	–	–	66,270
Marketable and other securities:				
U.S. non-equity mutual funds	159,962	–	–	159,962
U.S. equity mutual funds	30,822	–	–	30,822
U.S. Government agency mortgage-backed securities	–	49,919	–	49,919
U.S. Treasury securities	108,612	–	–	108,612
U.S. Government agency-backed securities	–	31,609	–	31,609
U.S. equity securities	72,385	–	–	72,385
Corporate debt	–	244,095	–	244,095
Interest and other receivables	1,504	–	–	1,504
	600,381	325,623	–	926,004
Defined benefit plan assets				
Cash and cash equivalents	1,006	–	–	1,006
Equity mutual funds	11,043	–	–	11,043
Non-equity mutual funds	2,594	–	–	2,594
	14,643	–	–	14,643
	$ 615,024	$ 325,623	$ –	940,647

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

Collective trusts	12,445
Total financial instruments	$ 953,092

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	$ 170,595	$ –	$ –	$ 170,595
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
	597,342	309,318	–	906,660
Defined benefit plan assets				
Cash and cash equivalents	6,117	–	–	6,117
Equity mutual funds	13,409	–	–	13,409
Debt securities	5,747	–	–	5,747
	25,273	–	–	25,273
	$ 622,615	$ 309,318	$ –	$ 931,933

At June 30, 2017 and December 31, 2016, the Medical Center's alternative investments and collective trusts, excluding those within the defined benefit plans, are reported using the equity method of accounting in the amount of approximately $151.2 million and $144.3 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.