CONSOLIDATED FINANCIAL STATEMENTS

The Mount Sinai Hospital
Years Ended December 31, 2018 and 2017
With Report of Independent Auditors

Ernst & Young LLP

The Mount Sinai Hospital

Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

Contents

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Building a better working world

Report of Independent Auditors

The Board of Trustees
Mount Sinai Health System, Inc.

We have audited the accompanying consolidated financial statements of The Mount Sinai Hospital, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Building a better working world

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Mount Sinai Hospital at December 31, 2018 and 2017, and the 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.

Adoption of ASU No. 2014-09, *Revenue from Contracts with Customers* and ASU No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*

As discussed in Note 1 to the consolidated financial statements, The Mount Sinai Hospital changed its method of revenue recognition as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, effective January 1, 2018 and adopted the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, effective December 31, 2018. Our opinion is not modified with respect to these matters.

Ernst & Young LLP

March 29, 2019

The Mount Sinai Hospital

Consolidated Statements of Financial Position

	December 31	
	2018	**2017**
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 110,221**	$ 681,241
Short-term investments	**452,833**	234,236
Total cash and cash equivalents and short-term investments	**563,054**	915,477
Patient accounts receivable, net	**370,347**	314,869
Professional liabilities insurance recoveries receivable	**39,453**	39,685
Assets limited as to use, current portion	**33,868**	36,207
Due from related organizations, net, current portion	**200,797**	137,670
Inventories	**39,921**	36,092
Other current assets	**35,178**	44,290
Total current assets	**1,282,618**	1,524,290
Pooled investments	**878,190**	861,765
Other investments	**229,694**	218,541
Assets limited as to use, less current portion	**39,940**	39,818
Due from related organizations, less current portion	**506,594**	233,247
Beneficial interest in self-insurance trust	**44,083**	–
Other assets	**41,501**	39,427
Professional liabilities insurance recoveries receivable, less current portion	**179,732**	224,882
Property, plant, and equipment, net	**984,751**	950,670
Total assets	**$ 4,187,103**	$ 4,092,640

	December 31	
	2018	**2017**
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 205,213**	$ 185,931
Accrued salaries and related liabilities	**114,823**	122,250
Accrued interest payable	**14,916**	8,430
Accrued construction and capital asset liabilities	**9,658**	10,733
Current portion of long-term debt	**33,380**	32,370
Professional liabilities, current portion	**39,453**	39,685
Other current liabilities	**37,280**	84,002
Total current liabilities	**454,723**	483,401
Long-term debt, less current portion	**841,627**	875,899
Accrued postretirement benefits	**9,831**	16,602
Estimated self-insurance liability	**44,083**	–
Deferred gain on transfer of real estate	**27,055**	27,055
Professional liabilities, less estimated current portion	**179,732**	224,882
Other liabilities	**446,107**	447,200
Total liabilities	**2,003,158**	2,075,039
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions	**1,989,529**	1,829,431
Net assets with donor restrictions	**194,416**	188,170
Total net assets	**2,183,945**	2,017,601
Total liabilities and net assets	**$ 4,187,103**	$ 4,092,640

See accompanying notes.

The Mount Sinai Hospital

Consolidated Statements of Operations

	Year Ended December 31	
	2018	**2017**
	(In Thousands)	
Operating revenue		
Net patient service revenue	**$ 2,713,429**	$ 2,538,250
Provision for bad debts	**–**	(25,030)
Net patient service revenue, less provision for bad debts	**2,713,429**	2,513,220
Investment income and net realized gains and losses on sales of securities	**44,766**	33,407
Contributions	**1,008**	716
Other revenue	**105,533**	82,958
Net assets released from restrictions for operations	**32,053**	28,899
Total operating revenue before other items	**2,896,789**	2,659,200
Operating expenses		
Salaries and wages	**1,051,151**	937,165
Employee benefits	**274,743**	251,916
Supplies and other	**1,218,482**	1,127,691
Depreciation	**108,720**	109,229
Interest and amortization	**34,372**	28,032
Total operating expenses before other items	**2,687,468**	2,454,033
Excess of operating revenue over operating expenses before other items	**209,321**	205,167

Continued on following page.

The Mount Sinai Hospital

Consolidated Statements of Operations (continued)

	Year Ended December 31	
	2018	**2017**
	(In Thousands)	
Excess of operating revenue over operating expenses before other items	**$ 209,321**	$ 205,167
Other items		
Net change in unrealized gains and losses on investments and change in value of alternative investments	**(60,131)**	51,441
Third-party reimbursement settlements and other provisions	**45,440**	66,548
Gain on sale of clinical outreach laboratory business	**2,773**	96,993
Net change in participation in captive insurance program	**49,327**	41,685
Excess of revenue over expenses	**246,730**	461,834
Other changes in net assets without donor restrictions		
Transfers to affiliates	**(95,989)**	(126,596)
Distribution from MSMC Residential Realty LLC	**–**	164
Equity in income from related party	**–**	474
Equity in income from related party and distributions transferred to the Icahn School of Medicine at Mount Sinai	**(1,386)**	(638)
Net assets released from restrictions for capital asset acquisitions	**4,654**	5,763
Change in postretirement liability to be recognized in future periods	**6,089**	(448)
Total other changes in net assets without donor restrictions	**(86,632)**	(121,281)
Net increase in net assets without donor restrictions	**$ 160,098**	$ 340,553

See accompanying notes.

The Mount Sinai Hospital

Consolidated Statements of Changes in Net Assets

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions: Purpose and Time Restrictions	Net Assets with Donor Restrictions: Permanent Endowment	Net Assets with Donor Restrictions: Total Net Assets with Donor Restrictions	Total
		(In Thousands)			
Net assets at beginning of year January 1, 2017	$ 1,488,878	$ 80,845	$ 82,759	$ 163,604	$ 1,652,482
Net increase in net assets without donor restrictions	340,553	–	–	–	340,553
Donor restricted contributions, net	–	58,176	1,052	59,228	59,228
Net assets released from restrictions for operations	–	(28,899)	–	(28,899)	(28,899)
Net assets released from restrictions for capital asset acquisitions	–	(5,763)	–	(5,763)	(5,763)
Total change in net assets	340,553	23,514	1,052	24,566	365,119
Net assets at end of year December 31, 2017	**1,829,431**	**104,359**	**83,811**	**188,170**	**2,017,601**
Net increase in net assets without donor restrictions	**160,098**	**–**	**–**	**–**	**160,098**
Donor restricted contributions, net	**–**	**40,803**	**2,150**	**42,953**	**42,953**
Net assets released from restrictions for operations	**–**	**(32,053)**	**–**	**(32,053)**	**(32,053)**
Net assets released from restrictions for capital asset acquisitions	**–**	**(4,654)**	**–**	**(4,654)**	**(4,654)**
Total change in net assets	**160,098**	**4,096**	**2,150**	**6,246**	**166,344**
Net assets at end of year December 31, 2018	**$ 1,989,529**	**$ 108,455**	**$ 85,961**	**$ 194,416**	**$ 2,183,945**

See accompanying notes.

The Mount Sinai Hospital

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2018	**2017**
	(In Thousands)	
Operating activities		
Change in net assets	**$ 166,344**	$ 365,119
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**108,720**	109,229
Provision for bad debts	**–**	25,030
Amortization of deferred financing costs, bond premium, and discount	**(254)**	(354)
Net change in unrealized gains and losses on investments and change in value of alternative investments	**60,131**	(51,441)
Net donor-restricted contributions	**(42,953)**	(60,228)
Equity in income from related party	**–**	(474)
Transfers to affiliates	**95,989**	126,596
Gain on sale of clinical outreach laboratory business	**(2,773)**	(96,993)
Distribution from MSMC Residential Realty LLC	**–**	(164)
Changes in:		
Patient accounts receivable	**(55,478)**	(40,508)
Other operating assets	**3,209**	660
Due from related organizations	**(184,137)**	41,368
Accounts payable and accrued expenses	**15,050**	14,738
Accrued salaries and related liabilities	**(7,427)**	(7,258)
Accrued interest payable	**6,486**	665
Other operating liabilities	**(11,578)**	62,620
Net cash provided by operating activities	**151,329**	488,605
Investing activities		
Acquisitions of property, plant, and equipment, net	**(143,033)**	(117,404)
Due from related organizations for capital purposes	**(152,105)**	(153,047)
Increase in investments, net	**(306,306)**	(163,048)
Decrease in assets limited as to use	**2,217**	22,974
Funding of self-insurance trust	**(39,851)**	–
Transfers to affiliates	**(95,989)**	(126,596)
Proceeds from sale of clinical outreach laboratory business	**2,773**	96,993
Distribution from MSMC Residential Realty LLC	**–**	164
Net cash used in investing activities	**(732,294)**	(439,964)
Financing activities		
Proceeds from issuance of long term debt	**–**	382,000
Payment of deferred financing costs	**–**	(3,241)
Principal payments on long-term debt	**(33,008)**	(70,039)
Net donor-restricted contributions	**42,953**	60,228
Net cash provided by financing activities	**9,945**	368,948
Net (decrease) increase in cash and cash equivalents	**(571,020)**	417,589
Cash and cash equivalents at beginning of year	**681,241**	263,652
Cash and cash equivalents at end of year	**$ 110,221**	$ 681,241

See accompanying notes.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements

December 31, 2018

1. Organization and Summary of Significant Accounting Policies

Organization

The Mount Sinai Hospital (the Hospital) is a quaternary care teaching hospital located in upper Manhattan with a division in Queens, New York. As a leading academic medical center, the Hospital provides a full range of ambulatory and inpatient general and specialty services to patients from the surrounding communities, across the country, and around the world and operates one of the largest graduate medical education programs in the country.

The Hospital is closely affiliated with the Icahn School of Medicine at Mount Sinai (the School) and its affiliates. The School is a separate legal entity and, along with the Hospital, shares a four-block area campus on the upper east side of Manhattan.

On September 30, 2013, the Hospital, the School, and The Mount Sinai Medical Center, Inc. (the Medical Center and, together with the Hospital and the School, the Mount Sinai Entities) consummated a transaction pursuant to which the Mount Sinai Entities and Beth Israel Medical Center (BIMC), The St. Luke's-Roosevelt Hospital Center (SLR), and The New York Eye and Ear Infirmary (NYEEI) came together to create the Mount Sinai Health System, an integrated health care system and academic medical center (the Transaction). Pursuant to the Transaction, two new not-for-profit entities were formed: Mount Sinai Health System, Inc. (MSHS) and Mount Sinai Hospitals Group, Inc. (MSHG). MSHG was formed to be the sole member of the Hospital, BIMC, SLR, and NYEEI. MSHS was formed to be the sole member of MSHG, the School, and the Medical Center.

In February 2018, MSHS and South Nassau Communities Hospital (SNCH) executed a definitive agreement pursuant to which MSHG would become the sole corporate member of SNCH and its "active parent" under New York Law. The transaction became effective in October 2018. Pursuant to the agreement, MSHG agreed to contribute $120 million over a five-year period to be used in support of certain capital projects. As of December 31, 2018, $20 million had been contributed to SNCH by the Hospital and is included in the transfers to affiliates line of the statement of operations.

1. Organization and Summary of Significant Accounting Policies (continued)

Principles of Consolidation

The accompanying consolidated financial statements consist of the Hospital and other controlled entities not significant to the operations of the Hospital. In the accompanying consolidated financial statements, the Hospital and the other controlled entities are referred to collectively as the Hospital. All significant intercompany balances and transactions have been eliminated. The accompanying consolidated financial statements do not include the accounts of organizations that are related to the Hospital through common management and/or Boards of Trustees.

Transactions among the Hospital and related organizations relate principally to the sharing of certain services, facilities, equipment, and personnel and are accounted for on the basis of allocated cost, as agreed among the parties. Amounts due from or to related organizations for these activities are currently receivable or payable and do not bear interest, except for amounts advanced by the Hospital to the School for certain capital expenditures, and loans provided by the Hospital to BIMC and SLR. The Hospital has provided for amounts that are potentially uncollectible. The nature of the Hospital's transactions with various related organizations is described more fully in Note 10.

Cash and Cash Equivalents

The Hospital considers highly liquid financial instruments purchased with a maturity of three months or less, excluding those held in its investment portfolio and assets limited as to use, to be cash equivalents.

The Hospital has balances in financial institutions that exceed Federal depository insurance limits. Management does not believe the credit risk related to these deposits to be significant.

The Hospital does not hold any money market funds with significant liquidity restrictions that would require the funds to be excluded from cash equivalents.

Patient Accounts Receivable, net and Net Patient Service Revenue

Patient accounts receivable, net and net patient service revenue result from the health care services provided by the Hospital and is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration in determination of the transaction price.

1. Organization and Summary of Significant Accounting Policies (continued)

Investments

A substantial portion of the Hospital's investments are pooled for management purposes with those held by related entities. The Medical Center has custody of investments held in the investment pool and records all of the pooled investments in its financial statements, with a corresponding liability due to each of the participants in the investment pool for their respective share of the pooled investments; the pool participants report their respective share of the investment pool as "pooled investments." Investment earnings on the pooled investments are recorded by the pool participants, based on their pro rata share of the pool's investment returns.

Investments, both pooled and non-pooled, consist of cash and cash equivalents, U.S. government and corporate bonds, money market funds, equity securities, and interests in alternative investments. Debt securities and equity securities with readily determinable values are carried at fair value based on independent published sources (quoted market prices).

Alternative investments (nontraditional, not readily marketable securities), carried in the investment pool, may consist of equity, debt, and derivatives both within and outside the U.S. in multi-strategy hedge funds, event-driven strategies, global investment mandates, distressed securities, and private funds. Alternative investment interests generally are structured such that the investment pool holds a limited partnership interest or an interest in an investment management company. The investment pool's ownership structure does not provide for control over the related investees and the investment pool's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. Future funding commitments by members of the investment pool for alternative investments aggregated approximately $182.9 million at December 31, 2018.

Individual investment holdings within the alternative investments include nonmarketable and market-traded debt and equity securities and interests in other alternative investments. The Hospital may be exposed indirectly to securities lending, short sales of securities and trading in futures and forward contracts, options, and other derivative products.

1. Organization and Summary of Significant Accounting Policies (continued)

Alternative investments often have liquidity restrictions under which the pooled investment capital may be divested only at specified times. Liquidity restrictions may apply to all or portions of a particular invested amount.

Alternative investments in the pool are stated at fair value based upon net asset values as a practical expedient. Financial information used to evaluate alternative investments is provided by the respective investment manager or general partner and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Hospital's annual financial statement reporting.

There is uncertainty in determining values of alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, and time lags associated with reporting by the investee companies. As a result, the estimated fair values might differ from the values that would have been used had a ready market for the alternative investment interests existed and there is at least a reasonably possibility that estimates will change.

Investment Income

Investment income from the investment pool is allocated to investment pool participants using the market-value unit method. The annual spending rate for pooled funds is approved by the Board of Trustees annually (see Note 8). Realized gains and losses from the sale of securities are computed using the average cost method.

In the absence of donor restrictions, investment income, including realized gains and losses, is reflected in the accompanying consolidated statements of operations as operating revenue, with net unrealized gains and losses and the change in value of alternative investments, arising from pooled investments, reported as other items. See Notes 3, 6, and 12 for additional information relative to investments.

Inventories

The Hospital values its inventories at the lower of cost or net realizable value.

1. Organization and Summary of Significant Accounting Policies (continued)

Assets Limited as to Use

Assets so classified represent assets whose use is restricted or internally designated for specific purposes under terms of agreements related to the Hospital's long-term debt and internally designated for funded depreciation requirements (see Notes 3, 4, 5 and 12). These assets consist primarily of U.S. Treasury obligations held in the trustee's accounts and money market funds. As the lead partner in its DSRIP Performing Provider System (PPS), the Hospital maintains an account for funds to be distributed to its PPS partners that is included in assets limited at to use.

Other Assets

The Hospital has invested in various health care entities, certain of which are accounted for using the equity method. These amounts are classified as other investments in the accompanying consolidated statements of financial position.

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of these costs is provided using the effective interest method. Unamortized deferred financing costs are reported as a direct deduction from long-term debt. See Note 5 for additional information relative to debt-related matters.

Property, Plant, and Equipment

Property, plant, and equipment purchased are stated at cost and those acquired by gifts and bequests are stated at appraised or fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operating results.

Annual provisions for depreciation are made based upon the straight-line method using a half-year convention over the estimated useful lives of the assets, ranging from 3 to 40 years (see Note 4 for additional information relative to property, plant, and equipment).

1. Organization and Summary of Significant Accounting Policies (continued)

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Hospital's management and the Board of Trustees.

Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Hospital or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of operations and changes in net assets.

Contributions

Contributions, including unconditional promises to give cash and other assets (pledges), are reported at fair value on the date received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected in net assets with donor restrictions and net assets released from restrictions in the accompanying consolidated financial statements.

Performance Indicator

The consolidated statements of operations include excess of revenue over expenses as the performance indicator. Changes in net assets without donor restrictions, which are excluded from the excess of revenue over expenses, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets), and change in postretirement liability to be recognized in future periods.

1. Organization and Summary of Significant Accounting Policies (continued)

The Hospital differentiates its operating activities through the use of the excess of operating revenue over operating expenses before other items as an intermediate measure of operations. For the purposes of display, items which management does not consider components of the Hospital's operating activities are excluded from this measure and reported as other items in the consolidated statements of operations.

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 the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. In the accompanying consolidated financial statements, estimates principally relate to the valuation of net accounts receivable, amounts due from and to third-party payors, the net carrying value of the Hospital's interest in the captive insurance program, estimated professional liabilities and related insurance recoveries receivable, and the carrying value of alternative investments. Management believes that the amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual should not have a material effect on the Hospital's consolidated financial position. In 2018 and 2017, management realized revenue of approximately $45.4 million and $66.5 million, respectively, which was a result of settlements of prior years' third-party reimbursements net of reserve for potentially uncollectible loans from related organizations and is reflected in the accompanying consolidated statements of operations as other items.

Tax Status

The Hospital is a Section 501(c)(3) organization exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. The Hospital is also exempt from New York State and New York City income taxes.

The Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017. For tax-exempt entities, TCJA requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income subject to tax, pay an excise tax on compensation above certain thresholds, and record income or losses for tax determination purposes from unrelated business activities on an activity-by-activity basis, among other provisions. Regulations necessary to implement certain

1. Organization and Summary of Significant Accounting Policies (continued)

aspects of TCJA are expected to be promulgated by the Internal Revenue Service (IRS) in 2019. The effects of income taxes are not material to the accompanying consolidated financial statements.

Sale of Clinical Outreach Laboratory

During 2017, the Hospital sold certain assets of its non-hospital clinical outreach laboratory to a commercial laboratory in a transaction that also included certain assets of the non-hospital clinical outreach laboratories of BIMC and SLR. The gain recorded on the sale for the Hospital is $2.8 million and $97.0 million in 2018 and 2017, respectively.

Recently Adopted 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 principal 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 became effective for the Hospital for annual reporting periods after December 15, 2017.

Effective January 1, 2018, the Hospital adopted ASU 2014-09 following the modified retrospective method of application. As a result, at the adoption of ASU 2014-09, the majority of what was previously classified as the provision for bad debts (representing approximately $31.3 million for the year ended December 31, 2018) is now reflected as an implicit price concession (as defined in ASU 2014-09) and therefore is included as a reduction to net patient service revenue in the accompanying consolidated statement of operations. For changes in credit issues not assessed at the date of service, the Hospital will prospectively recognize those amounts as bad debt expense. Bad debt expense is now included as a component of supplies and other expenses in the accompanying consolidated statement of operations. For periods prior to the adoption of ASU 2014-09, the provision for bad debts had been presented consistent with the previous revenue recognition standards that required it to be presented as a separate component of net patient service revenue. Other aspects of the Hospital's adoption of ASU 2014-09 impacting net patient service revenue, which include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures are

1. Organization and Summary of Significant Accounting Policies (continued)

reflected in Note 2 to the consolidated financial statements. The adoption of ASU 2014-09 in relation to other applicable revenue activity, did not have a material impact on the accompanying consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 requires entities to classify gains and losses from certain equity investments within its performance indicator. As the Hospital accounts for its equity investments as trading securities, this change does not have an impact on the recognition of income related to the Hospital's equity investments. ASU 2016-01 contains an additional provision that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for the Hospital. The amendments of this ASU are applicable for fiscal years beginning after December 31, 2018, however, early adoption is permitted for the provision relating to the elimination of the requirement to disclose the fair value of financial instruments measured at amortized cost. As such, management has elected to early adopt this provision and will no longer disclose the fair value of debt within its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 changes how not-for-profit entities report net asset classes, expenses, and liquidity in the financial statements. The guidance is effective for fiscal years beginning after December 15, 2017. The Hospital adopted ASU 2016-14, effective December 31, 2018. The adoption resulted in the presentation of two classes of net assets, without donor restrictions and with donor restrictions, which were previously presented as unrestricted, temporarily and permanently restricted net assets. Not-for-profits are also required to report all expenses by both functional and natural classification in one location. Additionally, ASU 2016-14 requires additional disclosures around liquidity, which have been included in Note 14. The effects of the adoption of ASU 2016-14 were applied retrospectively except for disclosure of expenses by both natural and functional classification and the disclosures about liquidity and availability of resources, as permitted by ASU 2016-14. The adoption of ASU 2016-14 had no impact on the total net assets previously reported by the Hospital as of December 31, 2017.

Other Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases.* ASU 2016-02 requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the statements of financial position, including both finance and operating leases. ASU 2016-02 will require disclosures to help the financial statement users

1. Organization and Summary of Significant Accounting Policies (continued)

better understand the amount, timing, and uncertainty of cash flows arising from leases. The recognition, measurement and presentation of expenses and cash flows arising from a lease will primarily depend on its classification as a finance or operating lease. ASU 2016-02 is effective for the Hospital beginning January 1, 2019 and will be applied using a modified retrospective approach. The Hospital is currently in the process of evaluating its lease contracts as well as certain service contracts that may include embedded leases. Additionally, the Hospital is finalizing its analysis of certain key assumptions that will be utilized at the transition date. The primary effect of the new standard will be to record right-of-use assets and obligations for current operating leases which will have a material impact on the consolidated statement of financial position and significant incremental disclosures in the financial statement footnotes. The transition adjustment is not expected to have a material impact on net assets or the performance indicator on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the Hospital for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. Adoption of ASU 2016-15 is not expected to have a material impact on the Hospital's consolidated financial statements.

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

1. Organization and Summary of Significant Accounting Policies (continued)

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

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which clarifies existing guidance in order to address diversity in practice in classifying grants (including governmental grants) and contracts received by NFPs. This guidance will likely result in more grants and contracts being accounted for as contributions rather than exchange transactions. The standard clarifies the guidance on how entities determine when a contribution is conditional. The clarified guidance applies to all entities (including business entities) that make or receive contributions, except for certain transactions such as transfers of assets business entities receive from government entities (e.g., a government grant to a for-profit biotechnology company). The provisions of ASU 2018-08 are effective for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. Amendments should be applied on a modified prospective basis to agreements that are not completed as of the effective date and to agreements entered into after the effective date. Retrospective application is permitted. The Hospital is currently evaluating the potential impact of ASU 2018-08 on its consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies (continued)

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the standard. ASU 2018-15 will require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. ASU 2018-15 also requires the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The amendments in this Update also require the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is also required to present the capitalized implementation costs in the statement of financial position in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. The amendments in ASU 2018-15 are effective for annual reporting periods beginning after December 15, 2020, and interim periods thereafter. Early adoption is permitted. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Hospital has not completed the process of evaluating the impact of ASU 2018-15 on its consolidated financial statements.

The FASB has amended certain guidance related to various disclosures in ASU 2018-09, *Codification Improvements*, ASU 2018-13, *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)—Recognition and Measurement of Financial Assets and Financial Liabilities*, and ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)—Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*. Among various provisions, ASU 2018-09 may result in additional assets included in an entity's fair value disclosure table if, among other criteria, net asset value has public visibility. ASU 2018-13 includes several disclosure changes involving transfers between the fair value levels and other updates related to fair value Level 3 investments. ASU 2018-13 also requires entities that use the practical expedient to measure the fair value of certain

1. Organization and Summary of Significant Accounting Policies (continued)

investments at their net asset values to disclose (1) the timing of liquidation of an investee's assets and (2) the date when redemption restrictions will lapse, but only if the investee has communicated this information to the entity or announced it publicly. The guidance in ASU 2018-14 requires all sponsors of defined benefit plans to provide certain new disclosures: the weighted-average interest crediting rate for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. Among other changes, ASU 2018-14 eliminates the required disclosure for all sponsors of defined benefit plans to disclose the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. The updates noted above have effective dates as follows with early adoption permitted: ASU 2018-09: fiscal years beginning after December 15, 2018; ASU 2018-13: fiscal years beginning after December 15, 2019; and ASU 2018-14: fiscal years ending after December 15, 2021. The Hospital has not completed the process of evaluating the impact of ASU 2018-09, ASU 2018-13 and ASU 2018-14 on its consolidated financial statements.

Reclassifications

Certain reclassifications have been made to 2017 balances previously reported in order to conform with the 2018 presentation.

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue

For Periods Commencing January 1, 2018

Effective January 1, 2018 upon the adoption of ASU 2014-09, net patient service revenue is reported at the amount that reflects the consideration for which the Hospital expects to be entitled in exchange for providing patient care.

The Hospital uses a portfolio approach as a practical expedient to account for categories of patient contracts as collective groups rather than recognizing revenue on an individual contract basis. The portfolio consists of major payor classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, the Hospital believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

The Hospital's initial estimate of the transaction price for services provided to patients subject to revenue recognition is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, and other reductions to the Hospital's standard charges. The Hospital determines the transaction price associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payor payment programs below). The estimates for contractual allowances and discounts are based on contractual agreements, the Hospital's discount policies and historical experience. For uninsured and under-insured patients who do not qualify for charity care, the Hospital determines the transaction price associated with services rendered on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on the Hospital's historical collection experience for applicable patient portfolios.

Generally, the Hospital bills patients and third-party payors after the services are performed and the patient is discharged. Net patient service revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Hospital. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. The Hospital believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in the Hospital's outpatient settings. The Hospital measures the performance obligation from admission into the Hospital or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or the completion of the outpatient visit.

As substantially all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in ASU 2014-09 and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients). The performance obligations for in-house patients are generally completed when the patients are discharged, which for the majority of the Hospital's in-house patients occurs within days or weeks after the end of the reporting period.

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to patient service revenue in the period of the change. For the year ended December 31, 2018, changes in the Hospital's estimates of implicit price concessions, discounts, contractual adjustments or other reductions to expected payments for performance obligations satisfied in prior years were not significant. Portfolio collection estimates are updated based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the year ended December 31, 2018 was not significant.

The Hospital has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, lines of business and timing of when revenue is recognized. Tables providing details of these factors are presented below.

Net patient service revenue disaggregated by payor for the year ended December 31, 2018, is as follows (in thousands):

Medicare	$ 542,529
Medicare HMO	268,569
Medicaid	118,017
Medicaid HMO	437,722
Blue Cross	524,480
Managed care	637,630
Commercial and other	151,375
Self-pay	33,107
	$ 2,713,429

Deductibles, copayments and coinsurance under third-party payment programs which are the patient's responsibility are included within the respective primary payor category above.

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

Net patient service revenue disaggregated by lines of service for the year ended December 31, 2018 is as follows (in thousands):

Inpatient services	**$ 1,807,617**
Outpatient services	**905,812**
	$ 2,713,429

At December 31, 2018, patient accounts receivable, net is comprised of the following components (in thousands):

Patient receivables	$ 343,607
Contract assets	26,740
	$ 370,347

Contract assets are related to in-house patients who were provided services during the reporting period but were not discharged as of the reporting date and for which the Hospital does not have the right to bill.

The allowance for doubtful accounts was not significant at December 31, 2018. The allowance for doubtful accounts was approximately $28.8 million at December 31, 2017.

Settlements with third-party payors (see description of third-party payor payment programs below) for cost report filings and retroactive adjustments due to ongoing and future audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Hospital's historical settlement activity (for example, cost report final settlements or repayments related to recovery audits), including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

investigations. For the year ended December 31, 2018, the net effect of the Hospital's revisions to prior year estimates and third-party settlements resulted in revenue of approximately $45.4 million which is recorded in other items in the consolidated statement of operations.

For Periods Through December 31, 2017

Prior to the adoption of ASU 2014-09, the Hospital recognized patient service revenue at the estimated net realizable amounts associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payor payment programs below) and included estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. For uninsured and under-insured patients who did not qualify for charity care, the Hospital recognized revenue on the basis of charges. Under the charity care policy, a patient who had no insurance or was under-insured and was ineligible for any government assistance program had his or her bill reduced to (1) the lesser of charges or the Medicaid diagnostic-related group for inpatient and (2) a discount from Medicaid fee-for-service rates for outpatient.

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

Third-party payors	$ 2,509,238
Self-pay	29,012
	$ 2,538,250

Deductibles, copayments and coinsurance under third-party payment programs within the third-party payors amounts above are the patient's responsibility and the Hospital considered these amounts in its determination of the provision for bad debts based on collection experience.

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

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

The allowance for doubtful accounts for self-pay patients was approximately 19% of self-pay accounts receivable as of December 31, 2017.

Revenue from the Medicare and Medicaid programs accounted for approximately 27% and 19%, respectively, of the Hospital's net patient service revenue for the year ended December 31, 2017.

For services provided through December 31, 2017, net patient service revenue and the related accounts receivable estimates are subject to the accounting requirements prior to the adoption of ASU 2014-09. Estimates for the allowance for doubtful accounts pertaining to this service period are reevaluated monthly and certain revisions to such estimates continue to be made based on recent collection trends and management's expectations for the ultimate collection of accounts receivable balances existing at December 31, 2017.

During 2017, the Hospital revised estimates made in prior years to reflect the passage of time and the availability of more recent information, such as settlement activity, associated with the related payment items. For the year ended December 31, 2017, the net effect of the Hospital's revisions to prior year estimates and third-party settlements resulted in revenue of approximately $66.5 million which is recorded in other items in the consolidated statement of operations.

Third-Party Payment Programs

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

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

Non-Medicare: In New York, hospitals and all non-Medicare payors (including Medicare and Medicaid managed care plans), except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. Outpatient services also are paid based

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

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

Other Third-Party Payors: The Hospital also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge or days of hospitalization and discounts from established charges.

Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through 2002, and for 2005 through 2013, although revisions to final settlements or other retroactive changes could be made. Other years and various issues remain open for audit and settlement, as are numerous issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled, audits are completed and additional information is obtained.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital. The Hospital is not aware of any allegations of non-compliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance with all applicable laws and regulations. In addition, certain contracts the Hospital has with commercial payors also provide for retroactive audit and review of claims.

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

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

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. Significant concentrations of patient accounts receivable, net at December 31, 2018 and 2017 are as follows:

	2018	2017
Medicare	**16%**	17%
Medicaid	**22**	22
Blue cross	**13**	12
Managed care and other	**46**	45
Self-pay	**3**	4
	100%	100%

Uncompensated Care and Community Benefit Expense

For patients who are deemed eligible for charity care and patients who apply and qualify for financial aid under the Hospital's financial aid policy, care given but not paid for is classified as charity care. For the years ended December 31, 2018 and 2017, the estimated cost of charity care was approximately $46.4 million and $39.6 million, respectively. The estimated cost of charity care includes the direct and indirect cost of providing charity care services and is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care.

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

For the year ended December 31, 2018, the Hospital recorded approximately $31.3 million of implicit price concessions as a direct reduction of net patient service revenue that would have been recorded as provision for bad debts prior to adoption of ASU 2014-09. At December 31, 2018, the Hospital recorded approximately $25.0 million as a direct reduction of patient accounts receivable that would have been reflected as allowance for uncollectable accounts prior to the adoption of ASU 2014-09. For patient services provided prior to December 31, 2017, uncollected amounts for patients who were determined by the Hospital to have the ability to pay but did not, were classified as allowance for uncollectable accounts ($28.8 million in 2017).

Vital Access Provider Safety Net Program and Medicaid Enhanced Rates

In September 2015, MSHG entered into an agreement with the NYSDOH to participate in the Vital Access Provider/Safety Net Program (VAP). MSHG was awarded approximately $81.4 million in VAP funding over three years. In accordance with the governing agreement, MSHG submitted quarterly reports to the NYSDOH, detailing how the VAP funds were being expended, in line with approved objectives, budgets, timelines and benchmarks. In addition, MSHG has committed to complete a full asset merger of the Hospital, BIMC, SLR and NYEEI by no later than December 31, 2019. MSHG has had discussions with the NYSDOH regarding either alternatives to a full asset merger or a delay in the effective date, but there has not been a change to the full asset merger commitment at the present time.

The NYSDOH had also agreed to provide certain MSHG member hospitals with a temporary Medicaid rate enhancement for three years. The enhanced Medicaid rates were paid to the MSHG member hospitals directly by the Medicaid program or Medicaid managed care payors as patient services were rendered. The MSHG member hospitals recognized revenue from the VAP payments on a quarterly basis as reporting requirements were completed and approved expenditures were incurred. The Hospital recognized VAP revenue of approximately $25.0 million in 2018 ($18.9 million in 2017). All amounts related to VAP funding for the MSHG member hospitals were received by BIMC; amounts due to the Hospital related to VAP funding are recorded as a component of due from related organizations. MSHG has through the end of the first quarter of 2019 to spend the remaining VAP funds.

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

The Hospital recognized approximately $4.7 million and $20.2 million in 2018 and 2017, respectively, of revenue associated with the Medicaid rate enhancements; the Hospital transferred the full amounts to BIMC in 2018 and 2017 (see Note 10). In the event that conditions of the governing agreement are not met, funding associated with the VAP program and the enhanced Medicaid rates will be refundable to the NYSDOH. Management believes the possibility that the condition will not be met is remote. The Medicaid rate enhancement ended on March 31, 2018.

3. Investments and Assets Limited as to Use

Investments are maintained as follows:

	December 31	
	2018	**2017**
	(In Thousands)	
Pooled investments	**$ 900,539**	$ 866,376
Non-pooled investments	**660,178**	448,166
	$ 1,560,717	$ 1,314,542

At December 31, 2018 and 2017, approximately $22.3 million and $4.6 million, respectively, of pooled investments is included in short-term investments. Non-pooled investments primarily consist of marketable short-term investments, investment in a captive insurance program (see Note 6) and certain non-marketable investments recorded under the equity method of accounting. Marketable short-term investments consist of money market funds and fixed income securities.

The following table summarizes the composition of the investment pool at December 31, 2018 and 2017; the Hospital's interests in the pooled investment components are proportionate based on the ratio of its pooled investment balance to the total of the pool. The Hospital owned 51.9% and 49.9% of the investment pool at December 31, 2018 and 2017, respectively.

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

	December 31	
	2018	**2017**
	(In Thousands)	
Cash and cash equivalents	**$ 43,870**	$ 9,243
Fixed income:		
Mutual funds	**4,241**	13,458
Equities:		
U.S. equities	**129,962**	131,993
Global equities	**47,802**	54,460
Non-U.S. equities	**133,291**	164,884
Alternative investments:		
Hedge funds:		
Long-only equity[(a)]	**213,772**	212,773
Hedged equity[(b)]	**324,872**	326,244
Long/short credit[(c)]	**35,809**	44,334
Open mandate[(d)]	**283,157**	357,410
Macro[(e)]	**122,529**	74,434
Private investments:		
Equity[(f)]	**75,217**	50,522
Credit/distressed[(g)]	**93,815**	97,493
Real assets[(h)]	**224,672**	200,557
	$ 1,733,009	$ 1,737,805

[(a)] Investments, consisting of publicly traded equity holdings with long positions.

[(b)] Investments, consisting primarily of publicly traded equity holdings with both long and short positions.

[(c)] Investments, consisting primarily of publicly traded credit holdings with both long and short positions.

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

(d) Investments with a balanced mix of asset exposures and strategies. Underlying exposures primarily include publicly traded equity and credit positions in fundamental value, relative value, and various arbitrage strategies. Investments may reflect a tilt towards equity or credit with hedging and hold large cash positions if value opportunities are not found.

(e) Investments focused on global macro dislocations rather than micro-driven opportunities. Holdings are both long and short in equity, fixed income, currency, and futures markets.

(f) Investments targeting buyout, growth equity, and venture opportunities that require time to reach realization.

(g) Investments in structured credit, claims, distressed positions of either a minority or controlling interest that require time to reach realization.

(h) Real estate, natural resources, and asset backed royalty investments that require time to reach realization.

The total return on the total pooled investments comprises the following for the years ended December 31:

	2018	2017
	(In Thousands)	
Interest and dividend and other income	**$ 6,615**	$ 6,173
Net realized gains on sales of securities	**80,920**	70,730
Change in net unrealized gains and losses and change in value of alternative investments	**(124,976)**	115,721
Fees and other expenses	**(7,136)**	(6,300)
Total	**$ (44,577)**	$ 186,324

The Hospital was allocated a total investment return from the pool based on agreements among the pool participants and donor stipulations of approximately $(26.2) million and $87.8 million in 2018 and 2017, respectively.

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

Total investment return recognized by the Hospital comprises the following for the years ended December 31:

	2018	2017
	(In Thousands)	
Interest, dividend, and other income	**$ 10,738**	$ 5,847
Net realized gains on sales of securities	**34,028**	27,560
	$ 44,766	$ 33,407
Net change in unrealized gains and losses on investments and change in value of alternative investments	**$ (60,131)**	$ 51,441

Assets limited as to use consist of the following at December 31:

	2018	2017
	(In Thousands)	
Assets held under long-term debt agreements:		
Construction funds	**$ 3,864**	$ 3,653
Debt service fund	**9,905**	10,093
Debt service reserve fund	**34,525**	34,641
Internally designated for debt service	**19,487**	11,370
Funded depreciation	**1,552**	1,523
Delivery System Reform Incentive Payment program (DSRIP)	**4,475**	14,745
Total assets limited as to use	**73,808**	76,025
Less current portion	**33,868**	36,207
Assets limited as to use, less current portion	**$ 39,940**	$ 39,818

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

As the lead partner in its DSRIP PPS, the Hospital maintains an account for funds to be distributed to its PPS partners. A corresponding liability of $4.5 million and $14.7 million in 2018 and 2017, respectively, is included in other current liabilities.

4. Property, Plant, and Equipment

A summary of property, plant, and equipment is as follows at December 31:

	2018	**2017**
	(In Thousands)	
Land and improvements	**$ 49,617**	$ 49,617
Buildings and improvements	**649,041**	643,950
Condominium interest *(Note 5)*	**110,133**	110,133
Fixed equipment	**646,734**	620,812
Movable equipment	**980,628**	914,128
	2,436,153	2,338,640
Less leasehold interest of the School	**(68,146)**	(68,146)
	2,368,007	2,270,494
Less accumulated depreciation and amortization	**(1,410,385)**	(1,324,917)
	957,622	945,577
Capital projects in progress *(Note 5)*	**27,129**	5,093
	$ 984,751	$ 950,670

The Hospital capitalizes costs incurred in connection with the development of internal use software or purchased software modified for internal use. In 2018 and 2017, approximately $5.4 million and $7.0 million was capitalized, respectively.

In 2018 and 2017, the Hospital wrote off approximately $26.8 million and $25.0 million, respectively of fully depreciated assets that were no longer in use.

The School has entered into a long-term lease with the Hospital relating to a portion of the Hospital-owned Annenberg Building, which is used by the School. Accordingly, the Hospital reflects the School's leasehold interest as a reduction of total property, plant, and equipment. Under the terms of the lease, the School makes payments for its share of the building's operating expenses.

4. Property, Plant, and Equipment (continued)

At December 31, 2018 and 2017, approximately $11.8 million is included in buildings and improvements representing amounts paid by the Hospital to the School relating to a portion of a multipurpose building owned by the School that is leased and used by the Hospital. Under the terms of a lease agreement relative to this space, the Hospital made payments of approximately $3.7 million and $3.9 million in 2018 and 2017, respectively, for its share of the operating costs.

The Hospital entered into a lease agreement with the School for a portion of the Center for Advanced Medicine building that is used by the Hospital. At December 31, 2018 and 2017, approximately $4.7 million is included in the accompanying consolidated statements of operations representing amounts paid by the Hospital to the School relating to the portion of the building used by the Hospital. In each of 2018 and 2017, under the terms of this lease, the Hospital paid the School approximately $2.8 million for its share of the operating costs of the related portion of the building.

Future minimum rental commitments under various leases with the School are approximately $6.3 million in 2019; $6.0 million in 2020; $5.8 million in 2021; $5.5 million in 2022; $4.6 million in 2023 and $38.4 million thereafter.

Substantially all property, plant, and equipment have been pledged as collateral under various debt agreements.

5. Long-Term Debt

A summary of long-term debt is as follows at December 31:

	2018	2017
	(In Thousands)	
Series 2010 bonds; interest rates ranging from 1.8% to 5.0%[a]	**$ 213,490**	$ 234,885
Series 2011A bonds; interest rates ranging from 3.0% to 5.0%[b]	**57,465**	58,810
Series 2013 bonds; interest rate of 2.83%[c]	**100,800**	104,533
Accounts receivable financing[d]	**4,462**	7,650
Promissory note payable, including deferred interest[e]	**113,304**	115,234
Capital lease[f]	**5,971**	7,388
Series 2017 bonds; interest rates ranging from 3.83% to 3.98% [g]	**382,000**	382,000
	877,492	910,500
Add net bond premium	**5,048**	6,222
Less deferred financing costs, net	**7,533**	8,453
Less current portion	**33,380**	32,370
	$ 841,627	$ 875,899

[a] In June 2010, the Hospital refunded and refinanced its outstanding Series 2000 bonds that had been issued through the Dormitory Authority of the State of New York (DASNY), partially at par and partially at 101%. The new bonds (Series 2010) were issued as both taxable and tax-exempt series (approximately $28.5 million par amount of taxable bonds and approximately $331.2 million par amount of tax-exempt bonds issued through DASNY). The bonds mature serially through July 1, 2026.

[b] In October 2011, DASNY issued $65.4 million of tax-exempt bonds (Series 2011A) on behalf of the Hospital. The bonds were issued to finance the Hospital's share of the costs of construction of a cancer treatment center in the Leon and Norma Hess Center for Science and Medicine. The bonds mature serially through July 1, 2041.

[c] In December 2013, Build NYC Resource Corporation issued $112.0 million of tax-exempt bonds (Series 2013) on behalf of the Hospital.

5. Long-Term Debt (continued)

The bonds were issued to finance an expansion and renovation project at the Hospital's Queens campus. The bonds mature serially through January 1, 2044; the interest rate is fixed.

(d) The Hospital had a revolving, amortizing loan with a commercial bank that expired on October 21, 2013. Interest was payable at the 30-day London Interbank Offered Rate plus 0.5% on a quarterly basis; principal also was payable quarterly. The loan was refinanced to a fixed rate of 2.44% and expires on October 21, 2020. Interest and principal are due quarterly. Under the terms of the agreement, the Hospital is required to maintain certain financial ratios and was in compliance with these ratios at December 31, 2018 and 2017.

(e) In August 2014, the Hospital entered into a transaction pursuant to which the Hospital obtained approximately 450,000 square feet of space located at 150 East 42nd Street to consolidate corporate services of MSHS. The space replaced existing leased and owned office space to provide additional capacity for clinical and research activities. A leasehold condominium interest was purchased by the Hospital and, shortly thereafter, transferred to a special-purpose, limited liability company formed by the Hospital (included in the accompanying consolidated financial statements). The purchase was financed through the issuance of a promissory note payable with a principal amount of $110.1 million, interest at a rate of 8%, and payments beginning in June 2015 and ending in March 2046. Payment of interest was deferred from August 2014 until May 2015. The Hospital and the School guaranteed, on a joint and several basis, all of the obligations of the Hospital which include note payments, operating expenses and other carrying costs and charges, some of which escalate annually. The property is collateral for the related financing. In connection with this transaction, the seller/landlord provided the Hospital with a leasehold improvement/tenant allowance of approximately $35.3 million, which was recorded in the accompanying consolidated statement of financial position as part of capital projects in process and other long-term liabilities at December 31, 2014. In 2015, the total amount of the leasehold improvement/tenant allowance was transferred from capital projects in process to buildings and improvements. Amortization of the leasehold improvement/tenant allowance commenced in 2015.

5. Long-Term Debt (continued)

Common charges for the 150 East 42nd Street leasehold condominium property subsequent to December 31, 2018, are as follows (in thousands):

2019	$ 8,040
2020	8,040
2021	8,040
2022	8,040
2023	8,040

(f) In June 2016, the Hospital entered into a $9.8 million capital lease to finance the acquisition of hospital beds for the use of the members of MSHG. The lease term is for seven years at an effective interest rate of 1.91%.

(g) In December 2017, the Hospital issued $382.0 million of taxable bonds for general taxable purposes. Certain proceeds of the bonds (approximately $106.0 million) were used to repay the outstanding debt of BIMC which the Hospital had previously guaranteed. Funds loaned to BIMC from the Hospital are recorded as a component of due from related organizations. Other proceeds of the bonds were used to repay the Hospital's $40.0 million bank loan noted above. The bonds are structured with interest only payments until 2031 and two bullet maturities: one in 2035 and the second in 2048. There are mandatory annual sinking payments beginning in 2031.

As security for its obligations under the Series 2010, Series 2011A, Series 2013, and Series 2017 bonds, the Hospital provided a gross revenue pledge and executed a mortgage on its patient care property. Furthermore, the Hospital agreed to limitations on its ability to transfer assets and borrow additional funds as well as other limitations. In connection with the DASNY Series 2010 and Series 2011A bonds, the Hospital is required to maintain certain debt service funds and other reserve funds (included in assets limited as to use). The Hospital agreed to maintain certain financial ratios, including a debt service coverage ratio and days cash-on-hand ratio which are calculated semi-annually. At December 31, 2018 and 2017, the Hospital was in compliance with the required financial ratios.

5. Long-Term Debt (continued)

Principal payments on long-term debt subsequent to December 31, 2018, are as follows (in thousands):

2019	$ 33,380
2020	36,109
2021	35,964
2022	37,646
2023	38,317
Thereafter	696,076
Total	$ 877,492

Interest paid for the years ended December 31, 2018 and 2017, aggregated approximately $21.8 million and $15.4 million, respectively. In 2018, the Hospital capitalized net interest of approximately $1.6 million relating to construction activity in progress ($0.9 million in 2017).

Future minimum lease payments under noncancelable operating leases, excluding leases with related parties (see Notes 4 and 10), with initial or remaining terms of one year or more at December 31, 2018, consisted of the following (in thousands):

2019	$ 1,617
2020	1,305
2021	1,303
2022	1,227
2023	853
Total minimum lease payments	$ 6,305

Rental expense to unrelated parties approximated $27.5 million and $19.8 million in 2018 and 2017, respectively.

6. Professional Liabilities Insurance Program

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 Federation of Jewish Philanthropies of New York (FOJP). This occurrence-basis insurance coverage participation is with captive insurance companies and commercial insurance companies.

6. Professional Liabilities Insurance Program (continued)

As of December 31, 2018, the Hospital retained ownership interests of 25% in three captive insurance companies affiliated with the FOJP Program. The Hospital follows the equity method of accounting for its investment in the captive insurance companies and has recognized its allocated share of a portion of the program's accumulated surplus.

The aggregate net carrying value of the Hospital's interests in the insurance program was approximately $200.6 million and $185.5 million at December 31, 2018 and 2017, respectively, which is included in other investments in the accompanying consolidated statements of financial position. In 2018, the Hospital received total dividends and cash distributions of approximately $42.8 million. In December 2017, one of the captive insurance companies declared a dividend of approximately $54 million to be distributed based on each owner's respective ownership interest. As a result, the Hospital recorded a dividend receivable of approximately $13.5 million which was recorded within other current assets on the accompanying consolidated statement of financial position at December 31, 2017 and subsequently received in 2018.

The estimate of professional liabilities and the estimate for incidents that have been incurred but not reported is included in professional liabilities in the accompanying consolidated statements of financial position at the actuarially determined present value of approximately $219.2 million ($264.6 million at December 31, 2017), based on a discount rate of 4% and 5% at December 31, 2018 and 2017, respectively. The Hospital has recorded related insurance recoveries receivable of approximately $219.2 million at December 31, 2018 ($264.6 million at December 31, 2017), in consideration of the expected insurance recoveries. The current portion of professional liabilities and the related insurance recoveries receivable represent an estimate of expected settlements and insurance recoveries over the next 12 months.

During the years ended December 31, 2018 and 2017, the Hospital recorded approximately $49.3 million and $41.7 million, respectively, of net change in participation in captive insurance program in the consolidated statements of operations. Approximately $25.0 million of the 2018 amount related to retroactive premium adjustments. Approximately $24.3 million of the 2018 adjustment and the full amount of the 2017 adjustment relate to the net change in equity investments in the captive insurance companies.

The Hospital, as part owner of its malpractice captive, guarantees a certain level of investment return of the captive insurance companies and may be required to fund shortfalls resulting from differences between guaranteed and actual investment returns. The Hospital and the School were not required to fund any differences in 2018 and 2017.

6. Professional Liabilities Insurance Program (continued)

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

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 New York State Department of Financial Services (DFS) also conducted its own investigation into the issues that were raised and related matters. During 2017, the FOJP companies and DFS resolved the outstanding matters through an agreed upon stipulation which did not have a material effect on the Hospital's consolidated financial statements.

Effective January 1, 2018, the Mount Sinai Health System Self-Insurance Trust (the Self-Insurance Trust) was established to provide coverage in excess of FOJP Program limits. Currently, the Hospital, BIMC, SLR, and NYEEI participate in the Self-Insurance Trust, which is irrevocable. As of December 31, 2018, the Self-Insurance Trust held investments of $39.9 million on behalf of the Hospital and a receivable from the Hospital of $4.2 million, both of which are included in beneficial interest in self-insurance trust in the accompanying 2018 consolidated statement of financial position. In addition, as of December 31, 2018, the Self-Insurance Trust had actuarially determined liabilities of approximately $44.1 million discounted at 3.5%, which are included as estimated self-insurance liability in the consolidated statement of financial position.

On November 27, 2018, the Hospital, BIMC, Maimonides Medical Center and Montefiore Medical Center, collectively the owners of Hospitals Insurance Company (HIC) and FOJP, announced their agreement to sell HIC and FOJP to The Doctors Company for $650 million, subject to closing adjustments. The transaction is subject to regulatory approvals and is expected to close in 2019. HIC has provided the hospitals and related physicians with medical malpractice insurance for 40 years. The hospitals will share in the proceeds ratably according to their ownership.

7. Pension and Similar Plans and Other Postretirement Benefits

The Hospital provides pension and similar benefits to its employees through several defined benefit multiemployer union plans and tax-sheltered annuity plans. Payments to the tax-sheltered annuity plans are generally based on percentages of annual salaries. It is the Hospital's policy to fund accrued costs under these plans on a current basis. The Hospital's pension expense under all plans for the years ended December 31, 2018 and 2017, aggregated approximately $81.3 million and $92.0 million, respectively.

Additionally, the Hospital and the School jointly offer a 457(b) plan to certain of their respective employees. Contributions, through payroll deductions, are made solely by the employees. The contributions are maintained in individual accounts held by a custodian and remain an asset and liability of the employer until the participant terminates employment. At December 31, 2018 and 2017, approximately $13.1 million and $12.5 million, respectively, is included in other assets and other liabilities in the accompanying consolidated statements of financial position related to the 457(b) plan.

In addition to the Hospital's pension plans, the Hospital provides health care benefits, including prescription drug benefits and life insurance benefits, to its retired employees if they reach normal retirement age while still working for the Hospital.

Prior to 2004, the Hospital-sponsored plan provided postretirement medical and life insurance benefits to full-time employees who had worked ten years and attained the age of 62 while in service with the Hospital. During 2004, the Hospital curtailed the plan to include the requirement that employees have 20 years of consecutive service, or have attained the age of 50 with ten or more years of service by January 1, 2004, to be eligible for benefits. The postretirement plan contains cost-sharing features such as deductibles and coinsurance. The postretirement plan is unfunded and the Hospital does not sponsor any other postretirement benefit plans.

The Hospital recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its retiree benefits plan, with a corresponding adjustment to unrestricted net assets for the portion of the unfunded liability that has not been recognized as postretirement cost. The adjustment to unrestricted net assets represents the net unrecognized actuarial losses and unrecognized prior service cost, which will be subsequently recognized as a component of net periodic postretirement cost through amortization.

7. Pension and Similar Plans and Other Postretirement Benefits (continued)

The following tables provide a reconciliation of the changes in the postretirement plan's benefit obligation and a statement of the funded status of the plan as of December 31:

	2018	2017
	(In Thousands)	
Reconciliation of the benefit obligation		
Obligation at January 1	**$ 17,876**	$ 17,364
Service cost	**300**	269
Interest cost	**777**	698
Actuarial net (gain) loss	**(5,508)**	659
Benefit payments	**(2,364)**	(1,114)
Obligation at December 31	**$ 11,081**	$ 17,876
Funded status		
Net amount recognized – current portion	**$ 1,250**	$ 1,274
Net amount recognized – long-term portion	**9,831**	16,602
Total	**$ 11,081**	$ 17,876

Included in other changes in unrestricted net assets at are the following changes in amounts that have not yet been recognized in postretirement cost:

	2018	2017
	(In Thousands)	
Unrecognized prior service cost	**$ –**	$ 23
Unrecognized actuarial (loss) gain	**(6,089)**	425
Total	**$ (6,089)**	$ 448

The actuarial loss (gain) included in unrestricted net assets at December 31 and expected to be recognized in postretirement cost in the future are as follows:

	2018	2017
	(In Thousands)	
Unrecognized actuarial loss (gain)	**$ (872)**	$ 5,217

7. Pension and Similar Plans and Other Postretirement Benefits (continued)

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

2019	$ 1,250
2020	1,275
2021	1,283
2022	1,228
2023	1,152
2024 to 2028	4,254

The following table provides the components of the net periodic postretirement cost for the plan for the years ended December 31:

	2018	2017
	(In Thousands)	
Service cost	**$ 300**	$ 269
Interest cost on projected benefit obligation	**777**	698
Net amortization	**581**	211
Total net periodic postretirement cost	**$ 1,658**	$ 1,178

The weighted-average discount rate used in the measurement of the Hospital's benefit obligation was 4.55% and 3.85% for 2018 and 2017, respectively. The weighted-average discount rate used in the measurement of net periodic postretirement cost was 3.85% for 2018 and 4.27% for 2017. For measurement purposes relative to 2018, an annual rate of increase in the per capita cost of covered health care benefits was assumed to be initially 6.9%, grading down to an ultimate rate of 5% in 2022. A 5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2018.

7. Pension and Similar Plans and Other Postretirement Benefits (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported. A 1% change in assumed health care cost trend rates would have the following effects:

	2018		2017	
	1% Increase	1% Decrease	1% Increase	1% Decrease
	(In Thousands)			
Effect on total of service and interest cost components of net periodic postretirement cost	**$ 11**	**$ (10)**	$ 6	$ (6)
Effect on the health care component of the accumulated benefit obligation	**202**	**(188)**	177	(164)

The Hospital contributes to three multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

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

The Hospital's participation in these plans for the years ended December 31, 2018 and 2017, is outlined in the table below. The "EIN Number" column provides the Employer Identification Number (EIN). Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2018 and 2017 is for a plan's year-end at December 31, 2017 and 2016, respectively. The zone status is based on information that the Hospital received from the plans and is certified by the plans' actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least

7. Pension and Similar Plans and Other Postretirement Benefits (continued)

80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is pending or has been implemented. The last column lists the expiration dates of the collective bargaining agreements to which the plans are subject.

Pension Fund	EIN Number	Plan Number	Pension Protection Act Zone Status 2018	Pension Protection Act Zone Status 2017	FIP/RP Status Pending/ Implemented	Contributions by the Hospital 2018	Contributions by the Hospital 2017	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
						(In Thousands)			
New York State Nurses Association Pension Plan	13-6604799	001	**Green as of 1/01/2018**	Green as of 1/01/2017	No	**$ 23,829**	$ 20,742	No	12/31/2018
1199 SEIU Health Care Employees Pension Fund	13-3604862	001	**Green as of 1/01/2018**	Green as of 1/01/2017	No	**34,340**	49,745	No	09/30/2021
Local 32BJ SEIU	13-1879376	001	**Red as of 7/01/2018**	Red as of 7/01/2017	Yes	**217**	209	No	04/20/2018

The Hospital was listed in the New York State Nurses Association Pension Plan's Forms 5500 as providing more than 5% of the total contributions during each of the plan's 2017 and 2016 plan years. At the date the Hospital's consolidated financial statements were issued, Forms 5500 are not yet available for any of the Pension funds for the plan years ended in 2018.

8. Net Assets with Donor Restrictions

Net assets with donor restrictions include endowments that have been restricted by donors to be maintained in perpetuity and invested by the Hospital.

The Hospital follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as they relate to its permanently restricted contributions and net assets.

The Hospital has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies within net assets with donor restrictions the original value of the gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Accumulations to the permanent endowment are used in accordance with the direction of the applicable donor gift. The

8. Net Assets with Donor Restrictions (continued)

remaining portion of the donor-restricted endowment fund is also classified in net assets with donor restrictions until the amounts are appropriated for expenditure in accordance with a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) the duration and preservation of the fund; (2) the purposes of the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the institution; (6) the expected total return from income and the appreciation of investments; (7) other resources of the Hospital; and (8) the investment and spending policies of the Hospital. The Hospital's policies provide the guidelines for setting the annual spending rate (4.5% in 2018 and 4% in 2017) and the treatment of any investment returns in excess of the annual spending rate. The endowment spend rate is calculated on the average three-year rolling market value of each endowed fund. Any excess investment returns beyond the spending rate, to the extent available, are added to the endowed fund and classified as net assets with donor restrictions, unless also appropriated for expenditure. The Hospital expends the income distributed from certain restricted assets on an annual basis in support of health care services (2018 and 2017 distributions totaled approximately $32.1 million and $28.9 million, respectively).

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets are invested in a manner to provide that sufficient assets are available as a source of liquidity for the intended use of the funds, achieve the optimal return possible within the specified risk parameters, prudently invest assets in a high-quality diversified manner, and adhere to the established guidelines.

To satisfy its long-term rate-of-return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

8. Net Assets with Donor Restrictions (continued)

Net assets with donor restrictions that are temporary in nature are available to support program activities as stipulated by donors. Net assets with donor restrictions that are perpetual in nature are restricted to investment in perpetuity with the income expendable to support program activities as stipulated by donors. Net assets with donor restrictions that are temporary in nature are restricted as follows at December 31:

	2018	2017
	(In Thousands)	
Plant replacement and plant operating funds	**$ 657**	$ 920
Other specific-purpose funds	**107,798**	103,439
	$ 108,455	$ 104,359

Net assets with donor restrictions that are perpetual in nature are restricted as follows at December 31:

	2018	2017
	(In Thousands)	
Investments to be held in perpetuity, the income from which is restricted for research and other purposes of the School	**$ 27,137**	$ 27,137
Investments to be held in perpetuity, the income from which is unrestricted as to use	**58,824**	56,674
	$ 85,961	$ 83,811

Investments to be held in perpetuity are included in pooled investments in the accompanying consolidated statements of financial position.

During 2018 and 2017, net assets were released from restrictions as follows:

	2018	2017
	(In Thousands)	
Capital asset acquisitions	**$ 4,654**	$ 5,763
Other specific-purpose funds (various services)	**32,053**	28,899
	$ 36,707	$ 34,662

9. Functional Expenses

The Hospital provides inpatient and outpatient health care and related services, including graduate medical education, to patients throughout the world. Expenses related to its services were as follows:

	Health Care and Related Services	Program Support and General Services	Total
Salaries and wages	$ 914,501	$ 136,650	$ 1,051,151
Employee benefits	239,026	35,717	274,743
Supplies and other	1,025,680	153,262	1,178,942
Insurance	34,400	5,140	39,540
Depreciation	94,586	14,134	108,720
Interest and amortization	29,904	4,468	34,372
Total	$ 2,338,097	$ 349,371	$ 2,687,468

Prior to adoption of ASU 2016-14, expenses related to providing general health care services for the year ended December 31, 2017 were as follows:

	2017
	(In Thousands)
Health care and related services	$ 2,135,009
Program support and general services	319,024
	$ 2,454,033

10. Related Organizations

Amounts due from (to) the Hospital's related organizations consisted of the following at December 31:

	2018	2017
	(In Thousands)	
The School, net[a]	**$ 269,727**	$ 194,726
MSMC Realty Corporation (Realty Corp.)[b]	**91,872**	(2,768)
MSMC Residential Realty LLC (MSMCRRC)[c]	**(69)**	154
The Medical Center	**738**	795
BIMC[d]	**59,143**	11,047
BIMC Loan[d]	**105,776**	105,776
SLR[e]	**73,538**	12,222
SLR Loan[e]	**103,518**	47,271
NYEEI[f]	**1,708**	1,258
SNCH[g]	**1,002**	–
Other	**438**	436
Total due from related organizations	**707,391**	370,917
Less current portion	**200,797**	137,670
Due from related organizations, less current portion	**$ 506,594**	$ 233,247

[a] Transactions charged (at cost) by the Hospital to the School totaling approximately $1.8 billion in 2018 ($1.7 billion in 2017), include payroll and benefits charges (93%) and various other shared services (7%).

Included in the benefits charges are certain employee health plan claims and premiums, which are paid by the Hospital and, subsequently, charged to the School. Accordingly, the Hospital recognizes the actuarially determined liability (included in accrued salaries and related liabilities) for unreported health claims on behalf of the School. These claims are reported as expenses on the School's financial statements.

Additionally, the Hospital purchases professional services from the School for the clinical care of its patients, teaching and supervision of its residents, the performance of certain administrative functions, and various strategic initiatives. The Hospital paid approximately $293.1 million and $252.8 million in 2018 and 2017, respectively, for these services.

10. Related Organizations (continued)

At December 31, 2018 and 2017, the Hospital was owed approximately $29.2 million by the School in relation to capital building projects.

(b) The payable to Realty Corp. primarily relates to property, equipment and office space rental transactions, as well as other administrative transactions. In 2015 all of Realty Corp.'s income collected, net of expenses and reasonable estimates of anticipated liabilities, of approximately $1.1 million was distributed to the Hospital, in accordance with an agreement among Realty Corp.'s members (included in investment income). In 2018 and 2017, the Hospital transferred approximately $0.2 million to Realty Corp. No amounts were distributed by Realty Corp. to the Hospital in 2017 or 2018. In 2018 Realty Corp. acquired a building for $79 million. The purchase was funded by the Hospital and is included in the balance of amounts due from Realty Corp. The Hospital has entered into a lease agreement for the rental of certain property and equipment from Realty Corp. for a term of 30 years. Rental expense in 2018 and 2017, relative to the lease agreement with Realty Corp., was approximately $1.6 million in 2018 and $0.8 million in 2017. Future minimum rental commitments under the lease are approximately $2.5 million in 2019; $2.5 million in 2020; $2.3 million in 2021; $2.1 million in 2022; $1.6 million in 2023.

Summarized financial information for Realty Corp., in which the Hospital, the School, and the Medical Center are members, at December 31 is as follows:

	2018	**2017**
	(In Thousands)	
Total assets	**$ 97,627**	$ 25,856
Total liabilities	**92,629**	(20,858)
Net assets	**$ 4,998**	$ 4,998

(c) During 2003, as part of a financing transaction with the School and Realty Corp., the Hospital contributed to MSMCRRC, at net book value, property totaling approximately $17.4 million. MSMCRRC was incorporated in 2003 under the New York State Not-for-Profit Corporation Law for the sole purpose of supporting its member corporations by managing, maintaining, holding, developing, acquiring, or disposing of real property for their benefit. MSMCRRC's members are the Hospital, the School, Realty Corp., and MSMC Residential Realty Manager, Inc.

10. Related Organizations (continued)

Property and equipment contributed by the Hospital, the School, and Realty Corp. were utilized by MSMCRRC to secure $125.0 million in financing from a bank, which was subsequently increased to $145.0 million as a part of a refinancing during 2006. MSMCRRC paid approximately $51.3 million in cash to the Hospital. The total amount received by the Hospital was based on the relative fair value of the property contributed, as compared to properties contributed by the School and Realty Corp. that were part of the $125.0 million financing. The amount received in excess of the net book value of the property and equipment transferred (approximately $33.9 million) was recorded as a deferred gain on transfer of real estate. A gain will only be recognized in the consolidated statements of operations upon the sale of the property and equipment transferred to MSMCRRC to an entity that is not related to the Hospital by common ownership or control.

During 2017, MSMCRRC distributed approximately $0.2 million to the Hospital which was subsequently distributed to the School. No amounts were distributed by MSMCRRC to the Hospital in 2018.

Summarized financial information for MSMCRRC at December 31 is as follows:

	2018	**2017**
	(In Thousands)	
Total assets	**$ 109,836**	$ 111,827
Total liabilities	**145,552**	(148,685)
Net deficit	**$ (35,716)**	$ (36,858)

(d) Transactions charged (at cost) by the Hospital to BIMC, totaling approximately $22.9 million in 2018 ($22.6 million in 2017), include payroll and benefits charges (0%) and various other shared services (100%). Included in the benefits charges are certain employee health plan claims and premiums, which are paid by the Hospital and, subsequently, charged to BIMC. In addition, included in amounts due from BIMC are funds related to VAP (see Note 2).

The Hospital used part of the Series 2017 Bond issuance to payoff BIMC long term debt and setup a corresponding loan receivable of $105.8 million from BIMC which is included in the amount due from BIMC. The loan bears interest at 4%.

10. Related Organizations (continued)

(e) Transactions charged (at cost) by the Hospital to SLR, totaling approximately $78.3 million in 2018 ($68.3 million in 2017), include payroll and benefits charges (58%) and various other shared services (42%). Included in the benefits charges are certain employee health plan claims and premiums, which are paid by the Hospital and, subsequently, charged to SLR. The Hospital entered into a promissory note agreement with SLR for up to $200 million to fund various capital projects, with monthly interest-only payments until July 1, 2030. The loan balance of $103.5 million and $47.3 million in 2018 and 2017 respectively, is included in the amount due from SLR. The loan bears interest at 4%.

(f) Transactions charged (at cost) by the Hospital to NYEEI, totaling approximately $8.8 million in 2018 ($6.5 million in 2017), include payroll and benefits charges (61%) and various other shared services (39%). Included in the benefits charges are certain employee health plan claims and premiums, which are paid by the Hospital and, subsequently, charged to NYEEI.

During 2010, 8 East 102nd Street LLC was formed under the New York State Limited Liability Company Law for the sole purpose of supporting its member corporation by managing, maintaining, holding, developing, acquiring, or disposing of real property for its benefit. The School, the Medical Center, and the Hospital are the members of 8 East 102nd Street Manager LLC (the Manager), which is the sole member of 8 East 102nd Street LLC. The Hospital guarantees a letter of credit which supports bonds issued by 8 East 102nd Street LLC; the debt had an outstanding balance of approximately $143.7 million at December 31, 2018 and 2017.

On November 1, 2013, the members of the Manager, together with certain other persons, amended and restated the operating agreement of the Manager and elected for the Manager to be taxed as a real estate investment trust (the REIT) for U.S. Federal income tax purposes, effective January 1, 2014. As a result, the members own 99% of the partnership units of the REIT; 125 investors each purchased preferred shares of the Manager for $1,000 each. In connection with the sale of tax credits associated with certain low income residential units in the 8 East 102nd Street property, the Hospital has guaranteed, under certain circumstances, scheduled tax credits and expected tax losses to be allocated to an investor in the low-income units.

The School, the Hospital, and the Medical Center, as members of the Manager, have agreed to distribute the net activities of the Manager (which, as the sole member of 8 East 102nd Street LLC, reflects the net activities of 8 East 102nd Street LLC) solely to the School.

10. Related Organizations (continued)

This agreement includes equity in income or loss of the Manager, as well as cash distributions. Accordingly, the Hospital transferred equity in income of related party of approximately $2,000 and $474,000 to the School in 2018 and 2017, respectively. The Manager distributed approximately $5.3 million and $6.4 million in 2018 and 2017, respectively, to the School derived from its net activities.

Summarized financial information for 8 East 102nd Street Manager LLC at December 31, 2018 and 2017, is as follows:

	2018	2017
	(In Thousands)	
Total assets	**$ 103,292**	$ 109,181
Total liabilities	**(142,052)**	(141,740)
Members' deficit (including non-controlling interest of $1,887 in 2018 and $2,794 in 2017)	**$ (38,760)**	$ (32,559)

Transfers to Affiliates

Transfers to affiliates consists of $46.3 million in 2018 ($32.9 million in 2017) for the Hospital's funding of the School's community practice plan deficits, $4.7 million in 2018 ($20.2 million in 2017) to BIMC for Medicaid enhanced rates (see Note 2), $25.0 million in 2018 and 2017 to SLR for EPIC funding, and $20.0 million in 2018 for the Hospital's funding of capital projects at SNCH (see Note 1). Transfers to affiliates included $48.5 million in 2017 from the Hospital's proceeds from the sale of the clinical outreach laboratory business to the School to satisfy certain intercompany amounts in support of strategic initiatives.

11. Commitments and Contingencies

Litigation

The Hospital is a defendant in various legal actions arising out of the normal course of its operations, the final outcome of which cannot presently be determined. Hospital management is of the opinion that the ultimate liability, if any, with respect to all of these matters will not have a material adverse effect on the Hospital's consolidated financial position.

11. Commitments and Contingencies (continued)

Collective Bargaining Agreements

Approximately 63% of the Hospital's employees are union employees who are covered under the terms of various collective bargaining agreements. The Hospital's contract with 1199SEIU expires on September 30, 2021. The Hospital's contract with NYSNA expired on December 31, 2018 and negotiations are ongoing.

Other

The Hospital is self-insured, based on individual employees' elections, for medical, dental, and pharmaceutical benefits. The Hospital also is self-insured for unemployment benefits. Liabilities have been accrued at December 31, 2018 and 2017, based on expected future payments pertaining to such years (included in accrued salaries and related liabilities).

12. Fair Values of Financial Instruments

For assets and liabilities requiring fair value measurement, the Hospital 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. The Hospital follows a fair value hierarchy based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

12. Fair Values of Financial Instruments (continued)

In determining fair value, the Hospital uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers nonperformance risk in its assessment of fair value. Investments valued based upon net asset value (NAV) are not subject to the valuation hierarchy.

Financial assets carried at fair value by the Hospital as of December 31, 2018 and 2017, are classified in the tables below in one of the three categories described above:

	December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Cash and cash equivalents	**$ 144,150**	**$ –**	**$ –**	**$ 144,150**
U.S. government obligations	**–**	**334,177**	**–**	**334,177**
Corporate bonds	**–**	**136,186**	**–**	**136,186**
	$ 144,150	**$ 470,363**	**$ –**	**614,513**
Investments measured at NAV as a practical expedient:				
Pooled investments				**900,539**
				$ 1,515,052

	December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Cash and cash equivalents	$ 708,453	$ –	$ –	$ 708,453
U.S. government obligations	–	211,766	–	211,766
Corporate bonds	–	66,675	–	66,675
	$ 708,453	$ 278,441	$ –	986,894
Investments measured at NAV as a practical expedient:				
Pooled investments				866,373
				$ 1,853,267

12. Fair Values of Financial Instruments (continued)

The table does not include other investments that are not carried at fair value (approximately $229.7 million and $218.6 million at December 31, 2018 and 2017, respectively).

The following is a summary of total investments (by major category) in the investment pool with restrictions to redeem the investments at the measurement date, any unfunded capital commitments, and investment strategies of the investees as of December 31, 2018:

Description of Investment	Carrying Value	Unfunded Commitments	Redemption Frequency	Notice Period	Funds Availability
	(In Thousands)				
Hedge funds:					
Long-only equity	$ 213,772	$ –	Monthly/5 years	30 to 90 days	3 to 30 days
Hedged equity	324,872	–	Monthly/rolling 3 years	30 to 90 days	30 to 45 days
Long/short credit	35,809	–	Quarterly	90 days	30 days
Open mandate	283,157	–	Quarterly/Annually	60 to 90 days	30 days
Macro	122,529	–	Quarterly/Semi-annually	45 to 90 days	30 days
Private investments:					
Equity	75,217	89,029	N/A	N/A	N/A
Credit/distressed	93,815	21,974	Monthly	30 days and N/A	180 days and N/A
Real assets	224,672	71,900	N/A	N/A	N/A
	$ 1,373,843	$ 182,903			

13. Other Revenue

Other revenue includes operating revenues that are not directly related to the Hospital's patient services. Included in other revenue on the accompanying consolidated statements of operations are revenues derived from parking, cafeteria, DSRIP, VAP, and the pharmacy 340B program.

14. Liquidity and Available Resources

Financial assets available for general expenditure within one year of the consolidated statement of financial position date, consist of the following:

Cash and cash equivalents	$ 110,221
Short-term investments	430,484
Patient accounts receivable, net	370,347
Pooled investments, net of donor-restricted assets	706,123
Assets limited to use	19,487
	$ 1,636,662

The Hospital has certain internally designated and donor-restricted assets limited as to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the amounts above. The Hospital has other assets limited as to use for donor-restricted purposes, debt service and for funded depreciation. Additionally, certain other assets are designated for future capital expenditures and the DSRIP program. These assets limited as to use, which are more fully described in Note 3 are not available for general expenditure within the next year and are not reflected in the amounts above. However, the board-designated amounts could be made available, if necessary.

As of December 31, 2018, the Hospital was in compliance with bond covenants; see Note 5.

15. Subsequent Events

For purposes of the accompanying consolidated financial statements, the Hospital has considered for accounting and disclosure events that occurred through March 29, 2019, the date the consolidated financial statements were issued. There were no subsequent events or transactions that either resulted in recognition in the accompanying consolidated financial statements or required additional disclosure.

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