Consolidated Financial Statements (Unaudited)

Montefiore Medical Center

For the Six Months Ended June 30, 2020 and 2019

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Contents

Montefiore Medical Center

Consolidated Statements of Financial Position

	Unaudited June 30, 2020	Audited December 31, 2019
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 132,721**	$ 144,569
Marketable and other securities	**2,344,552**	1,424,522
Assets limited as to use, current portion	**155,137**	21,740
Receivables for patient care, net	**185,723**	306,712
Other receivables	**61,795**	46,153
Estimated insurance claims receivable, current portion	**72,105**	72,105
Other current assets	**74,476**	66,974
Due from members, current portion	**30,762**	88,982
Total current assets	**3,057,271**	2,171,757
Assets limited as to use, net of current portion	**158,784**	156,131
Property, buildings and equipment, net	**1,226,193**	1,253,521
Right-of-use assets – operating leases	**379,464**	390,044
Estimated insurance claims receivable, net of current portion	**328,478**	328,478
Other noncurrent assets	**135,832**	139,364
Due from members, net of current portion	**212,772**	154,837
Total assets	**$ 5,498,794**	$ 4,594,132
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 356,707**	$ 304,672
Accrued salaries, wages and related items	**312,901**	289,240
Self-insured professional and other insured liabilities, current portion	**78,817**	75,394
Estimated insurance claims liabilities, current portion	**72,105**	72,105
Estimated third-party payer liabilities, current portion	**374,525**	48,762
Long-term debt, current portion	**10,778**	16,365
Finance lease liabilities, current portion	**10,548**	10,310
Operating lease liabilities, current portion	**37,121**	34,520
Total current liabilities	**1,253,502**	851,370
Long-term debt, net of current portion	**1,971,956**	1,365,565
Finance lease liabilities, net of current portion	**244,408**	245,792
Operating lease liabilities, net of current portion	**352,758**	364,529
Noncurrent defined benefit pension and other postretirement health plan liabilities	**214,797**	215,284
Self-insured professional and other insured liabilities, net of current portion	**152,440**	149,892
Employee deferred compensation	**66,258**	62,576
Estimated insurance claims liabilities, net of current portion	**328,478**	328,478
Estimated third-party payer liabilities, net of current portion	**225,625**	225,628
Other noncurrent liabilities	**56,723**	29,349
Total liabilities	**4,866,945**	3,838,463
Commitments and contingencies		
Net assets:		
Without donor restrictions	**513,924**	646,668
With donor restrictions	**117,925**	109,001
Total net assets	**631,849**	755,669
Total liabilities and net assets	**$ 5,498,794**	$ 4,594,132

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Operations

	Unaudited Six Months Ended June 30, 2020	2019
	(In Thousands)	
Operating revenue		
Net patient service revenue	**$ 1,559,256**	$ 1,842,824
Grants and contracts	**431,598**	46,499
Other revenue	**170,358**	158,453
Total operating revenue	**2,161,212**	2,047,776
Operating expenses		
Salaries and wages	**1,054,290**	975,459
Employee benefits	**302,531**	297,458
Supplies and other expenses	**714,630**	662,349
Depreciation and amortization	**77,590**	73,735
Interest	**44,814**	35,132
Total operating expenses	**2,193,855**	2,044,133
(Deficiency) excess of operating revenues over operating expenses before other items	**(32,643)**	3,643
Net realized and changes in net unrealized gains and losses on marketable and other securities	**(23,912)**	34,406
Malpractice insurance program adjustments	**5,614**	3,861
Net periodic pension and other postretirement benefit costs (non-service related)	**(7,157)**	(6,639)
Other nonoperating gains and losses, net	**(8,996)**	–
(Deficiency) excess of revenues over expenses	**(67,094)**	35,271
Other changes in net assets without donor restrictions	**–**	13,017
Transfers to members, net	**(65,650)**	(42,067)
(Decrease) increase in net assets without donor restrictions	**$ (132,744)**	$ 6,221

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Changes in Net Assets

Unaudited Six Months Ended June 30, 2020 and 2019

	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
		(In Thousands)	
Net assets at January 1, 2019	$ 628,902	$ 110,801	$ 739,703
Increase in net assets without donor restrictions	6,221	–	6,221
Restricted gifts, bequests, and similar items	–	(60)	(60)
Restricted investment income	–	618	618
Net assets released from restrictions	–	(1,822)	(1,822)
Total changes in net assets	6,221	(1,264)	4,957
Net assets at June 30, 2019	$ 635,123	$ 109,537	$ 744,660
Net assets at January 1, 2020	**$ 646,668**	**$ 109,001**	**$ 755,669**
Decrease in net assets without donor restrictions	**(132,744)**	**–**	**(132,744)**
Restricted gifts, bequests, and similar items	**–**	**10,995**	**10,995**
Restricted investment income	**–**	**(551)**	**(551)**
Net assets released from restrictions	**–**	**(1,520)**	**(1,520)**
Total changes in net assets	**(132,744)**	**8,924**	**(123,820)**
Net assets at June 30, 2020	**$ 513,924**	**$ 117,925**	**$ 631,849**

See accompanying notes.

Montefiore Medical Center

Consolidated Statements of Cash Flows

	Unaudited Six Months Ended June 30, 2020	2019
	(In Thousands)	
Operating activities		
(Decrease) increase in net assets	**$ (123,820)**	$ 4,957
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**77,590**	73,735
Transfers to members, net	**65,650**	42,067
Lease transition adjustment	**–**	(13,017)
Net realized gains and losses on marketable and other securities	**(10,644)**	(1,704)
Change in net unrealized gains and losses on marketable and other securities	**34,556**	(32,702)
Equity (losses) earnings from investments	**1,874**	(3,918)
Amortization of long-term mortgage premium and debt discount	**(1,475)**	(1,171)
Amortization of deferred financing costs	**654**	605
Changes in operating assets and liabilities:		
Receivables for patient care	**120,989**	(37,114)
Accounts payable and accrued expenses	**48,730**	(42,269)
Accrued salaries, wages and related items	**23,661**	15,606
Estimated third-party payer liabilities	**325,758**	876
Net change in all other operating assets and liabilities	**83,838**	(15,681)
Net cash provided by (used in) operating activities	**647,361**	(9,730)
Investing activities		
Acquisition of property, buildings and equipment, net	**(46,957)**	(62,651)
Funding of self-insurance trust	**(9,249)**	(12,470)
Payments from Montefiore Health System, Inc. on MHS Note	**967**	1,117
Increase in marketable and other securities, net	**(473,468)**	(185,447)
Increase in assets limited to use, net	**(136,050)**	(7,497)
Net cash used in investing activities	**(664,757)**	(266,948)
Financing activities		
Payments of long-term debt and finance lease obligations	**(7,023)**	(8,458)
Extinguishment of long-term debt	**(75,498)**	–
Proceeds from long-term debt	**747,922**	–
Net (repayments of) proceeds from credit line	**(55,400)**	21,600
Payments of deferred financing costs	**(9,522)**	–
Loans and payments to members, net	**(124,457)**	(62,092)
Net cash provided by (used in) financing activities	**476,022**	(48,950)
Net increase (decrease) in cash, cash equivalents and restricted cash	**458,626**	(325,628)
Cash, cash equivalents and restricted cash at beginning of year	**408,367**	548,659
Cash, cash equivalents and restricted cash at end of period	**$ 866,993**	$ 223,031
Reconciliation of cash and cash equivalents at end of period to the consolidated statements of financial position:		
Cash and cash equivalents	**$ 132,721**	$ 137,574
Marketable and other securities and assets limited as to use: cash and cash equivalents	**734,272**	85,457
Total cash, cash equivalents and restricted cash	**$ 866,993**	$ 223,031
Supplemental cash flow and noncash information		
Property, building and equipment purchases in accounts payable and accrued expenses	**$ 3,305**	$ –

See accompanying notes.

1. Organization

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

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

The accompanying consolidated financial statements include the accounts of the following tax-exempt and taxable organizations.

- Montefiore Medical Center
- MMC Corporation (MCORP)
- Gunhill MRI P.C. (Gunhill)
- Mosholu Preservation Corporation (MPC)
- CMO The Care Management Company, LLC (CMO)
- Montefiore Proton Acquisition, LLC (MPRO)
- MMC Residential Corp. I, Inc. (Housing I)
- Montefiore Hospital Housing Section II, Inc. (Housing II)
- Montefiore Hudson Valley Collaborative LLC (MHVC)
- Montefiore CERC Operations, Inc. (CERC)

All intercompany accounts and activities have been eliminated in consolidation.

Interim Financial Statements

The Medical Center presumes that users of this unaudited consolidated financial information have read or have access to the Medical Center's audited consolidated financial statements which include certain disclosures required by U.S. generally accepted accounting principles. The audited consolidated financial statements of the Medical Center for the years ended December 31, 2019 and 2018 are on file with the Municipal Securities Rulemaking Board and are accessible through its Electronic Municipal Market Access Database. Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in the Medical Center's most recent audited consolidated financial statements have been omitted from the unaudited consolidated financial information. In the opinion of management, all material adjustments considered necessary for a fair presentation have been included.

1. Organization (continued)

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities, at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. Actual results could differ from those estimates. For the six months ended June 30, 2020 and 2019, there were no material changes in estimates.

Recent Accounting Pronouncements Not Yet Adopted:

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). The new credit losses standard changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, contract assets recognized as a result of applying Accounting Standards Codification (ASC) 606, loans and certain other instruments, entities will be required to use a new forward looking “expected loss” model that generally will result in earlier recognition of credit losses than under today’s incurred loss model. ASU 2016-13 is effective for annual periods beginning after December 31, 2021. The Medical Center has not completed the process of evaluating the impact of ASU 2016-13 on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other* (ASU 2017-04). ASU 2017-04 will simplify the accounting for goodwill impairment and will remove Step 2 of the current goodwill impairment test, which requires a hypothetical purchase price allocation. Under ASU 2017-04, a goodwill impairment charge will now be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. This guidance is effective for the Medical Center for annual periods beginning after December 15, 2021, with early adoption permitted for any impairment tests performed after January 1, 2017. The Medical Center has not completed the process of evaluating the impact of ASU 2017-04 on its consolidated financial statements.

1. Organization (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* (ASU 2018-15). The standard aligns the requirement 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 amendments ASU 2018-15. ASU 2018-15 requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in ASC Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense by determining which project stage an implementation activity relates to and the nature of the costs. 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 ASU 2018-15 also require the entity (customer) 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 (customer) is also required to present the capitalized implementation costs in the consolidated balance sheet in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. ASU 2018-15 is effective for the Medical Center for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted, including adoption in any interim period. Either retrospective or prospective adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2018-15 on its consolidated financial statements.

In May 2019, the FASB issued ASU 2019-06, *Intangibles — Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958), Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities* (ASU 2019-06). Under ASU 2019-06, entities that elect the goodwill accounting alternative will amortize goodwill and perform a one-step impairment test, at either the entity level or the reporting unit level, only when an impairment indicator exists. Entities that elect the intangible asset accounting alternative may recognize fewer intangible assets in an acquisition, and they would be required to elect the goodwill accounting alternative. Entities that elect to adopt the alternatives do not have to demonstrate preferability and will follow the alternatives' transition guidance. Entities that elect this accounting alternative will amortize goodwill on a straight-line basis over 10 years or over a shorter period if they are able to demonstrate that another useful life is more appropriate. ASU 2019-06 was effective immediately upon issuance. The Medical Center did not elect to adopt the accounting alternatives noted above.

Reclassifications

For purposes of comparison, certain reclassifications have been made to the accompanying 2019 consolidated financial statements to conform to the 2020 presentation. These reclassifications have no effect on the excess of revenues over expenses or net assets for the six months ended June 30, 2019.

1. Organization (continued)

Subsequent Events

The Medical Center evaluated subsequent events through August 27, 2020, which is the date the unaudited consolidated financial statements were issued, for potential recognition or disclosure in the accompanying consolidated financial statements for the six months ended June 30, 2020. Except as noted in Notes 4 and 8, no subsequent events have occurred that require disclosure in the consolidated financial statements.

2. Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the Medical Center expects to be entitled in exchange for providing patient care.

The Medical Center uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payer classes for inpatient revenue and major payer classes and types of services provided for outpatient revenue. Based on historical collection trends and other analyses, the Medical Center believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

The Medical Center'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 Medical Center's standard charges. The Medical Center determines the transaction price associated with services provided to patients who have third-party payer coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payer payment programs below). The estimates for contractual allowances and discounts are based on contractual agreements, the Medical Center's discount policies and historical experience. For uninsured and under-insured patients who do not qualify for charity care, the Medical Center determines the transaction price associated with services 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 Medical Center's historical collection experience for applicable patient portfolios. Under the Medical Center's charity care policy, a patient who has no insurance or is under-insured and is ineligible for any government assistance program has 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. Patients who meet the Medical Center's criteria for free care are provided care without charge; such amounts are not reported as revenue.

2. Net Patient Service Revenue (continued)

Generally, the Medical Center bills patients and third-party payers several days after the services are performed and/or 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 Medical Center. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. The Medical Center believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligations based on the services needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in the Medical Center's outpatient and ambulatory care centers or in their homes (home care). The Medical Center 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 Medical Center has elected to apply the optional exemption provided in ASU 2014-09, *Revenue from Contracts with Customers* (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 Medical Center's in-house patients occurs within days or weeks after the end of the reporting period.

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 six months ended June 30, 2020 and 2019, changes in the Medical Center's estimates of 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 six months ended June 30, 2020 and 2019 was not significant.

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

2. Net Patient Service Revenue (continued)

Net patient service revenue by payer is as follows:

	Six Months Ended June 30 2020	Six Months Ended June 30 2019
	(In Thousands)	
Medicare and Medicare managed care	**$ 503,918**	$ 590,084
Medicaid and Medicaid managed care	**484,551**	589,307
Commercial carriers and managed care	**557,773**	641,924
Self-pay and other	**13,014**	21,509
	$ 1,559,256	$ 1,842,824

Deductibles, copayments and coinsurance under third-party payment programs which are the patient's responsibility are included within the self-pay and other category above.

Net patient service revenue by line of business is as follows:

	Six Months Ended June 30 2020	Six Months Ended June 30 2019
	(In Thousands)	
Inpatient services	**$ 972,445**	$ 1,034,041
Physician and other outpatient services	**457,902**	644,888
Premium revenue	**59,953**	81,947
Emergency department	**41,626**	48,095
All other	**27,330**	33,853
	$ **1,559,256**	$ 1,842,824

The Medical Center has elected the practical expedient allowed under ASU 2014-09 and does not adjust the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to the Medical Center's expectation that the period of time between the service being provided and billing will be one year or less. However, the Medical Center does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

2. Net Patient Service Revenue (continued)

Receivables for patient care, net is comprised of the following components:

	June 30 2020	December 31 2019
	(In Thousands)	
Patient receivables	**$ 139,917**	$ 234,715
Contract assets	**45,806**	71,997
	$ 185,723	$ 306,712

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 Medical Center does not have the right to bill.

Settlements with third-party payers (see description of third-party payer 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 payer, correspondence from the payer and the Medical Center'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 investigations. Adjustments arising from a change in the transaction price were not significant for the six months ended June 30, 2020 and 2019.

2. Net Patient Service Revenue (continued)

Third-Party Payment Programs

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

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

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

Other Third-Party Payers: The Medical Center also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Medical Center 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 December 31, 2014, 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

2. Net Patient Service Revenue (continued)

the Medical Center'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 Medical Center. The Medical Center 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 Medical Center has with commercial payers also provide for retroactive audit and review of claims.

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 Medical Center. Additionally, certain payers' payment rates for various years have been appealed by the Medical Center. If the appeals are successful, additional income applicable to those years could be realized.

3. Benefit Plans

The Medical Center is a contributing employer to two union multiemployer pension plans. In addition, the Medical Center also maintains two tax deferred annuity plans under Section 403(b) of the Internal Revenue Code as well as two noncontributory defined benefit pension plans. The Medical Center also sponsors two unfunded defined benefit postretirement health and welfare plans that cover certain full-time and part-time employees and eligible dependents.

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

Total expense, included in the accompanying consolidated statements of operations for the various pension plans, aggregated approximately \$85.7 million and \$83.2 million for the six months ended June 30, 2020 and 2019, respectively. Cash payments relative to the various pension plans aggregated approximately \$98.0 million and \$85.2 million for the six months ended June 30, 2020 and 2019, respectively.

3. Benefit Plans (continued)

The following table provides the components of the net periodic benefit cost for the defined benefit pension plans and postretirement benefit plan for the six months ended June 30, 2020 and 2019:

	Pension		Postretirement	
	2020	**2019**	**2020**	**2019**
	(In Thousands)			
Service cost	**$ 2,185**	$ 3,453	**$ 6,798**	$ 5,381
Interest cost	**356**	754	**3,602**	4,103
Expected return on plan assets	**(474)**	(972)	–	–
Amortization of prior service cost (benefit)	–	22	–	(138)
Amortization of net loss	**383**	783	**1,689**	874
Settlement cost	**1,601**	1,213	–	–
Net periodic benefit cost	**$ 4,051**	$ 5,253	**$ 12,089**	$ 10,220

4. Long-Term Debt

In February 2020 two series of bonds were issued; the DASNY Montefiore Obligated Group Revenue Bonds, Series 2020A (Tax-Exempt); and the Montefiore Obligated Group Taxable Bonds, Series 2020B (collectively, the Series 2020 Bonds) in the aggregate amount of approximately $706.5 million. The proceeds from the issuance of the Series 2020 Bonds were used to refund or refinance approximately $121.1 million of existing indebtedness; the remainder is being used to fund capital projects. The Series 2020 Bonds are general obligations of the Montefiore Obligated Group (of which the Medical Center is currently the only member) and further secured by a mortgage on certain real property.

In July 2020, the Medical Center entered into a $200 million revolving credit agreement with a bank which expires in June 2021. Interest is variable and is based on LIBOR plus 1.85%. The revolving credit agreement is secured on parity with the 2018 Series Bonds with a general obligation of the Medical Center and a mortgage on certain real property.

5. Leases

The Medical Center determines if an arrangement is a lease at inception. The Medical Center utilizes operating and finance leases for the use of certain hospitals, medical and administrative offices, medical and office equipment and automobiles. For leases with terms greater than 12 months, the Medical Center records the related right-of-use assets and right-of-use obligations at the present value of lease payments over the term. Leases with an initial term of 12 months or less are not recorded in the consolidated statements of financial position. Lease expense for operating leases is recognized on a straight-line basis over the lease term and included in supplies and other expenses in the consolidated statements of operations while the expense for finance leases is recognized as depreciation and amortization expense and interest expense in the consolidated statements of operations.

5. Leases (continued)

The lease terms used to calculate the right-of-use asset and related lease liability include options to extend or terminate the lease when it is reasonably certain that the Medical Center will exercise that option. The Medical Center does not separate lease and nonlease components of contracts.

The following table presents the Medical Center's lease-related assets and liabilities at June 30, 2020 and December 31, 2019 (in thousands):

	Statement of Financial Position Classification	June 30, 2020	December 31, 2019
Assets:			
Operating leases	Right-of-use assets – operating leases	**$ 379,464**	$ 390,044
Finance leases	Property, buildings and equipment, net	**244,214**	249,746
Total lease assets		**$ 623,678**	$ 639,790
Liabilities:			
Current:			
Operating leases	Operating lease liabilities, current portion	**$ 37,121**	$ 34,520
Finance leases	Finance lease liabilities, current portion	**10,548**	10,310
Noncurrent:			
Operating leases	Operating lease liabilities, net of current portion	**352,758**	364,529
Finance leases	Finance lease liabilities, net of current portion	**244,408**	245,792
Total lease liabilities		**$ 644,835**	$ 655,151

The weighted-average lease terms and discount rates for operating and finance leases are presented in the following table:

	June 30, 2020	December 31, 2019
Weighted-average remaining lease term (years)		
Operating leases	11.2	11.6
Finance leases[1]	59.1	58.6
Weighted-average discount rate		
Operating leases	2.7%	2.7%
Finance leases	3.1%	3.1%

(1) Includes a lease agreement that extends through 2114. Excluding this lease agreement, the weighted-average remaining lease term of all other leases is 9.2 years at June 30, 2020 and 10.0 years at December 31, 2019.

5. Leases (continued)

The following table presents certain information related to lease expense for finance and operating leases:

	Six Months Ended June 30 2020	Six Months Ended June 30 2019
	(In Thousands)	
Finance lease expense:		
Amortization of right-of-use assets	**$ 5,533**	$ 5,538
Interest on finance lease liabilities	**3,905**	3,968
Operating lease cost	**26,667**	27,521
Variable and short-term lease expense	**2,569**	2,278
Total lease expense	**$ 38,674**	$ 39,305

The following table presents cash flow information for finance and operating leases:

	Six Months Ended June 30 2020	Six Months Ended June 30 2019
Cash paid for amounts included in the measurement of lease liabilities	*(In Thousands)*	
Operating cash flows for operating leases	**$ 22,033**	$ 18,574
Operating cash flows for finance leases	**3,905**	3,968
Financing cash flows for finance leases	**3,579**	3,348

Future minimum lease payments under non-cancellable leases as of June 30, 2020 are as follows (in thousands):

	Operating Leases	Finance Leases
2020 (excluding the six months ended June 30, 2020)	$ 23,345	$ 8,426
2021	46,987	14,348
2022	42,080	14,671
2023	38,909	14,995
2024	37,743	15,094
2025 and thereafter	264,837	805,216
Total lease payments	453,901	872,750
Less imputed interest	(64,022)	(617,794)
Present value of lease payments	$ 389,879	$ 254,956

6. Commitments and Contingencies

Litigation: Claims have been asserted against the Medical Center by various claimants arising out of the normal course of its operations. The claims are in various stages of processing and some may ultimately be brought to trial. Also, there are known incidents occurring through June 30, 2020 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. Medical Center management and counsel are unable to conclude about the ultimate outcome of the actions. However, it is the opinion of Medical Center management, based on prior experience that adequate insurance is maintained and adequate provisions for professional liabilities, where applicable, have been established to cover all significant losses and that the eventual liability, if any, will not have a material adverse effect on the Medical Center's consolidated financial position.

Self-Insured Professional and Other Insured Liabilities: The Medical Center utilizes Healthcare Risk Advisors (HRA) (formerly The Federation of Jewish Philanthropies or FOJP), a service organization that provides third party comprehensive insurance and risk management advisory services. Primary liability coverage is provided to the Medical Center through Hospitals Insurance Company (HIC), a New York State admitted and licensed insurance company. Primary general liability is also through HIC, while the umbrella/excess liability coverage is purchased from multiple admitted insurance carriers through the commercial market.

Prior to January 2018, the Medical Center participated in a pooled excess insurance program for hospital professional liability with certain other health care facilities affiliated with FOJP. Participation was through ownership of captive insurance companies.

In November 2018, Mount Sinai Health System, Beth Israel Medical Center, Maimonides Medical Center and the Medical Center, collectively the owners of HIC and FOJP, announced their agreement to sell HIC and FOJP to The Doctors Company for $650 million, subject to closing adjustments. The transaction closed on July 31, 2019, and the hospitals shared in the proceeds ratably according to their ownership. The Medical Center received approximately $177.7 million in proceeds from the sale. HRA continues to provide the same services to the Medical Center and the member hospitals as prior to the transaction.

Effective January 1, 2018, the Montefiore Medicine Academic Health System Self Insurance Trust (MMAHS Trust) was established to provide coverage in excess of HIC program limits. MMAHS is the sole member of the MMAHS Trust. Currently, only the Medical Center participates in the MMAHS Trust, which is irrevocable. Amounts funded by the Medical Center into the MMAHS Trust are based upon actuarially determined liabilities. The net amounts outstanding between the Medical Center's beneficial interest in the MMAHS Trust and total actuarially determined claims liabilities are required to be funded over a certain period of time in accordance with the respective MMAHS Trust agreement.

Albert Einstein College of Medicine, Inc.: In 2015, a controlled member of MMAHS, Albert Einstein College of Medicine, Inc. (Einstein), acquired substantially all of the assets and assumed substantially all of the liabilities of a medical school operating as a division of Yeshiva University (YU). In connection with this transaction, $175.0 million Build NYC Resource Corporation Revenue Bonds were issued. The Build NYC Resource Corporation Revenue Bonds carry a 5.5% coupon rate and mature on September 1, 2045. Interest is payable semiannually and principal is payable annually commencing on September 1, 2020.

6. Commitments and Contingencies (continued)

In addition, in 2015, Einstein issued to YU a promissory note (the Note) under which it was obligated to pay to YU twenty annual payments of $12.5 million beginning September 2017, followed by a final, twenty-first payment of $20.0 million in September 2037. Pursuant to a guaranty agreement (Guaranty Agreement), the Medical Center guaranteed Einstein's obligation to make payments under the Note. If the Medical Center was required to make payments under the Guaranty Agreement, Einstein would have been obligated to repay the Medical Center, in full, over five years with interest. The Medical Center's right to repayment was subordinate in certain respects to Einstein's obligation to make payments on the Build NYC Resource Corporation Revenue Bonds.

In April 2017, the Note was cancelled and exchanged with three Replacement Negotiable Promissory Notes (the Replacement Notes) in the total principal amount of $162.2 million. The Replacement Notes carry interest rates ranging from 4.52% to 5.74% effective March 17, 2017. The Guaranty Agreement was amended to cover payments made by Einstein under the Replacement Notes. On May 1, 2017, the aggregate amounts payable by Einstein under the Replacement Notes were amended to $3.8 million in 2017, with annual payments of $8.3 million from 2018 to 2020, $36.0 million in 2021, $12.5 million from 2022 to 2036, followed by a final payment of $20.0 million in 2037.

No amounts were paid by the Medical Center on Einstein's behalf pursuant to the Guaranty Agreement, as amended during 2020 or 2019.

The Medical Center has an agreement to provide operating subsidies to Einstein over a five-year period commencing September 2015 in an aggregate amount of up to $80.0 million. The Medical Center is providing this subsidy in varying amounts to be funded upon the receipt and approval of documentation of unreimbursed research expenses incurred. The subsidy will total an amount not to exceed $10.0 million per year in each of the first two years, and not to exceed $20.0 million per year in each of the third, fourth and fifth years. During the six months ended June 30, 2020 and 2019, the Medical Center made capital contributions of approximately $10.0 million to Einstein in accordance with this agreement.

The Medical Center also agreed to provide loans to Einstein in an aggregate amount of up to $75.0 million as necessary to allow it to meet its cash flow requirements. The first loan was funded in 2017 in the amount of $35.0 million. The loan was secured by a subordinate mortgage on certain of Einstein's real property. During 2018, the Medical Center reserved the amounts owed from Einstein of approximately $36.8 million under this agreement.

In March 2018, the Medical Center entered into a commitment to provide financial support, including working capital and bridge financing, as necessary, to Einstein in order for Einstein to meet its operational needs. During the six months ended June 30, 2020 and 2019, the Medical Center provided approximately $28.4 million and $10.0 million, respectively, to Einstein which was recorded within transfers to members, net in the consolidated statements of operations.

6. Commitments and Contingencies (continued)

Other: At June 30, 2020 and December 31, 2019, approximately 67% of the Medical Center's employees were covered by collective bargaining agreements. The collective bargaining agreement with NYSNA expires in December 2022 and the collective bargaining agreement with 1199SEIU expires in September 2021.

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

In December 2018, the Medical Center entered into a mortgage loan agreement with White Plains Hospital Center to fund up to $248.5 million for a certain construction project (the Loan Agreement). Interest on the Loan Agreement is based on a fixed rate of 4.50%. Beginning February 1, 2019 to July 1, 2021 (the construction period), interest shall accrue and be paid monthly on the amounts drawn and outstanding. Principal payments are not due until August 1, 2021. Approximately $114.1 million and $55.2 million was drawn under this agreement at June 30, 2020 and December 31, 2019, respectively.

7. Fair Value Measurements

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

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

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

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

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

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

7. Fair Value Measurements (continued)

Financial assets carried at fair value, including assets invested in the Medical Center's defined benefit plan, are classified in the table below in one of the three categories described above as of June 30, 2020:

	June 30, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Assets				
Cash and cash equivalents	$ 132,721	$ –	$ –	$ 132,721
Managed cash and cash equivalents held for investment	734,272	–	–	734,272
Marketable and other securities:			–	
U.S. non-equity mutual funds	36,752	–	–	36,752
U.S. equity mutual funds	46,409	–	–	46,409
U.S. Government agency mortgage-backed securities	–	84,121	–	84,121
U.S. Treasury securities	309,707	–	–	309,707
U.S. Government agency-backed securities	–	44,092	–	44,092
U.S. equity securities	12,982	–	–	12,982
Corporate debt	–	1,221,702	–	1,221,702
	1,272,843	1,349,915	–	2,622,758
Defined benefit plan assets				
Cash and cash equivalents	281	–	–	281
Equity mutual funds	10,759	–	–	10,759
Fixed income mutual funds	1,953	–	–	1,953
	12,993	–	–	12,993
	$ 1,285,836	$ 1,349,915	$ –	2,635,751
Investments measured at net asset value (defined benefit pension plan assets)				6,380
				$ 2,642,131

7. Fair Value Measurements (continued)

Financial assets carried at fair value, including assets invested in the Medical Center's defined benefit plan, are classified in the table below in one of the three categories described above as of December 31, 2019:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Assets				
Cash and cash equivalents	$ 144,569	$ –	$ –	$ 144,569
Managed cash and cash equivalents held for investment	263,798	–	–	263,798
Marketable and other securities:				
U.S. non-equity mutual funds	65,587	–	–	65,587
U.S. equity mutual funds	25,929	–	–	25,929
U.S. Government agency mortgage-backed securities	–	83,392	–	83,392
U.S. Treasury securities	121,466	–	–	121,466
U.S. Government agency-backed securities	–	1,056	–	1,056
U.S. equity securities	59,921	–	–	59,921
Corporate debt	–	780,425	–	780,425
	681,270	864,873	–	1,546,143
Defined benefit plan assets				
Cash and cash equivalents	566	–	–	566
Equity mutual funds	10,786	–	–	10,786
Fixed income mutual funds	2,053	–	–	2,053
	13,405	–	–	13,405
	$ 694,675	$ 864,873	$ –	1,559,548
Investments measured at net asset value (defined benefit pension plan assets)				4,230
				$ 1,563,778

At June 30, 2020 and December 31, 2019, the Medical Center's alternative investments and collective trust funds, excluding those within the defined benefit plan, are reported using the equity method of accounting in the amount of approximately $168.4 million and $200.8 million, respectively, and, therefore, are not included in the tables above.

The following is a description of the Medical Center's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets.

7. Fair Value Measurements (continued)

Inputs are obtained from various sources, including market participants, dealers and brokers. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Medical Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

8. COVID-19

Due to the global viral outbreak caused by Coronavirus Disease 2019 (COVID-19) in 2020, there have been resulting effects which have, and will continue to negatively impact the Medical Center's financial condition. The ultimate impact of these matters to the Medical Center and its financial condition is presently unknown.

Management continues to closely monitor the operational and financial impact of COVID-19 in many respects and is pursuing opportunities for Federal and any other funding that is or will become available, including from the Federal Coronavirus Aid, Relief and Economic Security Act (CARES Act), the Federal Emergency Management Agency or other sources.

The CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The Medical Center began deferring the employer portion of social security taxes in April 2020. As of June 30, 2020, approximately $27.0 million has been deferred and is included in other noncurrent liabilities in the consolidated statements of financial position.

In April 2020, the Medical Center received approximately $278.7 million from CMS through its advance payment program, and is included in estimated third-party payer liabilities, current portion in the consolidated statements of financial position. The advance payments are interest free for up to 12 months and the program currently requires that CMS recoup the advance payments beginning 120 days after receipt by the provider by withholding future Medicare payments until such time as the full advance payment has been recouped. The program currently requires that any outstanding balance remaining after 12 months must be repaid or be subject to a 10.25% annual interest rate. No amounts have been recouped yet by CMS.

During April and May 2020, the Medical Center received a total of approximately $411.0 million in stimulus funds granted as part of the CARES Act for COVID-19 related expenses and lost revenue. The CARES Act grants received to date are not required to be repaid provided that recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using funds received to reimburse expenses or losses that other sources are obligated to reimburse. During the six months ended June 30, 2020, the Medical Center recognized approximately $390.1 million of stimulus funds which is included in grants and contracts in the consolidated statements of operations. During July 2020, the Medical Center received an additional $56.9 million of stimulus funds which is expected to be recognized in operations during the third quarter of 2020.

Montefiore

DISCLOSURE REPORT
DATED MAY 27, 2020
MONTEFIORE MEDICAL CENTER
FOR THE SIX MONTHS ENDED
JUNE 30, 2020

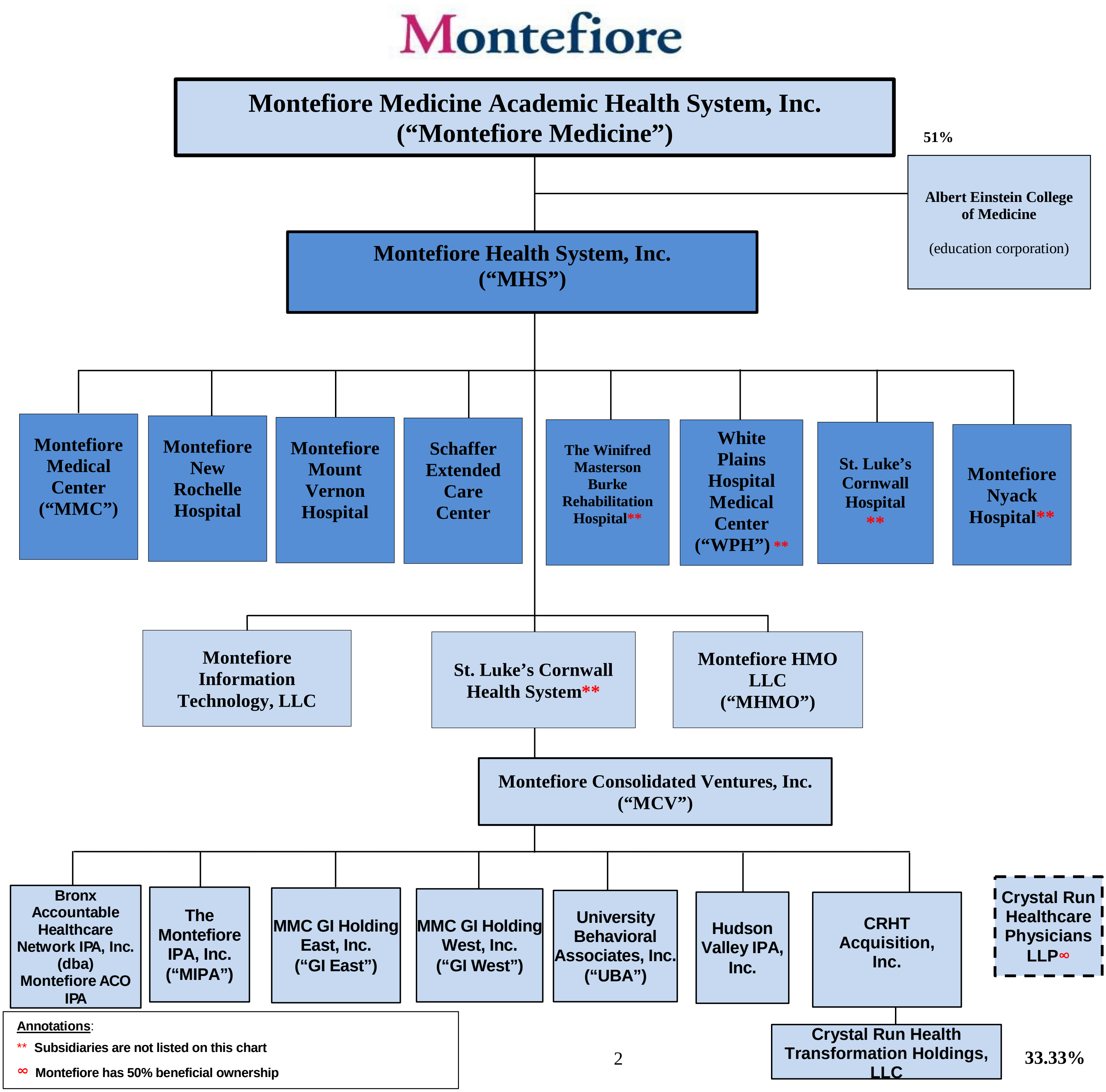
Table of Contents

Introduction

Montefiore Medicine Academic Health System, Inc.

Montefiore Medicine Academic Health System (Montefiore Medicine) is a New York not-for-profit corporation and a 501(c)(3) organization. It is the sole corporate member of Montefiore Health System and the Albert Einstein College of Medicine (the College).

The organizational chart below shows Montefiore medicine and certain of its controlled affiliates:



Montefiore Health System, Inc.

MHS is a New York not-for-profit corporation and a 501(c)(3) organization. It serves as the sole corporate member of Montefiore Medical Center and the other health care delivery entities within Montefiore Medicine. MHS has received establishment approval from the Public Health Council to participate in the governance and operations of the Medical Center and each of MHS's other hospital subsidiaries.

Montefiore Medical Center

Montefiore Medical Center (the Medical Center or MMC) is the flagship of the Montefiore Health System. For the six months ended June 30, 2020, MHS and its consolidated subsidiaries, which includes all of the affiliated hospital corporations, recorded total operating revenue of approximately $3.2 billion. As of June 30, 2020, MHS had total assets of $7.5 billion. Of these amounts, MMC represented 67.2% of the total operating revenue and 72.8% of total assets.

The Medical Center is currently the only member of the Obligated Group established pursuant to the Master Trust Indenture. The Medical Center operates three inpatient acute care facilities located on three campuses in Bronx County, New York, as well as numerous ambulatory care and outpatient facilities.

Neither Montefiore Medicine, MHS, AECOM nor any entity in the System other than MMC has any legal or contractual obligation with respect to the payment of the 2018 Obligations or 2020 Obligations or the Series 2018 Bonds or Series 2020 Bonds.

Utilization – Montefiore Medical Center

A summary of MMC's utilization data for the six months ended June 30, 2019 and 2020 is presented in the following table:

Montefiore Medical Center
Utilization Statistics

	Six Months Ended June 30,	
Utilization	**2019**	**2020**
Licensed beds	1,558	1,558
Discharges[1]	43,749	35,982
Patient days[1]	257,091	233,251
Average length of stay (days)[1]	5.9	6.5
Case mix index[2]	1.58	1.73
Average % occupancy[1]	91.2%	82.3%
Emergency room visits[3]	126,284	89,503
Ambulatory procedures	24,718	13,031
Montefiore Medical Group Primary Care visits	403,887	324,578
Home Care Visits	80,273	50,020
Faculty Practice Group Worked RVUs[4]	2,924,416	2,264,077

(1) Excludes normal newborns
(2) Case mix valued at the federal MS DRG grouper.
(3) Excludes patients seen in emergency department and admitted to the Medical Center.
(4) Relative value units (RVUs) are a measure of value used in Medicare reimbursement formula for physician services.

Management's Discussion and Analysis of Utilization

Utilization statistics year to date reflect an overall decrease in utilization in 2020 due to the outbreak of COVID-19. The Medical Center experienced a disruption in services provided starting in March 2020 as elective procedures were required to be halted in accordance with the Governor's' mandate mid-March in order to prepare for an expected influx of COVID-19 patients. On June 9, 2020, the Medical Center reopened all service lines. Patient revenue in June was 70% of pre-pandemic levels.

Sources of Net Patient Service Revenue

Montefiore Medical Center
Sources of Net Patient Service Revenue

Percent of Net Patient Service Revenue by Payor Source	Six Months Ended June 30,	
	2019	2020
Medicaid and Medicaid Managed Care	32.0%	31.1%
Medicare and Medicare Managed Care	32.0%	32.3%
Commercial and Managed Care	34.8%	35.8%
Other	1.2%	0.8%
Total	100.0%	100.0%

The Medicaid decrease was offset by an increase in Commercial and Managed Care. The shift was in part due to the decrease in Medicaid rates resulting from a Statewide Medicaid rate-rebasing process, and an increase in commercial payor payment rates.

Management's Discussion and Analysis of Financial Performance

For the six months ended June 30, 2020 compared to the six months ended June 30, 2019

For the six months ended June 30, 2020, the Medical Center had a deficiency of operating revenues over operating expenses of $32.6 million as compared to an excess of operating revenues over operating expenses of $3.6 million in the prior year, a decrease of $36.2 million.

Total operating revenue increased by $113.4 million, or 5.5% as compared to the prior year from $2,047.8 million to $2,161.2 million.

Net patient service revenue decreased by $283.6 million, or 15.4%, from $1,842.8 million to $1,559.2 million. The reason for the decline in net patient service revenue is described in the utilization statistic section above. The decline in net patient service revenue was offset by other operating revenue, which increased $397.0 million over the prior year. Through June 30, the Medical Center received $411.0 million of CARES Act stimulus funding, and recognized $390.1 million in grants and contracts.

Total operating expenses have increased by $149.7 million or 7.3% as compared to the prior year from $2,044.1 million to $2,193.8 million. Salaries and wages have increased $78.8 million or 8.1%. The increase was driven largely by COVID-related expenses such as bonus payments to frontline workers and other costs to maintain the workforce throughout the pandemic. FTEs increased by 1.0%. Employee benefits increased $5.1 million or 1.7%, due mainly to the increase in FTEs. Benefits as a % of salaries decreased from 30.5% to 28.7%.

Supplies and other expenses increased $52.3 million or 7.9%. There was an increase in medical related supply expenses as MMC confronted the COVID-19 pandemic. Preparation work began to expand patient capacity, a significant portion of the work force was displaced, and supplies such as personal protective equipment, increased significantly in price.

Interest expense has increased by $9.7 million relating to the new debt incurred as a part of the 2020 offering.

The deficiency of revenues over expenses was $67.1 million in 2020 compared to an excess of revenues over expenses of $35.3 million in 2019, a decrease of $102.4 million. Net realized and unrealized losses on investments were $23.9 million in 2020 compared to net realized and unrealized gains on investments of $34.4 million in 2019, a decline of $58.3 million.

Transfers to members of the health system, primarily relating to funding provided to the Albert Einstein College of Medicine (Einstein) to meeting is operational needs and to other affiliates, increased by $23.6 million.

COVID-19

Due to the global viral outbreak caused by COVID-19 in 2020, there have been resulting effects which have, and will continue to negatively impact the Medical Center's financial condition. The ultimate impact of these matters to the Medical Center and its financial condition is presently unknown.

The timing, source and rate of reimbursement for COVID-19 related patient care; ability to respond to patient demand; extent and timing of Federal and state grants, reimbursements and other contributions to compensate for lost revenues and increased expenses are not yet fully known. Also unknown are the length of the delay and level of attrition in elective procedures, expense increases, impact of changes in payer mix, potential rise in uninsured patients, need for charity care, and effect of the economic downturn on the demand for elective procedures and billing cycle.

Management continues to closely monitor the operational and financial impact of COVID-19 in many respects and is pursuing opportunities for Federal and any other funding that is or will become available, including from the Federal Coronavirus Aid, Relief and Economic Security Act (CARES Act), the Federal Emergency Management Agency or other sources.

Montefiore Medical Center
Utilization Statistics
Net Patient Service Revenue By Payor Source

	Six Months Ended June 30,	
Utilization	**2019**	**2020**
Licensed beds	1,558	1,558
Discharges[(1)]	43,749	35,982
Patient days[(1)]	257,091	233,251
Average length of stay (days)[(1)]	5.9	6.5
Case mix index[(2)]	1.58	1.73
Average % occupancy[(1)]	91.2%	82.3%
Emergency room visits[(3)]	126,284	89,503
Ambulatory procedures	24,718	13,031
Montefiore Medical Group Primary Care visits	403,887	324,578
Home Care Visits	80,273	50,020
Faculty Practice Group Worked RVUs[(4)]	2,924,416	2,264,077

(1) Excludes normal newborns
(2) Case mix valued at the federal MS DRG grouper.
(3) Excludes patients seen in emergency department and admitted to the Medical Center.
(4) Relative value units (RVUs) are a measure of value used in Medicare reimbursement formula for physician services.

	Six Months Ended June 30,	
Percent of Net Patient Service Revenue by Payor Source	**2019**	**2020**
Medicaid and Medicaid Managed Care	32.0%	31.1%
Medicare and Medicare Managed Care	32.0%	32.3%
Commercial and Managed Care	34.8%	35.8%
Other	1.2%	0.8%
Total	100.0%	100.0%