Consolidated Financial Statements

Montefiore Medical Center
Years Ended December 31, 2007 and 2006
With Report of Independent Auditors

Montefiore Medical Center

Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

Contents

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Report of Independent Auditors

The Board of Trustees
Montefiore Medical Center

We have audited the accompanying consolidated statements of financial position of Montefiore Medical Center (the Medical Center) as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. 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. We were not engaged to perform an audit of the Medical Center's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Montefiore Medical Center at December 31, 2007 and 2006, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Medical Center adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, effective December 31, 2006.

Ernst + Young LLP

March 7, 2008

Montefiore Medical Center

Consolidated Statements of Financial Position

	December 31 2007	December 31 2006
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 10,579**	$ 15,489
Marketable and other securities *(Note 3)*	**431,324**	361,569
Assets limited as to use – marketable securities *(Note 3)*	**39,359**	22,201
Receivables for patient care, less allowances for doubtful accounts (2007 – $97,108; 2006 – $93,376) *(Note 11)*	**149,128**	126,193
Other receivables *(Note 1)*	**57,129**	19,815
Trustee employee benefit plan marketable and other securities *(Note 3)*	**48,440**	43,552
Other current assets	**23,642**	23,647
Total current assets	**759,601**	612,466
Assets limited as to use:		
Marketable and other securities *(Note 3):*		
Sinking funds *(Note 6)*	**44,106**	39,548
Employee deferred compensation plan	**8,817**	19,883
Marketable and other securities externally designated	**122,343**	118,612
Designated for self insurance *(Note 9)*	**1,461**	1,463
Total non-current assets limited as to use	**176,727**	179,506
Marketable securities held as collateral *(Notes 3, 6 and 9)*	**37,410**	49,119
Property, buildings and equipment, at cost, net *(Notes 4, 5 and 6)*	**719,339**	713,253
Deferred financing costs and other non-current assets *(Note 9)*	**111,911**	99,505
Total assets	**$ 1,804,988**	$ 1,653,849
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	**$ 84,594**	$ 84,423
Other payables and accrued expenses *(Note 9)*	**163,949**	120,165
Accrued salaries, wages and related items	**161,433**	148,025
Current portion of long-term debt *(Notes 5 and 6)*	**35,080**	31,017
Total current liabilities	**445,056**	383,630
Long-term debt, less current portion *(Notes 5 and 6)*	**635,800**	625,039
Employee deferred compensation	**8,817**	19,883
Professional liabilities *(Note 9)*	**1,461**	1,463
Other non-current liabilities *(Notes 1, 2, 8 and 9)*	**309,373**	281,038
Total liabilities	**1,400,507**	1,311,053
Commitments and contingencies *(Note 9)*		
Net assets:		
Unrestricted	**304,114**	245,464
Temporarily restricted *(Note 7)*	**75,017**	71,982
Permanently restricted *(Note 7)*	**25,350**	25,350
Total net assets	**404,481**	342,796
Total liabilities and net assets	**$ 1,804,988**	$ 1,653,849

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Operations

	Year Ended December 31	
	2007	2006
	(In Thousands)	
Operating revenue		
Net patient service revenue *(Notes 1, 2 and 11)*	**$2,066,101**	$1,914,312
Grants and contracts *(Note 1)*	**67,872**	64,883
Contributions	**6,050**	6,109
Other *(Note 12)*	**108,887**	95,948
Total operating revenue	**2,248,910**	2,081,252
Operating expenses		
Salaries and wages	**946,384**	870,077
Employee benefits *(Note 8)*	**249,081**	235,264
Supplies and other expenses	**872,654**	807,116
Depreciation and amortization *(Note 4)*	**89,901**	84,345
Interest	**37,441**	35,638
Total operating expenses	**2,195,461**	2,032,440
Income from operations	**53,449**	48,812
Net assets released from restrictions used for purchases of property, buildings and equipment	**715**	36
Change in net assets related to defined benefit pension and other postretirement plans *(Note 8)*	**4,486**	–
Change in net additional minimum pension liability *(Note 8)*	**–**	(1,264)
Effect of change in accounting for defined benefit pension and other postretirement plans *(Notes 1 and 8)*	**–**	(12,216)
Increase in unrestricted net assets	**$ 58,650**	$ 35,368

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Changes in Net Assets

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
	(In Thousands)			
Net assets at January 1, 2006	$210,096	$67,824	$24,950	$302,870
Increase in unrestricted net assets	35,368	–	–	35,368
Restricted gifts, bequests and similar items	–	7,371	400	7,771
Investment income	–	861	–	861
Net assets released from restrictions	–	(4,074)	–	(4,074)
	35,368	4,158	400	39,926
Net assets at December 31, 2006	245,464	71,982	25,350	342,796
Increase in unrestricted net assets	**58,650**	**–**	**–**	**58,650**
Restricted gifts, bequests and similar items	**–**	**8,645**	**–**	**8,645**
Investment income	**–**	**724**	**–**	**724**
Net assets released from restrictions	**–**	**(6,334)**	**–**	**(6,334)**
	58,650	**3,035**	**–**	**61,685**
Net assets at December 31, 2007	**$304,114**	**$75,017**	**$25,350**	**$404,481**

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2007	2006
	(In Thousands)	
Operating activities		
Increase in net assets:		
Unrestricted	**$ 58,650**	$ 35,368
Temporarily restricted	**3,035**	4,158
Permanently restricted	**–**	400
Increase in net assets	**61,685**	39,926
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**89,901**	84,345
Effect of change in accounting for defined benefit pension and other postretirement plans	**–**	12,216
Change in net additional minimum pension liability	**–**	1,264
Change in net assets related to defined benefit pension and other postretirement plans	**(4,486)**	–
Net realized gains	**(9,606)**	(12,208)
Change in net unrealized gains	**(7,713)**	(4,207)
Equity earnings from investment in limited liability company	**(4,450)**	(3,002)
Amortization of long-term mortgage premium	**(371)**	–
Changes in operating assets and liabilities:		
Receivables for patient care	**(22,935)**	(19,393)
Net change in other receivables, other current assets, current liabilities (excluding current portion of long-term debt), employee deferred compensation, and other non-current liabilities	**41,807**	10,391
Deferred financing costs and other non-current assets	**(9,797)**	(7,658)
Net cash provided by operating activities	**134,035**	101,674
Investing activities		
Acquisition of property, buildings and equipment, net	**(94,146)**	(125,194)
Increase in current marketable and other securities, net	**(57,324)**	(36,560)
Decrease in marketable securities held as collateral, net	**11,709**	14,631
(Increase) decrease in assets limited as to use – marketable and other securities, net	**(14,379)**	2,095
Decrease in pledges restricted to investment in property, buildings and equipment	**–**	156
Net cash used in investing activities	**(154,140)**	(144,872)
Financing activities		
Payments of long-term debt	**(30,964)**	(28,555)
Proceeds from long-term debt	**46,159**	67,749
Net cash provided by financing activities	**15,195**	39,194
Net decrease in cash and cash equivalents	**(4,910)**	(4,004)
Cash and cash equivalents at beginning of year	**15,489**	19,493
Cash and cash equivalents at end of year	**$ 10,579**	$ 15,489

See accompanying notes.

1. Organization and Significant Accounting Policies

Organization: Montefiore Medical Center (the Medical Center) and its controlled organizations comprise an integrated 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 healthcare 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, effective January 26, 2006, is the Montefiore Health System, Inc. (MHS) (see Note 9).

The Medical Center's significant accounting policies follow:

Basis of Financial Statement Presentation: The accompanying consolidated financial statements include the accounts of Montefiore Medical Center and its controlled tax exempt and taxable organizations: MMC Corporation (MCORP), CMO The Care Management Company, LLC (CMO), MMC IPA Inc. (MIPA), MMC IPA No. 7 Inc. (MIPA 7), MMC IPA No. 8 Inc. (MIPA 8), University Behavioral Associates, Inc. (UBA), Montefiore Behavioral Care IPA No. 1, Inc. (MBCIPA), Gunhill MRI P.C., MMC Residential Corp. No. 1, Inc. (Housing I), Montefiore Hospital Housing Section II, Inc. (Housing II), Mosholu Preservation Corporation, Emerging Health Information Technology, LLC (EHIT), MMC GI Holdings East, Inc. (GI East), and MMC GI Holdings West, Inc. (GI West). For purposes of financial statement presentation, they are collectively termed the Medical Center except as explicitly specified. All significant intercompany transactions have been eliminated in consolidation. Captive insurance companies in which the Medical Center has an equity interest of 20% but less than 50% are accounted for under the equity method of accounting.

On January 1, 2008, the assets, liabilities and underlying businesses of MIPA and MIPA 8 were merged into MIPA 7. Such merger was approved by the New York State Department of State on December 26, 2007. MIPA and MIPA 8 will cease to exist as separate corporate entities and the surviving corporation following the merger shall be MIPA 7. During 2008, MIPA 7 intends to change its name to The Montefiore IPA, Inc.

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

1. Organization and Significant Accounting Policies (continued)

accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions. Other revenue for the years ended December 31, 2007 and 2006 includes approximately $5.6 million and $4.0 million, respectively, of net assets released from restrictions used for operations.

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 (A1/P1) 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 limits the amount of credit exposure to any one financial institution. At December 31, 2007 and 2006, the Medical Center had balances with financial institutions that exceeded federal depository insurance limits. Management believes that the credit risk associated with these deposits is minimal.

Receivables for Patient Care: Patient accounts receivable for which the Medical Center receives payment under reimbursement formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amount receivable from such payors, which is generally less than the established billing rates of the Medical Center. Fees for patient services not covered by payor 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 payors which are directly related to receivables for patient care. Such advances aggregated approximately $22.5 million and $28.1 million at December 31, 2007 and 2006, respectively.

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

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

Marketable and Other Securities: Marketable and other securities are carried at fair value and generally consist of fixed income securities issued or guaranteed by government entities, money market funds, mutual funds, fixed income securities issued by corporations, equity securities and alternative investments including investments in limited partnerships. Alternative investments (nontraditional, not readily marketable asset classes), some of which are structured such that the

1. Organization and Significant Accounting Policies (continued)

Medical Center holds limited partnership interests, are stated at fair value as estimated in an unquoted market. Individual investment holdings of the Medical Center may, in turn, include investments in 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, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Medical Center to securities lending, short sales of securities, and trading in futures and forwards contracts, options and other derivative products. The Medical Center’s risk is limited to its carrying value. Certain investments are subject to notification periods to divest of approximately three months. The financial statements of the investees are audited annually by independent auditors. At December 31, 2007, the Medical Center had approximately $6.7 million of future commitments to invest in alternative investments. For financial statement purposes, the various securities held by the limited partnerships and other alternative investments are not allocated to their components. Marketable securities received as a gift are initially recorded at fair value at the date of the gift.

During 2007, the Medical Center determined that its investments in marketable and other securities previously classified as available for sale securities are more accurately classified as trading securities. Accordingly, approximately $7.7 million of net unrealized gains on marketable and other securities were reported in other operating revenue in the accompanying consolidated statement of operations for the year ended December 31, 2007. Net unrealized gains of approximately $4.2 million for the year ended December 31, 2006 previously excluded from income from operations were reclassified to other operating revenue to conform to the current year presentation.

Investment Gains, Losses and Income: Realized and unrealized gains and losses on marketable and other securities are recorded in the consolidated statements of operations 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 internal designations.

1. Organization and Significant Accounting Policies (continued)

Property, Buildings and Equipment: Property, buildings and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at appraised or fair value established at the date received. Capital lease assets are recorded at the present value of the minimum lease payments at the inception of the leases. Annual provisions for depreciation or amortization are made based upon the straight-line method over the estimated useful lives of the assets. Capital lease assets are amortized over the lesser of the estimated useful life or lease term. The carrying amounts of assets and the related accumulated depreciation or amortization 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. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of the assets.

Deferred Financing Costs: Deferred financing costs represent costs incurred to obtain financing for various construction and renovation projects. Amortization of these costs is provided by the interest method extending over the terms of the related indebtedness.

Employee Deferred Compensation Plan: Pursuant to various deferred compensation plans in which certain Medical Center employees or former employees participate, the Medical Center deposits amounts 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. At December 31, 2007 and 2006, approximately $12.4 million and $2.1 million, respectively, was recorded as current assets and liabilities and included in current assets limited as to use and accrued salaries, wages and related items in the accompanying consolidated statements of financial position.

Deferred Revenue: Deferred revenue included with other non-current 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.

The Medical Center and MIPA 7 entered into an agreement in December 2003 with a health plan that extended the previous risk and fee for service arrangements through December 31, 2007. As such, the amount received from the health plan ($18.5 million) was recorded as deferred revenue on the books of the Medical Center at December 31, 2003 and was amortized under the straight-line method over 48 months in accordance with Emerging Issues Task Force (EITF) 99-19, *Reporting Revenue Gross as Principal versus Net as an Agent.* For the years ended December 31, 2007 and 2006, net patient service revenue includes approximately $4.6 million,

1. Organization and Significant Accounting Policies (continued)

each year, associated with this agreement. In December 2007, the agreement was amended to extend the term through December 31, 2010. As part of the amended agreement, $28.5 million was received from the health plan subsequent to December 31, 2007. This amount was included in other receivables and deferred revenue, a component of other non-current liabilities, in the consolidated statement of financial position at December 31, 2007. The $28.5 million will be amortized under the straight-line method over the 36-month term of the amended agreement in accordance with EITF 99-19.

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

Premium Revenue and Healthcare 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 healthcare providers, delivers healthcare 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 healthcare 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. For the years ended December 31, 2007 and 2006, healthcare service costs included in supplies and other expenses were reduced by approximately $1.6 million and $3.0 million, respectively, reflecting the difference between claims paid and the liability originally estimated. Premium revenue included within the caption net patient service revenue in the accompanying consolidated statements of operations aggregated approximately $472.0 million and $438.6 million for the years ended December 31, 2007 and 2006, respectively.

Performance Indicator: The consolidated statements of operations include income from operations as the performance indicator. Items excluded from income from operations are net assets released from restrictions used for purchases of property, buildings and equipment, change in net assets related to defined benefit pension and other postretirement plans, change in net additional minimum pension liability and effect of change in accounting for defined benefit pension and other postretirement plans.

1. Organization and Significant Accounting Policies (continued)

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 $22.9 million at December 31, 2007.

Tax Status: The Medical Center, a section 501(c)(3) organization, is exempt from income taxes under Section 501(a) of the Internal Revenue Code, as are all of the organizations consolidated in these financial statements, except CMO, MIPA, MIPA 7, MIPA 8, UBA, MBCIPA, EHIT, GI East and GI West which are taxable entities.

Charity Care: The Medical Center, in keeping with its mission and philosophy to provide quality care and compassionate service, extends charity care to those patients who do not have the ability to meet their obligations. Charity and uncompensated care provided, including reductions for uninsured and underinsured patients, amounted to approximately $124.5 million and $121.5 million for the years ended December 31, 2007 and 2006, respectively.

Program Services: The Medical Center provides healthcare and related services primarily within its geographic location. Expenses related to providing these services for the years ended December 31, 2007 and 2006 are as follows:

	2007	**2006**
	(In Thousands)	
Healthcare and related services	**$ 2,058,388**	$1,907,914
Program support and general services	**137,073**	124,526
	$ 2,195,461	$2,032,440

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amount of revenue and expenses reported during the period. Actual results could differ from those previously estimated.

1. Organization and Significant Accounting Policies (continued)

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

Reclassification: For purposes of comparison, certain reclassifications have been made to the accompanying 2006 consolidated financial statements to conform to the 2007 presentation.

Change in Accounting: In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (Statement 158). Statement 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, defined benefit plans) to recognize the funded status of their defined benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position, and provide additional disclosures. On December 31, 2006, the Medical Center adopted the recognition and disclosure provisions of Statement 158. The effect of adopting Statement 158 on the Medical Center's consolidated financial position at December 31, 2006 has been included in the accompanying consolidated financial statements. See Note 8 for further discussion of the effect of adopting Statement 158 on the Medical Center's consolidated financial statements.

2. Net Patient Service Revenue

The Medical Center has agreements with third party payors 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 patients, third party payors 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: The New York Health Care Reform Act of 1996 (the Act), as periodically updated, governs non-Medicare payments to hospitals in New York State. The Act is subject to periodic renewal and currently is in effect through March 31, 2008. Under the Act, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established,

2. Net Patient Service Revenue (continued)

payors are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health on a prospective basis. 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 will continue to be made in future years.

Medicare Reimbursement: Hospitals are paid for most Medicare inpatient and outpatient services under the National prospective payment systems 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.

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 to which they occur. The estimated settlements recorded at December 31, 2007 and 2006 could differ from actual settlements based on the results of cost report audits.

Laws and regulations governing healthcare programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in repayment of amounts improperly reimbursed, fines, penalties and exclusion from such programs. 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.

In January 2008, the Medical Center received a subpoena issued by the Department of Health and Human Services, Office of Inspector General. The subpoena broadly seeks documentation relating to the receipt of Medicare outlier payments by the Medical Center for the period of January 1, 1997 through December 31, 2003. The subpoena relates to an ongoing nationwide investigation of hospital outlier payments by the Office of Inspector General. Numerous other hospitals around the country, including those in New York, have received similar subpoenas. The Medical Center is fully cooperating with the government's request in response to the

2. Net Patient Service Revenue (continued)

subpoena. Since this matter is in its early stages, the ultimate outcome cannot be determined. Accordingly, no amounts relating to this matter have been recorded in the consolidated financial statements as of December 31, 2007.

There are various proposals at the Federal and State levels that could, among other things, significantly reduce reimbursement rates or modify reimbursement methods. The ultimate outcome of these proposals and other market changes cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Medical Center. These changes would be prospective and impact financial periods subsequent to the year ended December 31, 2007.

3. Marketable and Other Securities

The composition of marketable and other securities at fair value follows:

	December 31	
	2007	**2006**
	(In Thousands)	
Marketable and other securities	**$431,324**	$361,569
Assets limited as to use – marketable and other securities	**216,086**	201,707
Marketable securities held as collateral	**37,410**	49,119
Trustee employee benefit plan marketable and other securities	**48,440**	43,552
	$733,260	$655,947
Non-equity mutual funds	**$386,920**	$356,135
Equity mutual funds	**117,260**	95,145
Mortgage-backed securities	**10,569**	29,263
U.S. Treasury securities	**30,990**	31,096
U.S. government agency backed securities	**90,350**	29,852
Equity securities	**27,354**	21,469
Limited partnerships and other alternative investments	**45,413**	38,032
Corporate debt	**19,317**	48,283
Other	**5,087**	6,672
	$733,260	$655,947

Current assets limited as to use marketable securities include amounts set aside to satisfy MIPA, MIPA 7 and MIPA 8 contractual requirements, the current portion of assets designated for employee deferred compensation and the current portion of assets designated for self insurance (see Note 9).

3. Marketable and Other Securities (continued)

Investment income included in other operating revenue (see Note 12) in the consolidated statements of operations for the years ended December 31, 2007 and 2006 consisted of the following:

	2007	2006
	(In Thousands)	
Interest and dividend income	**$ 23,634**	$ 20,098
Realized gains, net of realized losses	**9,606**	12,208
Unrealized gains, net of unrealized losses	**7,713**	4,207
	$ 40,953	$ 36,513

At December 31, 2007 and 2006, marketable securities aggregating approximately $37.4 million and $49.1 million (at fair value), respectively, were pledged as collateral under various debt and other agreements and included in marketable securities held as collateral in the consolidated statements of financial position (see Note 6).

In January 2008, the Medical Center's Executive Committee of the Board of Trustees passed a resolution to dissolve the trust established to fund certain employee health and welfare plans. Trust assets will be used to pay benefit claims until the assets are fully liquidated, at which time the trust will terminate. Once the trust is terminated, the Medical Center will continue to fund the employee health and welfare plans from operations.

4. Property, Buildings and Equipment

A summary of property, buildings and equipment follows:

	December 31	
	2007	2006
	(In Thousands)	
Land and land improvements	**$ 14,449**	$ 13,917
Buildings, fixed equipment and improvements	**1,090,100**	971,320
Movable equipment	**498,485**	463,119
	1,603,034	1,448,356
Less accumulated depreciation and amortization	**(909,560)**	(821,500)
	693,474	626,856
Construction-in-progress	**25,865**	86,397
	$ 719,339	$ 713,253

4. Property, Buildings and Equipment (continued)

Property, buildings and equipment includes capital lease assets of approximately $94.3 million and $95.9 million at December 31, 2007 and 2006, respectively, with accumulated amortization of approximately $49.7 million and $44.5 million, respectively.

Substantially all property, buildings and equipment has been collateralized under various debt agreements (see Note 6).

5. Leases

Total rental expense included in supplies and other expenses aggregated approximately $31.9 million and $29.5 million for the years ended December 31, 2007 and 2006, respectively.

Future minimum payments, by year and in the aggregate, under capital leases and non-cancelable operating leases with initial or remaining terms of one year or more at December 31, 2007 consisted of the following:

	Capital Leases	**Operating Leases**
	(In Thousands)	
2008	$ 17,828	$ 18,381
2009	16,094	16,804
2010	13,534	16,171
2011	7,800	13,968
2012	4,377	12,493
2013 and thereafter (a)	726	137,747
Total minimum lease payments	60,359	$ 215,564
Less amounts representing interest	5,479	
Total value of minimum lease payments (included in long-term debt – see Note 6)	$ 54,880	

(a) Future minimum lease payments under non-cancelable operating leases include payments due under a lease for the Einstein hospital campus that extends through 2045.

5. Leases (continued)

The Medical Center borrowed approximately $10.0 million during the years ended December 31, 2007 and 2006 under tax-exempt leasing programs (TELP) to finance equipment acquisitions. The interest rates associated with the Medical Center's various TELP borrowings range from 3.0% to 3.9%. During the year ended December 31, 2006, capital lease agreements of approximately $3.5 million were entered into by two of the Medical Center's taxable subsidiaries to finance equipment acquisitions, with interest rates ranging from 7.0% to 9.0%. In addition, several capital leases recorded in 1993 for office space have payments, which extend to 2013 and bear interest at 9.0%.

6. Long-term Debt

A summary of long-term debt follows:

	December 31	
	2007	**2006**
	(In Thousands)	
FHA Section 242 insured mortgage loan (a)	**$ 138,085**	$ 142,599
FHA Section 241 insured mortgage loan (b)	**121,845**	126,518
FHA Section 241 insured mortgage loan (c)	**90,641**	93,156
FHA Section 241 insured mortgage loan (d)	**14,781**	15,159
FHA Section 241 insured mortgage loan (e)	**170,017**	136,052
HDC residential revenue bonds payable (f)	**7,800**	8,000
Bank loans payable (g)	**4,396**	6,260
Housing II mortgages payable (h)	**19,540**	19,629
Housing I mortgage payable (i)	**1,698**	1,738
MCORP bonds payable (j)	**21,915**	21,915
NYC IDA bonds payable (j)	**15,542**	15,557
Other	**2,525**	2,878
Capital leases (see Note 5)	**54,880**	59,009
	663,665	648,470
Add long-term mortgage premium (e)	**7,215**	7,586
Less current portion	**(35,080)**	(31,017)
	$ 635,800	$ 625,039

(a) The Medical Center has a mortgage agreement with the Dormitory Authority of the State of New York (the Dormitory Authority) insured under the provisions of the Federal Housing Administration (FHA) 242 Program. This insured mortgage is secured by a first mortgage on substantially all of the Medical Center's real property and unrestricted assets. Payments of principal and interest are due monthly through October 1, 2026. The interest is payable at 4.65% through January 31, 2015 and thereafter at 4.57%.

6. Long-term Debt (continued)

With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to February 1, 2015. Subsequent to February 1, 2015, prepayment may be made without penalty.

At December 31, 2007, there were no future funding requirements and the balance of approximately $22.1 million of the mortgage reserve fund met the minimum mortgage reserve fund requirement related to the FHA 242 Program insured mortgage loan and will meet the required minimum balance for the next five years.

(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 that was completed in 1998. The interest rate on the mortgage was 6.17% per annum and principal and interest payments were due monthly through April 2023. Subsequent to February 15, 2007, prepayment could have been made without penalty.

In connection with the FHA 241 financing, the Medical Center had a surety bond that would have expired on August 15, 2014. The amount of the surety bond outstanding was approximately $1.6 million at December 31, 2007. The surety bond was secured by approximately $1.6 million of marketable securities included in marketable securities held as collateral in the consolidated statements of financial position at December 31, 2007 and 2006. There were no borrowings under the surety bond during the years ended December 31, 2007 and 2006.

During February 2008, the Medical Center refinanced the mortgage loan with the Dormitory Authority in order to reduce the mortgage rate to 4.55% and eliminate the surety bond requirement. 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.

6. Long-term Debt (continued)

At December 31, 2007, the Medical Center met the funding requirements and minimum mortgage reserve fund balances related to the FHA 241 Program insured mortgage loan. During January 2006, the Medical Center obtained approval to withdraw approximately $10.8 million from the mortgage reserve fund (see Note 9) and in February 2008 the future funding requirements were modified as a result of the refinancing. The revised funding requirements and minimum mortgage reserve fund balances for the next five years are:

	Funding Requirement	December 31 Minimum Balance
	(In Thousands)	
2008	$2,357	$13,912
2009	825	14,737
2010	858	15,595
2011	893	16,488
2012	928	17,416

(c) The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program, to finance certain construction and renovation projects, including the Children's Hospital at Montefiore, which was completed in 2001, and to refinance certain debt. The interest rate on the mortgage is 5.7% per annum. Principal and interest payments are due monthly through May 1, 2027, at which time any remaining principal and interest is due. The mortgage loan may not be prepaid prior to August 1, 2009, except in certain limited circumstances. Subsequent to August 1, 2009, except in certain circumstances, prepayments in excess of 15% of the original principal amount are subject to prepayment penalties decreasing from 1.5% from August 1, 2009 through July 31, 2010 to 1.0% from August 1, 2010 through July 31, 2011. Commencing August 1, 2011, the prepayment penalty is eliminated.

6. Long-term Debt (continued)

At December 31, 2007, the Medical Center met the funding requirements and minimum mortgage reserve fund balances related to the FHA 241 Program insured mortgage loan. The funding requirements and minimum mortgage reserve fund balances for the next five years are:

	Funding Requirement	December 31 Minimum Balance
	(In Thousands)	
2008	$1,411	$ 9,690
2009	1,469	11,159
2010	1,527	12,686
2011	1,591	14,277
2012	674	14,951

(d) The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program, to finance a construction project that was completed in 2003. The interest rate on the mortgage was 6.7% per annum through June 30, 2007 and 6.23% thereafter. Principal and interest payments are due monthly through May 1, 2027, 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 August 1, 2010. Subsequent to August 1, 2010, except in certain circumstances, prepayments in excess of 15% of the original principal amount are subject to prepayment penalties decreasing from 1.5% from August 1, 2010 through July 31, 2011 to 1.0% from August 1, 2011 through July 31, 2012. Commencing on August 1, 2012, the prepayment penalty is eliminated.

In connection with the FHA 241 financing, the Medical Center obtained two irrevocable bank letters of credit, both of which were terminated during the year ended December 31, 2007. The combined letters of credit aggregated approximately $1.2 million at December 31, 2006, and were secured by approximately $1.6 million of marketable securities included in marketable securities held as collateral in the consolidated statement of financial position at December 31, 2006. There were no amounts drawn down under the letters of credit during the years ended December 31, 2007 and 2006.

6. Long-term Debt (continued)

At December 31, 2007, the Medical Center met the funding requirements and minimum required mortgage reserve fund balances related to the FHA 241 Program insured mortgage loan. The funding requirements and minimum mortgage reserve fund balances for the next five years are:

	Funding Requirement	December 31 Minimum Balance
	(In Thousands)	
2008	$258	$1,775
2009	269	2,044
2010	280	2,324
2011	291	2,615
2012	124	2,739

(e) The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program, to borrow up to approximately $172.2 million to finance a construction and renovation project that was completed in 2007. At December 31, 2007 and 2006, approximately $172.2 million and $136.1 million, respectively, was drawn down.

The interest rate was 7.0% per annum through March 31, 2007 and 5.37% per annum thereafter. Principal and interest payments are due monthly from May 1, 2007 through April 1, 2032, 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, 2015. Subsequent to February 1, 2015, the loan may be prepaid without penalty.

In connection with the mortgage agreement, the Medical Center obtained three irrevocable bank letters of credit, one of which expired on December 14, 2007. One of the remaining letters of credit expires on December 14, 2008 and the other expires on December 14, 2010. The letters of credit aggregated approximately $24.0 million and $30.7 million at December 31, 2007 and 2006, respectively, and were secured by approximately $26.6 million and $34.1 million of marketable securities included in marketable securities held as collateral in the consolidated statements of financial position at December 31, 2007 and 2006. During the year ended December 31, 2006, approximately $700,000 was drawn down under one of the letters of credit.

6. Long-term Debt (continued)

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. In 2007, the Medical Center began to amortize the mortgage premium and accrete the amount recorded over the life of the mortgage using the effective interest method.

At December 31, 2007, the Medical Center met the funding requirements and minimum required mortgage reserve fund balances related to the FHA 241 Program insured mortgage loan. The funding requirements and minimum mortgage reserve fund balances for the next five years are:

	Funding Requirement	**December 31 Minimum Balance**
	(In Thousands)	
2008	$1,780	$ 2,437
2009	2,321	4,758
2010	2,570	7,328
2011	2,722	10,050
2012	2,878	12,928

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for these FHA insured mortgage loans.

(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 (4.73% at December 31, 2007). 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 $7.9 million, which expires during June 2010. No unreimbursed draws were made under the direct pay letter of credit during the years ended December 31, 2007 and 2006. The revenue bonds can be prepaid without penalty at the option of the Medical Center.

6. Long-term Debt (continued)

(g) At December 31, 2007 and 2006, the Medical Center had outstanding borrowings under loan agreements with two banks.

The Medical Center had one loan agreement under which approximately $1.7 million and $2.6 million were outstanding at December 31, 2007 and 2006, respectively. The amounts outstanding are secured by approximately $2.5 million and $3.7 million of marketable securities included in marketable securities held as collateral in the consolidated statements of financial position at December 31, 2007 and 2006, respectively. Interest payments are payable quarterly at a variable rate (5.36% at December 31, 2007). Principal payments of approximately $216,000 are payable quarterly through December 2009. The loan can be prepaid in whole or in part without penalty at the option of the Medical Center.

The Medical Center had another loan agreement under which approximately $2.7 million and $3.7 million were outstanding at December 31, 2007 and 2006, respectively. The amounts outstanding are secured by approximately $3.8 million and $5.2 million of marketable securities included in marketable securities held as collateral in the consolidated statements of financial position at December 31, 2007 and 2006, respectively. Interest payments are payable monthly at a variable rate (5.18% at December 31, 2007). Principal payments of approximately $83,000 are payable monthly through August 2010. The loan can be prepaid in whole or in part without penalty at the option of the Medical Center under certain circumstances.

(h) Housing II has primary and subordinate mortgage agreements with HDC. At December 31, 2007 and 2006, the primary mortgage amount outstanding was approximately $6.7 million and $6.9 million, respectively. The interest rate is 6.5%, and principal and interest payments are due monthly through January 1, 2035. After December 31, 2019, the primary mortgage may be prepaid without penalty if the subordinate mortgage is no longer outstanding. At December 31, 2007 and 2006, the subordinate mortgage amount was approximately $12.8 million and bears no interest. 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 obligations are called in 2019. If the mortgages remain outstanding through 2035, the effective interest rate is 1.8%.

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, 2007 and 2006, Housing II maintained the reserve for replacement account in accordance with HDC requirements.

6. Long-term Debt (continued)

(i) Housing I has a mortgage loan agreement with a lender. The interest rate is 7.59%. Principal and interest payments are due monthly through July 2026. The mortgage loan may be prepaid upon 30 days' 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 has acquired certain real estate financed with the proceeds of two financings: approximately $15.6 million of New York City Industrial Development Agency (NYC IDA) revenue bonds and approximately $21.9 million of MCORP taxable bonds. The MCORP bonds were also used to refinance an approximate $6.9 million bridge loan related to another real estate acquisition. Interest on the NYC IDA bonds, at an average coupon rate of 4.96%, is payable monthly through March 1, 2008, and payments of interest and principal are payable monthly April 1, 2008 through October 1, 2035. The bonds may not be prepaid prior to November 1, 2010, after which they may be prepaid without penalty. The bonds were sold at a premium of approximately $308,000, which was recorded as a component of the related long-term debt balance and is being amortized using the effective interest method over the term of the bonds. Interest on the MCORP bonds is payable monthly at a variable rate (7.98% at December 31, 2007). Principal is payable monthly commencing April 1, 2008. The 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 $15.7 million and $22.1 million. The letters of credit are secured by a mortgage on the properties financed. The letters of credit expire December 22, 2011. No unreimbursed draws were made under the direct pay letters of credit during the years ended December 31, 2007 and 2006.

The aggregate amount of principal payments required under all long-term indebtedness, including capital leases and amortization of long-term mortgage premium, during the next five years, exclusive of sinking funds requirements, follows (in thousands):

2008	$35,080
2009	35,267
2010	32,717
2011	28,017
2012	26,034

6. Long-term Debt (continued)

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.

At December 31, 2007, the Medical Center had lines of credit with two banks aggregating approximately $13.5 million. There were no amounts drawn down under these lines of credit.

Interest paid during the years ended December 31, 2007 and 2006 amounted to approximately $40.3 million and $39.0 million, respectively, including capitalized interest during the years ended December 31, 2007 and 2006 of approximately $2.5 million and $3.5 million, respectively.

7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	December 31	
	2007	**2006**
	(In Thousands)	
Collateralizing bank financing, teaching and research	**$ 34,800**	$ 34,800
Construction and renovation projects	**3,343**	2,166
Healthcare related services	**32,149**	30,369
Research	**4,588**	4,363
Health education	**137**	284
	$ 75,017	$ 71,982

Permanently restricted net assets are to be held in perpetuity, the income from which is expendable to support health care services.

8. Benefit Plans

The Medical Center is a contributing employer to two union multi-employer 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.

8. Benefit Plans (continued)

Contributions to union multi-employer 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 tax deferred annuity plans are based on percentages of salaries. 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.

Total expense for the various pension plans aggregated approximately $59.8 million and $57.9 million for the years ended December 31, 2007 and 2006, respectively. Cash payments relative to the various pension plans aggregated approximately $59.6 million and $56.7 million for the years ended December 31, 2007 and 2006, respectively.

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.

On December 31, 2006, the Medical Center adopted the recognition and disclosure provisions of Statement 158. Statement 158 required the Medical Center to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its defined benefit plans in the December 31, 2006 consolidated statement of financial position, with a corresponding adjustment to unrestricted net assets. The adoption of Statement 158 resulted in a $12.2 million decrease in unrestricted net assets outside the performance indicator in the Medical Center's consolidated statement of operations for the year ended December 31, 2006. The adjustment to unrestricted net assets at adoption represents the net unrecognized actuarial losses and unrecognized prior service costs remaining from the initial adoption of Statement 87 and 106, all of which were previously netted against the plan's funded status in the Medical Center's consolidated statements of financial position pursuant to the provisions of Statements 87 and 106. The amounts will be subsequently recognized as net periodic benefit cost pursuant to the Medical Center's historical 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. Those amounts will be subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in unrestricted net assets at adoption of Statement 158. For the year ended December 31, 2007, the Medical Center reported an increase in unrestricted net assets of approximately $4.5 million outside the performance indicator from net actuarial gains.

8. Benefit Plans (continued)

At December 31, 2006, prior to the adoption of Statement 158, the accumulated shortfall between the fair value of plan assets and accumulated benefit obligation decreased, resulting in a change in the net additional minimum pension liability of approximately $1.3 million for the year ended December 31, 2006.

The following tables provide a reconciliation of the changes in the defined benefit plans' benefit obligations and fair value of plan assets (where applicable) for the years ended December 31, 2007 and 2006 and the funded status of the defined benefit plans as of December 31, 2007 and 2006:

	Pension		Postretirement	
	2007	**2006**	**2007**	**2006**
	(In Thousands)			
Changes in benefit obligation				
Benefit obligation at January 1	**$ 30,207**	$ 28,674	**$ 62,029**	$ 58,459
Service cost	**1,265**	1,255	**3,817**	3,139
Interest cost	**1,740**	1,626	**3,622**	3,259
Actuarial (gain) loss	**(203)**	(380)	**(1,295)**	724
Benefit payments, net	**(802)**	(968)	**(3,321)**	(3,552)
Benefit obligation at December 31	**$ 32,207**	$ 30,207	**$ 64,852**	$ 62,029
Change in plan assets				
Fair value of plan assets at January 1, consisting of fixed income securities, corporate bonds, mutual funds and marketable equity securities	**$ 15,531**	$ 15,120	**$ –**	$ –
Actual return on plan assets	**3,276**	218	**–**	–
Employer contributions	**450**	1,161	**3,321**	3,552
Plan participants' contributions	**–**	–	**1,026**	959
Benefit payments	**(802)**	(968)	**(4,347)**	(4,511)
Fair value of plan assets at December 31	**$ 18,455**	$ 15,531	**$ –**	$ –
Funded status				
Net liability recognized in the consolidated statements of financial position	**$ (13,752)**	$ (14,676)	**$(64,852)**	$ (62,029)

The net prior service cost credit and actuarial loss included in unrestricted net assets and expected to be recognized as net periodic benefit cost during the year ended December 31, 2008 are both approximately $1.1 million.

8. Benefit Plans (continued)

The following table provides the components of the net periodic benefit cost for the defined benefit plans for the years ended December 31, 2007 and 2006:

	Pension		Postretirement	
	2007	**2006**	**2007**	**2006**
	(In Thousands)			
Service cost	**$ 1,265**	$ 1,255	**$ 3,817**	$ 3,139
Interest cost on projected benefit obligation	**1,740**	1,626	**3,622**	3,259
Expected return on plan assets	**(1,417)**	(1,345)	**–**	–
Amortization of prior service cost (benefit)	**1,169**	2,011	**(1,491)**	(1,491)
Amortization of net loss	**15**	27	**1,436**	1,540
Net periodic benefit cost	**$ 2,772**	$ 3,574	**$ 7,384**	$ 6,447

	Pension		Postretirement	
	2007	**2006**	**2007**	**2006**
Weighted average assumptions used to determine benefit obligations as of December 31				
Discount rate	**5.84% – 6.00%**	5.75% – 6.00%	**6.15%**	6.00%
Rate of compensation increases	**4.00% – 5.00%**	4.00% – 5.00%	**–**	–

	Pension		Postretirement	
	2007	**2006**	**2007**	**2006**
Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31				
Discount rate	**5.75% – 6.00%**	5.75%	**6.00%**	5.75%
Expected long-term rate of return on plan assets	**8.50%**	8.50%	**–**	–
Rate of compensation increase	**4.00% – 5.00%**	4.00% – 5.00%	**–**	–

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, update for changes in the marketplace.

8. Benefit Plans (continued)

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

	2007	2006
Health care cost trend rate	**8.35%**	9.06%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**4.75%**	4.75%
Years that the rate reaches the ultimate trend rate	**2015 – 2016**	2015 – 2016

The measurement dates used to determine defined benefit pension and postretirement plan costs were September 30, 2007 and 2006, respectively. In accordance with Statement 158, the measurement date to determine 2008 costs will be December 31, 2008.

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

	September 30	
	2007	**2006**
Equity securities	**64%**	62%
Debt securities	**34**	36
Other	**2**	2
Total	**100%**	100%

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

	Target Allocation	Range
U.S. stocks	39%	35% – 43%
Non-U.S. stocks	15	2% – 18%
Global stocks	6	3% – 9%
Bonds	40	36% – 44%

8. Benefit Plans (continued)

During the year ending December 31, 2008, the Medical Center expects to contribute approximately $720,000 and $3.7 million to the defined benefit pension and postretirement plans, respectively.

Expected benefit payments by year as of December 31, 2007 follow (in thousands):

	Pension	Postretirement
2008	$14,385	$ 3,700
2009	1,127	3,700
2010	1,235	4,000
2011	1,608	4,400
2012	1,763	4,600
2013-2017	7,763	26,800

The 2008 pension amount above reflects one-time payments to be made in 2008.

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

	2007		**2006**	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
	(In Thousands)			
Effect on total of service and interest cost components of net periodic postretirement healthcare benefit cost	**$1,500**	**$(1,200)**	$1,300	$(1,000)
Effect on the healthcare component of the accumulated postretirement benefit obligation	**9,000**	**(7,800)**	8,600	(7,500)

9. Contingencies and Other

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, 2007 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 provision 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.

Beginning in April 1977, primary coverage of professional and general liability incidents has been provided through participation in a pooled program with certain other health care facilities (principally hospitals) affiliated with the UJA Federation of Jewish Philanthropies of New York (the FOJP Program). This occurrence basis insurance coverage participation is with captive insurance companies and commercial insurance companies. As of December 31, 2007, the Medical Center retained ownership in three captive insurance companies affiliated with the FOJP Program ranging from 17% to 21%. In connection with the pooled insurance program, the Medical Center has recognized its allocated share of a portion of the program's accumulated surplus. Such amount (approximately $64.7 million and $57.1 million at December 31, 2007 and 2006, respectively) is included in deferred financing costs and other non-current assets in the accompanying consolidated statements of financial position.

The Medical Center changed its malpractice insurance program for the period from January 1, 1998 through December 31, 1998. Under the terms of the revised program, a portion of the Medical Center's coverage became self-insured. In conjunction with this program, the Medical Center, together with several other hospitals, invested in pooled investment unit trusts. Under such arrangements, the units were not subject to redemption for five years from the date of the initial investment other than for payment of malpractice claims and claim related expenses. At December 31, 2007 and 2006, the Medical Center had liabilities recorded of approximately $3.8 million and $4.6 million, respectively ($2.3 million and $3.2 million included in other payables and accrued expenses at December 31, 2007 and 2006, respectively), up to the maximum potential exposure under the program. The Medical Center has funded $3.8 million and $4.6 million for these liabilities at December 31, 2007 and 2006, respectively.

9. Contingencies and Other (continued)

Effective January 1, 1999, the program was terminated prospectively. For the period beginning January 1, 1999, the Medical Center's malpractice insurance program reverted to a program similar to the arrangement that existed prior to January 1, 1998. The Medical Center no longer maintains a self-insured component for the period beginning January 1, 1999.

The Medical Center is at risk for actual interest earnings that do not meet assumed levels. At December 31, 2007 and 2006, the Medical Center had established liabilities of approximately $22.0 million and $21.3 million, respectively, in connection with these program related risks. The program provides for a deferred premium arrangement. At December 31, 2007, premiums of approximately $42.5 million (included in other payables and accrued expenses) are payable in 2008 and approximately $32.5 million (included in other non-current liabilities) after 2008.

At December 31, 2007, the Medical Center had letters of credit from a bank aggregating approximately $2.0 million, which expire December 15, 2008, for the benefit of its captive insurance companies. During the year ended December 31, 2007, no drawdowns were made under the letter of credit agreements. The letters of credit were secured by approximately $2.9 million of marketable securities held as collateral in the consolidated statements of financial position at December 31, 2007.

At December 31, 2007 and 2006, approximately 65% of the Medical Center's employees were covered by collective bargaining agreements. The Medical Center's collective bargaining agreements expire in January 2009 and September 2011.

In July 2005, the Medical Center, Catholic Health Care Network d/b/a Catholic Health Care System (CHCS), Our Lady of Mercy Medical Center (OLM) and certain of OLM's affiliated organizations entered into a letter of intent setting forth the principal terms and conditions of a proposed affiliation, including the formation of a New York not-for-profit corporation to be the sole member of the Medical Center, OLM, OLM Ambulatory Care Center (OLM Ambulatory) and OLM Parking Corporation (OLM Parking). On September 1, 2005, Bronx Community Foundation Corp. (BCF), a New York not-for-profit corporation, was incorporated to serve as the new member upon the completion of the proposed affiliation.

On January 5, 2006, BCF, Our Lady of Mercy Healthcare System, Inc. (OLM System), OLM, OLM Ambulatory, OLM Parking and CHCS signed a definitive agreement, pursuant to which, on the closing date, BCF would change its name to the Montefiore Health System, Inc. (MHS), become the sole corporate member of the Medical Center, replace CHCS as the corporate

9. Contingencies and Other (continued)

member of OLM and replace OLM System as the corporate member of OLM Ambulatory and OLM Parking. Following receipt of all necessary regulatory approvals, on January 26, 2006, the New York State Department of State approved amendments to the Certificates of Incorporation of the Medical Center, MHS, OLM, OLM Ambulatory and OLM Parking to establish Montefiore Health System, Inc. as the sole corporate member of the Medical Center, OLM, OLM Ambulatory and OLM Parking.

In March 2007, OLM and OLM Parking filed for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). Concurrent with the bankruptcy filing, OLM filed a motion to sell substantially all of its assets to the Medical Center for approximately $37.5 million, subject to various adjustments, in accordance with an agreed-upon Asset Purchase Agreement dated as of March 8, 2007 (the Purchase Agreement), subject to higher and better offers. On July 2, 2007, the Bankruptcy Court entered an order approving the Purchase Agreement.

The closing of the Purchase Agreement has not been consummated because all of the conditions to closing have not yet been satisfied. The Medical Center is currently undertaking efforts to achieve satisfaction of the unresolved closing conditions. There is no assurance that the closing conditions will ultimately be satisfied.

On January 24, 2006, the Medical Center acquired OLM's 1995 mortgage loan, which loan had been held by the Dormitory Authority and insured under the provisions of the FHA 242 Program (the 1995 OLM Loan). The Medical Center used approximately $10.8 million of proceeds from its sinking fund marketable securities in order to purchase the 1995 OLM loan. Prior to the acquisition of the 1995 OLM Loan by the Medical Center, the FHA mortgage insurance was terminated. The Medical Center amended and restated the 1995 OLM Loan (the Amended Loan) to provide for interest at the rate of 5.0% per annum with monthly payments of approximately $126,000 scheduled to commence on February 1, 2008, based on a 10-year amortization schedule. The Amended Loan provides for a balloon payment of approximately $6.8 million due on January 1, 2013. The Medical Center will be required to use its general operating funds in order to replenish its sinking fund marketable securities co-terminus with the repayment terms of the Amended Loan. As of December 31, 2006, based on an assessment of OLM's financial position, the Medical Center fully reserved the principal and interest due from OLM. As a result of the bankruptcy filing, OLM has not made any payments under the loan agreement.

10. Fair Value of Financial Instruments

The following methods and assumptions were used by the Medical Center in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amount reported in the consolidated statements of financial position for cash and cash equivalents approximates fair value.

Marketable and other securities: The fair values of marketable securities are based on quoted market prices. Investments in limited partnerships and other alternative investments are stated at estimated fair value as described in Note 1.

Long-term debt: Fair values of the Medical Center's long-term debt are based on the various current values for similar debt, using discounted cash flow analysis.

The following summarizes the carrying amount and fair value of the Medical Center's financial instruments at December 31:

	2007		2006	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	(In Thousands)			
Assets				
Cash and cash equivalents	**$ 10,579**	**$ 10,579**	$ 15,489	$ 15,489
Marketable and other securities	**733,260**	**733,260**	655,947	655,947
Liabilities				
Long-term debt	**670,880**	**671,482**	656,056	669,149

11. Concentration of Credit Risk

At December 31, 2007 and 2006, excluding investments in bond mutual funds, approximately 37% and 31%, respectively, of the Medical Center's marketable securities were issued by either the United States Government or its agencies.

At December 31, 2007 and 2006, significant concentrations of receivables for patient care include approximately 11% and 12% from Medicare, 35% and 33% from Medicaid and 51% and 53% from commercial and managed care organizations, respectively, of which no individual organization equaled 10% or greater.

11. Concentration of Credit Risk (continued)

Net patient service revenue from the Medicare and Medicare managed care programs accounted for approximately 40%, and the Medicaid and Medicaid managed care programs accounted for approximately 30% of the Medical Center's net patient service revenue for the years ended December 31, 2007 and 2006, respectively. No other specific payor exceeded 10% of net patient service revenue.

12. Other Operating Revenue

Other operating revenue included in the consolidated statements of operations for the years ended December 31, 2007 and 2006 consisted of the following:

	2007	**2006**
	(In Thousands)	
Investment income *(Note 3)*	**$ 40,953**	$36,513
Continuing Medical Education programs	**14,428**	13,305
Information system services	**12,498**	7,925
Staff housing and other rental income	**8,800**	8,653
Net assets released from restrictions	**5,619**	4,038
Patient care quality incentive revenue	**4,540**	6,481
Equity earnings from investment in a limited liability company	**4,450**	3,002
Cafeteria revenue	**3,387**	2,993
Parking revenue	**3,070**	2,750
All other	**11,142**	10,288
	$108,887	$95,948

13. Recently Issued Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosure about fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. Management has determined that the effect of the adoption is not significant to the consolidated financial statements of the Medical Center.

13. Recently Issued Accounting Pronouncements (continued)

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). FAS 159 permits companies to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. FAS 159 is effective for fiscal years beginning after November 15, 2007. Management has determined that the effect of the adoption is not significant to the consolidated financial statements of the Medical Center.