

Consolidated Financial Statements (Unaudited)

Montefiore Health System, Inc.

For the Nine Months Ended September 30, 2022 and 2021

**Montefiore Health System, Inc.**  
**Consolidated Financial Statements (Unaudited)**  
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**Montefiore Health System, Inc.**  
**Consolidated Statements of Financial Position**

	<b>Unaudited September 30, 2022</b>	<b>Audited December 31, 2021</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 277,358	\$ 197,396
Marketable and other securities	1,490,808	2,088,875
Assets limited as to use, current portion	35,896	42,227
Receivables for patient care, net	470,833	478,639
Other receivables	140,945	75,838
Estimated insurance claims receivable, current portion	93,902	93,902
Other current assets	124,055	116,500
Total current assets	2,633,797	3,093,377
Assets limited as to use, net of current portion	255,621	268,963
Property, buildings and equipment, net	2,453,384	2,476,372
Right-of-use assets – operating leases	478,349	452,702
Estimated insurance claims receivable, net of current portion	374,203	374,203
Other noncurrent assets	376,177	335,845
Due from members	100	100
Total assets	<u>\$ 6,571,631</u>	<u>\$ 7,001,562</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 609,269	\$ 599,121
Accrued salaries, wages and related items	575,419	498,086
Self-insured professional and other insured liabilities, current portion	137,913	124,349
Estimated insurance claims liabilities, current portion	95,887	95,887
Estimated third-party payer liabilities, current portion	204,303	440,710
Long-term debt, current portion	100,628	97,278
Finance lease liabilities, current portion	17,907	17,216
Operating lease liabilities, current portion	54,870	51,091
Due to members	6,497	13,515
Total current liabilities	1,802,693	1,937,253
Long-term debt, net of current portion	1,992,938	2,004,943
Finance lease liabilities, net of current portion	329,564	340,305
Operating lease liabilities, net of current portion	438,718	415,943
Noncurrent defined benefit pension and other postretirement health plan liabilities	287,443	291,099
Self-insured professional and other insured liabilities, net of current portion	208,578	197,834
Employee deferred compensation	96,921	107,342
Estimated insurance claims liabilities, net of current portion	381,446	381,446
Estimated third-party payer liabilities, net of current portion	268,271	268,329
Other noncurrent liabilities	67,470	50,747
Total liabilities	5,874,042	5,995,241
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions:		
Montefiore Health System, Inc.	537,014	845,562
Noncontrolling interest	2,975	3,035
Total net assets without donor restrictions	539,989	848,597
Net assets with donor restrictions	157,600	157,724
Total net assets	697,589	1,006,321
Total liabilities and net assets	<u>\$ 6,571,631</u>	<u>\$ 7,001,562</u>

*See accompanying notes.*

Montefiore Health System, Inc.

Consolidated Statements of Operations

	Unaudited Nine Months Ended September 30,	
	2022	2021
	<i>(In Thousands)</i>	
<b>Operating revenue</b>		
Net patient service revenue	\$ 4,807,550	\$ 4,364,992
Grants and contracts	198,503	226,615
Other revenue	169,550	206,038
Total operating revenue	<u>5,175,603</u>	<u>4,797,645</u>
<b>Operating expenses</b>		
Salaries and wages	2,387,356	2,277,276
Employee benefits	733,649	696,530
Supplies and other expenses	1,918,419	1,796,680
Depreciation and amortization	194,017	187,017
Interest	78,292	77,155
Total operating expenses	<u>5,311,733</u>	<u>5,034,658</u>
Deficiency of operating revenue over operating expenses before Value Based Payment and Vital Access Provider Programs	(136,130)	(237,013)
Value Based Payment and Vital Access Provider Programs	18,318	54,956
Deficiency of operating revenue over operating expenses before other items	<u>(117,812)</u>	<u>(182,057)</u>
Net realized and changes in net unrealized gains and losses on marketable and other securities	(131,858)	39,470
Net periodic pension and other postretirement benefit costs (non-service related)	(3,473)	(7,330)
Malpractice insurance program adjustments	(6,525)	144
Other nonoperating gains and losses, net	681	(39,428)
Deficiency of revenues over expenses before noncontrolling interest of joint venture	<u>(258,987)</u>	<u>(189,201)</u>
Income attributable to noncontrolling interest of joint venture	(331)	(189)
Deficiency of revenues over expenses	<u>(259,318)</u>	<u>(189,390)</u>
Net assets released from restrictions used for purchases of property, buildings and equipment	3,878	6,257
Grants for the purchase of property, buildings and equipment	21,250	11,472
Transfers to members, net	(74,358)	(76,001)
Decrease in net assets without donor restrictions	<u>\$ (308,548)</u>	<u>\$ (247,662)</u>

*See accompanying notes.*

Montefiore Health System, Inc.

Consolidated Statements of Changes in Net Assets

Unaudited Nine Months Ended September 30, 2022 and 2021

	<b>Without Donor Restrictions</b>				
	<b>Montefiore Health System, Inc.</b>	<b>Noncontrolling Interest</b>	<b>Total</b>	<b>With Donor Restrictions</b>	<b>Total Net Assets</b>
	<i>(In Thousands)</i>				
Net assets at January 1, 2021	\$ 1,185,728	\$ 3,057	\$ 1,188,785	\$ 152,319	\$ 1,341,104
Decrease in net assets without donor restrictions	(247,662)	189	(247,473)	—	(247,473)
Distributions to noncontrolling partners	—	(246)	(246)	—	(246)
Restricted gifts, bequests, and similar items	—	—	—	13,815	13,815
Restricted investment income	—	—	—	(6,222)	(6,222)
Net assets released from restrictions	—	—	—	(2,603)	(2,603)
Total changes in net assets	(247,662)	(57)	(247,719)	4,990	(242,729)
Net assets at September 30, 2021	<u>\$ 938,066</u>	<u>\$ 3,000</u>	<u>\$ 941,066</u>	<u>\$ 157,309</u>	<u>\$ 1,098,375</u>
Net assets at January 1, 2022	\$ 845,562	3,035	848,597	157,724	1,006,321
Decrease in net assets without donor restrictions	(308,548)	331	(308,217)	—	(308,217)
Distributions to noncontrolling partners	—	(391)	(391)	—	(391)
Restricted gifts, bequests, and similar items	—	—	—	10,284	10,284
Restricted investment income	—	—	—	(3,190)	(3,190)
Net assets released from restrictions	—	—	—	(7,218)	(7,218)
Total changes in net assets	(308,548)	(60)	(308,608)	(124)	(308,732)
Net assets at September 30, 2022	<u>\$ 537,014</u>	<u>\$ 2,975</u>	<u>\$ 539,989</u>	<u>\$ 157,600</u>	<u>\$ 697,589</u>

See accompanying notes.

# Montefiore Health System, Inc.

## Consolidated Statements of Cash Flows

	Unaudited Nine Months Ended September 30,	
	2022	2021
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Decrease in net assets	\$ (308,732)	\$ (242,729)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	194,017	187,017
Transfers to members, net	75,000	76,001
Net realized gains and losses on marketable and other securities	(21,035)	(4,473)
Change in net unrealized gains and losses on marketable and other securities	152,893	(34,997)
Change in fair value of derivative instrument	(841)	(529)
Equity (earnings) losses from investments	(19,210)	(43,541)
Amortization of long-term mortgage premium	(3,046)	(2,913)
Amortization of deferred financing costs	1,139	1,120
Changes in operating assets and liabilities:		
Receivables for patient care	7,806	(131,083)
Other receivables	(65,107)	28,194
Accounts payable and accrued expenses	10,144	(73,548)
Accrued salaries, wages and related items	77,333	81,766
Estimated third-party payer liabilities	(236,466)	(81,345)
Net change in all other operating assets and liabilities	29,902	(30,434)
Net cash used in operating activities	(106,203)	(271,494)
<b>Investing activities</b>		
Acquisition of property, buildings and equipment, net	(167,274)	(282,928)
Funding of self-insurance trust	(36,888)	(31,261)
Decrease in marketable and other securities, net	170,790	197,355
Decrease in assets limited to use, net	19,676	93,650
Payments for joint venture investment	—	(10,000)
Net cash used in investing activities	(13,696)	(33,184)
<b>Financing activities</b>		
Payments of long-term debt and finance lease liabilities	(30,495)	(22,131)
Net proceeds from credit lines	9,938	7,410
Payments to members, net	(75,000)	(76,001)
Net cash used in financing activities	(95,557)	(90,722)
Net decrease in cash, cash equivalents and restricted cash	(215,456)	(395,400)
Cash, cash equivalents and restricted cash at beginning of year	685,472	1,248,263
Cash, cash equivalents and restricted cash at end of year	\$ 470,016	\$ 852,863
Reconciliation of cash and cash equivalents at end of year to the consolidated statements of financial position:		
Cash and cash equivalents	\$ 277,358	\$ 249,015
Marketable and other securities and assets limited as to use: cash and cash equivalents	192,658	603,848
Total cash, cash equivalents and restricted cash	\$ 470,016	\$ 852,863
<b>Supplemental cash flow and noncash information</b>		
Finance lease obligations incurred	\$ —	\$ 98,564

See accompanying notes.

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 1. Organization

Montefiore Health System, Inc. and its controlled organizations (collectively, the Health System) comprise an integrated health care delivery system. The facilities are located in the Bronx, Westchester, Rockland and Orange Counties in New York. The Health System is incorporated under New York State Not-for-Profit Corporation law and provides health care and related services. Various entities within the Health System are exempt from Federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3), while other entities are not exempt from such income taxes (the entities are collectively referred to herein as the members). The exempt organizations also are exempt from New York State and local income taxes. Montefiore Medicine Academic Health System, Inc. (MMAHS) is the sole member of the Health System.

The Health System, together with the members, provides patient care, teaching, research, community services and care management. The Health System 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. All intercompany accounts and activities have been eliminated in consolidation.

- Montefiore Health System, Inc. (MHS)
- Montefiore New Rochelle Hospital (MNR)
- Montefiore Mount Vernon Hospital (MMV)
- Schaffer Extended Care Center (SECC)
- Montefiore SS Holdings, LLC (SS Holdings)
- Montefiore MV Holdings, LLC (MV Holdings)
- Montefiore HA Holdings, LLC (HA Holdings)
- Montefiore HMO, LLC (MHMO)
- Montefiore Information Technology, LLC (MIT)
- Montefiore Westchester Community Corp. (MWCC)
- Montefiore Nyack Hospital (Nyack) and its controlled organizations:
  - Nyack Hospital Foundation, Inc. (Nyack Foundation)
  - MNH GarageCo, Inc.
  - Highland Medical P.C. (Highland Medical)
- White Plains Hospital Center (White Plains) and its controlled organizations:
  - White Plains Hospital Center Foundation, Inc. (White Plains Foundation)
  - 8 Longview Development Corporation (Longview)
  - 11 East Post Road, LLC
  - White Plains Medical Diagnostic Services P.C. (Medical Diagnostic Services)
  - Cancer and Blood Medical Services of New York, P.C. (Cancer and Blood)
  - WPH Holdings, Inc.
  - White Plains Medical Services P.C.
  - New York Endoscopy Center, LLC
- East Post Road Ventures I, LLC
- White Plains Physician Services P.C.
- East Post Road Medical Services P.C.
- White Plains Physician Medical Services P.C.
- East Post Road Physician Services P.C.
- Davis Avenue Medical Services P.C.
- The Winifred Masterson Burke Rehabilitation Hospital (Burke)
- St. Luke's Cornwall Hospital (St. Luke's) and its controlled organizations:
  - St. Luke's Cornwall Health System, Inc.
  - St. Luke's Cornwall Health System Foundation, Inc. (St. Luke's Foundation)
  - SLCH Insurance Co., Ltd.
  - Amos and Sarah Holden Home
  - Hudson Vista Physician Services, P.C.
  - Hudson Vista Medical, P.C.
  - Goldsmith & Mary B. Johnes Home for Aged Couples
  - St. Luke's Cornwall JV, LLC
- Montefiore Consolidated Ventures, Inc. (MCV)
  - Hudson Valley IPA, Inc. (HIPA)
  - The Montefiore IPA, Inc. (MIPA)
  - Bronx Accountable Healthcare Network IPA, Inc. (ACO-IPA)
  - University Behavioral Associates, Inc. (UBA)
  - Montefiore Behavioral Care IPA No. 1, Inc. (MBCIPA)
  - MMC GI Holdings East, Inc. (GI East)
  - MMC GI Holdings West, Inc. (GI West)
  - CRHT Acquisition, Inc. (CRHT)
  - Innovator Acquisition Corp. (INOV)

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 1. Organization (continued)

- CMO The Care Management Company, LLC (CMO)
- Montefiore Medical Center and its controlled organizations (collectively, the Medical Center):
  - Montefiore Medical Center
  - MMC Corporation (MCORP)
  - MMC Residential Corp. I, Inc. (Housing I)
  - Montefiore Hospital Housing Section II, Inc. (Housing II)
- Mosholu Preservation Corporation (MPC)
- Montefiore Proton Acquisition, LLC (MPRO)
- Montefiore Hudson Valley Collaborative LLC (MHVC)
- Montefiore CERC Operations, Inc. (CERC)

On January 1, 2021, the Medical Center assigned and transferred all of its rights, title and interest in CMO to MCV. This transfer did not impact the Health System's consolidated financial statements.

#### *COVID-19 Pandemic and CARES Act Funding*

On March 11, 2020, the World Health Organization designated the Coronavirus Disease 2019 (COVID-19) outbreak as a global pandemic. Federal, state and local government policies resulted in a substantial portion of the population to remain at home and forced the closure of certain businesses, which had an impact on the Health System's patient volumes and revenues for most services. Through executive order, effective March 25, 2020, a New York State Mandate was issued to suspend all non-essential medical and surgical procedures and suspended elective procedures, which resumed at different dates across the Health System during the year ended December 31, 2020. During this time, the Health System also experienced significant price increases in, and utilization of, medical supplies, particularly personal protective equipment, as global supply lines were disrupted by the pandemic. The Health System's volume and operations were impacted to varying degrees throughout 2021, particularly as the pandemic entered waves two and three in early 2021 and in late 2021, respectively.

In response to COVID-19, the Coronavirus Aid, Relief and Economic Security Act (the CARES Act) was signed into law on March 27, 2020. The CARES Act authorized funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (Relief Fund). Payments from the Relief Fund are to be used to prevent, prepare for, and respond to coronavirus, and shall reimburse the recipient for health care related expenses and/or lost revenues attributable to coronavirus and are not required to be repaid except where Relief Funds received exceed the actual amounts of eligible health care related expenses and/or lost revenues as defined by the U.S. Department of Health and Human Services (HHS), provided the recipients attest to and comply with the terms and conditions. HHS has issued several Post-Payment Notices of Reporting Requirements and published responses to frequently asked questions (FAQs) regarding the Relief Fund distributions.

On December 27, 2020, the Consolidated Appropriations Act, 2021 (CAA) was signed into law. CAA appropriated additional funding for COVID-19 response and relief through the Relief Fund to reimburse health care entities for health care-related expenses or lost revenues attributable to COVID-19. CAA also provided several changes to the administration of the Relief Fund. For any payment, including both general and targeted distributions, received by an eligible health care provider that is a subsidiary of a parent organization, the parent organization may allocate all or any portion of the distribution amongst any other eligible subsidiaries. The CAA also clarified the methods available to calculate lost revenues.



# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 1. Organization (continued)

HHS distributions from the Relief Fund include general distributions and targeted distributions, to support hospitals in high impact areas and rural providers, for service periods through December 31, 2022. Additionally, funds are available to reimburse providers for COVID-19 related treatment of uninsured patients. For the nine months ended September 30, 2022 and 2021, the Health System recognized revenue of approximately \$1.0 million and \$80.5 million, respectively, of the funding received. Approximately \$1.0 million and \$73.3 million is included in grants and contracts in the accompanying consolidated statements of operations for the nine months ended September 30, 2022 and 2021, respectively. Approximately \$7.2 million for capital acquisitions related to COVID-19 is included in grants for the purchase of property, buildings and equipment in the consolidated statements of operations for the nine months ended September 30, 2021.

The recognized revenue has been determined based on applicable accounting guidance, the most recent Post-Payment Notice of Reporting Requirements and FAQs that the Health System has interpreted as being applicable to the accompanying consolidated financial statements. Management continues to monitor compliance with the terms and conditions of the Provider Relief Fund. If unable to attest to or comply with the current or future terms and conditions, the Health System's ability to retain some or all of the distributions received may be impacted. Management will continue to monitor communications from HHS applicable to the Relief Fund distributions.

To enhance liquidity, the Health System is a participant in the Centers for Medicare and Medicaid Services' (CMS) Accelerated and Advance Payment Program, designed to increase cash flow to Medicare providers and suppliers impacted by COVID-19. This program allows eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. During April 2020, the Health System received approximately \$456.9 million of expedited payment for future services. The advances are subject to recoupment through the provision of Medicare services beginning 12 months after receipt of funding under the following methodology: 25% of services provided within the first 11 months, 50% during the succeeding 6 months with any remaining balance to be paid within 29 months from the date of the initial payment. Recoupments of the advanced payments began in April 2021, in accordance with the terms and conditions of the program, and the advances were fully repaid as of September 30, 2022. Approximately \$267.4 million is included as a contract liability in estimated third-party payer liabilities, current portion in the consolidated statement of financial position at December 31, 2021.

Under the CARES Act, the Health System elected to defer payment of approximately \$103.8 million of the employer portion of social security taxes in 2020. The CARES Act required that 50% of the total deferred amount be paid by December 31, 2021, with the remaining balance due by December 31, 2022. Approximately \$51.9 million was repaid in 2021. The remaining balance of approximately \$51.9 million is due by December 31, 2022. The amount expected to be paid in 2022 is recorded within accrued salaries, wages and related items in the consolidated statements of financial position.

The Health System also applied for reimbursement for qualifying expenses under the Federal Emergency Management Agency (FEMA) Disaster Relief Fund. In 2020 and 2021, the Health System submitted project worksheets totaling over \$141.3 million under FEMA's expedited claim submission process and streamlined submission process. For the nine months ended September 30, 2022 and 2021, the Health System recognized

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 1. Organization (continued)

approximately \$65.0 million and \$36.3 million, respectively, of FEMA reimbursements. Approximately \$45.8 million and \$36.3 million is included in grants and contracts in the consolidated statements of operations for the nine months ended September 30, 2022 and 2021, respectively. Approximately \$19.2 million of FEMA reimbursements for capital acquisitions is included in grants for the purchase of property, buildings and equipment in the consolidated statement of operations for the nine months ended September 30, 2022. The Health System will continue to finalize the project worksheets previously submitted to FEMA and intends to submit additional applications for funding the costs related to COVID-19; however, the ultimate amount that the Health System may be reimbursed is uncertain.

The Health System is also eligible to receive an Employee Retention Credit under the CARES Act, which is a credit against the employer portion of Social Security taxes for certain wages between March 13, 2020 and December 31, 2020. The CAA extended the employee retention credit through September 30, 2021, while also modifying the provisions of the credit. In February 2022, the Health System finalized its application for the employee retention credit for approximately \$57.8 million, which is included in grants and contracts in the accompanying consolidated statement of operations.

Due to the evolving nature of the COVID-19 pandemic, the ultimate impact to the Health System and its financial condition is presently unknown.

#### *Operating and Liquidity Considerations*

Pursuant to its debt agreements, the Medical Center is required to comply with certain financial covenants. At December 31, 2021, the Medical Center was in compliance with the applicable financial covenants of its debt agreements, except for the requirement in the Medical Center's Master Trust Indenture (MTI) which requires it to maintain a Debt Service Coverage Ratio (DSCR) of not less than 1.10:1.00. The MTI provides that if the DSCR is not met, the Medical Center is required to retain an independent consultant to make recommendations to increase the DSCR in the following fiscal year to the level required or, if in the opinion of the independent consultant the attainment of such level is impracticable, to the highest level attainable. The MTI requires that the Medical Center provide a copy of the independent consultant's recommendations to the Master Trustee within 20 days of the receipt of such recommendations. If the Medical Center complies with the independent consultant provisions of the MTI, the failure to maintain the DSCR at the required level is not an event of default under the MTI, unless the DSCR for any two consecutive fiscal years is less than 1.00:1.00. The Medical Center retained an independent consultant and has provided a copy of the independent consultant's report to the Master Trustee. As the Medical Center has complied with the consultant provisions of the MTI, the long-term debt has been classified based on scheduled maturities in the accompanying consolidated statements of financial position at September 30, 2022 and December 31, 2021. If the Medical Center does not maintain a DSCR of at least 1.00:1.00 for the year ended December 31, 2022, all debt outstanding under the MTI at that time could be declared due and payable. This could trigger cross default provisions in other agreements.

The Medical Center expects to meet the DSCR requirement for the year ended December 31, 2022 through both revenue generating and operating cost containment initiatives; along with Medicaid rate enhancements received by the New York State Department of Health (NYSDOH). The Medical Center continues to have ongoing discussions with the NYSDOH and other governmental agencies related to the availability of additional rate enhancements and other grant funding. In addition, and as noted above, the Medical Center

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 1. Organization (continued)

is applying for reimbursement for qualifying expenses related to COVID-19 under the FEMA Disaster Relief Fund and finalized its Employee Retention Credit application in 2022.

#### *Performance Indicator*

The consolidated statements of operations include deficiency of revenues over expenses as the performance indicator. Items excluded from deficiency of revenues over expenses are net assets released from restrictions used for purchases of property, buildings and equipment, grants for the purchase of property, buildings and equipment and transfers to members, net.

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

#### *Interim Financial Statements*

The Health System presumes that users of this unaudited consolidated financial information have read or have access to the Health System's audited consolidated financial statements which include certain disclosures required by U.S. generally accepted accounting principles. The audited consolidated financial statements of the Health System for the years ended December 31, 2021 and 2020 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 Health System'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.

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. Net changes in estimates were not significant in 2022 or 2021.

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 1. Organization (continued)

#### *Recently Adopted Accounting Pronouncements*

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. The adoption of ASU 2017-04 did not have a material impact on the consolidated financial statements.

#### *Recent Accounting Pronouncements Not Yet Adopted*

In September 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 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 15, 2022. The Health System has not completed the process of evaluating the impact of ASU 2016-13 on its consolidated financial statements.

#### *Reclassifications*

For purposes of comparison, certain reclassifications have been made to the accompanying 2021 consolidated financial statements to conform to the 2022 presentation. These reclassifications have no effect on the deficiency of revenues over expenses or net assets for the nine months ended September 30, 2021.

#### *Subsequent Events*

The Health System evaluated subsequent events through November 28, 2022, which is the date the unaudited consolidated financial statements were issued, for potential recognition or disclosure in the accompanying consolidated financial statements for the nine months ended September 30, 2022. No events occurred that require disclosure in or adjustment to 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 Health System expects to be entitled in exchange for providing patient care.

The Health System 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 Health System believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 2. Net Patient Service Revenue (continued)

The Health System'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 Health System's standard charges. The Health System 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 Health System's discount policies and historical experience. For uninsured and under-insured patients who do not qualify for charity care, the Health System 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 Health System's historical collection experience for applicable patient portfolios.

Under the Health System'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 Health System's criteria for free care are provided care without charge; such amounts are not reported as revenue.

Generally, the Health System 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 Health System. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. The Health System 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 Health System's outpatient and ambulatory care centers or in their homes (home care). The Health System 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 Health System 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 Health System's in-house patients occurs within days or weeks after the end of the reporting period.

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 2. 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 nine months ended September 30, 2022 and 2021, changes in the Health System'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 nine months ended September 30, 2022 and 2021 was not significant.

The Health System 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.

Net patient service revenue by payer is as follows:

	<b>Nine Months Ended September 30</b>	
	<b>2022</b>	<b>2021</b>
	<i>(In Thousands)</i>	
Medicare and Medicare managed care	\$ 1,544,269	\$ 1,351,442
Medicaid and Medicaid managed care	1,314,063	1,054,977
Commercial carriers and managed care	1,877,992	1,902,546
Self-pay and other	71,226	56,027
	<u>\$ 4,807,550</u>	<u>\$ 4,364,992</u>

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:

	<b>Nine Months Ended September 30</b>	
	<b>2022</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Inpatient services	\$ 2,398,028	\$ 2,283,730
Physician and other outpatient services	1,749,834	1,523,511
Premium revenue	440,241	373,267
Emergency department	173,330	145,791
All other	46,117	38,693
	<u>\$ 4,807,550</u>	<u>\$ 4,364,992</u>

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 2. Net Patient Service Revenue (continued)

The Health System 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 Health System's expectation that the period of time between the service being provided and billing will be one year or less. However, the Health System 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.

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

	September 30, 2022	December 31, 2021
	<i>(In Thousands)</i>	
Patient receivables	\$ 377,445	\$ 421,062
Contract assets	93,388	57,577
	<u>\$ 470,833</u>	<u>\$ 478,639</u>

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 Health System 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 Health System'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 nine months ended September 30, 2022 and 2021.

Under certain managed care contracts, the Health System receives from the insurer a monthly premium per enrollee during the term of enrollment. The premium revenue, which is based on individual contracts, is recognized in the period earned and is included within net patient service revenue in the accompanying consolidated statements of operations. Under such arrangements, the Health System manages and, directly and through arrangements with other health care providers, delivers health care services to enrollees in accordance with the terms of the subscriber agreements.

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 2. Net Patient Service Revenue (continued)

#### *Third-Party Payment Programs*

The Health System 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 NYSDOH. 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 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 Health System 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 Health System also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Health System 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 various dates from December 31, 2017 to December 31, 2019, 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



# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 2. Net Patient Service Revenue (continued)

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

### 3. Benefit Plans

Certain entities in the Health System provide pension and similar benefits to their employees through several plans, including various multiemployer plans for union employees, two noncontributory defined benefit pension plans for eligible employees of the Medical Center, a noncontributory defined benefit pension plan for eligible employees of Nyack, a noncontributory defined benefit retirement plan covering employees of White Plains (frozen in 2006), a noncontributory defined benefit retirement plan for St. Luke's employees (frozen in 2010), and a noncontributory defined benefit pension plan for employees of Burke (frozen effective December 31, 2017) (the non-multiemployer plans are collectively referred to as the Pension Plans). The entities also provide several other contributory defined contribution plans.

It is the policy for the entities 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. Amounts contributed to the Pension Plans are based on actuarial valuations. The benefits for participants or their beneficiaries in the Pension Plans are based on years of service and employees' compensation during their years of employment as applicable to each plan.

Certain entities in the Health System provide certain health care and life insurance benefits to certain eligible retired non-union employees and their dependents through several defined benefit postretirement or health and welfare plans (the Postretirement Plans).

Total expense related to these plans included in employee benefits expense in the accompanying consolidated statements of operations, aggregated approximately \$152.1 million and \$157.0 million for the nine months ended September 30, 2022 and 2021, respectively. Cash payments relative to the various pension plans aggregated approximately \$154.1 million and \$166.6 million for the nine months ended September 30, 2022 and 2021.

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 3. Benefit Plans (continued)

The following table provides the components of the net periodic benefit cost for the nine months ended September 30, 2022 and 2021:

	Pension Plans		Postretirement Plans	
	2022	2021	2022	2021
	<i>(In Thousands)</i>			
Service cost	\$ 3,633	\$ 3,636	\$ 9,849	\$ 10,953
Interest cost	9,004	9,807	5,162	4,915
Expected return on plan assets	(11,322)	(10,738)	—	—
Amortization of prior service cost (benefit)	—	—	—	—
Amortization of net loss	569	655	—	2,153
Settlement cost	60	538	—	—
Net periodic benefit cost	<u>\$ 1,944</u>	<u>\$ 3,898</u>	<u>\$ 15,011</u>	<u>\$ 18,021</u>

### 4. Long-Term Debt

St. Luke's various debt and loan agreements include compliance requirements for certain financial ratio and other covenants. In October 2017, St. Luke's entered into an initial Forbearance Agreement (IFA) with its lenders that expired on May 30, 2020. During the term of the IFA, St. Luke's met all of the required financial ratio covenants. From May 30, 2020 until October 14, 2021, St. Luke's and its lenders negotiated the terms of a second Forbearance Agreement (SFA). During that period of time, St. Luke's was in violation of its financial ratio covenants under the original financing terms, however the lenders did not exercise any of their call provisions during this period. On October 14, 2021, the SFA went into effect. Under the terms of the SFA, the lenders have agreed to take no remedial action against St. Luke's as long as there are no violations to the terms of the SFA. The SFA has an initial expiration date of December 31, 2022, however, this date can be extended to December 31, 2023 at the option of St. Luke's as long as St. Luke's is in compliance with the terms of the SFA and makes either an additional principal payment of \$4.0 million or agrees to pay interest on the outstanding debt at a higher rate no later than December 1, 2022. In the event that the Hospital is unable to extend the SFA to December 31, 2023, all outstanding debt of approximately \$24.6 million can be declared due and payable. St. Luke's debt is not guaranteed by the Obligated Group.

### 5. Leases

The Health System determines if an arrangement is a lease at inception. The Health System 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 Health System 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.

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 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 Health System will exercise that option. The Health System does not separate lease and nonlease components of contracts.

The following table presents the Health System's lease-related assets and liabilities at September 30, 2022 and December 31, 2021 (in thousands):

	Statement of Financial Position Classification	September 30 2022	December 31 2021
Assets:			
Operating leases	Right-of-use assets – operating leases	\$ 478,349	\$ 452,702
Finance leases	Property, buildings and equipment, net	323,256	338,015
Total lease assets		<u>\$ 801,605</u>	<u>\$ 790,717</u>
Liabilities:			
Current:			
Operating leases	Operating lease liabilities, current portion	\$ 54,870	\$ 51,091
Finance leases	Finance lease liabilities, current portion	17,907	17,216
Noncurrent:			
Operating leases	Operating lease liabilities, net of current portion	438,718	415,943
Finance leases	Finance lease liabilities, net of current portion	329,564	340,305
Total lease liabilities		<u>\$ 841,059</u>	<u>\$ 824,555</u>

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

	September 30 2022	December 31 2021
Weighted-average remaining lease term (years)		
Operating leases	9.5	10.3
Finance leases <sup>(1)</sup>	47.3	46.9
Weighted-average discount rate		
Operating leases	2.6%	2.6%
Finance leases	2.9%	2.9%

<sup>(1)</sup> Includes a lease agreement that extends through 2114. Excluding this lease agreement, the weighted-average remaining lease term of all other leases is 12.8 years at September 30, 2022 and 13.4 years at December 31, 2021.

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 5. Leases (continued)

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

	<b>Nine Months Ended September 30</b>	
	<b>2022</b>	<b>2021</b>
	<i>(In Thousands)</i>	
Finance lease expense:		
Amortization of right-of-use assets	\$ 14,759	\$ 8,994
Interest on finance lease liabilities	7,682	7,069
Operating lease cost	58,850	50,495
Variable and short-term lease expense	3,246	2,719
Total lease expense	<u>\$ 84,537</u>	<u>\$ 69,277</u>

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

	<b>Nine Months Ended September 30</b>	
	<b>2022</b>	<b>2021</b>
	<i>(In Thousands)</i>	
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for operating leases	\$ 51,697	\$ 51,901
Operating cash flows for finance leases	7,682	7,069
Financing cash flows for finance leases	13,805	10,788

Future minimum lease payments under non-cancellable leases as of September 30, 2022 are as follows (in thousands):

	<b>Operating Leases</b>	<b>Finance Leases</b>
2022 (excluding the nine months ended September 30, 2022)	\$ 26,899	\$ 5,906
2023	65,565	23,012
2024	63,890	23,233
2025	59,227	22,963
2026	56,824	22,241
2027 and thereafter	299,608	876,138
Total lease payments	572,013	973,493
Less imputed interest	(78,425)	(626,022)
Present value of lease payments	<u>\$ 493,588</u>	<u>\$ 347,471</u>

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 6. Commitments and Contingencies

*Litigation:* Claims have been asserted against the Health System 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 September 30, 2022 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. Health System management and counsel are unable to conclude about the ultimate outcome of the actions. However, it is the opinion of Health System 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 Health System's consolidated financial position.

*Self-Insured Professional and Other Insured Liabilities:* The Medical Center utilizes Healthcare Risk Advisors (HRA), 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.

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 (Einstein):* In 2015, Einstein, a controlled member of MMAHS, 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 5.50% coupon rate and mature on September 1, 2045. Interest is payable semiannually and principal is payable annually commencing on September 1, 2020.

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%. The Guaranty Agreement was amended to cover payments

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 6. Commitments and Contingencies (continued)

made by Einstein under the Replacement Notes. No amounts were paid by the Medical Center on Einstein's behalf pursuant to the Guaranty Agreement during the nine months ended September 30, 2022 or 2021

The Medical Center had 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 five-year period ended during 2019 and is extended on a month-to-month basis at the discretion of the Medical Center. In addition, 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 nine months ended September 30, 2022 and 2021, the Medical Center provided approximately \$75.0 million and \$76.0 million, respectively, to Einstein which was recorded within transfers to members, net in the consolidated statements of operations.

*Other:* At September 30, 2022 and December 31, 2021, approximately 55% of the Health System's employees were covered by collective bargaining agreements. The Medical Center, MNR, MMV and SECC entered into collective bargaining agreements with NYSNA which expire in December 2022. Nyack's contract with NYSNA expires in December 2023. The Medical Center, MNR, MMV, SECC and St. Luke's collective bargaining agreements with 1199SEIU expire in September 2024. White Plains' contract with 1199SEIU expires in September 2025. Nyack's contract with 1199SEIU expires April 2025.

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

### 7. Fair Value Measurements

For assets and liabilities required to be measured at fair value, the Health System 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 Health System'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 Health System 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.

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 7. Fair Value Measurements (continued)

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 Health System 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.

Financial assets carried at fair value, including assets invested in the Health System's defined benefit pension plans, are classified in the table below in one of the three categories described above as of September 30, 2022:

	September 30, 2022			
	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
<b>Assets</b>				
Cash and cash equivalents	\$ 277,358	\$ —	\$ —	\$ 277,358
Managed cash and cash equivalents held for investment	192,658	—	—	192,658
Marketable and other securities:				
Non-equity mutual funds	194,220	—	—	194,220
Equity mutual funds	98,764	—	—	98,764
U.S. Government agency mortgage-backed securities	—	57,624	—	57,624
U.S. Treasury securities	85,045	—	—	85,045
U.S. Government agency-backed securities	—	89,999	—	89,999
Equity securities	51,005	—	—	51,005
Corporate debt	—	776,056	—	776,056
Investment contracts	—	2,082	—	2,082
Other investments	—	—	1,450	1,450
	899,050	925,761	1,450	1,826,261
<b>Defined benefit pension plan assets</b>				
Cash and cash equivalents	7,421	—	—	7,421
Managed separate account: fixed income	—	108,513	—	108,513
Equity mutual funds	78,774	—	—	78,774
Non-equity mutual funds	65,352	—	—	65,352
	151,547	108,513	—	260,060
	\$ 1,050,597	\$ 1,034,274	\$ 1,450	2,086,321
Investments measured at net asset value (defined benefit pension plan assets)				27,223
				<u>\$ 2,113,544</u>

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

### 7. Fair Value Measurements (continued)

Financial assets carried at fair value, including assets invested in the Health System's defined benefit pension plans, are classified in the table below in one of the three categories described above as of December 31, 2021:

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
<b>Assets</b>				
Cash and cash equivalents	\$ 197,396	\$ —	\$ —	\$ 197,396
Managed cash and cash equivalents held for investment	488,076	—	—	488,076
Marketable and other securities:				
Non-equity mutual funds	265,416	—	—	265,416
Equity mutual funds	135,448	—	—	135,448
U.S. Government agency mortgage-backed securities	—	41,193	—	41,193
U.S. Treasury securities	48,136	—	—	48,136
U.S. Government agency-backed securities	—	55,426	—	55,426
Equity securities	80,707	—	—	80,707
Corporate debt	—	1,017,830	—	1,017,830
Investment contracts	—	2,902	—	2,902
Interest and other receivables	—	—	1,000	1,000
	1,215,179	1,117,351	1,000	2,333,530
<b>Defined benefit pension plan assets</b>				
Cash and cash equivalents	5,608	—	—	5,608
Managed separate account: fixed income	—	138,630	—	138,630
Equity mutual funds	138,745	—	—	138,745
Non-equity mutual funds	78,914	—	—	78,914
	223,267	138,630	—	361,897
	<u>\$ 1,438,446</u>	<u>\$ 1,255,981</u>	<u>\$ 1,000</u>	<u>2,695,427</u>
Investments measured at net asset value (defined benefit pension plan assets)				<u>32,477</u>
				<u>\$ 2,727,904</u>

At September 30, 2022 and December 31, 2021, the Health System'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 \$233.4 million and \$263.9 million, respectively, and, therefore, are not included in the tables above.



## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (Unaudited)

September 30, 2022

#### **7. Fair Value Measurements (continued)**

The following is a description of the Health System's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers and brokers. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Health System 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.