

Moody's: "Baa2"

S&P: "BBB"

NEW ISSUE – BOOK ENTRY ONLY

Moody's: "A2" (AGM Insured Bonds)

S&P: "AA" (AGM Insured Bonds)

(See "RATINGS" herein)



DAC Bond

Montefiore

**\$685,150,000**

**DORMITORY AUTHORITY OF THE STATE OF NEW YORK  
MONTEFIORE OBLIGATED GROUP REVENUE BONDS**

**\$309,045,000**

**Series 2018A (Tax-Exempt)**

**\$376,105,000**

**Series 2018B (Federally Taxable)**

**Dated: Date of Delivery**

**Due: August 1, as shown below**

**Payment and Security:** The Montefiore Obligated Group Revenue Bonds, Series 2018A (Tax-Exempt) (the "Series 2018A Bonds") and the Montefiore Obligated Group Revenue Bonds, Series 2018B (Federally Taxable) (the "Series 2018B Bonds" and, together with the Series 2018A Bonds, the "2018 DASNY Bonds" or "Bonds"), are special limited obligations of the Dormitory Authority of the State of New York ("DASNY" or the "Authority") payable from and secured by a pledge of (i) the payments to be made under the Loan Agreement (the "Loan Agreement") dated as of June 20, 2018, between DASNY and Montefiore Medical Center ("MMC" or the "Institution"), (ii) the hereinafter defined DASNY Obligations, and (iii) the funds and accounts (except the Arbitrage Rebate Fund) created under DASNY's Montefiore Obligated Group Revenue Bond Resolution, adopted by the Authority on June 20, 2018 (the "Resolution"), and under a Series Resolution authorizing the issuance of the Series 2018A Bonds adopted on June 20, 2018 (the "Series 2018A Resolution") and a Series Resolution authorizing the issuance of the Series 2018B Bonds adopted on June 20, 2018 (the "Series 2018B Resolution" and, together with the Series 2018A Resolution, the "Series 2018 Resolutions").

Payment of the principal of and interest on the 2018 DASNY Bonds, when due, is secured by payments to be made pursuant to Obligation No. 1 (the "Obligation No. 1") with respect to the Series 2018A Bonds and Obligation No. 2 (the "Obligation No. 2" and, together with Obligation No. 1, the "DASNY Obligations") with respect to the Series 2018B Bonds, each issued by MMC pursuant to a Master Trust Indenture, dated as of August 1, 2018 (the "Master Indenture"), by and between MMC, Montefiore Health System, Inc., solely in its capacity as Credit Group Representative, and The Bank of New York Mellon, as master trustee.

MMC is initially the only Member of the Obligated Group established under the Master Indenture.

MMC's obligations under the Loan Agreement and the DASNY Obligations are general obligations of MMC. The Loan Agreement requires MMC to pay, in addition to the fees and expenses of the Authority and The Bank of New York Mellon, as Trustee, amounts sufficient to pay the principal, Sinking Fund Installments, or Redemption Price, if any, of and interest on the 2018 DASNY Bonds, as such payments shall become due, and to make payments due under the DASNY Obligations.

**The 2018 DASNY Bonds will not be a debt of the State of New York (the "State") nor will the State be liable thereon. The Authority has no taxing power.**

The maturities and interest rates for the 2018 DASNY Bonds are set forth on the inside cover page hereof.

**Bond Insurance:** The scheduled payment of principal of and interest on the Series 2018B Bonds maturing on August 1, 2048 (the "Insured Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. ("AGM" or the "Insurer" or the "Bond Insurer").



**Description:** The 2018 DASNY Bonds will be issued as fully registered bonds in denominations of \$5,000 and any integral multiples thereof. Interest on the 2018 DASNY Bonds will be payable semiannually on each February 1 and August 1, commencing February 1, 2019, and will be payable at the principal corporate trust office of The Bank of New York Mellon, as Trustee, by check or draft mailed to the registered owner thereof. See "PART 3 – THE 2018 DASNY BONDS" herein.

The 2018 DASNY Bonds will be initially issued under a Book-Entry Only System, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Individual purchases of beneficial interests in the 2018 DASNY Bonds will be made in Book-Entry form (without certificates). So long as DTC or its nominee is the registered owner of the 2018 DASNY Bonds, payments of the principal and Redemption Price of and interest on such 2018 DASNY Bonds will be made directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. See "PART 3 – THE 2018 DASNY BONDS - Book-Entry Only System" herein.

**Redemption and Purchase in Lieu of Redemption:** The 2018 DASNY Bonds are subject to redemption and purchase in lieu of redemption prior to maturity as more fully described herein.

**Tax Matters:** In the opinion of Hawkins Delafield & Wood LLP, Co-Bond Counsel to DASNY, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2018A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2018A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed for taxable years beginning prior to January 1, 2018. Interest on the Series 2018B Bonds is included in gross income for Federal income tax purposes pursuant to the Code. In addition, in the opinion of Hawkins Delafield & Wood LLP, under existing statutes, interest on the 2018 DASNY Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). See "PART 12 – TAX MATTERS" herein regarding certain other considerations.

*The 2018 DASNY Bonds are offered when, as, and if received by the Underwriters. The offer of the 2018 DASNY Bonds is subject to the satisfaction of certain conditions and may be withdrawn or modified at any time without notice. The offer is subject to the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, and McGlashan Law Firm, P.C., New York, New York, as Co-Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for MMC by its Special Counsel, Dennett Law Offices, P.C., Great Neck, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Katten Muchin Rosenman LLP, New York, New York. The Authority expects the 2018 DASNY Bonds to be delivered in definitive form in New York, New York on or about August 1, 2018.*

**BofA Merrill Lynch  
J.P. Morgan**

**Citigroup  
TD Securities**

July 26, 2018

**\$685,150,000**  
**DORMITORY AUTHORITY OF THE STATE OF NEW YORK**  
**MONTEFIORE OBLIGATED GROUP REVENUE BONDS**

**\$309,045,000**  
**Series 2018A (Tax-Exempt)**

<u>Maturity August 1,</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Numbers<sup>1</sup></u>	<u>Maturity August 1,</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Numbers<sup>1</sup></u>
2024	\$12,500,000	5.000%	2.600%	64990GFT4	2032	\$21,345,000	5.000%	3.380% <sup>2</sup>	64990GGB2
2025	15,170,000	5.000	2.780	64990GFU1	2033	22,410,000	5.000	3.400 <sup>2</sup>	64990GGC0
2026	15,930,000	5.000	2.940	64990GFV9	2034	23,535,000	5.000	3.420 <sup>2</sup>	64990GGD8
2027	16,725,000	5.000	3.060	64990GFW7	2035	24,715,000	5.000	3.460 <sup>2</sup>	64990GGE6
2028	17,565,000	5.000	3.130	64990GFX5	2036	25,950,000	4.000	3.860 <sup>2</sup>	64990GGF3
2029	18,445,000	5.000	3.220 <sup>2</sup>	64990GFY3	2037	26,990,000	4.000	3.900 <sup>2</sup>	64990GGG1
2030	19,370,000	5.000	3.290 <sup>2</sup>	64990GFZ0	2038	28,060,000	4.000	3.920 <sup>2</sup>	64990GGH9
2031	20,335,000	5.000	3.340 <sup>2</sup>	64990GGA4					

**\$376,105,000**  
**SERIES 2018B (Federally Taxable)**

\$74,920,000 5.096% Term Bonds Due August 1, 2034, Price 100%, CUSIP<sup>1</sup> 64990GGJ5  
\$301,185,000 4.946% Term Bonds Due August 1, 2048<sup>3</sup>, Price 99.5%, CUSIP<sup>1</sup> 64990GGK2

<sup>1</sup> Copyright, American Bankers Association (“ABA”). CUSIP is a registered trademark of the ABA. CUSIP data herein are provided by CUSIP Global Services, which is managed on behalf of the ABA by S&P Global Market Intelligence, a division of S&P Global Inc. CUSIP numbers have been assigned by an organization not affiliated with DASNY and are included solely for the convenience of the holders of the 2018 DASNY Bonds. DASNY is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to the correctness of the CUSIP numbers as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the 2018 DASNY Bonds.

<sup>2</sup> Priced at stated yield to the August 1, 2028 optional redemption date at the redemption price of 100%.

<sup>3</sup> Insured by Assured Guaranty Municipal Corp.

*No dealer, broker, salesperson or other person has been authorized by DASNY, the Institution or the Underwriters to give any information or to make any representations with respect to the 2018 DASNY Bonds, other than the information and representations contained in this Official Statement. If given or made, any such information or representations must not be relied upon as having been authorized by DASNY, the Institution or the Underwriters.*

*This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be an offer, reoffer or sale of the 2018 DASNY Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, reoffer, solicitation or sale.*

*Certain information in this Official Statement has been supplied by the Institution and other sources that DASNY believes are reliable. DASNY does not guarantee the accuracy or completeness of such information, and such information is not to be construed as a representation of DASNY. DASNY does not directly or indirectly guarantee, endorse or warrant (1) the creditworthiness or credit standing of the Institution or the Obligated Group, (2) the sufficiency of the security for the 2018 DASNY Bonds or (3) the value or investment quality of the 2018 DASNY Bonds.*

*The Institution has reviewed the parts of this Official Statement describing MMC, the Obligated Group, the Plan of Finance, Bondowners' Risks and Matters Affecting the Health Care Industry, Principal, Sinking Fund Installments and Interest Requirements, Estimated Sources and Uses, and Appendices B-1, B-2 and B-3. The Institution shall certify as of the dates of offering and delivery of the 2018 DASNY Bonds that such parts of this Official Statement relating to the Institution do not contain any untrue statements of a material fact and do not omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. The Institution makes no representation as to the accuracy or completeness of any other information included in this Official Statement.*

*The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.*

*References in this Official Statement to the Act (as defined herein), the Resolution, the Series 2018 Resolutions, the Loan Agreement, the Master Indenture and the DASNY Obligations do not purport to be complete. Refer to the Act, the Resolution, the Series 2018 Resolution, the Loan Agreement, the Master Indenture and the DASNY Obligations for full and complete details of their provisions. Copies of the Act, the Resolution, the Series 2018 Resolutions, the Loan Agreement, the Master Indenture and the DASNY Obligations are on file with DASNY and the Trustee.*

*The order and placement of material in this Official Statement, including its appendices, are not to be deemed a determination of relevance, materiality or importance, and all material in this Official Statement, including its appendices, must be considered in its entirety.*

*Under no circumstances shall the delivery of this Official Statement or any sale made after its delivery create any implication that the affairs of DASNY or the Institution have remained unchanged after the date of this Official Statement.*

*IN CONNECTION WITH THE OFFERING OF THE 2018 DASNY BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 2018 DASNY BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.*

*THIS OFFICIAL STATEMENT CONTAINS STATEMENTS WHICH, TO THE EXTENT THEY ARE NOT RECITATIONS OF HISTORICAL FACT, CONSTITUTE "FORWARD LOOKING STATEMENTS." IN THIS RESPECT, THE WORDS "ESTIMATE," "PROJECT," "ANTICIPATE," "EXPECT," "INTEND," "BELIEVE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. A NUMBER OF IMPORTANT FACTORS AFFECTING THE INSTITUTION'S FINANCIAL RESULTS COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE STATED IN THE FORWARD-LOOKING STATEMENTS.*

## TABLE OF CONTENTS

	<b>Page</b>
PART 1 - INTRODUCTION.....	1
PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE 2018 DASNY BONDS .....	4
PART 3 - THE 2018 DASNY BONDS.....	11
PART 4 - PLAN OF FINANCE.....	17
PART 5 - PRINCIPAL, SINKING FUND INSTALLMENTS AND INTEREST REQUIREMENTS .....	18
PART 6 - ESTIMATED SOURCES AND USES OF FUNDS.....	19
PART 7 - MONTEFIORE OBLIGATED GROUP.....	19
PART 8 - BONDOWNERS' RISKS AND MATTERS AFFECTING THE HEALTH CARE INDUSTRY .....	53
PART 9 - THE AUTHORITY.....	76
PART 10 - LEGALITY OF THE 2018 DASNY BONDS FOR INVESTMENT AND DEPOSIT .....	81
PART 11 - NEGOTIABLE INSTRUMENTS.....	81
PART 12 - TAX MATTERS.....	81
PART 13 - STATE NOT LIABLE ON THE 2018 DASNY BONDS .....	87
PART 14 - COVENANT BY THE STATE .....	87
PART 15 - RATINGS .....	87
PART 16 - LEGAL MATTERS .....	87
PART 17 - UNDERWRITING.....	87
PART 18 - FINANCIAL ADVISOR.....	88
PART 19 - CONTINUING DISCLOSURE .....	89
PART 20 - MISCELLANEOUS .....	89
Appendix A - Certain Definitions.....	A-1
Appendix B-1 - Montefiore Medical Center Audited Consolidated Financial Statements as of and for the Years Ended December 31, 2017 and 2016, with Report of Independent Auditors.....	B-1-1
Appendix B-2 - Unaudited Consolidated Financial Statements of MMC as of and for the four months ended April 30, 2018 and 2017 .....	B-2-1
Appendix B-3 - Montefiore Health System, Inc. Audited Consolidated Financial Statements as of and for the Years Ended December 31, 2017 and 2016, with Report of Independent Auditors.....	B-3-1
Appendix C - Summary of Certain Provisions of the Loan Agreement .....	C-1
Appendix D - Summary of Certain Provisions of the Resolution.....	D-1
Appendix E - Form of Master Indenture .....	E-1
Appendix F - Proposed Forms of Approving Opinion of Co-Bond Counsel.....	F-1
Appendix G - Proposed Form of Continuing Disclosure Agreement .....	G-1
Appendix H - Specimen of Municipal Bond Insurance Policy.....	H-1



Resolution are referred to herein as the “Bonds.” See “PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE 2018 DASNY BONDS.” For a description of long-term debt of MMC, see “Appendix B-1 – Montefiore Medical Center Audited Consolidated Financial Statements as of and for the Years Ended December 31, 2017 and 2016,” and “Appendix B-2 – Unaudited Consolidated Financial Statements of MMC as of and for the four months ended April 30, 2018 and 2017, and Independent Auditors’ Report.”

Payment of the principal of and interest on the 2018 DASNY Bonds are secured pursuant to Obligation No. 1 (the “Obligation No. 1”) with respect to the Series 2018A Bonds and Obligation No. 2 (the “Obligation No. 2” and, together with Obligation No. 1, the “DASNY Obligations”) with respect to the Series 2018B Bonds, each issued under the Master Trust Indenture, dated as of August 1, 2018 (the “Master Indenture”), by and between MMC, Montefiore Health System, Inc. (“MHS”), solely in its capacity as Credit Group Representative and not as an obligor on the 2018 DASNY Bonds or the DASNY Obligations, and The Bank of New York Mellon, as master trustee (the “Master Trustee”). Simultaneous with the issuance of the 2018 DASNY Bonds MMC expects to issue \$600,030,000 of its Taxable Bonds Series 2018C under that certain Indenture of Trust dated as of August 1, 2018 (the “2018C Taxable Bonds”). The 2018C Taxable Bonds will be secured by Obligation No. 3 (the “Obligation No. 3”) issued under the Master Indenture on a parity with the DASNY Obligations. See “PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE 2018 DASNY BONDS – Security for the Bonds – DASNY Obligations.”

The proceeds of the 2018 DASNY Bonds will be loaned by DASNY to MMC pursuant to the Loan Agreement, dated as of June 20, 2018, between DASNY and MMC (the “Loan Agreement”). The repayment obligations of MMC under the Loan Agreement are secured by the DASNY Obligations issued under the Master Indenture.

### **The 2018 DASNY Bonds**

The 2018 DASNY Bonds will be dated their date of issuance, and will accrue interest from their date at the rates, and will mature at the times, as set forth on the cover page hereof. Interest on the 2018 DASNY Bonds will be payable semiannually on each February 1 and August 1, commencing February 1, 2019. See “PART 3 – THE 2018 DASNY BONDS – Description of the 2018 DASNY Bonds.”

### **The Authority**

The Authority is a public benefit corporation of the State of New York (the “State”), created for the purpose of financing and constructing a variety of public-purpose facilities for certain governmental, educational and not-for-profit institutions. See “PART 9 – THE AUTHORITY.”

### **Montefiore Medical Center**

MMC is a voluntary, acute care teaching hospital with three inpatient facilities located in the Bronx, New York, with a total of 1,558 certified beds. MMC provides comprehensive primary, secondary, tertiary and quaternary healthcare services primarily to the residents of the Bronx. A New York not-for-profit corporation, MMC is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”) as an organization described in section 501(c)(3) of the Code.

MMC is the initial sole Member of the Obligated Group under the Master Indenture. Montefiore Health System, Inc. is executing the Master Indenture solely in the capacity of Credit Group Representative. See “PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE 2018 DASNY BONDS – Obligations under the Master Indenture.” Subject to the conditions thereto set forth in the Master Indenture, in the future, additional entities may become Members of the Obligated Group.

For certain financial and operational information of MMC, see “PART 7 – MONTEFIORE OBLIGATED GROUP,” “Appendix B-1 – Montefiore Medical Center Audited Consolidated Financial Statements as of and for the Years Ended December 31, 2017 and 2016, with Report of Independent Auditors” and “Appendix B-2 – Unaudited Consolidated Financial Statements of MMC as of and for the four months ended April 30, 2018 and 2017, each of which should be read in their entirety.

## Payment of the Bonds

The Series of Bonds hereafter issued under the Resolution, including the 2018 DASNY Bonds are and will be special obligations of the Authority payable solely from the Revenues. The Revenues include certain payments to be made by the Institution under the Loan Agreement or to be made by the Institution, as initially the only Member of the Obligated Group, on the DASNY Obligations, which payments are pledged and assigned to the Trustee. The Institution's payment obligations under the Loan Agreement with respect to the 2018 DASNY Bonds are general obligations of the Institution secured by the DASNY Obligations issued under the Master Indenture. The DASNY Obligations are secured by a security interest in the Gross Receivables of the Institution and a Mortgage on a parity with all other Obligations issued under the Master Indenture, including Obligation No. 3 supporting the 2018C Taxable Bonds (the "Parity Obligations"). See "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE 2018 DASNY BONDS – Payment of the 2018 DASNY Bonds," and "– Obligations under the Master Indenture." DASNY and the Institution expect the proceeds of the 2018 DASNY Bonds to be used to finance or reimburse MMC for capital projects, to repay certain commercial loans and to refund all of the Indebtedness to be Refunded. See "PART 4 – PLAN OF FINANCE."

## Security for the Bonds

### *Master Indenture*

Pursuant to the Master Trust Indenture, dated as of August 1, 2018 (the "Master Indenture"), by and between MMC, Montefiore Health System, Inc. ("MHS"), solely in its capacity as Credit Group Representative, and The Bank of New York Mellon, as master trustee (the "Master Trustee"), MMC formed an Obligated Group (as defined in the Master Indenture). MMC is currently the sole Member of the Obligated Group under the Master Indenture.

To evidence and secure the obligation of MMC with respect to the 2018 DASNY Bonds, MMC will issue Obligation No. 1 and Obligation No. 2 (the "DASNY Obligations"), to be dated the date of the issuance of the 2018 DASNY Bonds, under and pursuant to the Master Indenture, and Supplemental Indenture for Obligation No. 1 and Supplemental Indenture for Obligation No. 2, each to be dated as of August 1, 2018 (collectively, the "Supplemental Indentures"), between MMC and the Master Trustee. Obligations issued under the Master Indenture are secured, subject only to Permitted Liens (as such term is defined in the Master Indenture), by a pledge of Gross Receivables (as hereinafter defined) of MMC and a mortgage lien on and security interest in certain health care facilities of MMC at its "Moses Division" as identified in "PART 7 – MONTEFIORE OBLIGATED GROUP" herein under the heading "Existing Facilities and Mortgage" (the "Mortgaged Property"), pursuant to one or more mortgages, dated as of August 1, 2018, from MMC to the Master Trustee (the "Mortgage"). See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE 2018 DASNY BONDS – Obligations under the Master Indenture - Security for Obligations Issued Under the Master Indenture," "- Security Interests in Gross Receivables for Obligations Issued Under the Master Indenture" and "- Mortgage Granted for Obligations Issued Under the Master Indenture" herein.

***Upon issuance of the DASNY Obligations, MMC will deliver to the Master Trustee a title insurance policy in the face amount of \$10,000,000 with respect to the Mortgaged Property. The principal amount of all Outstanding Obligations, in the aggregate, will be greater than the face amount of title insurance policy delivered on the date of issue of the DASNY Obligations. See "PART 8 – BONDOWNERS' RISKS AND MATTERS AFFECTING THE HEALTH CARE INDUSTRY – Matters Related to Mortgaged Property and Title Insurance."***

Currently, MMC is the only Member of the Obligated Group under the Master Indenture. However, the Master Indenture permits other entities, upon compliance with certain conditions, to become Members of the Obligated Group and to issue Obligations thereunder. Pursuant to the provisions of the Master Indenture, each Member of the Obligated Group is jointly and severally obligated (subject to the right of such Member to withdraw from the Obligated Group upon satisfying the applicable provisions of the Master Indenture) to make any and all payments promptly on all Obligations thereafter, and in certain cases, previously issued under the Master Indenture, including the DASNY Obligations, according to the terms thereof. See "Appendix E – Form of Master Indenture – Payments with respect to Master Indenture Obligations; Designated Affiliates; Credit Group Covenants – Membership in Obligated Group" attached hereto.

## *Resolution*

Each Series of the Bonds is and will be separately secured by the pledge and assignment made by the Authority pursuant to the Resolution to the Trustee of the Revenues applicable to such Series and all funds and accounts authorized by the Resolution and established under the applicable Series Resolution (with the exception of the Arbitrage Rebate Fund). No debt service reserve fund will be funded for the 2018 DASNY Bonds. See “PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE 2018 DASNY BONDS – Security for the 2018 DASNY Bonds.”

The Resolution authorizes the issuance by the Authority, from time to time, of Bonds in one or more Series, each such Series to be authorized by a separate Series Resolution and to be separately secured from each other Series of Bonds issued pursuant to the Resolution for the benefit of the Institution and any other future Members of the Obligated Group. The holders of Bonds of a Series shall not be entitled to the rights and benefits conferred upon the holders of Bonds of any other Series. Each Series of Additional Bonds shall be secured by a separate Obligation issued under the Master Indenture. For a more complete discussion of the security for the 2018 DASNY Bonds, see “PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE 2018 DASNY BONDS – Security for the 2018 DASNY Bonds.”

**The 2018 DASNY Bonds are not a debt of the State nor will the State be liable thereon. The Authority has no taxing power.**

### **Bond Insurance**

The scheduled payment of principal of and interest on the Series 2018B Bonds maturing on August 1, 2048 (the “Insured Bonds”), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. (“AGM” or the “Insurer” or the “Bond Insurer”), see “PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE 2018 DASNY BONDS – Bond Insurance.”

## **PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE 2018 DASNY BONDS**

*Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the 2018 DASNY Bonds. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Act, the Resolution, the Series 2018 Resolution, the Loan Agreement, the Master Indenture, the Supplemental Indentures and the DASNY Obligations. Copies of the Act, the Resolution, the Series 2018 Resolution, the Loan Agreement, the Master Indenture, the Supplemental Indentures and the DASNY Obligations are on file with the Authority and the Trustee. See also “Appendix C – Summary of Certain Provisions of the Loan Agreement,” “Appendix D – Summary of Certain Provisions of the Resolution” and “Appendix E – Form of Master Indenture” for a more complete statement of the rights, duties and obligations of the parties thereto.*

### **Payment of the 2018 DASNY Bonds**

The 2018 DASNY Bonds issued under the Resolution are special obligations of the Authority. The principal, Sinking Fund Installments, purchase price in lieu of redemption and Redemption Price, if any, of and interest on the 2018 DASNY Bonds are payable solely from the Revenues and all funds and accounts (excluding the Arbitrage Rebate Fund) established by the Series 2018 Resolution. The Revenues consist of the payments required to be made by the Institution under the Loan Agreement or to be made by the Obligated Group under the DASNY Obligations to be issued with respect to the 2018 DASNY Bonds on account of the principal, Sinking Fund Installments and Redemption Price of and interest on the 2018 DASNY Bonds. The Revenues have been assigned by the Authority to the Trustee for the benefit of the holders of the 2018 DASNY Bonds.

The Institution’s obligations under the Loan Agreement and under the DASNY Obligations are general obligations of the Institution. The Authority has directed the Institution, and the Institution has agreed, to make the payments under the Loan Agreement directly to the Trustee. Any payments made on the DASNY Obligations issued with respect to the 2018 DASNY Bonds shall also be made directly to the Trustee. The Loan Agreement obligates the Institution to make payments sufficient to pay, among other things, the principal and Sinking Fund Installments of and interest on the 2018 DASNY Bonds five business days prior to the date they become due, and to make any payments due under the DASNY Obligations. Each payment is to be equal to the interest coming due on the next succeeding interest payment date and the principal and Sinking Fund Installments coming due on or prior to the next



succeeding principal or sinking fund payment date. See “PART 3 – THE 2018 DASNY BONDS – Redemption and Purchase in Lieu of Redemption Provisions.”

### **Security for the 2018 DASNY Bonds**

The 2018 DASNY Bonds will be secured by the payments described above to be made under the Loan Agreement, all funds and accounts authorized under the Resolution and established by the Series 2018 Series Resolution (with the exception of the Arbitrage Rebate Fund), and payments to be made by the Obligated Group under the DASNY Obligations. Pursuant to the terms of the Resolution, the funds and accounts established and pledged by Series 2018 Resolution secure only the 2018 DASNY Bonds, and do not secure any other Series of Bonds issued under the Resolution, regardless of their dates of issue. No debt service reserve fund will be funded for the 2018 DASNY Bonds. See “Appendix D – Summary of Certain Provisions of the Resolution.”

#### *DASNY Obligations*

Payment of the principal of, redemption price of or purchase price in lieu of redemption and interest on the 2018 DASNY Bonds when due, and payment when due of the obligations of the Institution to the Authority under the Loan Agreement, will be secured by payments made by the Institution pursuant to the DASNY Obligations.

The DASNY Obligations will be issued to the Authority, which will assign all payments under the DASNY Obligations to the Trustee for the benefit of the Bondholders. See “PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE 2018 DASNY BONDS – Obligations under the Master Indenture” herein.

### **Events of Default and Acceleration under the Resolution**

The following constitute events of default under the Resolution with respect to the 2018 DASNY Bonds: (i) a default by the Authority in the payment when due of the principal, Sinking Fund Installments or Redemption Price, if any, of or interest on any 2018 DASNY Bond; (ii) a default by the Authority in the due and punctual performance of any applicable tax covenant which results in the loss of the exclusion of interest on the Series 2018A Bonds from gross income under the Code; (iii) a default by the Authority in the due and punctual performance of any covenants, conditions, agreements or provisions contained in the 2018 DASNY Bonds or in the Resolution or in the Series 2018 Resolution which continues for thirty (30) days after written notice thereof is given to the Authority by the Trustee (such notice to be given in the Trustee’s discretion or at the written request of holders of not less than 25% in principal amount of Outstanding Bonds unless, if such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within thirty (30) days and diligently prosecutes the cure thereof); or (iv) an “Event of Default,” as defined in the Loan Agreement, shall have occurred and is continuing and all sums payable by the Institution under the Loan Agreement shall have been declared immediately due and payable (unless such declaration shall have been annulled). Failure of the Institution to make payment under the Loan Agreement shall not constitute an Event of Default under the Loan Agreement if timely payment of the DASNY Obligations is made by the Obligated Group in place of the payment due under the Loan Agreement. If an Event of Default occurs under the Master Indenture (as defined therein), such default shall constitute an Event of Default under the Loan Agreement. Unless all sums payable by the Institution under the Loan Agreement are declared immediately due and payable (and such declaration shall have not been annulled), an Event of Default under the Loan Agreement is not an event of default under the Resolution.

The Resolution provides that if an event of default occurs and continues (except with respect to a default described in clause (ii) above), the Trustee shall, upon the written request of the holders of not less than 25% in principal amount of the 2018 DASNY Bonds, by written notice to the Authority, declare the principal of and interest on the 2018 DASNY Bonds to be due and payable immediately. At the expiration of thirty (30) days after the giving of such notice, such principal, Sinking Fund Installments and interest shall become immediately due and payable. The Trustee shall, with the written consent of the holders of not less than 25% in principal amount of 2018 DASNY Bonds then Outstanding, annul such declaration and its consequences under the terms and conditions specified in the Resolution with respect to such annulment.

The Resolution provides that the Trustee shall give notice in accordance with the Resolution of each event of default known to the Trustee to the holders within thirty (30) days, in each case after knowledge of the occurrence thereof unless such default has been remedied or cured before the giving of such notice; provided, however, that, except in the case of default in the payment of principal, Sinking Fund Installment or Redemption Price of, or interest

on, any of the 2018 DASNY Bonds, the Trustee shall be protected in withholding such notice thereof to the holders if the Trustee in good faith determines that the withholding of such notice is in the best interests of the holders of the 2018 DASNY Bonds.

So long as the Insurer is not in default under the Policy, the Trustee cannot exercise remedies at the direction of the holders without the consent of the Insurer and cannot accelerate without the consent of the Insurer, in each case with respect to the Insured Bonds.

### **Additional Bonds**

In addition to the 2018 DASNY Bonds, the Resolution authorizes the issuance by the Authority of other Series of Bonds to finance Projects and for other specified purposes including refunding Outstanding Bonds or other notes or bonds issued on behalf of any Member of the Obligated Group.

### **Obligations under the Master Indenture**

***Credit Group.*** The Master Indenture creates the Credit Group, which is comprised of the Members of the Obligated Group and Designated Affiliates. **It is anticipated that, initially, MMC will be the only Member of the Obligated Group, there will be no Designated Affiliates.**

All Members of the Obligated Group are jointly and severally obligated for the amounts due on Obligations, including the DASNY Obligations. The Designated Affiliates are not obligated to make payments on Obligations. However, they may be required to transfer funds to Members of the Obligated Group in amounts necessary to enable the Members of the Obligated Group to make payments due on Obligations. In addition, financial covenants and ratios under the Master Indenture are based on the Credit Group Financial Statements, including the Designated Affiliates and may include Immaterial Affiliates. See “Appendix E – Form of Master Indenture.” See also “Designated Affiliates” below.

***Issuance of Obligations; Joint and Several Obligations.*** Under the Master Indenture, each Member of the Obligated Group authorizes to be issued from time to time Obligations or Series of Obligations, without limitation as to amount, except as provided in the Master Indenture or as may be limited by law, and subject to the terms, conditions and limitations established in the Master Indenture. Obligations may be in any form set forth in a Related Supplement (as defined in the Master Indenture), including, but not limited to, bonds, notes, obligations, debentures, reimbursement agreements, loan agreements, Financial Product Agreements or leases. Each Member of the Obligated Group jointly and severally covenants to promptly pay, or cause to be paid, all Required Payments at the place, on or before the dates and in the manner provided in the Master Indenture or in any Related Supplement or Obligation. Each Member of the Obligated Group further covenants to faithfully observe and perform all of the conditions, covenants and requirements of the Master Indenture, any Related Supplement and any Obligation.

***Changes to the Members of the Credit Group.*** Entities may be added to and withdrawn from the Credit Group from time to time. The Master Indenture imposes minimum conditions on the right of any Member of the Obligated Group or Credit Group Member to enter or withdraw from the Obligated Group or the Credit Group, respectively, at any time, or to change the status of a Member of the Obligated Group to that of a Designated Affiliate; provided, however, in no event may MMC withdraw from the Obligated Group. For a more detailed discussion of entry into or withdrawal from the Obligated Group or Credit Group, respectively, see “Appendix E – Form of Master Indenture – Payments with respect to Master Indenture Obligations; Designated Affiliates; Credit Group Covenants – Designation of Designated Affiliates,” “– Membership in Obligated Group,” and “– Withdrawal from Obligated Group.”

***Designated Affiliates.*** Under the Master Indenture, MHS, as the Credit Group Representative, may designate “Designated Affiliates” from time to time, and may rescind any such designation at any time. **It is anticipated that, initially, there will be no Designated Affiliates under the Master Indenture.** See “Appendix E – Form of Master Indenture – Payments with respect to Master Indenture Obligations; Designated Affiliates; Credit Group Covenants – Designation of Designated Affiliates.” In connection with such designation, the Credit Group Representative shall designate for each Designated Affiliate a Member of the Obligated Group to serve as the Controlling Member for such Designated Affiliate. So long as such Person is designated as a Designated Affiliate, the Controlling Member of such Designated Affiliate shall either (i) maintain, directly or indirectly, control of such Designated Affiliate to the extent necessary to cause such Designated Affiliate to comply with the terms of the Master Indenture, whether through the ownership of voting securities, by contract, corporate membership, reserved powers or the power to appoint corporate members, trustees or directors, or otherwise or (ii) execute and have in effect such contracts or other agreements which

the Credit Group Representative and the Controlling Member, in the judgment of their respective Governing Bodies, deem sufficient for the Controlling Member to cause such Designated Affiliate to comply with the terms of the Master Indenture as they relate to Designated Affiliates.

Designated Affiliates are not obligated to make payments on any Obligation. Each Controlling Member agrees, however, that it shall cause each of its Designated Affiliates to pay, loan or otherwise transfer to the Credit Group Representative such amounts as are necessary to enable the Members of the Obligated Group to comply with the provisions of the Master Indenture, subject to applicable legal or regulatory restrictions; *provided, however*, that nothing in the Master Indenture shall be construed to require any Controlling Member to cause its Designated Affiliate to pay, loan or otherwise transfer to the Credit Group Representative any amounts that constitute Restricted Moneys.

***Security for Obligations Issued Under the Master Indenture.*** All Obligations Outstanding from time to time under the Master Indenture, are secured, subject only to Permitted Liens, on a parity by security interests in the Gross Receivables of the Members of the Obligated Group and each of the future Members of the Obligated Group (subject to the right of a Member to withdraw from the Obligated Group upon satisfying the applicable provisions of the Master Indenture) and the Mortgaged Property, pursuant to the Mortgage. See also “Appendix E – Form of Master Indenture – Section 2.06 and Section 3.05.”

***Security Interests in Gross Receivables for Obligations Issued Under the Master Indenture.*** Each Member of the Obligated Group will grant to the Master Trustee a security interest in its Gross Receivables subject to Permitted Liens, to the extent the same may be pledged and a security interest granted therein under the UCC, whether now owned or hereafter acquired. See “Appendix E – Form of Master Indenture – Section 3.05.” Any future Members of the Obligated Group will also be required to grant a security interest in their Gross Receivables. For purposes of the Master Indenture, “*Gross Receivables*” is defined to mean all of accounts, chattel paper, instruments and payment intangibles (all as defined in the UCC) of each Member of the Obligated Group, as are now in existence or as may be hereafter acquired, and the proceeds thereof; excluding, however, (i) the proceeds of any grant, gift, bequest, contribution or other donation (and, to the extent subject to the applicable restrictions, the investment income derived from the investment of such proceeds), and (ii) any income and gains and the proceeds thereof of a Member that is a captive insurance company; to the extent in each case as restricted by law or its terms to an object or purpose inconsistent with their use for the payment of Required Payments (as defined in the Master Indenture). The security interest of the Master Trustee in the Gross Receivables is subject to certain limitations as described below in this section “Security and Enforceability Under the Master Indenture – Perfection of Security Interest.”

The Master Trustee’s security interest in the Gross Receivables described above will be perfected, to the extent that such security interest may be so perfected, by the filing of financing statements which comply with the requirements of the UCC. Each Member of the Obligated Group shall cause to be filed, in accordance with the requirements of the UCC, financing statements; and, from time to time thereafter, shall deliver such other documents (including, but not limited to, continuation statements as required by the UCC) as may be necessary or reasonably requested by the Master Trustee in order to perfect or maintain perfected such security interests or give public notice thereof. See “Appendix E – Form of Master Indenture – Section 3.05.”

***Mortgage Granted for Obligations Issued Under the Master Indenture.*** To secure the payment by the Members of the Obligated Group of all of Obligations under the Master Indenture, including the prompt payment of the DASNY Obligations when due and payable, MMC has executed and delivered the Mortgage on the Mortgaged Property to the Master Trustee for the equal and ratable benefit of the Holders from time to time of all Obligations issued under the Master Indenture, including but not limited to the DASNY Obligations and Obligation No. 3. Pursuant to the Master Indenture, each Member of the Obligated Group covenants that it will not pledge or grant a security interest in (except for Permitted Liens or as may be otherwise provided in the Master Indenture) or lien on the Mortgaged Property. The number and type of Permitted Liens are extensive and may impact the ability of the Trustee to realize on the security interest in the Mortgaged Property. See “Appendix E – Form of Master Indenture– Section 2.06.”

***Upon issuance of the DASNY Obligations, MMC will deliver to the Master Trustee a title insurance policy in the face amount of \$10,000,000 with respect to the Mortgaged Property. The principal amount of all Outstanding Obligations, in the aggregate, will be greater than the face amount of title insurance policy delivered on the date of issue of the DASNY Obligations. See “PART 8 – BONDOWNERS’ RISKS AND MATTERS AFFECTING THE HEALTH CARE INDUSTRY – Matters Related to Mortgaged Property and Title Insurance.”***

***Permitted Liens Under the Master Indenture.*** Pursuant to the Master Indenture, each Member of the Obligated Group agrees, and each Controlling Member covenants that it will not permit any of its Designated Affiliates to, create or suffer to be created or permit the existence of any Lien upon its Gross Receivables or Property, now owned or

hereafter acquired by it, other than Permitted Liens. Permitted Liens include, but are not limited to, Liens that may be granted to secure additional Obligations and other Indebtedness and Liens not otherwise identified as a Permitted Lien where the Value of all Property that is encumbered by such Liens does not exceed 10% of the Value of all Property of the Credit Group Members, calculated at the time of creation of such Lien based on the Credit Group Financial Statements. The Obligated Group may incur substantial liabilities secured by Permitted Liens. See the definition of “Permitted Liens” in “Appendix E – Form of Master Indenture – Definitions.”

***Other Master Indenture Covenants.*** In addition to the security and other provisions described above, the Master Indenture contains provisions, covenants and restrictions related to debt service coverage, mergers and other corporate combinations and divestitures, sales, leases or other dispositions of assets and other matters. See “Appendix E – Form of Master Indenture – Payments with respect to Master Indenture Obligations; Designated Affiliates; Credit Group Covenants – Debt Service Coverage,” “– Merger, Consolidation, Sale or Conveyance,” “– Limitation on Disposition of Assets” and “– Limitation on Indebtedness.”

***Additional Obligations.*** Pursuant to the Master Indenture, Obligations may be issued from time to time in the future pursuant to the Master Indenture, and such other Obligations will be secured on parity under the Master Indenture with all other Obligations then outstanding. See “Appendix E – Form of Master Indenture – Payments with respect to Master Indenture Obligations; Designated Affiliates; Credit Group Covenants – Limitation on Indebtedness.”

***Rights of Bond Insurer under Supplemental Indenture for Obligation No. 2.*** Pursuant to Supplemental Indenture for Obligation No. 2, the Medical Center has agreed that any amendment of, supplement or modification to, or waiver with respect to, the Master Trust Indenture, Obligation No. 2 or the Mortgages that requires the consent of the holders of Obligations issued and outstanding under the Master Trust Indenture or that adversely affects the rights and interests of the Bond Insurer shall be subject to the Insurer’s prior written consent prior to becoming effective as to the Insurer. These rights are in addition to and independent of the Insurer’s rights as the deemed holder of the Insured Bonds.

## **Security and Enforceability Under the Master Indenture**

***Perfection of a Security Interest.*** Each Member of the Obligated Group (which is currently only MMC) under the Master Indenture will grant a security interest in all of its Gross Receivables, subject to Permitted Liens, and has agreed to perfect the grant of a security interest in the Gross Receivables to the extent that the same may be pledged and a security interest granted therein under the UCC. The Master Indenture provides that the Master Trustee’s security interest in the Gross Receivables shall be perfected, to the extent that such security interest may be so perfected, by the filing of financing statements which comply with the requirements of the UCC. It may not be possible to perfect a security interest in any manner whatsoever in certain types of Gross Receivables (e.g., certain insurance proceeds and payments under the Medicare and Medicaid programs) prior to actual receipt by any Member. See also “PART 8 - BONDOWNERS’ RISKS AND MATTERS AFFECTING THE HEALTH CARE INDUSTRY – Enforceability of Lien on Gross Receivables.”

***Enforceability of the Master Indenture and Future Obligations.*** The state of the insolvency, fraudulent conveyance and bankruptcy laws relating to the enforceability of guaranties or obligations issued by one corporation in favor of the creditors of another or the obligations of a Member of the Obligated Group to make debt service payments on behalf of a Member of the Obligated Group is unsettled, and the ability to enforce the Master Indenture and the Obligations against any Member of the Obligated Group that would be rendered insolvent thereby could be subject to challenge.

The legal right and practical ability of the Trustee to enforce its rights and remedies against MMC under the Loan Agreement and related documents and of the Master Trustee to enforce its rights and remedies against the Members of the Obligated Group under the DASNY Obligations may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors’ rights. In addition, the Trustee’s and the Master Trustee’s ability to enforce such rights will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or may be limited. See “PART 8 - BONDOWNERS’ RISKS AND MATTERS AFFECTING THE HEALTH CARE INDUSTRY – Risks Related to Obligations Issued under the Master Indenture,” “Enforceability of Remedies” and “Enforceability of Lien of Gross Receivables.”

The bankruptcy of a Designated Affiliate would not trigger an event of default under the Master Indenture or the Loan Agreement, but the bankruptcy of a Designated Affiliate could have a material adverse effect on the Credit Group. If a Designated Affiliate were to file for bankruptcy and had no contractual obligation to make payments to the Credit Group Representative or the Controlling Member, neither the Credit Group Representative nor the Controlling Member would be able to file a claim in a bankruptcy proceeding involving the Designated Affiliate for the payment of any amounts due on the DASNY Obligations (or a replacement Obligation). The Master Trustee has no contractual rights against Designated Affiliates and would not be able to file such a claim whether or not a contract existed between the Controlling Member, the Designated Affiliate. In addition, in the event the Controlling Member were to become a debtor in a bankruptcy case, or such Controlling Member, as debtor-in-possession, or a trustee in bankruptcy, may not be able to cause the Designated Affiliate to transfer funds to the Obligated Group Agent or the trustee in bankruptcy.

### **Outstanding Indebtedness**

The Institution has certain Indebtedness outstanding. See “PART 7 – MONTEFIORE OBLIGATED GROUP – Outstanding Indebtedness and Guarantees,” “Appendix B-1 – Montefiore Medical Center Audited Consolidated Financial Statements as of and for the Years Ended December 31, 2017 and 2016, with Report of Independent Auditors” and “Appendix B-2 – Unaudited Consolidated Financial Statements of MMC as of and for the four months ended April 30, 2018 and 2017.”

### **Bond Insurance**

The following information is not complete and reference is made to Appendix H to this Official Statement for a specimen of the Policy of AGM.

#### ***Bond Insurance Policy***

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”) will issue its Municipal Bond Insurance Policy for the Insured Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as Appendix H to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

#### ***Assured Guaranty Municipal Corp.***

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

### Current Financial Strength Ratings

On June 26, 2018, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On May 7, 2018, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

On January 23, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

### Capitalization of AGM

At March 31, 2018:

- The policyholders' surplus of AGM was approximately \$2,247 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,133 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves of AGM and its subsidiaries (as described below) were approximately \$1,646 million. Such amount includes (i) 100% of the net unearned premium reserves of AGM and AGM's wholly owned subsidiaries Assured Guaranty (Europe) plc, Assured Guaranty (UK) plc, CIFG Europe S.A. and Assured Guaranty (London) plc (together, the "AGM European Subsidiaries") and (ii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves and net unearned premium reserves of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves of the AGM European Subsidiaries were determined in accordance with accounting principles generally accepted in the United States of America.

### Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (filed by AGL with the SEC on February 23, 2018); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (filed by AGL with the SEC on May 4, 2018).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Insured Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption “PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE 2018 DASNY BONDS – Bond Insurance – Assured Guaranty Municipal Corp.” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

#### Miscellaneous Matters

AGM makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE 2018 DASNY BONDS – Bond Insurance.”

### **PART 3 - THE 2018 DASNY BONDS**

#### **General**

The 2018 DASNY Bonds will be issued and outstanding pursuant to the Resolution and the Series 2018 Resolutions. The 2018 DASNY Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), pursuant to DTC’s Book-Entry Only System. Purchases of beneficial interests in the 2018 DASNY Bonds will be made in book-entry form, without certificates. So long as DTC or its nominee, Cede & Co., is the registered owner of the 2018 DASNY Bonds, payments of the principal, purchase price and Redemption Price of and interest on the 2018 DASNY Bonds will be made by the Trustee directly to Cede & Co. Disbursement of such payments to the DTC Participants (as hereinafter defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners of the 2018 DASNY Bonds is the responsibility of the DTC Participants and the Indirect Participants (as hereinafter defined). If at any time the Book-Entry Only System is discontinued for the 2018 DASNY Bonds, the 2018 DASNY Bonds will be exchangeable for fully registered 2018 DASNY Bonds in any authorized denominations without charge except the payment of any tax, fee or other governmental charge to be paid with respect to such exchange, subject to the conditions and restrictions set forth in the Resolution. See “– Book-Entry Only System” below and “Appendix D – Summary of Certain Provisions of the Resolution.”

#### **Description of the 2018 DASNY Bonds**

The 2018 DASNY Bonds will be dated their date of issuance. The 2018 DASNY Bonds will mature and will accrue interest from their date at the rates and at the times set forth on the cover page of this Official Statement, payable semiannually on each February 1 and August 1, commencing February 1, 2019. The 2018 DASNY Bonds will be offered as fully registered Bonds in denominations of \$5,000 or any integral multiples thereof. Interest on the 2018 DASNY Bonds will be computed on the basis of a year of twelve 30-day months. The 2018 DASNY Bonds may be exchanged for other 2018 DASNY Bonds in any other authorized denominations upon payment of a charge sufficient to reimburse the Authority or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange and for the cost of preparing the new bond, and otherwise as provided in the Resolution. The Authority will not be obligated to make any exchange or transfer of 2018 DASNY Bonds (i) during the period beginning on the Record Date next preceding an Interest Payment Date for the 2018 DASNY Bonds and ending on such Interest Payment Date or (ii) after the date next preceding the date on which the Trustee commences selection of 2018 DASNY Bonds for redemption.

#### **Redemption and Purchase in Lieu of Redemption Provisions**

The 2018 DASNY Bonds are subject to redemption and purchase in lieu of redemption as described below.

## *Optional Redemption*

### Series 2018A Bonds

The Series 2018A Bonds maturing on or before August 1, 2028 are not subject to optional redemption prior to maturity. The Series 2018A Bonds maturing on or after August 1, 2029 are subject to optional redemption prior to maturity, at the election or direction of the Authority, on or after August 1, 2028, in any order, as a whole or in part at any time, at 100% of the principal amount thereof, plus accrued interest to the date of redemption.

### Series 2018B Bonds

The Series 2018B Bonds maturing on August 1, 2034 will be subject to redemption prior to maturity on any Business Day, in any order at the option of the Authority (to be given at the direction of the Institution), as a whole or in part at the Make-Whole Redemption Price described below, plus accrued interest to the date of redemption.

For purposes of this subsection, the following definitions shall apply:

“Business Day” means any day other than (A) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city or cities in which the Principal Corporate Trust Office of the Trustee or the Master Trustee is located are authorized by law or executive order to close or (B) a day on which the New York Stock Exchange is closed.

“Comparable Treasury Issue” shall mean the United States Treasury security or securities selected by a Designated Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Bonds to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Bonds.

“Comparable Treasury Price” shall mean, with respect to any redemption date, the average of the Reference Treasury Dealer Quotations for such redemption date or, if the Designated Investment Banker obtains only one Reference Treasury Dealer Quotation, such Reference Treasury Dealer Quotation.

“Designated Investment Banker” shall mean one of the Reference Treasury Dealers appointed by MMC.

“Make-Whole Redemption Price” shall mean the greater of:

- (1) 100% of the principal amount of any Bonds being redeemed; or
- (2) The sum of the present values of the remaining unpaid scheduled payments of principal and interest on any Bonds being redeemed (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 35 basis points.

“Reference Treasury Dealer” shall mean Merrill Lynch, Pierce, Fenner & Smith Incorporated or its affiliates which are primary U.S. government securities dealers and each of three additional firms, as designated by MMC, and their respective successors; provided that if any of them shall cease to be a primary U.S. government securities dealer (a “Primary Treasury Dealer”), MMC shall substitute therefor another Primary Treasury Dealer; provided, further, that MMC may, at its option, substitute another Primary Treasury Dealer for Merrill Lynch, Pierce, Fenner & Smith Incorporated or its affiliates.

“Reference Treasury Dealer Quotations” shall mean, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding such redemption date.

“Treasury Rate” shall mean, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price



for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

The Series 2018B Bonds maturing on August 1, 2048 are subject to optional redemption prior to maturity, at the election or direction of the Authority, on or after August 1, 2028, in any order, as a whole or in part at any time, at 100% of the principal amount thereof, plus accrued interest to the date of redemption.

*Mandatory Redemption*

Series 2018B Bonds

In addition, the Series 2018B Bonds maturing on August 1, 2034 are subject to redemption, in part, on each August 1 of the years and in the respective principal amounts set forth below, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on August 1 of each year the principal amount of Series 2018B Bonds specified for each of the years shown below:

<u>Series 2018B Bonds</u> <u>Maturing on August 1, 2034</u>			
<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2030	\$4,460,000	2033	\$18,435,000
2031	15,625,000	2034 <sup>†</sup>	19,965,000
2032	16,435,000		

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<sup>†</sup>Final Maturity

In addition, the Series 2018B Bonds maturing on August 1, 2048 are subject to redemption, in part, on each August 1 of the years and in the respective principal amounts set forth below, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on August 1 of each year the principal amount of Series 2018B Bonds specified for each of the years shown below:

<u>Series 2018B Bonds</u> <u>Maturing on August 1, 2048</u>			
<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2035	\$15,455,000	2042	\$21,630,000
2036	16,220,000	2043	22,695,000
2037	17,015,000	2044	23,805,000
2038	17,850,000	2045	24,975,000
2039	18,730,000	2046	26,205,000
2040	19,650,000	2047	27,495,000
2041	20,615,000	2048 <sup>†</sup>	28,845,000

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<sup>†</sup>Final Maturity

*Purchase in Lieu of Optional Redemption*

The 2018 DASNY Bonds are subject to purchase at the election of the Institution with the written consent of the Authority, and, with respect to the Series 2018B Bonds maturing on August 1, 2048, the Insurer, prior to maturity, on the same terms that would apply to the 2018 DASNY Bonds if the 2018 DASNY Bonds were then being optionally redeemed.

### *General*

The Authority may from time to time direct the Trustee to purchase 2018 DASNY Bonds with moneys in the Debt Service Fund, at or below par plus accrued interest to the date of such purchase, and apply any 2018 DASNY Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required principal payment or Sinking Fund Installment on such 2018 DASNY Bonds. The Institution also may purchase 2018 DASNY Bonds and apply any 2018 DASNY Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required Sinking Fund Installment on the 2018 DASNY Bonds. To the extent the Authority's obligation to make Sinking Fund Installments in a particular year is fulfilled through such purchases, the likelihood of redemption through mandatory Sinking Fund Installments of any Bondholder's 2018 DASNY Bonds will be reduced for such year.

### *Selection of Bonds to be Redeemed*

In the case of redemptions of the 2018 DASNY Bonds, other than mandatory redemptions, the Authority at the direction of the Institution will select the Series, the principal amounts and maturities (including any Sinking Fund Installments) of the 2018 DASNY Bonds to be redeemed. If less than all of the 2018 DASNY Bonds of a maturity are to be redeemed, the 2018 DASNY Bonds to be redeemed will be selected by the Trustee, by lot as provided in the Resolution.

### *Notice of Redemption*

The Trustee is to give notice of the redemption of the 2018 DASNY Bonds in the name of the Authority, by first-class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days prior to the redemption date to the registered owners of any 2018 DASNY Bonds which are to be redeemed, at their last known addresses appearing on the registration books of the Authority not more than ten business days prior to the date such notice is given. The failure of any such registered owner of a 2018 DASNY Bond to be redeemed to receive notice of redemption will not affect the validity of the proceedings for the redemption of such 2018 DASNY Bond.

If on the redemption date moneys for the redemption of the 2018 DASNY Bonds or portions thereof to be redeemed, together with interest thereon to the redemption date, are held by the Trustee so as to be available for payment of the redemption price, and if notice of redemption has been mailed, then interest on such 2018 DASNY Bonds or portions thereof will cease to accrue from and after the redemption date and such 2018 DASNY Bonds will no longer be considered to be Outstanding.

In addition, any notice of redemption may state that the redemption to be effected is conditioned upon the receipt by the Trustee on or prior to the redemption date of moneys sufficient to pay the principal of, premium, if any, and interest on the 2018 DASNY Bonds to be redeemed and that if such moneys are not so received, such notice shall be of no force and effect and such 2018 DASNY Bonds shall not be required to be redeemed.

### *Notice of Purchase in Lieu of Redemption*

Notice of the purchase of the 2018 DASNY Bonds as described under "– Purchase in Lieu of Optional Redemption" above, will be given in the name of the Institution to the registered owners of the 2018 DASNY Bonds to be purchased by first-class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days prior to the purchase date specified in such notice. The 2018 DASNY Bonds to be purchased are required to be tendered to the Trustee on the date specified in such notice. 2018 DASNY Bonds to be purchased that are not so tendered will be deemed to have been properly tendered for purchase. In the event 2018 DASNY Bonds are called for purchase in lieu of an optional redemption, such purchase shall not operate to extinguish the indebtedness of the Authority evidenced thereby and such 2018 DASNY Bonds need not be cancelled, but shall remain Outstanding under the Resolution and in such case shall continue to bear interest and shall continue to be subject to optional redemption as described herein.

The Institution's obligation to purchase a 2018 DASNY Bond to be purchased or cause it to be purchased is conditioned upon the availability of sufficient money to pay the purchase price for all of the 2018 DASNY Bonds to be purchased on the purchase date. If sufficient money is available on the purchase date to pay the purchase price of the 2018 DASNY Bonds to be purchased, the former registered owners of such 2018 DASNY Bonds will have no claim thereunder or under the Resolution or otherwise for payment of any amount other than the purchase price. If

sufficient money is not available on the purchase date for payment of the purchase price, the 2018 DASNY Bonds tendered or deemed tendered for purchase will continue to be registered in the name of the registered owners on the purchase date, who will be entitled to the payment of the principal of and interest on such 2018 DASNY Bonds in accordance with their respective terms.

In the event not all of a maturity of the Series 2018A Bonds or the Series 2018B Bond are to be purchased, the 2018 DASNY Bonds of such Series and maturity to be purchased will be selected by lot in the same manner as 2018 DASNY Bonds to be redeemed in part are to be selected.

### **Book-Entry Only System**

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2018 DASNY Bonds. The 2018 DASNY Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2018 DASNY Bond certificate will be issued for each Series, maturity and, if applicable, interest rate, of the 2018 DASNY Bonds, totaling in the aggregate the principal amount of the 2018 DASNY Bonds, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of 2018 DASNY Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2018 DASNY Bonds on DTC’s records. The ownership interest of each actual purchaser of a 2018 DASNY Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2018 DASNY Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2018 DASNY Bonds, except in the event that use of the book-entry system for such 2018 DASNY Bonds is discontinued.

To facilitate subsequent transfers, all 2018 DASNY Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2018 DASNY Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2018 DASNY Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2018 DASNY Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the 2018 DASNY Bonds within a particular maturity of the 2018 DASNY Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2018 DASNY Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to DASNY as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2018 DASNY Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the 2018 DASNY Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from DASNY or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Underwriters, the Trustee or DASNY, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of DASNY or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2018 DASNY Bonds at any time by giving reasonable notice to DASNY or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, the 2018 DASNY Bond certificates are required to be printed and delivered.

DASNY may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, the 2018 DASNY Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that DASNY believes to be reliable, but DASNY takes no responsibility for the accuracy thereof.

Each person for whom a Direct Participant or Indirect Participant acquires an interest in the 2018 DASNY Bonds, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, and may desire to make arrangements with such Direct Participant or Indirect Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in writing by such Direct Participant or Indirect Participant and to have notification made of all interest payments. **NONE OF DASNY, THE TRUSTEE, THE UNDERWRITERS OR MMC WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT OR INDIRECT PARTICIPANT OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE 2018 DASNY BONDS.**

So long as Cede & Co. is the registered owner of the 2018 DASNY Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the 2018 DASNY Bonds (other than under "PART 12 - TAX MATTERS" herein) mean Cede & Co., as aforesaid, and do not mean the Beneficial Owners of the 2018 DASNY Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference will only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they will be sent by the Trustee to DTC only.

For every transfer and exchange of 2018 DASNY Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DASNY, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the 2018 DASNY Bonds if DASNY determines that (i) DTC is unable to discharge its responsibilities with respect to the 2018 DASNY Bonds, or (ii) a continuation of the requirement that all of the Outstanding Bonds be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, is not in the best interests of the Beneficial Owners. In the event that no substitute securities depository is found by DASNY or restricted registration is no longer in effect, 2018 DASNY Bond certificates will be delivered as described in the Resolution.

NONE OF DASNY, MMC, THE UNDERWRITERS OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT, (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2018 DASNY BONDS UNDER THE RESOLUTIONS; (III) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OR PURCHASE IN LIEU OF REDEMPTION OF THE 2018 DASNY BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE 2018 DASNY BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE 2018 DASNY BONDS; OR (VI) ANY OTHER MATTER.

#### **PART 4 – PLAN OF FINANCE**

MMC's Plan of Finance includes raising approximately \$1.2 billion bond proceeds in three series, consisting of the Series 2018A Bonds, the Series 2018B Bonds and the 2018C Taxable Bonds.

The Series 2018A Bonds are being issued by DASNY for the purpose of refunding or refinancing: (i) the Dormitory Authority of the State of New York Montefiore Medical Center FHA-Insured Mortgage Hospital Revenue Bonds Series 2008; (ii) the Montefiore Medical Center GNMA Collateralized Taxable Revenue Bonds Series 2011, Series 2016A and Series 2016B; (iii) the New York City Housing Development Corporation Residential Revenue Bonds, 1993 Series A issued on behalf of Montefiore Medical Center; (iv) the New York City Industrial Development Agency Civic Facility Revenue Bonds, Series 2005 issued on behalf of MMC Corporation; (v) certain tax-exempt equipment leases with DASNY; and (vi) certain commercial loans, as well as pay costs of issuance. The indebtedness referred to in items (i) through (v) above is herein collectively referred to as the "Indebtedness to be Refunded."

The Series 2018B Bonds are being issued by DASNY for the purpose of reimbursing MMC for prior capital expenditures and to pay costs of issuance.

The 2018C Taxable Bonds are being issued by MMC for the purpose of: (i) refunding the MMC Corporation Multi-Mode Taxable Revenue Bonds, Series 2005; (ii) refinancing certain commercial loans and capital equipment leases; and (iii) to provide funds for general corporate purposes, and to pay costs of issuance.

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## PART 5 - PRINCIPAL, SINKING FUND INSTALLMENTS AND INTEREST REQUIREMENTS

The following is a summary of the estimated debt service requirements on the 2018 DASNY Bonds, the 2018C Taxable Bonds and certain other indebtedness of MMC:

<u>Year Ending</u> <u>December 31</u>	<u>Series 2018A Bonds</u>		<u>Series 2018B Bonds</u>		<u>2018C Taxable Bonds<sup>(1)</sup></u>		<u>Existing Debt</u>	<u>Total Debt</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Service<sup>(2)(3)</sup></u>	<u>Service</u>
2019	\$ -	\$14,642,250	\$ -	\$18,714,533	\$ -	\$31,603,871	\$19,363,691	\$84,324,346
2020	-	14,642,250	-	18,714,533	-	25,283,097	20,149,791	78,789,671
2021	-	14,642,250	-	18,714,533	-	25,283,097	20,668,264	79,308,144
2022	-	14,642,250	-	18,714,533	-	25,283,097	21,225,139	79,865,019
2023	-	14,642,250	-	18,714,533	-	25,283,097	21,807,687	80,447,567
2024	12,500,000	14,642,250	-	18,714,533	-	25,283,097	21,174,063	92,313,943
2025	15,170,000	14,017,250	-	18,714,533	-	25,283,097	19,098,772	92,283,652
2026	15,930,000	13,258,750	-	18,714,533	-	25,283,097	19,927,524	93,113,904
2027	16,725,000	12,462,250	-	18,714,533	-	25,283,097	16,607,548	89,792,428
2028	17,565,000	11,626,000	-	18,714,533	-	25,283,097	17,338,025	90,526,655
2029	18,445,000	10,747,750	-	18,714,533	-	25,283,097	15,464,341	88,654,721
2030	19,370,000	9,825,500	4,460,000	18,714,533	-	25,283,097	10,819,342	88,472,472
2031	20,335,000	8,857,000	15,625,000	18,487,252	-	25,283,097	1,253,997	89,841,346
2032	21,345,000	7,840,250	16,435,000	17,691,002	-	25,283,097	1,253,997	89,848,346
2033	22,410,000	6,773,000	18,435,000	16,853,474	-	25,283,097	1,242,484	90,997,055
2034	23,535,000	5,652,500	19,965,000	15,914,027	-	25,283,097	1,153,606	91,503,230
2035	24,715,000	4,475,750	15,455,000	14,896,610	5,625,000	25,283,097	1,046,728	91,497,185
2036	25,950,000	3,240,000	16,220,000	14,132,206	5,870,000	24,988,010	1,091,021	91,491,236
2037	26,990,000	2,202,000	17,015,000	13,329,965	6,175,000	24,680,069	1,091,021	91,483,055
2038	28,060,000	1,122,400	17,850,000	12,488,403	6,510,000	24,356,129	1,091,021	91,477,953
2039	-	-	18,730,000	11,605,542	36,030,000	24,014,614	1,091,021	91,471,177
2040	-	-	19,650,000	10,679,156	37,910,000	22,124,480	1,091,021	91,454,657
2041	-	-	20,615,000	9,707,267	39,885,000	20,135,722	1,091,021	91,434,010
2042	-	-	21,630,000	8,687,649	41,965,000	18,043,355	1,091,021	91,417,025
2043	-	-	22,695,000	7,617,829	44,155,000	15,841,871	1,091,021	91,400,721
2044	-	-	23,805,000	6,495,335	46,460,000	13,525,500	1,091,021	91,376,855
2045	-	-	24,975,000	5,317,939	48,885,000	11,088,208	1,091,021	91,357,168
2046	-	-	26,205,000	4,082,676	51,430,000	8,523,701	1,091,021	91,332,398
2047	-	-	27,495,000	2,786,576	54,115,000	5,825,683	1,091,021	91,313,280
2048	-	-	28,845,000	1,426,674	56,935,000	2,986,810	1,091,021	91,284,505
	<u>\$309,045,000</u>	<u>\$199,953,900</u>	<u>\$376,105,000</u>	<u>\$416,773,979</u>	<u>\$481,950,000</u>	<u>\$652,267,574</u>	<u>\$243,778,272</u>	<u>\$2,679,873,725</u>

<sup>(1)</sup> The 2018C Taxable Bonds are not subject to the terms hereof and are being offered pursuant to a separate offering document.

<sup>(2)</sup> Represents debt service on existing MMC indebtedness remaining in place after implementation of the Plan of Finance.

<sup>(3)</sup> Existing debt service smoothed in accordance with the provisions of the Master Indenture as of the date of issuance of the 2018 DASNY Bonds and the 2018C Taxable Bonds, excludes guarantees, and assumes an interest rate of 2.2% on variable rate indebtedness.

## PART 6 - ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds with respect to the 2018 DASNY Bonds:

<b>Sources of Funds</b>	<b>Series 2018A Bonds</b>	<b>Series 2018B Bonds</b>
Principal Amount of 2018 DASNY Bonds	\$309,045,000	\$376,105,000
Net Original Issue Premium/Discount	32,844,620	(1,505,925)
Other Available Funds	19,449,917	-
	<u>\$361,339,537</u>	<u>\$374,599,075</u>
<b>Uses of Funds</b>		
Indebtedness to be Refunded	\$347,651,567	-
Deposit to Project Fund	-	\$357,443,394
Costs of Issuance and Related Costs*	1,766,203	14,842,598 <sup>†</sup>
Payoff of Commercial Loans	10,166,389	-
Underwriters' Discount	1,755,378	2,313,083
	<u>\$361,339,537</u>	<u>\$374,599,075</u>

\* Includes additional proceeds.

<sup>†</sup> Includes bond insurance premium.

## PART 7 - MONTEFIORE OBLIGATED GROUP

*Certain statements in this Part 7 that relate to the Medical Center, MHS, MMAH and other System entities are forward-looking statements that are based on the beliefs of, and assumptions made by, the management of the Obligated Group. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Obligated Group to be materially different from any expected future results or performance. Such factors include, but are not limited to, items discussed in "PART 8 - BONDOWNERS' RISKS AND MATTERS AFFECTING THE HEALTH CARE INDUSTRY."*

*Certain financial information and utilization data set forth herein with respect to past periods may differ from what the Obligated Group Members have previously reported in earlier disclosure documents. This is generally due to changes in accounting standards and related guidance, or the application of relevant accounting standards, that require a reclassification or restatement of certain items and to adjustments in utilization data that occur in the normal course of patient care or as services are billed and coded.*

*The information contained in this Part 7 may include statistics and other data relating to the healthcare industry in the United States that have been derived from third party sources. Such statistics and data are not necessarily reflective of current or future industry and market conditions. While the Obligated Group has no reason to question the accuracy of such statistics and data, such statistics and data have not been independently verified by the Obligated Group.*

### **Introduction**

Montefiore Medical Center (the "Medical Center" or "MMC") 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.

With a history dating to 1884, the Medical Center is the primary operating corporation in an integrated academic health care system (the "System" or the "Montefiore System") that serves Bronx, Westchester, Rockland and Orange Counties, New York. Other System entities own and operate five inpatient acute care hospitals, an inpatient rehabilitation hospital, a skilled nursing facility, numerous outpatient facilities, and a medical school.

Montefiore Medicine Academic Health System, Inc. (“MMAH”) sits at the top of the corporate chart of the System entities. MMAH is the sole corporate member of Montefiore Health System, Inc. (“MHS”), which serves as the sole corporate member of MMC and each of the other major health care delivery entities in the System. MMAH is also the controlling corporate member of the Albert Einstein College of Medicine, Inc. (“AECOM”), which owns and operates the Albert Einstein College of Medicine (the “College of Medicine” or the “Medical School”). MHS is the “active parent” of the Medical Center and each of MHS’s other subsidiary hospitals. As such, MHS has received establishment approval from the Public Health Council of the State of New York to participate in the governance and operations of the Medical Center and each of these subsidiaries.

The Medical Center is the flagship of the Montefiore System. For the year ended December 31, 2017, MHS and its consolidated subsidiaries, which includes all of the affiliated hospital corporations, recorded total operating revenue of \$5.5 billion and, as of December 31, 2017, had \$4.7 billion of total assets. Of these amounts, MMC represented 66.0% of the total operating revenue and 71.9% of total assets. See Appendix B-1 - Montefiore Medical Center Audited Consolidated Financial Statements as of and for the Years Ended December 31, 2017 and 2016, with Report of Independent Auditors and Appendix B-3 – Montefiore Health System, Inc. Audited Consolidated Financial Statements as of and for the Years Ended December 31, 2017 and 2016, with Report of Independent Auditors.

*On the date of issuance of the Series 2018 Bonds, the Medical Center will be the only Member of the Obligated Group. Neither MMAH, 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 the Series 2018 Bonds.*

Each Member of the Obligated Group will be jointly and severally liable on each Obligation now or hereafter issued and outstanding under the Master Indenture, and pursuant to the Master Indenture each Member of the Obligated Group pledges its Gross Receivables to secure payment of the Obligations. To further secure payment of the Obligations, the Medical Center will grant to the Master Trustee a mortgage on certain of its property. See, “Existing Facilities and Mortgage” below for a description of the mortgaged property.

### **Montefiore Medical Center**

The Medical Center is a voluntary, acute care teaching hospital with three inpatient facilities located in the Bronx, New York, with a total of 1,558 certified beds. MMC provides comprehensive primary, secondary, tertiary and quaternary healthcare services primarily to the residents of the Bronx. A New York not-for-profit corporation, the Medical Center is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code (the “Code”) as an organization described in section 501(c)(3) of the Code.

Founded in 1884 as the Montefiore Home for Chronic Invalids, the Medical Center in its early years provided care primarily to patients with tuberculosis and other chronic illness, filling a need not fully met by acute care hospitals. MMC’s first facility was located on the Upper East Side of Manhattan. By 1888, it moved to a larger facility on the Upper West Side and remained there until 1913 when it moved to what is now its Moses Campus in the Bronx. Over the years, the Medical Center’s mission has broadened to serve a wider patient population including those with acute illnesses, and it is now long established as a nationally recognized academic medical center. Building on its early mission, MMC maintains a continued commitment to underserved populations that has put it in the forefront of developments in health care delivery and education. The Medical Center established the first Department of Social Medicine, the first hospital-based Department of Social Work and the first hospital-based Department of Home Health Care in the United States. The Montefiore Medical Group (the “Medical Group”), a practice group of physicians and other health care providers employed by MMC, was established in 1948. A participant in one of the first group model health maintenance organizations in the nation, the Medical Group now includes 272 medical professionals who provide primary care at 20 locations. MMC’s long commitment to and experience with the integrated delivery of care in partnership with its physician employees has positioned it well with respect to the health care industry’s current focus on managed care and community outreach and access.

The past ten years have been ones of growth for the Medical Center, reflecting in part the consolidation of the hospital industry in New York, and the adoption of a population health strategy to increase the number of individuals served by the System. In 2007, the Medical Center had two Bronx hospitals: the Henry and Lucy Moses Division, which includes The Children's Hospital at Montefiore, located at 111 East 210th Street, Bronx, New York (the “Moses Campus”), and the Jack D. Weiler Hospital of the Albert Einstein College of Medicine (the “Weiler Division”) located at 1825 Eastchester Road, Bronx, New York (the “Weiler Campus”). In 2008, the Medical Center acquired Our Lady of Mercy Hospital and transformed it into the Medical Center’s third inpatient hospital facility. Known as the Wakefield Division, this site is located at 600 East 233<sup>rd</sup> Street, Bronx, New York (the “Wakefield Campus”).



There has also been substantial growth in ambulatory and outpatient facilities. In 2013, the Medical Center acquired the former Westchester Square Medical Center located at 2475 St. Raymonds Avenue, Bronx, New York (the “Westchester Square Campus”), and converted it into an ambulatory site offering emergency and ambulatory surgery services. In 2014, the Hutchinson Campus located at 1250 Waters Place, Bronx, New York (the “Hutchinson Campus”) was opened offering ambulatory surgery and multispecialty outpatient services.

MMC operates a hospital-based home health agency, methadone maintenance treatment programs, school-based health programs, and the Medical Group’s 20-site primary care network located throughout the Bronx and Westchester County. In addition, MMC administers the clinical activity of MMC’s employed physicians and research activities funded by grants and contracts with the National Institute of Health, New York State agencies, corporations and other entities.

The Medical Center, which is the university hospital and primary teaching affiliate of the College of Medicine, has one of the largest clinical teaching programs in the nation. MMC currently provides training to over 1,400 interns, residents and fellows through programs fully accredited by either the Accreditation Council for Graduate Medical Education or the American Dental Association. In addition there are 60 board accredited fellowships. MMC and AECOM are parties to agreements pursuant to which AECOM (i) recognizes MMC as its primary teaching affiliate, and (ii) agrees to provide MMC with at least a majority of the College of Medicine’s medical students and MMC agrees to provide clinical clerkships for College of Medicine students.

The Medical Center has committed substantial financial resources to the growth of the System and its closer affiliation with the College of Medicine. See “Montefiore Health System, Inc.,” “Albert Einstein College of Medicine, Inc.” and “Financial Commitments to Affiliates,” below.

### **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 the Medical Center and the other health care delivery entities in the System. MHS has received establishment approval from the Public Health Council of the State of New York to participate in the governance and operations of the Medical Center and each of MHS’s other hospital subsidiaries.

### ***MHS Subsidiaries***

In addition to being the sole corporate member of the Medical Center, MHS is the sole corporate member of other System not-for-profit corporations that own and operate hospital, skilled nursing and outpatient facilities in Westchester, Rockland and Orange Counties, New York, with a total of 3,064 certified acute care beds, 150 certified skilled nursing beds and approximately 32,000 employees. The medical staffs of System hospitals total over 5,000 physician and dentist members. The System has approximately 200 sites, including one of the first freestanding emergency departments in New York State, 65 primary care sites, 18 mental health/substance abuse treatments clinics, 91 specialty care sites, nine dental clinics and eight imaging centers.

In 2013, through newly created subsidiaries, MHS acquired the assets of health care providers that were then part of the Sound Shore System in Westchester County, New York. This was done through the bankruptcy proceeding of the Sound Shore entities. The real property formerly owned and operated by the Sound Shore entities was acquired by MHS affiliates and leased to Montefiore Mount Vernon Hospital (“MVH”), Montefiore New Rochelle Hospital (“NRH”), and Schaffer Extended Care Center (“SECC”). MVH operates a community-based teaching hospital located in Mount Vernon, Westchester County, New York, with 121 certified beds, 85 of which are currently operational. MVH provides inpatient, critical care and ambulatory services. NRH operates a community-based teaching hospital offering primary, acute and emergency care, with 223 certified beds (151 currently operational). It is located in New Rochelle, Westchester County, New York. SECC operates a 150-bed facility located on the NRH campus. SECC offers short-term rehabilitation/sub-acute care and skilled long-term care, and operates an adult day services program that provides a wide range of healthcare and social services for medically frail seniors and those with chronic conditions or disabilities.

Montefiore Nyack Hospital (“Nyack”), which joined the System in 2014, owns and operates an acute care community hospital located in Nyack, Rockland County, New York, with 375 certified beds (209 currently operational). Nyack was founded in 1895, and provides clinical rotations to 3rd year students from Touro College of Osteopathic Medicine. It is a New York State designated Stroke Center and Area Trauma Center.

St. Luke's Cornwall Hospital ("SLCH") joined the System in 2016. It owns and operates an acute care community hospital located in Newburgh, Orange County, New York. It has 242 certified beds of which 184 are currently operational. SLCH is a regional center for neonatology through its Elaine Kaplan Neonatal Intensive Care Unit. SLCH also has an outpatient center located in Cornwall, Orange County, New York.

MMV, MNR, Nyack and SLCH are recipients of grant funding through New York State Department of Health's ("NYS DOH") Value Based Payment/Quality Improvement Program. MHS has collaborated with each of these facilities and the NYS DOH to develop transformation plans designed to improve financial stability and meet New York State's value based payment goals by transitioning hospitals from fee-for-service to value based care that rewards quality and outcomes. Under this program, the hospitals receive operating grants while implementing transformation initiatives. These facilities have also received capital grants awards, via the Capital Restructuring Financing Program and the Statewide Health Care Facility Transformation Program I, for projects in furtherance of transformation and financial sustainability.

White Plains Hospital ("WPH"), which became a subsidiary of MHS in 2015, owns and operates an acute care hospital in White Plains, Westchester County, New York. It has 292 certified beds of which 277 are operational. WPH's Flanzer Emergency Department is the busiest in Westchester County, with more than 60,000 visits a year. WPH also has approximately two dozen outpatient medical facilities in Westchester County.

The Winifred Masterson Burke Rehabilitation Hospital ("Burke Rehab"), is a 150-bed rehabilitation hospital located in White Plains, Westchester County. It also joined the System in 2016. Founded in 1915, Burke Rehab is the only hospital in Westchester devoted to providing inpatient and outpatient rehabilitation for a broad range of neurological, musculoskeletal, cardiac, and pulmonary disabilities caused by disease or injury. Burke treats patients who have suffered a stroke, spinal cord injury, brain injury, amputation, complicated fracture, arthritis, cardiac and pulmonary disease, and neurological disorders.

Other affiliates include Montefiore Foundation, Inc., which was formed in 2014 for the purpose of conducting fundraising and managing and investing funds; Montefiore HMO, LLC, which provides managed care alternatives to traditional Medicaid fee-for-service programs for long-term care patients; and Montefiore Information Technology, LLC, which provides a wide range of information technology and outsourcing support services.

From time to time, MHS engages in discussions with other health care organizations regarding potential affiliation arrangements, which could involve MHS becoming their sole member. Agreement on business issues, Board of Trustee approval, and regulatory approvals are required prior to commencement of any affiliation. As with certain current affiliations, future affiliations could involve MMC or the Obligated Group agreeing to extend loans or otherwise transfer funds as part of these arrangements. Any such action by MMC or the Obligated Group in this regard would be subject to compliance with applicable covenants under its financing documents.

MHS has clinical affiliations with St. John's Riverside Hospital and St. Joseph's Medical Center, both in Yonkers, Westchester County, and with St. Barnabas Hospital in the Bronx. MHS has a clinical collaboration agreement with CVS Pharmacy, Inc. to identify opportunities to promote greater wellness in the communities they jointly serve, and to assist patients who do not have regular access to healthcare by offering information about healthcare providers, including MHS affiliates. MHS has a collaboration agreement with CityMD, an urgent care provider, to assist patients in obtaining appropriate follow up care, including at MHS affiliates, and to coordinate care.

In addition, in order to ensure high quality care and optimum patient outcomes for a shared patient population across the care continuum, the Medical Center partners with community based federally qualified health centers, hospital systems and post-acute care providers, including skilled nursing facilities, to improve patient care.

#### **Albert Einstein College of Medicine, Inc.**

AECOM is a New York not-for-profit corporation and a 501(c)(3) organization. MMAH and Yeshiva University (the "University") are the corporate members of AECOM, with MMAH controlling 51% of the voting interests in AECOM as a member and the University controlling 49% of the voting interests as a member. In 2015, AECOM acquired substantially all of the assets and liabilities of the College of Medicine, which was established in the 1950s as unincorporated division of the University. MMAH has the right to designate at least 75% of AECOM's Board. For a transitional period, the University remains the Medical School's degree-granting institution until AECOM is granted the necessary accreditations and authority to grant degrees itself. The New York State Education Department ("NYSED") has approved this grant of authority to AECOM, but conditions it on the merger of AECOM

into a new corporation directly chartered by the NYSED. This NYSED-chartered corporation has been created. The merger is expected to become effective sometime in 2019. As used in this Official Statement, the term “AECOM” includes this successor by merger, which will acquire all assets and liabilities of its predecessor corporation. Upon the merger, the University’s role in the operation of the Medical School and its rights as a member of AECOM will decrease and greater control will vest in MMAH.

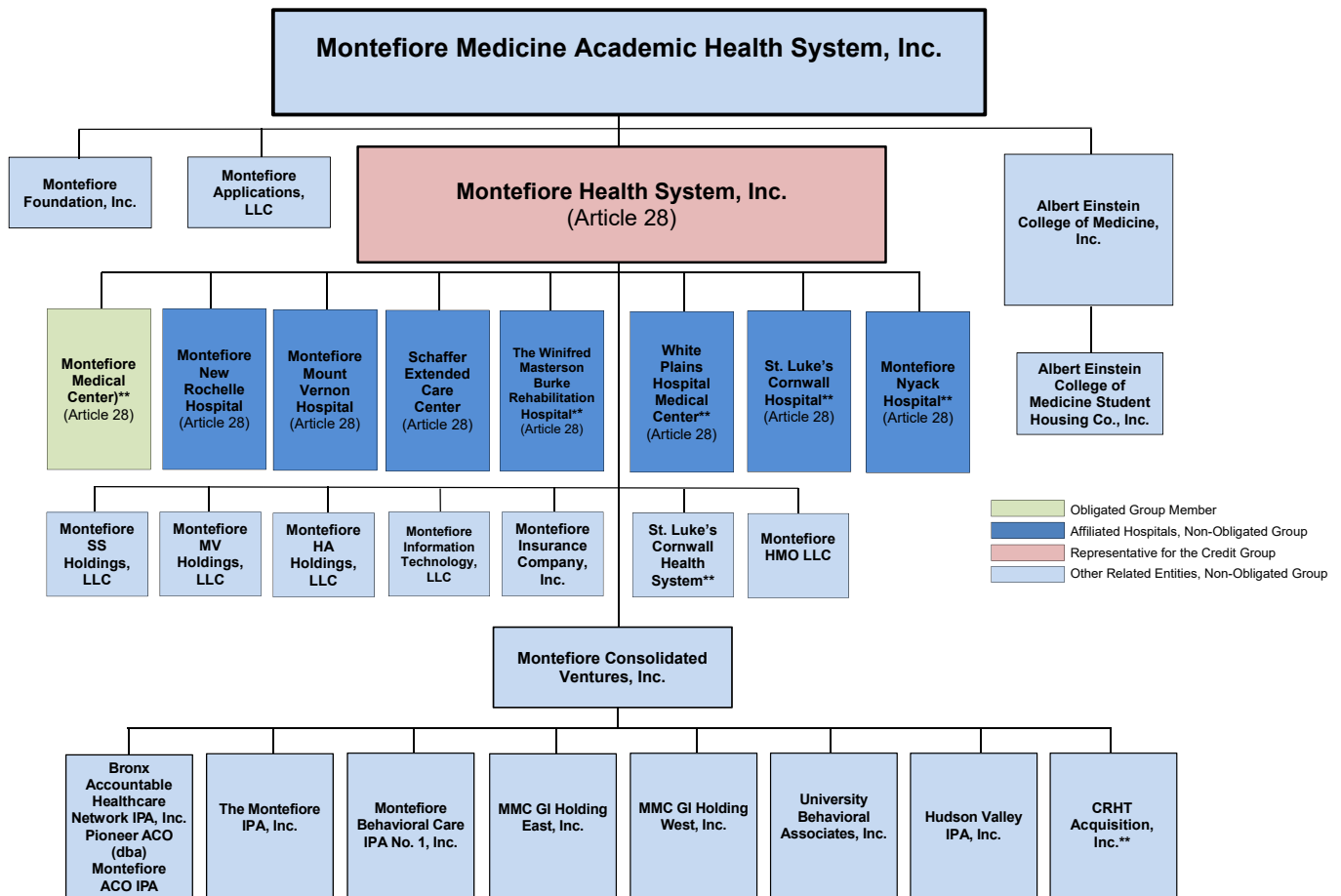
Within the first decade of its founding in 1955, the College of Medicine established an academic relationship with the Medical Center. The Medical Center has operated the Weiler Hospital almost continuously since it was constructed by the College of Medicine on its property in the 1960s. The Medical Center has been the University Hospital of the College of Medicine since the University and the Medical Center first entered into a formal affiliation agreement in 1984. Under the current affiliation agreement, AECOM agrees to provide the Medical Center with at least a majority of its medical students and the Medical Center agrees to provide clinical clerkships for the students. The Medical Center’s salaried medical staff members receive Medical School faculty appointments recognizing their vital role in teaching the Medical School’s students through all four years of undergraduate medical education. As a result of this arrangement, approximately 70% of members of the Medical School’s teaching faculty are employed by the Medical Center. This relationship provides the Medical School with access for medical student teaching to a network of Medical Center divisions in the Bronx, to hospitals in Westchester County that are affiliates of the Medical Center, to numerous community-based, ambulatory facilities, and to an outstanding team of clinician-educator faculty. The Chairs of MMC clinical departments, in most instances, are Chairs of the corresponding academic department at the College of Medicine, and recruitment of physician leadership is done jointly. Corporate collaboration and integration initiatives have also been implemented including transition of the clinical activity at AECOM to MMC, and the transfer of responsibility for research activity being shifted to AECOM.

**Montefiore Medicine Academic Health System, Inc.**

MMAH is a New York not-for-profit corporation and a 501(c)(3) organization. It is the sole corporate member of MHS. As discussed above, MHS is the sole corporate member of the Medical Center and the other primary health care delivery entities in the System. MMAH is also the controlling corporate member of AECOM.

The organization chart below shows MMAH and certain of its controlled affiliates.

**Organization Chart of the Montefiore Medicine Academic Health System, Inc.**



*\*\*Subsidiaries are not listed on this chart*

## Governance

MHS, the sole member of the Medical Center, is an “active parent,” having received establishment approval from the Public Health Council of the State of New York to participate in the governance and operation of the Medical Center. Accordingly, the Medical Center’s bylaws vest certain powers in MHS, acting through its board of trustees or a designated committee of the board. Some of these powers are exclusive, such as the right to approve MMC’s operating and capital budget. Others are concurrent. The bylaws allow MHS to further delegate certain of these powers to its sole member, MMAH.

The members of the board of trustees of the Medical Center are elected by MHS, other than the Chief Executive Officer of MMC, who serves *ex officio*. Currently, the membership of the boards of trustees of the Medical Center and MHS are identical, except that MHS has three additional board members appointed at the recommendation of the board of trustees of White Plains Hospital. There is also substantial overlap with the board of trustees of MMAH. The Chair, Vice Chair and Chief Executive Officer of the board of trustees of MHS serve *ex officio* as members of the board of MMAH, as do the Chairs of numerous committees of the MHS board. The Chair of the board of AECOM and the Chair of AECOM’s Finance Committee also serve *ex officio* as members of the board of MMAH. There is also substantial overlap in executive management positions, with the current Chief Executive Officer and the current Chief Financial Officer of MMC also serving in those positions with MMAH and MHS. Additionally, the current President and Chief Executive Officer of MMC also serves as President and Chief Executive Officer of AECOM.

The current members of the board of trustees of MMC and MHS, and their principal occupations are set forth in the table below. Members of the Board of Trustees of MMAH, all of whom with one exception are members of the boards of MMC and MHS, are indicated by an asterisk. Daniel Tishman is Chairman of the board of trustees of MMAH and by virtue of that position serves as an *ex officio* member of the board of MHS.

### Members of the Board of Trustees

<u>Name/Office</u>	<u>Occupation</u>
James Butler* <i>Chairman</i>	Regional CEO, USI Insurance Services, LLC
Oded Aboodi* <i>Vice Chairman &amp; Treasurer</i>	Chairman & CEO, Alpine Capital LLC
Jay Abramson*	Chief Executive Officer & Chief Investment Officer, Cramer, Rosenthal, McGlynn, LLC (Investment Banking)
Margaret Hayes Adame	President; Fashion Group International
Patricia Bauman	President, Bauman Foundation
Barry Blattman*	Senior Managing Partner, Brookfield Asset Management
Joel L. Braun	Executive Vice President and Chief Investment Officer, Acadia Realty Trust
Melisa Ceriale*	Philanthropist
Emanuel Chirico	Chairman and CEO, PVH Corp.
Alisa R. Doctoroff*	Philanthropist
Bruce Doniger	President, J.E. and Z.B. Butler Foundation
Roger Einiger*	President, Hardscrabble Advisors; Chairman, AECOM Board of Trustees
Jennie Emil	Philanthropist
Nathan Gantcher*	Managing Member, EXOP Capital LLC
Ruth Gottesman, EdD	Retired; Chair Emeritus, Board of Overseers of Albert Einstein College of Medicine
Barry W. Gray	President, A.C. Israel Enterprises Inc. (Investments)
Patricia Green	President, Green Charitable Foundation
John P. Gutfreund	Research Director, Glenview Capital Management

<u>Name/Office</u>	<u>Occupation</u>
Thomas L. Harrison	Retired; Chairman Emeritus, Diversified Agency Services, Omnicom Group Inc.
John Heffer*	Retired; Former President HSBC Business Unit, HSBC Bank USA
Lewis Henkind	President, Lewis Henkind Company (Real Estate)
Helen A. Johnson	Retired; Attorney, 2nd Assistant District Attorney, New York State Office of Court Administration
David B. Keidan	President, Buckingham Capital Management, Inc.
Alan M. Klein, Esq.*	Partner, Simpson Thacher & Bartlett, LLP
Catherine M. Klema*	Consultant, Nettleton Advisors, LLC
Stacey R. Lane*	Philanthropist
Jay B. Langner	Owner, GOM Capital
Jonathan Lipton*	Entrepreneur
W. Norman Milner	Partner and Portfolio Manager, Neuberger Berman
Ronald L. Moelis	CEO & Founding Partner, L+M Development Partners
Margaret S. Nathan	Philanthropist
Matthew H. Nord*	Principal and Partner, Apollo Global Management, LLC
Gayle F. Robinson	COO, Marble Collegiate Church
Zita Rosenthal	Landscaper Designer; Philanthropist
Jon W. Rotenstreich	President, Rotenstreich Family Partners, LLC (Consulting)
Steven M. Safyer, MD*	CEO of MMC and MHS
Hon. Felice K. Shea	Retired; Justice of the New York State Supreme Court
Edwin H. Stern, III	Executive Vice President, Seiden Krieger Associates, Inc. (Executive Search Consultants)
Michael A. Stocker, MD*	Retired; Former Chairman, New York City Health and Hospitals Corporation
David A. Tanner*	Three Mile Capital
Cynthia King Vance*	Management Consultant, Advanced Strategies, LLC
<b><i>The following four individuals are on the MHS Board, but not the MMC Board</i></b>	
J. Michael Divney	Owner, Divney Strategic Advisors
Laurence R. Smith	Chairman, Chief Investment Officer & Founding Partner, Third Wave Global Investors LLC
Daniel R. Tishman*	Principal & Vice Chairman, Tishman Realty
Susan A. Yubas	Certified Senior Advisor and Founder, FYI Senior Living Solutions

\* Also a member of the Board of Trustees of MMAH.

The Board of Trustees monitors operations through a varied and active group of nine committees: Audit; Community Services; Compliance; Executive; Finance; Investment; Legal; Medical; and Real Estate Planning & Development Committees.

Each of the other hospital subsidiaries of MHS has a Board of Trustees subject to varying levels of control by MHS. MHS is the “active parent” of each of its hospital subsidiaries. See “Introduction” above for a description of the “active parent” model in New York State.

## **Conflict of Interest Policy**

The MMC conflict of interest policy requires any potential conflict of interest to be disclosed on the record to the Board. Any transaction in which a Board member has a financial interest must be determined to be fair and reasonable to MMC before it is approved by a majority vote of disinterested Board members. The Board member with the conflict of interest shall not participate in the deliberations or vote with respect to the transaction.

MMC monitors and enforces compliance with the conflict of interest policy by means of a survey developed by counsel and approved by the Legal and Compliance Committees of the Board of Trustees. The survey is sent to all trustees, officers and key employees for completion. All survey responses are reviewed by the Compliance Officer. Any potential conflicts identified in the responses are discussed with senior management and/or the Legal and Compliance Committees of the Board of Trustees. Potential actions to be taken in response to a conflict include one or more of the following: 1) disclosure of conflict; 2) individual recusal from decisions for transactions where that individual may have a conflict; 3) request the individual to alleviate the conflict; or 4) removal of the individual from the board of trustees.

## **Senior Management**

Senior management personnel of the Medical Center and MHS have responsibilities throughout the System, and many hold offices with other System entities. Each of the individuals noted below holds the title or titles set forth after his or her name with both the Medical Center and MHS.

***Steven M. Safyer, M.D., Chief Executive Officer (69).*** Dr. Safyer has served as Chief Executive Officer of MMC and MHS since 2008. He was also President of the Medical Center and MHS until February 2018. He joined MMC in 1982 and was promoted to the position of Senior Vice President, Chief Medical Officer in 1998. Prior to his appointment as Senior Vice President, Chief Medical Officer, Dr. Safyer held the following positions at MMC: Vice President, Medical Affairs (1995-1998); Medical Director, Moses Campus (1993-1995); Executive Director of Rikers Island Health Services (1990-1993); and Medical Director of Rikers Island Health Services (1986-1990). Dr. Safyer is a board certified physician in Internal Medicine and holds academic appointments as Professor of Medicine and Professor of Epidemiology and Population Health at the Albert Einstein College of Medicine. Dr. Safyer is a fellow of the New York Academy of Medicine, a founding member of The Health Management Academy and a member of the Healthcare Institute. He received his Bachelor of Science degree from Cornell University. Dr. Safyer currently serves on the Boards' of the Josiah Macy Jr. Foundation, the Association of American Medical Colleges Council of Teaching Hospitals (COTH) Administrative Board, the NYC Board of Corrections, the Coalition to Protect American's Health Care, and the University HealthSystem Consortium (UHC). He is also on the boards of the League of Voluntary Hospitals and Homes and the Greater New York Hospital Association (GNYHA), where he served as immediate past Chair and as a past chairman of the Board of Governors, respectively. Dr. Safyer received his Doctor of Medicine degree from the College of Medicine in 1982 and his Bachelor of Science degree from Cornell University in 1971.

***Philip O. Ozuah, M.D., PhD, President & Chief Operating Officer (55).*** Dr. Ozuah began his career at MMC in 1990 as resident in social pediatrics, and was appointed Executive Vice President – Operations and Chief Operating Officer with the Medical Center and MHS in 2012. In February 2018, he was appointed President of the Medical Center and MHS. He previously served as Professor and University Chairman of Pediatrics at Albert Einstein College of Medicine and Physician-in-Chief of the Children's Hospital at Montefiore. In addition to his medical degree, which he earned at University of Ibadan, Nigeria in 1985, Dr. Ozuah holds a Master's degree in Medical Education from the University of Southern California in 1989 and a Doctorate in Educational Leadership and Administration from University of Nebraska-Lincoln in 2002. He is also Professor of Pediatrics and Professor of Epidemiology and Population Health at the Albert Einstein College of Medicine.

***Colleen Blye, CPA, Executive Vice President and Chief Financial Officer (58).*** Ms. Blye joined Montefiore in her current position in 2016. Prior to joining the Medical Center, she served as Executive Vice President and Chief Financial Officer of Catholic Health Services of Long Island. Earlier, she served as Executive Vice President for Finance and Integrated Services at Catholic Health Initiatives. Ms. Blye received her Bachelor's degree in Accounting from the University of Delaware in 1981 and is a certified public accountant.

***Lynn Richmond, NP, Executive Vice President and Chief Strategy Officer (54).*** Ms. Richmond was appointed to her current position in 2014 and has responsibility for Strategic Planning, Public Affairs, Government

and Community Relations and Health Policy, Community Relations and Community Health. She joined MMC in 1990 as Director of Special Projects, Rikers Island Health Services, and has held positions of increasing responsibility including Assistant Director of Quality Management, Director of Clinical Affairs, and Vice President, Organizational Effectiveness. Ms. Richmond is an Adult Nurse Practitioner specializing in Primary Care and holds a Bachelor's of Science degree from Columbia University (1996), a Bachelor of Arts degree from the University of Michigan (1989), and a Master of Science degree from Hunter College (2000).

***Alfredo Cabrera, System Senior Vice President and Chief HR Officer (62).*** Mr. Cabrera joined the Medical Center in his current position in 2012. Prior to joining the Medical Center, he spent 20 years at PepsiCo in various positions of increasing responsibility including Director, Personnel for South America, Senior Director of Staffing for Pepsi Cola International, and then leading the human resource strategy globally for Research and Development, Beverages and PepsiCo Global Flavors. He has also held human resources positions at Exxon Argentina across the organization, from headquarters to operations in the field. Mr. Cabrera received his Bachelor's degree in Human Resources from Buenos Aires Salvador University in 1981.

***Susan Green-Lorenzen, RN, System Senior Vice President - Operations (58).*** Ms. Green-Lorenzen was appointed to her current position in 2009 after serving as Vice President, Clinical Services since 2002. She began her career at the Medical Center in 1981 as a staff nurse and has held a variety of progressively responsible positions in the operation and management of perioperative services. She earned a Bachelor of Science degree in Nursing from the College of New Rochelle in 1981 and a Master of Science in Nursing from Pace University in 1986. She is certified by the American Nurses Credentialing Center as a Nurse Executive, and by the Competency Credentialing Institute as a Certified Perioperative Nurse.

***Christopher S. Panczner, Esq., System Senior Vice President & Chief Legal Officer (53).*** Mr. Panczner was appointed as Senior Vice President and General Counsel in 2008. In September 2016, Mr. Panczner was appointed System Senior Vice President and Chief Legal Officer. In this expanded role, Mr. Panczner leads the oversight of all legal, risk management, compliance and internal audit functions across MMC, MHS, AECOM and their various affiliates. Mr. Panczner served most recently as Senior Vice President and General Counsel at Saint Vincent Catholic Medical Centers during 2008. Prior to that position, he was a senior partner in the Health Care and Life Sciences Practice at Epstein Becker & Green, P.C. He received his B.A. from the University of Chicago in 1986 and his J.D. from the Loyola University Chicago School of Law in 1990, and is admitted to the bars of New York and Illinois.

***Edward Pflieger, Senior Vice President – Facilities and Real Estate (54).*** Mr Pflieger was appointed to his current position in 2015 after holding a variety of positions of increasing responsibility since joining the Medical Center in 1989 as a Manager in Engineering. He is a registered Professional Engineer in the State of New York, holds a Bachelor of Engineering degree from SUNY Maritime College (1986), a Masters of Business Administration from Manhattan College (1998), and is certified as an Energy Manager and Energy Procurement Professional by the Association of Energy Engineers.

***Andrew Racine, M.D., PhD., System Senior Vice President and Chief Medical Officer (66).*** Dr. Racine was appointed to his current position in 2012. He is certified by the American Board of Pediatrics, and holds an academic appointment as Professor of Clinical Pediatrics at the Albert Einstein College of Medicine. Dr. Racine joined the Medical Center in 1992 as Chief of the Division of General Pediatrics. Before that, he served as Associate Director of Pediatrics at Jacobi Medical Center and as a faculty member in the Division of General Pediatrics at Columbia-Presbyterian Medical Center. He is a fellow of the American Academy of Pediatrics and of the New York Academy of Medicine. Dr. Racine completed his undergraduate education at Harvard University in 1974 and holds doctorates in medicine (1983) and economics (1987) from New York University. He trained at Harvard's Boston Children's Hospital and holds a Research Associate position at the National Bureau of Economic Research in New York City.

***Stephen Rosenthal, Senior Vice President – Population Health Management (64).*** Mr. Rosenthal was appointed to his current position in 2015. Prior to his current position, Mr. Rosenthal served as Vice President of Network Management and Vice President of MMC Professional Services, where he developed and managed MMC's Faculty Practice of employed physicians. Earlier in his career, he practiced as a Clinical Audiologist. He is also an Associate in the Department of Epidemiology and Social Medicine at Albert Einstein College of Medicine. He received his Bachelor's degree and Master of Science degrees from Brooklyn College in 1975 and 1976, respectively, and an MBA from Pace University in 1987.

***Jack Wolf, Senior Vice President and Chief Information Officer (63)*** Mr. Wolf was appointed to his current position in 2017. Since 1988, he has held various positions at MMC, including Director of IT and Vice President and



Chief Information Officer. Prior to joining Montefiore, Mr. Wolf worked in the retail and accounting industries. He holds a Bachelor’s degree in Accounting from William Patterson University (1976) and a Master’s degree in Management/Finance from Rutgers University (1987). Mr. Wolf is a member of the Greater New York Hospital HIT Steering Committee and the Premier Alliance Healthcare HIT Steering Committee. He is an active member of The College of Health Information Management Executives (CHIME), and The Health Information Management Society (HIMMS).

**Service Area and Market Share**

MMC’s primary service area, Bronx County, New York, had an estimated population of 1,471,160 in 2017 according to the U.S. Census Bureau, and was the fastest growing county in the State between 2010 and 2017. The Bronx was the source of 86.5% of MMC’s discharges in 2017, and Westchester County and Manhattan were the source of 6.5% and 1.9%, respectively.

MMC competes with hospitals in the Bronx and surrounding areas. The following table sets forth the most recently available information relating to current certified beds and 2016 market share based on discharges by patient origin (Bronx County residents) for the MMC and other acute care hospitals located in the Bronx.

**Certified Beds and Market Share of the Medical Center  
and Other Acute Care Hospitals Located in Bronx, New York**

<u>Hospital</u>	<u>Certified Beds</u>	<u>Market Share</u> <sup>(1)</sup>
Montefiore Medical Center	1,536	35.8%
Bronx-Lebanon Hospital Center	579	12.5
Lincoln Medical and Mental Health Center <sup>(2)</sup>	362	8.9
Jacobi Medical Center <sup>(2)(3)</sup>	457	7.6
St. Barnabas Hospital <sup>(3)</sup>	422	6.1
North Central Bronx Hospital <sup>(2)(3)</sup>	<u>213</u>	3.0
Hospitals outside of Bronx County		<u>25.9</u>
Total	<u>3,591</u>	<u>100.0%</u>

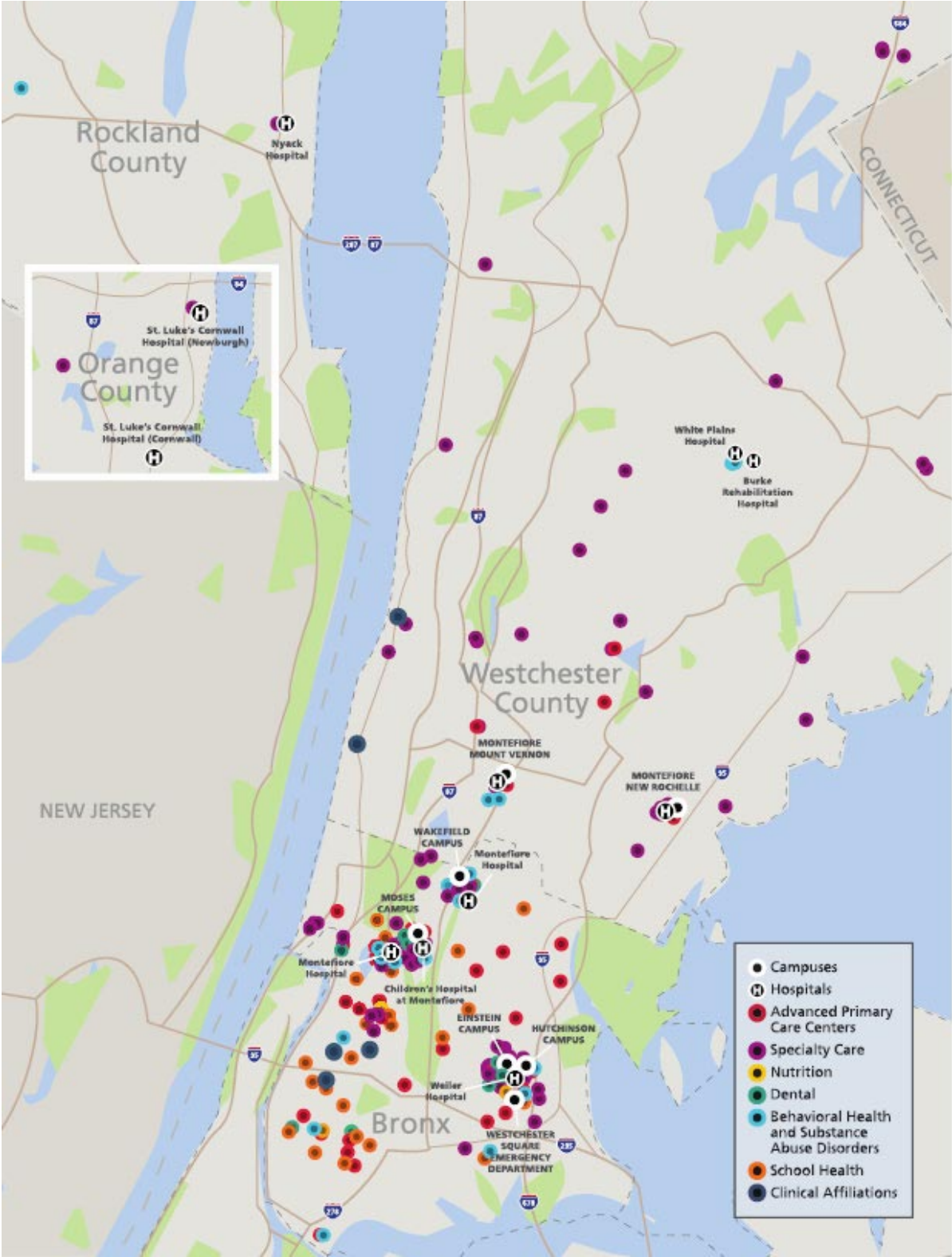
(1) Source: New York State Department of Health SPARCS System data as of 12/31/16

(2) These hospitals are part of the New York City Health + Hospitals Corporation hospital system.

(3) The Medical Center has agreements pursuant to which it provides an array of clinical services at these facilities.

The System’s primary service area includes Bronx, Westchester, Orange and Rockland Counties in New York. Based on 2016 data provided by the New York Statewide Planning and Research Cooperative System, MHS and its hospital affiliates, including the Medical Center, had a inpatient market share of 33.3% in the broader System service area, which had an estimated population in 2017 of more than 3.16 million people according to the U.S. Census Bureau. This includes 29.2% market share in Westchester County, 22.9% in Orange County, and 32.2% in Rockland County in 2016.

MHS Locations



## Centers of Excellence; Awards and Distinctions

The Medical Center's Centers of Excellence include: the Montefiore Einstein Center for Cancer Care, The Children's Hospital at Montefiore ("CHAM"), the Montefiore Einstein Center for Heart and Vascular Care, and the Montefiore Einstein Center for Transplantation.

The Montefiore Einstein Center for Cancer Care's physicians are internationally recognized for their work in developing strategies for cancer detection and delivering the most current treatments available. The Center provides state-of-the-art therapies to patients through an integration of science and medicine with a focus on improving patient outcomes.

The Children's Hospital at Montefiore is one of the most technologically advanced hospitals for children in the world. CHAM ranked nationally in seven pediatric specialties by U.S. News and World Report 2018 – 2019 Best Children's Hospital Rankings, including Cancer, Gastroenterology and GI Surgery, Neonatology, Nephrology, Neurology and Neurosurgery, Orthopedics and Urology.

The Montefiore Einstein Center for Heart and Vascular Care has a proud tradition of clinical excellence and research leadership in adult and pediatric cardiology and cardiovascular surgery. The Medical Center continues to be a pioneer in heart rhythm disorders, interventional and minimally invasive cardiac procedures, and is at the forefront of using ventricular assist devices (VADs) for the treatment of heart failure. MMC is a primary resource for patients requiring complex, high-risk procedures such as mitral and aortic valve repair, abdominal and thoracic aortic aneurysm repair and heart transplantation for both children and adults.

With 40 years of leadership in transplantation, the Montefiore Einstein Center for Transplantation is committed to the care of adult and pediatric transplant patients with conditions affecting the heart, liver, kidney, lung and pancreas.

Other awards and distinctions include the following:

- The Medical Center ranks in the top ten both in the State of New York and the New York Metro area in the U.S. News and World Report 2017 – 2018 Hospital Rankings.
- The Montefiore Einstein Center for Cancer Care was selected by the Centers for Medicare and Medicaid Services ("CMS") to participate in a new care delivery model, the Oncology Care Model, for higher quality, more coordinated cancer care. In addition, it has earned one of the highest honors for a cancer center, a three-year accreditation with Gold Level Commendation from the Commission of Cancer of the American College of Surgeons.
- MHS and the School of Medicine were selected to be part of the White House's inaugural Precision Medicine Initiative Summit, which took place in 2016.
- Montefiore's Accountable Care Organization was a leader in CMS's Pioneer ACO program and is now a participant in CMS's Next Gen ACO model.
- 90% of Montefiore Medical Group sites are Level 3 Patient Centered Medical Homes recognized by the National Committee on Quality Assurance (NCQA).
- New York State designated lead Health Home for care of chronically ill.
- Recognized by Hospitals & Health Networks and the American Hospital Association as one of 2017 Health Care's Most Wired hospitals for the adoption of technology to support clinical care and patient safety and privacy, infrastructure, business and administrative management and the continuum of care.
- The Medical Center has achieved Gold Star Status as part of the New York City Department of Health and Mental Hygiene's Tobacco-Free Hospitals Campaign, an initiative developed to support hospitals throughout the city in implementing comprehensive quit-tobacco systems.

- MMC is one of only seven organizations nationwide to be named a Young Adult Employer Champion by The National Fund for Workforce Solutions.
- The Medical Center and MHS's commitment to providing equitable healthcare to LGBTQ patients and a safe, inclusive workplace environment for associates has been recognized by its designation as a Leader in LGBTQ Healthcare Equality in the Human Right's Campaign's Health Equality Index 2018.
- The Medical Center earned a "Gold Star" recognition (the highest award possible) for its participation in the Healthy Hospital Food Initiative run by the New York City Department of Health and Mental Hygiene.
- For the third year in a row, MMC's renowned Cardiac Surgery Program at the Montefiore Einstein Center for Heart and Vascular Care was awarded the highest three-star rating by the Society of Thoracic Surgeons, a nonprofit organization representing more than 6,000 surgeons, researchers and healthcare professionals worldwide. MMC was one of only two programs in New York City to receive the three-star rating, putting it in the top tier of heart surgery centers in the United States.

## **Community Benefit**

*Charity Care and Other Community Benefit Programs:* MMC and MHS are guided by their mission and charitable purpose to provide charity care and other community benefit programs. These activities include access to medically necessary treatment for individuals unable to pay for services, care provided under means-tested government insurance programs that reimburse healthcare providers at less than the cost of the services provided, education for future health providers, research to advance knowledge and other programs designed to meet local community needs. Measurement of these activities follows IRS reporting guidelines. In 2017, it is estimated that MMC provided more than \$563.1 million in community benefit programs and services, representing approximately 15.9% of operating expenses.

The Medical Center is committed to serving all patients in need of health care services. Consistent with its mission and values, and taking into account an individual's ability to pay for medically necessary health care services, MMC provides charity care, including free or discounted care, to all patients not covered by insurance. A key aspect of the policy includes assisting patients in obtaining insurance they are eligible to receive.

The Medical Center develops a community service plan as part of its mission to advance the health of the communities it serves. MMC assesses the needs of its community through participation in advisory boards and linkages with community-based groups. On a regular basis, MMC reports to these various community groups on its performance and services, the status of programs, financial and utilization statistics, the plan for and implementation of community services, and plans for the future. The Montefiore Office of Community and Population Health was set up to maximize the impact of Montefiore's community services and helps to assess community needs by its various initiatives, including: supporting and coordinating MMC's diverse portfolio of community health improvement programs and activities; enhancing MMC's capacity to assess and measure the health needs of the communities it serves; identifying and selecting a limited number of top-priority health needs in the communities the Medical Center serves for specific focus; and leading and coordinating System-wide efforts.

Beyond the formal structure that the Medical Center and MHS have established to gain input from the communities they and their affiliates serve, they participate in a variety of other organized partnerships and collaboratives, working with other providers in the Bronx, Westchester, Rockland and Orange Counties, the County Departments of Health, community-based organizations and members of the community in planning and developing initiatives aimed at improving the health of their patient populations.

MMC is a member of The Bronx Collaborative, Inc., a not-for-profit corporation established in 2010 to provide a forum to identify and explore ways to (i) improve the quality of health care services, resources and facilities in the Bronx, (ii) improve access to and utilization of health care resources, (iii) improve patient outcomes, and (iv) reduce health care costs and insurance rates. Other members include Bronx-based health care providers and third party payors.

The Medical Center is a participant in The Bronx Regional Health Information Organization ("Bronx RHIO"), a clinical information exchange established and governed by many of the Bronx's leading healthcare

organizations, including the Medical Center. Participants in the collaborative include hospitals, health systems, ambulatory care centers, individual physician offices, long-term care, home care, and community organizations. These organizations utilize the Bronx RHIO to securely access information which leads to improvements in treatment, outcomes, and costs. The Bronx RHIO is part of the Statewide Health Information Network for New York.

### **Existing Facilities and Mortgage**

All of MMC's inpatient facilities are located at the Moses Campus, the Weiler Campus, and the Wakefield Campus. Ambulatory care facilities are located at the three inpatient hospitals, a medical office building adjacent to the Moses Campus, the Montefiore Medical Park (a facility several blocks from the Weiler Campus), the Comprehensive Health Care Center at 305 East 161st Street, Bronx, New York, the Westchester Square Campus, the Hutchinson Campus, and numerous off site locations principally in the Bronx and Westchester County. Administrative space is located at the Moses and Weiler Campuses, as well as in several leased office buildings in the Bronx and Westchester. MMC leases the site of the Weiler Campus from Yeshiva University under a lease expiring in 2114. See footnote 1 to the table below for additional information regarding the Weiler lease.

In accordance with the Master Trust Indenture, the Medical Center will grant a mortgage on certain of its facilities to the Master Trustee to secure the Series 2018 Obligations. The facilities to be mortgaged are the Moses Division's primary patient care facilities and its two parking garages, as identified in the table below under the heading "Moses Division" (the "Mortgaged Property"). The patient care facilities subject to the mortgage total approximately 1.1 million square feet of space. Existing mortgages on the Mortgaged Property will be released upon the closing of the issuance of the Series 2018 Bonds and the defeasance of the FHA-insured mortgage loans that will be refunded on the closing date.

The following table sets forth the principal patient care buildings operated by the Medical Center at its three inpatient sites, the square footage, the year of construction or last major renovation and the principal services contained therein.

**Montefiore Medical Center – Major Patient Care Facilities on Inpatient Campuses**

<b>Building</b>	<b>Square footage</b>	<b>Year of construction or last major renovation</b>	<b>Services provided</b>
<b>Moses Division</b>			
Foreman Pavilion	294,981	2015	Inpatient facilities, Emergency room, operating rooms, laboratory and other patient care services
Northwest Building	126,289	2007	Inpatient facilities
Childrens' Hospital	123,949	2007	Inpatient facilities, Emergency room, operating rooms and other patient care services
Greene Medical Arts Pavilion	118,318	1997	Outpatient care
Central Pavilion	101,325	2014	Support Services
Klau Pavilion	79,151	2014	Inpatient and Outpatient services
Diagnostic and Treatment Center	36,328	2006	Outpatient care
Rosenthal Southeast Pavilion	36,069	2010	Support Services
Service Building	35,660	2012	Support Services
Rosenthal South Pavilion	30,887	2007	Outpatient care
Storage Building	33,410	2007	Support Services
Moses Research Tower	40,798	2007	Research facilities
Hofheimer Pavilion	28,173	2017	Support Services
Schiff Building	<u>14,457</u>	2006	Outpatient care
Total Square footage	<u>1,099,795</u>		
210 <sup>th</sup> Street Parking Garage		1979	Parking
Wayne Avenue Parking Garage		1997	Parking
<b>Wakefield Division</b>			
Wakefield Division	335,928	2015	Inpatient facilities, Emergency room, operating rooms, laboratory and other patient care and support services
Parking Garage			Parking
<b>Weiler Division<sup>(1)</sup></b>			
Weiler Division	356,010	2014	Inpatient facilities, Emergency room, operating rooms, laboratory and other patient care and support services
Surface Parking			Parking

(1) The Weiler Division is leased by AECOM and Yeshiva University to the Medical Center under a lease with a term through 2114. Upon the subdivision of the tax lot on which the Weiler Hospital is located, AECOM will convey fee title to the Weiler Campus to the University. AECOM will retain title to the remainder of the parcel (on which various Medical School facilities are located). The Weiler Hospital site is currently subject to a mortgage securing bonds issued for the benefit of AECOM. The Weiler site will be released from this mortgage once the subdivision is completed. After the parcel is subdivided and the Weiler site is reconveyed, the University will become the sole landlord under the lease to the Medical Center.

## Services and Programs

MMC offers a broad range of diagnostic and therapeutic services for adults and children on an inpatient and outpatient basis. MMC's certified bed complement (excluding bassinets) includes the following services:

### MMC Certified Bed Complement <sup>(1)</sup>

	<u>Moses Campus</u>	<u>Weiler Campus</u>	<u>Wakefield Campus</u>	<u>Total MMC</u>
Medical-Surgical	581	304	206	1,091
AIDS	13	-	-	13
Intensive Care	48	22	16	86
Coronary Care	12	10	-	22
Bone Marrow Transplant	4	-	-	4
Pediatric	116	-	5	121
Pediatric Intensive Care	20	-	-	20
Maternity	-	50	30	80
Neonatal Care	-	35	15	50
Psychiatric	22	-	33	55
Rehabilitation	-	-	16	16
Total	<u>816</u>	<u>421</u>	<u>321</u>	<u>1,558</u>

(1) As of January 1, 2018

MMC is licensed to operate multiple ambulatory care facilities in the Bronx and southern Westchester County offering, among other services, primary and specialty medical care, imaging, dental, behavioral health and substance use disorders services, school health services, and ambulatory surgery.

MMC operates 24-hour emergency departments at all three inpatient campuses as well as the Westchester Square campus, which is home to one of the first freestanding emergency departments in New York State.

## Medical and Dental Staff

MMC's employed medical staff is organized into two managerial areas, the Montefiore Medical Group and the Faculty Practice Group (the "FPG"). The Medical Group was founded in the 1940's as a group model HMO covering certain NYC union employees. It has grown into a 20-site practice employing 272 medical providers who primarily provide primary care services. In addition, the Medical Group manages an extensive network of School Based health clinics throughout the Bronx. The FPG consists of the physicians of 21 clinical departments of the Medical Center. The Chairs of those departments, in most instances, are Chairs of the corresponding academic department at the College of Medicine. Most of the FPG physicians have academic appointments at the College of Medicine and are involved in the teaching of medical residents and medical students. All of the Medical Group and FPG physicians are employed by MMC and follow MMC's financial aid policy, and all are members of The Montefiore IPA, Inc., an independent practice association which facilitates MMC's pursuit of its accountable care strategy.

The Medical Center has agreements with organizations, including hospitals of which MHS is the sole corporate member, to provide clinical services. Under these arrangements, physicians employed by the Medical Center provide services at facilities operated by such other organizations, and the Medical Center receives payment from such organizations or bills directly for the services provided. Currently, specialists are provided in the areas of cardiology, obstetrics, neonatology, pediatric surgery, otolaryngology, psychiatry, gastroenterology and pathology. MMC is exploring additional clinical affiliations and plans to increase these arrangements in the future.

As of March 1, 2018, there were 2,920 physician and dentist members of the medical and dental staff at MMC holding appointments in four categories: full time (1,699), part time (237), per diem (184) and voluntary (800). The medical and dental staff is organized into 21 clinical departments: family medicine, medicine (which includes the specialties of cardiology and gastroenterology), pediatrics, oncology, neurology, obstetrics & gynecology, ophthalmology, orthopedic surgery, surgery, cardiothoracic surgery, dentistry, neurosurgery, otolaryngology, urology, anesthesiology, pathology, psychiatry, rehabilitation medicine, radiation oncology, emergency medicine and radiology. Numerous specialties and subspecialties are represented within the 21 departments. As of March 1, 2018, approximately 88.5% of the medical and dental staff were board certified and their average age was approximately 50.8 years. In 2017, the ten highest admitting physicians accounted for approximately 9.5% of total Medical Center admissions and the average age of the ten highest admitting physicians as of December 31, 2017 was approximately 42.4 years.

Following is a summary by clinical department of the number of full-time, part-time and voluntary physicians/dentists, their average age and the percentage of department staff who are board certified:

#### **Medical and Dental Staff Composition as of March 1, 2018**

<b><u>Clinical Department</u></b>	<b><u>Number of Physicians/Dentists</u></b>	<b><u>Average Age</u></b>	<b><u>Percent Board Certified</u></b>
Anesthesiology	97	48.0	95.9%
Cardiothoracic Surgery	27	54.2	88.9
Dentistry	73	52.0	79.5
Emergency Medicine	124	42.0	80.6
Family Medicine	149	49.6	91.3
Medicine	890	51.6	87.5
Neurology	96	49.3	94.8
Neurosurgery	9	57.3	77.8
Obstetrics & Gynecology	131	49.3	85.5
Oncology	69	54.3	85.5
Ophthalmology	109	57.4	92.7
Orthopedic Surgery	115	50.9	73.0
Otolaryngology	43	52.0	88.4
Pathology	55	50.1	94.5
Pediatrics	474	49.9	89.0
Psychiatry	175	50.5	92.6
Radiation Oncology	11	47.1	100.0
Radiology	92	51.2	98.9
Rehabilitation Medicine	70	52.4	97.1
Surgery	75	53.9	86.7
Urology	<u>36</u>	<u>55.6</u>	<u>86.1</u>
<b>Total</b>	<b><u>2,920</u></b>	<b><u>50.8</u></b>	<b><u>88.5%</u></b>

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Source: MMC Records



The following table shows the breakdown of discharges by major specialty grouping at MMC for calendar years 2015, 2016 and 2017, and for the four months ended April 30, 2017 and 2018.

**Montefiore Medical Center  
Percent of Discharges by Major Specialty Groupings**

<b>Major Specialty Grouping</b>	<b><u>Year Ended December 31,</u></b>			<b><u>Four Months Ended April 30,</u></b>	
	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>
Medical	57.0%	58.0%	59.0%	59.1%	60.3%
Surgical	14.2	14.7	15.1	15.3	14.0
Pediatrics*	10.7	10.6	10.3	10.5	10.7
Maternity	10.2	9.6	8.8	8.6	8.5
Psychiatric & Rehabilitation	1.8	1.5	1.5	1.4	1.5
<u>Newborn</u>	<u>6.1</u>	<u>5.7</u>	<u>5.2</u>	<u>5.1</u>	<u>5.1</u>
<b>TOTAL</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>

\* Pediatrics includes the neonatal intensive care unit and adolescents  
Source: Medical Center Records

**Utilization**

A summary of MMC's historical utilization data for the calendar years ended December 31, 2015, 2016 and 2017, and for the four months ended April 30, 2017 and 2018 is presented in the following table:

<b><u>Utilization</u></b>	<b><u>Year Ended December 31,</u></b>			<b><u>Four Months Ended April 30,</u></b>	
	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>
Licensed beds	1,525	1,536	1,558	1,558	1,558
Discharges <sup>(1)</sup>	87,189	89,138	88,178	28,905	29,477
Patient days <sup>(1)</sup>	486,354	504,173	514,698	171,808	171,128
Average length of stay (days) <sup>(1)</sup>	5.6	5.7	5.8	5.9	5.8
Case mix index <sup>(2)</sup>	1.45	1.49	1.56	1.54	1.56
Average % occupancy <sup>(1)</sup>	87.4%	89.6%	90.3%	91.9%	91.5%
Emergency room visits <sup>(3)</sup>	270,722	266,349	255,286	87,948	86,895
Ambulatory procedures	43,510	46,477	48,654	15,599	16,108
Montefiore Medical Group Primary Care visits	736,654	788,942	783,487	251,702	267,360
Home Care Visits	224,088	191,652	205,004	58,354	61,135
Faculty Practice Group Worked RVUs <sup>(4)</sup>	5,069,003	5,542,744	5,497,417	1,807,054	1,891,542

(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.

Source: Medical Center Records

## Management's Discussion and Analysis of Utilization

In 2016 and 2017, MMC discharges increased by 1,949 (2.2%) and decreased by 960 (1.1%), respectively, over prior year levels. The primary reason for the increase in 2016 discharges compared to 2015 was an increase in bed capacity and program growth. The primary reason for the decrease in 2017 compared to 2016 was a reduction in obstetrical discharges resulting from a reduced birth rate and turnover of personnel. Patient days increased by 17,819 (3.7%) in 2016 over prior year levels due to the increased inpatient volume. Patient days increased by 10,525 (2.1%) in 2017 over prior year levels due to an increase in length of stay and patient complexity. In 2016 and 2017, the case mix index increased by .05 and .06, respectively, compared to the previous year. Overall occupancy increased from 87.4% in 2015 to 90.3% in 2017.

Emergency Department visits decreased by 5.7% in the two year period, from 270,722 in 2015 to 255,286 in 2017 due to focused efforts to provide alternatives to emergency room care and a relatively mild 2017 flu season. Montefiore Medical Group primary care visits increased 6.4% in 2017 over 2015 levels due to program expansions. Ambulatory procedures increased by 11.8% from 2015 to 2017 due to continued growth at the Hutchinson Campus, which opened in late 2014. Home care visits decreased by 8.5% over the two year period due to the continued transition of home care services to managed care plans. Physician worked relative value units (RVUs) in the Faculty Practice increased over 2015 levels by 8.5% due to continued expansion of the activity at the Hutchinson Campus.

## Summary of Consolidated Historical Revenues and Expenses

The following Summary of Consolidated Historical Revenues and Expenses of the Medical Center for the three years ended December 31, 2015, 2016 and 2017 was derived from the Medical Center's consolidated financial statements which have been audited by Ernst & Young LLP, independent auditors. The summary of consolidated historical revenues and expenses should be read in conjunction with the audited consolidated financial statements and the related notes of the Medical Center included in Appendix B-1 to this Official Statement.

The following Summary of Consolidated Historical Revenues and Expenses of the Medical Center for the four months ended April 30, 2017 and 2018 was derived from the unaudited consolidated interim financial statements of the Medical Center including in Appendix B-2 to this Official Statement. Such unaudited consolidated information includes all adjustments, consisting of normal recurring accruals, which the Medical Center considers necessary for a fair presentation of the financial position and the results of operations for these periods, except for the omission of the effects, if any, of updated actuarial estimates of liabilities related to the medical malpractice program and the defined benefit pension and postretirement plans for which actuarial valuations are performed only at fiscal year-end. The results for the four months ended April 30, 2018 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2018. This summary of consolidated historical revenues and expenses should be read in conjunction with the consolidated financial statements and related notes included in Appendix B-2 to this Official Statement.

As more fully discussed in Note 1 to the 2017 audited consolidated financial statements included in Appendix B, the audited consolidated financial statements and the summary of consolidated historical revenues and expenses presented below, include financial performance information with respect to the Medical Center and the subsidiary organizations controlled by the Medical Center. The subsidiary organizations are not parties or obligors with respect to the Master Trust Indenture or the 2018 Obligations or for other debt of the Medical Center. For the year ended December 31, 2017, the Medical Center represented 96.5% of operating revenue and 97.4% of total assets of the Medical Center and its consolidated subsidiaries.

In March 2017, the Medical Center transferred to MHS all of the Medical Center's interest in Montefiore Consolidated Ventures, Inc. and its subsidiaries ("MCV"). MCV primarily consists of the System's risk-based payment arrangements, including the Montefiore ACO and the integrated provider associations. The transfer was done in recognition that with the growth of the System, these functions properly belonged under MHS rather than MMC. See "Organization Chart of the Montefiore Medicine Academic Health System, Inc." above.

Although the transfer moved a significant amount of revenue from MMC to MHS (\$288.5 million in 2016, \$51.6 million in 2017), it was offset by an almost equivalent amount of expense transfer, and as a result did not have a material effect on the financial results of the Medical Center. In 2016, the last full year that MCV was included in MMC, it contributed approximately \$3.2 million to net operating income, and for the two months during 2017, \$1.5 million. At the time of the transfer, MCV had a net deficiency of \$41.4 million, which was transferred to MHS, which increased MMC's consolidated net assets. The effects are discussed below in the Management's Discussion and Analysis of Financial Performance, particularly with respect to how the periods after the MCV transfer compare to prior periods that include it within MMC.

**MONTEFIORE MEDICAL CENTER**

**Summary of Consolidated Historical Revenues and Expenses  
(in thousands)**

	<u>Year Ended December 31,</u>			<u>Four months ended April 30,</u>	
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2017</u>	<u>2018</u>
<b>Operating revenue</b>					
Net patient service revenue	\$3,429,432	\$3,597,261	\$3,412,920	1,148,569	1,149,634
Other operating revenue	<u>243,007</u>	<u>285,207</u>	<u>349,927</u>	<u>96,334</u>	<u>116,056</u>
Total operating revenue	<u>3,672,439</u>	<u>3,882,468</u>	<u>3,762,847</u>	<u>1,244,903</u>	<u>1,265,690</u>
<b>Operating expenses</b>					
Salaries and wages	1,666,288	1,730,837	1,761,775	567,897	600,014
Employee benefits	492,282	467,825	495,898	172,126	179,142
Supplies and other expenses	1,335,731	1,470,653	1,294,553	434,558	415,816
Depreciation and amortization	141,238	148,955	150,921	51,434	52,042
Interest	<u>35,489</u>	<u>34,589</u>	<u>32,078</u>	<u>10,929</u>	<u>10,337</u>
Total operating expenses	<u>3,671,028</u>	<u>3,852,859</u>	<u>3,735,225</u>	<u>1,236,944</u>	<u>1,257,351</u>
Excess of operating revenues over operating expenses before certain items	1,411	29,609	27,622	7,959	8,339
Net realized and changes in net unrealized gains and losses on marketable and other securities	7,060	11,224	37,141	16,317	(1,516)
Malpractice insurance program adjustments associated with investment earnings shortfall	(20,259)	(1,209)	1,209	-	-
Net periodic pension and other postretirement benefit costs (non-service related) <sup>(1)</sup>	-	(8,841)	(9,444)	(2,753)	(3,774)
Gain on debt refinancing	<u>-</u>	<u>4,604</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess (deficiency) of revenues over expenses</b>	<b>(11,788)</b>	<b>35,387</b>	<b>56,528</b>	<b>21,523</b>	<b>3,049</b>
Change in defined benefit pension and other postretirement plan liability to be recognized in future periods	23,348	6,720	(16,678)	-	-
Net assets released from restrictions used for purchases of property, buildings and equipment	71	109	-	-	-
Transfer of Montefiore Consolidated Ventures, Inc. to MHS <sup>(2)</sup>	<u>-</u>	<u>-</u>	<u>41,435</u>	<u>41,435</u>	<u>-</u>
<b>Increase in unrestricted net assets before transfers to/from affiliates<sup>(3)</sup></b>	<b><u>\$ 11,631</u></b>	<b><u>\$ 42,216</u></b>	<b><u>\$ 81,285</u></b>	<b><u>\$ 62,958</u></b>	<b><u>\$ 3,049</u></b>

Source: Audited Consolidated Financial Statements of the Medical Center for the years ended December 31, 2015, 2016 and 2017, and Unaudited Consolidated Interim Financial Statements of the Medical Center for the four months ended April 30, 2017 and 2018.

- (1) In January 2017, MMC adopted Accounting Standard Update (ASU) 2017-07, *Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. As a result of the adoption of ASU 2017-07, MMC recorded the service cost component of net periodic benefit cost related to its defined benefit pension and other postretirement benefit plan within salaries and wages and presented all other components as net periodic pension and other postretirement benefit costs (non-service related) below the excess of operating revenues over operating expenses before other items. In the 2017 audited consolidated financial statements, MMC retrospectively applied the presentation requirements for the year ended December 31, 2016. The adoption of ASU 2017-07 did not impact the excess of revenue over expenses.
- (2) On March 1, 2017, the Medical Center assigned and transferred all of its rights, title and interest in the shares of common stock of Montefiore Consolidated Ventures, Inc. (“MCV”) to MHS. Accordingly, the activities of MCV are included in the operating results of the Medical Center through the date of transfer.
- (3) In 2015, 2016 and 2017 MMC transferred a net \$107.3 million, \$64.5 million and \$37.9 million, respectively to affiliates which were recorded as decreases in unrestricted net assets. For the four months ended April 30, 2017 and 2018, the net amounts transferred were \$16.2 million and \$4.5 million, respectively.

## Management's Discussion and Analysis of Financial Performance

### **Year ended December 31, 2016 compared to year ended December 31, 2015**

For the year ended December 31, 2016, excess of revenues over expenses before certain items totaled \$29.6 million compared with \$1.4 million for the year ended December 31, 2015, an increase of \$28.2 million. This reflected an increase in total operating revenue of \$210.0 million, or 5.7%, which was substantially greater than the increase in total operating expenses of \$181.8 million, or 5.0%. Excess of revenues over expenses totaled \$35.4 million in 2016 compared with a deficiency of revenues over expenses in 2015 of \$11.8 million. These results were due primarily to malpractice insurance adjustments and other items, as discussed further below.

For the year ended December 31, 2016, total operating revenue was \$3.9 billion as compared with \$3.7 billion in 2015, an increase of \$210.0 million or 5.7%. Net patient service revenue increased by \$167.8 million or 4.9%. Inpatient net patient service revenue increased as a result of an increase in discharges of 2.3%, and increases in both acuity and payment rates. Outpatient net patient service revenue increased due primarily to growth in physician practice revenue. Additionally, in October 2015, certain ambulatory programs moved from the Albert Einstein College of Medicine to the Medical Center, which increased revenue approximately \$16.0 million. Other operating revenue increased \$42.2 million in 2016 compared with 2015. This increase was largely driven by an increase in earnings on the Medical Center's equity investment in captive insurance companies.

For the year ended December 31, 2016, total operating expenses increased \$181.8 million or 5.0% over the year ended December 31, 2015. Salaries and wages increased by \$64.5 million or 3.9%. Increases in personnel costs are attributable to rate increases paid to both management and non-management employees, both discretionary and contractual, that averaged approximately 3.5%. Employee benefits decreased by \$24.5 million or 5.0%. During 2017, certain reclassifications were made to employee benefits in the amount of \$58.8 million to conform to the way 2016 benefits were presented in 2017, but this reclassification did not extend back to 2015. Without this reclassification, benefit expense increased by \$34.3 million or 6.9% driven by contractual commitments in union contracts. Supplies and other expenses increased by \$134.9 million or 10.1%. A number of things contributed to this. During 2016, the Medical Center completed installation of the Epic clinical and billing platform at all campuses. Costs to install this software increased supplies and other expenses by approximately \$20.0 million during 2016. Inflationary increases in supply costs approximated \$30.0 million due to both pricing and volume increases during 2016, along with costs (including additional rent of \$10.0 million) associated with the acquisition of the Medical School's clinical programs for a full year. The employee benefits reclassification noted above also accounted for \$21.6 million of the difference. Depreciation and amortization expense increased by \$7.7 million with additional depreciation incurred mainly due to the implementation of Epic during 2016.

The deficiency of revenues over expenses in 2015 was a result of recording an adjustment of \$20.3 million related to its captive insurance company. These adjustments are made if a certain level of investment return is not reached by the captive. In 2016, the adjustment totaled \$1.2 million, a decrease of \$19.1 million. In 2015, the deficiency of revenues over expenses was offset by recognition of \$23.3 million in change in defined pension plan and other postretirement liability to be recognized in future periods. This resulted in an increase in unrestricted net assets before transfer to/from affiliates of \$11.6 million for the year ended December 31, 2015.

Overall results for the year ended December 31, 2016 improved over the year ended December 31, 2015. As noted above, excess of revenues over expenses before certain items increased from \$1.4 million in 2015 to \$29.6 million in 2016. With the substantial decrease in the adjustment for the captive insurance company in 2016, an increase in net realized and changes in net unrealized gains and losses on marketable and other securities, and a gain on debt refinancing of \$4.6 million, excess of revenues over expenses totaled \$35.4 million, an increase of \$47.2 million over 2015. Based on this and recognition of \$6.7 million in change in defined pension plan and other postretirement liability to be recognized in future periods, in 2016 the increase in unrestricted net assets before transfers to/from affiliates totaled \$42.2 million, a \$30.6 million or 263.0% increase over 2015.

### **Year ended December 31, 2017 compared to year ended December 31, 2016**

For the year ended December 31, 2017, excess of revenues over expenses before certain items totaled \$27.6 million compared with \$29.6 million for the year ended December 31, 2016, a decrease of \$2.0 million. This reflected a decrease in total operating revenue of \$119.6 million or 3.1%, which was approximately the same as the decrease in total operating expenses of \$117.6 million or 3.1%. For the year ended December 31, 2017, excess of revenues over expenses totaled \$56.5 million compared with \$35.4 million for the year ended December 31, 2016, an increase of \$21.1 million or 59.7%. This increase was due primarily to investment returns, as discussed below. Excess of

revenues over expenses before certain items (which is determined before taking into account net realized and changes in net unrealized gains and losses on marketable and other securities) decreased from \$29.6 million in 2016 to \$27.6 million in 2017, a decrease of \$2.0 million or 6.7%.

In 2017, total operating revenue was \$3.8 billion as compared to \$3.9 billion in 2016, a decline of \$119.6 million or 3.1%. This was due primarily to the transfer to MHS by the Medical Center of its interest in MCV, which took place in March 2017. See discussion above under “Summary of Consolidated Historical Revenues and Expenses.” MCV primarily consists of Montefiore’s care management functions. The transfer of MCV accounted for a reduction in total operating revenue in 2017 of \$236.8 million. Removing the impact of the MCV transfer, total operating revenue would have increased by \$117.2 million or 3.3%.

Net patient service revenue declined \$184.3 million or 5.1%, comparing the year ended December 31, 2017 to the year ended December 31, 2016. The transfer of MCV caused a decline of \$264.5 million in net patient service revenue; without this transfer, the Medical Center would have recorded an increase in net patient service revenue of \$80.2 million or 2.4%. Outpatient net patient service revenue represented a majority of the increase in net patient service revenue indicative of a focus on outpatient services, including physician practices, clinics, and in ambulatory surgery. Other operating revenue increased \$64.7 million in 2017 as compared to 2016. This increase can be attributed to DSRIP revenue, and revenue derived from the Medicaid Health Home program, both of which are substantially offset by related operating expenses and offset by \$27.6 million resulting from the MCV transfer. Revenue from ancillary services was largely flat from the prior year.

For the year ended December 31, 2017, total operating expenses decreased \$117.6 million or 3.1% over the year ended December 31, 2016. The transfer of MCV caused a decline of \$241.5 million; without this, operating expenses would have increased by \$123.8 million or 3.5%. Salaries and wages increased by \$30.9 million or 1.8%. Increases in personnel costs are attributable to wage and salary increases for both management and non-management employees that averaged approximately 3.5%. These rate increases were offset by a decline in FTEs during 2017 as management commenced a multi-year process to slow the growth in expense base, and a reduction of approximately \$10.3 million is due to the MCV adjustment noted above. Employee benefits increased by \$28.1 million or 6.0% and as a percentage of salaries and wages from 27.0% in 2016 to 28.1% in 2017. These increases have been largely driven by contractual commitments in union contracts. Supplies and other expenses decreased by \$176.1 million or 12.0%, primarily due to the transfer of MCV of \$227.9 million. Without the MCV adjustment, supplies and other expenses would have increased by \$51.8 million or 4.3%. Depreciation and amortization expense increased by \$2.0 million or 1.3%, and interest expense declined \$2.5 million or 7.3% due to a restructuring of certain debt that occurred during 2016.

For the year ended December 31, 2017, the increase in unrestricted net assets before transfers to/from affiliates totaled \$81.3 million, a \$39.1 million or 92.6% increase over 2016. This was due primarily to the substantial increase in excess of revenues over expenses and transferring the net asset deficit of MCV to MHS.

#### **Four months ended April 30, 2018 compared to four months ended April 30, 2017**

For the four months ended April 30, 2018, excess of revenues over expenses before certain items totaled \$8.3 million compared with \$7.9 million for the four months ended April 30, 2017, an increase of \$400,000. This reflected an increase in total operating revenue of \$20.8 million or 1.7%, which was approximately the same as the increase in total operating expenses of \$20.4 million or 1.6%. For the four months ended April 30, 2018, excess of revenues over expenses totaled \$3.0 million compared with \$21.5 million for the four months ended April 30, 2017, a decrease of \$18.5 million. This decrease was due primarily to a decline in investment returns, as discussed below.

Through the four months ended April 30, 2018, total operating revenue was \$1.3 billion as compared to \$1.2 billion for the comparable period in 2017, an increase of \$20.8 million or 1.7%. The transfer of MCV in March 2017 accounted for a reduction in total operating revenue of \$51.6 million. Removing the impact of the MCV transfer, total operating revenue would have increased by \$72.4 million or 6.1%.

Net patient service revenue increased \$1.1 million or 0.1% comparing the four months ended April 30, 2018 to the four months ended April 30, 2017. The transfer of MCV caused a decline of \$53.8 million in net patient service revenue; without this transfer, the Medical Center would have recorded an increase in net patient service revenue of \$54.9 million or 5.0%. An approximate 2% increase in discharges, an increase in acuity in certain payors and an increase in payment rates contributed to growth in inpatient net patient service revenue. Outpatient net patient service revenue continued to outpace inpatient growth trends. Other operating revenue increased \$19.7 million in 2018 as compared to 2017. Contribution income, grants and investment income represent \$8.5 million of this increase. Other

operating revenue also includes an \$8.4 million gain on sale of two buildings. During the four months ended April 30, 2017, the Medical Center received a non-recurring positive rate adjustment in one of its risk sharing contracts in the amount of \$12.3 million.

For the four months ended April 30, 2018, total operating expenses increased \$20.4 million or 1.6% over the four months ended April 30, 2017. The transfer of MCV caused a decline of \$50.2 million; without this, operating expenses would have increased by \$70.6 million or 5.9%. Salaries and wages increased by \$32.1 million or 5.7%. Increases in personnel costs are attributable to rate increases paid to both management and non-management employees, both discretionary and contractual, that averaged approximately 3.5%. Employee benefits increased by \$7.0 million or 4.1%. These increases have been largely driven by contractual commitments in union contracts, somewhat offset by lower health benefit expenses. As a percentage of salaries and wages, benefits have declined from 30.3% in 2017 to 29.9% in 2018. Supplies and other expenses decreased by \$18.7 million or 4.3%, primarily due to the transfer of MCV of \$47.3 million. Without the MCV adjustment, supplies and other expenses would have increased by \$28.5 million or 7.4%. The increase is mainly attributable to increased medical supplies related to patient care volumes, and an increase in pharmaceutical costs. Adjusted for the MCV transfer, as a percentage of revenue, supplies and other expenses remained relatively consistent at 32.9% and 32.4% of total revenue for 2018 and 2017, respectively. Depreciation and amortization expense and interest expense were relatively flat with the prior year.

For the four months ended April 30, 2018, the increase in unrestricted net asset before transfers to/from members totaled \$3.0 million, a \$59.9 million decrease over the comparable period in 2017. This was due primarily to transferring the net asset deficit of MCV to MHS in 2017 as well as a decrease in net realized and changes in net unrealized gains and losses on marketable and other securities of \$17.8 million due to market fluctuations.

### Sources of Net Patient Service Revenue

The major portion of the Medical Center's net patient service revenue is derived from third party payors. The Medical Center provides services to patients insured under the Medicare and Medicaid programs as well as by Empire Blue Cross and Blue Shield and other commercial insurance companies. The following table shows the percent of net patient service revenue by payor source for the years ended December 31, 2015, 2016 and 2017, and for the four months ended April 30, 2016 and 2017.

#### Net Patient Service Revenue by Payor Source

	<u>Year Ended December 31,</u>			<u>Four months ended</u>	
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>April 30,</u>	<u>2018</u>
Medicaid and Medicaid Managed Care	33.0%	31.8%	32.8%	32.4%	34.4%
Medicare and Medicare Managed Care	32.1	32.3	33.4	34.3	31.3
Commercial, including Commercial Managed Care	33.7	34.8	32.8	32.3	33.5
Other	<u>1.3</u>	<u>1.1</u>	<u>1.0</u>	<u>1.0</u>	<u>0.8</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Source: Medical Center Records

The Medical Center has multiyear contracts with major third party insurers, including its top three commercial and managed care payors: Empire Blue Cross Blue Shield; United Healthcare/Oxford; and EmblemHealth. The Medical Center's contract for commercial and Medicare managed care lines of business with Aetna is scheduled to expire shortly, and the parties are in active negotiations for a new contract. There can be no assurance, however, that a mutually acceptable agreement will be reached. Management believes that neither the continuation nor the termination of the Medical Center's participation in these Aetna plans will have a material impact on the Medical Center.

## Managed and Accountable Care Arrangements

Since 1995, MMC has pursued a managed care strategy in which it accepts fixed payment for an enrolled population and takes the financial responsibility to provide, directly and indirectly, the healthcare services for that population. This strategy encouraged the development of innovative population health management tools to provide services in a cost efficient manner, and was able to deliver value to the organization which exceeded the alternative fee-for-service structure. The integrated provider association, The Montefiore IPA, Inc. (“MIPA”), is the entity that assumes the financial full-risk of a population through a contractual agreement with a health insurance company. Through contractual agreements, the MIPA receives capitation payments (monthly premiums per enrollee during the term of the contract) for which it must deliver health care services to enrollees in accordance with the terms of the insurance company subscriber agreements. MMC receives payment from the MIPA for services it provides to enrollees.

Accountable Care Organizations (“ACOs”) are part of CMS and other health insurance companies’ strategy to promote value based payment systems to provide better care for individuals, better health for populations, and reduced expenditures for Medicare and other insurers. Central to the strategy is a shift away from the financial incentives inherent in the traditional fee for service provider payment system. Medicare does not provide for capitation form of payment, but through contractual arrangements with ACOs, which are organizations representing groups of providers, it creates incentive systems which approximate capitation forms of payment. Under CMS’s ACO model, ACOs share in medical cost savings or cost increases to the Medicare program for attributed beneficiaries dependent upon the attainment of quality goals.

Given its historical involvement in managed care and its large integrated healthcare delivery system and physician practice, MMC is well positioned to participate in ACO arrangements. The Montefiore ACO completed its participation in the Pioneer ACO program with CMS during 2016. The Montefiore ACO was the only Pioneer ACO remaining in New York State, and was a leader in cost savings generating \$42.3 million of bonus payments for attributed Medicare beneficiaries for the five full years of reporting which were distributed as administrative service payments and shared savings incentives to MMC and other Pioneer ACO participants. The Montefiore ACO was accepted into the Next Gen ACO program which began operations on January 1, 2017. Currently there are 55,204 Medicare beneficiaries attributed to MMC’s Next Gen ACO program.

MMC and the Montefiore ACO also have arrangements with several health insurance plans for similar shared savings arrangements.

As a result of these arrangements, the number of lives under full risk capitation in MMC’s delivery system was approximately 222,570 at December 31, 2017. In addition, there were 131,257 members in other types of value based payment arrangements relating to the Montefiore ACO. The total full-risk population accounted for 22.3% of inpatient discharges at MMC facilities during 2017. MMC currently plans to expand these types of arrangements.

Administrative services are provided to MIPA, the Montefiore ACO and other related entities pursuant to contracts with CMO, a wholly owned subsidiary of MMC. Created in 1996, CMO has approximately 475 employees and provides administrative services including claims payment, credentialing, contracting, customer service, information technology, and data analytics. CMO also provides services to other organizations such as the Hudson Valley IPA and Crystal Run Healthcare, and others which may be unrelated to MMC. CMO has developed population health management workflows, by which the CMO identifies the patients most likely to incur high costs and deploys various care management resources to better coordinate and guide the provision of optimal care.

MMC serves as the leader of a group of providers participating in New York State’s Health Home initiative which was initially funded by CMS through the Affordable Care Act (“ACA”) for a two year period. The provider network, comprised of several Bronx hospitals and health centers, as well as many social service providers, is designed to improve health outcomes through care coordination and comprehensive care management for Medicaid beneficiaries with chronic conditions, HIV/AIDS, or serious mental illness.

CMS sponsors several other programs to encourage the health care system to reduce costs while increasing quality. MMC participates in both the “triple aim” project as well as the “bundled payments for care improvement” initiative. Under the triple aim program, MMC incentivizes providers to reduce the per unit cost of providing certain inpatient services. Under the bundled payment initiative, the provider takes financial risk for total inpatient and post-acute Medicare cost for selected clinical conditions over set time period such as 30, 60 or 90 days post-discharge.



## **Medicaid Redesign**

In April 2014, New York State finalized terms and conditions with the federal government that allowed the State to reinvest \$8 billion in federal savings generated by Medicaid Redesign Team (“MRT”) reforms. The goal is to address critical issues throughout the state and allow for comprehensive reform through a Delivery System Reform Incentive Payment (“DSRIP”) program. The DSRIP program promotes community-level collaborations and focuses on system reform, specifically with the goal of achieving a 25 percent reduction in avoidable hospital use over five years. Health care providers collaborate to implement innovative projects focusing on system transformation, clinical improvement and population health improvement. DSRIP funds are awarded based on both performance and reporting linked to achievement of project milestones.

The entity responsible for creating and implementing DSRIP in a defined region is a Performing Provider System (“PPS”), in which the PPS lead and its partners collaborate in a DSRIP Project Implementation Plan. Partnerships can include an array of providers including hospitals, health homes, skilled nursing facilities, clinics, federally qualified health centers, behavioral health providers, community based organizations, independent physicians, physician group practices and others, and each PPS has a designated lead provider for the group. A PPS is required to perform a community assessment of need, identify DSRIP strategies that are most consistent with addressing identified needs, develop a project plan incorporating those strategies, implement that project plan and monitor milestones and metrics to ensure the implementation is successful. It is expected that at the end of the DSRIP Program, the health care delivery system for Medicaid members and other New Yorkers will look fundamentally different, with greater focus on high quality ambulatory care and a de-emphasis on hospital inpatient and emergency room care, helping to meet the State goal of reducing avoidable hospital use, specifically emergency department visits and inpatient admissions, by 25%.

The Medical Center is the lead entity for the Montefiore Hudson Valley Collaborative (“MHVC”) PPS. The MHVC PPS consists of more than 230 organizations in a seven county area north of the Bronx, including Westchester, Rockland, Orange, Sullivan, Dutchess, Ulster and Putnam counties. The State assigned a maximum MHVC DSRIP award of \$224 million to be earned through reporting and performance metrics as well as the potential for high performance awards. The Medical Center is also a participating member in a Bronx-based PPS, known as the Bronx Partners for Healthier Communities, which is being led by St. Barnabas Hospital. Implementation plans for both PPSs were submitted May 1, 2015 with the first DSRIP year beginning April 1, 2015. Through these programs, the Medical Center works with partners to develop new primary and specialty care capacity, right-size excess inpatient capacity, reduce preventable hospital utilization, and develop a more integrated, patient-centered delivery system.

MHVC has entered into contracts with the partners who collectively make up the bulk of MHVC’s state defined network known as the Hudson Valley IPA. The early years of the MHVC workplan was devoted to building a network and completing process metrics. More recently, the MHVC network has taken significant steps towards a value based and sustainable future based on quality and performance. New York State DSRIP funds flow through MHVC to the partners in recognition of meeting defined quality and performance targets.

## **Outstanding Indebtedness and Guarantees**

The following is a summary of long term debt at December 31, 2016 and 2017 of MMC and its consolidated subsidiaries. See “Plan of Finance,” below for assumptions with respect to the pro forma column.

## MONTEFIORE MEDICAL CENTER

### Long-term Indebtedness

	<u>As of December 31,</u>		
	<i>(in thousands)</i>		
	<u>2016<sup>(1)</sup></u>	<u>2017<sup>(1)</sup></u>	<u>2017 Pro Forma<sup>(2)</sup></u>
Series 2018 Bonds	\$ -	\$ -	\$1,198,439 <sup>(3)</sup>
FHA Section 242 insured mortgage loan	87,840	79,998	-
FHA Section 241 insured mortgage loans <sup>(4)</sup>	261,055	240,587	-
HDC residential revenue bonds	5,900	5,600	-
Bank loans payable	79,470	77,613	372
Housing II mortgages payable	18,421	18,252	18,252
Housing I mortgage payable	1,160	1,074	1,074
MCORP bonds payable	18,190	17,630	-
NYC IDA bonds payable	12,755	12,380	-
Build NYC bonds payable	73,718	67,620	67,620
Equipment leasing programs	190,692	209,384	65,402
Ambulatory care center financing	57,143	56,419	56,419
Dormitory Authority mortgage	15,675	14,868	14,868
<u>Other</u>	<u>1,931</u>	<u>1,874</u>	<u>1,874</u>
<u>Total long-term debt</u>	<u>\$823,950</u>	<u>\$803,299</u>	<u>\$1,424,320</u>

1. Derived from the audited consolidated financial statements of MMC.
2. Gives effect to the issuance of the 2018 Bonds as if they had been issued and the Indebtedness to be Refunded and commercial loans to be refunded with the proceeds of the Series 2018 Bonds had been repaid as of December 31, 2017.
3. This represents the aggregate principal amount of the Series 2018 Bonds, plus net premium of \$31,338,695 with respect to the 2018 DASNY Bonds.
4. There are four Section 241 loans.

MMC has guaranteed AECOM's obligations under certain promissory notes in the aggregate principal amount of \$162.2 million. As of March 31, 2018, MMC has made \$5.6 million in interest payments pursuant to its guaranty.

In January 2018, MHS entered into a term loan with a bank to borrow up to \$50.0 million to finance a portion of the cost of the acquisition of an equity interest in Crystal Run Health Transformation Holdings, LLC. The Medical Center has guaranteed this loan, and has made payments under the guaranty of approximately \$494,000 as of July 5, 2018.

See "Financial Commitments to Affiliates," below, for additional information regarding these affiliate obligations and the MMC guaranties.

#### **Plan of Finance**

The Plan of Finance includes the issuance of approximately \$1.2 billion aggregate principal of bonds, the proceeds of which will refinance approximately \$567.4 million of existing indebtedness (amount as of December 31, 2017), provide approximately \$606.4 million of cash to MMC to reimburse it for prior expenditures, fund a portion of future capital projects and provide working capital, and pay costs of issuance of the Series 2018 Bonds. See "Plan of Finance" in the front part of this Official Statement. Certain of the Indebtedness to be Refunded, including the HDC residential bonds, NYC IDA bonds and MCORP bonds (see the table "Long-term Indebtedness" under the caption "Outstanding Indebtedness and Guarantees" in this Appendix A), will not be defeased on the date of issuance of the Series 2018 Bonds, but will be repaid post-closing. The liens securing such indebtedness will remain outstanding until the indebtedness is repaid.

The pro forma numbers in the following tables assume that the 2018 Bonds were issued and outstanding as of December 31, 2017. Also assumed is that the Indebtedness to be Refunded and the commercial loans to be repaid with proceeds of the 2018 Bonds were no longer outstanding as of December 31, 2017.

## Debt Service Coverage

The following table sets forth the historical debt service coverage for MMC and its consolidated subsidiaries for the years ended December 31, 2016 and 2017 and the pro forma debt service coverage ratio for the year ended December 31, 2017.

### MONTEFIORE MEDICAL CENTER

#### Debt Service Coverage

	<u>As of December 31,</u>		
	<i>(in thousands)</i>		
	<u>2016<sup>(1)</sup></u>	<u>2017<sup>(1)</sup></u>	<u>2017 Pro Forma</u>
Excess of revenues over expenses	\$35,387	\$56,528	\$56,528
Less: changes in net unrealized gains and losses on marketable and other securities	(6,610)	(23,122)	(23,122)
Depreciation and amortization	148,955	150,921	150,921
Interest	<u>34,589</u>	<u>32,078</u>	<u>32,078</u>
Income Available for Debt Service	<u>212,321</u>	<u>216,405</u>	<u>216,405</u>
Maximum Annual Debt Service <sup>(2)</sup>	\$93,566	\$108,353	\$105,986
Debt Service Coverage Ratio	2.27x	2.00x	2.04x

(1) Derived from the audited consolidated financial statements of MMC.

(2) Maximum Annual Debt Service is based on MMC records and includes smoothing the effect of balloon payments, as well as debt service on the Einstein Notes given that MMC made payments under the related Guaranty Agreement in 2017 and 2018.

## Long Term Debt to Capitalization

The following table sets forth the long-term debt, unrestricted net assets, total capitalization and percentage of debt to capitalization of MMC and its consolidated subsidiaries for the years ended December 31, 2016 and 2017 and pro forma long-term debt, unrestricted net assets, total capitalization and percentage of debt to capitalization.

	<u>As of December 31,</u>		
	<i>(in thousands)</i>		
	<u>2016<sup>(1)</sup></u>	<u>2017<sup>(1)</sup></u>	<u>2017 Pro-Forma<sup>(1)(2)</sup></u>
Long-term debt and capital lease obligations, including current portion	\$ 823,950	\$ 803,299	\$ 1,424,320
Unrestricted net assets	<u>689,397</u>	<u>732,749</u>	<u>732,749</u>
Total capitalization	<u>\$1,513,347</u>	<u>\$1,536,048</u>	<u>\$2,157,069</u>
Percentage of debt to capitalization	54.4%	52.3%	66.0%

(1) Derived from the audited consolidated financial statements of MMC.

(2) Gives effect to the issuance of the 2018 Bonds.

## Liquidity

The following table sets forth MMC's unrestricted cash and investments, average daily operating expenses, as of and for the years ended December 31, 2016 and 2017, and the Days Cash on Hand ratio derived therefrom and a pro forma maximum Days Cash on Hand ratio.

### MONTEFIORE MEDICAL CENTER

#### Liquidity – Days' Cash on Hand

	<u>As of December 31,</u>		
	<i>(in thousands)</i>		
	<u>2016</u> <sup>(5)</sup>	<u>2017</u> <sup>(5)</sup>	<u>2017 Pro Forma</u>
Unrestricted cash and investments <sup>(1)</sup>	\$804,523	\$910,268	\$1,592,997 <sup>(4)</sup>
Average daily operating expenses <sup>(2)</sup>	\$10,120	\$9,820	\$9,820
Days cash on hand <sup>(3)</sup>	79	93	162

(1) Includes all cash, cash equivalents and investments that are not restricted by donors or other third parties

(2) Total operating expenses for the period exclusive of depreciation and amortization, divided by number of days in the period.

(3) Unrestricted cash and investments divided by average daily operating expenses.

(4) The Pro Forma 2017 amount includes the estimated impact of cash raised through issuance of the 2018 Bonds, as well as mortgage reserve funds in the amount of approximately \$76.4 million originally funded by the Medical Center in connection with the HUD-insured refunded debt (the "Reserve Funds"). Upon closing of the Series 2018 Bonds, the Reserve Funds will be released from the HUD-imposed restrictions, but will become subject to restrictions required by tax regulations pertaining to the Series 2018A Bonds that require these funds to be used for capital expenditures. The Medical Center expects that all of the Reserve Funds will be expended prior to June 30, 2019 on capital expenditures that were otherwise expected to be funded with unrestricted cash.

(5) Derived from the audited consolidated financial statements of MMC.

## Capital Expenditures

For the years ended December 31, 2015, 2016 and 2017 the Medical Center and its consolidated subsidiaries incurred capital expenditures of approximately \$212.2 million, \$112.2 million and \$85.0 million, respectively, for acquisition of plant, buildings and equipment (net of disposal), which represents approximately 93% of depreciation during this period. Approximately \$208.3 million was financed with \$186.6 million of capitalized equipment leases, \$13.3 million of bonds and \$8.4 million of bank loans. The major capital project undertaken during this period was the integration of clinical and financial systems, which became operational during 2016.

## Interest Rate Swaps and other Derivatives

The Medical Center currently has no interest rate swaps or other derivative products in place with respect to its indebtedness, and there are no current plans to enter into any such transactions.

## Investments

The marketable securities and other investments of MMC and its consolidated subsidiaries consist of the following as of December 31, 2016 and 2017:

## MONTEFIORE MEDICAL CENTER

### Investments

	<b><u>As of December 31,</u></b>	
	<i>(in thousands)</i>	
	<b><u>2016<sup>(1)</sup></u></b>	<b><u>2017<sup>(1)</sup></u></b>
Equity securities	\$ 60,659	\$ 82,195
Non-equity mutual funds	155,762	119,805
Equity mutual funds	27,163	22,434
U.S. Government agency mortgage-backed securities	51,848	50,714
U.S. Treasury securities	109,401	120,133
U.S. Government agency-backed securities	40,167	25,500
Managed cash and cash equivalents held for investment	67,871	40,730
Alternative investments	115,307	116,453
Collective trust funds	28,984	36,752
Corporate debt	217,303	256,335
Interest and other receivables	<u>5,891</u>	<u>1,307</u>
Total investments	<u>\$880,356</u>	<u>\$872,358</u>

(1) Derived from the audited consolidated financial statements of MMC.

The MMC Board of Trustees has adopted an Investment Policy which sets forth guidance for the Investment Committee as to how to implement their investment responsibilities. The Investment Committee of the Board provides ongoing oversight and the management of all funds belonging to MMC. The overall investment objective of the funds is to preserve MMC's ability to meet future capital and investment needs. The asset allocation of the funds is determined by the Investment Committee, subject to minimum and maximum percentage allocations. These allocations are to be reviewed periodically by the Investment Committee. In addition, the Investment Committee limits concentration of investments. The retention of investment managers and review of their performance is under the purview of the Investment Committee. MMC utilizes an external investment consultant to provide professional investment analysis and to assist in evaluating the performance of the fund managers.

#### **Financial Commitments to Affiliates**

In 2013 the Medical Center entered into a loan agreement with MHS, as borrower, pursuant to which the Medical Center agreed to advance up to \$137 million to MHS. MHS has and is using these funds to make term loans, revolving loans and direct contributions to Montefiore New Rochelle Hospital, Montefiore Mount Vernon Hospital, Schaffer Extended Care Center, and related real estate holding companies. The loans made by MHS are secured by mortgages and pledges of revenue granted by the borrowers. MHS assigned these security instruments to the Medical Center as security for MHS's obligations to repay the loans made by the Medical Center. As of December 31, 2017, \$126.1 million of the loan was outstanding.

White Plains Hospital Medical Center joined the System in January 2015 when MHS became its sole corporate member. Under the terms of the agreements between MHS and WPH, MHS agreed to provide financial assistance to WPH in an amount of up to \$250 million, subject to the satisfaction of various conditions. The source of the funds required to meet this commitment was left to the determination of MHS. The Medical Center, itself, has no obligation to provide the funds for MHS with respect to this commitment. However, MMC made capital contributions to MHS in the amount of \$162.8 million through March 31, 2018 for this purpose.

In September 2015, AECOM acquired substantially all of the assets and assumed substantially all the liabilities of the College of Medicine. From its beginning in the 1950s through this acquisition, the College of Medicine had been a division of Yeshiva. AECOM financed the acquisition in part with proceeds of revenue bonds issued on its behalf by Build NYC Resource Corporation (the "Einstein BNYC Bonds") in the principal amount of \$175,000,000. AECOM also issued Yeshiva a promissory note, which was sold by Yeshiva and restructured into

three interest bearing notes with an aggregate par amount of \$162.2 million (the “Einstein Notes”) and final maturity in 2037. MMC has guaranteed AECOM’s obligations under the Einstein Notes. AECOM is obligated to repay any amounts that MMC pays with respect to its guaranty of the Einstein Notes over a five-year period with interest. AECOM’s obligation to repay such amounts is subordinate to its obligation to make payments with respect to the Einstein BNYC Bonds. At March 1, 2018 and through the date hereof, \$5.6 million in interest payments on the Einstein Notes were paid by MMC under the Guaranty Agreement.

Additionally, under a Reimbursement and Operations Payment Agreement (the “Subsidy Agreement”), the Medical Center will also provide operating subsidies to AECOM for a five-year period commencing September 2015 in an aggregate amount of up to \$80 million. Under the terms of the Subsidy Agreement, the Medical Center is obligated to provide this subsidy in stages to be funded upon the receipt and approval of documentation of unreimbursed research expenses incurred in an amount not to exceed \$10 million per year in each of the first two years, and not to exceed \$20 million per year in each of the third, fourth and fifth years. As of the date hereof, MMC is current with these payments.

MMC has also agreed to provide loans to AECOM in an aggregate amount of up to \$75 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, to be repaid by AECOM over a five year period in equal annual installments commencing in December 2020 at an annual interest rate of 5.2%, subject to the same subordination terms that apply to the Guaranty Agreement for the Einstein Notes. It is possible that MMC could meet the balance of this commitment through equity transfers rather than loans.

It is possible that MMC will continue to make subsidy payments and loans or equity transfers to AECOM beyond the commitments described above, subject to compliance with provisions of the Master Indenture regarding the disposition of assets. See Appendix E – Form of Master Indenture - Limitation on Disposition of Assets.

On January 1, 2018, an affiliate of MHS, CRHT Acquisition, Inc., entered into a purchase agreement with Crystal Run Healthcare (“Crystal Run”), to purchase 33% of Crystal Run Health Transformation Holdings, LLC, (“CRHT”) for \$90 million to be paid over 3 years, of which \$25.5 million has been paid to date. To finance the acquisition, MHS entered into an agreement with a bank to borrow up to \$50 million to meet CRHT Acquisition’s funding obligations under the purchase agreement and pay related transaction costs, for which \$30.5 million has been borrowed through May 31, 2018. MMC entered into a Guarantee Agreement to guarantee MHS’s repayments under the loan agreement, and MMC’s obligation is secured by a mortgage on the Wakefield Division. This bank loan will be repaid in full in connection with the issuance of the Series 2018 Bonds. MMC may loan MHS a portion of the proceeds of the 2018C Taxable Bonds to make this repayment and to enable CRHT Acquisition to meet the remainder of its commitments under the purchase agreement.

WPH has received certificate of need approval to undertake a \$272 million capital construction and renovation project. While financing details are uncertain at this time, the Obligated Group may seek to borrow additional funds to fund a portion of the costs of this project.

MMC provides services to other MHS entities as well as AECOM, for which it expects to be paid. To the extent that these amounts are outstanding they are recorded by MMC as intercompany receivables. In 2017, after evaluation of expectation of repayment, approximately \$9 million of these receivables were reserved at year end 2017.

## **Insurance**

MMC maintains a comprehensive insurance portfolio that includes coverage for professional liability (and batch coverage), general liability, property, workers compensation, statutory disability, automobile, fiduciary, business travel/accident, errors and omissions, foreign medical malpractice, kidnap and ransom, privacy/internet security, fidelity, pension trust liability, and Directors & Officers/Employment practices risks. MMC utilizes the services of FOJP, its third-party administrator and well-known insurance brokerage and consulting firms to regularly review coverage and to assure their adequacy. Property insurance is subject to deductibles usual to risks of our size and scope. Workers’ compensation insurance is purchased from the New York State Insurance Fund, the largest carrier in New York.

Primary general liability is purchased from an admitted insurer in New York. Umbrella excess coverage is provided through the commercial market.

Primary professional liability coverage is provided to the member organizations through either an admitted New York insurer or via a self-insured retention. MMC's excess professional liability insurance is provided through a Self Insured Trust.

Prior to January 2018, MMC participated in a pooled excess insurance program for hospital professional liability with certain other health care facilities (principally hospitals) affiliated with the UJA Federation of Jewish Philanthropies of New York (the "FOJP Program"). Participation in that occurrence based excess insurance program is through several off shore companies.

Most non-employed medical staff with admitting privileges are required to maintain professional liability insurance coverage in amounts not less than \$1.3 million per occurrence and \$3.9 million in the aggregate

Total liabilities associated with the Medical Center's insurance programs were approximately \$226.8 million and \$207.9 million at December 31, 2017 and 2016, respectively.

MMC presents anticipated insurance recoveries separately from estimated insurance liabilities for medical malpractice claims and similar contingent liabilities in the consolidated statements of financial position. At December 31, 2017 and 2016, MMC recorded estimated insurance claims receivable and estimated insurance claims liabilities of approximately \$540.6 million (approximately \$81.1 million current and \$459.5 million long-term) and approximately \$499.8 million (approximately \$75.0 million current and \$424.8 million long-term), respectively.

## **Cybersecurity**

MMC has adopted a cybersecurity policy designed to maintain the security and safety of its data, communications and information systems. Periodic assessments are conducted by external security experts on a three-year cycle. MMC has implemented all the high priority recommendations in the latest assessment, and the consultants are now beginning their next assessment. Regular reviews are conducted of progress against the recommendations, and periodic reports are made to the Audit Committee of the Board.

As with other large academic health systems, MMC is confronted with attempted cyberattacks, including phishing and other malware incidents. To date, there have been no material cybersecurity incidents that have compromised Montefiore's patient, financial or business data.

MMAH and its subsidiaries, including the Medical Center, maintain comprehensive cyber and privacy breach insurance coverage which is underwritten annually by licensed insurance carriers. The policies are consistent with industry standards for limits and coverage. Such coverage consists of but is not limited to technology errors and omissions, information security and privacy liability, data protection loss, and system failure coverage.

## **Licensure and Accreditation**

The Medical Center has operating certificates from the New York State Department of Health and the New York State Office of Mental Health. The Medical Center also has operating certificates from the New York State Office of Alcoholism and Substance Abuse Services and the New York State Office for People with Developmental Disabilities to operate several programs. The Medical Center is accredited by The Joint Commission and is approved for participation in the Medicare and Medicaid programs.

## **Human Resources**

As of April 30, 2018, MMC employed 19,442 FTE employees, a decrease of 1.3% compared to the year-end 2016, due to new processes put in place to improve oversight and accountability around expense management.

MMC maintains competitive benefit packages and training opportunities to attract and retain employees. The Medical Center maintains close affiliations with universities and schools providing clinical experiences for students in programs such as Nursing, Physician Assistant, Social Work, Home Health Aide and a variety of other allied health professionals. A strong advocate for the profession of Nursing, the Medical Center provides clinical training to nursing students in affiliation with approximately 20 area colleges and universities, training over 1,700 students in 2017 including students in the Montefiore New Rochelle School of Nursing, part of MHS.

## ***Benefits***

Group health and welfare benefits offered to eligible employees include: health insurance covering hospitalization, medical, prescription drugs, dental, and vision; short and long term disability; life and accidental death and dismemberment insurance; workers compensation and tuition reimbursement. MMC is in compliance with funding obligations under the above benefit plans. In addition, postretirement health benefits are offered for certain groups of employees, for which an unfunded liability of approximately \$156.6 million and \$186.5 million is recorded as of December 31, 2016 and 2017 respectively. The amount of the unfunded liability is calculated as the present value of the expected future stream of payments that will be required under the plans. The increase in the liability between 2016 and 2017 resulted primarily from a decrease in the discount rate in 2017 compared to 2016 as well as an increase to the health care cost trend rate.

## ***Pension Plans***

MMC offers pension plans to its employees depending on their bargaining unit affiliation. There are two tax deferred annuity plans under Section 403 (b) of the Code, to which contributions are made based on percentages of salary – one is non-contributory plan for eligible non-union employees that is funded by the employer and the other is a plan open to all employees that is funded solely by employee contributions. The Medical Center offers a Section 457(b) plan to which a limited group of employees are able to make contributions. In addition, the Medical Center maintains two noncontributory defined benefit pension plans, and contributes amounts sufficient to meet requirements under ERISA and the Pension Protection Act of 2006. The Medical Center also contributes to two union multiemployer pension plans, including the New York State Nurses Association (“NYSNA”) and the 1199 SEIU Healthcare Employees pension funds. Contributions are made in accordance with contractual agreements and the Medical Center is in compliance with these agreements.

The total amount funded under all pension arrangements was approximately \$136.0 million and \$132.6 million in 2017 and 2016, respectively. Unfunded liabilities related to noncontributory defined benefit pension plans were approximately \$19.2 million in 2017 and \$18.3 million in 2016.

## **Collective Bargaining and Labor Relations**

The Medical Center has several collective bargaining agreements covering certain of its employees. The Medical Center’s agreement with the New York Health’s Human Service Union/1199 SEIU, representing service, clerical and technical associates, which expires September 30, 2018 covers 9,059 employees. The contract with the RN division of the New York Health’s Human Service Union/1199 SEIU expires September 30, 2018 and covers 525 employees. There is a memorandum of understanding with New York Health’s Human Service Union/1199 SEIU regarding the terms of extending these contracts to September 30, 2021.

The Medical Center’s agreement with the New York State Nurses Association representing 3,338 registered nurses expires December 31, 2018. The Medical Center’s agreement with the Physical Therapy Collective Negotiations Committee, covering 77 physical therapists, will expire on December 31, 2020. The Medical Center’s agreement with Weiler/Einstein Physical Therapy Associates, covering approximately 25 employees, expired on June 30, 2017 and is pending negotiation of a successor contract. The Medical Center’s has two agreements with Special and Superior Officers Benevolent Association: one expiring November 30, 2017 a second expiring June 30, 2018 covering a total of 154 employees for whom there is an existing agreement in principle through November 30, 2020. The Medical Center also has an agreement with Local 30 of the International Union of operating Engineers covering 26 employees which expires May 31, 2019. It also has an agreement with the Committee of Interns and Residents, representing 97 employees that expired on May 11, 2018. Negotiations for a new agreement have not yet started.

In the past ten years there have not been any work stoppages at MMC.

Management believes that the overall relationship with labor is good. The various HR/Employee and Labor Relations teams routinely collaborate with the various groups of union organizers, delegates, representatives and contract administrators to support sound labor relations; to reduce areas of conflict; and to ensure that the interests of all parties are served. In addition, the various MHS entities have formal processes (e.g. Labor Management Committees, Professional Practice Committees) and informal processes that result in regular meetings designed to resolve challenges and proactively lead quality improvement initiatives at each entity.



## **Litigation**

MMC has no actions or proceedings pending or, to its knowledge, threatened against it except: (i) litigation being defended by insurance companies on behalf of MMC, the probable recoveries in which and the estimated costs and expenses of defense of which, in the opinion of counsel to MMC for such matters, will be entirely within applicable insurance policy limits (subject to applicable deductibles); and (ii) litigation, the probable recoveries in which and the estimated costs and expenses of defense of which after exhaustion of available insurance proceeds, if any, in the opinion of MMC management, will not materially and adversely affect MMC operations or financial condition.

## **PART 8 – BONDOWNERS’ RISKS AND MATTERS AFFECTING THE HEALTH CARE INDUSTRY**

### **General Factors Affecting the 2018 DASNY Bonds and the Institution’s Revenues and Expenses**

AN INVESTMENT IN THE 2018 DASNY BONDS INVOLVES A DEGREE OF RISK. A PROSPECTIVE PURCHASER OF THE 2018 DASNY BONDS IS ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE APPENDICES HERETO. REFER TO THE SECTION “SOURCES OF PAYMENT FOR THE BONDS” AND THIS SECTION FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE 2018 DASNY BONDS. The factors listed below, among others, could adversely affect the Institution’s operation, revenues and expenses to an extent and in a manner which cannot be determined at this time.

### **Introduction**

Payment of the 2018 DASNY Bonds depends directly on the ability of the members of the Obligated Group, currently the Institution only, to collectively generate revenues sufficient to cover the debt service on the 2018 DASNY Bonds and all other indebtedness of the Obligated Group. In the last decade, health care providers, especially hospitals, have faced increasing economic pressures from both governmental health care programs and private purchasers of health care such as insurance companies and health maintenance organizations (collectively “*third party payers*”). The dependence of hospitals on governmental programs requires them to accept limitations on payments and comply with regulations and other restrictions and requirements triggered by participation in such programs. Some governmental and private third party payers have entered into contracts with health care providers that require “capitated” or other fixed payments, which have the effect of shifting significant economic risks to health care providers.

Health care, especially at the hospital level, is a highly regulated industry with complicated and frequently changing regulations arising both from payment programs and extensive governmental oversight. Health care providers are increasingly subject to audits, investigations and litigation that may threaten access to governmental reimbursement programs, require substantial fines and payments, generate adverse publicity and create significant legal and other transaction costs. In addition, because the Institution is a 501(c)(3) organization under the Internal Revenue Code, it is subject to increasing regulation and restrictions that may have adverse effects on its economic performance or threaten its tax-exempt status and the economic benefits derived from such status. In particular, such regulations and restrictions may require the provision of health care services without payment.

*Set forth below is a limited discussion of certain of the risks affecting the Institution and its ability to provide for payment of the 2018 DASNY Bonds. Investors should recognize that the discussion below does not cover all such risks, that payment provisions and regulations and restrictions change frequently and that additional material payment limitations and regulations and restrictions may be created, implemented or expanded while the 2018 DASNY Bonds are outstanding. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following special factors along with all other information described elsewhere or incorporated by reference in this Official Statement, including the Appendices hereto, in evaluating the 2018 DASNY Bonds.*

### **Adequacy of Revenues**

Except to the extent otherwise noted herein, the 2018 DASNY Bonds are payable solely from the payments required to be made by the Institution to the Authority under the Loan Agreement and the DASNY Obligations. No representation or assurance can be made that revenues will be realized by the Institution in amounts sufficient to pay maturing principal of, redemption premium, if any, and interest on the 2018 DASNY Bonds. The ability of the Institution to make payments under the Loan Agreement and the ability of the Authority to make payments on the

2018 DASNY Bonds under the Resolution depends, among other things, upon the capabilities of management of the Institution and the ability of the Institution to maximize revenues under various third party reimbursement programs and to minimize costs and to obtain sufficient revenues from their operations to meet such obligations. Revenues and costs are affected by and subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. The risk factors discussed below should be considered in evaluating the ability of the Institution to make payments in amounts sufficient to meet their obligations under the Loan Agreement, the Master Indenture and the DASNY Obligations. This discussion is not, and is not intended to be, exhaustive.

The ability of the Institution to make required payments under the Loan Agreement and the DASNY Obligations is subject to, among other things, the capabilities of the management of the Institution and future economic and other conditions, which are unpredictable and which may affect revenues and costs and, in turn, the payment of principal of, premium, if any, and interest on the 2018 DASNY Bonds. Future revenues and expenses of the Obligated Group will be affected by events and conditions relating generally to, among other things, demand for the Obligated Group's services, its ability to provide the services required by patients, physicians' relationships with the Obligated Group, patient and physician satisfaction with the Institution and its facilities, management capabilities, the design and success of the Institution's strategic plans, demographic, financial and economic developments in the United States, the State and the Institution's service area, the Institution's ability to control expenses, maintenance by the Institution of relationships with MCOs (as defined herein) and PPOs (as defined herein), competition, rates, costs, third party reimbursement, legislation and governmental regulation. The ability of the Institution to operate successfully over the life of the 2018 DASNY Bonds may also be dependent upon its ability to finance, acquire and support additional capital replacements and improvements, which ability will be affected by legislation, regulations and applicable principles of reimbursement. Federal and state statutes and regulations are the subject of intense legislative debate and are likely to change, and unanticipated events and circumstances may occur which cause variations from the Institution's expectations, and the variations may be material. The Authority has not made any independent investigation of the extent to which any such factors may have an adverse impact on the financial condition of the Institution. THERE CAN BE NO ASSURANCE THAT THE REVENUES OF THE INSTITUTION WILL BE SUFFICIENT TO ENABLE THE INSTITUTION TO MAKE SUCH PAYMENTS.

None of the provisions, covenants, terms and conditions of the Master Indenture or the Loan Agreement will afford the Trustee any assurance that the principal and interest owing under the Loan Agreement and the DASNY Obligations (which, except for money held under the Resolution and the other collateral securing the 2018 DASNY Bonds, constitute the sole source of funds for the payment of the 2018 DASNY Bonds) will be paid as and when due, if the financial condition of the Obligated Group deteriorates to a point where the members of the Obligated Group are unable to pay their debts as they come due, or otherwise become insolvent.

### **Event of Taxability of the 2018A Bonds**

If the Institution does not comply with certain covenants set forth in the Loan Agreement or if certain representations or warranties made by the Institution in the Loan Agreement or in certain certificates of the Institution are false or misleading, the interest paid or payable on the 2018A Bonds may become subject to inclusion in gross income for federal income tax purposes retroactive to the date of issuance of the 2018A Bonds, regardless of the date on which such noncompliance or misrepresentation is ascertained. In the event that the interest on the 2018A Bonds becomes subject to inclusion in gross income for federal income tax purposes, the Resolution does not provide for payment of any additional interest on the 2018A Bonds, the redemption of the 2018A Bonds or the acceleration of the payment of principal on the 2018A Bonds.

### **Maintenance of 501(c)(3) Status**

The federal tax-exempt status of the 2018A Bonds presently depends upon maintenance by the Institution of its status as organizations described in Section 501(c)(3) of the Code. The Institution has been determined to be a tax-exempt organization described in Section 501(c)(3) of the Code. To maintain such status, such entity must conduct its operations in a manner consistent with representations previously made to the Internal Revenue Service (the "IRS") and with current and future IRS regulations and rulings governing tax-exempt healthcare facilities.

Compliance with current and future regulations and rulings of the IRS could adversely affect the ability of the Institution to charge and collect revenues, finance or refinance indebtedness on a tax-exempt basis or otherwise generate revenues necessary to provide for payment of the 2018A Bonds. Although the Institution has covenanted to maintain its status as a tax-exempt organization, loss of tax-exempt status would likely have a significant adverse effect on the Institution and its operations and could result in the includability of interest on the 2018A Bonds in gross income for federal income tax purposes retroactive to their date of issue. See "TAX MATTERS" herein.

The tax-exempt status of nonprofit corporations, and the exclusion of income earned by them from taxation, has been the subject of review by various federal, state and local legislative, regulatory and judicial bodies. This review has included proposals to broaden and strengthen existing federal tax law with respect to unrelated business income of nonprofit corporations.

There can be no assurance that future changes in the laws and regulations of the federal, state or local governments will not materially and adversely affect the operations and revenues of the Institution by requiring it to pay income, real estate or other taxes.

## **Nonprofit Healthcare Environment**

The Institution is a nonprofit corporation, exempt from federal income taxation as an organization described in Section 501(c)(3) of the Code. As a nonprofit tax-exempt organization, the Institution is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes.

An increasing number of the operations or practices of healthcare providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in some cases examine core business practices of healthcare organizations. Areas which have come under examination have included pricing practices, billing and collection practices, charitable care methods of providing and reporting community benefit, executive compensation, exemption of property from real property taxation, and others. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service (“IRS”), labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation. If the Institution were to face a challenge of this nature, it could have a material impact on the financial condition of the Institution in the future. These challenges or examinations include the following, among others:

***Litigation Relating to Billing and Collection Practices.*** Lawsuits have been filed against various nonprofit health care providers in federal and state courts across the country regarding billing and collection practices relating to the uninsured. The lawsuits are premised on the notion that federal and state laws require nonprofit health care providers to provide certain levels of free or discounted health care to the uninsured. Thus, the plaintiffs in those lawsuits have alleged, among other things, that the defendants violated federal and state law by billing the uninsured at undiscounted rates, that the medical bills the defendants sent to the uninsured are inflated, and that the defendants engaged in unfair debt collection practices.

***Congressional Hearings.*** In recent years, multiple congressional committees have conducted hearings and other proceedings inquiring into various practices of nonprofit hospitals and health care providers. Among the legislation proposed or discussed as a result of these hearings and proceedings are: (1) establishment of minimum required levels of charity care to be provided by nonprofit health care providers; (2) periodic review of hospitals’ tax-exempt status by the IRS; and (3) greater and more uniform reporting of charitable and community benefit activities. During debate over the Tax Cut and Jobs Act of 2017 (the “2017 Tax Act”), multiple provisions that would have been adverse to the Institution were proposed, and these may be reintroduced in the future, including taxes on endowment returns, a prohibition on private activity bonds, and further limitations on charitable contributions.

***IRS Form 990 for Not-for-Profit Corporations.*** The IRS Form 990 is used by 501(c)(3) not-for-profit organizations (including the Institution) to submit information required by the federal government for tax exemption. Form 990 requires detailed public disclosure of compensation practices, corporate governance, loans to management and others, joint ventures and other types of transactions, political campaign activities, and other areas the IRS deems to be compliance risk areas. The form also requires the disclosure of a significantly greater amount of both hard data and anecdotal information on community benefits on Schedule H to the Form 990, and establishes uniform standards for reporting of information relating to tax-exempt bonds, including compliance with the arbitrage rules and rules limiting private use of bond-financed facilities, including compliance with the safe harbor guidance in connection with management contracts and research contracts. Form 990 is intended to enhance transparency as to the operations of exempt organizations. It is also likely to result in enhanced enforcement, as Form 990 makes a wealth of detailed information on compliance risk areas available to the IRS and other enforcement agencies. Completion of Form 990 has placed an additional burden on the Institution.

***IRS Enforcement of Community Benefit.*** The IRS has undertaken a community benefit initiative directed at hospitals. The IRS determined that a lack of uniformity in definitions of community benefit used by reporting

hospitals, including those regarding uncompensated care and various types of benefits, made it difficult for the IRS to assess whether any particular hospital is in compliance with current law. Schedule H of Form 990, which hospitals must use to report their community benefit activities, including the cost of providing charity care and other tax-exemption related information. Proposals have also been made within Congress to codify the requirements for hospitals' tax-exempt status, including requirements to conduct a regular community needs analysis and to provide minimum levels of charity care.

The Affordable Care Act (as hereinafter defined) imposes additional requirements on non-profit hospitals in order to maintain their tax-exempt status. First, each hospital must conduct a community health needs assessment at least once every three taxable years and adopt an implementation strategy to meet the needs identified, or subject to an excise tax penalty of \$50,000. Hospitals must disclose a summary of the assessment and implementation strategy and audited financial statements on Form 990. The Secretary of the Treasury must review the community benefit of the activities of each tax-exempt hospital at least once every three years. Second, each hospital must adopt, implement and publicize a financial assistance policy and a policy relating to emergency medical care. Third, hospitals must limit the charges for emergency or other medically necessary care provided to individuals eligible for assistance under the financial assistance policy to not more than the amounts generally billed to individuals who have insurance that covers such care. Finally, a hospital may not engage in extraordinary collection actions before making reasonable efforts to determine whether an individual is eligible for assistance under the organization's financial assistance policy.

In addition, the Treasury Department is required to review information about each tax-exempt hospital's community benefit activities at least once every three years, as well as to submit an annual report to Congress with information regarding the levels of charity care, bad debt expenses, unreimbursed costs of government programs, and costs incurred by tax-exempt hospitals for community benefit activities. The periodic reviews and reports to Congress regarding the community benefits provided by 501(c)(3) hospitals may increase the likelihood that Congress will require such hospital to provide a minimum level of charity care in order to retain tax-exempt status and may increase IRS scrutiny of particular 501(c)(3) hospital organizations.

***IRS Focus on Compensation, Private Benefit and Private Inurement.*** In 2004, the IRS began a new compliance program to measure compliance by tax-exempt organizations with requirements that they not pay excessive compensation and benefits to their officers and other insiders. In February 2009, the IRS issued its Hospital Compliance Project Final Report (the "IRS Final Report") that examined tax-exempt hospitals' practices and procedures with regard to compensation and benefits paid to their officers and other defined "insiders." The IRS Final Report indicates that the IRS (1) will continue to heavily scrutinize executive compensation and arrangements, practices and procedures of tax-exempt hospitals and other tax-exempt organizations; and (2) in certain circumstances, may conduct further investigations or impose fines on such organizations.

As a tax-exempt organization, the Institution is limited with respect to the use of practice income guarantees, reduced rent on medical office space, below market interest loans, joint venture programs, and other means of recruiting and retaining physicians. The IRS scrutinizes a broad variety of contractual relationships commonly entered into by hospitals and affiliated entities, including the Institution, and has issued detailed hospital audit guidelines suggesting that field agents scrutinize numerous activities of hospitals in an effort to determine whether any action should be taken with respect to limitations on, or revocation of, their tax-exempt status or assessment of additional tax. The IRS has also commenced intensive audits of select health care providers to determine whether the activities of these providers are consistent with their continued tax-exempt status. The IRS has indicated that, in certain circumstances, violation of the fraud and abuse statutes could constitute grounds for revocation of a hospital's tax-exempt status.

Any suspension, limitation, or revocation of the tax-exempt status of the Institution or assessment of significant tax liability would have a material adverse effect on the Institution.

Section 501(c)(3) of the Code specifically conditions the continued exemption of all Section 501(c)(3) organizations upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. Any violation of the prohibition against private inurement may cause the organization to lose its tax-exempt status under 501(c)(3) of the Code. The IRS has issued guidance in informal private letter rulings and general counsel memoranda on some situations that give rise to private inurement, but there is no definitive body of law and no regulations or public advisory rulings that address many common arrangements between exempt health care providers and nonexempt individuals or entities. There can be no assurances concerning the outcome of an audit or other investigation given the lack of clear authority interpreting the range of activities undertaken by the Institution.

Intermediate sanctions legislation enacted in 1996 imposes penalty excise taxes in cases where an exempt organization is found to have engaged in an “excess benefit transaction” with a “distinguished person.” Such penalty excise taxes may be imposed in lieu of revocation of exemption or in addition to such revocation in cases where the magnitude or nature of the excess benefit call into question whether the organization functions as a public charity. The tax is imposed both on the disqualified person receiving such excess benefit and on any officer, director, trustee or other person having similar powers or responsibilities who participated in the transaction willfully or without reasonable cause, knowing it will involve “excess benefit.” “Excess benefit transactions” include transactions in which a disqualified person receives compensation for services that exceeds the fair market value of the services provided by the disqualified person. “Disqualified persons” include “insiders” such as board members and officers, senior management, and members of the medical staff, who in each case are in a position to substantially influence the affairs of the organization; their family members; and entities which are more than 35% controlled by a disqualified person.

Any imposition of a penalty excise tax in lieu of revocation, based upon a finding that the Institution engaged in an excess benefit transaction would be likely to result in negative publicity and other consequences that could have a materially adverse effect on the operations, property or assets of the Institution.

**Tax Audits.** Taxing authorities have historically conducted tax audits of non-profit organizations to confirm that such organizations are in compliance with applicable tax rules and in some instances have collected significant payments as part of the settlement process. Such audit processes may be prolonged, and it may take several years to reach the final determination of allowable amounts. The Institution is not currently under audit.

The foregoing are some examples of the challenges and examinations facing nonprofit healthcare organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations, and may indicate an increasingly more difficult operating environment for healthcare organizations. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on the Institution.

**Challenges to Real Property Tax Exemptions.** Recently, the real property tax exemptions afforded to certain nonprofit healthcare providers by state and local taxing authorities have been challenged on the grounds that the healthcare providers were not engaged in charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins. While the Institution is not aware of any current challenge to the tax exemption afforded to any material real property of the Institution, it is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit corporations. There can be no assurance that future changes in the laws and regulations of state or local governments will not materially adversely affect the financial condition of the Institution by requiring payment of income, local property or other taxes.

**Charity Care.** Hospitals are permitted to qualify for tax-exempt status under the Code because the provision of health care historically has been treated as a “charitable” enterprise. This treatment arose before most Americans had health insurance, when charitable donations were required to fund the health care provided to the sick and disabled. Some commentators and others have taken the position that, with the onset of employer health insurance and governmental payment programs, there is no longer any justification for special tax treatment for the health care industry, and the availability for tax-exempt status should be eliminated. Furthermore, federal and state tax authorities are beginning to demand that tax-exempt hospitals justify their tax-exempt status by documenting their charitable care and other community benefits.

As described above under the caption “Nonprofit Healthcare Environment – Litigation Relating to Billing and Collection Practices,” charity care issues also serve as the basis of certain claims against major hospital systems throughout the United States on behalf of uninsured patients. Many lawsuits filed against non-profit hospitals raise a number of claims against the hospital defendants, including claims that the defendants, by accepting tax-exempt status, entered into agreements with the federal, state and local governments promising to provide free or reduced care to all those who need it; the uninsured patients are beneficiaries of those agreements and can bring suit on them; the defendants engaged in illegal and oppressive tactics against the uninsured; the defendants engaged in illegal price discrimination by charging the uninsured rates far in excess of the rates charged to such third party payors as Medicare and certain insurers; the defendants violated state consumer fraud statutes; the defendants allowed a portion of their properties to be used by for-profit entities at less than fair value and engaged in other inappropriate transactions with doctors and certain insiders; the defendants transferred monies illegally to their affiliates for other than charitable purposes; and the defendants and the American Hospital Association, another named defendant in many of the lawsuits, conspired with the defendants to charge illegal prices to the uninsured.

Litigation has been initiated against several hospitals in the United States by individual uninsured plaintiffs alleging, among other things, that the defendants violated their duty to the plaintiffs by charging higher rates and fees for services to those plaintiffs than the hospitals received from Blue Cross Blue Shield entities, Medicare, Medicaid or other insurers. Among the remedies sought by the plaintiffs are money damages and a court order against the defendants compelling them to reduce the rates and fees charged to uninsured patients.

## **The Affordable Care Act**

On March 23, 2010, the Patient Protection and Affordable Care Act was signed into law and on March 30, 2010, the Health Care and Education Reconciliation Act was signed into law and amended the Patient Protection and Affordable Care Act. Together, these laws (hereinafter referred to as the “ACA” or the “Affordable Care Act”) introduced the most far reaching changes in our national health care system since the creation of Medicare in 1965. The ACA includes numerous provisions including prohibiting health insurers from denying coverage or refusing claims based on pre-existing conditions, expanding Medicaid eligibility, subsidizing insurance premiums, providing incentives for businesses to provide health care benefits, and establishing health insurance exchanges.

President Trump and Republican members of Congress made the repeal and replacement of the ACA a primary goal during the 2017-2018 session of Congress. While full repeal has not been successful in this session, portions of the ACA have been repealed, and efforts to repeal the ACA continue, whether in its entirety or piecemeal. For example, the ACA’s individual mandate requiring that individuals purchase health insurance was repealed through the 2017 Tax Act, adopted in December 2017.

In addition, the Trump Administration has used its executive authority to not enforce the ACA. In early 2017, President Trump issued an executive order requiring all federal agencies with authorities and responsibilities under the ACA to “exercise all authority and discretion available to them to waive, defer, grant exemptions from, or delay” parts of the ACA that place “unwarranted economic and regulatory burdens” on states, individuals, or health care providers. The Trump Administration has also made deep cuts in advertising and outreach during the marketplace open-enrollment periods and shortened these periods.

Declines in the number of insured are expected given the repeal of the individual mandate penalty, recent actions to increase the availability of insurance policies that don’t comply with ACA minimum benefit standards, and support for Medicaid work requirements. The Commonwealth Fund ACA Tracking Survey, released in May 2018, notes that the number of uninsured Americans has increased since 2016, reversing years of decline since the ACA was passed in 2010. According to the report, the number of uninsured adults between the ages of 19 and 64 rose to 15.5% in March 2018, up from 12.7% in 2016, and an estimated 4 million people lost individual coverage during that period.

The practical consequences of the ACA and efforts to repeal or dismantle it, as well as of other future federal and state actions to cut costs and change the health care delivery system, cannot be foreseen. The effect of any major modification or repeal of the ACA on the financial conditions of the members of the Obligated Group cannot be predicted with certainty, but could be materially adverse. Moreover, uncertainties regarding the ACA create unpredictability for the strategic and business planning efforts of health care providers, which in itself constitutes a risk. Some of the specific provisions of the ACA that may affect the Institution’s operations, financial performance or financial condition are described below. See “Risks related to Rules Governing Payment for Healthcare Services”, “False Claims Act”, and “Exclusion for Medicare or Medicaid Participation”. *This listing is not intended to be, nor should be considered by as comprehensive. The ACA is complex, and includes a myriad of new programs, initiatives, and changes to existing programs, policies, practices and laws. The effect of the 2017 Tax Act on the ACA is also uncertain. For a comprehensive understanding, Holders of the 2018 DASNY Bonds should review the ACA and the 2017 Tax Act in their entirety.*

## **Risks Related to Rules Governing Payment for Healthcare Services**

### ***The Medicare and Medicaid Programs***

Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, disabled or qualify for the End Stage Renal Disease Program. Medicare is administered by the Centers for Medicare & Medicaid (“CMS”), of the federal Department of Health and Human Services. Medicaid is funded jointly by the federal government and the states and provides medical assistance to certain needy individuals and families. Significant changes have been and may be made in the Medicare and Medicaid programs that could have a material adverse impact on the financial condition of the Obligated Group, for example, by decreasing the amount of payment for services. In addition, the requirements for Medicare and Medicaid certification are subject to change, and to remain

qualified for participation in such programs, it may be necessary for the Institution to effect changes from time to time in its facilities, equipment, personnel, billing processes, policies and services.

### *Medicare*

Medicare generally pays hospitals for acute care services provided on an inpatient basis according to the Inpatient Prospective Payment System (“IPPS”). IPPS pays hospitals a pre-determined amount for services. The amount of the payment is the product of a nationally determined base payment rate, which is adjusted for a variety of factors on a hospital-specific basis, and a relative weight that reflects the anticipated costs of care in a particular clinical category compared with a national average of all cases. The base rate is designed to provide some payment to hospitals for both inpatient operating and capital related costs. The base rate is adjusted by factors related to market conditions of a hospital’s geographic location and other circumstances of a particular hospital, such as whether it is a teaching hospital. The relative weight factor of the IPPS calculation depends on the clinical category of services rendered to a patient. The clinical category is determined by how a patient’s case is classified at discharge under one of hundreds of Severity Diagnosis Related Groups (“MS-DRG”) defined by the CMS.

The IPPS standardized base rates are updated annually based on a statistical estimate of the increase (the “update factor”) in the cost of goods and services used by hospitals in providing care (the “market basket”). Currently, the update factor equals the percentage increase in the market basket, but from time to time Congress has set updates legislatively that are less than the market basket. For every year since 1983, Congress has modified the increases and given substantially less than the increase in the market basket index. The ACA provides for additional reductions to the market basket update, as well as other payment adjustments, in future years. There is, therefore, no assurance that future updates in MS-DRG payments will keep pace with the increases in providing inpatient hospital services.

Hospitals receive additional payment for cases that exceed MS-DRG-specific cost thresholds, referred to as “outlier payments”. In addition, hospitals that satisfy specific program requirements may be eligible to receive additional revenue to defray the costs of organ procurement and treatments that use new technologies. With the exception of outlier cases, IPPS payments are not adjusted for actual costs or variations in service or length of stay. The IPPS amount and adjustments described above are calculated using formulae established by CMS that are revised periodically pursuant to federal budgetary policy. There is no assurance that the Institution will be paid amounts that adequately reflect the actual cost of providing health care or the cost of the health care technologies available to patients.

Medicare also pays hospitals for inpatient psychiatric and rehabilitation services on a prospective payment system basis. Under the Inpatient Psychiatric Facility Prospective Payment System (IPF PPS), Medicare pays for the *per diem* routine, ancillary, and capital costs associated with psychiatric services. A base *per diem* payment is adjusted to account for differences in the cost of care related to patient characteristics (*e.g.*, age, diagnosis, and length of stay) and facility characteristics (*e.g.*, location and teaching status). Under the Inpatient Rehabilitation Facility Prospective Payment System (IRF PPS), Medicare pays for the routine, ancillary, and capital costs associated with medical rehabilitation services using a per case base payment adjusted to account for differences in the cost of care related to patient characteristics (*e.g.*, age, functional motor and cognitive status, and comorbidities) and facility characteristics (*e.g.*, location, teaching status, and low-income patient percentage).

The ACA also contains reductions in Medicare market basket updates and established the hospital value based purchasing program, which adjusts payments to hospitals for inpatient services based on their performance against certain specified quality measures.

The ACA also contains cuts in Medicare and Medicaid disproportionate share hospital (“DSH”) payments for providing care to low income and uninsured patients. Beginning in October 2013, hospitals receiving Medicare DSH payments have had these payments cut by up to 75%. The base 25% is supplemented by additional payments based on the volume of uncompensated care provided by each such hospital, and was expected to be offset by a higher proportion of covered patients as other provisions of the ACA take effect. Effective October 1, 2017, CMS changed the methodology of Medicare DSH allotments according to a calculation using limited data from the Medicare Cost Report Worksheet S-10 to be phased in over a three-year period. This change will cause the Institution to experience significant future payment reductions in connection with Medicare DSH allotments. Separately, under current law, Medicaid DSH payments will be reduced by \$4 billion beginning on October 1, 2019, growing to annual reductions of \$8 billion from October 1, 2020 through September 30, 2025. Concurrent with these cuts, Medicaid DSH allotments to each state are expected to be reduced based on a methodology to be determined by the United States Department of Health and Human Services (“HHS”) accounting for statewide reductions in uninsured and uncompensated care.

The combination of cuts and methodology changes is projected to cause significant reductions in the Institution's future Medicaid DSH allotments.

Since 2013, pursuant to the Hospital Readmission Reduction Program (HRRP), Medicare inpatient payments to each hospital have been reduced based on the dollar value of that hospital's percentage of preventable Medicare readmissions for certain medical conditions. Under the HRRP, a hospital's Medicare inpatient acute care payments can be reduced by a maximum of 3%. Additionally, since 2015, pursuant to the Hospital-Acquired Condition Reduction Program (HACRP), Medicare inpatient payments to hospitals that are in the top quartile nationally for frequency of certain "hospital-acquired conditions" have been reduced by 1% for all discharges for the applicable federal fiscal year.

Teaching hospitals receive increases to their Medicare payments for costs related to training physicians and other medical professionals (graduate medical education ("GME") payments). There are two forms of payment for GME: Direct Graduate Medical Education ("DGME") and Indirect Medical Education ("IME") payments. DGME payments support the direct costs of training (e.g., resident stipends, supervision), while IME payments support the higher infrastructure relating to teaching, greater patient acuity and the extensive "stand-by" capabilities of teaching hospitals. While a recommendation from The Medicare Payment Advisory Commission ("MedPAC") and a CMS proposed rule both have suggested reducing the level of IME adjustments, such reductions have not yet been implemented. There can be no assurance that payments to the Institution for providing medical education will be adequate to cover the costs attributable to medical education programs for training residents, nurses and allied health professionals.

Hospital outpatient services also are paid by Medicare according to a prospective payment system for hospital outpatient services ("OPPS"). Under OPPS, most outpatient services are grouped into one of approximately 800 Ambulatory Patient Classifications and paid a uniform national payment amount adjusted for area wage differences and the average amount of resources required to provide the service (e.g., visit, chest x-ray, surgical procedure). OPPS applies to most hospital outpatient services, other than ambulance and rehabilitation services, clinical diagnostic laboratory services, dialysis for end-stage renal disease, non-implantable durable medical equipment, prosthetic devices and orthotics. Hospitals can receive three additional payments in addition to the amount determined under the standard OPPS rule: pass-through payments for certain new technologies; outlier payments for unusually costly cases; and special payments to certain children's and cancer hospitals. Effective November 2, 2015, new hospital outpatient departments located more than 250 yards from a hospital campus are reimbursed by Medicare at 50 percent of the OPPS rate. Outpatient services not covered by OPPS are paid on the basis of fee schedules, the lower of costs or charges, or a blend of fee schedules and costs.

In 1986 Congress enacted the Emergency Medical Treatment and Active Labor Act ("EMTALA") in response to allegations of inappropriate hospital transfers of indigent and uninsured emergency patients. EMTALA imposes strict requirements on hospitals in the treatment and transfer of patients with emergency medical conditions.

EMTALA requires hospitals to provide a medical screening examination to any individual who comes to the hospital's dedicated emergency department ("DED") for treatment, without regard to ability to pay, to determine whether the individual suffers from an emergency medical condition within the meaning of the statute. A DED is licensed by the state in which it is located as an emergency room or department, or is held out to the public as a place providing care for emergency medical conditions without requiring an appointment or during the immediately preceding calendar year, provided treatment of emergency medical conditions without requiring an appointment for at least one-third of all of its out-patient visits. A participating hospital may not delay provision of a medical screening examination in order to inquire about method of payment or insurance status. If an emergency medical condition is present, the hospital must provide such additional medical examination and treatment as may be required to stabilize the emergency medical condition. If the hospital deems it in the best interest of the individual to transfer the individual to another medical facility, the treating physician must execute a transfer certificate complying with the standards of the EMTALA and must provide a medically appropriate transfer.

EMTALA imposes significant costs on hospitals, including the costs of treatment of individuals who may not be able to pay for such services, costs of development and implementation of protocols concerning medical screening examinations and stabilization and appropriate transfers and, in some cases, costs associated with assuring on-call availability of special physicians.

If a hospital with 100 beds or more violates EMTALA, whether knowingly and willfully or negligently, it is subject to a civil money penalty. Failure to satisfy the requirements of EMTALA may also result in termination of the hospital's provider agreement. In addition, EMTALA creates a private cause of action for individuals who suffer



personal harm as a result of an EMTALA violation, and for any hospital that suffers financial loss as a result of another hospital's violation of EMTALA. This is a complaint-driven process, so any patient or family member could allege an EMTALA violation. The statute of limitations for filing such a civil action is two years.

The Medicare payment rules are reviewed, and many of them are revised, annually based on recommendations from government advisory commissions, such as MedPAC, and other sources, including health care providers. MedPAC has encouraged CMS to reduce payments for hospital-based services to the levels paid for comparable services to freestanding independent facilities, which could lead to a decrease in Medicare payments received by the Institution. In the future, continuing revisions to these rules may also lead to a decrease in Medicare payment received by the Institution. The Medicare program has experienced frequent legislative, regulatory and administrative revisions in its payment methodologies and other provisions, many of which have sought to reduce the rate of increase in the cost of the program. It is likely that revisions will continue, some of which may adversely affect the Medicare payment which the Institution receives.

In the 2014 Medicare inpatient prospective payment system final rule, CMS promulgated the two-midnight rule. Under this rule administrative contractors auditing the medical necessity of inpatient hospital admissions have been directed to consider admissions spanning less than two midnights to be, except in rare and unusual cases, outpatient cases.

**Medicare Advantage.** Medicare Advantage plans are alternate insurance products offered by private companies that engage in direct managed care risk contracting with the Medicare program. Under the Medicare Advantage program these private companies agree to accept a fixed, per-beneficiary payment from the Medicare program to cover all care that the beneficiary may require. The ACA includes significant changes to federal payments to Medicare Advantage plans, which are now tied to the level of fee-for-service spending in the applicable county, resulting in a reduction from prior years. In addition, payment to plans also will be based on achievement of quality indicators. Medicare's new payment methodology could result in lower payments to plans, which could impact the plans' scope of coverage or cause plan sponsors to negotiate lower payments to providers.

Future legislation or regulations may further decrease the financial incentives available to private insurers who offer Medicare Advantage plans and cause some of them to no longer offer those plans. This would likely increase the burdens of the traditional Medicare program as payment obligations revert from private insurers to the Federal government. Other legislative or regulatory changes to the Medicare Advantage program could occur that might increase or decrease its popularity and level of acceptance among Medicare beneficiaries. The effect of such future legislation/regulation is unknown but could materially and adversely affect the Institution.

The costs of providing a unit of care may exceed the revenues realized from Medicare for providing that service. Additionally, the aggregate costs to a hospital of providing care to Medicare beneficiaries may exceed aggregate Medicare revenues received during the relevant fiscal period.

**Other Medicare Service Payments.** Medicare payment for skilled nursing services, , general outpatient services and home health services are based on regulatory formulas or pre-determined rates. There is no guarantee that these rates, as they may change from time to time, will be adequate to cover the actual cost of providing these services to Medicare patients.

**Payment of Hospital Capital Costs.** Hospitals are paid on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. Thus, capital costs are paid exclusively on the basis of a standard federal rate (based upon average national costs of capital), subject to certain adjustments (such as for disproportionate share, indirect medical education and outlier cases) specific to the hospital.

There can be no assurance that the prospective payments for capital costs will continue under Medicare, or that such payments will be sufficient to cover the actual capital-related costs of the Institution allocable to Medicare patient stays, or that such payments will provide adequate flexibility in meeting the Institution's future capital needs.

**Payment for Physician Services.** Effective in 1992, Medicare Part B pays for physician services based on the Medicare Physician Fee Schedule ("PFS"). Physicians' services include: (1) office visits; (2) surgical procedures; (3) anesthesia services; and (4) a range of other diagnostic and therapeutic services. Physicians' services may be furnished in all settings, including physicians' offices, hospitals, ambulatory surgical centers, skilled nursing facilities and other post-acute care settings, hospices, outpatient dialysis facilities, clinical laboratories and beneficiaries' homes.

The resource-based relative value scale (“RBRVS”). The RBRVS is the foundation of the PFS and includes three resource components: (1) total physician work; (2) practice expenses; and (3) malpractice expenses. Each component is measured in terms of relative value units (“RVUs”). PFS fees are based on RVUs from the RBRVS, adjusted for geographic input price differences, and multiplied by a national conversion factor to derive dollar amounts.

The Sustainable Growth Rate formula (“SGR”), enacted in 1997 with the intent to limit the growth of Medicare payments for physician services, paid clinicians based on volume of services, not value. Each year, Congress passed temporary “doc fixes” to avert cuts. Currently, Physicians’ payments are also subject to multiple quality and value reporting programs for Medicare clinicians: (1) Physician Quality Reporting Program; (2) Value-Based Payment Modifier and (3) Medicare Electronic Health Records (“EHR”) Incentive Program.

Effective January 1, 2017, the Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”) repealed the previous formula to update the Medicare PFS and replaced it with several years of increases to overall payments for PFS services. In conjunction with that change, the law created the Quality Payment Program (“QPP”), which rewards the delivery of high-quality and cost-efficient patient care. There are two tracks to choose from: (1) The Merit-based Incentive Payment System (“MIPS”) to earn a performance-based adjustment to the PFS Medicare payment; and (2) Advanced Alternative Payment Models (“AAPM”) to earn an incentive payment for participation. .

Affected clinicians are called “MIPS eligible clinicians” and will participate in MIPS. In Years 1 and 2 physicians, physician assistants, nurse practitioners, clinical nurse specialists, and certified registered nurse anesthetists will be impacted. In Years 3 and forward there may be a broadening of Eligible Providers under MIPS. In late 2017, CMS released a final rule updating the QPP for 2018. Under the new rule, clinicians not subject to MIPS include: (1) providers newly enrolled in Medicare Part B participation in the performance period; (2) clinicians below the low patient volume threshold (Medicare billing charges less than or equal to \$90,000 or provides care for 200 or fewer Part B beneficiaries in one year); (3) certain participants in AAPMs; and (4) MIPS eligible clinicians whose EHR technology is unavailable as a result of extreme and uncontrollable circumstances (e.g. a natural disaster).

A single MIPS composite performance score will factor in performance in 4 weighted performance categories on a 0-100-point scale: (1) quality, (2) cost, (3) clinical practice improvement activities, and (4) advancing care information, which will equal the MIPS Composite Performance Score (“CPS”). Additionally, the 2018 rule added a 5 point bonus to the CPS of small practices.

Physician payment annual increases under the PFS will be limited to 0.5% from 2016 through 2019; no increases from 2020 through 2025 and either 0.25% to 0.75% from 2026 and thereafter. Under MIPS, the maximum adjustment is between -4% and a +4% for 2019; it is -5% to +5% in 2020; it is -7% to +7% in 2021, and then -9% to +9% for the years 2022 and thereafter. Quality Payments in the AAPM is an annual +5% incentive payment. It is likely that changes to physician reimbursement methods under Medicare will continue in the future.

**Medicare Trust Funds.** Two trust funds are maintained as part of the Medicare Program. Hospital Insurance (“HI”) or Medicare Part A, helps to pay for hospital, home health, skilled nursing facility, and hospice care for the aged and disabled (including certain individuals with end stage renal disease) and is financed primarily by payroll taxes paid by workers and employers. Supplementary Medical Insurance (“SMI”) consists of Medicare Part B and Part D. Part B helps pay for physician, outpatient, and other services for the aged and disabled who have voluntarily enrolled. Part D initially provided access to prescription drug discount cards and transitional assistance to low-income beneficiaries. In 2006 and later, Part D provides subsidized access to drug insurance coverage on a voluntary basis for beneficiaries.

The Medicare Board of Trustees’ annual report to Congress in June 2018 indicated that the HI Trust Fund is not financed adequately and is projected to be exhausted in 2026, three years earlier than in the prior year report. The Part B and Part D accounts in the SMI Trust Fund and various other components of the Medicare Program also have significant funding challenges. The trustees recommended that Congress and the executive branch work closely together with a sense of urgency to address the depletion of the HI Trust Fund and the projected growth in hospital and other expenditures. Accordingly, it is likely that statutory and regulatory attempts to contain increases in Medicare costs will continue in the future.

### ***The Medicaid Program***

Under Medicaid, the federal government provides grants to states that have medical assistance programs that meet federal standards. Competing pressures on the federal budget and New York State’s attempt to address its own

budgetary needs have also resulted in uncertainty with respect to Medicaid spending. Further, federal legislative efforts to cap Medicaid spending have been debated in Congress. Such decreases in spending may have a material adverse impact on the future financial condition of the Institution.

Under federal law, Medicaid coverage is mandatory for persons receiving assistance from Temporary Assistance for Needy Families (previously known as Aid to Families With Dependent Children) or the federal Supplemental Social Security (“SSI”) program and for certain categories of children and pregnant women. Implementation of the Medicaid program falls to each state, however, and there are significant variations in virtually all aspects of the Medicaid program across states. State specific variations arise from the fact that the Medicaid statute allows for optional benefits and categories of beneficiaries, as well as waivers of general statutory requirements to implement specific programs or demonstration projects.

### ***Medicaid 1115 Waiver Amendment***

As of April 14, 2014, the New York State Section 1115 Partnership Plan was amended to allow the State to reinvest over a five-year period up to \$8 billion of the \$17.1 billion in federal savings generated by State Medicaid reforms. Up to \$6.42 billion of this amount will be applied to the Delivery System Reform Incentive Payment (“DSRIP”) Program, which has a goal of reducing avoidable Medicaid hospitalizations by 25% over the next five years. The DSRIP payments are to be made to providers who collaborate in some fashion to achieve this goal and are to be paid based on performance. See “Appendix A – The Montefiore Obligated Group” for discussions of the Institution’s participation in the DSRIP Program. The full impact of the 1115 Waiver and the potentially significant loss in revenue from decreased hospitalizations upon the projected financial performance of the Obligated Group cannot be determined at this time.

### ***Audits and Withholds***

Participating providers are subject to audits and retroactive audit adjustments with respect to the Medicare and Medicaid programs. Such adjustments could exceed reserves and could be substantial. Medicare and Medicaid regulations also provide for withholding payments in certain circumstances. Any withholds that may occur could have a material adverse impact on the future financial condition of the Institution. Management of the Institution is not aware of audits or any material payment withhold by either Medicare or Medicaid.

### **Private Health Plans and Insurers**

Certain private insurance companies contract with hospitals on an “exclusive” or a “preferred” provider basis, and some insurers have plans known as “preferred provider organizations” (“PPOs”). Under such plans, there may be financial incentives for subscribers to use only those hospitals which contract with the plans. Under an exclusive provider plan, which includes most HMOs, private payors limit coverage to those services provided by selected hospitals within the provider plan. With this contracting authority, private payors may direct patients away from nonselected hospitals by denying coverage for services provided by them. In addition, PPOs and HMOs may limit the participation of a provider.

Such payors individually negotiate payment terms with the Institution, which terms include discounted fee-for-service payments or discounted fixed rate per day/case of care payments. There also are additional provisions by which the Institution shares in the risk associated with the cost of providing health care services. There is no assurance that the Institution’s exposure to such contracts or arrangements will not increase in the future. Increased participation may maintain or increase the patient base, but the discounts offered to HMOs and PPOs may result in reduced payments and lower net revenue to the Institution.

Some HMOs are now offering or mandating a “capitation” payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is “assigned” to, or otherwise directed to receive care at, a particular hospital. In a capitated payment system, the health care provider assumes an insurance type risk for the cost and scope of care given to the HMO’s enrollees. If payment under an HMO or PPO contract is insufficient to meet the provider’s costs of care, the financial condition of the provider may erode rapidly and significantly. Often, HMO or PPO contracts are enforceable for a stated term, regardless of provider losses. Recently, certain HMOs and PPOs have experienced financial difficulties, and some have resorted to bankruptcy proceedings. It is not possible, at this time, to predict the future of the managed care industry in general in relation to specific HMOs or PPOs with which the Institution contracts.

## **Fraud and Abuse and other Federal and State Laws and Regulations**

Federal and state governments have enacted health care fraud and abuse laws to regulate both the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to those beneficiaries. These laws penalize individuals and organizations for submitting claims for services (1) they did not provide, (2) that were not medically necessary, (3) provided by an improper person, (4) that involved an illegal inducement to utilize or refrain from utilizing a service or product, or (5) billed in a manner that does not comply with applicable government requirements. The scope of certain federal and state fraud and abuse laws has been expanded to include non-governmental, private health care plans.

Federal and state governments have a range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud and abuse, including imposing civil money penalties, suspending payments and excluding the provider from participating in the federal and state health care programs. One or more government entities and/or private individuals can prosecute fraud and abuse cases, and courts and/or regulators can impose more than one of the available penalties for each violation.

Laws governing fraud and abuse apply to virtually all individuals and entities with which a hospital does business, including other hospitals, home health agencies, long term care entities, infusion providers, pharmaceutical providers, insurers, MCOs, PPOs, third party administrators, physicians, physician groups and physician practice management companies. Fraud and abuse prosecutions can have a catastrophic effect on any of these entities, which can result in a material adverse impact on the financial condition of other entities in the same health care delivery system.

***Federal Fraud and Abuse Law.*** In recent years, both the federal and state governments have increased enforcement of laws designed to combat health care fraud and practices that the governments regard as abusive, and additional fraud legislation has been adopted at both federal and state levels. Under the federal Medicare Medicaid Fraud and Abuse Amendments of 1977 to the Social Security Act, as amended (the “Anti-Kickback Law”), it is a felony to knowingly and willfully offer, pay, solicit or receive any remuneration (including any kickback, bribe or rebate) directly or indirectly, overtly or covertly, in cash or in kind in order to induce business for which payment is provided, in whole or in part, under a federal health care program, including Medicare and Medicaid. Penalties for each violation of the Anti-Kickback Law include criminal fines and civil monetary penalties. Moreover, some courts have held that a violation of the Anti-Kickback Law may form the basis for a Federal False Claims Act suit (see discussion below). The statute does include some exceptions, and federal regulations establish numerous “safe harbors.” Arrangements that meet the safe harbor requirements are deemed not to be violations of the Anti-Kickback Law. Failure to comply with the safe harbors, however, does not mean that the activity violates the law. Arrangements that fail to qualify for safe harbor protection may or may not violate the Anti-Kickback Law depending on the facts and the intent of the parties.

The scope of the Anti-Kickback Law prohibition is, however, broadly drafted and liberally interpreted by some federal regulators and enforcement authorities. Thus, the Anti-Kickback Law may create liability in connection with a wide range of economic arrangements involving managed care entities, hospitals, physicians and other health care providers, including joint ventures, space and equipment rentals, purchases of physician practices, managed care arrangements, and management and personal services contracts.

In the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”), Congress established a fraud and abuse control program to coordinate federal, state and local health care fraud and abuse activities. HIPAA also creates several new federal health care crimes, many of which are broadly worded and potentially applicable to a wide range of conduct. For example, HIPAA created a general prohibition on knowingly and willfully executing or attempting to execute schemes to defraud any public or private health care benefit program or making any false or fraudulent representations in any matter involving any private or public health care program.

Several federal statutes, including the Social Security Act, the Program Fraud Civil Remedies Act of 1986 and the Federal False Claims Act (the “FCA”) (which is discussed in more detail below), also provide for imposition of civil monetary penalties for knowingly making false or improper claims to federal health care programs. Penalties under these statutes can be severe. In addition, because the Institution has various relationships with parties located in foreign jurisdictions, the Institution is subject to certain laws applicable to businesses generally, including the Foreign Corrupt Practices Act and other anti-corruption laws. If the Institution fails to comply with these or other applicable laws and regulations, it could be subject to penalties or other adverse consequences.

Penalties for noncompliance with the above referenced statutes can be substantial and could include criminal or civil liability and/or exclusion from participation in Medicare, Medicaid and other health programs.

**State Anti-Fraud and Abuse Law.** In addition to the federal laws prohibiting kickbacks and other types of exchanges of remuneration for referrals of patients, New York law also prohibits such conduct and provides criminal and civil penalties for licensed facilities and individuals who make or receive payments for referrals of patients for health care services. Entities and individuals found to have violated this provision are subject to loss of licensure, fines and/or imprisonment.

**Federal and State Self Referrals Prohibitions.** The Federal Ethics in Patient Referrals Act (known as the “Stark Law”) prohibits the referral of Medicare and Medicaid patients for certain “designated health services” to entities with which the referring physician (or an immediate family member of such physician) has a financial relationship. The statute also prohibits the entity furnishing the “designated health services” from billing the Medicare or Medicaid program for designated health services furnished pursuant to a prohibited referral. The designated health services subject to these prohibitions are clinical laboratory services, physical and occupational therapy services, radiology services (including magnetic resonance imaging, computerized tomography and ultrasound), radiation therapy services and supplies (not including nuclear medicine), durable medical equipment and supplies, parenteral and enteral nutrients (including equipment and supplies), orthotic and prosthetic devices and supplies, speech language pathology, home health services, outpatient prescription drugs and inpatient and outpatient hospital services (not including lithotripsy).

The New York Health Care Practitioner Referral Law (the “State Provisions”) is similar to the Stark Law; however, it covers all patients (irrespective of payor) and prohibits practitioners from referring a patient to a health care provider for clinical laboratory services, x-ray imaging services, radiation therapy services, physical therapy, or pharmacy services if the referring practitioner (or an immediate family member) has a financial interest in the health care provider.

A financial relationship, for purposes of the Stark Law and State Provisions (the Stark Law and State Provisions are hereinafter collectively referred to as “Stark”), is defined as either an ownership or investment interest in the entity or a compensation arrangement between the practitioner (or immediate family member) and the entity. An ownership or investment interest may be through equity, debt, or other means and includes an interest in an entity that holds an ownership or investment interest in an entity providing the designated health services. Many ordinary business practices and economically desirable arrangements with physicians would constitute “financial relationships” within the meaning of Stark.

The Stark provisions provide certain exceptions to these restrictions, but these exceptions are narrow and an arrangement must fully comply with an exception. If the relationship (which would include compensation arrangements such as employment and other professional services relationships, and ownership or investment interests) between a physician/practitioner and the hospital cannot be made to fit within the exceptions, the hospital will not be permitted to accept referrals for designated services from the physician/practitioner who has such financial relationship.

Violations of Stark can result in denial of payment, substantial civil money penalties, and exclusion from the Medicare and Medicaid programs. In certain circumstances, knowing violations may also create liability under the FCA. Enforcement actions for any such violations could have a material adverse impact on the financial condition of a health care provider, including the Institution.

CMS provides waivers of certain fraud and abuse laws as necessary for purposes of testing payment and service delivery models, including those implemented through certain ACOs.

The Institution has and may have in the future various relationships with physicians that may be characterized as financial arrangements under the Stark Law and/or the State self-referral statute. The statutes and interpretive regulations contain numerous ambiguities and are subject to varying interpretations. Under these circumstances, it is not possible to ascertain with certainty the effects that the Stark Law or the State self-referral statute may have on the Institution’s operations or financial results.

**The False Claims Act.** The criminal False Claims Act (“criminal FCA”) makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government. Violation of the criminal FCA can result in imprisonment and/or a fine. The civil False Claims Act (“civil FCA”), one of the government’s primary weapons against health care fraud, allows the United States government to recover significant damages from persons or entities

that submit fraudulent claims for payment to any federal agency through actions taken by the United States Attorney's Office or the Department of Justice. The ACA expanded the activities that are violations of the civil FCA, including, among other actions, failure to report and return to a federal health care program a known overpayment within 60 days of having identified the overpayment or, for cost-reporting entities, the date (if later) on which a hospital cost report is due. The State of New York also has a False Claims Act that closely tracks the federal civil FCA. It imposes penalties and fines on individuals and entities that file false or fraudulent claims for payment from any state or local government, including health care programs such as Medicaid. The civil FCA also permits individuals to initiate actions on behalf of the government in lawsuits called qui tam actions. These qui tam plaintiffs, or "whistleblowers," can share in the damages recovered by the government. Recent changes to the civil FCA provide that penalties may apply to persons who do not contract with the federal government but who makes, or causes to be made, a false record or statement material to a false or fraudulent claim paid by the federal government.

Under the civil FCA, health care providers may be liable if they take steps to obtain improper payments from the government by submitting false claims. Civil FCA violations have been alleged solely on the basis of alleged kickbacks or self-referrals or other conduct not in full compliance with applicable legal and regulatory standards. It is impossible to predict with certainty whether courts will uniformly hold that regulatory non-compliance and anti-kickback or self-referral violations are subject to prosecutions as false claims. If a provider, is faced with a civil FCA prosecution based on one of these theories, however, allocation of the funds required to contest or settle the matter could have a material adverse impact on that provider.

Violations of the civil FCA can result in penalties up to triple the actual damages incurred by the government and also monetary penalties.

**Federal Civil Monetary Penalty Law.** The federal Civil Monetary Penalty Act ("CMPA") provides for administrative sanctions against health care providers for a broad range of billing and other abuses. These include violations of the fraud and abuse and Stark Law, as noted elsewhere in this discussion. In addition, a health care provider is liable under the CMPA if it knowingly presents, or causes to be presented, improper claims for payment under Medicare, Medicaid and other federal health care programs. A hospital that participates in arrangements known as "gainsharing" by paying a physician to limit or reduce services to Medicare fee-for-service beneficiaries also would be subject to CMPA penalties. A health care provider that provides benefits to Medicare or Medicaid beneficiaries that the provider knows or should know are likely to induce the beneficiaries to choose the provider for their care also would be subject to CMPA penalties. The CMPA authorizes imposition of a civil money penalty and treble damages.

Health care providers may be found liable under the CMPA even when they did not have actual knowledge of the impropriety of their action. Knowingly undertaking the action is sufficient. Ignorance of the Medicare regulations is no defense. The imposition of civil money penalties on the Institution if it were found to be in violation of CMPA could have a material adverse impact on the Institution's financial condition.

**The Health Insurance Portability Act and Accountability Act of 1996.** HIPAA established criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, securities, premiums, credits, property or other assets of a health care benefit program. A health care provider convicted of health care fraud could be subject to mandatory exclusion from the Medicare program.

HIPAA also required the Department of Health and Human Services ("DHHS") to adopt national standards for electronic health care transactions, including federal privacy standards for the protection of health information kept by health care providers that conduct certain financial and administrative transactions electronically (the "Privacy Rule") and standards relating to the security of such health information. Compliance with the requirements of the Privacy Rule and other HIPAA requirements has required the Institution to develop and use policies and procedures designed to inform patients about their privacy rights and how their protected health information may be used, to keep protected information secure, to train employees so that they understand the privacy procedures and practices of the Institution and to designate a privacy officer responsible for seeing that privacy procedures are adopted and followed.

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. A civil monetary penalty is not imposed if the violation was due to reasonable cause and was corrected within 30 days. In addition, under the American Recovery and Reinvestment Act adopted in February, 2009 state Attorneys General are permitted to bring a civil action in federal district court against individuals who violate the HIPAA privacy and security standards, in order to enjoin further such violation and seek

damages. In the event of a successful action, the court would be permitted to award the costs of the action and reasonable attorneys' fees to the state.

***The HITECH Act.*** Provisions in the 2009 Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), enacted as part of the economic stimulus legislation, increase the maximum civil monetary penalties for violations of HIPAA and grant enforcement authority of HIPAA to state attorneys general. The HITECH Act also (1) extends the reach of HIPAA beyond "covered entities," (2) imposes a breach notification requirement on HIPAA-covered entities, (3) limits certain uses and disclosures of individually identifiable health information and (4) restricts covered entities' marketing communications.

The HITECH Act also established programs under Medicare and Medicaid to provide incentive payments for the "meaningful use" of certified EHR technology. The Medicare and Medicaid EHR incentive programs provide incentive payments to eligible professionals and eligible hospitals for demonstrating meaningful use of certified EHR technology. Health care providers demonstrate their meaningful use of EHR technology by meeting objectives specified by CMS for using health information technology and by reporting on specified clinical quality measures.

The Office for Civil Rights of HHS ("OCR") is putting increased emphasis on enforcement. OCR has entered into a number of highly publicized, high value settlements with HIPAA-covered entities stemming from alleged violations of HIPAA. The settlements are also noteworthy because they indicate that OCR is interested in enforcing violations of the HIPAA Security Rule, not just the HIPAA Privacy Rule. There have also been additional cases where state attorneys general, exercising the powers given them under the HITECH Act, have brought actions against covered entities for alleged HIPAA violations seeking significant penalties.

***Exclusions from Medicare or Medicaid Participation.*** The Secretary of DHHS is required to exclude from governmental program participation (including Medicare and Medicaid) for not less than five years any individual or entity who has been convicted of a criminal offense relating to the delivery of any item or service paid under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, felony fraud against any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription or dispensing of a controlled substance. DHHS also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, theft, embezzlement, breach of fiduciary duty or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. The New York State Office of the Medicaid Inspector General also has the authority to exclude individuals and entities from participation in Medicaid. Providers are excluded for reasons that may include program-related convictions, patient abuse or neglect convictions, and licensing board disciplinary actions. The ACA authorizes the Secretary of DHHS to exclude a provider from participation in Medicare and Medicaid, as well as to suspend payments to a provider pending an investigation or prosecution of a credible allegation of fraud against the provider. Exclusion of the Institution from governmental program participation could have a material, adverse effect on the Institution.

***Enforcement.*** Enforcement activity against health care providers has increased and enforcement authorities have adopted aggressive approaches. In the current regulatory climate, it is anticipated that many health care providers will be subject to investigation, audit or inquiry regarding the health care fraud laws mentioned above. As with other health care providers, the Institution may be the subject of Office of the Inspector General, U.S. Attorney General and/or Justice Department investigations, audits or inquiries in the future. Because of the complexity of these laws, the instances in which an alleged violation may arise to trigger such investigations, audits or inquiries is increasing and could result in enforcement action against the Institution.

Enforcement authorities are in a position to compel settlements by providers charged with kickback, referral, billing practice or false claims violations by imposing or threatening to withhold Medicare, Medicaid and/or similar payments and/or exclusion and/or criminal action. In addition, the cost of defending such investigations or litigation, the time and management attention consumed thereby and the facts of a particular case may dictate settlement. Therefore, regardless of the merits of a particular case or cases, the Institution could experience materially adverse settlement and/or litigation costs. Prolonged and publicized investigations could be damaging to the reputation, business and credit of the Institution, regardless of the outcome, and could have material adverse consequences on the financial condition of the Institution. In addition, the IRS has stated that violations by a tax exempt entity of certain of the fraud and abuse laws may also result in revocation of the entity's tax-exempt status. Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described above, and therefore penalties or settlement amounts often are compounded. Generally these risks are not covered by insurance.

**Corporate Compliance.** The Office of Inspector General (“OIG”) has published guidelines urging hospitals to adopt and implement effective programs to promote compliance with applicable federal and state law and the program requirements of federal, state, and private health plans. Compliance with the guidance is voluntary but is nevertheless an important factor in controlling risk because the OIG will consider the existence of an effective compliance program that pre-dated any governmental investigation when addressing the appropriateness of administrative penalties. New York also requires hospitals to have an effective compliance program. The compliance program must include, among other things, a chief compliance officer, written policies and the conduct of audits after the identification of risk areas. It is expected that the Office of the Medicaid Inspector General will conduct audits of compliance programs and assess their effectiveness.

The Institution has adopted and implemented a voluntary corporate compliance program (“Compliance Plan”). The purpose of a Compliance Plan is to detect and deter violations of law. One of the major goals of such a plan is to identify and address issues involving the submission of claims to governmental payers such as Medicare and Medicaid and whether those claims comply with statutes, regulations and other guidance provided by the programs. Integral components of the Compliance Plan include a code of conduct, adoption of written standards, education, policies and procedures, auditing and monitoring, remediation of identified issues, and encouraging employees to identify potential issues. However, the presence of a compliance program is not an assurance that health care providers will not be investigated by one or more federal or state agencies that enforce health care fraud and abuse laws or that they will not be required to make repayments to various health care insurers (including the Medicare and/or Medicaid programs).

It is possible that the Compliance Plan may bring to the attention of the Institution issues with respect to prior practices and payments. Depending upon the nature of the issue and whether an overpayment has occurred, such a discovery may result in either voluntary or involuntary refunds to governmental payers. Enforcement authorities take into account the existence and efficacy of a provider’s voluntary compliance efforts in assessing the application and severity of penalties for a violation of federal or state rules governing reimbursement to or business relationships among providers of medical services; however, the decision of whether and how much weight to attach to voluntary compliance efforts is solely within the enforcement authorities’ discretion.

**HIPAA – Administrative Simplification.** In addition to provisions governing the portability of health insurance and health care fraud, HIPAA includes administrative simplification provisions (“AS Provisions”) intended to reduce costs and administrative burdens in the health care industry by standardizing the electronic transmission of many administrative and financial transactions that currently are carried out manually on paper or in many different electronic formats. The AS Provisions also impose privacy and security requirements on entities covered by HIPAA (“Covered Entities”) as well as mandate other standards such as national identifiers. Covered Entities are health plans; health care clearinghouses; and health care providers, such as the Institution, that engage in covered transactions. Additionally, Covered Entities must enter into contracts with their business associates with whom they share protected health information to assure that such information is appropriately safeguarded and that other HIPAA requirements are met.

Under the final transaction and code set regulations promulgated by DHHS, Covered Entities must use the prescribed standards for designated electronic transactions. The final HIPAA privacy regulations impose requirements on the use and disclosure of protected health information, create individual rights, and mandate certain administrative requirements for Covered Entities. Covered Entities were expected to be in compliance with the privacy regulations. Additionally, security regulations require Covered Entities to assess risks and develop and implement appropriate security measures to protect individually identifiable health information, with particular focus on administrative procedures, physical safeguards, technical security services, and technical security mechanisms. Covered Entities such as the Institution must comply with the security regulations as well. Penalties for inadvertent noncompliance with the AS Provisions include civil monetary penalties, criminal penalties, and possible imprisonment.

**Certificate of Need.** The State employs a certificate of need program, whereby health care facilities are required to obtain approval from the State before undertaking certain projects, including constructing or developing a new health care facility, selling, purchasing or leasing part or all of any existing hospital, changing bed capacity in a manner which increases the total number of licensed beds or redistributes beds, and/or offering a new tertiary health service.

**Environmental Laws Affecting Health Care Facilities.** Hospitals and other healthcare facilities are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, hospital operations or facilities and properties owned or operated by hospitals. Among the types of regulatory requirements faced by hospitals are: air and water quality control requirements; waste



management requirements; specific regulatory requirements applicable to asbestos, hospital, medical and infectious waste, polychlorinated biphenyls, and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital; requirements for worker safety and training employees in the proper handling and management of hazardous materials and waste; and other requirements. In their role as owners and operators of properties or facilities, hospitals may be subject to liability for investigating and remediating any hazardous substances that have come to be located on the property, including any such substances that may have migrated off the property. Typical healthcare operations include, in various combinations, the handling, use, storage, transportation, disposal and discharge of infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. For this reason, healthcare facility operations are particularly susceptible to the practical financial and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations or increase their costs or both; may result in legal liability, damages, injunctions or fines, or may trigger investigations, administrative proceedings, penalties or other government agency actions.

***Antitrust.*** Enforcement of antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances including medical staff privilege disputes, third party contracting, physician relations, employee compensation and joint venture, merger, affiliation and acquisition activities. In some respects, the application of federal and state antitrust laws to health care is still evolving, and enforcement activity by federal and state agencies appears to be increasing. At various times, health care providers may be subject to an investigation by a governmental agency charged with the enforcement of the antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. Violation of the antitrust laws could be subject to criminal or civil enforcement by federal and state agencies, as well as by private litigants. Among the remedies available against persons found liable of violating antitrust prohibitions are treble damages and payment of plaintiff's attorney fees, both of which may be significant.

From time to time, the Institution is or will be involved in a variety of activities which could receive scrutiny under the antitrust laws, and it cannot be predicted when or to what extent liability may arise. With respect to payor contracting, the Institution may, from time to time, be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose the participants to antitrust risk from governmental or private sources is dependent on a myriad of factual matters which may change from time to time.

Hospitals, including the Institution, regularly have disputes regarding credentialing and peer review, and may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may also be liable with respect to such indemnity. Court decisions have also established private causes of action against hospitals which use their local market power to promote ancillary health care businesses in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage.

### **Indigent Care**

Tax exempt hospitals often treat large numbers of indigent patients who are unable to pay in full for their medical care. Typically, urban, inner city hospitals may treat significant numbers of indigents. These hospitals may be susceptible to economic and political changes that could increase the number of indigents or their responsibility for caring for this population. General economic conditions that affect the number of employed individuals who have health coverage affects the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, state and federal health care programs (including Medicare and Medicaid) may increase the frequency and severity of indigent treatment by such hospitals and other providers. It also is possible that future legislation could require that tax exempt hospitals and other providers maintain minimum levels of indigent care as a condition to federal income tax exemption or exemption from certain state or local taxes.

Federal law and regulations reduced the amount of funding available in the future for DSH payments under the Medicare and Medicaid programs under the theory that the ACA will result in more insured patients, and therefore, there will be less of a need to make funds available to hospitals that provide care to the uninsured. However, Management cannot predict whether the anticipated increased revenue to the Institution resulting from more insured patients will offset the loss of DSH payments.

## **Licensing, Surveys, Investigations and Audits**

On a regular basis, health facilities, including those of the Institution, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare and Medicaid participation and payment, State licensing agencies, private payors and The Joint Commission. Renewal and continuance of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the Institution. These activities generally are conducted in the normal course of business of health care facilities. Nevertheless, an adverse determination could result in a loss or reduction in the Institution's scope of licensure, certification, or accreditation, or could reduce the payment received or require repayment of amounts previously remitted.

## **Employment and Labor Issues**

As with all large employers, the Institution bears a wide variety of risks in connection with their employees. These risks include strikes and other related work actions, contract disputes, difficulties in recruitment, discrimination claims, personal tort actions, work related injuries, exposure to hazardous materials, interpersonal torts, risks related to its benefit plans, and other risks that may flow from the relationships between employer and employee or between physicians, patients and employees. Many of these risks are not covered by insurance, and certain of them cannot be anticipated or prevented in advance. Management of the Institution believes that the Institution's retirement plans are in material compliance with the Employee Retirement Income Security Act of 1974, as amended, the Code and other applicable laws.

Increasingly, employees of hospitals and other providers are becoming unionized, and many hospitals and other providers have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to the affected members. In addition, employee strikes or other adverse labor actions may have an adverse impact on the Institution.

## **Physician, Nursing and Staff Shortages**

In recent years, the health care industry has suffered from a scarcity of physician specialists and sub specialists, nursing personnel, respiratory therapists, pharmacists and other trained health care technicians. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. A further factor is that competition for physicians has intensified in recent years, with frequent recruitment efforts by hospitals both locally and nationally to attract physicians away from competing hospitals in order to bolster admissions and profitability attributable to the patients such physicians frequently bring with them or are able to attract. These factors are expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital specific shortages. To the extent that the Institution is unable to maintain adequate staff levels, utilization and, thus, financial performance may be adversely affected.

In order to recruit and retain professional and nursing staff to strengthen clinical services, the Institution has offered, and in the future may have to offer, competitive salaries to both newly recruited individuals and existing staff. In some years such salaries have increased, and in the future may be required to increase, more than the rate of inflation. Such increases in the future may exceed increases in the Institution's rates of payment.

## **Competition**

Competition from other hospitals may adversely affect revenues. In New York, hospital systems continue to consolidate, increasing competitive pressures on acute care hospitals, including the Institution. Development of health maintenance and other alternative delivery programs and future medical and scientific advances could result in decreased usage of the Institution's facilities. The Institution further faces and will continue to face increased competition from other hospitals, integrated delivery systems, ambulatory care providers, rehabilitation facilities, urgent care centers, drug stores and other retail businesses offering health care services, freestanding independent diagnostic treatment facilities and increasingly sophisticated physician group practices, among others that offer similar health care services as well as expanded preventive medicine treatment.

Insurers may further encourage competition among hospitals and providers on the basis of price, payment terms and quality. Payors have used the threat of patient steerage, restrictive physician contracting, carve outs and

network exclusion to drive provider prices lower. This may lead to increased competition among hospitals based on price where insurance companies attempt to steer patients to the hospitals that have the most favorable contracts.

## **Insurance**

In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased in health care nationwide, resulting in substantial increases in malpractice insurance premiums, higher deductibles and generally less coverage. Professional liability and other actions alleging wrongful conduct are often filed against health care providers. Insurance does not provide coverage for judgments for punitive damages.

Litigation also arises from the corporate and business activities of hospitals, from a hospital's status as an employer or as a result of medical staff or provider network peer review or the denial of medical staff or provider network privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims or business disputes are not covered by insurance or other sources and may, in whole or in part, be a liability of the Institution if determined or settled adversely.

Many hospitals and health care providers are having difficulty renewing or obtaining all types of commercial insurance, including insurance against malpractice and general liability claims, at reasonable cost. The insurers are mandating lower amounts of coverage, requiring greater deductibles, and charging more in premium.

## **Cost Increases**

In recent years, substantial cutbacks in personnel and other cost-cutting measures have been instituted at hospitals throughout the State. Generally, these cutbacks have been instituted to address the disparity between rising medical costs and State-regulated reimbursement formulas, including those for Medicaid, Blue Cross and Blue Shield, and other third-party payors. Rising health care costs resulted from, among other factors, health care costs exceeding inflation, increased minimum wage, staff shortages, increased pharmaceutical and medical device costs, and the highly technical nature of the industry. The Institution has been affected by the impact of such rising costs, and there can be no assurance that the Institution would not be similarly affected by the impact of additional unreimbursed costs in the future.

## **Construction and Project Risk**

Uncontrollable delays are common in the construction industry. Such delays caused by, for example, strikes, weather, other environmental factors, lack of regulatory approvals (including required certificates of need) or unavailability of materials, may delay completion of projects undertaken by the Institution, result in cost overruns or even prevent completion of any such projects.

## **Affiliation, Merger, Acquisition and Divestiture**

As part of its on-going planning process, the Institution will continue to consider the potential acquisition of operations or properties which may become affiliated with or become part of the Obligated Group in the future, as well as the potential disposition of certain existing Obligated Group operations or properties. As a result, it is possible that the organizations and assets which currently make up the Obligated Group may change from time to time, subject to the provisions in the Master Indenture and other financing documents which apply to merger, sale, disposition or purchase of assets, or with respect to joining or withdrawing from the Obligated Group.

## **Secondary Market**

There can be no assurance that there will be a secondary market for the purchase or sale of the 2018 DASNY Bonds. From time to time there may be no market for them depending upon prevailing market conditions, including the financial condition or market position of firms who may make the secondary market, the evaluation of the Obligated Group's capabilities and the financial conditions and results of operations of the Obligated Group.

## **New York State Medicaid Redesign**

In January 2011, Governor Andrew M. Cuomo issued Executive Order No. 5 creating the Medicaid Redesign Team and setting in motion a process of substantial reform of New York's Medicaid program. The Medicaid Redesign

Team, comprised of health care professionals, stakeholders in the industry and legislators, was charged with reducing Medicaid costs and improving patient care. On February 24, 2011, the Medicaid Redesign Team issued a report containing findings and recommendations for cost reductions of over \$2.3 billion to the Governor for consideration in the budget negotiation process.

All New York State Enacted Budgets since 2011-12 have assumed a targeted growth rate for Medicaid equal to the ten-year average change in the medical component of the Consumer Price Index (“CPI”). The ten-year average change in the medical component of CPI fell from 4.0% in 2011-12 to the current rate of 3.2%, and is projected to drop to 2.8% by 2019-20. If spending in any fiscal year is projected to exceed this budget cap, the New York State Department of Health (“NYSDOH”) and the New York State Division of the Budget are authorized to develop and implement a plan of action to bring spending in line with the cap, which could include modifying or reducing reimbursement methods or program benefits.

The effect of the Medicaid redesign process on the Institution depends significantly on participation in new models of integrated care delivery, the ability to collaborate with different types of providers and relationships with Medicaid managed care plans, as those plans will play an increasingly larger role over the next several years. There can be no assurance that the anticipated gap-closing savings will be achieved or that the rate of annual growth in NYSDOH State Funds Medicaid spending will be limited. In addition, many of the cost-saving initiatives are dependent upon timely federal approvals, appropriate amendments to the existing systems and processes and a collaborative working relationship with health care industry stakeholders.

### **New York State Executive Order 38**

On January 18, 2012, Governor Cuomo signed Executive Order No. 38 (the “Executive Order”) limiting spending for administrative costs and executive compensation at state-funded service providers. The Institution may be subject to the limitations contained in the Executive Order. The Executive Order limits reimbursement with State funds for executive compensation to \$199,000 annually per executive and requires that 85% of State-authorized payments be directed to direct care or services, rather than administrative costs. On May 30, 2012, NYSDOH published proposed regulations to implement the Executive Order, effective January 1, 2013.

In April 2014, a New York trial-level court in Nassau County found that the Executive Order violated the New York State Constitution. A trial-level court in Suffolk County in a different case upheld the Executive Order in July 2014. In December 2015, the appellate court with jurisdiction over the trial courts in both of these counties, the Second Department, upheld the Executive Order, reversing the decision from the Nassau County court and affirming the decision of the Suffolk County court. In 2015, the Albany County Supreme Court, also a trial-level court, found the Executive Order to be constitutional, for the most part, a conclusion also reached by the New York Appellate Court, Third Department in 2017. The appellate courts’ decisions remain subject to review by a higher court. Accordingly, whether the Executive Order will remain in effect and the way in which the final regulations may impact the Institution remains unclear. Accordingly, it is impossible at this time to predict what changes in accounting or practices might be required of the Institution as a result of these regulations.

### **Realization of Value on the Mortgaged Property**

The lien of the Mortgage securing the Obligations has not been insured by a title insurance policy. The existence of any liens on the Mortgaged Property having priority over the Lien created by the Mortgages may reduce the amount realized by the Master Trustee in the event of a foreclosure of the Mortgage.

The Mortgaged Property is not comprised of general purpose buildings and would not generally be suitable for industrial or commercial use and does not constitute all facilities of the Institution. Consequently, it would be difficult to find a buyer or lessee for the Mortgaged Property if it were necessary to foreclose on the Mortgaged Property. Thus, upon any default, it may not be possible to realize funds in an amount equal to the outstanding interest on and principal of the Obligations issued under the Master Trust Indenture from a sale or a lease of the Mortgaged Property.

Furthermore, in order to operate the Mortgaged Property as a health care facility, a purchaser of the Mortgaged Property at a foreclosure sale would under present law have to obtain a certificate of need from the NYSDOH and a license for the health care components of the facilities located on the Mortgaged Property. The Institution is not granting a lien on equipment or furnishings at the Mortgaged Property. Therefore, the ability to operate the Mortgaged Property as a health care facility might be affected accordingly.

In addition, under applicable federal and New York environmental statutes, in the event of any past or future releases of pollutants or contaminants on or near the Mortgaged Property, a lien superior to the Master Trustee's mortgage lien could attach to the Mortgaged Property to secure the costs of removing or otherwise treating such pollutants or contaminants. Such a lien would adversely affect the Master Trustee's ability to realize sufficient amounts to pay the outstanding Obligations in full. Furthermore, in determining whether to exercise any foreclosure rights with respect to the Mortgaged Property, the Master Trustee may have to take into account the potential liability of any owner of the Mortgaged Property, including an owner by foreclosure, for clean-up costs with respect to such pollutants and contaminants. No environmental assessment of the Mortgaged Property has been made prior to the issuance of the Bonds.

### **Enforceability of Remedies**

The DASNY Obligations are secured by a mortgage lien on the Mortgaged Property of the Institution and a security interest in the Gross Receivables of the Institution. The practical realization of money from the Obligated Group upon any default will depend upon the exercise of various remedies specified by the Master Indenture. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay.

Under existing law, the remedies specified by the Master Indenture may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The legal opinion to be delivered concurrently with the delivery of the 2018 DASNY Bonds will be qualified as to the enforceability of the various agreements and other instruments by limitations imposed by State and Federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization or other laws affecting the enforcement of creditors' rights generally.

### **Enforceability of the Master Indenture**

Under New York law, a not-for-profit corporation may guarantee the debt of another corporation only if such guaranty is in furtherance of the corporate purposes of such guarantor not-for-profit corporation. In addition, it is possible that the joint and several obligation of a member to make payments due under an Obligation, relating to indebtedness issued for the benefit of another member, may be declared void in an action brought by a third-party creditor pursuant to the New York fraudulent conveyance statutes or may be avoided by a member or a trustee in bankruptcy in the event of the bankruptcy of the member from which payment is requested. An obligation may be voided under the Federal Bankruptcy Code or under the New York fraudulent conveyance statute, if (a) the obligation was incurred without receipt by the obligor of "fair consideration" or "reasonably equivalent value," and (b) the obligation renders the obligor "insolvent," as such terms are defined under the applicable statute. Interpretation by the courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. For example, a member's joint and several obligation under the Master Indenture to make all payments thereunder, including payments in respect of funds used for the benefit of the other members, may be held to be a "transfer" which makes such member "insolvent" in the sense that the total amount due under the Master Indenture could be considered as causing its liabilities to exceed its assets. Also, one of the members may be deemed to have received less than "fair consideration" for such obligation because none or only a portion of the proceeds of the indebtedness is to be used to finance projects occupied or used by such member. While the members may benefit generally from the projects financed from the indebtedness for the other members, the actual cash value of this benefit may be less than the joint and several obligation. The rights under the New York fraudulent conveyance statutes may be asserted for a period of up to six years from the incurring of the obligations under the Master Indenture.

In addition, the assets of any member may be held by a court to be subject to a charitable trust which prohibits payments in respect of obligations incurred by or for the benefit of others if a member has insufficient assets remaining to carry out its own charitable functions or, under certain circumstances, if the obligations paid by such member were issued for purposes inconsistent with or beyond the scope of the charitable purposes for which the member was organized. The enforceability of similar master trust indentures has been challenged in jurisdictions outside of the State. In the absence of clear legal precedent in this area, the extent to which the assets of any member can be used to pay Obligations issued by or on behalf of others cannot be determined at this time.

In addition, there exists common law authority and authority under state statutes for the ability of the state courts to terminate the existence of a not-for-profit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court's own motion or pursuant to a petition of the state attorney general or such other persons who have interests different

from those of the general public, pursuant to common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

An action to enforce a charitable trust and to see to the application of its funds could also arise if an action to enforce the obligation to make payments on an Obligation issued for the benefit of another Member of the Obligated Group would result in the cessation or discontinuation of any material portion of the healthcare or related services previously provided by the Institution from which payment is requested.

### **Exercise of Remedies under Master Indenture**

“Events of Default” under the Master Indenture include the failure of the Obligated Group to make payments on any Obligation Outstanding under the Master Indenture (such as the DASNY Obligations) and the occurrence of an event of default under any Related Bond Indenture. The Master Indenture provides that upon an “Event of Default” thereunder, the Master Trustee may in its discretion, declare the principal of all Obligations Outstanding thereunder to be due and payable immediately and may exercise other remedies thereunder. However, the Master Trustee is not required to declare amounts under the Master Indenture to be due and payable immediately except as provided in the Master Indenture. Consequently, upon the occurrence of an “Event of Default” with respect to the 2018 DASNY Bonds and an acceleration of the maturity of the 2018 DASNY Bonds, the Master Trustee may not be required to accelerate all Obligations Outstanding under the Master Indenture.

### **Matters Related to Mortgaged Property and Title Insurance**

The Mortgaged Property is pledged as security for the Obligations pursuant to the Master Indenture. Such Mortgaged Property represents only the primary patient care and parking facilities of one of several health care campuses of the Obligated Group and as a result, upon any default and foreclosure, the Master Trustee will likely not obtain an amount equal to the amount of outstanding Obligations from the sale or lease of such Mortgaged Property.

The Mortgaged Property is not currently suitable for general industrial or commercial use, and a proposed change in the current use would require the consent of governmental authorities. In addition, in order to continue to operate the Mortgaged Property as a health care facility, a potential purchaser or lessee operator would have to obtain approval from the necessary governmental authorities and secure licenses to operate such facilities. The foregoing requirements may render it difficult to find a purchaser for the Mortgaged Property and as a result, it may not be possible, following an event of default, to realize any value in a foreclosure or other disposition of the Mortgaged Property.

The title insurance policy delivered to the Master Trustee is in an amount significantly less than both the aggregate amount of the Obligations and the value of the Mortgaged Property. Losses caused by a defect in title, unmarketability of title, statutory liens, unenforceability of the mortgage lien, priority of the Mortgage or other matters covered by the title insurance policy will result in a recovery, if any, not greater than the amount of the policy.

### **The Bond Insurer**

In the event MMC fails to make regularly scheduled payments of the principal of and interest on any Insured Bonds when the same become due, the Trustee on behalf of the owners of such Insured Bonds shall have recourse against the Bond Insurer under the Policy for such payments. There can be no assurance that the Bond Insurer will have sufficient revenues to enable it to make timely payments on such Insured Bonds. Moreover, the Policy does not insure the principal of or interest on the Insured Bonds coming due by reason of acceleration, optional redemption, extraordinary redemption or purchase in lieu of redemption, nor does it insure the payment of any redemption premium payable upon the optional redemption of the Insured Bonds.

So long as the Insured Bonds are Outstanding and the Bond Insurer is not in default under the Policy, the Bond Insurer shall be deemed the owner of the Insured Bonds for purposes of all actions under the Series 2018B Resolution which require or permit the consent, direction or request of the owners of the Insured Bonds. Under no circumstances can the Insured Bonds be accelerated except with the consent of the Bond Insurer, unless the Bond Insurer has defaulted on its obligations under the Policy or renounced its obligations thereunder. Furthermore, so long as the Bond Insurer performs its obligations under such Policy, it may direct, and must consent to, any remedies that the Trustee exercises under the Series 2018B Resolution with respect to the Insured Bonds.

In the event that the Bond Insurer is unable to make payments of principal and interest on the Insured Bonds as such payments become due, such Bonds will be payable solely from moneys received by the Trustee pursuant to

the Loan Agreement and the Master Indenture. See “PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE 2018 DASNY BONDS – Bond Insurance” herein for further information concerning the Bond Insurer and the Policy.

The insured ratings on the Insured Bonds are dependent on the ratings of the Bond Insurer. The Bond Insurer's current ratings are predicated upon, among other things, a level of reserves in excess of the levels required by the various state agencies regulating insurance companies and an assessment by the rating agencies of potential future claims against these reserves. The level of reserves maintained by the Bond Insurer and the assessment by rating agencies of potential future claims and the adequacy of reserves to meet these claims could change over time and this could result in a downgrading of the ratings on the Insured Bonds. The Bond Insurer is not contractually bound to maintain its present level of reserves in the future or to increase them in order to maintain its present ratings.

## **Bankruptcy**

The rights and remedies of the holders of the 2018 DASNY Bonds are subject to various provisions of Title 11 of the United States Code (the “Bankruptcy Code”). If the Institution were to file a petition for relief under the Bankruptcy Code, the filing would automatically stay the commencement or continuation of any judicial or other proceedings against the Institution and its property. The Institution would not be permitted or required to make payments of principal or interest under the Obligations, unless an order of the United States Bankruptcy Court were issued for such purpose. In addition, without an order of the United States Bankruptcy Court the automatic stay may serve to prevent the Trustee from applying amounts on deposit in certain funds and accounts held under the Resolution from being applied in accordance with the provisions of the Resolution, and the application of such amounts to the payment of principal and interest on, the 2018 DASNY Bonds. Moreover, any motion for an order canceling the automatic stay and permitting such funds and accounts to be applied in accordance with the provisions of the Resolution would be subject to the discretion of the United States Bankruptcy Court, and may be subject to objection and/or comment by other creditors of such Member of the Obligated Group, which could affect the likelihood or timing of obtaining such relief. The automatic stay may also adversely affect the ability of the Master Trustee under to exercise remedies upon default, including the acceleration of all amounts payable by the Institution, the Master Indenture, and may adversely affect the Master Trustee’s or the Trustee’s ability to take all steps necessary to file a claim under the applicable documents on a timely basis.

The Institution could file a plan for the adjustment of its debts in a proceeding under the Bankruptcy Code, which plan could include provisions modifying or altering the rights of creditors generally, or any class of them, whether secured or unsecured. The plan, when confirmed by the United States Bankruptcy Court, would bind all creditors who have notice or knowledge of the plan and could discharge all claims against the Institution provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been (except as set forth below) accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

In the event of bankruptcy of the Institution, transfers of property by the bankrupt entity, including the payment of debt on or after the date which is 90 days (or, in some circumstances, one year) prior to the commencement of the case in bankruptcy court may be subject to avoidance or recoupment as preferential transfers. Under certain circumstances a court may have the power to direct the use of revenues meet expenses of the Institution before paying debt service on the 2018 DASNY Bonds.

## **Considerations Relating to Other Indebtedness**

The Master Indenture permits the Institution and any future Member of the Obligated Group to incur additional indebtedness subject to compliance with provisions of the Master Indenture. See “Appendix E – Form of Master Indenture”. Furthermore, the Institution has indebtedness now outstanding that is not secured by the Master Indenture. See “Part 7 – MONTEFIORE OBLIGATED GROUP”. Any additional indebtedness could increase the Obligated Group’s debt service and repayment requirements and may adversely affect debt service coverage on the 2018 DASNY Bonds.

## **Cybersecurity**

Like many other large organizations, the Institution relies on digital technologies to conduct its customary operations. In the past several years, a number of entities have sought to gain unauthorized access to digital systems of large organizations for the purposes of misappropriating assets or information or causing operational disruption. These attempts include highly sophisticated efforts to electronically circumvent network security as well as more traditional intelligence gathering and social engineering aimed at obtaining information necessary to gain access. The Institution maintains a network security system designed to stop “cyber-attacks” by third parties, and minimize its impact on operations; however, no assurances can be given that such network security systems will be completely successful.

## **Other Risk Factors**

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Institution, or the market value of the 2018 DASNY Bonds, to an extent that cannot be determined at this time:

- Adoption of proposed legislation in New York State that would set nurse-to-patient ratios by unit.
- Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates.
- Increased unemployment or other economic conditions in the service area of the Obligated Group, which could increase the proportion of patients who are unable to pay fully for the cost of their care.
- Competition in the Obligated Group’s service area could increase from alternative modes of care, including life care, assisted living facilities, and home care.
- Efforts by insurers and governmental agencies to limit the cost of hospital and physician services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or attempts by third-party payors to control or restrict the operations of certain health care facilities.
- Reduced demand for the services of the Obligated Group that might result from decreases in population or innovations in technology.
- Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.
- The occurrence of a natural or man-made disaster, including but not limited to acts of terrorists, that could damage the facilities of the Obligated Group, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair the operations and the generation of revenues from the Obligated Group’s facilities.
- Adoption of a so-called “flat” Federal income tax, a reduction in the marginal rates of Federal income taxation or replacement of the Federal income tax with another form of taxation, any of which might adversely affect the level of charitable donations to the Obligated Group.
- Increases in cost and limitations in the availability of any insurance, such as fire, and/or business interruption, automobile and comprehensive general liability, that the Obligated Group generally carries.

## **PART 9 - THE AUTHORITY**

### **Background, Purposes and Powers**

DASNY is a body corporate and politic constituting a public benefit corporation. DASNY was created in 1944 to finance and build dormitories at State teachers’ colleges to provide housing for the large influx of students returning to college on the G.I. Bill following World War II. Over the years, the State Legislature has expanded DASNY’s scope of responsibilities. Today, pursuant to the Dormitory Authority Act, DASNY is authorized to finance, design, construct or rehabilitate facilities for use by a variety of public and private not-for-profit entities.



DASNY provides financing services to its clients in three major areas: public facilities; not-for-profit healthcare; and independent higher education and other not-for-profit institutions. DASNY issues State-supported debt, including State Personal Income Tax Revenue Bonds and State Sales Tax Revenue Bonds, on behalf of public clients such as The State University of New York, The City University of New York, the Departments of Health and Education of the State, the Office of Mental Health, the Office of People with Developmental Disabilities, the Office of Alcoholism and Substance Abuse Services, the Office of General Services, and the Office of General Services of the State on behalf of the Department of Audit and Control. Other public clients for whom DASNY issues debt include Boards of Cooperative Educational Services (“BOCES”), State University of New York, the Workers’ Compensation Board, school districts across the State and certain cities and counties that have accessed DASNY for the purpose of providing court facilities. DASNY’s private clients include independent colleges and universities, private hospitals, certain private secondary schools, special education schools, facilities for the aged, primary care facilities, libraries, museums, research centers and government-supported voluntary agencies, among others.

To carry out its programs, DASNY is authorized to issue and sell negotiable bonds and notes to finance the construction of facilities for such institutions, to issue bonds or notes to refund outstanding bonds or notes and to lend funds to such institutions. At June 30, 2018, DASNY had approximately \$51.3 billion aggregate principal amount of bonds and notes outstanding. DASNY also is authorized to make tax-exempt leases, with its Tax-Exempt Leasing Program (TELP). As part of its operating activities, DASNY also administers a wide variety of grants authorized by the State for economic development, education and community improvement and payable to both public and private grantees from proceeds of State Personal Income Tax Revenue Bonds issued by DASNY.

DASNY is a conduit debt issuer. Under existing law, and assuming continuing compliance with tax law, interest on most bonds and notes issued by DASNY has been determined to be excludable from gross income for federal tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. All of DASNY’s outstanding bonds and notes, both fixed and variable rate, are special obligations of DASNY payable solely from payments required to be made by or for the account of the client institution for which the particular special obligations were issued. DASNY has no obligation to pay its special obligations other than from such payments. DASNY has always paid the principal of and interest on all of its obligations on time and in full; however, as a conduit debt issuer, payments on DASNY’s special obligations are solely dependent upon payments made by DASNY’s client for which the particular special obligations were issued and the security provisions relating thereto.

DASNY also offers a variety of construction services to certain educational, governmental and not-for-profit institutions in the areas of project planning, design and construction, monitoring project construction, purchasing of furnishings and equipment for projects, interior design of projects and designing and managing projects to rehabilitate older facilities.

In connection with the powers described above, DASNY has the general power to acquire real and personal property, give mortgages, make contracts, operate certain facilities and fix and collect rentals or other charges for their use, contract with the holders of its bonds and notes as to such rentals and charges, borrow money and adopt a program of self-insurance.

DASNY has a staff of approximately 507 employees located in three main offices (Albany, New York City and Buffalo) and at approximately 46 field sites across the State.

## **Governance**

DASNY is governed by an eleven-member board. Board members include the Commissioner of Education of the State, the Commissioner of Health of the State, the State Comptroller or one member appointed by him or her who serves until his or her successor is appointed, the Director of the Budget of the State, one member appointed by the Temporary President of the State Senate, one member appointed by the Speaker of the State Assembly and five members appointed by the Governor, with the advice and consent of the Senate, for terms of three years. The Commissioner of Education of the State, the Commissioner of Health of the State and the Director of the Budget of the State each may appoint a representative to attend and vote at DASNY meetings. The members of DASNY serve without compensation, but are entitled to reimbursement of expenses incurred in the performance of their duties. One of the appointments to the Board by the Governor is currently vacant.

The Governor of the State appoints a Chair from the members appointed by him or her and the members of DASNY annually choose the following officers, of which the first two must be members of DASNY: Vice-Chair, Secretary, Treasurer, Assistant Secretaries and Assistant Treasurers.

The current members of DASNY are as follows:

ALFONSO L. CARNEY, JR., Chair, New York.

Alfonso L. Carney, Jr. was reappointed as a Member of DASNY by the Governor on June 19, 2013. Mr. Carney is a principal of Rockwood Partners, LLC, which provides medical consulting services in New York City. He has served as Acting Chief Operating Officer and Corporate Secretary for the Goldman Sachs Foundation in New York where, working with the President of the Foundation, he managed the staff of the Foundation, provided strategic oversight of the administration, communications and legal affairs teams, and developed selected Foundation program initiatives. Mr. Carney has held senior level legal positions with Altria Group Inc., Philip Morris Companies Inc., Philip Morris Management Corporation, Kraft Foods, Inc. and General Foods Corporation. Mr. Carney holds a Bachelor's degree in philosophy from Trinity College and a Juris Doctor degree from the University of Virginia School of Law. His term expired on March 31, 2016 and by law he continues to serve until a successor shall be chosen and qualified.

JOHN B. JOHNSON, JR., Vice-Chair, Watertown.

John B. Johnson, Jr. was reappointed as a Member of DASNY by the Governor on June 19, 2013. Mr. Johnson is Chairman of the Board of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Telegram, Catskill Daily Mail, Hudson Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer, seven weekly newspapers and three shopping newspapers. He holds a Bachelor's degree from Vanderbilt University, and Master's degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an Honorary Doctor of Science degree from Clarkson University. Mr. Johnson's term expired on March 31, 2016 and by law he continues to serve until a successor shall be chosen and qualified.

SANDRA M. SHAPARD, Secretary, Delmar.

Sandra M. Shapard was appointed as a Member of DASNY by the State Comptroller on January 21, 2003. Ms. Shapard served as Deputy Comptroller for the Office of the State Comptroller from 1995 until her retirement in 2001, during which time she headed the Office of Fiscal Research and Policy Analysis and twice served as Acting First Deputy Comptroller. Previously, Ms. Shapard held the positions of Deputy Director and First Deputy Director for the New York State Division of the Budget from 1991 to 1994. She began her career in New York State government with the Assembly where she held the positions of Staff Director of the Office of Counsel to the Majority, Special Assistant to the Speaker, and Deputy Director of Budget Studies for the Committee on Ways and Means. A graduate of Mississippi University for Women, Ms. Shapard received a Masters of Public Administration from Harvard University, John F. Kennedy School of Government, where she has served as visiting lecturer, and has completed graduate work at Vanderbilt University.

JONATHAN H. GARDNER, ESQ., Buffalo.

Jonathan H. Gardner was appointed as a Member of DASNY by the Governor on June 17, 2014. Mr. Gardner is a partner of the law firm Kavinoky Cook, LLP in Buffalo, New York. His practice areas include corporate and securities law, commercial transactions, private placements, venture capital financing and business combinations representing private and public companies. Mr. Gardner is also an adjunct professor at the University of Buffalo Law School. He holds a Bachelor of Arts degree from Brown University and a Juris Doctor degree from the University of Chicago Law School. Mr. Gardner's term expired on March 31, 2015 and by law he continues to serve until a successor shall be chosen and qualified.

WELLINGTON Z. CHEN, Queens

Wellington Z. Chen was appointed as a Member of DASNY by the Governor on June 20, 2018. Mr. Chen is the Executive Director of the Chinatown Partnership Development Corporation. In this capacity, he leads the Chinatown Partnership in implementing initiatives in infrastructure, post 9/11 rebuilding and public space improvements in a comprehensive effort to improve the environmental and the business conditions. He is a graduate of the School of Architecture and Environmental Studies at The City College of New York. Mr. Chen's term expires on March 31, 2020.

BERYL L. SNYDER, J.D., New York.

Beryl L. Snyder was reappointed as a member of DASNY by the Governor on June 19, 2013. Ms. Snyder is a principal in HBJ Investments, LLC, an investment company where her duties include evaluation and analysis of a wide variety of investments in, among other areas: fixed income, equities, alternative investments and early stage companies. She holds a Bachelor of Arts degree in History from Vassar College and a Juris Doctor degree from

Rutgers University. Her current term expired on August 31, 2016 and by law she continues to serve until a successor shall be chosen and qualified.

GERARD ROMSKI, ESQ., Mount Kisco.

Gerard Ronski was reappointed as a Member of DASNY by the Temporary President of the State Senate on May 9, 2016. He is Counsel and Project Executive for “Arverne by the Sea,” where he is responsible for advancing and overseeing all facets of “Arverne by the Sea,” one of New York City’s largest mixed-use developments located in Queens, New York. Mr. Ronski is also of counsel to the New York City law firm of Rich, Intelisano & Katz, LLP. Mr. Ronski holds a Bachelor of Arts degree from the New York Institute of Technology and a Juris Doctor degree from Brooklyn Law School.

PAUL S. ELLIS, ESQ., New York

Paul S. Ellis was appointed as a Member of DASNY by the Speaker of the State Assembly on September 19, 2016. Mr. Ellis is the Managing Member of Paul Ellis Law Group LLC, a law firm with a corporate/ securities/capital markets practice with emphasis on private placements, mergers and acquisitions, venture capital/ private equity transactions and joint ventures. He previously worked for Donovan Leisure Newton & Irvine and Winston & Strawn and served in staff positions in the U.S. Senate and the Massachusetts House of Representatives. He co-founded the New York Technology Council and serves on the Board of the NY Tech Alliance and as Chairman of the Housing Committee of Bronx Community Board 8. He holds a Bachelor of Arts degree from Harvard University and a Juris Doctor degree from Georgetown University Law Center.

MARYELLEN ELIA, Commissioner of Education of the State of New York, Loudonville; ex-officio.

MaryEllen Elia was appointed by the Board of Regents to serve as Commissioner of Education and President of the University of the State of New York effective July 6, 2015. As Commissioner of Education, Ms. Elia serves as Chief Executive Officer of the State Education Department and as President of the University of the State of New York which is comprised of public and non-public elementary and secondary schools, public and independent colleges and universities, libraries, museums, broadcasting facilities, historical repositories, proprietary schools and services for children and adults with disabilities. Prior to her appointment in New York, Ms. Elia served as Superintendent of Schools in Hillsborough County, Florida for 10 years. She began her career in education in 1970 as a social studies teacher in Buffalo’s Sweet Home Central School District and taught for 19 years before becoming an administrator. She holds a Bachelor of Arts degree in History from Daemen College in Buffalo, a Master of Education from the University at Buffalo and a Master of Professional Studies from SUNY Buffalo.

HOWARD A. ZUCKER, M.D., J.D., Commissioner of Health of the State of New York, Albany; ex-officio.

Howard A. Zucker, M.D., J.D., was appointed Commissioner of Health on May 5, 2015 after serving as Acting Commissioner of Health since May 5, 2014. Prior to that, he served as First Deputy Commissioner leading the State Department of Health’s preparedness and response initiatives in natural disasters and emergencies. Before joining the State Department of Health, Dr. Zucker was professor of Clinical Anesthesiology at Albert Einstein College of Medicine of Yeshiva University and a pediatric cardiac anesthesiologist at Montefiore Medical Center. He was also an adjunct professor at Georgetown University Law School where he taught biosecurity law. Dr. Zucker earned his medical degree from George Washington University School of Medicine. He also holds a Juris Doctor degree from Fordham University School of Law and a Master of Laws degree from Columbia Law School.

ROBERT F. MUJICA, JR., Budget Director of the State of New York, Albany; ex-officio.

Robert F. Mujica Jr. was appointed Director of the Budget by the Governor and began serving on January 14, 2016. He is responsible for the overall development and management of the State’s fiscal policy, including overseeing the preparation of budget recommendations for all State agencies and programs, economic and revenue forecasting, tax policy, fiscal planning, capital financing and management of the State’s debt portfolio. Prior to his appointment, Mr. Mujica was Chief of Staff to the Temporary President and Majority Leader of the Senate and concurrently served as the Secretary to the Senate Finance Committee. For two decades, he advised various elected and other government officials in New York on State budget, fiscal and policy issues. Mr. Mujica received his Bachelor of Arts degree in Sociology from Brooklyn College at the City University of New York. He received his Master's degree in Government Administration from the University of Pennsylvania and holds a Juris Doctor degree from Albany Law School.

The principal staff of DASNY is as follows:

GERRARD P. BUSHHELL is the President and chief executive officer of DASNY. Mr. Bushell is responsible for the overall management of DASNY’s administration and operations. Prior to joining DASNY, Mr. Bushell was Director, Senior Institutional Advisor of BNY Mellon’s alternative and traditional investment management businesses. Prior thereto, he held a number of senior advisory roles, including Director, Client Partner Group at Kohlberg Kravis Roberts & Co. (KKR), Managing Director, Institutional Sales at Arden Asset Management LLC and Head of

Institutional Sales at ClearBridge: a Legg Mason Company (formerly Citi Asset Management). Mr. Bushell previously served as Director of Intergovernmental Affairs for New York State Comptroller H. Carl McCall. Mr. Bushell holds a Bachelor of Arts degree, Master of Arts degree and Ph.D. in Political Science from Columbia University.

MICHAEL T. CORRIGAN is the Vice President of DASNY, and assists the President in the administration and operation of DASNY. Mr. Corrigan came to DASNY in 1995 as Budget Director, and served as Deputy Chief Financial Officer from 2000 until 2003. He began his government service career in 1983 as a budget analyst for Rensselaer County and served as the County's Budget Director from 1986 to 1995. Immediately before coming to DASNY, he served as the appointed Rensselaer County Executive for a short period. Mr. Corrigan holds a Bachelor of Arts degree in Economics from the State University of New York at Plattsburgh and a Master of Arts degree in Business Administration from the University of Massachusetts.

KIMBERLY J. NADEAU is the Chief Financial Officer and Treasurer of DASNY. As Chief Financial Officer and Treasurer, Ms. Nadeau is responsible for supervising DASNY's investment program, general accounting, accounts payable, accounts receivable, financial reporting functions, budget, payroll, insurance and information services, as well as the development and implementation of financial policies, financial management systems and internal controls for financial reporting. She previously was Vice President-Accounting and Controller for US Light Energy. Prior to that she was Vice President-Accounting and Controller for CH Energy Group, Inc. and held various positions culminating in a director level position at Northeast Utilities. Ms. Nadeau also held various positions with increasing responsibility at Coopers & Lybrand LLP. She holds a Bachelor of Science degree in Accounting, a Master of Business Administration with a concentration in Management and a Juris Doctor degree from the University of Connecticut. She is licensed to practice law in New York and Connecticut.

MICHAEL E. CUSACK is General Counsel to DASNY. Mr. Cusack is responsible for all legal services including legislation, litigation, contract matters, and the legal aspects of all DASNY financings. In addition, he is responsible for the supervision of DASNY's environmental affairs unit. He is licensed to practice law in the State of New York and the Commonwealth of Massachusetts, as well as the United States District Court for the Northern District of New York. Mr. Cusack has over twenty years of combined legal experience, including management of an in-house legal department and external counsel teams (and budgets) across a five-state region. He most recently served as of counsel to the Albany, New York law firm of Young/Sommer, LLC, where his practice included representation of upstate New York municipalities, telecommunications service providers in the siting of public utility/personal wireless service facilities and other private sector clients. He holds a Bachelor of Science degree from Siena College and a Juris Doctor degree from Albany Law School of Union University.

PORTIA LEE is the Managing Director of Public Finance and Portfolio Monitoring. She is responsible for supervising and directing DASNY bond issuance in the capital markets, implementing and overseeing financing programs, overseeing DASNY's compliance with continuing disclosure requirements and monitoring the financial condition of existing DASNY clients. Ms. Lee previously served as Senior Investment Officer at the New York State Comptroller's Office where she was responsible for assisting in the administration of the long-term fixed income portfolio of the New York State Common Retirement Fund, as well as the short-term portfolio, and the Securities Lending Program. From 1995 to 2005, Ms. Lee worked at Moody's Investors Service where she most recently served as Vice President and Senior Credit Officer in the Public Finance Housing Group. She holds a Bachelor of Arts degree from the State University of New York at Albany.

STEPHEN D. CURRO is the Managing Director of Construction. Mr. Curro is responsible for DASNY's construction groups, including design, project management, resource acquisition, contract administration, interior design, real property, sustainability and engineering, as well as other technical services. Mr. Curro joined DASNY in 2001 as Director of Technical Services, and most recently served as Director of Construction Support Services. He is a registered Professional Engineer in New York and has worked in the construction industry for more than 30 years. He holds a Bachelor of Science in Civil Engineering from the University of Rhode Island, a Master of Engineering in Structural Engineering from Rensselaer Polytechnic Institute and a Master of Business Administration from Rensselaer Polytechnic Institute's Lally School of Management.

CAROLINE V. GRIFFIN is the Chief of Staff of DASNY. She is responsible for overseeing intergovernmental relations and managing the Communications & Marketing Department, as well as coordinating policy and operations across DASNY's multiple business lines. Ms. Griffin most recently served as the Director of Intergovernmental Affairs for Governor Andrew M. Cuomo where she worked as the Governor's liaison with federal, state and local elected officials and managed staff serving in various capacities in the Governor's Office. Prior to that she served as the Assistant Executive Deputy Secretary for Governor Andrew M. Cuomo overseeing the operations staff and Assistant Secretary for Intergovernmental Affairs for both Governor David A. Paterson and Governor Eliot Spitzer. She holds a Bachelor of Arts degree in Communications from Boston College.

## **Claims and Litigation**

Although certain claims and litigation have been asserted or commenced against DASNY, DASNY believes that such claims and litigation either are covered by insurance or by bonds filed with DASNY, or that DASNY has sufficient funds available or the legal power and ability to seek sufficient funds to meet any such claims or judgments resulting from such matters.

## **Other Matters**

### *New York State Public Authorities Control Board*

The New York State Public Authorities Control Board (the “PACB”) has authority to approve the financing and construction of any new or reactivated projects proposed by DASNY and certain other public authorities of the State. The PACB approves the proposed new projects only upon its determination that there are commitments of funds sufficient to finance the acquisition and construction of the projects. DASNY obtains the approval of the PACB for the issuance of all of its bonds and notes.

### *Legislation*

From time to time, bills are introduced into the State Legislature which, if enacted into law, would affect DASNY and its operations. DASNY is not able to represent whether such bills will be introduced or become law in the future. In addition, the State undertakes periodic studies of public authorities in the State (including DASNY) and their financing programs. Any of such periodic studies could result in proposed legislation which, if adopted, would affect DASNY and its operations.

### *Environmental Quality Review*

DASNY complies with the New York State Environmental Quality Review Act and with the New York State Historic Preservation Act of 1980, and the respective regulations promulgated thereunder to the extent such acts and regulations are applicable.

### *Independent Auditors*

The accounting firm of KPMG LLP audited the financial statements of DASNY for the fiscal year ended March 31, 2018. Copies of the most recent audited financial statements are available upon request at the offices of DASNY.

## **PART 10 - LEGALITY OF THE 2018 DASNY BONDS FOR INVESTMENT AND DEPOSIT**

Under New York State law, the 2018 DASNY Bonds are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, administrators, guardians, executors, trustees, committees, conservators and other fiduciaries in the State may properly and legally invest funds in their control. However, enabling legislation or bond resolutions of individual authorities and public benefit corporations of the State may limit the investment of funds of such authorities and corporations in the 2018 DASNY Bonds.

## **PART 11 - NEGOTIABLE INSTRUMENTS**

The 2018 DASNY Bonds shall be negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution and in the 2018 DASNY Bonds.

## **PART 12 - TAX MATTERS**

### **Series 2018A Bonds**

#### *General*

In the opinion of Hawkins Delafield & Wood LLP, Co-Bond Counsel to DASNY, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2018A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Series 2018A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed for taxable years beginning prior to January 1, 2018. In rendering its opinion, Hawkins Delafield & Wood LLP has relied on certain representations, certifications of fact, and statements of reasonable expectations made

by, as applicable, DASNY, MMC and others in connection with the Series 2018A Bonds, and Hawkins Delafield & Wood LLP has assumed compliance by, as applicable, DASNY and MMC with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2018A Bonds from gross income under Section 103 of the Code. In addition, in rendering its opinion, Hawkins Delafield & Wood LLP has relied on the opinions of counsel to MMC and MMC Corporation, respectively, regarding, among other matters, the current qualifications of MMC and MMC Corporation as organizations described in Section 501(c)(3) of the Code.

In addition, in the opinion of Hawkins Delafield & Wood LLP, under existing statutes, interest on the Series 2018A Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Hawkins Delafield & Wood LLP expresses no opinion regarding any other Federal, state or local tax consequences with respect to the Series 2018A Bonds. Hawkins Delafield & Wood LLP renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Hawkins Delafield & Wood LLP expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2018A Bonds, or the exemption from personal income taxes of interest on the Series 2018A Bonds under state and local tax law.

Reference is made to Appendix F hereto for the proposed form of opinion, in substantially final form, expected to be rendered by Hawkins Delafield & Wood LLP in connection with the issuance of the Series 2018A Bonds.

#### *Certain Ongoing Federal Tax Requirements and Covenants*

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2018A Bonds in order that interest on the Series 2018A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2018A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2018A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. DASNY and MMC have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2018A Bonds from gross income under Section 103 of the Code.

#### *Certain Collateral Federal Tax Consequences*

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2018A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2018A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2018A Bonds.

Prospective owners of the Series 2018A Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Series 2018A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

#### *Original Issue Discount*

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Series 2018A Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity (a bond with the same maturity date, interest rate and credit terms) means the first price at which at least 10 percent of such maturity was

sold to the public, i.e., a purchaser who is not, directly or indirectly, a signatory to a written contract to participate in the initial sale of the Series 2018A Bonds. In general, the issue price for each maturity of the Series 2018A Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement. Hawkins, Delafield & Wood LLP is further of the opinion that, for any Series 2018A Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2018A Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series 2018A Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of OID for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

#### *Bond Premium*

In general, if an owner acquires a Series 2018A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2018A Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Series 2018A Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

#### *Information Reporting and Backup Withholding*

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2018A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2018A Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2018A Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

## *Miscellaneous*

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2018A Bonds under Federal or state law or otherwise prevent beneficial owners of the Series 2018A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2018A Bonds.

Prospective purchasers of the Series 2018A Bonds should consult their own tax advisors regarding the foregoing matters.

## **Series 2018B Bonds**

### *General*

The following discussion is a summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of the Series 2018B Bonds (the “Taxable Bonds”) by original purchasers of the Taxable Bonds who are U.S. Holders (as defined below). This summary is based on the Code, Treasury regulations, revenue rulings and court decisions, all as now in effect and all subject to change at any time, possibly with retroactive effect. This summary assumes that the Taxable Bonds will be held as “capital assets” under the Code, and it does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Taxable Bonds as a position in a “hedge” or “straddle” for United States Federal income tax purposes, holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire Taxable Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code. Each prospective purchaser of the Taxable Bonds should consult with its own tax advisor concerning the United States Federal income tax and other tax consequences to it of the acquisition, ownership and disposition of the Taxable Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

As used herein, the term “U.S. Holder” means a beneficial owner of a Taxable Bond that is for United States Federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

### *U.S. Holders—Interest Income*

In the opinion of Hawkins Delafield & Wood, LLP, Co-Bond Counsel to DASNY, (i) interest on the Taxable Bonds is not excludable from gross income for United States Federal income tax purposes; and (ii) interest on the Taxable Bonds is exempt, under existing statutes, from personal income tax imposed by the State of New York or any political subdivision thereof (including The City of New York).

### *Original Issue Discount*

For United States Federal income tax purposes, a Taxable Bond will be treated as issued with original issue discount (“OID”) if the excess of a Taxable Bond’s “stated redemption price at maturity” over its “issue price” equals or exceeds a statutorily determined de minimis amount. The “issue price” of each Taxable Bond in a particular issue equals the first price at which a substantial amount of such issue is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The “stated redemption price at maturity” of a Taxable Bond is the sum of all payments provided by such Taxable Bond other than “qualified stated interest” payments. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. In general, if the excess of a Taxable Bond’s stated redemption price at maturity over its issue price is less than .25 percent of the Taxable Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity (the “de minimis amount”), then such excess, if any, constitutes de minimis OID, and the Taxable Bond is not treated as being issued with OID and all payments of stated interest (including stated interest that would otherwise be characterized as OID) is treated as qualified stated interest, as described below.



Payments of qualified stated interest on a Taxable Bond are taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received in accordance with the U.S. Holder's regular method of tax accounting. A U.S. Holder of a Taxable Bond having a maturity of more than one year from its date of issue generally must include OID in income as ordinary interest as it accrues on a constant-yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. The amount of OID included in income by the U.S. Holder of a Taxable Bond is the sum of the daily portions of OID with respect to such Taxable Bond for each day during the taxable year (or portion of the taxable year) on which such U.S. Holder held such Taxable Bond. The daily portion of OID on any Taxable Bond is determined by allocating to each day in any "accrual period" a ratable portion of the OID allocable to the accrual period. All accrual periods with respect to a Taxable Bond may be of any length and the accrual periods may vary in length over the term of the Taxable Bond, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first or final day of an accrual period. The amount of OID allocable to an accrual period is generally equal to the difference between (i) the product of the Taxable Bond's "adjusted issue price" at the beginning of such accrual period and such Taxable Bond's yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Taxable Bond at the beginning of any accrual period is the issue price of the Taxable Bond plus the amount of accrued OID includable in income for all prior accrual periods minus the amount of any prior payments on the Taxable Bond other than qualified stated interest payments. The amount of OID allocable to an initial short accrual period may be computed using any reasonable method if all other accrual periods other than a final short accrual period are of equal length. The amount of OID allocable to the final accrual period is the difference between (i) the amount payable at the maturity of the Taxable Bond (other than a payment of qualified stated interest) and (ii) the Taxable Bond's adjusted issue price as of the beginning of the final accrual period. Under the OID rules, U.S. Holders generally will have to include in income increasingly greater amounts of OID in successive accrual periods.

A U.S. Holder may elect to include in gross income all interest that accrues on a Taxable Bond using the constant-yield method described immediately above under the heading "Original Issue Discount," with the modifications described below. For purposes of this election, interest includes, among other things, stated interest, OID and de minimis OID, as adjusted by any amortizable bond premium described below under the heading "Bond Premium". In applying the constant-yield method to a Taxable Bond with respect to which this election has been made, the issue price of the Taxable Bond will equal its cost to the electing U.S. Holder, the issue date of the Taxable Bond will be the date of its acquisition by the electing U.S. Holder, and no payments on the Taxable Bond will be treated as payments of qualified stated interest. The election will generally apply only to the Taxable Bond with respect to which it is made and may not be revoked without the consent of the Internal Revenue Service. If this election is made with respect to a Taxable Bond with amortizable bond premium, then the electing U.S. Holder will be deemed to have elected to apply amortizable bond premium against interest with respect to all debt instruments with amortizable bond premium (other than debt instruments the interest on which is excludable from gross income) held by the electing U.S. Holder as of the beginning of the taxable year in which the Taxable Bond with respect to which the election is made is acquired or thereafter acquired. The deemed election with respect to amortizable bond premium may not be revoked without the consent of the Internal Revenue Service.

U.S. Holders of any Taxable Bonds issued with OID should consult their own tax advisors with respect to the treatment of OID for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, and disposition of Taxable Bonds.

#### *Bond Premium*

In general, if a U.S. Holder acquires a Taxable Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Taxable Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Taxable Bond (a "Taxable Premium Bond"). In general, if a U.S. Holder of a Taxable Premium Bond elects to amortize the premium as "amortizable bond premium" over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the U.S. Holder will make a corresponding adjustment to such holder's basis in the Taxable Premium Bond. Any such election applies to all debt instruments of the U.S. Holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired, and is irrevocable without the Internal Revenue Service's consent. A U.S. Holder of a Taxable Premium Bond that so elects to amortize bond premium does so by offsetting the qualified stated

interest allocable to each interest accrual period under the U.S. Holder's regular method of Federal tax accounting against the bond premium allocable to that period. If the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is treated as a bond premium deduction under Section 171(a)(1) of the Code, subject to certain limitations. If a Taxable Premium Bond is optionally callable before maturity at a price in excess of its stated redemption price at maturity, special rules may apply with respect to the amortization of bond premium. Under certain circumstances, the U.S. Holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the U.S. Holder's original acquisition cost.

U.S. Holders of any Taxable Premium Bonds should consult their own tax advisors with respect to the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, and disposition of Taxable Premium Bonds.

#### *U.S. Holders—Disposition of Taxable Bonds*

Except as discussed above, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Taxable Bond, a U.S. Holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such U.S. Holder's adjusted tax basis in the Taxable Bond. A U.S. Holder's adjusted tax basis in a Taxable Bond generally will equal such U.S. Holder's initial investment in the Taxable Bond, increased by any OID included in the U.S. Holder's income with respect to the Taxable Bond and decreased by the amount of any payments, other than qualified stated interest payments, received and bond premium amortized with respect to such Taxable Bond. Such gain or loss generally will be long-term capital gain or loss if the Taxable Bond was held for more than one year.

#### *U.S. Holders—Defeasance*

U.S. Holders of the Taxable Bonds should be aware that, for Federal income tax purposes, the deposit of moneys or securities in escrow in such amount and manner as to cause the Taxable Bonds to be deemed to be no longer outstanding under the resolution of the Taxable Bonds (a "defeasance"), could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, for Federal income tax purposes, the character and timing of receipt of payments on the Taxable Bonds subsequent to any such defeasance could also be affected. U.S. Holders of the Taxable Bonds are advised to consult with their own tax advisors regarding the consequences of a defeasance for Federal income tax purposes, and for state and local tax purposes.

#### *U.S. Holders—Backup Withholding and Information Reporting*

In general, information reporting requirements will apply to non-corporate U.S. Holders with respect to payments of principal, payments of interest, and the accrual of OID on a Taxable Bond and the proceeds of the sale of a Taxable Bond before maturity within the United States. Backup withholding at a rate provided for in the Code, will apply to such payments and to payments of OID unless the U.S. Holder (i) is a corporation or other exempt recipient and, when required, demonstrates that fact, or (ii) provides a correct taxpayer identification number, certifies under penalties of perjury, when required, that such U.S. Holder is not subject to backup withholding and has not been notified by the Internal Revenue Service that it has failed to report all interest and dividends required to be shown on its United States Federal income tax returns.

Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's United States Federal income tax provided the required information is furnished to the Internal Revenue Service.

#### *Miscellaneous*

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Taxable Bonds under state law and could affect the market price or marketability of the Taxable Bonds.

Prospective purchasers of the Taxable Bonds should consult their own tax advisors regarding the foregoing matters.

The proposed form of the opinion of Hawkins, Delafield & Wood LLP, Co-Bond Counsel, relating to the Series 2018B Bonds is set forth in Appendix F hereto.

### **PART 13 - STATE NOT LIABLE ON THE 2018 DASNY BONDS**

The Act provides that notes and bonds of DASNY shall not be a debt of the State nor shall the State be liable thereon, nor shall such notes or bonds be payable out of any funds other than those of the Authority. The Resolution specifically provides that the 2018 DASNY Bonds shall not be a debt of the State nor shall the State be liable thereon.

### **PART 14 - COVENANT BY THE STATE**

The Act states that the State pledges and agrees with the holders of DASNY's notes and bonds that the State will not limit or alter the rights vested in DASNY to provide projects, to establish and collect rentals therefrom and to fulfill agreements with the holders of DASNY's notes and bonds or in any way impair the rights and remedies of the holders of such notes or bonds until such notes or bonds and interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the holders of such notes or bonds are fully met and discharged. Notwithstanding the State's pledges and agreements contained in the Act, the State may in the exercise of its sovereign power enact or amend its laws which, if determined to be both reasonable and necessary to serve an important public purpose, could have the effect of impairing these pledges and agreements with DASNY and with the holders of DASNY's notes or bonds.

### **PART 15 - RATINGS**

Moody's Investors Service, Inc. ("Moody's") has assigned a rating of "Baa2" (stable outlook) to the 2018 DASNY Bonds and S&P Global Ratings ("S&P") has assigned a rating of "BBB" (stable outlook) to the 2018 DASNY Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agencies at the following addresses: Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; and S&P, 55 Water Street, New York, New York 10041. There is no assurance that such ratings will prevail for any given period of time or that they will not be revised downward or withdrawn entirely by any or both of such rating agencies if, in the judgment of any or both of them, circumstances so warrant. Any such downward revision or withdrawal of such rating or ratings may have an adverse effect on the market price of the 2018 DASNY Bonds.

Moody's and S&P are expected to assign ratings of "A2" and "AA", respectively, to the Insured Bonds, based on the understanding that the Policy insuring the scheduled repayment of principal and interest due with respect to the Insured Bonds will be issued by AGM upon the issuance of the Insured Bonds.

### **PART 16 - LEGAL MATTERS**

Certain legal matters incidental to the offering of the 2018 DASNY Bonds by the Authority are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, and McGlashan Law Firm, P.C., New York, New York, as Co-Bond Counsel, whose approving opinions will be delivered with the 2018 DASNY Bonds. The proposed forms of Co-Bond Counsel's opinions is set forth in "Appendix F" hereto.

Certain legal matters will be passed upon for MMC by its Special Counsel, Dennett Law Offices, P.C., Great Neck, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Katten Muchin Rosenman LLP., New York, New York.

There is not now pending any litigation restraining or enjoining the issuance, offering or delivery of the 2018 DASNY Bonds or questioning or affecting the validity of the 2018 DASNY Bonds or the proceedings and authority under which the 2018 DASNY Bonds are to be issued and offered.

### **PART 17 - UNDERWRITING**

Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Representative"), on behalf of the underwriters for the 2018 DASNY Bonds listed on the cover page of this Official Statement, has agreed, subject to certain conditions, to purchase (i) the Series 2018A Bonds from DASNY at a purchase price of \$340,134,242.31 (reflecting an underwriters' discount of \$1,755,377.84 and a net original issue premium of \$32,844,620.15) and (ii) the Series 2018B Bonds from DASNY at a purchase price of \$372,285,991.51 (reflecting an underwriters' discount of \$2,313,083.49 less a net

original issue discount of \$1,505,925.00), and to make a public offering of the 2018 DASNY Bonds at prices that are not in excess of the public offering prices or yields indicated on the cover of this Official Statement. The obligations of the Underwriters are subject to certain terms and conditions contained in the Purchase Contract. The Underwriters will be obligated to purchase all of the 2018 DASNY Bonds if any of the 2018 DASNY Bonds are so purchased. MMC has agreed to indemnify the Underwriters against certain liabilities, including certain liabilities arising under federal and state securities laws. The initial offering price of the 2018 DASNY Bonds may be changed by the Underwriters.

Citigroup Global Markets Inc., an underwriter of the 2018 DASNY Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the 2018 DASNY Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase 2018 DASNY Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2018 DASNY Bonds that such firm sells.

JPMorgan Chase Bank, N.A., Bank of America, N.A. and TD Equipment Finance, Inc., each an affiliate of an underwriter of the 2018 DASNY Bonds, provide credit to MMC and MMC Corporation in the form of commercial loans, certain of which will be refinanced with proceeds of the 2018 DASNY Bonds and/or the 2018C Taxable Bonds.

In addition, certain of the Underwriters may have entered into distribution agreements with other broker-dealers (that have not been designated by the Authority as the Underwriters) for the distribution of the 2018 DASNY Bonds at the original issue prices. Such agreements generally provide that the Underwriters will share a portion of its underwriting compensation or selling concession with such broker-dealers.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Institution for which they have received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the issuer (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the issuer. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments of MMC.

The 2018 DASNY Bonds may be offered and sold to certain dealers (including the Underwriters) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters.

## **PART 18 – FINANCIAL ADVISOR**

Ponder & Co. has served as financial advisor to MMC in connection with the 2018 DASNY Bonds. Ponder & Co. is not obligated to undertake, and has not undertaken, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Ponder & Co. is an independent advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities.

## **PART 19 - CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as amended (“Rule 15c2-12”), the Institution will enter into a written agreement (the “Continuing Disclosure Agreement”) with Digital Assurance Certification LLC (“DAC”), disclosure dissemination agent and the Trustee. The proposed form of the Continuing Disclosure Agreement is attached hereto as “Appendix G – Proposed Form of Continuing Disclosure Agreement.”

MMC Corporation, an affiliate of MMC, has previously failed to comply with certain of its prior continuing disclosure undertakings. MMC was not obligated under such prior continuing disclosure undertakings. As of the date hereof, MMC Corporation has remedied such failures.

## **PART 20 - MISCELLANEOUS**

Reference in this Official Statement to the Act, the Resolution, the Series 2018 Resolution, the Loan Agreement, the Master Indenture and the DASNY Obligations do not purport to be complete. Refer to the Act, the Resolution, the Series 2018 Resolution, the Loan Agreement, the Master Indenture and the DASNY Obligations for full and complete details of their provisions. Copies of the Resolution, the Series 2018 Resolution, the Loan Agreement, the Master Indenture and the DASNY Obligations are on file with the Authority and the Trustee.

The agreements of the Authority with the holders of the 2018 DASNY Bonds are fully set forth in the Resolution and the Series 2018 Resolution. Neither any advertisement of the 2018 DASNY Bonds nor this Official Statement is to be construed as a contract with the purchasers of the 2018 DASNY Bonds.

Any statements in this Official Statement involving matters of opinion, whether or not expressly stated, are intended merely as expressions of opinion and not as representations of fact.

The information regarding the Institution, the Obligated Group and the Master Indenture was supplied by the Institution. The Authority believes that this information is reliable, but the Authority makes no representations or warranties whatsoever as to the accuracy or completeness of this information.<sup>7</sup>

The information regarding DTC and DTC’s book-entry system has been furnished by DTC. The Authority believes that this information is reliable, but the Authority makes no representations or warranties whatsoever as to the accuracy or completeness of this information.

“Appendix H – Specimen of Municipal Bond Insurance Policy” has been provided by AGM.

Pursuant to the Supplemental Indentures, within 60 days after the end of each of MMC’s first three fiscal quarters of each fiscal year and within 75 days after the end of MMC’s fourth quarter of each fiscal year, MMC shall post on its website or a national repository or furnish to the Trustee and to Holders requesting the same, copies of the unaudited interim financial statements of MMC and its controlled organizations, or of the Credit Group, if applicable, (including statements of financial position, activities, changes in net assets and cash flows), and quarterly utilization and operating data for the applicable fiscal quarter only of MMC and its consolidated subsidiaries, or of the Credit Group, if applicable, of the type described in Appendix A hereto under the headings “Utilization” and “Sources of Net Patient Service Revenue”. In addition, the Supplemental Indentures provide that: (i) with respect to MHS and its controlled organizations, MMC shall post on its website or with a national repository (a) within 150 days after the end of each fiscal reporting period commencing with the fiscal year ending December 31, 2018, the audited financial statements of MHS and its consolidated subsidiaries and (b) within 60 days after the end of each of the first three fiscal quarters of each fiscal year, within 90 days after the end of the fourth quarter ending December 31, 2018 and within 75 days after the end of the fourth quarter of each fiscal year thereafter, copies of the unaudited interim financial statements of MHS and its controlled organizations (MMC may satisfy these requirements by posting such financial statements to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system for municipal securities disclosure (“EMMA”)); (ii) MMC shall use its best efforts to post or cause to be posted under the CUSIP number(s) for bonds issued by or on behalf of Albert Einstein College of Medicine, Inc. (“AECOM”), within 150 days after the end of each fiscal reporting period commencing with the fiscal year ending December 31, 2018, the audited financial statements of AECOM (to the extent there are no longer any bonds issued by or on behalf of AECOM outstanding, MMC shall use its best efforts to cause such financial statements to be posted to AECOM’s website or with a national repository); and (iii) MMC shall host an annual investor conference call. Notwithstanding anything contained herein to the contrary, MMC may satisfy its requirements with respect to disclosure of financial information and statements relating to MMC, MHS and/or AECOM pursuant to the Supplemental Indentures through posting such financial information and/or statements to Digital Assurance Certification L.L.C. (“DAC”).

For the convenience of the reader, MMC has posted or caused to be posted as a voluntary disclosure to EMMA in connection with MMC's outstanding bonds the audited financial statements of MHS and its consolidated subsidiaries as of and for the years ended December 31, 2015 and 2014, and December 31, 2016 and 2015. In addition, MMC has posted or caused to be posted under the CUSIP number(s) for bonds issued by or on behalf of AECOM the audited financial statements of AECOM as of and for the years ended December 31, 2017 and 2016. Such audited financial statements are not incorporated into, and are not part of, this Official Statement.

“Appendix A – Certain Definitions,” “Appendix C – Summary of Certain Provisions of the Loan Agreement,” “Appendix D – Summary of Certain Provisions of the Resolution” and “Appendix F – Proposed Forms of Approving Opinion of Co-Bond Counsel,” have been prepared by Hawkins Delafield & Wood LLP, New York, New York, and McGlashan Law Firm, P.C., New York, New York, Co-Bond Counsel. A substantially final form of the Master Indenture is attached hereto as Appendix E.

The audited consolidated financial statements of MMC as of and for the years ended December 31, 2017 and 2016 included in Appendix B-1 of this Offering Memorandum and the audited consolidated financial statements of Montefiore Health System, Inc. as of and for the years ended December 31, 2017 and 2016 included in Appendix B-3 of this Offering Memorandum, have been audited by Ernst & Young LLP, independent auditors, as stated in their reports appearing therein. The information contained in the unaudited consolidated financial statements of MMC and Affiliates as of and for the four months ended April 30, 2018 and 2017 included in Appendix B-2 of this Offering Memorandum, is derived from unaudited internal records and should be read in conjunction with the audited consolidated financial statements and report included in Appendix B-1 hereto.

The Institution has reviewed the parts of this Official Statement describing MMC, the Obligated Group, the Plan of Finance, Bondowners' Risks and Matters Affecting the Health Care Industry, Principal, Sinking Fund Installments and Interest Requirements, Estimated Sources and Uses, and Appendices B-1, B-2 and B-3. The Institution shall certify as of the date hereof and as of the date of delivery of the 2018 DASNY Bonds that such parts do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading.

The Institution has agreed to indemnify the Authority, the Underwriters and certain others against losses, claims, damages and liabilities arising out of any untrue statements or omissions of statements of any material fact as described in the preceding paragraph.

The execution and delivery of this Official Statement by an Authorized Officer have been duly authorized by the Authority.

**DORMITORY AUTHORITY OF  
THE STATE OF NEW YORK**

By:     /s/Gerrard P. Bushell      
Authorized Officer

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**Appendix A**  
**Certain Definitions**

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**CERTAIN DEFINITIONS**

The following are definitions of certain terms used in this Official Statement.

“Act” means the Dormitory Authority Act (being Chapter 524 of the Laws of 1944 of the State, and constituting Title 4 of Article 8 of the Public Authorities Law), as the same may be amended from time to time, including, but not limited to, the Health Care Financing Consolidation Act and as incorporated thereby the New York State Medical Care Facilities Finance Agency Act being Chapter 392 of Laws of New York 1973, as amended.

“Annual Administrative Fee” means the annual fee for the general administrative expenses of the Authority in the amount or percentage stated in the Loan Agreement.

“Applicable” means (i) with respect to any Construction Fund, Arbitrage Rebate Fund, Debt Service Fund, Debt Service Reserve Fund or any other fund, the fund so designated and established by an Applicable Series Resolution authorizing an Applicable Series of Bonds relating to a particular Project(s), (ii) with respect to any Debt Service Reserve Fund Requirement, the said Requirement established in connection with a Series of Bonds by the Applicable Series Resolution or Bond Series Certificate, (iii) with respect to any Series Resolution, the Series Resolution relating to a particular Series of Bonds, (iv) with respect to any Series of Bonds, the Series of Bonds issued under a Series Resolution for particular Projects, (v) with respect to any Loan Agreement, the Loan Agreement by and between the Authority and any one or more Institutions and the contractual obligations contained therein relating to particular Projects for each such Institution, (vi) with respect to any Institution, the Institution identified in the Applicable Series Resolution, (vii) with respect to a Bond Series Certificate, such certificate authorized pursuant to an Applicable Series Resolution (viii) with respect to any Credit Facility, if any, or Credit Facility Issuer, if any, the Credit Facility or Credit Facility Issuer relating to a particular Series of Bonds and (ix) with respect to a Supplemental Indenture entered into pursuant to and an Obligation authorized to be issued thereunder, the Supplemental Indenture and Obligation issued under the Master Indenture for the purpose of securing an Applicable Series of Bonds.

“Arbitrage Rebate Fund” means each fund so designated and established by the Applicable Series Resolution pursuant to the Resolution with respect to a Series of Tax-Exempt Bonds.

“Authority” means the Dormitory Authority of the State of New York, a body corporate and politic constituting a public benefit corporation of the State created by the Act, or any body, agency or instrumentality of the State which succeeds to the rights, powers, duties and functions of the Authority.

“Authority Fee” means a fee payable to the Authority equal to the payment to be made upon the issuance of a Series of Bonds in an amount set forth in the Applicable Loan Agreement, unless otherwise provided in the Applicable Series Resolution.

“Authorized Newspaper” means The Bond Buyer or any other newspaper of general circulation printed in the English language and customarily published at least once a day for at least five days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority.

“Authorized Officer” means (i) in the case of the Authority, the Chair, the Vice-Chair, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the Managing Director of Public Finance, the

Managing Director of Construction, the General Counsel and any other person authorized by a resolution or the by-laws of the Authority, from time to time, to perform any specific act or execute any specific document; (ii) in the case of an Institution, the person or persons authorized by a resolution or the by-laws of such Institution to perform any act or execute any document; and (iii) in the case of the Trustee, the President, a Vice President, an Assistant Vice President, a Corporate Trust Officer, a Trust Officer or an Assistant Trust Officer of the Trustee, and when used with reference to any act or document also means any other person authorized to perform any act or sign any document by or pursuant to a resolution of the Board of Directors of such Trustee or the by-laws of such Trustee.

“Bond” or “Bonds” means any of the bonds of the Authority authorized pursuant to the Resolution and issued pursuant to an Applicable Series Resolution.

“Bond Counsel” means an attorney or a law firm, appointed by the Authority with respect to a particular Series of Bonds, having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds.

“Bond Series Certificate” means a certificate of the Authority fixing terms, conditions and other details of Bonds of an Applicable Series in accordance with the delegation of power to do so under an Applicable Series Resolution.

“Bond Year” means, with respect to the Series 2018 Bonds, a period of twelve (12) consecutive months beginning August 1 in any calendar year and ending on July 31 of the succeeding calendar year.

“Bondholder”, “Holder of Bonds”, “Holder”, “owner” or any similar term, when used with reference to a Bond or Bonds of a Series, means the registered owner of any Bonds of such Series, except as provided in the Resolution.

“Business Day” shall mean any day other than (a) a Saturday and Sunday or (b) a day on which any of the following are authorized or required to remain strong: (i) banks or trust companies chartered by the State of New York or the United States of America, (ii) the Trustee, or (iii) the New York Stock Exchange;

“Code” means the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

“Construction Fund” means each such fund so designated and established by the Applicable Series Resolution pursuant to the Resolution.

“Contract Documents” means any general contract or agreement for the construction of a Project, notice to bidders, information for bidders, form of bid, general conditions, supplemental general conditions, general requirements, supplemental general requirements, bonds, plans and specifications, addenda, change orders, and any other documents entered into or prepared by or on behalf of the Institution relating to the construction of a Project, and any amendments to the foregoing.

“Cost” or “Costs of Issuance” means the items of expense incurred in connection with the authorization, sale, issuance and delivery of a Series of Bonds, which items of expense shall include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee and any Credit Facility Issuer and Remarketing Agent, legal fees and charges, professional consultants’ fees, fees and charges for execution, transportation and safekeeping of such Bonds, premiums, costs and expenses of refunding such Bonds, commitment fees or similar costs in connection with obtaining any Credit Facility and any Liquidity Facility, Reserve Fund

Facility, or interest rate exchange agreement or other hedge instrument, costs and expenses of refunding of other bonds or notes of the Authority with proceeds of such Series including termination fees for any interest rate exchange agreement in connection with such refunding such Bonds and other costs, charges and fees, including those of the Authority, incurred in connection with the foregoing.

“Cost” or “Costs of the Project(s)” means, with respect to a Project(s), the costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection with such Project(s), including, but not limited to, (i) costs and expenses of the acquisition of the title to or other interest in real property, including easements, rights-of-way and licenses, (ii) costs and expenses incurred for labor and materials and payments to contractors, builders and materialmen, for the acquisition, construction, reconstruction, rehabilitation, repair and improvement of the Project(s), (iii) the cost of surety bonds and insurance of all kinds, including premiums and other charges in connection with obtaining title insurance, that may be required or necessary prior to completion of the Project(s), which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, environmental inspections and assessments, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction of the Project(s), (v) costs and expenses required for the acquisition and installation of equipment or machinery, (vi) all other costs which the Institution shall be required to pay or cause to be paid for the acquisition, construction, reconstruction, rehabilitation, repair, improvement and equipping of the Project(s), (vii) any sums required to reimburse the Institution, or the Authority for advances made by them for any of the above items or for other costs incurred and for work done by them in connection with the Project(s) (including interest on moneys borrowed from parties other than the Institution), (viii) interest on the Bonds prior to, during and for a reasonable period after completion of the acquisition, construction, reconstruction, rehabilitation, repair, improvement or equipping of the Project(s), and (ix) fees, expenses and liabilities of the Authority incurred in connection with such Project(s) or pursuant to the Resolution or to the Loan Agreement, or a Reserve Fund Facility relating to such Project(s).

“Counterparty” means any person with which the Authority or an Institution has entered into an Interest Rate Exchange Agreement, provided that, at the time the Interest Rate Exchange Agreement is executed, the senior or uncollateralized long-term debt obligations of such person, or of any person that has guaranteed for the term of the Interest Rate Exchange Agreement the obligations of such person thereunder, are rated, without regard to qualification of such rating by symbols such as “+” or “-” and numerical notation, not lower than in the third highest rating category by each Rating Service.

“Credit Facility” means (i) any municipal bond insurance policy satisfactory to the Authority which insures payment of principal, interest and, if agreed to by the Credit Facility Issuer and the Institution, redemption premium on the Bonds of any Series when due and issued and delivered to the Trustee, (ii) a letter of credit issued by a Credit Facility Issuer with respect to any Series of Bonds or one or more Series of Bonds on the date of issuance of such Series of Bonds or (iii) similar insurance or credit enhancement or guarantee facility if so designated, all in accordance with the Applicable Series Resolution.

“Credit Facility Default” means with respect to a Credit Facility Issuer any of the following: (a) there shall occur a default in the payment of principal of or any interest on any Bond or Purchase Price thereof by the Credit Facility Issuer when required to be made under the terms of the Credit Facility, (b) a Credit Facility shall have been declared null and void or unenforceable in a final determination by a court of law of competent jurisdiction or (c) such Credit Facility Issuer shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or in effect after the date of the Resolution, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee,

custodian or sequestrator (or other similar official) of such Credit Facility Issuer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors.

“Credit Facility Issuer” means, with respect to any Series of Bonds for which a Credit Facility is held by the Trustee, the firm, association or corporation, including public bodies and governmental agencies, acceptable to the Authority, which has issued such Credit Facility in connection with such Series of Bonds, and any successors or assigns of the obligations of such firm, association or corporation under such Credit Facility.

“Credit Facility Repayment Fund” means each fund so designated, created and established by the Applicable Series Resolution pursuant to the Resolution.

“Debt Service Fund” means each such fund so designated and established by the Applicable Series Resolution pursuant to the Resolution.

“Debt Service Reserve Fund” means each fund so designated, created and established pursuant to the Resolution and by the Applicable Series Resolution.

“Debt Service Reserve Fund Requirement” means the amount of moneys, if any, required to be on deposit in the Debt Service Reserve Fund, if any, with respect to an Applicable Series of Bonds as determined in accordance with the Applicable Series Resolution or Bond Series Certificate.

“Defeasance Security” means, unless otherwise provided in an Applicable Series Resolution, any of the following: (a) a Government Obligation of the type described in clauses (i), (ii), (iii) or (iv) of the definition of Government Obligations (other than an obligation subject to variation in principal repayment); Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations; and an Exempt Obligation, provided such Exempt Obligation (i) is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (ii) is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (i) above, (iii) as to which the principal of and interest on the direct obligations of the United States of America which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (i) above, and (iv) is rated by at least two Rating Services in the highest rating category for such Exempt Obligation; (without regard to qualification of such rating by symbols such as “+” or “-” and numerical notations) provided, however, that (1) such term shall not include any interest in a unit investment trust or mutual fund or (2) any obligation that is subject to redemption prior to maturity other than at the option of the holder thereof.

“Department of Health” means the Department of Health of the State of New York.

“Depository” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State, or its nominee, or any other person, firm, association or corporation designated in the Series Resolution authorizing a Series of Bonds or a Bond Series Certificate relating to a Series of Bonds to serve as securities depository for the Bonds of such Series.

“Excess Earnings” means, with respect to the Applicable Series of Bonds, the amount equal to the rebatable arbitrage and any income attributable to the rebatable arbitrage as required by the Code.

“Exempt Obligation” means any of the following: (i) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a “specified private activity bond” within the meaning of Section 57(a)(5) of the Code and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Resolution, is rated, without regard to qualification of such rating by symbols such as “+” or “-” and numerical notation, no lower than the second highest rating category for such obligation by at least two nationally recognized statistical rating services; (ii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iii) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

“Facility Provider” means the issuer of a Reserve Fund Facility delivered to the Trustee pursuant to the Resolution.

“Federal Agency Obligation” means any of the following: (i) an obligation issued by any federal agency or instrumentality approved by the Authority; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency approved by the Authority; (iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iv) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations.

“Fitch” means Fitch Ratings, Inc., a corporation organized and existing under the State of New York, and its successors and assigns.

“Government Obligation” means any of the following: (i) a direct obligation of the United States of America; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment of principal and interest by the United States of America; (iii) an obligation to which the full faith and credit of the United States of America are pledged; (iv) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (v) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations.

“Governmental Requirements” means any present and future laws, rules, orders, ordinances, regulations, statutes, requirements and executive orders applicable to a Project or Mortgaged Property, if any, of the United States, the State and any political subdivision thereof, and any agency, department, commission, board, bureau or instrumentality of any of them, now existing or hereafter created, and having or asserting jurisdiction over a Project or any part thereof, or Mortgaged Property, if any, including, but not limited to, Article 28, Article 28A or 28-B, as applicable, of the Public Health Law of the State of New York.

“Gross Proceeds” means, with respect to any Applicable Series of Tax-Exempt Bonds, unless inconsistent with the provisions of the Code, (i) amounts received by the Authority from the sale of such

Series of Bonds (other than amounts used to pay underwriters' fees and other expenses of issuing such Series of Bonds), (ii) amounts treated as transferred proceeds of such Series of Bonds in accordance with the Code, (iii) amounts treated as proceeds under the provisions of the Code relating to invested sinking funds, including any necessary allocation between two or more Series of Bonds in the manner required by the Code, (iv) amounts in the Debt Service Reserve Fund, (v) securities or obligations pledged by the Authority or the Institution as security for payment of debt service on such Bonds, (vi) amounts received with respect to obligations acquired with Gross Proceeds, (vii) amounts used to pay debt service on such Series of Bonds, and (viii) amounts received as a result of the investment of Gross Proceeds at a yield equal to or less than the yield on such Series of Bonds as such yield is determined in accordance with the Code.

"Gross Revenues" shall have the meaning accorded such term in the Master Indenture, as amended from time to time.

"Hedge Agreement" means any financial arrangement entered into by the Authority or the Institution with a Counterparty that is an Interest Rate Exchange Agreement, an interest rate cap or collar or other exchange or rate protection transaction, in each case executed for the purpose of moderating interest rate fluctuations, reducing interest cost or creating with respect to any Variable Interest Rate Bond the economic or financial equivalent of a fixed rate of interest on such Bond; provided, however, that no such agreement entered into by the Institution shall constitute a Hedge Agreement for purposes hereof unless a copy thereof has been delivered to the Authority.

"Institution" means with respect to any Applicable Series of Bonds or any portion thereof, the not-for-profit hospital corporation, nursing home corporation or other entity or person that is a Member of the Obligated Group and for whose benefit the Authority has, as authorized under the Public Health Law or any other law or regulation, issued such Series of Bonds or any portion thereof.

"Insurance Trustee" means the person, if any, designated in the municipal bond insurance policy issued by a Credit Facility Issuer in connection with a Series of Outstanding Bonds with whom funds are to be deposited by such Credit Facility Issuer to make payment pursuant to such policy on account of the principal and Sinking Fund Installments of and interest on the Bonds of such Series.

"Interest Rate Exchange Agreement" means (i) an agreement entered into by the Authority or the Institution in connection with the issuance of or which relates to all or a portion of Bonds of a Series which provides that during the term of such agreement the Authority or the Institution is to pay to the Counterparty an amount based on the interest accruing at a fixed or variable rate per annum on an amount equal to a principal amount of such Bonds, or the applicable portion thereof, and that the Counterparty is to pay to the Authority or the Institution an amount based on the interest accruing on a principal amount equal to the same principal amount of such Bonds at a fixed or variable rate per annum, in each case computed according to a formula set forth in such agreement, or that one shall pay to the other any net amount due under such agreement or (ii) interest rate cap agreements, interest rate floor agreements, interest rate collar agreements and any other interest rate related hedge agreements or arrangements.

"Investment Agreement" means an agreement for the investment of moneys with a Qualified Financial Institution.

"Liquidity Facility" means an irrevocable letter of credit, surety bond, loan agreement, standby purchase agreement, line of credit or other agreement or arrangement issued or extended by a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any



successor provisions of law, a savings bank, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority, pursuant to which money is to be obtained upon the terms and conditions contained therein for the purchase or redemption of Option Bonds tendered for purchase or redemption in accordance with the terms hereof and of the Series Resolution authorizing such Bonds or the Bond Series Certificate relating to such Bonds.

“Loan Agreement” means the Loan Agreement executed by the Authority and any Applicable Institution, or other agreement, by and between the Authority and an Applicable Institution, as the same may from time to time be amended, supplemented or otherwise modified as permitted by the Resolution and by such Loan Agreement.

“Master Indenture” means the Master Trust Indenture by and between Montefiore Medical Center and the Master Trustee as may be amended and supplemented from time to time.

“Master Trustee” means The Bank of New York Mellon, New York, New York, and any successor under the Master Indenture.

“Maximum Interest Rate” means, with respect to any Applicable Series of Variable Interest Rate Bonds, the rate of interest, if any, set forth in the Applicable Series Resolution authorizing such Series of Bonds or Applicable Bond Series Certificate relating thereto as the maximum rate of interest Bonds of such Series may bear at any time.

“Minimum Interest Rate” means, with respect to any Applicable Series of Variable Interest Rate Bonds, the rate of interest, if any, set forth in the Applicable Series Resolution authorizing such Series of Bonds or Applicable Bond Series Certificate relating thereto as the minimum rate of interest Bonds of such Series may bear at any time.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns.

“Mortgage” means any of one or more mortgages, dated the date of issuance of the Obligations under the Master Indenture and the Series 2017 Supplemental Indenture granted by the Institution to the Master Trustee to secure Obligations under the Master Indenture.

“Mortgaged Property” means the real property, fixtures, personal property and other property interests described in and mortgaged pursuant to a Mortgage.

“Obligation” means an Obligation issued pursuant to the Master Indenture and a Supplemental Indenture to secure indebtedness of a Member of the Obligated Group.

“Obligated Group” means the Montefiore Obligated Group of which Montefiore Medical Center is currently the sole member; and such other organizations as may from time to time be added as members of such Obligated Group, and excluding such organizations as may from time to time withdraw as members of such Obligated Group, all as provided in the Master Indenture, pursuant to which such Obligated Group was created.

“Option Bond” means any Bond which by its terms may be or is required to be tendered by the Holder thereof for redemption by the Authority prior to the stated maturity thereof or for purchase thereof, or the maturity of which may be extended by and at the option of the Holder thereof in accordance with the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate related to such Bonds.

“Outstanding” when used in reference to Bonds of any Applicable Series means, as of a particular date, all Bonds of such Series authenticated and delivered under the Resolution and under the Applicable Series Resolution except: (i) any such Bond cancelled by the Trustee at or before such date; (ii) any such Bond deemed to have been paid in accordance with the Resolution; (iii) any such Bond in lieu of or in substitution for which another such Bond shall have been authenticated and delivered pursuant to the Resolution; and (iv) Option Bonds tendered or deemed tendered in accordance with the provisions of the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate relating to such Bonds on the applicable adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the Purchase Price thereof shall have been paid or amounts are available for such payment as provided in the Resolution and in the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate relating to such Bonds.

“Paying Agent” means, with respect to any Applicable Series of Bonds, the Trustee and any other bank or trust company and its successor or successors, appointed pursuant to the provisions of the Resolution or of an Applicable Series Resolution, an Applicable Bond Series Certificate or any other resolution of the Authority adopted prior to authentication and delivery of such Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed.

“Permitted Collateral” means any of the following: (i) Government Obligations described in clauses (i), (ii) or (iii) of the definition of Government Obligations; (ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations; (iii) commercial paper that (a) matures within two hundred seventy (270) days after its date of issuance, (b) is rated in the highest short term rating category by at least one Rating Service and (c) is issued by a domestic corporation whose unsecured senior debt is rated by at least one Rating Service no lower than in the second highest rating category; (iv) financial guaranty agreements, surety or other similar bonds or other instruments of an insurance company that has an equity capital of at least \$125,000,000 and is rated by Bests Insurance Guide or a Rating Service in the highest rating category; (v) bankers’ acceptances issued by a bank rated in the highest short term rating category by at least one nationally recognized rating organization and having maturities of not longer than three hundred sixty-five (365) days from the date they are pledged; and (vi) taxable bonds, all or a portion of the interest on which is paid by or subsidized by the United States of America and to which the full faith and credit of the United States of America is pledged, including, but not limited to, Build America Bonds that are Qualified Bonds (as such terms are defined in Section 54AA of the Code).

“Permitted Investments” means any of the following: (i) Government Obligations; (ii) Federal Agency Obligations; (iii) Exempt Obligations; (iv) Uncollateralized certificates of deposit that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the State; (v) Collateralized certificates of deposit that are (a) issued by a banking organization authorized to do business in the State that has an equity capital of not less than \$125,000,000, whose unsecured senior debt, or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, are rated by at least one Rating Service in at least the second highest rating category, and (b) are fully collateralized by Permitted Collateral; (vi) commercial paper issued by a domestic corporation rated in the highest short term rating category by at least one Rating Service and having maturities of not longer than two hundred seventy (270) days from the date of purchase; (vii) bankers’ acceptances issued by a bank rated in the highest short term rating category by at

least one Rating Service and having maturities of not longer than three hundred sixty-five (365) days from the date they are purchased; (viii) Investment Agreements that are fully collateralized by Permitted Collateral; (ix) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, whose objective is to maintain a constant share value of \$1.00 per share and that is rated in the highest short term rating category by at least one Rating Service; (x) taxable bonds, all or a portion of the interest on which is paid by or subsidized by the United States of America and to which the full faith and credit of the United States of America is pledged, including, but not limited to, Build America Bonds.

“Project” means, any eligible hospital project, nursing home project or other project qualified under the Act or otherwise eligible to be financed by the Authority through the issuance of obligations under the laws of the State of New York, as defined in the Applicable Loan Agreement.

“Provider Payments” means any payments made by a Facility Provider pursuant to its Reserve Fund Facility on deposit in the Applicable Debt Service Reserve Fund.

“Purchase Price” means, except as otherwise set forth in an Applicable Bond Series Certificate, 100% of the principal amount of any Option Bond tendered or deemed tendered for purchase to the tender agent for such Bonds, plus accrued and unpaid interest thereon to the date of purchase; provided, however, that if the date of purchase is an Interest Payment Date, then the Purchase Price shall not include accrued and unpaid interest, which shall be paid to the Holder of record on the applicable Record Date.

“Qualified Financial Institution” means any of the following entities that has an equity capital of at least \$125,000,000 or whose obligations are unconditionally guaranteed by an affiliate or parent having an equity capital of at least \$125,000,000:

(i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and (a) that is on the Federal Reserve Bank of New York list of primary government securities dealers and (b) whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one Rating Service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one Rating Service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service or credit criteria of an entity that provides a Credit Facility, Liquidity Facility or financial guaranty agreement in connection with Outstanding Bonds of a Series;

(ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of the United States of America, any state of the United States of America or any foreign nation, whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one Rating Service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one Rating Service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of

any Rating Service or credit criteria of an entity that provides a Credit Facility, Liquidity Facility or financial guaranty agreement in connection with Outstanding Bonds of a Series;

(iii) a corporation affiliated with or which is a subsidiary of any entity described in (i) or (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity, whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one Rating Service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one Rating Service no lower than in the highest rating category for such short term debt; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service or credit criteria of an entity that provides a Credit Facility, Liquidity Facility or financial guaranty agreement in connection with Outstanding Bonds of a Series;

(iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority; or

(v) a corporation whose obligations, including any investments of any money held hereunder purchased from such corporation, are insured by an insurer that meets the applicable rating requirements set forth above.

“Rating Service(s)” means S&P, Moody’s, Fitch or any other nationally recognized statistical rating organization which shall have assigned a rating on any Bonds Outstanding as requested by or on behalf of the Authority, and which rating is then currently in effect.

“Record Date” means, unless the Applicable Series Resolution authorizing an Applicable Series of Bonds or a Bond Series Certificate relating thereto provides otherwise with respect to Bonds of such Series, the fifteen (15th) day (whether or not a business day) of the month preceding each interest payment date.

“Redemption Price” when used with respect to a Bond of an Applicable Series, means the principal amount of such Bond plus the applicable premium, if any, payable upon redemption thereof pursuant to the Resolution or to the Applicable Series Resolution or Applicable Bond Series Certificate.

“Refunding Bonds” means all Bonds, whether issued in one or more Applicable Series of Bonds, authenticated and delivered pursuant to the Resolution, and originally issued pursuant to the Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds.

“Remarketing Agent” means the person or entity, appointed by or pursuant to the Applicable Series Resolution authorizing the issuance of a particular Series of Variable Interest Rate Bonds, to remarket such Variable Interest Rate Bonds tendered or deemed to have been tendered for purchase in accordance with such Series Resolution or the Applicable Bond Series Certificate relating to such Variable Interest Rate Bonds.

“Remarketing Agreement” means, with respect to a particular Series of Variable Interest Rate Bonds, an agreement between the Authority and the Remarketing Agent, between the Institution and the Remarketing Agent, or among the Authority, the Institution and the Remarketing Agent, relating to the remarketing of such Variable Interest Rate Bonds.

“Reserve Fund Facility” means a surety bond, insurance policy or letter of credit which constitutes any part of the Debt Service Reserve Fund authorized to be delivered to the Trustee pursuant to the Resolution.

“Resolution” means this Montefiore Obligated Group Revenue Bond Resolution, adopted June 20, 2018, as the same may be from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms and provisions hereof.

“Revenues” means all payments payable by the Applicable Institution to the Authority pursuant to an Applicable Loan Agreement, and payments made or payable by the Obligated Group to the Authority pursuant to an Applicable Obligation and all amounts realized upon liquidation of collateral securing the Applicable Obligation, which payments and amounts are pledged and assigned by the Resolution to the Trustee by the Authority and pursuant to the Loan Agreement and the Obligation are to be paid to the Trustee (except payments to the Trustee for the administrative costs and expenses or fees of the Trustee and payments to the Trustee for deposit to the Applicable Arbitrage Rebate Fund and Applicable Credit Facility Repayment Fund and except as otherwise provided in an Applicable Series Resolution or Applicable Bond Series Certificate relating to a Series of Bonds).

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, and its successors and assigns.

“Securities” means (i) moneys, (ii) Government Obligations, (iii) Exempt Obligations, (iv) any bond, debenture, note, preferred stock or other similar obligation of any corporation incorporated in the United States, which security, at the time an investment therein is made or such security is deposited in any fund or account hereunder, is rated, without regard to qualification of such rating by symbols such as “+” or “ ” or numerical notation, “Aa” or better by Moody’s or “AA” or better by S&P or is rated with a comparable rating by any other nationally recognized rating service acceptable to an Authorized Officer of the Authority and (v) with the consent of the Credit Facility Issuers, if any, common stock of any corporation incorporated in the United States of America whose senior debt, if any, at the time an investment in its stock is made or its stock is deposited in any fund or account established hereunder, is rated, without regard to qualification of such rating by symbols such as “+” or “ “ or numerical notation, “Aa” or better by Moody’s or “AA” or better by S&P or is rated with a comparable rating by any other nationally recognized rating service acceptable to an Authorized Officer of the Authority and the Credit Facility Issuers, if any.

“Serial Bonds” means the Bonds so designated in an Applicable Series Resolution or an Applicable Bond Series Certificate.

“Series” means all of the Bonds authenticated and delivered on original issuance and pursuant to the Resolution and the Applicable Series Resolution, and any Bonds of such Series thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions.

“Series Resolution” means a resolution of the members of the Authority authorizing the issuance of a Series of Bonds adopted by the Authority pursuant to the Resolution.

“Sinking Fund Installment” means, (i) with respect to any Series of Bonds, as of any date of calculation and with respect to any Bonds of such Series other than Option Bonds or Variable Interest Rate Bonds, so long as any such Bonds thereof are Outstanding, the amount of money required by the Applicable Series Resolution pursuant to which such Bonds were issued or by the Applicable Bond Series Certificate, to be paid on a single future sinking fund payment date for the retirement of any Outstanding

Bonds of said Series which mature after said future sinking fund payment date, but does not include any amount payable by the Authority by reason only of the maturity of such Bond, and said future sinking fund payment date is deemed to be the date when such Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Bonds are deemed to be Bonds entitled to such Sinking Fund Installment and (ii) when used with respect to Option Bonds or Variable Interest Rate Bonds of a Series, so long as such Bonds are Outstanding, the amount of money required by the Series Resolution pursuant to which such Bonds were issued or by the Bond Series Certificate relating thereto to be paid on a single future date for the retirement of any Outstanding Bonds of said Series which mature after said future date, but does not include any amount payable by the Authority by reason only of the maturity of a Bond, and said future date is deemed to be the date when a Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Option Bonds or Variable Interest Rate Bonds of such Series are deemed to be Bonds entitled to such Sinking Fund Installment.

“State” means the State of New York.

“Substitute Credit Facility” means any municipal bond insurance policy, a letter of credit issued by a Credit Facility Issuer or similar credit enhancement or guarantee facility constituting a Credit Facility within the meaning of the Resolution issued and delivered to the Trustee in connection with a particular Series of Bonds and effective upon the expiration or earlier termination of the then existing Credit Facility relating to such Series of Bonds in replacement such existing Credit Facility, all in accordance with the provisions of the Applicable Series Resolution and the Applicable Bond Series Certificate.

“Supplemental Indenture” means any Supplemental Indenture under the Master Indenture authorizing the issuance of an Obligation to secure a Series of Bonds.

“Supplemental Resolution” means any Applicable Series Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms of the Resolution.

“Tax Certificate” means the certificate of the Authority, including the appendices, schedules and exhibits thereto, executed in connection with the issuance of the Series 2018 Bonds which are Tax-Exempt Bonds in which the Authority makes representations and agreements as to arbitrage compliance with the provisions of Sections 141 through 150, inclusive, of the Code, or any similar certificate, agreement or other instrument made, executed and delivered in lieu of said certificate, in each case as the same may be amended or supplemented.

“Tax Exempt Bonds” means any Bonds authorized to be issued under the Resolution and under an Applicable Series Resolution, the interest on which Bonds is not included in gross income for purposes of federal income taxation pursuant to Section 103 of the Code.

“Term Bonds” means with respect to Bonds of a Series, the Bonds so designated in an Applicable Series Resolution or an Applicable Bond Series Certificate and payable from Sinking Fund Installments.

“Trustee” means The Bank of New York Mellon or any other bank or trust company appointed as Trustee for an Applicable Series of the Bonds pursuant to the Resolution hereof or any Applicable Series Resolution or any Applicable Bond Series Certificate delivered hereunder and having the duties, responsibilities and rights provided for herein and any Applicable Series Resolution and Bond Series Certificate with respect to such Series, and its successor or successors and any other bank or trust company which may at any time be substituted in its place pursuant hereto.

“Variable Interest Rate” means the rate or rates of interest to be borne by a Series of Bonds or any one or more maturities within a Series of Bonds which is or may be varied from time to time in accordance with the method of computing such interest rate or rates specified in the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate relating to such Bonds and which shall be based on (i) a percentage or percentages or other function of an objectively determinable interest rate or rates (e.g., a prime lending rate) which may be in effect from time to time or at a particular time or times, provided, however, that such variable interest rate may be subject to a maximum interest rate and a minimum interest rate and that there may be an initial rate specified, in each case, as provided in such Applicable Series Resolution or Applicable Bond Series Certificate, or (ii) a stated interest rate that may be changed from time to time as provided in such Applicable Series Resolution or Applicable Bond Series Certificate provided, further, that such Applicable Series Resolution or Applicable Bond Series Certificate shall also specify either (x) the particular period or periods of time or manner of determining such period or periods of time for which each variable interest rate shall remain in effect or (y) the time or times at which any change in such variable interest rate shall become effective or the manner of determining such time or times.

“Variable Interest Rate Bond” means any Bond which bears a Variable Interest Rate; provided, however, that a Bond, the interest rate on which shall have been fixed for the remainder of the term thereof, shall no longer be a Variable Interest Rate Bond.

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**Appendix B-1**

**Montefiore Medical Center Audited Consolidated Financial Statements  
as of and for the Years Ended December 31, 2017 and 2016 with Report of Independent Auditors**

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CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

Montefiore Medical Center  
Years Ended December 31, 2017 and 2016  
With Report of Independent Auditors

Ernst & Young LLP



**EY**  
Building a better  
working world

Montefiore Medical Center  
Consolidated Financial Statements and  
Supplementary Information  
Years Ended December 31, 2017 and 2016

**Contents**

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Operations.....	4
Consolidated Statements of Changes in Net Assets .....	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7
Supplementary Information	
Report of Independent Auditors on Supplementary Information .....	57
Consolidating Statement of Financial Position.....	58
Consolidating Statement of Operations .....	60



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## Report of Independent Auditors

The Board of Trustees  
Montefiore Medical Center

We have audited the accompanying consolidated financial statements of Montefiore Medical Center and its controlled organizations, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Montefiore Medical Center and its controlled organizations at December 31, 2017 and 2016, and the consolidated results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

April 12, 2018

# Montefiore Medical Center

## Consolidated Statements of Financial Position

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 253,978	\$ 170,595
Marketable and other securities	656,290	633,928
Assets limited as to use, current portion	15,976	52,159
Receivables for patient care, less allowances for doubtful accounts (2017 – \$25,064; 2016 – \$27,431)	243,095	288,052
Other receivables	48,616	59,052
Estimated insurance claims receivable, current portion	81,097	74,963
Other current assets	56,305	51,749
Due from members, current portion	32,476	23,079
Total current assets	1,387,833	1,353,577
Assets limited as to use, net of current portion	200,092	194,269
Property, buildings and equipment, net	1,056,355	1,122,239
Estimated insurance claims receivable, net of current portion	459,548	424,793
Other noncurrent assets	218,432	259,112
Due from members, net of current portion	167,464	86,878
Total assets	\$ 3,489,724	\$ 3,440,868
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 277,149	\$ 321,713
Accrued salaries, wages and related items	285,851	269,138
Professional and other insured liabilities, current portion	52,022	50,848
Estimated insurance claims liabilities, current portion	81,097	74,963
Estimated third-party payer liabilities, current portion	41,492	40,586
Long-term debt, current portion	74,475	65,786
Total current liabilities	812,086	823,034
Long-term debt, net of current portion	724,216	753,021
Noncurrent defined benefit pension and other postretirement health plan liabilities	190,153	167,051
Professional and other insured liabilities, net of current portion	139,541	136,512
Employee deferred compensation	45,570	37,789
Estimated insurance claims liabilities, net of current portion	459,548	424,793
Estimated third-party payer liabilities, net of current portion	211,014	215,066
Other noncurrent liabilities	63,179	84,320
Total liabilities	2,645,307	2,641,586
Commitments and contingencies		
Net assets:		
Unrestricted	732,749	689,397
Temporarily restricted	78,062	78,181
Permanently restricted	33,606	31,704
Total net assets	844,417	799,282
Total liabilities and net assets	\$ 3,489,724	\$ 3,440,868

*See accompanying notes.*

## Montefiore Medical Center

### Consolidated Statements of Operations

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
<b>Operating revenue</b>		
Net patient service revenue before bad debt expense	\$ 3,446,406	\$ 3,646,568
Bad debt expense	(33,486)	(49,307)
Net patient service revenue	3,412,920	3,597,261
Grants and contracts	82,247	89,151
Contributions	6,902	6,584
Other revenue	260,778	189,472
Total operating revenue	3,762,847	3,882,468
<b>Operating expenses</b>		
Salaries and wages	1,761,775	1,730,837
Employee benefits	495,898	467,825
Supplies and other expenses	1,294,553	1,470,653
Depreciation and amortization	150,921	148,955
Interest	32,078	34,589
Total operating expenses	3,735,225	3,852,859
Excess of operating revenues over operating expenses		
before other items	27,622	29,609
Net realized and changes in net unrealized gains		
and losses on marketable and other securities	37,141	11,224
Malpractice insurance program adjustments associated		
with investment earnings shortfall	1,209	(1,209)
Net periodic pension and other postretirement benefit costs		
(non-service related)	(9,444)	(8,841)
Gain on debt refinancing	-	4,604
Excess of revenues over expenses	56,528	35,387
Change in defined benefit pension and other postretirement		
health plan liabilities to be recognized in future periods	(16,678)	6,720
Net assets released from restrictions used for purchases of		
property, buildings and equipment	-	109
Transfer of Montefiore Consolidated Ventures, Inc. to		
MHS <i>(Note 1)</i>	41,435	-
Transfers to members, net	(37,933)	(64,511)
Increase (decrease) in unrestricted net assets	\$ 43,352	\$ (22,295)

*See accompanying notes.*



## Montefiore Medical Center

### Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2017 and 2016

	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>Total Net Assets</b>
	<i>(In Thousands)</i>			
Net assets at January 1, 2016	\$ 711,692	\$ 74,510	\$ 31,390	\$ 817,592
Decrease in unrestricted net assets	(22,295)	–	–	(22,295)
Restricted gifts, bequests, and similar items	–	5,717	314	6,031
Restricted investment income	–	1,220	–	1,220
Net assets released from restrictions	–	(3,266)	–	(3,266)
Total changes in net assets	(22,295)	3,671	314	(18,310)
Net assets at December 31, 2016	689,397	78,181	31,704	799,282
Increase in unrestricted net assets	<b>43,352</b>	–	–	<b>43,352</b>
Restricted gifts, bequests, and similar items	–	<b>4,936</b>	<b>26</b>	<b>4,962</b>
Restricted investment income	–	<b>161</b>	<b>312</b>	<b>473</b>
Transfers	–	<b>(1,564)</b>	<b>1,564</b>	–
Net assets released from restrictions	–	<b>(3,652)</b>	–	<b>(3,652)</b>
Total changes in net assets	<b>43,352</b>	<b>(119)</b>	<b>1,902</b>	<b>45,135</b>
Net assets at December 31, 2017	<b>\$ 732,749</b>	<b>\$ 78,062</b>	<b>\$ 33,606</b>	<b>\$ 844,417</b>

*See accompanying notes.*

# Montefiore Medical Center

## Consolidated Statements of Cash Flows

	Year Ended December 31	
	2017	2016
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Increase (decrease) in net assets	\$ 45,135	\$ (18,310)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	150,921	148,955
Bad debt expense	33,486	49,307
Change in defined benefit pension and other postretirement health plan liabilities to be recognized in future periods	16,678	(6,720)
Transfers to members, net	37,933	64,511
Transfer of Montefiore Consolidated Ventures, Inc. to MHS	(41,435)	-
Net realized gains and losses on marketable and other securities	(14,019)	(4,614)
Change in net unrealized gains and losses on marketable and other securities	(23,122)	(6,610)
Equity earnings from investments	(31,625)	(27,672)
Write-off of long-term mortgage premium and deferred financing costs as a result of debt refinancing	-	1,284
Amortization of long-term mortgage premium	(329)	(502)
Amortization of deferred financing costs	1,072	1,171
Changes in operating assets and liabilities:		
Receivables for patient care	11,471	(84,806)
Accounts payable and accrued expenses	(44,564)	30,607
Accrued salaries, wages and related items	16,713	20,187
Noncurrent defined benefit and postretirement health plan liabilities	6,424	12,516
Net change in all other operating assets and liabilities	13,299	(59,931)
Net cash provided by operating activities	<u>178,038</u>	<u>119,373</u>
<b>Investing activities</b>		
Acquisition of property, buildings and equipment, net	(85,037)	(112,154)
Advances to Montefiore Health System, Inc. on MHS Note and other	(4,218)	(8,336)
Payments from Montefiore Health System, Inc. on MHS Note	2,047	1,948
Decrease in marketable and other securities, net	14,779	93,909
Decrease in assets limited to use, net	30,360	42,549
Net cash (used in) provided by investing activities	<u>(42,069)</u>	<u>17,916</u>
<b>Financing activities</b>		
Payments of long-term debt	(67,729)	(68,529)
Extinguishment of long-term debt	-	(224,964)
Proceeds from long-term debt	47,078	252,090
Payments of deferred financing costs	(208)	(3,508)
Payments to members, net	(31,727)	(49,388)
Net cash used in financing activities	<u>(52,586)</u>	<u>(94,299)</u>
Net increase in cash and cash equivalents	83,383	42,990
Cash and cash equivalents at beginning of year	170,595	127,605
Cash and cash equivalents at end of year	<u>\$ 253,978</u>	<u>\$ 170,595</u>

*See accompanying notes.*

# Montefiore Medical Center

## Notes to Consolidated Financial Statements

December 31, 2017

### 1. Organization and Significant Accounting Policies

#### 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 the 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)
- Montefiore Consolidated Ventures, Inc. (MCV), which is the parent to the following organizations:
  - The Montefiore IPA, Inc. (MIPA)
  - Bronx Accountable Healthcare Network IPA, Inc. (ACO-IPA)
  - University Behavioral Associates, Inc. (UBA)
  - Montefiore Behavioral Care IPA No. 1, Inc. (MBCIPA)
  - MMC GI Holdings East, Inc. (GI East)
  - MMC GI Holdings West, Inc. (GI West)

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

All intercompany accounts and activities have been eliminated in consolidation. Captive insurance companies in which the Medical Center has an equity interest of more than 20%, but less than 50%, are accounted for under the equity method of accounting. In addition, investments in limited liability companies not wholly owned are recorded under the equity method.

On March 1, 2017, the Medical Center entered into an agreement by which it assigned and transferred all of its rights, title and interest in the shares of the common stock of MCV and its controlled organizations to MHS. In accordance with Accounting Standards Codification Topic 805, *Business Combinations*, this transaction was accounted for as a net asset transfer between entities under common control, with no retrospective adjustment to the prior period consolidated financial statements. Accordingly, the activities of MCV are included in the consolidated statements of operations and changes in net assets through the date of transfer. The following table summarizes the assets, liabilities and net deficiency of MCV and its controlled organizations as of the date of transfer, March 1, 2017, and December 31, 2016:

	<b>March 1, 2017*</b>	<b>December 31, 2016</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 6,631	\$ 5,254
Marketable and other securities	23,712	23,457
Assets limited as to use	39,345	39,155
Other receivables	12,488	12,155
Due from members	8,340	8,256
Property, buildings and equipment, net	142	142
Other noncurrent assets	2,022	1,996
Total assets	\$ 92,680	\$ 90,415
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 73,965	\$ 65,999
Accrued salaries, wages, and related items	469	380
Due to members	59,681	67,045
Total liabilities	134,115	133,424
<b>Net deficiency</b>		
Unrestricted net deficiency	(41,435)	(43,009)
Total liabilities and net deficiency	\$ 92,680	\$ 90,415

\* Represents assets, liabilities and net deficiency transferred to MHS on March 1, 2017 and excluded from the consolidated statement of financial position as of December 31, 2017.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

The following table summarizes the operating revenue and excess (deficiency) of revenues over expenses related to MCV included within the consolidated statements of operations of the Medical Center through the date of transfer, March 1, 2017, and December 31, 2016:

	<b>Period From</b>	
	<b>January 1,</b>	<b>Year Ended</b>
	<b>2017 to</b>	<b>December 31,</b>
	<b>March 1, 2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Total operating revenue	\$ 90,590	\$ 534,472
Excess (deficiency) of revenues over expenses	\$ 1,671	\$ (2,849)

*Tax Status:* The Medical Center, a section 501(c)(3) organization, is exempt from Federal, New York State and local income taxes under Section 501(a) of the Internal Revenue Code, as are all of the organizations consolidated in these financial statements, except for MCV and its subsidiaries, which are taxable entities and CMO, MPRO and MHVC which are disregarded entities for income tax purposes. Disregarded entity status provides that the Medical Center is subject to unrelated business income taxation on income derived from activities not specific to the Medical Center. Provisions for income taxes related to the taxable entities are not material to the consolidated financial statements.

As a result of the recent Federal income tax reform enacted into law under the Tax Cuts and Jobs Act of 2017, certain provisions will impact tax-exempt organizations, including revisions to taxes on unrelated business activities, excise taxes on compensation of certain employees, and various other provisions. The regulations necessary to implement the law are expected to be promulgated throughout 2018 and the ultimate outcome of these regulations and the impact to the Medical Center are not expected to be significant to the Medical Center's consolidated financial statements.

*Temporarily and Permanently Restricted Net Assets:* Temporarily restricted net assets are those whose use has been limited by donors to a specific time frame or purpose. Permanently restricted net assets have been restricted by the donors to be maintained by the Medical Center in perpetuity. The Medical Center records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions.

# Montefiore Medical Center

## Notes to Consolidated Financial Statements (continued)

### 1. Organization and Significant Accounting Policies (continued)

When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are classified as unrestricted contributions. Other revenue for the years ended December 31, 2017 and 2016 includes approximately \$3.7 million and \$3.2 million, respectively, of net assets released from restrictions used for operations.

*Cash and Cash Equivalents:* Cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less at the time of purchase which are not deemed to be assets limited as to use or part of the marketable securities portfolio. The Medical Center maintains cash on deposit with major banks and invests in highly rated commercial paper on an overnight basis or securities issued by either the United States Government or its agencies with a maturity of three months or less at the time of purchase. The Medical Center does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents. Book overdrafts in the amount of \$35.2 million and \$31.9 million as of December 31, 2017 and 2016, respectively, are included within accounts payable and accrued expenses in the consolidated statements of financial position.

At December 31, 2017 and 2016, the Medical Center invested excess cash in deposits with major banks and in money market funds with high credit quality financial institutions.

*Revenue and Receivables for Patient Care:* Patient accounts receivable for which the Medical Center receives payment under various formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amount receivable from such payers, which is generally less than the established billing rates of the Medical Center. Fees for patient services not covered by payer reimbursement and insurance programs are recorded on a sliding scale dependent on the individual's ability to pay. For purposes of presentation in the accompanying consolidated statements of financial position, receivables for patient care are net of advances from third-party payers which are directly related to receivables for patient care.

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

*Inventories:* Inventories, included in other current assets, consist primarily of drugs and supplies, and are valued at the lower of cost and net realizable value.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### **1. Organization and Significant Accounting Policies (continued)**

*Marketable and Other Securities:* All marketable and other securities are classified as trading securities. Marketable securities are carried at fair value and generally consist of fixed income securities issued or guaranteed by government entities, money market funds, mutual funds, fixed income securities issued by corporations, collective trust funds and equity securities. Marketable securities received as a gift are initially recorded at fair value at the date of the gift. The carrying amount of alternative investments (nontraditional, not readily marketable asset classes), some of which are structured such that the Medical Center holds limited partnership interests, are determined by Medical Center management for each investment, based upon net asset values derived from the application of the equity method of accounting.

Individual investment holdings within the alternative investments include both non-marketable and market-traded securities. Valuations of the non-marketable securities are determined by the investment manager or general partner. These values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, the carrying amount reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Medical Center to securities lending, short sales of securities, and trading in futures and forwards contracts, options and other derivative products. The Medical Center's risk is limited to its carrying value, in addition to any unfunded commitment. At December 31, 2017, the Medical Center had approximately \$9.8 million of future commitments to invest in alternative investments. Certain investments are subject to notification periods or restrictions in order to divest. The redemption notice period for this asset class ranges from 30 days to 90 days. Funds are generally available within 30 days after the redemption date. At December 31, 2017, approximately 22% of alternative investments are held in illiquid private equity funds and distributions are based on the investment managers' discretion. The financial statements of the investees are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Medical Center's annual consolidated financial statement reporting.

There is uncertainty in the accounting for alternative investments arising from factors such as lack of active markets (primary or secondary), lack of transparency into underlying holdings and time lags associated with reporting by the investee companies. As a result, there is at least a reasonable possibility that estimates will change in the near term.

# Montefiore Medical Center

## Notes to Consolidated Financial Statements (continued)

### **1. Organization and Significant Accounting Policies (continued)**

*Investment Gains, Losses and Income:* Net realized and unrealized gains and losses on marketable and other securities and equity in earnings or losses of alternative investments are recorded in the excess of revenues over expenses unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income limited by donor-imposed restrictions is recorded as an increase in temporarily restricted net assets. Realized gains and losses on sales of marketable and other securities are based on the average cost method.

*Assets Limited as to Use:* Assets so classified represent assets whose use is restricted for specific purposes under terms of agreements, donor restrictions, or employee deferred compensation plans.

*Property, Buildings and Equipment:* Property, buildings and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date received. Annual provisions for depreciation are made based upon the straight-line method over the estimated useful lives of the assets. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations in the year of disposal.

*Deferred Financing Costs:* Deferred financing costs represent costs incurred to obtain financing for various construction and renovation projects. Amortization of these costs is determined by the effective interest method extending over the terms of the related indebtedness. Deferred financing costs are included as a reduction to long-term debt in the accompanying consolidated statements of financial position.

*Employee Deferred Compensation Plan:* Pursuant to various deferred compensation plans in which certain Medical Center employees or former employees participate, the Medical Center deposited employee contributions with trustees on behalf of the participating employees. The Medical Center is not responsible for investment gains or losses incurred. The assets, which are carried at fair value with a corresponding liability, are restricted for payments under the plans and may only revert to the Medical Center under certain specified circumstances. The assets are included in assets limited as to use in the accompanying consolidated statements of financial position.



## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### **1. Organization and Significant Accounting Policies (continued)**

*Premium Revenue and Health Care Service Cost Recognition:* Under certain managed care contracts, the Medical Center receives from the insurer a monthly premium per enrollee during the term of enrollment. The premium revenue, which is based on individual contracts, is recognized in the period earned. Under such arrangements, the Medical Center manages and, directly and through arrangements with other health care providers, delivers health care services to enrollees in accordance with the terms of the subscriber agreements. The Medical Center reimburses these providers on either a capitated or negotiated fee-for-service basis. The cost of health care services is accrued based on processed and unprocessed claims and estimates for medical services, which have been incurred but not reported. Although it is not possible to measure with certainty the degree of variability inherent in such an estimate, such estimates are continually monitored and reviewed by management and independent actuaries, and any adjustments deemed necessary are reflected in current operations. Health care service costs included in supplies and other expenses were increased by approximately \$671,000 for the year ended December 31, 2017 and decreased by approximately \$5.0 million for the year ended December 31, 2016, reflecting the difference between claims paid and the liability originally estimated. Premium revenue included within net patient service revenue in the accompanying consolidated statements of operations aggregated approximately \$153.5 million and \$560.7 million for the years ended December 31, 2017 and 2016, respectively. The decrease in premium revenue is reflective of the change in membership of MCV and its controlled organizations in 2017.

*Performance Indicator:* The consolidated statements of operations include excess of revenues over expenses as the performance indicator. Items excluded from excess of revenues over expenses are change in defined benefit pension and other postretirement health plan liabilities to be recognized in future periods; net assets released from restrictions used for purchases 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 excess of operating revenues over operating expenses before other items. Peripheral transactions or transactions of an infrequent nature are excluded from excess of operating revenues over expenses before other items.

*Charity Care and Other Community Benefit Programs:* The Medical Center is guided by its mission and charitable purpose to provide charity care and other community benefit programs. These activities include access to medically necessary treatment for individuals unable to pay for

# Montefiore Medical Center

## Notes to Consolidated Financial Statements (continued)

### 1. Organization and Significant Accounting Policies (continued)

services, care provided under means-tested government insurance programs that reimburse the Medical Center at less than the cost of the services provided, education for future health providers, research to advance knowledge and other programs designed to meet local community needs.

The Medical Center is committed to serving all patients in need of health care services. Consistent with its mission and values, and taking into account an individual's ability to pay for medically necessary health care services, the Medical Center provides charity care, including free or discounted care, to all patients not covered by insurance. A key aspect of the policy includes assisting patients in obtaining insurance they are eligible to receive. Care provided under the charity care policy is not reported as net patient service revenue in the accompanying consolidated statements of operations. The cost of charity care is estimated based on charges associated with the care provided, applied to the ratio of total patient care expenses to total charges for all services rendered.

Care provided to patients identified as having the means to pay, but for which payment is not received, is classified as bad debt expense. The Medical Center uses information from patients and from other sources for patients who are unable to provide financial information, to determine eligibility for charity care to classify activity between charity care and bad debt expense. Bad debt expense is included as a deduction from net patient service revenue in the accompanying consolidated statements of operations.

Medicaid and other means-tested programs comprise approximately one-third of the Medical Center's patient service revenue. The costs are estimated based on charges for services provided under the means-tested programs, applied to the ratio of total patient care expenses to total charges for all services rendered. The unpaid cost presented in the table below is based on estimated total costs, less reimbursement received for the services provided.

The Medical Center operates one of the largest medical residency and health professions training programs in the United States. The costs of the training programs are included in operating expenses in the accompanying consolidated statements of operations. The costs presented below are net of graduate medical education funding from the Medicare and Medicaid programs.

Research and other community benefit program costs include expenses incurred to advance medical care and clinical knowledge. In addition, the Medical Center fosters community participation through advisory boards and linkages with community-based groups. It responds to identified community health related needs by offering specific services including, among others,

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

wellness programs, community education programs, health screenings, community support services and subsidized health services. The research and other community benefit program costs presented below are included in operating expenses in the accompanying consolidated statements of operations.

A summary of the costs associated with the provision of charity care and other community benefit programs is as follows:

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Charity care, at cost and net of subsidies	\$ 54,803	\$ 50,064
Unpaid cost of means-tested government-sponsored insurance programs	<b>346,330</b>	288,128
Health professions training, at cost	<b>47,441</b>	38,571
Community benefit programs	<b>95,667</b>	92,299
Research	<b>18,888</b>	15,574
	<b>\$ 563,129</b>	<b>\$ 484,636</b>

The New York State Department of Health (NYSDOH) Hospital Indigent Care Pool (the Pool) was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. For the years ended December 31, 2017 and 2016, the Medical Center received approximately \$8.7 million and \$8.1 million, respectively, in Pool distributions related to charity care. The Medical Center made payments into the Pool of approximately \$19.8 million and \$19.0 million for the years ended December 31, 2017 and 2016, respectively, for the 1% assessment.

*Program Services:* The Medical Center provides health care and related services primarily within its geographic area. Expenses related to providing these services for the years ended December 31, 2017 and 2016 are as follows:

	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Health care and related services	\$ 3,358,911	\$ 3,498,283
Program support and general services	<b>376,314</b>	354,576
	<b>\$ 3,735,225</b>	<b>\$ 3,852,859</b>

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

*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, such as estimated uncollectibles for accounts receivable for services to patients and estimated insurance recoveries receivable, and liabilities, such as estimated third-party payer liabilities, estimated insurance claims liabilities and 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. During 2017 and 2016, the Medical Center recorded net changes in estimates that increased the excess of revenues over expenses by \$12.5 million and \$46.5 million, respectively, which primarily related to changes in previously estimated third-party payer settlements and changes to estimated liabilities.

*Recent Accounting Pronouncements:* In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition*, and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 are effective for the Medical Center for the fiscal year beginning after December 15, 2017, and interim periods within that fiscal year. In accordance with ASU 2014-09, the Medical Center will analyze revenue streams utilizing the portfolio approach to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Management will adopt ASU 2014-09 following the modified retrospective method of application. Subsequent to adoption, certain patient activity where collection is uncertain which was previously reported as net patient service revenue and bad debt expense in the Medical Center's consolidated statements of operations will no longer meet the criteria for revenue recognition and, accordingly, the bad debt expense after the adoption date will be significantly reduced with a corresponding reduction to net patient service revenue. The Medical Center's adoption of ASU 2014-09 will have other impacts to net patient service revenue, which include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures. The impact of the adoption of ASU 2014-09 in relation to other applicable revenue activity is still being evaluated by the Medical Center.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### **1. Organization and Significant Accounting Policies (continued)**

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02), which will require lessees to report most leases on their balance sheet, but recognize expenses on their income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The provisions of ASU 2016-02 are effective for the Medical Center for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statement Presentation* (ASU 2016-14), which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs will be required to classify net assets as net assets with donor restrictions or without donor restrictions. Entities that use the direct method of presenting operating cash flows will no longer be required to provide a reconciliation of the change in net assets to operating cash flows. The guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs will also be required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 are effective for the Medical Center for annual periods beginning after December 15, 2017. Application of ASU 2016-14 to interim periods within the initial year of adoption is permitted, but not required. Early adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the Medical Center for annual periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash* (ASU 2016-18), which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for the Medical Center for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2016-18 on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The Medical Center adopted ASU 2017-07 on January 1, 2017 and retrospectively applied the presentation requirements to the consolidated statement of operations for the year ended December 31, 2016. As a result of the adoption of ASU 2017-07, the Medical Center recorded the service cost component of net periodic benefit cost related to its defined benefit pension and other postretirement benefit plan (aggregate of approximately \$16.5 million and \$15.1 million for the years ended December 31, 2017 and 2016, respectively) within salaries and wages on the consolidated statements of operations and presented all other components (aggregate of approximately \$9.4 million and \$8.8 million for the years ended December 31, 2017 and 2016, respectively) as net periodic pension and other postretirement benefit costs (non-service related) below the excess of operating revenues over operating expenses before other items on the consolidated statements of operations.

*Reclassifications:* For purposes of comparison, certain reclassifications have been made to the accompanying 2016 consolidated financial statements to conform to the 2017 presentation. These reclassifications primarily relate to book overdrafts, which were recorded previously as a component of cash and cash equivalents and are now recorded within accounts payable and accrued expenses; patient refunds, which were recorded previously within receivables for patient

# Montefiore Medical Center

## Notes to Consolidated Financial Statements (continued)

### 1. Organization and Significant Accounting Policies (continued)

care, less allowances for doubtful accounts and are now recorded within estimated third-party payer liabilities, current portion; and employee health claims which were recorded previously within net patient service revenue before bad debt expense and employee benefits and are now recorded net of one another. There were other reclassifications that were not significant. These reclassifications have no effect on the excess of revenues over expenses or net assets for the year ended December 31, 2016.

### 2. Net Patient Service Revenue

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. Net patient service revenue is reported at estimated net realizable amounts due from third-party payers, patients, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period that related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

*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. 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.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

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

*Medicare Reimbursement:* Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. The Medical Center is paid for services rendered to Medicare beneficiaries on a Periodic Interim Payment (PIP) basis, plus certain add-ons and other items that are tentatively settled after submission of an annual cost report by the Medical Center and final settled after audits thereof by the Medicare Administrative Contractor (MAC) of the submitted cost report. The Medicare cost reports of the Medical Center have been final settled by the MAC through the year ended December 31, 2001.

Medicare and Medicaid regulations require annual retroactive settlements for reimbursements through cost reports filed by the Medical Center. These retroactive settlements are estimated and recorded in the consolidated financial statements in the year in which they occur. The estimated settlements recorded at December 31, 2017 and 2016 could differ from actual settlements based on the results of cost report audits.

Laws and regulations governing health care programs are extremely complex and are subject to interpretation. Noncompliance with such laws and regulations could result in repayment of amounts improperly reimbursed, fines, penalties and exclusion from such programs. In addition, the classification of patients of the Medical Center and the appropriateness of their admission are subject to an independent review by a peer review organization. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Medical Center is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations.

There are various proposals at the Federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the Federal and state governments, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse effect on the Medical Center.



## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

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

*Bad Debt Expense:* The collection of patient service revenue due from patients, including copayments and deductibles, from those who are ineligible for charity care, is subject to uncertainty. The Medical Center records bad debt expense in the period services are rendered based on past experience, to account for amounts that patients may ultimately be unable or unwilling to pay. For self-pay patients, which includes both patients without insurance and patients with copayments and deductibles after third-party coverage, the Medical Center records an estimate for bad debt expense in the current period based on past experience. Amounts ultimately written off as uncollectible and recoveries of such amounts are deducted from, or added to, the allowance for doubtful accounts.

Net patient service revenue, net of contractual allowances and discounts, for the years ended December 31, 2017 and 2016, by major payer source, is as follows:

	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Patient service revenue (net of contractual allowances and discounts):		
Medicaid and Medicaid managed care	\$ 1,129,844	\$ 1,159,012
Medicare and Medicare managed care	1,151,544	1,178,165
Commercial and managed care	1,129,106	1,269,942
Self-pay and other	35,912	39,449
	<b>3,446,406</b>	3,646,568
Bad debt expense	<b>(33,486)</b>	(49,307)
Net patient service revenue	<b>\$ 3,412,920</b>	\$ 3,597,261

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 3. Marketable and Other Securities and Assets Limited as to Use

The composition of marketable and other securities and assets limited as to use follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Marketable and other securities	\$ 656,290	\$ 633,928
Assets limited as to use	216,068	246,428
	<b>\$ 872,358</b>	<b>\$ 880,356</b>
Managed cash and cash equivalents held for investment	\$ 40,730	\$ 67,871
Corporate debt	256,335	217,303
U.S. Treasury securities	120,133	109,401
U.S. Government agency mortgage-backed securities	50,714	51,848
U.S. Government agency-backed securities	25,500	40,167
Equity securities	82,195	60,659
Non-equity mutual funds	119,805	155,762
Equity mutual funds	22,434	27,163
Alternative investments	116,453	115,307
Collective trust funds	36,752	28,984
Interest and other receivables	1,307	5,891
	<b>\$ 872,358</b>	<b>\$ 880,356</b>

The composition of assets limited as to use follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Debt-related sinking funds	\$ 75,287	\$ 77,628
Donor restricted funds	71,099	70,719
Managed care cash reserves required by contracts	10,765	47,139
Lease escrow deposits	13,347	13,153
Employee deferred compensation plan assets	45,570	37,789
Total assets limited as to use	216,068	246,428
Less: current portion of assets limited as to use	(15,976)	(52,159)
Assets limited as to use, net of current portion	<b>\$ 200,092</b>	<b>\$ 194,269</b>

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 3. Marketable and Other Securities and Assets Limited as to Use (continued)

Unrestricted investment returns for the years ended December 31, 2017 and 2016 are comprised as follows:

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Interest and dividend income	\$ 14,917	\$ 12,912
Net realized gains and losses	14,019	4,614
Change in net unrealized gains and losses	23,122	6,610
	<u>\$ 52,058</u>	<u>\$ 24,136</u>

#### 4. Property, Buildings and Equipment

A summary of property, buildings and equipment follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Land and land improvements	\$ 40,228	\$ 40,214
Buildings, fixed equipment and improvements	1,652,318	1,629,277
Movable equipment	1,362,789	1,281,401
	<u>3,055,335</u>	<u>2,950,892</u>
Less accumulated depreciation and amortization	<u>(2,030,293)</u>	<u>(1,880,709)</u>
	1,025,042	1,070,183
Construction-in-progress	31,313	52,056
	<u>\$ 1,056,355</u>	<u>\$ 1,122,239</u>

Substantially all property, buildings, and equipment are pledged as collateral under various debt agreements.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 5. Operating Leases

Total rental expense included in supplies and other expenses aggregated approximately \$49.5 million and \$51.5 million for the years ended December 31, 2017 and 2016, respectively.

Future minimum payments, by year and in the aggregate, under non-cancelable operating leases with initial or remaining terms of one year or more at December 31, 2017 consisted of the following (in thousands):

2018	\$ 39,613
2019	39,542
2020	37,905
2021	37,572
2022	33,792
2023 and thereafter	<u>971,326</u>
Total minimum lease payments	<u>\$ 1,159,750</u>

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt

A summary of long-term debt follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
FHA Section 242 insured mortgage loan <sup>(a)</sup>	\$ 79,998	\$ 87,840
FHA Section 241 insured mortgage loan <sup>(b)</sup>	52,474	60,975
FHA Section 241 insured mortgage loan <sup>(c)</sup>	54,588	59,163
FHA Section 241 insured mortgage loan <sup>(c)</sup>	8,958	9,708
FHA Section 241 insured mortgage loan <sup>(d)</sup>	124,567	131,209
HDC residential revenue bonds payable <sup>(e)</sup>	5,600	5,900
Bank loans payable <sup>(f)</sup>	77,613	79,470
Housing II mortgages payable <sup>(g)</sup>	18,252	18,421
Housing I mortgage payable <sup>(h)</sup>	1,074	1,160
MCORP bonds payable <sup>(i)</sup>	17,630	18,190
NYC IDA bonds payable <sup>(i)</sup>	12,380	12,755
Build NYC bonds payable <sup>(i)</sup>	67,620	73,718
Equipment leasing programs <sup>(k)</sup>	209,384	190,692
Ambulatory care center financing <sup>(l)</sup>	56,419	57,143
Dormitory Authority mortgage <sup>(m)</sup>	14,868	15,675
Other	1,874	1,931
	<b>803,299</b>	<b>823,950</b>
Add long-term mortgage premiums <sup>(b, i)</sup>	939	1,268
Less deferred financing costs	(5,547)	(6,411)
Less current portion	(74,475)	(65,786)
	<b>\$ 724,216</b>	<b>\$ 753,021</b>

In May 2016, the Medical Center issued Montefiore Medical Center GNMA Collateralized Taxable Revenue Bonds, Series 2016 (2016 Bonds) in order to refinance bonds secured by two of its FHA insured mortgage loans (see sections a and d below). As a result of the refinancing, the Medical Center recorded a gain on refinancing of approximately \$4.6 million during 2016.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt (continued)

- (a) The Medical Center has a mortgage agreement insured under the provisions of the Federal Housing Administration (FHA) 242 Program to finance certain construction and renovation projects. This insured mortgage loan is secured by a first mortgage on substantially all of the Medical Center's real property and unrestricted assets. Prior to May 2016, the mortgage agreement was with the Dormitory Authority of the State of New York (the Dormitory Authority) and the interest rate was 4.57% per annum. In May 2016, the Medical Center issued the 2016 Bonds in order to refinance bonds secured by the mortgage loan and reduce the interest rate to 2.47%. The 2016 Bonds are secured by fully modified pass-through mortgage-backed securities guaranteed by the Government National Mortgage Association (GNMA). Mortgage principal and interest payments are due monthly through October 1, 2026, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to March 31, 2026, after which the mortgage may be prepaid without penalty.
- (b) The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program, to finance a construction and renovation project. The interest rate on the mortgage is 4.55% per annum and principal and interest payments are due monthly through April 2023, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to February 1, 2018. Subsequent to February 1, 2018, the loan may be prepaid without penalty.

In connection with this financing, the Medical Center recorded a mortgage premium as a component of long-term debt related to the termination of a forward starting interest rate swap agreement. The balance outstanding was approximately \$804,000 and \$1.1 million at December 31, 2017 and 2016, respectively. The mortgage premium is being amortized over the life of the mortgage using the effective interest method.

- (c) The Medical Center has two mortgage agreements insured under the provisions of the FHA 241 Program to finance construction and renovation projects. The interest rate is 4.22% per annum. Monthly payments of principal and interest will be made through May 1, 2027, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loans may not be prepaid prior to April 30, 2021, after which the mortgages may be prepaid without penalty.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt (continued)

- (d) The Medical Center has a mortgage agreement insured under the provisions of the FHA 241 Program, to finance a construction and renovation project that was completed in 2007. Prior to May 2016, the mortgage agreement was with the Dormitory Authority and the interest rate was 5.37% per annum. In May 2016, the Medical Center issued the 2016 Bonds in order to refinance bonds secured by the mortgage loan and reduce the interest rate to 3.21%. The 2016 Bonds are secured by fully modified pass-through mortgage-backed securities guaranteed by GNMA. Mortgage principal and interest payments are due monthly through April 1, 2032, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to March 31, 2026, after which the mortgage may be prepaid without penalty.
- (e) The proceeds of New York City Housing Development Corporation (HDC) revenue bonds were used by the Medical Center for a staff housing project. Interest is payable monthly at a variable rate (3.08% and 2.09% at December 31, 2017 and 2016, respectively). Principal is payable annually through May 1, 2030. The amounts due are secured by a mortgage and a revenue pledge on the underlying property financed and an irrevocable direct pay letter of credit issued by a bank in the amounts of approximately \$5.7 million and \$6.0 million at December 31, 2017 and 2016, respectively. The letter of credit expires in September 2018. No unreimbursed draws were made under the direct pay letter of credit during the years ended December 31, 2017 and 2016.
- (f) Bank loans payable consist of the following at December 31, 2017 and 2016:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Medical Center bank loans payable at varying dates through November 2021, at fixed and variable rates ranging from 3.43% – 3.73% and 2.95% – 3.43% at December 31, 2017 and 2016, respectively	<b>\$ 12,624</b>	\$ 13,550
Medical Center mortgage loan payable due in February 2019 at a fixed rate of 1.67%	<b>30,000</b>	30,000
MCORP mortgage loan payable due in March 2020 at a fixed rate of 2.49%	<b>34,989</b>	35,920
	<b>\$ 77,613</b>	\$ 79,470

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt (continued)

The Medical Center has a line of credit with a bank aggregating approximately \$30.0 million. At December 31, 2017 and 2016, no amounts were outstanding under this line. The line of credit expires in June 2018.

- (g) Housing II has primary and subordinate mortgage agreements with HDC. At December 31, 2017 and 2016, the primary mortgage amount outstanding was approximately \$5.5 million and \$5.6 million, respectively. The primary mortgage has a final maturity date in January 2035 and the interest rate is 6.5%. At December 31, 2017 and 2016, the subordinate mortgage amount outstanding was approximately \$12.8 million and bears no interest. The subordinate mortgage is payable in full in April 2035 and Housing II has used 1.8% as the interest rate for the purposes of recognizing interest expense under the assumption that the mortgages will remain outstanding through 2035.

Substantially all of Housing II's property and equipment rents and profits are collateral for the mortgages. In addition, any requests for rental increases must be approved by HDC. During the years ended December 31, 2017 and 2016, Housing II maintained the reserve for replacement account in accordance with HDC requirements. Monthly deposits aggregating approximately \$5,000 are required to be made into this account.

- (h) Housing I has a mortgage loan agreement with a lender with a final maturity date in July 2026. At December 31, 2017 and 2016, the principal balance outstanding was approximately \$1.1 million and \$1.2 million, respectively. The interest rate is 7.6%. The mortgage loan is secured by a mortgage on the building and underlying property.
- (i) MCORP financed the acquisition of certain real estate with the proceeds of two financings: New York City Industrial Development Agency (NYC IDA) revenue bonds and MCORP taxable bonds. Interest on the NYC IDA bonds has an average coupon rate of 4.96%, and payments of interest and principal are payable monthly through October 1, 2035. The bonds were sold at a premium, of which approximately \$135,000 and \$148,000 was recorded as a component of the related long-term debt as of December 31, 2017 and 2016, respectively, and is being amortized using the effective interest method over the term of the NYC IDA bonds. Interest on the MCORP bonds is payable monthly at a variable rate (3.08% and 2.38% at December 31, 2017 and 2016, respectively). Principal is payable monthly through October 2035. The MCORP bonds are subject to prepayment without penalty. Both bond issues are secured by direct pay



## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt (continued)

letters of credit from a bank in the amounts of approximately \$12.9 million and \$18.0 million at December 31, 2017, and approximately \$13.3 million and \$18.6 million at December 31, 2016. The letters of credit are secured by a mortgage on the properties financed. The letters of credit expire September 30, 2020.

No unreimbursed draws were made under the direct pay letters of credit during the years ended December 31, 2017 and 2016.

- (j) During 2013, the Medical Center issued Build NYC Resource Corporation Revenue Bonds, Series 2013A and Series 2013B (2013 Bonds) through Build NYC Resource Corporation, to finance a leasehold renovation project secured by a leasehold mortgage. At December 31, 2017 and 2016, a total of approximately \$67.6 million and \$73.7 million was outstanding, respectively. Interest on the 2013 Bonds is payable monthly at variable rates (2.42% and 1.83% at December 31, 2017 and 2016, respectively). Principal is payable monthly through June 2030. The 2013 Bonds are subject to prepayment without penalty, upon satisfaction of certain notice provisions.
- (k) In addition to amounts previously borrowed, the Medical Center borrowed approximately \$46.7 million and \$14.8 million during the years ended December 31, 2017 and 2016, respectively, under equipment leases to finance certain capital projects. The interest rates associated with the Medical Center's various equipment lease borrowings range from 1.06% to 2.23%.
- (l) The Medical Center has a real estate lease for an ambulatory care center. The lease was accounted for as a financing transaction; accordingly, an obligation of approximately \$56.4 million and \$57.1 million was outstanding at December 31, 2017 and 2016, respectively. Payments of principal and interest commenced in September 2015 and extend through September 2030.
- (m) The Medical Center has a loan agreement with the Dormitory Authority in connection with the transfer of a substance abuse treatment facility from Albert Einstein College of Medicine, Inc. (Einstein) to the Medical Center. The loan is secured by a mortgage on the facility. At December 31, 2017 and 2016, a total of approximately \$14.9 million and \$15.7 million was outstanding, respectively. Interest payments are due semiannually at rates ranging from approximately 4.4% to 4.5% and principal payments are due annually through February 2030. To the extent that the Medical Center continues to meet certain

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt (continued)

conditions, its obligations to make interest and principal payments will be funded by the New York State Office of Alcoholism and Substance Abuse Services (OASAS) under a state aid grant lien. During 2017 and 2016, OASAS funded approximately \$1.5 million of principal, interest and fees associated with this loan.

The aggregate amount of principal payments required under all long-term indebtedness, including capital leases, exclusive of sinking funds requirements, at December 31, 2017 are as follows (in thousands):

2018	\$ 75,193
2019	105,856
2020	108,282
2021	73,970
2022	68,054
2023 and thereafter	371,944
	\$ 803,299

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for the FHA insured mortgage loans. At December 31, 2017, the Medical Center met the funding requirements and minimum mortgage reserve fund balances related to the FHA insured mortgage loans. The funding requirements for the next five years are as follows (in thousands):

	<u>FHA 242<sup>(a)</sup></u>	<u>FHA 241<sup>(b)</sup></u>	<u>FHA 241<sup>(c)</sup></u>	<u>FHA 241<sup>(c)</sup></u>	<u>FHA 241<sup>(d)</sup></u>	<b>Total Funding Requirement</b>
2018	\$ —	\$ (3,145)	\$ —	\$ —	\$ —	(3,145)
2019	—	(3,145)	—	—	—	(3,145)
2020	—	(3,145)	(1,164)	(191)	—	(4,500)
2021	(2,315)	(3,237)	(1,996)	(328)	—	(7,876)
2022	(3,969)	(3,145)	(1,997)	(327)	—	(9,438)

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt (continued)

The required minimum mortgage reserve fund balances for the next five years are as follows (in thousands):

	<b>FHA 242<sup>(a)</sup></b>	<b>FHA 241<sup>(b)</sup></b>	<b>FHA 241<sup>(c)</sup></b>	<b>FHA 241<sup>(c)</sup></b>	<b>FHA 241<sup>(d)</sup></b>	<b>Total Funding Requirement</b>
2018	\$ 19,845	\$ 14,522	\$ 13,970	\$ 2,293	\$ 21,512	\$ 72,142
2019	19,845	11,377	13,970	2,293	21,512	68,997
2020	19,845	8,232	12,806	2,102	21,512	64,497
2021	17,530	4,995	10,810	1,774	21,512	56,621
2022	13,561	1,850	8,813	1,447	21,512	47,183

Substantially all of the Medical Center's property, buildings and equipment and other assets serve as collateral under the various debt arrangements. In addition, the Medical Center must maintain certain financial ratios and, among other things, obtain approval to incur additional debt above specified amounts. The Medical Center was in compliance with such covenants at December 31, 2017 and 2016.

Interest paid during the years ended December 31, 2017 and 2016, amounted to approximately \$31.0 million and \$32.9 million, respectively.

#### 7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Collateralizing bank financing, teaching and research	\$ 38,073	\$ 37,224
Health care related services	23,257	22,732
Construction and renovation projects	8,782	8,763
Research	6,704	8,449
Other	1,246	1,013
	<b>\$ 78,062</b>	<b>\$ 78,181</b>

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### **7. Temporarily and Permanently Restricted Net Assets (continued)**

The Medical Center follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as it relates to its permanently restricted endowments.

The Medical Center's endowments consist of donor-restricted funds established for a variety of purposes. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Medical Center requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Medical Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) if applicable, any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted funds that are not classified in permanently restricted net assets is classified as temporarily restricted net assets until the purpose or time restriction expires. Endowment assets include those assets of donor-restricted funds that the Medical Center must hold in perpetuity or for a donor-specified term.

The Medical Center's investment and spending policies for endowment assets seek to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Medical Center must hold in perpetuity or for a donor-specified term.

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

**7. Temporarily and Permanently Restricted Net Assets (continued)**

For the years ended December 31, 2017 and 2016, the Medical Center had the following endowment-related activities:

	<b>2017</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
	<i>(In Thousands)</i>			
Endowment balance, beginning of year	\$ —	\$ 1,868	\$ 31,704	\$ 33,572
Additions	—	—	1,590	1,590
Investment income	192	136	312	640
Amounts appropriated for expenditure	(192)	(56)	—	(248)
Net change in endowment funds	—	80	1,902	1,982
Endowment balance, end of year	\$ —	\$ 1,948	\$ 33,606	\$ 35,554

	<b>2016</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
	<i>(In Thousands)</i>			
Endowment balance, beginning of year	\$ —	\$ 1,836	\$ 31,390	\$ 33,226
Additions	—	—	314	314
Investment income	138	98	—	236
Amounts appropriated for expenditure	(138)	(66)	—	(204)
Net change in endowment funds	—	32	314	346
Endowment balance, end of year	\$ —	\$ 1,868	\$ 31,704	\$ 33,572

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### **7. Temporarily and Permanently Restricted Net Assets (continued)**

Permanently restricted net assets amounted to approximately \$33.6 million and \$31.7 million at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the fair value of marketable securities (including reinvested earnings over the life of endowments) exceeded the amount of permanently restricted net assets at such dates.

#### **8. 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.

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 noncontributory 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 \$137.1 million and \$134.4 million for the years ended December 31, 2017 and 2016, respectively. Cash payments relative to the various pension plans aggregated approximately \$136.0 million and \$132.6 million for the years ended December 31, 2017 and 2016, respectively.

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.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 8. Benefit Plans (continued)

##### Multiemployer Plans

The Medical Center contributes to two multiemployer defined benefit pension plans under the terms of collective bargaining agreements that cover its union-represented employees: New York State Nurses Association Pension Plan (NYSNA) and the 1199SEIU Healthcare Employees Pension Fund (1199SEIU). The risks of participating in these multiemployer plans are different from single-employer plans in the following respects:

- Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If an entity of the multiemployer defined benefit pension plan chooses to stop participating in some of its multiemployer plans, the entity may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Medical Center’s participation in these plans for the years ended December 31, 2017 and 2016 is outlined in the following table. The “EIN/Pension Plan Number” column provides the Employee Identification Number (EIN) and the three-digit plan numbers. Unless otherwise noted, the most recent Pension Protection Act zone status available in 2017 and 2016 is for the plans’ year end at December 31, 2016 and 2015, respectively. The zone status is based on information that the Medical Center received from the plans and is certified by the plans’ actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The “FIP/RP Status Pending/Implemented” column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration dates of the collective bargaining agreements to which the plans are subject.

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending Implemented	Contributions from the Medical Center		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		January 1, 2017	January 1 2016		2017	2016		
<i>(In Thousands)</i>								
NYSNA	13-6604799/001	Green	Green	N/A	\$ 26,466	\$ 24,562	No	12/31/2018
1199SEIU	13-3604862/001	Green	Green	N/A	\$ 51,144	\$ 55,289	No	9/30/2018

Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

**8. Benefit Plans (continued)**

The Medical Center was listed in the plans' Forms 5500 as providing more than 5% of the total contributions for the following plan years:

<b><u>Pension Fund</u></b>	<b><u>Year Contributions to Plan Exceeded More Than 5% of Total Contributions (as of December 31 of the Plan's Year End)</u></b>
NYSNA	2016 and 2015
1199SEIU	2016 and 2015

At the date the Medical Center's consolidated financial statements were issued, Forms 5500 were not available for the plans' year ended in 2017.

**Defined Benefit Plans**

The Medical Center recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the defined benefit plans in its consolidated statements of financial position. Net unrecognized actuarial losses and net unrecognized prior service costs at the reporting date will be subsequently recognized in the future as net periodic pension benefit cost pursuant to the Medical Center's accounting policy for amortizing such amounts.

Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension benefit cost in the same periods will be recognized as a component of unrestricted net assets.



Montefiore Medical Center

Notes to Consolidated Financial Statements (continued)

**8. Benefit Plans (continued)**

Included in unrestricted net assets at December 31, 2017 and 2016 are the following amounts that have not yet been recognized in net periodic pension benefit cost:

	<b>Pension</b>		<b>Postretirement</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>			
Unrecognized actuarial loss	\$ 15,818	\$ 15,208	\$ 43,819	\$ 29,414
Unrecognized prior service cost (credit)	89	206	(2,055)	(3,835)
	<u>\$ 15,907</u>	<u>\$ 15,414</u>	<u>\$ 41,764</u>	<u>\$ 25,579</u>

The unrecognized net prior service cost (credit) and actuarial loss included in unrestricted net assets expected to be recognized as net periodic benefit cost during the year ending December 31, 2018 are approximately (\$1.7) million and \$4.8 million, respectively.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 8. Benefit Plans (continued)

The following tables provide a reconciliation of the changes in the benefit obligations and fair value of plan assets (where applicable) of the defined benefit pension plans and postretirement benefit plan for the years ended December 31, 2017 and 2016, and the funded status of such plans as of December 31, 2017 and 2016:

	Pension		Postretirement	
	2017	2016	2017	2016
	<i>(In Thousands)</i>			
<b>Changes in benefit obligation</b>				
Benefit obligation at January 1	\$ 43,619	\$ 42,242	\$ 156,610	\$ 149,519
Service cost	5,211	3,548	11,313	11,527
Interest cost	1,709	1,714	6,921	6,390
Actuarial loss (gain)	4,447	(1,268)	16,290	(3,861)
Benefit payments, net	(7,241)	(2,617)	(4,650)	(6,965)
Benefit obligation at December 31	\$ 47,745	\$ 43,619	\$ 186,484	\$ 156,610
<b>Change in plan assets</b>				
Fair value of plan assets at January 1	\$ 25,273	\$ 24,213	\$ —	\$ —
Actual return on plan assets	3,245	855	—	—
Employer contributions	7,270	2,822	4,650	6,965
Benefit payments, net	(7,241)	(2,617)	(4,650)	(6,965)
Fair value of plan assets at December 31	\$ 28,547	\$ 25,273	\$ —	\$ —
<b>Funded status</b>				
Amounts recognized in the consolidated statements of financial position	\$ (19,198)	\$ (18,346)	\$ (186,484)	\$ (156,610)

At December 31, 2017 and 2016, approximately \$15.5 million and \$7.9 million, respectively, was included in accrued salaries, wages and related items in the accompanying consolidated statements of financial position.

The actuarial losses in 2017 are due to a decrease in the discount rates.

The accumulated benefit obligation for the Medical Center's defined benefit plans as of December 31, 2017 and 2016 was approximately \$30.7 million and \$28.4 million, respectively.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 8. Benefit Plans (continued)

The following table provides the components of the net periodic pension benefit cost for the defined benefit pension plans and postretirement benefit plan for the years ended December 31, 2017 and 2016:

	<b>Pension</b>		<b>Postretirement</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>			
Service cost	\$ 5,211	\$ 3,548	\$ 11,313	\$ 11,527
Interest cost	1,709	1,714	6,921	6,390
Expected return on plan assets	(1,799)	(1,722)	—	—
Amortization of prior service cost (benefit)	116	206	(1,779)	(1,779)
Amortization of net loss	1,253	1,169	1,884	2,863
Settlement cost	1,139	—	—	—
Net periodic pension benefit cost	\$ 7,629	\$ 4,915	\$ 18,339	\$ 19,001
<b>Weighted-average assumptions used to determine benefit obligations as of December 31</b>				
Discount rate	3.31%–3.90%	4.17%–4.52%	3.90%	4.50%
Rate of compensation increase	3.00%–4.00%	3.00%–4.00%	3.00%	3.00%
<b>Weighted-average assumptions used to determine net periodic pension benefit cost for the years ended December 31</b>				
Discount rate	4.17%–4.52%	3.92%–4.45%	4.50%	4.35%
Expected long-term rate of return on plan assets	6.50%	6.50%	—	—
Rate of compensation increase	3.00%–4.00%	3.00%–4.00%	—	—

The overall expected long-term rate of return on plan assets is based on the historical returns of each asset class weighted by the target asset allocation. The target asset allocation has been selected consistent with the plan's desired risk and return characteristics. The Medical Center's independent consulting actuaries review the expected long-term rate periodically and based on the building block approach, updated the rate for changes in the marketplace.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 8. Benefit Plans (continued)

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Fixed income mutual funds	<b>57%</b>	23%
Equity mutual/common trust funds	<b>39</b>	53
Cash and cash equivalents	<b>4</b>	24
	<b>100%</b>	<b>100%</b>

Defined benefit pension plan assets are carried at fair value and generally consist of fixed income securities issued or guaranteed by government entities, money market funds, mutual funds, fixed income securities issued by corporations, equity securities and common collective funds measured at net asset value. Refer to Note 10 for additional fair value measurement information related to the defined benefit plan asset categories noted in the table above.

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

Global public equity	35%
Return-seeking credit	10%
Global real estate	5%
Fixed income	50%

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

	<b>2017</b>	<b>2016</b>
Health care cost trend rate	<b>7.60%</b>	6.95%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	<b>4.50%</b>	5.00%
Years that the rate reaches the ultimate trend rate	<b>2025</b>	2022–2023

The measurement dates used to determine defined benefit pension and postretirement plan costs were December 31, 2017 and 2016.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 8. Benefit Plans (continued)

During the year ending December 31, 2018, the Medical Center expects to contribute approximately \$11.0 million and \$6.1 million to the defined benefit pension and postretirement plans, respectively.

Expected benefit payments by year as of December 31, 2017 are as follows:

	<b>Pension</b>		<b>Postretirement</b>	
	<i>(In Thousands)</i>			
2018	\$	11,241	\$	6,131
2019		6,061		6,685
2020		13,452		7,238
2021		11,645		7,836
2022		6,373		8,403
2023–2027		26,813		54,784

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

	<b>2017</b>		<b>2016</b>	
	<b>1% Increase</b>	<b>1% Decrease</b>	<b>1% Increase</b>	<b>1% Decrease</b>
	<i>(In Thousands)</i>			
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 3,540	\$ (2,829)	\$ 3,464	\$ (2,761)
Effect on the health care component of the accumulated postretirement benefit obligation	<b>28,042</b>	<b>(23,171)</b>	23,980	(19,747)

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### **9. Commitments, Contingencies and Other**

##### **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 December 31, 2017, that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. Medical Center management and counsel are unable to conclude about the ultimate outcome of the actions. However, it is the opinion of Medical Center management, based on prior experience that adequate insurance is maintained and adequate provisions for professional liabilities, where applicable, have been established to cover all significant losses and that the eventual liability, if any, will not have a material adverse effect on the Medical Center's consolidated financial position.

##### **Professional and Other Insured Liabilities**

The Medical Center participates in the Federation of Jewish Philanthropies, which is a pooled insurance program for professional and general liabilities with certain other health care facilities (the FOJP Program). Participation in this occurrence basis insurance program is through captive and commercial insurance companies. The Medical Center's malpractice insurance program offers a deferred premium arrangement in which 36% of the annual premium is paid in the current year and the balance is payable over five years. Total liabilities associated with the FOJP Program were approximately \$191.6 million and \$187.4 million at December 31, 2017 and 2016, respectively. The liabilities principally relate to the deferred premium arrangement, the participating hospitals' guarantee of certain investment returns of the captive companies and retroactive premium adjustments.

As of December 31, 2017, the Medical Center retained ownership interests of 25% in three captive insurance companies affiliated with the FOJP Program. The Medical Center has recognized its allocated share of the program's accumulated surplus using the equity method of accounting. Such amounts (approximately \$166.6 million and \$161.8 million at December 31, 2017 and 2016, respectively) are included in other noncurrent assets in the accompanying consolidated statements of financial position. In December 2017, one of the captive insurance companies declared a dividend of approximately \$54.0 million to be distributed based on each owner's respective ownership interest. As a result, the Medical Center recorded a dividend receivable of approximately \$13.5 million which is recorded within other receivables in the accompanying consolidated statement of financial position as of December 31, 2017.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### **9. Commitments, Contingencies and Other (continued)**

The Medical Center has recognized estimated insurance claims receivable and estimated insurance claims liabilities of approximately \$540.6 million (approximately \$81.1 million current and \$459.5 million long-term) and approximately \$499.8 million (approximately \$75.0 million current and \$424.8 million long-term) at December 31, 2017 and 2016, respectively. Such amounts represent the actuarially determined present value, discounted at approximately 2.8% at December 31, 2017 and 2016, of insurance claims that are anticipated to be covered by insurance. The amounts reported in the December 31, 2017 and 2016, consolidated statements of financial position for estimated insurance claims receivable and estimated insurance claims liabilities reflect the financial impact of the Medical Center's employed physicians.

During the years ended December 31, 2017 and 2016, the Medical Center recorded approximately (\$1.2 million) and \$1.2 million, respectively, of malpractice insurance program adjustments associated with investment earnings (gains) shortfalls. The cumulative amounts owed are reflected in accounts payable and accrued expenses (approximately \$8.3 million and \$7.7 million at December 31, 2017 and 2016, respectively) and professional and other insured liabilities (approximately \$8.4 million and \$15.7 million at December 31, 2017 and 2016, respectively) in the accompanying consolidated statements of financial position.

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

Additionally, as a result of the investigation, the Medical Center, together with the other hospitals affiliated with FOJP, identified an unpaid state tax liability for independently-procured insurance under Article 33-A of the New York Tax Law relating to insurance purchased from three off-shore captive insurance companies owned by the Medical Center and the other FOJP-affiliated hospitals.

On October 9, 2015, the Medical Center submitted a filing to the New York State Department of Taxation and Finance (DT&F) to participate in the DT&F's Voluntary Disclosure and Compliance Program, which would allow the Medical Center to limit the period for which back taxes would be due and avoid penalties for non-payment. The Medical Center was accepted by the DT&F into

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### **9. Commitments, Contingencies and Other (continued)**

the program with a limited look-back on the taxes owed of three years (2012-2014). The Medical Center completed a Voluntary Disclosure and Compliance Agreement in March 2016, resulting in a payment of approximately \$6.7 million (including taxes and interest).

#### **Albert Einstein College of Medicine, Inc. (Einstein)**

On September 9, 2015, a controlled member of MMAHS, Einstein, acquired substantially all of the assets and assumed substantially all of the liabilities of a medical school operating as a division of YU. In connection with this transaction, Build NYC Resource Corporation loaned to Einstein, under a loan agreement, the proceeds of \$175.0 million Build NYC Resource Corporation Revenue Bonds. In accordance with their terms, the bonds were tendered by the original bondholder and remarketed on January 28, 2016. Prior to the remarketing, the required interest and principal payments on the bonds were guaranteed by the Medical Center. The Medical Center was not required to make any payments under the guarantee, which terminated upon the remarketing of the bonds on January 28, 2016.

In addition, on September 9, 2015, Einstein issued to YU a promissory note (the Note) under which it 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 2026, followed by a final payment of \$20.0 million in 2037.



## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### **9. Commitments, Contingencies and Other (continued)**

In September 2017, approximately \$1.5 million was paid by the Medical Center on Einstein's behalf pursuant to the Guaranty Agreement, as amended. Einstein is obligated to repay the Medical Center in full, over five years beginning in September 2018 with an interest rate of 4.73%. At December 31, 2017, amounts due and receivable under the Note were \$1.5 million (none at December 31, 2016).

The Medical Center has an agreement to provide operating subsidies to Einstein over a five-year period commencing September 2015 in an aggregate amount of up to \$80.0 million. The Medical Center will provide this subsidy in varying amounts to be funded upon the receipt and approval of documentation of unreimbursed research expenses incurred. The subsidy will total an amount not to exceed \$10.0 million per year in each of the first two years, and not to exceed \$20.0 million per year in each of the third, fourth and fifth years (see Note 13).

The Medical Center has 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, to be repaid by Einstein over a five year period in equal annual installments, commencing in December 2020 at an annual interest rate of 5.2% (see Note 13).

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.

#### **Other**

At December 31, 2017 and 2016, approximately 66% of the Medical Center's employees were covered by collective bargaining agreements. The collective bargaining agreement with NYSNA will expire in December 2018. The collective bargaining agreement with 1199SEIU will expire in September 2018.

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

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### **10. 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.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 10. Fair Value Measurements (continued)

Financial assets carried at fair value, including assets invested in the Medical Center's defined benefit pension plan, are classified in the table below in one of the three categories described above as of December 31, 2017:

	December 31, 2017			Total
	Level 1	Level 2	Level 3	
	<i>(In Thousands)</i>			
<b>Assets</b>				
Cash and cash equivalents	\$ 253,978	\$ –	\$ –	\$ 253,978
Managed cash and cash equivalents held for investment	40,730	–	–	40,730
Marketable and other securities:				
U.S. non-equity mutual funds	119,805	–	–	119,805
U.S. equity mutual funds	22,434	–	–	22,434
U.S. Government agency mortgage-backed securities	–	50,714	–	50,714
U.S. Treasury securities	120,133	–	–	120,133
U.S. Government agency-backed securities	–	25,500	–	25,500
U.S. equity securities	82,195	–	–	82,195
Corporate debt	–	256,335	–	256,335
Interest and other receivables	1,307	–	–	1,307
	640,582	332,549	–	973,131
<b>Defined benefit pension plan assets</b>				
Cash and cash equivalents	1,051	–	–	1,051
Equity mutual funds	11,207	–	–	11,207
Fixed income mutual funds	2,663	–	–	2,663
	14,921	–	–	14,921
	\$ 655,503	\$ 332,549	\$ –	\$ 988,052
Investments measured at net asset value (defined benefit pension plan assets)				13,626
				\$ 1,001,678

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 10. Fair Value Measurements (continued)

Financial assets carried at fair value, including assets invested in the Medical Center's defined benefit pension plan, are classified in the table below in one of the three categories described above as of December 31, 2016:

	December 31, 2016			Total
	Level 1	Level 2	Level 3	
	<i>(In Thousands)</i>			
<b>Assets</b>				
Cash and cash equivalents	\$ 170,595	\$ –	\$ –	\$ 170,595
Managed cash and cash equivalents held for investment	67,871	–	–	67,871
Marketable and other securities:				
U.S. non-equity mutual funds	155,762	–	–	155,762
U.S. equity mutual funds	27,163	–	–	27,163
U.S. Government agency mortgage-backed securities	–	51,848	–	51,848
U.S. Treasury securities	109,401	–	–	109,401
U.S. Government agency-backed securities	–	40,167	–	40,167
U.S. equity securities	60,659	–	–	60,659
Corporate debt	–	217,303	–	217,303
Interest and other receivables	5,891	–	–	5,891
	597,342	309,318	–	906,660
<b>Defined benefit pension plan assets</b>				
Cash and cash equivalents	6,117	–	–	6,117
Equity mutual funds	13,409	–	–	13,409
Fixed income mutual funds	5,747	–	–	5,747
	25,273	–	–	25,273
	\$ 622,615	\$ 309,318	\$ –	\$ 931,933

At December 31, 2017 and 2016, the Medical Center's alternative investments and collective trusts, excluding those within the defined benefit pension plan, are reported using the equity method of accounting in the amount of approximately \$153.2 million and \$144.3 million, respectively, and, therefore, are not included in the tables above.

The following is a description of the Medical Center's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 10. Fair Value Measurements (continued)

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

The carrying values and fair values of the Medical Center's financial instruments that are not required to be carried at fair value are as follows at December 31:

	2017		2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	<i>(In Thousands)</i>			
Long-term debt	<u>\$ 798,553</u>	<u>\$ 804,238</u>	<u>\$ 817,429</u>	<u>\$ 825,218</u>

The fair value of the Medical Center's bonds payable is based on quoted market prices for the related bonds. The fair value of other debt is based upon discounted cash flow analyses, using estimated borrowing rates for similar types of debt. Fair value of bonds payable is classified as Level 1, while fair value of other debt is classified as Level 2.

#### 11. Concentration of Credit Risk

At December 31, 2017 and 2016, excluding investments in bond mutual funds, approximately 23% and 24%, respectively, of the Medical Center's marketable securities were issued by either the United States Government or its agencies.

At December 31, 2017 and 2016, significant concentrations of receivables for patient care include approximately 19% and 21% from Medicare, 6% and 10% from Medicaid and 74% and 68% from commercial and managed care organizations, respectively, of which 9% and 10% was due from Blue Cross plans at December 31, 2017 and 2016, respectively.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 11. Concentration of Credit Risk (continued)

Net patient service revenue from the Medicare and Medicare managed care programs accounted for approximately 33% and 32% for the years ended December 31, 2017 and 2016, respectively, and net patient service revenue from the Medicaid and Medicaid managed care programs accounted for approximately 33% and 32% of the Medical Center's net patient service revenue for the years ended December 31, 2017 and 2016, respectively. No other specific payer exceeded 10% of net patient service revenue.

#### 12. Other Revenue

Other revenue included in the consolidated statements of operations for the years ended December 31, 2017 and 2016 consisted of the following:

	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Care management administrative fees	\$ 52,127	\$ 16,250
DSRIP revenue	44,800	23,413
Patient care quality incentive revenue	43,455	26,445
Equity earnings from investments	31,625	27,672
Staff housing and other rental income	15,182	20,000
Continuing Medical Education programs	14,459	13,925
Interest and dividend income	14,917	12,912
Behavioral health program revenue	–	9,986
Gains on employee deferred compensation plan assets	6,557	2,784
Government Electronic Health Record Incentive Program	5,004	6,699
Parking revenue	6,217	6,279
Cafeteria revenue	1,719	2,062
Net assets released from restrictions used for operations	3,652	3,157
Shared savings programs	(412)	(7,283)
All other	21,476	25,171
	<b>\$ 260,778</b>	<b>\$ 189,472</b>

New York State distributes federally-funded amounts through a payment mechanism referred to as the Delivery System Reform Incentive Payment (DSRIP) program. The DSRIP program is a five-year program intended to promote community-level collaborations to focus on health system

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### **12. Other Revenue (continued)**

reform and enhance the value provided by the health care system. DSRIP funding is available to certain hospitals and providers participating in networks (referred to as Performing Provider Systems, PPS) that are able to establish performance improvement activities in certain predefined clinical improvement areas. The PPS that the Medical Center coordinates has submitted plans for clinical improvement projects in order to be eligible for payments under the DSRIP program. The Medical Center received approximately \$52.3 million and \$25.9 million during 2017 and 2016, respectively, and recorded approximately \$36.0 million and \$23.1 million, respectively, in other revenue during the years ended December 31, 2017 and 2016 for amounts received under the DSRIP program.

Certain payments under the DSRIP program are subject to meeting specified performance criteria and other requirements which may be evaluated in future periods. The Medical Center also participates in a PPS and recorded approximately \$8.8 million and \$340,000 in other revenue during the years ended December 31, 2017 and 2016, respectively related to participation in this program.

The Medical Center receives shared savings revenue from CMS based on the Pioneer Accountable Care Organization (Medicare Fee For Service) savings. The Medical Center estimated that shared savings revenue of approximately \$512,000 was earned for performance year 5 (January 1, 2016 through December 31, 2016). During 2016, CMS finalized the shared savings calculation for performance year 4 (January 1, 2015 through December 31, 2015) and determined that the Medical Center did not earn a shared savings payment. The \$12.9 million estimated receivable pertaining to performance year 4 was written off and recognized as a change in estimate during 2016. In addition, the Medical Center enters into shared savings programs with commercial payers. For the year ended December 31, 2017, the Medical Center recorded a loss of approximately \$924,000 related to these programs and for the year ended 2016, the Medical Center recorded approximately \$5.6 million of revenue related to these programs.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 13. Related-Party Transactions

At December 31, 2017 and 2016, amounts due from (to) members, net were comprised of the following:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Note due from MHS <sup>(a)</sup>	<b>\$ 126,088</b>	\$ 123,917
Due from (to) members, net:		
MHS <sup>(b)</sup>	<b>(3,420)</b>	(4,566)
Montefiore New Rochelle Hospital <sup>(c)</sup>	<b>3,128</b>	4,454
Montefiore Mount Vernon Hospital <sup>(c)</sup>	<b>1,409</b>	(4,740)
Schaffer Extended Care Center <sup>(c)</sup>	<b>1,018</b>	538
Montefiore HMO, LLC <sup>(d)</sup>	<b>7,404</b>	7,210
The Montefiore IPA, Inc. <sup>(e)</sup>	<b>32,646</b>	–
Bronx Accountable Healthcare Network IPA, Inc. <sup>(f)</sup>	<b>22,009</b>	–
University Behavioral Associates, Inc. <sup>(g)</sup>	<b>(10,869)</b>	–
Montefiore Behavioral Care IPA No. 1, Inc.	<b>1,504</b>	–
Montefiore Nyack Hospital	–	(382)
St. Luke's Cornwall Hospital <sup>(c)</sup>	<b>1,325</b>	–
Albert Einstein College of Medicine, Inc. <sup>(h)</sup>	<b>38,598</b>	(3,450)
MMAHS <sup>(i)</sup>	<b>1,915</b>	(62)
Montefiore Information Technology, LLC <sup>(i)</sup>	<b>(17,748)</b>	(12,958)
Montefiore North Ambulatory Care Center, Inc.	<b>(4)</b>	(4)
MMC GI Holdings, East, Inc.	<b>(2,632)</b>	–
MMC GI Holdings, West, Inc.	<b>(2,431)</b>	–
	<b>199,940</b>	109,957
Less current portion	<b>(32,476)</b>	(23,079)
Due from members, net of current portion	<b>\$ 167,464</b>	\$ 86,878

<sup>(a)</sup> During 2017 and 2016, the Medical Center provided advances to MHS under a note arrangement (the MHS Note), the proceeds of which were used by MHS to provide loans to several members to fund their ongoing operations.



## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 13. Related-Party Transactions (continued)

During 2017 and 2016, the Medical Center advanced approximately \$17.4 million and \$39.6 million, respectively, to MHS, which was subsequently advanced to White Plains Hospital Center. The amounts advanced to MHS were recorded as a capital contribution.

- (b) The Medical Center purchases various management, administrative and staffing services from MHS. For the years ended December 31, 2017 and 2016, transactions charged (at cost) by MHS to the Medical Center were approximately \$9.3 million and \$10.1 million, respectively, and include payroll and benefits charges (94%) and various other shared services (6%).
- (c) The Medical Center provides various shared services to the members. Management determines the allocation of costs based on each member's usage of services; however, actual amounts charged to the members may vary from the allocation of costs based on management's assessment of the member's ability to pay or other contractual agreements. For the years ended December 31, 2017 and 2016, transactions charged by the Medical Center to these members were approximately \$21.2 million and \$4.0 million, respectively, and included as an offset to supplies and other expenses on the consolidated statements of operations.
- (d) Montefiore HMO, LLC (MHMO), an Article 44 insurance company, contracts with the Medical Center to facilitate the provision of managed long-term home health care services. For the years ended December 31, 2017 and 2016, the Medical Center recorded net patient service revenue derived from such contract of approximately \$1.1 million and \$0.9 million, respectively.

In addition, CMO provides a health risk management infrastructure (claims administration and care management) to MHMO, of which its fees are based on a percentage of premiums. For the years ended December 31, 2017 and 2016, CMO recorded other revenue of approximately \$9.6 million and \$7.1 million, respectively.

In 2012, the Medical Center issued a surplus note to MHMO (the Surplus Note) of approximately \$6.1 million which bears interest at an annual rate of Wall Street Journal Prime plus 1% (5.50% and 4.75% at December 31, 2017 and 2016, respectively). The aggregate amount of the Surplus Note was approximately \$7.4 million and \$7.0 million at December 31, 2017 and 2016, respectively.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 13. Related-Party Transactions (continued)

- <sup>(e)</sup> MIPA contracts with multiple insurance companies, under capitated and risk-sharing arrangements to be responsible for the cost of the provision of healthcare services to a defined group of individuals. MIPA also contracts with healthcare providers, including the Medical Center, to provide services to covered individuals. For the years ended December 31, 2017 and 2016, the Medical Center recorded net patient service revenue derived from such contract of approximately \$203.8 million and \$208.0 million, respectively, of which approximately \$34.1 million and \$208.0 million, respectively, was eliminated in the consolidated statements of operations. The decrease in amounts eliminated in consolidation is reflective of the change in membership of MCV and its controlled organizations in 2017 (see Note 1).

In addition, CMO provides a health risk management infrastructure (claims administration and care management) to MIPA, of which its fees are based on a percentage of premiums. For the years ended December 31, 2017 and 2016, CMO recorded other revenue of approximately \$36.9 million and \$37.9 million, respectively, of which approximately \$7.2 million and \$37.9 million, respectively, was eliminated in the consolidated financial statements. The decrease in amounts eliminated in consolidation is reflective of the change in membership of MCV and its controlled organizations in 2017 (see Note 1).

The amounts due from MIPA at December 31, 2017 relate to unpaid services provided by CMO.

- <sup>(f)</sup> CMO provides all management and administrative services to ACO-IPA. For the years ended December 31, 2017 and 2016, CMO recorded other revenue of approximately \$4.0 million and \$11.7 million, respectively. Amounts due to the Medical Center relate to advances to ACO-IPA during the year to meet the funding requirements for payment to CMO.
- <sup>(g)</sup> UBA provides management services to MBCIPA and through the support of the Medical Center has entered into several Federal, state and city grant contracts to provide services in the areas of drug counseling, career counseling and family related matters. The amounts due to UBA at December 31, 2017 relate to cash received on UBA's behalf by the Medical Center.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### 13. Related-Party Transactions (continued)

- (h) Transactions between Einstein and the Medical Center relate to costs for clinical training, research, professional services and related supporting services (at cost). In addition, the Medical Center has 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 December 2017 in the amount of \$35.0 million. During 2017 and 2016, the Medical Center also made capital contributions of approximately \$14.4 million and \$8.3 million, respectively, to Einstein in accordance with an agreement to provide operating subsidies to Einstein over a five-year period (see Note 9). In addition, during 2017, the Medical Center forgave amounts owed from Einstein of approximately \$4.8 million recorded within transfers to members, net in the consolidated statements of operations.
- (i) The Medical Center purchases various management, administrative and staffing services from MMAHS. For the years ended December 31, 2017 and 2016, transactions charged (at cost) by MMAHS to the Medical Center were approximately \$21.7 million and \$25.5 million, respectively, comprised of payroll and benefits charges.
- (j) The Medical Center purchases information technology and support services (at cost) from Montefiore Information Technology, LLC. For the years ended December 31, 2017 and 2016, the expense incurred by the Medical Center related to such services was approximately \$107.1 million and \$102.2 million, respectively, and is included within supplies and other expense on the consolidated statements of operations.

During 2017 and 2016, the Medical Center forgave the amounts owed from Montefiore North Ambulatory Care Center, Inc. of approximately \$1.3 million and \$16.6 million, respectively, recorded within transfers to members, net in the consolidated statements of operations.

During the years ended December 31, 2017 and 2016, the Medical Center's performing provider system (PPS), MHVC, received approximately \$68.4 million and \$59.5 million in DSRIP Value Based Payment Quality Improvement Program (VBP QIP) funding, which was distributed to Montefiore New Rochelle Hospital, Montefiore Mount Vernon Hospital, Montefiore Nyack Hospital and St. Luke's Cornwall Hospital. VBP QIP was created by New York State to provide financially distressed hospitals and the PPSs with which they are associated the opportunity to collaborate with Medicaid managed care organizations for the successful implementation of VBP contracts as a means toward long-term financial sustainability. VBP QIP revenue and related expenditures have no net impact on the consolidated statements of operations of the Medical Center.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (continued)

#### **14. Subsequent Events**

The Medical Center evaluated subsequent events through April 12, 2018, which is the date the consolidated financial statements were issued, for potential recognition or disclosure in the accompanying consolidated financial statements for the year ended December 31, 2017.

Effective January 1, 2018, a controlled member of MHS acquired an equity interest in a joint venture with Crystal Run Healthcare, LLP. In accordance with the purchase agreement, the Medical Center entered into a security agreement by which the Medical Center deposited \$30.0 million in escrow as security for the purchase price.

No other events, except as disclosed in Note 9, occurred that require disclosure in or adjustment to the consolidated financial statements.

## Supplementary Information



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## Report of Independent Auditors on Supplementary Information

The Board of Trustees  
Montefiore Medical Center

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of Montefiore Medical Center and its controlled organizations, as of and for the years ended December 31, 2017 and 2016, and have issued an unmodified opinion thereon dated April 12, 2018. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position as of December 31, 2017 and consolidating statement of operations for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Ernst + Young LLP*

April 12, 2018

## Montefiore Medical Center

### Consolidating Statement of Financial Position (In Thousands)

December 31, 2017

	<b>Montefiore Medical Center</b>	<b>CMO</b>	<b>MCORP</b>	<b>MPC</b>	<b>Other Consolidated Companies</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 205,933	\$ 4,231	\$ 194	\$ 442	\$ 43,178	\$ –	\$ 253,978
Marketable and other securities	655,530	–	–	–	760	–	656,290
Assets limited as to use, current portion	15,435	–	541	–	–	–	15,976
Receivables for patient care, less allowances for doubtful accounts	241,499	–	–	–	1,596	–	243,095
Other receivables	45,588	2,131	515	78	38	266	48,616
Estimated insurance claims receivable, current portion	81,097	–	–	–	–	–	81,097
Other current assets	55,161	88	6	250	800	–	56,305
Due from members, current portion	101,325	–	16,570	–	3,558	(88,977)	32,476
<b>Total current assets</b>	<b>1,401,568</b>	<b>6,450</b>	<b>17,826</b>	<b>770</b>	<b>49,930</b>	<b>(88,711)</b>	<b>1,387,833</b>
Assets limited as to use, net of current portion	192,668	–	–	–	7,424	–	200,092
Property, buildings and equipment, net	968,473	1,712	65,632	4,312	16,579	(353)	1,056,355
Estimated insurance claims receivable, net of current portion	459,548	–	–	–	–	–	459,548
Other noncurrent assets	209,058	–	2,606	174	7,024	(430)	218,432
Due from members, net of current portion	167,464	–	–	–	–	–	167,464
<b>Total assets</b>	<b>\$ 3,398,779</b>	<b>\$ 8,162</b>	<b>\$ 86,064</b>	<b>\$ 5,256</b>	<b>\$ 80,957</b>	<b>\$ (89,494)</b>	<b>\$ 3,489,724</b>

## Montefiore Medical Center

### Consolidating Statement of Financial Position (continued)

(In Thousands)

December 31, 2017

	<b>Montefiore Medical Center</b>	<b>CMO</b>	<b>MCORP</b>	<b>MPC</b>	<b>Other Consolidated Companies</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<b>Liabilities and net assets (deficiency)</b>							
Current liabilities:							
Accounts payable and accrued expenses	\$ 236,064	\$ 2,465	\$ 1,968	\$ 17	\$ 36,635	\$ –	\$ 277,149
Accrued salaries, wages and related items	279,841	5,588	–	25	397	–	285,851
Professional and other insured liabilities, current portion	52,022	–	–	–	–	–	52,022
Estimated insurance claims liabilities, current portion	81,097	–	–	–	–	–	81,097
Estimated third-party payer liabilities, current portion	41,492	–	–	–	–	–	41,492
Long-term debt, current portion	72,366	–	1,783	55	271	–	74,475
Due to members	–	65,963	–	793	22,221	(88,977)	–
Total current liabilities	762,882	74,016	3,751	890	59,524	(88,977)	812,086
Long-term debt, net of current portion	641,003	–	62,376	1,788	19,049	–	724,216
Noncurrent defined pension benefit and other postretirement health plan liabilities	190,153	–	–	–	–	–	190,153
Professional and other insured liabilities, net of current portion	139,541	–	–	–	–	–	139,541
Employee deferred compensation	45,570	–	–	–	–	–	45,570
Estimated insurance claims liabilities, net of current portion	459,548	–	–	–	–	–	459,548
Estimated third-party payer liabilities, net of current portion	211,014	–	–	–	–	–	211,014
Other noncurrent liabilities	60,399	2,257	–	174	349	–	63,179
Total liabilities	2,510,110	76,273	66,127	2,852	78,922	(88,977)	2,645,307
Net assets (deficiency):							
Unrestricted	784,425	(68,111)	19,937	2,404	(5,389)	(517)	732,749
Temporarily restricted	77,793	–	–	–	269	–	78,062
Permanently restricted	26,451	–	–	–	7,155	–	33,606
Total net assets (deficiency)	888,669	(68,111)	19,937	2,404	2,035	(517)	844,417
Total liabilities and net assets (deficiency)	\$ 3,398,779	\$ 8,162	\$ 86,064	\$ 5,256	\$ 80,957	\$ (89,494)	\$ 3,489,724



## Montefiore Medical Center

### Consolidating Statement of Operations (In Thousands)

Year Ended December 31, 2017

	Montefiore Medical Center	MIPA	CMO	ACO-IPA	Other Managed Care Entities	MCORP	MPC	Other Consolidated Companies	Eliminations	Consolidated Total
<b>Operating revenue</b>										
Net patient service revenue before bad debt expense	\$ 3,408,297	\$ 85,600	\$ 7	\$ –	\$ 2,124	\$ –	\$ –	\$ 13,363	\$ (62,985)	\$ 3,446,406
Bad debt expense	(33,486)	–	–	–	–	–	–	–	–	(33,486)
Net patient service revenue	3,374,811	85,600	7	–	2,124	–	–	13,363	(62,985)	3,412,920
Grants and contracts	82,140	–	–	–	–	–	107	–	–	82,247
Contributions	6,902	–	–	–	–	–	–	–	–	6,902
Other revenue	167,530	452	59,994	512	1,797	9,623	2,617	45,196	(26,943)	260,778
Total operating revenue	3,631,383	86,052	60,001	512	3,921	9,623	2,724	58,559	(89,928)	3,762,847
<b>Operating expenses</b>										
Salaries and wages	1,715,684	–	37,560	–	832	–	315	7,384	–	1,761,775
Employee benefits	511,663	–	11,457	–	254	–	96	2,251	(29,823)	495,898
Supplies and other expenses	1,183,325	84,042	31,531	668	3,969	5,005	2,140	43,978	(60,105)	1,294,553
Depreciation and amortization	144,998	–	1,469	–	–	2,816	310	1,328	–	150,921
Interest	29,226	1	1	–	1	2,332	98	419	–	32,078
Total operating expenses	3,584,896	84,043	82,018	668	5,056	10,153	2,959	55,360	(89,928)	3,735,225
Excess (deficiency) of operating revenues over operating expenses before other items	46,487	2,009	(22,017)	(156)	(1,135)	(530)	(235)	3,199	–	27,622
Net realized and changes in net unrealized gains and losses on marketable and other securities	36,829	312	–	–	–	–	–	–	–	37,141
Malpractice insurance program adjustments associated with investment earnings shortfall	1,209	–	–	–	–	–	–	–	–	1,209
Net periodic pension and other postretirement health benefit costs (non-service related)	(9,444)	–	–	–	–	–	–	–	–	(9,444)
Excess (deficiency) of revenues over expenses	75,081	2,321	(22,017)	(156)	(1,135)	(530)	(235)	3,199	–	56,528
Change in defined benefit pension and other postretirement plan liabilities to be recognized in future periods	(16,678)	–	–	–	–	–	–	–	–	(16,678)
Transfer of Montefiore Consolidated Ventures, Inc. to MHS	–	22,948	–	21,821	5,979	–	–	(9,313)	–	41,435
Transfers to members, net	(37,933)	–	–	–	–	–	–	–	–	(37,933)
Increase (decrease) in unrestricted net assets	\$ 20,470	\$ 25,269	\$ (22,017)	\$ 21,665	\$ 4,844	\$ (530)	\$ (235)	\$ (6,114)	\$ –	\$ 43,352

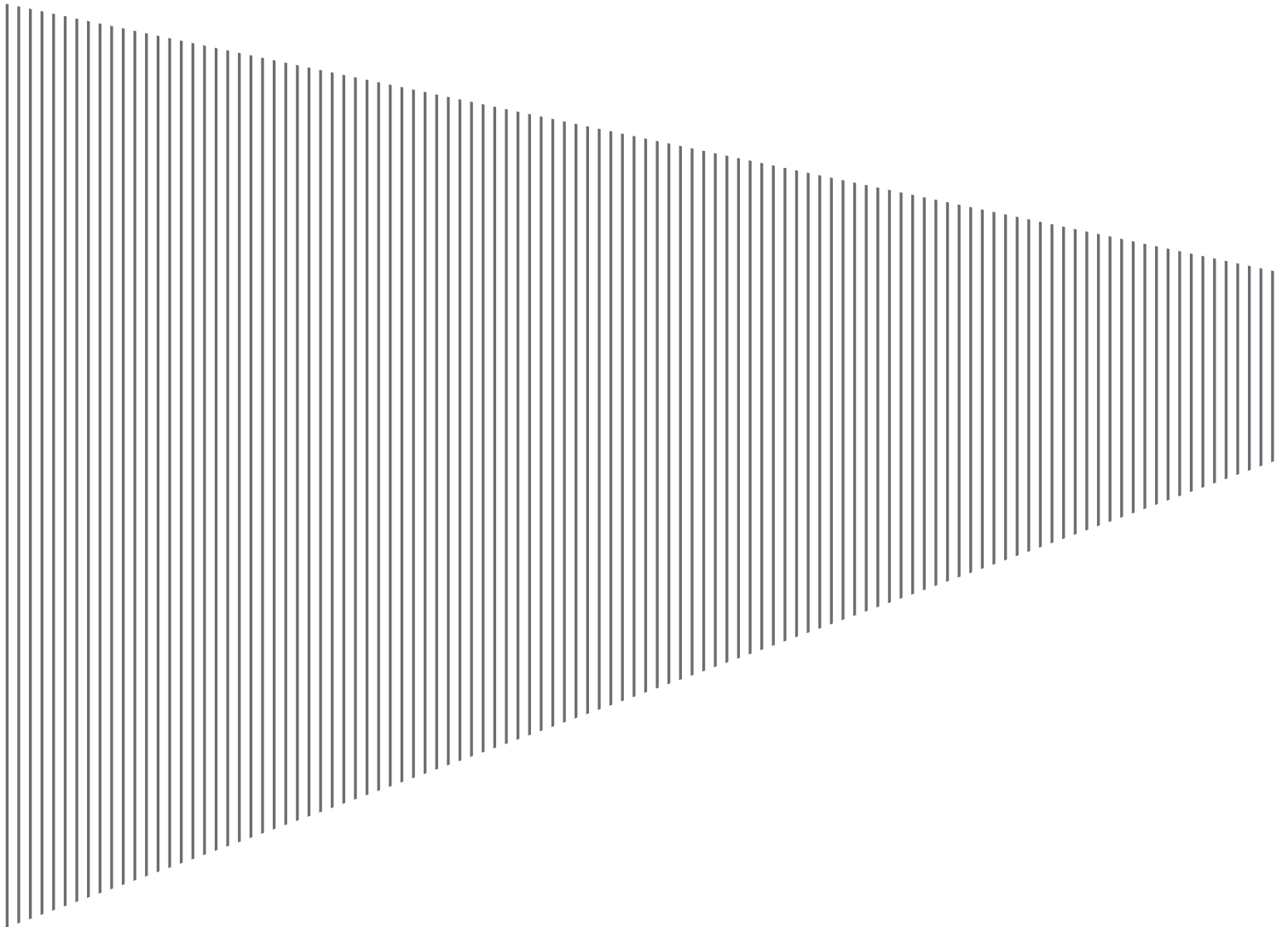
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**Appendix B-2**

**Unaudited Consolidated Financial Statements of MMC  
as of and for the four months ended April 30, 2018 and 2017**

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Consolidated Financial Statements (Unaudited)  
Montefiore Medical Center  
For the Four Months Ended April 30, 2018 and 2017

Montefiore Medical Center  
Consolidated Financial Statements (Unaudited)  
For the Four Months Ended April 30, 2018 and 2017

**Contents**

Consolidated Statements of Financial Position	Page 3
Consolidated Statements of Operations	Page 4
Consolidated Statements of Changes in Net Assets	Page 5
Consolidated Statements of Cash Flows	Page 6
Notes to Consolidated Financial Statements	Page 7

**Montefiore Medical Center**  
**Consolidated Statements of Financial Position**

	<b>Unaudited April 30, 2018</b>	<b>Audited December 31, 2017</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 100,769	\$ 253,978
Marketable and other securities	660,674	656,290
Assets limited as to use, current portion	15,573	15,976
Receivables for patient care, less allowances for doubtful accounts	254,766	243,095
Other receivables	34,946	48,616
Estimated insurance claims receivable, current portion	81,097	81,097
Other current assets	54,571	56,305
Due from members, current portion	33,006	32,476
Total current assets	1,235,402	1,387,833
Assets limited as to use, net of current portion	230,584	200,092
Property, buildings and equipment, net	1,037,703	1,056,355
Estimated insurance claims receivable, net of current portion	459,548	459,548
Other noncurrent assets	219,329	218,432
Due from members, net of current portion	171,006	167,464
Total assets	\$ 3,353,572	\$ 3,489,724
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 191,756	\$ 277,149
Accrued salaries, wages and related items	249,827	285,851
Professional and other insured liabilities, current portion	57,974	52,022
Estimated insurance claims liabilities, current portion	81,097	81,097
Estimated third-party payer liabilities	43,587	41,492
Long-term debt, current portion	74,322	74,475
Total current liabilities	698,563	812,086
Long-term debt, net of current portion	699,762	724,216
Noncurrent defined benefit pension and other postretirement health plan liabilities	189,853	190,153
Professional and other insured liabilities, net of current portion	139,541	139,541
Employee deferred compensation	47,281	45,570
Estimated insurance claims liabilities, net of current portion	459,548	459,548
Estimated third-party payer liabilities, net of current portion	210,840	211,014
Other noncurrent liabilities	67,164	63,179
Total liabilities	2,512,552	2,645,307
Commitments and contingencies		
Net assets:		
Unrestricted	731,258	732,749
Temporarily restricted	76,523	78,062
Permanently restricted	33,239	33,606
Total net assets	841,020	844,417
Total liabilities and net assets	\$ 3,353,572	\$ 3,489,724

*See accompanying notes.*

Montefiore Medical Center  
Consolidated Statements of Operations

	<b>Unaudited Four Months Ended</b>	
	<b>April 30,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
<b>Operating revenue</b>		
Net patient service revenue before bad debt expense	\$ 1,149,634	\$ 1,169,816
Bad debt expense	–	(21,247)
Net patient service revenue	<b>1,149,634</b>	1,148,569
Grants and contracts	<b>27,552</b>	23,951
Contributions	<b>3,174</b>	823
Other revenue	<b>85,330</b>	71,560
Total operating revenue	<b>1,265,690</b>	1,244,903
<b>Operating expenses</b>		
Salaries and wages	<b>600,014</b>	567,897
Employee benefits	<b>179,142</b>	172,126
Supplies and other expenses	<b>415,816</b>	434,558
Depreciation and amortization	<b>52,042</b>	51,434
Interest	<b>10,337</b>	10,929
Total operating expenses	<b>1,257,351</b>	1,236,944
Excess of operating revenues over operating expenses before other items	<b>8,339</b>	7,959
Net realized and changes in net unrealized gains and losses on marketable and other securities	<b>(1,516)</b>	16,317
Net periodic pension and other postretirement benefit costs (non-service related)	<b>(3,774)</b>	(2,753)
Excess of revenues over expenses	<b>3,049</b>	21,523
Transfer of Montefiore Consolidated Ventures, Inc. to MHS	–	41,435
Transfers to members, net	<b>(4,540)</b>	(16,153)
(Decrease) increase in unrestricted net assets	<b>\$ (1,491)</b>	\$ 46,805

*See accompanying notes.*



Montefiore Medical Center

Consolidated Statements of Changes in Net Assets

Unaudited Four Months Ended April 30, 2018 and 2017

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total Net Assets</b>
	<i>(In Thousands)</i>			
Net assets at December 31, 2016	\$ 689,397	\$ 78,181	\$ 31,704	\$ 799,282
Increase in unrestricted net assets	46,805	-	-	46,805
Restricted gifts, bequests, and similar items	-	3,160	7	3,167
Restricted investment income	-	428	-	428
Net assets released from restrictions	-	(1,173)	-	(1,173)
Total changes in net assets	46,805	2,415	7	49,227
Net assets at April 30, 2017	<u>\$ 736,202</u>	<u>\$ 80,596</u>	<u>\$ 31,711</u>	<u>\$ 848,509</u>
Net assets at December 31, 2017	<b>732,749</b>	<b>\$ 78,062</b>	<b>\$ 33,606</b>	<b>844,417</b>
Decrease in unrestricted net assets	<b>(1,491)</b>	-	-	<b>(1,491)</b>
Restricted gifts, bequests, and similar items	-	<b>(1,012)</b>	-	<b>(1,012)</b>
Restricted investment income	-	<b>8</b>	<b>(367)</b>	<b>(359)</b>
Net assets released from restrictions	-	<b>(535)</b>	-	<b>(535)</b>
Total changes in net assets	<b>(1,491)</b>	<b>(1,539)</b>	<b>(367)</b>	<b>(3,397)</b>
Net assets at April 30, 2018	<u><b>\$ 731,258</b></u>	<u><b>\$ 76,523</b></u>	<u><b>\$ 33,239</b></u>	<u><b>\$ 841,020</b></u>

See accompanying notes.

# Montefiore Medical Center

## Consolidated Statements of Cash Flows

	<b>Unaudited Four Months Ended</b>	
	<b>April 30,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
(Decrease) increase in net assets	\$ (3,397)	\$ 49,227
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Depreciation and amortization	52,042	51,434
Bad debt expense	–	21,247
Transfers to members, net	4,540	16,153
Transfer of Montefiore Consolidated Ventures, Inc. to MHS	–	(41,435)
Net realized gains and losses on marketable and other securities	(4,326)	(3,815)
Change in net unrealized gains and losses on marketable and other securities	5,842	(12,502)
Equity earnings from investments	(1,176)	(627)
Amortization of long-term mortgage premium	(93)	(102)
Amortization of deferred financing costs	336	340
Changes in operating assets and liabilities:		
Receivables for patient care	(11,671)	24,782
Accounts payable and accrued expenses	(85,393)	(108,744)
Accrued salaries, wages and related items	(36,024)	(24,584)
Noncurrent defined benefit and postretirement health plan liabilities	(300)	4,954
Net change in all other operating assets and liabilities	23,886	(32,627)
Net cash used in operating activities	<u>(55,734)</u>	<u>(56,299)</u>
<b>Investing activities</b>		
Acquisition of property, buildings and equipment, net	(33,390)	(33,137)
Advances to Montefiore Health System, Inc. on MHS Note and other	–	(2,281)
Payments from Montefiore Health System, Inc. on MHS Note	706	671
(Increase) decrease in marketable and other securities, net	(5,900)	21,518
(Increase) decrease in assets limited to use, net	(30,089)	19,650
Net cash (used in) provided by investing activities	<u>(68,673)</u>	<u>6,421</u>
<b>Financing activities</b>		
Payments of long-term debt	(27,188)	(21,007)
Proceeds from long-term debt	2,500	18,871
Payments of deferred financing costs	(162)	(114)
Payments to members, net	(3,952)	(12,777)
Net cash used in financing activities	<u>(28,802)</u>	<u>(15,027)</u>
Net decrease in cash and cash equivalents	(153,209)	(64,905)
Cash and cash equivalents at beginning of year	253,978	170,595
Cash and cash equivalents at end of period	<u>\$ 100,769</u>	<u>\$ 105,690</u>

See accompanying notes.

# Montefiore Medical Center

## Notes to Consolidated Financial Statements (Unaudited)

April 30, 2018

### 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)
- Montefiore Consolidated Ventures, Inc. (MCV), which is the parent to the following organizations:
  - The Montefiore IPA, Inc. (MIPA)
  - Bronx Accountable Healthcare Network IPA, Inc. (ACO-IPA)
  - University Behavioral Associates, Inc. (UBA)
  - Montefiore Behavioral Care IPA No. 1, Inc. (MBCIPA)
  - MMC GI Holdings East, Inc. (GI East)
  - MMC GI Holdings West, Inc. (GI West)

All intercompany accounts and activities have been eliminated in consolidation.

On March 1, 2017, the Medical Center entered into an agreement by which it assigned and transferred all of its rights, title and interest in the shares of the common stock of MCV and its controlled organizations to MHS. In accordance with Accounting Standards Codification Topic 805, *Business Combinations*, this transaction was accounted for as a net asset transfer between entities under common control, with no retrospective adjustment to the prior period consolidated financial statements. Accordingly, the activities of MCV are included in the consolidated statements of operations and changes in net assets through the date of transfer.

# Montefiore Medical Center

## Notes to Consolidated Financial Statements (Unaudited) (continued)

### 1. Organization (continued)

The following table summarizes the assets, liabilities and net deficiency of MCV and its controlled organizations as of the date of transfer, March 1, 2017:

	<b>March 1, 2017*</b>
	<i>(In Thousands)</i>
<b>Assets</b>	
Cash and cash equivalents	\$ 6,631
Marketable and other securities	23,712
Assets limited as to use	39,345
Other receivables	12,488
Due from members	8,340
Property, buildings and equipment, net	142
Other noncurrent assets	2,022
Total assets	\$ 92,680
<b>Liabilities</b>	
Accounts payable and accrued expenses	\$ 73,965
Accrued salaries, wages, and related items	469
Due to members	59,681
Total liabilities	134,115
<b>Net deficiency</b>	
Unrestricted net deficiency	(41,435)
Total liabilities and net deficiency	\$ 92,680

\* Represents assets, liabilities and net deficiency transferred to MHS on March 1, 2017 and excluded from the consolidated statement of financial position as of December 31, 2017.

The following table summarizes the operating revenue and excess of revenues over expenses related to MCV included within the consolidated statements of operations of the Medical Center through the date of transfer, March 1, 2017:

	<b>Period from January 1, 2017 to March 1, 2017</b>
	<i>(In Thousands)</i>
Total operating revenue	\$ 90,590
Excess of revenues over expenses	\$ 1,671

# Montefiore Medical Center

## Notes to Consolidated Financial Statements (Unaudited) (continued)

### 1. Organization (continued)

#### *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, 2017 and 2016 are on file with the Municipal Securities Rulemaking Board and are accessible through its Electronic Municipal Market Access Database. Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in the Medical Center's most recent consolidated financial statements have been omitted from the unaudited consolidated financial information. In the opinion of management, all material adjustments considered necessary for a fair presentation have been included.

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

#### *Use of Estimates*

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities, at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. Actual results could differ from those estimates. Management believes that amounts recorded based on estimates and assumptions are reasonable. For the four months ended April 30, 2018 and 2017, there were no material changes in estimates.

#### *Recent Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 became effective for the Medical Center for annual reporting periods beginning after December 15, 2017. The Medical Center adopted ASU 2014-09 effective for its consolidated financial statements as of and for the four months ended April 30, 2018. The Medical Center adopted ASU 2014-09 following the modified retrospective method of application, and as such the prior period financial statements have not been adjusted for the adoption of ASU 2014-09. As a result of implementing ASU 2014-09, certain patient activity where collection is uncertain previously reported as net patient service revenue and bad debt expense in the Medical Center's consolidated statements of operations no longer meets the criteria for revenue recognition and, accordingly, bad debt expense after the adoption date is significantly

# Montefiore Medical Center

## Notes to Consolidated Financial Statements (Unaudited) (continued)

### 1. Organization (continued)

reduced with a corresponding reduction to net patient service revenue. Such patient activity is now classified as an implicit price concession. Additionally, bad debt expense for the four months ended April 30, 2018 is now presented as an expense item (included as a component of supplies and other expenses) rather than a reduction to net patient service revenue. Other aspects of the Medical Center's implementation of ASU 2014-09 impacting net patient service revenue, which include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures, are reflected below within Note 2. The adoption of ASU 2014-09 did not have a material impact in relation to other applicable revenue activity.

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02), which will require lessees to report most leases on their balance sheet, but recognize expenses on their income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The provisions of ASU 2016-02 are effective for the Medical Center for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statement Presentation* (ASU 2016-14), which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs will be required to classify net assets as net assets with donor restrictions or without donor restrictions. Entities that use the direct method of presenting operating cash flows will no longer be required to provide a reconciliation of the change in net assets to operating cash flows. The guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs will also be required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 are effective for the Medical Center for annual periods beginning after December 15, 2017. Application of ASU 2016-14 to interim periods within the initial year of adoption is permitted, but not required. Early adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the Medical Center for annual periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

# Montefiore Medical Center

## Notes to Consolidated Financial Statements (Unaudited) (continued)

### 1. Organization (continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash* (ASU 2016-18), which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for the Medical Center for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The Medical Center is in the process of evaluating the impact of ASU 2016-18 on its consolidated financial statements.

#### *Subsequent Events*

The Medical Center evaluated subsequent events through July 13, 2018, which is the date the unaudited consolidated financial statements were issued, for potential recognition or disclosure in the accompanying consolidated financial statements for the four months ended April 30, 2018. No subsequent events material to the Medical Center have occurred that require disclosure in the consolidated financial statements.

### 2. Net Patient Service Revenue

Effective January 1, 2018 upon the adoption of ASU 2014-09, 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. These amounts are due from patients, third-party payers (including health insurers and government programs), and others and includes variable consideration (reductions to revenue) for retroactive revenue adjustments due to settlement of ongoing and future audits, reviews, and investigations.

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

# Montefiore Medical Center

## Notes to Consolidated Financial Statements (Unaudited) (continued)

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

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.

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 obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in the 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 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 four months ended April 30, 2018, changes in the Medical Center's estimates of implicit price concessions, discounts, contractual adjustments or other reductions to expected payments for performance obligations satisfied in prior years were not significant. Portfolio collection estimates are updated based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the four months ended April 30, 2018 was not significant.



## Montefiore Medical Center

### Notes to Consolidated Financial Statements (Unaudited) (continued)

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

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.

Net patient service revenue for the four months ended April 30, 2018, by payer is as follows (in thousands):

Medicare and Medicare managed care	\$ 360,237
Medicaid and Medicaid managed care	395,662
Commercial carriers and managed care	385,065
Self-pay and other	8,670
	\$ 1,149,634

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 for the four months ended April 30, 2018 by line of business is as follows (in thousands):

Inpatient services	\$ 708,163
Physician and other outpatient services	387,174
Emergency department	32,637
All other	21,660
	\$ 1,149,634

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 between the time the service is provided to a patient and the time that the patient or a third-party payer pays for that service 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.

At April 30, 2018, accounts receivable is comprised of the following components (in thousands):

Patient receivables	\$ 200,335
Contract assets	54,431
	\$ 254,766

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.

# Montefiore Medical Center

## Notes to Consolidated Financial Statements (Unaudited) (continued)

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

The allowance for doubtful accounts was not significant at April 30, 2018. The allowance for doubtful accounts was approximately \$25.1 million at December 31, 2017.

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 four months ended April 30, 2018.

Prior to the adoption of ASU 2014-09, the Medical Center recognized patient service revenue at the estimated net realizable amounts 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 and included estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments were considered in the recognition of revenue on an estimated basis in the period that related services were rendered, and such amounts adjusted in future periods as adjustments became known or as years were no longer subject to such audits, reviews and investigations.

Net patient service revenue, net of contractual allowances and discounts, for the four months ended April 30, 2017, is as follows (in thousands):

Patient service revenue (net of contractual allowances and discounts)	\$ 1,169,816
Bad debt expense	(21,247)
Net patient service revenue	<u>\$ 1,148,569</u>

# Montefiore Medical Center

## Notes to Consolidated Financial Statements (Unaudited) (continued)

### 3. 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, 2001, although revisions to final settlements or other retroactive changes could be made. Other years and various issues remain open for audit and settlement, as are numerous issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled, audits are completed and additional information is obtained.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the 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

# Montefiore Medical Center

## Notes to Consolidated Financial Statements (Unaudited) (continued)

### **3. Third-Party Payment Programs (continued)**

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.

### **4. 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 for the various pension plans aggregated approximately \$48.2 million and \$46.0 million for the four months ended April 30, 2018 and 2017, respectively. Cash payments relative to the various pension plans aggregated approximately \$58.4 million and \$45.2 million for the four months ended April 30, 2018 and 2017, respectively.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (Unaudited) (continued)

#### 4. 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 four months ended April 30, 2018 and 2017:

	Pension		Postretirement	
	2018	2017	2018	2017
	<i>(In Thousands)</i>			
Service cost	\$ 2,080	\$ 1,231	\$ 4,150	\$ 3,772
Interest cost	473	595	2,385	2,307
Expected return on plan assets	(636)	(603)	–	–
Amortization of prior service cost (benefit)	15	112	(593)	(593)
Amortization of net loss	423	308	1,182	627
Settlement cost	525	–	–	–
Net periodic benefit cost	\$ 2,880	\$ 1,643	\$ 7,124	\$ 6,113

#### 5. 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 April 30, 2018 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.

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

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (Unaudited) (continued)

#### 5. Commitments and Contingencies (continued)

*Albert Einstein College of Medicine, Inc.:* On September 9, 2015, a controlled member of MMAHS, Albert Einstein College of Medicine, Inc. (Einstein), acquired substantially all of the assets and assumed substantially all of the liabilities of a medical school operating as a division of Yeshiva University (YU). In connection with this transaction, Build NYC Resource Corporation loaned to Einstein, under a loan agreement, the proceeds of \$175.0 million Build NYC Resource Corporation Revenue Bonds. In accordance with their terms, the bonds were tendered by the original bondholder and remarketed on January 28, 2016. Prior to the remarketing, the required interest and principal payments on the bonds were guaranteed by the Medical Center. The Medical Center was not required to make any payments under the guarantee, which terminated upon the remarketing of the bonds on January 28, 2016.

In addition, on September 9, 2015, Einstein issued to YU a promissory note (the Note) under which it 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.

In September 2017 and March 2018, approximately \$1.5 million and \$4.2 million, respectively, was paid by the Medical Center on Einstein's behalf pursuant to the Guaranty Agreement, as amended. Einstein is obligated to repay the Medical Center in full, over five years beginning in September 2018 with interest rates ranging from 4.73% to 5.58%. At April 30, 2018 and December 31, 2017 amounts due and payable under the Note were approximately \$5.7 million and \$1.5 million, respectively.

The Medical Center has an agreement to provide operating subsidies to Einstein over a five-year period commencing September 2015 in an aggregate amount of up to \$80.0 million. The Medical Center will provide this subsidy in varying amounts to be funded upon the receipt and approval of documentation of unreimbursed research expenses incurred. The subsidy will total an amount not to exceed \$10.0 million per year in each of the first two years, and not to exceed \$20.0 million per year in each of the third, fourth and fifth years. During the four months ended April 30, 2018 and 2017, the Medical Center made capital contributions of approximately \$6.6 million and \$3.9 million, respectively, to Einstein in accordance with this agreement.

# Montefiore Medical Center

## Notes to Consolidated Financial Statements (Unaudited) (continued)

### 5. Commitments and Contingencies (continued)

The Medical Center has also agreed to provide loans to Einstein in an aggregate amount of up to \$75 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, to be repaid by Einstein over a five year period in equal annual installments, commencing in December 2020 at an annual interest rate of 5.20%. At April 30, 2018 and December 31, 2017 amounts due and payable were approximately \$35.6 million and \$35.0 million, respectively.

*Other:* At April 30, 2018 and 2017, approximately 66% of the Medical Center's employees were covered by collective bargaining agreements. The collective bargaining agreement with NYSNA will expire in December 2018. The collective bargaining agreement with 1199SEIU will expire in September 2018.

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

Effective January 1, 2018, a controlled member of MHS acquired an equity interest in a joint venture with Crystal Run Healthcare, LLP. In accordance with the purchase agreement, the Medical Center entered into a security agreement by which the Medical Center deposited \$30.0 million in escrow as security for the purchase price.

### 6. 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.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (Unaudited) (continued)

#### 6. 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 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.

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 April 30, 2018:

	April 30, 2018			
	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
<b>Assets</b>				
Cash and cash equivalents	\$ 100,769	\$ –	\$ –	\$ 100,769
Managed cash and cash equivalents held for investment	58,178	–	–	58,178
Marketable and other securities:				
U.S. non-equity mutual funds	121,351	–	–	121,351
U.S. equity mutual funds	22,963	–	–	22,963
U.S. Government agency mortgage-backed securities	–	50,429	–	50,429
U.S. Treasury securities	128,376	–	–	128,376
U.S. Government agency-backed securities	–	13,751	–	13,751
U.S. equity securities	79,833	–	–	79,833
Corporate debt	–	287,221	–	287,221
Interest and other receivables	1,299	–	–	1,299
	512,769	351,401	–	864,170
<b>Defined benefit plan assets</b>				
Cash and cash equivalents	1,042	–	–	1,042
Equity mutual funds	8,239	–	–	8,239
Fixed income mutual funds	3,712	–	–	3,712
	12,993	–	–	12,993
	\$ 525,762	\$ 351,401	\$ –	\$ 877,163
Investments measured at net asset value (defined benefit plan assets)				14,516
				\$ 891,679



## Montefiore Medical Center

### Notes to Consolidated Financial Statements (Unaudited) (continued)

#### 6. 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, 2017:

	<b>December 31, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(In Thousands)</i>			
<b>Assets</b>				
Cash and cash equivalents	\$ 253,978	\$ –	\$ –	\$ 253,978
Managed cash and cash equivalents held for investment	40,730	–	–	40,730
Marketable and other securities:				
U.S. non-equity mutual funds	119,805	–	–	119,805
U.S. equity mutual funds	22,434	–	–	22,434
U.S. Government agency mortgage-backed securities	–	50,714	–	50,714
U.S. Treasury securities	120,133	–	–	120,133
U.S. Government agency-backed securities	–	25,500	–	25,500
U.S. equity securities	82,195	–	–	82,195
Corporate debt	–	256,335	–	256,335
Interest and other receivables	1,307	–	–	1,307
	640,582	332,549	–	973,131
<b>Defined benefit plan assets</b>				
Cash and cash equivalents	1,051	–	–	1,051
Equity mutual funds	11,207	–	–	11,207
Fixed income mutual funds	2,663	–	–	2,663
	14,921	–	–	14,921
	\$ 655,503	\$ 332,549	\$ –	\$ 988,052
Investments measured at net asset value (defined benefit plan assets)				13,626
				\$ 1,001,678

At April 30, 2018 and December 31, 2017, the Medical Center's alternative investments and collective trusts, excluding those within the defined benefit plan, are reported using the equity method of accounting in the amount of approximately \$143.4 million and \$153.2 million, respectively, and, therefore, are not included in the tables above.

## Montefiore Medical Center

### Notes to Consolidated Financial Statements (Unaudited) (continued)

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

The following is a description of the Medical Center's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers and brokers. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Medical Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

**Appendix B-3**

**Montefiore Health System, Inc. Audited Consolidated Financial Statements  
as of and for the Years Ended December 31, 2017 and 2016, with Report of Independent Auditors**

*Montefiore Health System, Inc. ("MHS") is not a Member of the Obligated Group. Neither MHS nor any of its consolidated subsidiaries other than Montefiore Medical Center has any financial or operating obligation under the Loan Agreement or the Master Trust Indenture or with respect to the payment of the 2018 DASNY Bonds or the DASNY Obligations.*

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CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

Montefiore Health System, Inc.  
Years Ended December 31, 2017 and 2016  
With Report of Independent Auditors

Ernst & Young LLP



Montefiore Health System, Inc.

Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2017 and 2016

**Contents**

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Operations .....	4
Consolidated Statements of Changes in Net Assets .....	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7
Supplementary Information	
Report of Independent Auditors on Supplementary Information .....	68
Consolidating Statement of Financial Position.....	69
Consolidating Statement of Operations .....	70



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## Report of Independent Auditors

The Board of Trustees  
Montefiore Health System, Inc.

We have audited the accompanying consolidated financial statements of Montefiore Health System, Inc. and its controlled organizations, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Montefiore Health System, Inc. and its controlled organizations at December 31, 2017 and 2016, and the consolidated results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

April 20, 2018



# Montefiore Health System, Inc.

## Consolidated Statements of Financial Position

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 398,237	\$ 292,252
Marketable and other securities	754,309	655,248
Assets limited as to use, current portion	59,407	57,981
Receivables for patient care, less allowances for doubtful accounts (2017 – \$64,333; 2016 – \$64,545)	414,259	442,537
Other receivables	77,403	90,553
Estimated insurance claims receivable, current portion	95,542	80,143
Other current assets	86,140	75,772
Total current assets	<u>1,885,297</u>	<u>1,694,486</u>
Assets limited as to use, net of current portion	291,677	267,433
Property, buildings and equipment, net	1,677,765	1,716,991
Estimated insurance claims receivable, net of current portion	538,838	455,523
Other noncurrent assets	295,522	324,524
Due from members	36,163	—
Total assets	<u>\$ 4,725,262</u>	<u>\$ 4,458,957</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 521,328	\$ 453,334
Accrued salaries, wages and related items	416,678	385,406
Professional and other insured liabilities, current portion	57,547	55,457
Estimated insurance claims liabilities, current portion	94,942	81,442
Estimated third-party payer liabilities, current portion	86,216	76,264
Long-term debt, current portion	104,885	135,430
Due to members	4,697	9,005
Total current liabilities	<u>1,286,293</u>	<u>1,196,338</u>
Long-term debt, net of current portion	816,493	789,152
Noncurrent defined benefit pension and other postretirement health plan liabilities	296,378	278,920
Professional and other insured liabilities, net of current portion	166,970	152,418
Employee deferred compensation	52,108	41,782
Estimated insurance claims liabilities, net of current portion	539,438	461,061
Estimated third-party payer liabilities, net of current portion	224,855	228,541
Other noncurrent liabilities	88,056	122,607
Total liabilities	<u>3,470,591</u>	<u>3,270,819</u>
Commitments and contingencies		
Net assets:		
Unrestricted	1,096,293	1,029,456
Temporarily restricted	103,283	105,505
Permanently restricted	55,095	53,177
Total net assets	<u>1,254,671</u>	<u>1,188,138</u>
Total liabilities and net assets	<u>\$ 4,725,262</u>	<u>\$ 4,458,957</u>

*See accompanying notes.*

Montefiore Health System, Inc.

Consolidated Statements of Operations

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
<b>Operating revenue</b>		
Net patient service revenue before bad debt expense	\$ 5,208,565	\$ 4,990,612
Bad debt expense	(74,962)	(92,233)
Net patient service revenue	<b>5,133,603</b>	4,898,379
Grants and contracts	<b>100,108</b>	96,435
Contributions	<b>11,215</b>	10,121
Other revenue	<b>258,692</b>	234,008
Total operating revenue	<b>5,503,618</b>	5,238,943
<b>Operating expenses</b>		
Salaries and wages	<b>2,548,428</b>	2,444,184
Employee benefits	<b>706,825</b>	654,644
Supplies and other expenses	<b>2,017,205</b>	1,890,875
Depreciation and amortization	<b>206,209</b>	210,253
Interest	<b>38,067</b>	40,049
Total operating expenses	<b>5,516,734</b>	5,240,005
Deficiency of operating revenue over operating expenses before Value Based Payment and Vital Access Provider Programs	<b>(13,116)</b>	(1,062)
Value Based Payment and Vital Access Provider Programs	<b>68,384</b>	59,489
Excess of operating revenue over operating expenses before other items	<b>55,268</b>	58,427
Net realized and changes in net unrealized gains and losses on marketable and other securities	<b>44,835</b>	13,668
Net periodic pension and other postretirement benefit costs (non-service related)	<b>(7,531)</b>	(5,837)
Contributions received in the acquisitions of Burke and St. Luke's	-	41,717
Malpractice insurance program adjustments associated with investment earnings shortfall	<b>1,209</b>	(1,209)
Grants for the purchase of property, buildings and equipment	<b>1,575</b>	-
Other nonoperating losses	<b>(517)</b>	-
Change in fair value of derivative instrument	<b>688</b>	697
Gain on debt refinancing	-	4,604
Excess of revenues over expenses	<b>95,527</b>	112,067
Change in defined benefit pension and other postretirement health plan liabilities to be recognized in future periods	<b>(15,768)</b>	(89)
Net assets released from restrictions used for purchases of property, buildings and equipment	<b>6,171</b>	1,911
Transfers to members, net	<b>(19,093)</b>	(8,357)
Increase in unrestricted net assets	<b>\$ 66,837</b>	\$ 105,532

*See accompanying notes.*

Montefiore Health System, Inc.

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2017 and 2016

	<b>Unrestricted</b>	<b>Temporarily</b>	<b>Permanently</b>	<b>Total Net</b>
	<b>Net Assets</b>	<b>Restricted</b>	<b>Restricted</b>	<b>Assets</b>
	<i>(In Thousands)</i>			
Net assets at January 1, 2016	\$ 923,924	\$ 90,390	\$ 52,148	\$ 1,066,462
Increase in unrestricted net assets	105,532	–	–	105,532
Contributions received in the acquisitions of Burke and St. Luke's	–	3,273	1,463	4,736
Restricted gifts, bequests, and similar items	–	17,163	(434)	16,729
Restricted investment income	–	1,424	–	1,424
Net assets released from restrictions	–	(6,745)	–	(6,745)
Total changes in net assets	105,532	15,115	1,029	121,676
Net assets at December 31, 2016	1,029,456	105,505	53,177	1,188,138
Increase in unrestricted net assets	<b>66,837</b>	–	–	<b>66,837</b>
Restricted gifts, bequests, and similar items	–	<b>10,252</b>	<b>42</b>	<b>10,294</b>
Restricted investment income	–	<b>687</b>	<b>312</b>	<b>999</b>
Transfers	–	<b>(1,564)</b>	<b>1,564</b>	–
Net assets released from restrictions	–	<b>(11,597)</b>	–	<b>(11,597)</b>
Total changes in net assets	<b>66,837</b>	<b>(2,222)</b>	<b>1,918</b>	<b>66,533</b>
Net assets at December 31, 2017	<b>\$ 1,096,293</b>	<b>\$ 103,283</b>	<b>\$ 55,095</b>	<b>\$ 1,254,671</b>

*See accompanying notes.*

# Montefiore Health System, Inc.

## Consolidated Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Increase in net assets	\$ 66,533	\$ 121,676
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Contributions received in the acquisitions of Burke and St. Luke's	–	(46,453)
Depreciation and amortization	206,209	210,253
Bad debt expense	74,962	92,233
Change in defined benefit pension and other postretirement health plan liabilities to be recognized in future periods	15,768	89
Transfers to members, net	19,093	8,357
Net realized gains and losses on marketable and other securities	(23,165)	(8,349)
Change in net unrealized gains and losses on marketable and other securities	(21,670)	(5,320)
Change in fair value of derivative instrument	(688)	(697)
Equity earnings from investments	(34,197)	(27,672)
Write-off of long-term mortgage premium and deferred financing costs as a result of debt refinancing	–	1,284
Amortization of long-term mortgage premium	(310)	(483)
Amortization of deferred financing costs	945	1,171
Changes in operating assets and liabilities:		
Receivables for patient care	(46,684)	(112,875)
Other current assets	(10,368)	(2,002)
Accounts payable and accrued expenses	67,994	11,484
Accrued salaries, wages and related items	31,272	26,159
Non-current defined benefit and postretirement health plan liabilities	1,690	7,111
Other noncurrent liabilities	(33,863)	(1,302)
Net change in all other operating assets and liabilities	57,556	(79,440)
Net cash provided by operating activities	<u>371,077</u>	<u>195,224</u>
<b>Investing activities</b>		
Acquisition of property, buildings, and equipment, net	(166,983)	(207,933)
(Increase) decrease in marketable and other securities, net	(54,226)	123,585
(Increase) decrease in assets limited to use, net	(25,670)	46,569
Cash received in the acquisitions of St. Luke's and Burke	–	11,089
Net cash used in investing activities	<u>(246,879)</u>	<u>(26,690)</u>
<b>Financing activities</b>		
Payments of long-term debt	(82,347)	(81,929)
Extinguishment of long-term debt	–	(224,964)
Proceeds from long-term debt	78,716	272,552
Payments to members, net	(14,374)	(9,795)
Payments of deferred financing costs	(208)	(3,508)
Net cash used in financing activities	<u>(18,213)</u>	<u>(47,644)</u>
Net increase in cash and cash equivalents	105,985	120,890
Cash and cash equivalents at beginning of year	292,252	171,362
Cash and cash equivalents at end of year	<u>\$ 398,237</u>	<u>\$ 292,252</u>

*See accompanying notes.*

# Montefiore Health System, Inc.

## Notes to Consolidated Financial Statements

December 31, 2017

### 1. Organization and Summary of Significant Accounting Policies

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 (the 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 North Ambulatory Care Center, Inc. (NAMB)
- Montefiore HMO, LLC (MHMO)
- Montefiore Information Technology, LLC (MIT)
- Montefiore Nyack Hospital (f/k/a Nyack Hospital) (Nyack) and its controlled organizations:
  - Nyack Hospital Foundation, Inc. (Nyack Foundation)
  - 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)
- Davis Avenue Corporation (d/b/a Westchester Caring Services)
- 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)
- White Plains Medical Services P.C.
- The Winifred Masterson Burke Rehabilitation Hospital (Burke)
- St. Luke's Cornwall Hospital (St. Luke's) and its controlled organizations:
  - Hudson Vista Corporation
  - St. Luke's Cornwall Health System, Inc.
  - St. Luke's Cornwall Health System Foundation, Inc.
  - 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 Health System, Inc.

## Notes to Consolidated Financial Statements (continued)

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

- Montefiore Consolidated Ventures, Inc. (MCV)
  - 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)
- Montefiore Medical Center and its controlled organizations (collectively, the Medical Center):
  - Montefiore Medical Center
  - MMC Corporation (MCORP)
  - CMO The Care Management Company, LLC (CMO)
  - Gunhill MRI P.C. (Gunhill)
  - 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 March 1, 2017, the Medical Center entered into an agreement by which it assigned and transferred all of its rights, title and interest in the shares of the common stock of MCV and its controlled organizations to MHS. This transfer did not impact the Health System's consolidated financial statements.

The operations of Burke and St. Luke's and its controlled organizations are consolidated as of January 4, 2016 and January 14, 2016, respectively, concurrent with the acquisitions of those entities (see Note 10).

Captive insurance companies in which the Health System has an equity interest of more than 20%, but less than 50%, are accounted for under the equity method of accounting. In addition, investments in limited liability companies not wholly owned are recorded under the equity method.

*Tax Status:* The Health System, a section 501(c)(3) organization, is exempt from Federal, New York State and local income taxes under Section 501(a) of the Internal Revenue Code, as are all of the organizations consolidated in these financial statements, except for MCV and its subsidiaries, Highland Medical, Westchester Caring Services, Longview, Medical Diagnostic Services, 11 East Post Road, LLC and Cancer and Blood which are taxable entities. CMO, MIT, MPRO, MHVC, SS Holdings, MV Holdings, HA Holdings, MHMO and St. Luke's Cornwall JV, LLC are disregarded entities for tax purposes. Disregarded entity status provides that the Health System is subject to unrelated business income taxation on those entities' income derived from activities not specific to the Health System. Provisions for income taxes related to the taxable entities are not material to the consolidated financial statements.

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

As a result of the recent Federal income tax reform enacted into law under the Tax Cuts and Jobs Act of 2017, certain provisions will impact tax-exempt organizations, including revisions to taxes on unrelated business activities, excise taxes on compensation of certain employees, and various other provisions. The regulations necessary to implement the law are expected to be promulgated throughout 2018 and the ultimate outcome of these regulations and the impact to the Health System are not expected to be significant to the Health System's consolidated financial statements.

*Temporarily and Permanently Restricted Net Assets:* Temporarily restricted net assets are those whose use has been limited by donors to a specific time frame or purpose. Permanently restricted net assets have been restricted by the donors to be maintained by the Health System in perpetuity. The Health System records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions.

When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are classified as unrestricted contributions. Other revenue for the years ended December 31, 2017 and 2016 includes approximately \$5.4 million and \$4.8 million, respectively, of net assets released from restrictions used for operations.

*Cash and Cash Equivalents:* Cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less at the time of purchase which are not deemed to be assets limited as to use or part of the marketable securities portfolio. The Health System maintains cash on deposit with major banks and invests in highly rated commercial paper on an overnight basis or securities issued by either the United States Government or its agencies with a maturity of three months or less at the time of purchase. The Health System does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents. Book overdrafts in the amount of \$35.2 million and \$31.9 million as of December 31, 2017 and 2016, respectively, are included within accounts payable and accrued expenses in the consolidated statements of financial position.

At December 31, 2017 and 2016, the Health System invested excess cash in deposits with major banks and in money market funds with high credit quality financial institutions.

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

*Revenue and Receivables for Patient Care:* Patient accounts receivable for which the Health System receives payment under various formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amount receivable from such payers, which is generally less than the established billing rates of the Health System. Fees for patient services not covered by payer reimbursement and insurance programs are recorded on a sliding scale dependent on the individual's ability to pay. For purposes of presentation in the accompanying consolidated statements of financial position, receivables for patient care are net of advances from third-party payers which are directly related to receivables for patient care.

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

*Inventories:* Inventories, included in other current assets, consist primarily of drugs and supplies, and are valued at the lower of cost and net realizable value.

*Marketable and Other Securities:* All marketable and other securities are classified as trading securities. Marketable securities are carried at fair value and generally consist of fixed income securities issued or guaranteed by government entities, money market funds, mutual funds, fixed income securities issued by corporations, collective trust funds and equity securities. Marketable securities received as a gift are initially recorded at fair value at the date of the gift. The carrying amount of alternative investments (nontraditional, not readily marketable asset classes), some of which are structured such that the Health System holds limited partnership interests, are determined by the Health System's management for each investment, based upon net asset values derived from the application of the equity method of accounting.

Individual investment holdings within the alternative investments include both non-marketable and market-traded securities. Valuations of the non-marketable securities are determined by the investment manager or general partner. These values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, the carrying amount reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Health System to securities lending, short sales of securities, and trading in futures and forwards contracts, options, and other derivative products. The Health System's risk is limited to its carrying value, in addition to any unfunded commitments. At December 31, 2017, the Health System had approximately \$9.8 million of future commitments to invest in alternative investments. Certain investments are



## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

subject to notification periods or restrictions in order to divest. The redemption notice period for this asset class ranges from 30 days to 90 days. Funds are generally available within 30 days after the redemption date. At December 31, 2017, approximately 22% of alternative investments are held in illiquid private equity funds and distributions are based on the investment managers' discretion. The financial statements of the investees are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Health System's annual consolidated financial statement reporting.

There is uncertainty in the accounting for alternative investments arising from factors such as lack of active markets (primary or secondary), lack of transparency into underlying holdings and time lags associated with reporting by the investee companies. As a result, there is at least a reasonable possibility that estimates will change in the near term.

*Investment Gains, Losses and Income:* Net realized and unrealized gains and losses on marketable and other securities and equity in earnings or losses of alternative investments are recorded in the excess of revenues over expenses unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income limited by donor-imposed restrictions is recorded as an increase in temporarily restricted net assets. Realized gains and losses on sales of marketable and other securities are based on the average cost method.

*Assets Limited as to Use:* Assets so classified represent assets whose use is restricted for specific purposes under terms of agreements (such as escrow agreements relating to the payment of claims and other health care service expenses upon occurrence or continuance of certain specific events as designated by the contracts), donor restrictions or employee deferred compensation plans.

*Property, Buildings and Equipment:* Property, buildings and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date received. Property, buildings and equipment of acquired entities are recorded at fair value at the acquisition date based upon an independent valuation. Annual provisions for depreciation are made based upon the straight-line method over the estimated useful lives of the assets. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations in the year of disposal.

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

*Intangible Assets:* As a result of the acquisition in 2016, the Health System recorded intangible assets for a favorable leasehold interest at Burke of approximately \$21.0 million. In addition, White Plains carries goodwill in the amount of approximately \$28.1 million and \$14.3 million as of December 31, 2017 and 2016, respectively, related to the acquisition of certain health care organizations that occurred during 2015 and 2017. Intangible assets have indefinite lives and are subject to impairment testing on an annual basis. For the years ended December 31, 2017 and 2016, there were no intangible asset impairment charges.

Intangible assets at December 31, 2017 and 2016, of approximately \$63.2 million and \$49.4 million, respectively, are included within other noncurrent assets in the accompanying consolidated statements of financial position.

*Deferred Financing Costs:* Deferred financing costs represent costs incurred to obtain financing for various construction and renovation projects. Amortization of these costs is determined by the effective interest method extending over the terms of the related indebtedness. Deferred financing costs are included as a reduction to long-term debt in the accompanying consolidated statements of financial position.

*Employee Deferred Compensation Plan:* Pursuant to various deferred compensation plans in which certain Health System employees or former employees participate, the Health System deposited employee contributions with trustees on behalf of the participating employees. The Health System is not responsible for investment gains or losses incurred. The assets, which are carried at fair value with a corresponding liability, are restricted for payments under the plans and may only revert to the Health System under certain specified circumstances. The assets are included in assets limited as to use in the accompanying consolidated statements of financial position.

*Premium Revenue and Health Care Service Cost Recognition:* 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. 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. The Health System reimburses these providers on either a capitated or negotiated fee-for-service basis. The cost of health care services is accrued based on processed and unprocessed claims and estimates for medical services, which have been incurred but not reported. Although it is not possible to measure with certainty the

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

degree of variability inherent in such an estimate, such estimates are continually monitored and reviewed by management and independent actuaries, and any adjustments deemed necessary are reflected in current operations. Health care service costs included in supplies and other expenses were decreased by approximately \$1.7 million and \$6.4 million for the years ended December 31, 2017 and December 31, 2016, respectively, reflecting the difference between claims paid and the liability originally estimated. Premium revenue included within the caption net patient service revenue in the accompanying consolidated statements of operations aggregated approximately \$641.1 million and \$618.0 million for the years ended December 31, 2017 and 2016, respectively.

*Performance Indicator:* The consolidated statements of operations include excess of revenues over expenses as the performance indicator. Items excluded from excess of revenues over expenses are change in defined benefit pension and other postretirement health plan liabilities to be recognized in future periods; net assets released from restrictions used for purchases 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 revenues over operating expenses before certain items. Peripheral transactions or transactions of an infrequent nature are excluded from excess of operating revenues over operating expenses before other items.

*Charity Care and Other Community Benefit Programs:* The Health System is guided by its mission and charitable purpose to provide charity care and other community benefit programs. These activities include access to medically necessary treatment for individuals unable to pay for services, care provided under means-tested government insurance programs that reimburse the Health System at less than the cost of the services provided, education for future health providers, research to advance knowledge and other programs designed to meet local community needs.

The Health System is committed to serving all patients in need of health care services. Consistent with its mission and values, and taking into account an individual's ability to pay for medically necessary health care services, the Health System provides charity care, including free or discounted care, to all patients not covered by insurance. A key aspect of the policy includes assisting patients in obtaining insurance they are eligible to receive. Care provided under the charity care policy is not reported as revenue in the accompanying consolidated statements of operations. The cost of charity care is estimated based on charges associated with the care provided, applied to the ratio of total patient care expenses to total charges for all services rendered.

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

Care provided to patients identified as having the means to pay, but for which payment is not received, is classified as bad debt expense. The Health System uses information from patients and from other sources for patients who are unable to provide financial information, to determine eligibility for charity care to classify activity between charity care and bad debt expense. Bad debt expense is included as a deduction from net patient service revenue in the accompanying consolidated statements of operations.

Medicaid and other means-tested programs comprise approximately one-third of the Health System's patient service revenue. The costs are estimated based on charges for services provided under the means-tested programs, applied to the ratio of total patient care expenses to total charges for all services rendered. The unpaid cost presented in the table below is based on estimated total costs, less reimbursement received for the services provided.

The Health System operates one of the largest medical residency and health professions training programs in the United States. The costs of the training programs are included in operating expenses in the accompanying consolidated statements of operations. The costs presented below are net of graduate medical education funding from the Medicare and Medicaid programs.

Research and other community benefit program costs include expenses incurred to advance medical care and clinical knowledge. In addition, the Health System fosters community participation through advisory boards and linkages with community-based groups. It responds to identified community health related needs by offering specific services including, among others, wellness programs, community education programs, health screenings, community support services and subsidized health services. The research and other community benefit program costs presented below are included in operating expenses in the accompanying consolidated statements of operations.

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

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

A summary of the costs associated with the provision of charity care and other community benefit programs is as follows:

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Charity care, at cost and net of subsidies	<b>\$ 69,984</b>	\$ 70,096
Unpaid cost of means-tested government-sponsored insurance programs	<b>383,860</b>	325,363
Health professions training, at cost	<b>52,027</b>	41,430
Community benefit programs	<b>95,862</b>	92,494
Research	<b>18,888</b>	15,574
	<b><u>\$ 620,621</u></b>	<b><u>\$ 544,957</u></b>

The New York State Department of Health (NYSDOH) Hospital Indigent Care Pool (the Pool) was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part by a 1% assessment on hospital net inpatient service revenue. For the years ended December 31, 2017 and 2016, the Health System received approximately \$31.9 million and \$30.9 million, respectively, in Pool distributions related to charity care. The Health System made payments into the Pool of approximately \$28.7 million and \$24.9 million for the years ended December 31, 2017 and 2016, respectively, for the 1% assessment.

*Program Services:* The Health System provides health care and related services primarily within its geographic area. Expenses related to providing these services for the years ended December 31, 2017 and 2016 are as follows:

	<b>2017</b>	<b>2016</b>
		<i>(In Thousands)</i>
Health care and related services	<b>\$ 4,939,682</b>	\$ 4,700,093
Program support and general services	<b>577,052</b>	539,912
	<b><u>\$ 5,516,734</u></b>	<b><u>\$ 5,240,005</u></b>

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

*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, such as estimated uncollectibles for accounts receivable for services to patients and estimated insurance recoveries receivable, and liabilities, such as estimated third-party payer liabilities, estimated insurance claims liabilities and 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. During 2017 and 2016, the Health System recorded net changes in estimates that increased the excess of revenues over expenses by approximately \$22.4 million and \$58.6 million, respectively, which primarily relate to changes in previously estimated third-party payer settlements and changes to estimated liabilities.

*Recent Accounting Pronouncements:* In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition*, and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 are effective for the Health System for the fiscal year beginning after December 15, 2017, and interim periods within that fiscal year. In accordance with ASU 2014-09, the Health System will analyze revenue streams utilizing the portfolio approach to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Management will adopt ASU 2014-09 following the modified retrospective method of application. Subsequent to adoption, certain patient activity where collection is uncertain which was previously reported as net patient service revenue and bad debt expense in the Health System's consolidated statement of operations will no longer meet the criteria for revenue recognition and, accordingly, the bad debt expense after the adoption date will be significantly reduced with a corresponding reduction to net patient service revenue. The Health System's adoption of ASU 2014-09 will have other impacts to net patient service revenue, which include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures. The impact of the adoption of ASU 2014-09 in relation to other applicable revenue activity is still being evaluated by the Health System.

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02), which will require lessees to report most leases on their balance sheet, but recognize expenses on their income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The provisions of ASU 2016-02 are effective for the Health System for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The Health System is in the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statement Presentation* (ASU 2016-14), which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs will be required to classify net assets as net assets with donor restrictions or without donor restrictions. Entities that use the direct method of presenting operating cash flows will no longer be required to provide a reconciliation of the change in net assets to operating cash flows. The guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs will also be required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 are effective for the Health System for annual periods beginning after December 15, 2017. Application of ASU 2016-14 to interim periods within the initial year of adoption is permitted, but not required. Early adoption is permitted. The Health System is in the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the Health System for annual periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. The Health System is in the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash* (ASU 2016-18), which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for the Health System for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The Health System is in the process of evaluating the impact of ASU 2016-18 on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The Health System adopted ASU 2017-07 on January 1, 2017 and retrospectively applied the presentation requirements to the consolidated statement of operations for the year ended December 31, 2016. As a result of the adoption of ASU 2017-07, the Health System recorded the service cost component of net periodic benefit cost related to its defined benefit pension and other postretirement benefit plans (aggregate of approximately \$20.4 million and \$18.6 million for the years ended December 31, 2017 and 2016, respectively) within salaries and wages on the consolidated statements of operations and presented all other components (aggregate of approximately \$7.5 million and \$5.8 million for the years ended December 31, 2017 and 2016, respectively) as net periodic pension and other postretirement benefit costs (non-service related) below the excess of operating revenues over operating expenses before other items on the consolidated statements of operations.



## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

*Reclassifications:* For purposes of comparison, certain reclassifications have been made to the accompanying 2016 consolidated financial statements to conform to the 2017 presentation. These reclassifications primarily relate to book overdrafts, which were recorded previously as a component of cash and cash equivalents and are now recorded within accounts payable and accrued expenses; patient refunds, which were recorded previously within receivables for patient care, less allowances for doubtful accounts and are now recorded within estimated third-party payer liabilities, current portion; and employee health claims which were recorded previously within net patient service revenue before bad debt expense and employee benefits and are now recorded net of one another. There were other reclassifications that were not significant. These reclassifications have no effect on the excess of revenues over expenses or net assets for the year ended December 31, 2016.

#### **2. Net Patient Service Revenue**

The Health System has agreements with third-party payers that provide for payments to the Health System at amounts different from its established rates. Net patient service revenue is reported at estimated net realizable amounts due from third-party payers, patients, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period that related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

*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. Payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments.

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

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 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.

*Medicare Reimbursement:* Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. The Medical Center, MNR, MMV and SECC are paid for services rendered to Medicare beneficiaries on a Periodic Interim Payment (PIP) basis, plus certain add-ons and other items that are tentatively settled after submission of an annual cost report and final settled after audits thereof by the Medicare Administrative Contractor (MAC) of the submitted cost report. Nyack, White Plains and St. Luke's are paid for services rendered to Medicare beneficiaries on a claim basis paid at a prospectively determined rate, plus certain add-ons and other items that are tentatively settled after submission of an annual cost report and final settled after audits thereof by the MAC of the submitted cost report.

Medicare and Medicaid regulations require annual retroactive settlements for reimbursements through cost reports filed by the various Health System hospitals. These retroactive settlements are estimated and recorded in the consolidated financial statements in the year in which they occur. The estimated settlements recorded at December 31, 2017 and 2016 could differ from actual settlements based on the results of cost report audits.

Laws and regulations governing health care programs are extremely complex and are subject to interpretation. Noncompliance with such laws and regulations could result in repayment of amounts improperly reimbursed, fines, penalties and exclusion from such programs. In addition, the classification of patients of the Health System and the appropriateness of their admission are subject to an independent review by a peer review organization. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Health System is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations.

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

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

There are various proposals at the Federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the Federal and state governments, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse effect on the Health System.

*Bad Debt Expense:* The collection of patient service revenue due from patients, including copayments and deductibles, from those who are ineligible for charity care, is subject to uncertainty. The Health System records bad debt expense in the period services are rendered based on past experience, to account for amounts that patients may ultimately be unable or unwilling to pay. For self-pay patients, which includes both patients without insurance and patients with copayments and deductibles after third-party coverage, the Health System records an estimate for bad debt expense in the current period based on past experience. Amounts ultimately written off as uncollectible and recoveries of such amounts are deducted from, or added to, the allowance for doubtful accounts.

Net patient service revenue, net of contractual allowances and discounts, for the years ended December 31, 2017 and 2016, by major payer source, is as follows:

	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
Patient service revenue (net of contractual allowances and discounts):		
Medicaid and Medicaid managed care	\$ 1,569,792	\$ 1,425,420
Medicare and Medicare managed care	1,639,094	1,650,534
Commercial and managed care	1,917,084	1,843,631
Self-pay	82,595	71,027
	<u>5,208,565</u>	4,990,612
Bad debt expense	(74,962)	(92,233)
Net patient service revenue	<u>\$ 5,133,603</u>	<u>\$ 4,898,379</u>

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**3. Marketable and Other Securities**

The composition of marketable and other securities and assets limited as to use follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Marketable and other securities	<b>\$ 754,309</b>	\$ 655,248
Assets limited as to use	<b>351,084</b>	325,414
	<b><u>\$ 1,105,393</u></b>	<b><u>\$ 980,662</u></b>
Managed cash and cash equivalents held for investment	<b>\$ 72,570</b>	\$ 76,180
Corporate debt	<b>266,888</b>	219,836
U.S. Treasury securities	<b>126,648</b>	113,271
U.S. Government agency mortgage-backed securities	<b>51,771</b>	52,567
U.S. Government agency-backed securities	<b>26,764</b>	40,167
Equity securities	<b>107,234</b>	84,177
Non-equity mutual funds	<b>215,905</b>	180,850
Equity mutual funds	<b>52,540</b>	48,058
Alternative investments	<b>116,502</b>	122,508
Collective trust funds	<b>65,118</b>	34,701
Investment contracts	<b>2,146</b>	2,456
Interest and other receivables	<b>1,307</b>	5,891
	<b><u>\$ 1,105,393</u></b>	<b><u>\$ 980,662</u></b>

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**3. Marketable and Other Securities (continued)**

The composition of assets limited as to use follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Donor restricted funds	<b>\$ 108,141</b>	\$ 105,846
Debt-related sinking and debt service funds	<b>81,737</b>	85,778
Managed care cash reserves required by contracts	<b>53,655</b>	48,640
Lease escrow deposits	<b>19,442</b>	13,153
Employee deferred compensation plan assets	<b>52,108</b>	41,846
Professional liabilities	<b>2,263</b>	2,240
Board designated funds	<b>30,106</b>	24,578
Other	<b>3,632</b>	3,333
Total assets limited as to use	<b>351,084</b>	325,414
Less: current portion of assets limited as to use	<b>(59,407)</b>	(57,981)
Assets limited as to use, net of current portion	<b>\$ 291,677</b>	\$ 267,433

Investment returns for the years ended December 31, 2017 and 2016, are comprised as follows:

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Interest and dividend income	<b>\$ 12,869</b>	\$ 9,305
Net realized gains and losses	<b>23,165</b>	8,349
Change in net unrealized gains and losses	<b>21,670</b>	5,320
	<b>\$ 57,704</b>	\$ 22,974

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**4. Property, Buildings, and Equipment**

A summary of property, buildings and equipment follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Land and land improvements	<b>\$ 136,243</b>	\$ 129,565
Buildings, fixed equipment and improvements	<b>2,190,458</b>	2,116,239
Movable equipment	<b>1,575,325</b>	1,470,795
	<b>3,902,026</b>	3,716,599
Less accumulated depreciation and amortization	<b>(2,283,772)</b>	(2,079,735)
	<b>1,618,254</b>	1,636,864
Construction-in-progress	<b>59,511</b>	80,127
	<b>\$ 1,677,765</b>	\$ 1,716,991

Substantially all property, buildings, and equipment are pledged as collateral under various debt agreements.

**5. Operating Leases**

Total rental expense included in supplies and other expenses aggregated approximately \$71.6 million and \$69.7 million for the years ended December 31, 2017 and 2016, respectively.

Future minimum payments, by year and in the aggregate, under non-cancelable operating leases with initial or remaining terms of one year or more at December 31, 2017, consisted of the following (in thousands):

2018	\$ 60,790
2019	57,777
2020	54,800
2021	52,682
2022	48,773
2023 and thereafter	1,070,043
Total minimum lease payments	<u>\$ 1,344,865</u>

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**6. Long-Term Debt**

A summary of long-term debt follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Medical Center FHA Section 242 insured mortgage loan <sup>(a)</sup>	<b>\$ 79,998</b>	\$ 87,840
Medical Center FHA Section 241 insured mortgage loan <sup>(b)</sup>	<b>52,474</b>	60,975
Medical Center FHA Section 241 insured mortgage loan <sup>(c)</sup>	<b>54,588</b>	59,163
Medical Center FHA Section 241 insured mortgage loan <sup>(c)</sup>	<b>8,958</b>	9,708
Medical Center FHA Section 241 insured mortgage loan <sup>(d)</sup>	<b>124,567</b>	131,209
HDC residential revenue bonds payable <sup>(e)</sup>	<b>5,600</b>	5,900
Bank loans payable <sup>(f)</sup>	<b>100,488</b>	95,368
Housing II mortgages payable <sup>(g)</sup>	<b>18,252</b>	18,421
MCORP bonds payable <sup>(h)</sup>	<b>17,630</b>	18,190
NYC IDA bonds payable <sup>(h)</sup>	<b>12,380</b>	12,755
Build NYC bonds payable <sup>(i)</sup>	<b>67,620</b>	73,718
Equipment leasing programs <sup>(j)</sup>	<b>227,368</b>	192,769
Ambulatory care center financing <sup>(k)</sup>	<b>56,419</b>	57,143
Dormitory Authority mortgage <sup>(l)</sup>	<b>14,868</b>	15,675
Nyack loans payable <sup>(m)</sup>	<b>13,287</b>	13,304
White Plains mortgage payable <sup>(n)</sup>	<b>12,085</b>	14,297
White Plains construction loans <sup>(o)</sup>	<b>7,545</b>	7,606
White Plains capital lease obligations <sup>(p)</sup>	<b>8,513</b>	9,815
St. Luke's IDA bonds <sup>(q)</sup>	<b>39,640</b>	42,170
Other	<b>3,923</b>	3,808
	<b>926,203</b>	929,834
Add unamortized premiums and discounts, net	<b>849</b>	1,159
Less deferred financing costs	<b>(5,674)</b>	(6,411)
Less current portion	<b>(104,885)</b>	(135,430)
	<b>\$ 816,493</b>	\$ 789,152

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt (continued)

In May 2016, the Medical Center issued Montefiore Medical Center GNMA Collateralized Taxable Revenue Bonds, Series 2016 (2016 Bonds) in order to refinance bonds secured by two of its FHA insured mortgage loans (see sections a and d below). As a result of the refinancing, the Health System recorded a gain on refinancing of approximately \$4.6 million during 2016.

<sup>(a)</sup> The Medical Center has a mortgage agreement insured under the provisions of the Federal Housing Administration (FHA) 242 Program to finance certain construction and renovation projects. This insured mortgage loan is secured by a first mortgage on substantially all of the Medical Center's real property and unrestricted assets. Prior to May 2016, the mortgage agreement was with the Dormitory Authority of the State of New York (the Dormitory Authority) and the interest rate was 4.57% per annum. In May 2016, the Medical Center issued the 2016 Bonds in order to refinance bonds secured by the mortgage loan and reduce the interest rate to 2.47%. The 2016 Bonds are secured by fully modified pass-through mortgage-backed securities guaranteed by the Government National Mortgage Association (GNMA). Mortgage principal and interest payments are due monthly through October 1, 2026, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to March 31, 2026, after which the mortgage may be prepaid without penalty.

<sup>(b)</sup> The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program, to finance a construction and renovation project. The interest rate on the mortgage is 4.55% per annum and principal and interest payments are due monthly through April 2023, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to February 1, 2018. Subsequent to February 1, 2018, the loan may be prepaid without penalty.

In connection with this financing, the Medical Center recorded a mortgage premium as a component of long-term debt related to the termination of a forward starting interest rate swap agreement. The balance outstanding was approximately \$804,000 and \$1.1 million at December 31, 2017 and 2016, respectively. The mortgage premium is being amortized over the life of the mortgage using the effective interest method.



Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**6. Long-Term Debt (continued)**

- (c) The Medical Center has two mortgage agreements insured under the provisions of the FHA 241 Program to finance construction and renovation projects. The interest rate is 4.22% per annum. Monthly payments of principal and interest will be made through May 1, 2027, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loans may not be prepaid prior to April 30, 2021, after which the mortgages may be prepaid without penalty.
- (d) The Medical Center has a mortgage agreement insured under the provisions of the FHA 241 Program, to finance a construction and renovation project that was completed in 2007. Prior to May 2016, the mortgage agreement was with the Dormitory Authority and the interest rate was 5.37% per annum. In May 2016, the Medical Center issued the 2016 Bonds in order to refinance bonds secured by the mortgage loan and reduce the interest rate to 3.21%. The 2016 Bonds are secured by fully modified pass-through mortgage-backed securities guaranteed by GNMA. Mortgage principal and interest payments are due monthly through April 1, 2032, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to March 31, 2026, after which the mortgage may be prepaid without penalty.
- (e) The proceeds of New York City Housing Development Corporation (HDC) revenue bonds were used by the Medical Center for a staff housing project. Interest is payable monthly at a variable rate (3.08% and 2.09% at December 31, 2017 and 2016, respectively). Principal is payable annually through May 1, 2030. The amounts due are secured by a mortgage and a revenue pledge on the underlying property financed and an irrevocable direct pay letter of credit issued by a bank in the amounts of approximately \$5.7 million and \$6.0 million at December 31, 2017 and 2016, respectively. The letter of credit expires in September 2018. No unreimbursed draws were made under the direct pay letter of credit during the years ended December 31, 2017 and 2016.

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**6. Long-Term Debt (continued)**

<sup>(f)</sup> Bank loans payable consist of the following at December 31, 2017 and 2016:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Medical Center bank loans payable at varying dates through November 2021, at fixed and variable rates ranging from 3.43% – 3.73% and 2.95% – 3.43% at December 31, 2017 and 2016, respectively	<b>\$ 12,624</b>	\$ 13,550
Medical Center mortgage loan payable due in February 2019 at a fixed rate of 1.67%	<b>30,000</b>	30,000
MCORP mortgage loan payable due in March 2020 at a fixed rate of 2.49%	<b>34,989</b>	35,920
White Plains bank notes payable at varying dates through 2027 at fixed and variable rates ranging from 2.24% – 3.10% and 2.19% – 2.90% at December 31, 2017 and 2016, respectively	<b>12,408</b>	7,798
Burke line of credit	<b>2,967</b>	–
St. Luke’s bank loans payable due in April 2020 at variable rates ranging from 4.50% – 6.00%	<b>7,500</b>	8,100
	<b><u>\$ 100,488</u></b>	<b><u>\$ 95,368</u></b>

The Medical Center has a line of credit with a bank aggregating approximately \$30.0 million. At December 31, 2017 and 2016, no amounts were outstanding under this line. The line of credit expires in June 2018.

In May 2017, White Plains entered into a note payable with TD Bank for \$5.5 million to partially fund the purchase of a building (170 Maple Avenue Loan). Under the terms of the 170 Maple Avenue Loan, principal and interest payments are based on a 10-year level amortization, resulting in equal monthly payments of \$53,982 until March 1, 2022, upon which date the 170 Maple Avenue Loan matures and the outstanding principal amount is payable in full. Interest on the 170 Maple Avenue Loan is based on a fixed rate of 3.10%. The amount outstanding under the 170 Maple Avenue Loan is approximately \$5.3 million as of December 31, 2017.

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt (continued)

White Plains has an unsecured line of credit with a bank aggregating approximately \$30.0 million. At December 31, 2017 and 2016, no amounts were outstanding under this line. The interest rate on any future advances will be based on LIBOR plus 0.65%. The line of credit expires in October 2018.

Burke has a \$4.73 million line of credit with a financial institution. Interest is based on the prime rate minus 75 basis points. The line is secured by investments. Approximately \$2.97 million was outstanding at December 31, 2017 at an interest rate of 3.75%. No amounts were outstanding at December 31, 2016.

- (g) Housing II has primary and subordinate mortgage agreements with HDC. At December 31, 2017 and 2016, the primary mortgage amount outstanding was approximately \$5.5 million and \$5.6 million, respectively. The primary mortgage has a final maturity date in January 2035 and the interest rate is 6.5%. At December 31, 2017 and 2016, the subordinate mortgage amount outstanding was approximately \$12.8 million and bears no interest. The subordinate mortgage is payable in full in April 2035 and Housing II has used 1.8% as the interest rate for the purposes of recognizing interest expense under the assumption that the mortgages will remain outstanding through 2035.

Substantially all of Housing II's property and equipment rents and profits are collateral for the mortgages. In addition, any requests for rental increases must be approved by HDC. During the years ended December 31, 2017 and 2016, Housing II maintained the reserve for replacement account in accordance with HDC requirements. Monthly deposits aggregating approximately \$5,000 are required to be made into this account.

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt (continued)

- <sup>(h)</sup> MCORP financed the acquisition of certain real estate with the proceeds of two financings: New York City Industrial Development Agency (NYC IDA) revenue bonds and MCORP taxable bonds. Interest on the NYC IDA bonds has an average coupon rate of 4.96%, and payments of interest and principal are payable monthly through October 1, 2035. The bonds were sold at a premium, of which approximately \$135,000 and \$148,000 was recorded as a component of the related long-term debt as of December 31, 2017 and 2016, respectively, and is being amortized using the effective interest method over the term of the NYC IDA bonds. Interest on the MCORP bonds is payable monthly at a variable rate (3.08% and 2.38% at December 31, 2017 and 2016, respectively). Principal is payable monthly through October 2035. The MCORP bonds are subject to prepayment without penalty. Both bond issues are secured by direct pay letters of credit from a bank in the amounts of approximately \$12.9 million and \$18.0 million at December 31, 2017, and approximately \$13.3 million and \$18.6 million at December 31, 2016. The letters of credit are secured by a mortgage on the properties financed. The letters of credit expire September 30, 2020. No unreimbursed draws were made under the direct pay letters of credit during the years ended December 31, 2017 and 2016.
- <sup>(i)</sup> During 2013, the Medical Center issued Build NYC Resource Corporation Revenue Bonds, Series 2013A and Series 2013B (2013 Bonds) through Build NYC Resource Corporation, to finance a leasehold renovation project secured by a leasehold mortgage. At December 31, 2017 and 2016, a total of approximately \$67.6 million and \$73.7 million was outstanding, respectively. Interest on the 2013 Bonds is payable monthly at variable rates (2.42% and 1.83% at December 31, 2017 and 2016, respectively). Principal is payable monthly through June 2030. The 2013 Bonds are subject to prepayment without penalty, upon satisfaction of certain notice provisions.
- <sup>(j)</sup> In addition to amounts previously borrowed, the Medical Center borrowed approximately \$46.7 million and \$14.8 million during the years ended December 31, 2017 and 2016, respectively, under equipment leases to finance certain capital projects. The interest rates associated with the Medical Center's various equipment lease borrowings range from 1.06% to 2.23%.

White Plains has entered into several agreements under the New York State tax-exempt leasing program (TELP) for the acquisition of certain equipment. Upon expiration of the agreements, the principal will be fully paid and title to the equipment will transfer to White

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt (continued)

Plains. Interest rates under the TELP agreements range from 1.62% to 1.97% and have various expiration dates through 2022. Approximately \$18.0 million and \$2.1 million was outstanding at December 31, 2017 and 2016, respectively.

- (k) The Medical Center has a real estate lease for an ambulatory care center. The lease was accounted for as a financing transaction; accordingly, an obligation of approximately \$56.4 million and \$57.1 million was outstanding at December 31, 2017 and 2016, respectively. Payments of principal and interest commenced in September 2015 and extend through September 2030.
- (l) The Medical Center has a loan agreement with the Dormitory Authority in connection with the transfer of a substance abuse treatment facility from Albert Einstein College of Medicine, Inc. (Einstein) to the Medical Center. The loan is secured by a mortgage on the facility. At December 31, 2017 and 2016, a total of approximately \$14.9 million and \$15.7 million was outstanding, respectively. Interest payments are due semiannually at rates ranging from approximately 4.4% to 4.5% and principal payments are due annually through February 2030. To the extent that the Medical Center continues to meet certain conditions, its obligations to make interest and principal payments will be funded by the New York State Office of Alcoholism and Substance Abuse Services (OASAS) under a state aid grant lien. During 2017 and 2016, OASAS funded approximately \$1.5 million of principal, interest and fees associated with this loan.
- (m) Nyack had various debt instruments outstanding with Healthcare Financial Solutions, LLC. At December 31, 2016, amounts outstanding consisted of a term loan of approximately \$1.9 million, a revolving note of approximately \$11.0 million and a capex loan of approximately \$417,000. The interest rates associated with Nyack's debt instruments ranged from 5.39% to 6.75% at December 31, 2016.

In February 2017, Nyack entered into a credit agreement with Gemino Healthcare Finance, LLC (Gemino). Gemino provides a revolving line of credit up to \$20.0 million based on a borrowing base that is equal to 85% of the net collectible value of eligible billed accounts receivable aged up to 150 days and 75% of the net collectible value of eligible unbilled accounts receivable aged up to 45 days. The interest rate on the revolving line of credit is computed from a base rate of 3-month LIBOR plus 3.95%. The interest rate as of December 31, 2017 was 5.60%. The initial advance on the revolving line of credit was

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt (continued)

approximately \$16.0 million and was used to repay all amounts that were due to Healthcare Financial Solutions, LLC. At December 31, 2017, a total of approximately \$13.3 million was outstanding.

- (n) White Plains has a mortgage agreement with the Dormitory Authority insured under the provisions of the FHA 242 Program. The insured mortgage loan is collateralized by a mortgage on a portion of White Plains' real property and a security interest in personal property. Payments of principal and interest are due monthly through September 1, 2022. Interest is payable at a rate of 5.05% per annum.
- (o) In November 2015, in conjunction with the lease of office space for certain physician practices, White Plains entered into a construction loan agreement with the landlord to finance various leasehold improvements to the office space. The note bears an interest rate of 6.5% and is payable monthly through June 2025. Approximately \$3.7 million and \$4.1 million was outstanding at December 31, 2017 and 2016, respectively.

In July 2016, in conjunction with the lease of additional office space, White Plains entered into another construction loan agreement. The note bears an interest rate of 6.0% and is payable monthly through June 2026. Approximately \$3.6 million and \$3.5 million was outstanding at December 31, 2017 and 2016, respectively.

- (p) On October 30, 2008, White Plains entered into a lease and sublease agreement by and between the City of White Plains and The White Plains Urban Renewal Agency (the Renewal Agency), whereby White Plains subleased from the Renewal Agency parking spaces within a municipal parking garage for the exclusive use by White Plains. The remaining balance outstanding under the sublease agreement was approximately \$6.2 million and \$6.5 million at December 31, 2017 and 2016, respectively.

In March 2016, White Plains entered into a capital lease agreement with Intuitive Surgical, Inc., for \$4.0 million to finance two surgical robotic systems (the Robotic Lease). Monthly principal and interest payments are due through 2020. Interest on the Robotic Lease is based on a fixed rate of 2.0%. Principal amounts outstanding under the Robotic Lease were approximately \$2.3 million and \$3.3 million at December 31, 2017 and 2016, respectively.

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt (continued)

<sup>(9)</sup> In 2001, St. Luke's borrowed funds to finance certain projects. The proceeds were obtained in connection with the issuance and sale by the Orange County Industrial Development Agency (IDA) of its Civic Facility Revenue Bonds Series 2001A and Series 2001B. Approximately \$14.0 million and \$15.2 million was outstanding under these debt agreements at December 31, 2017 and 2016, respectively. The bonds are secured by certain buildings, fixtures and property and mature in 2021 and 2026. The interest rates ranged from 2.5% to 5.58% at December 31, 2017 and 2016.

In November 2005, St. Luke's entered into an agreement with Community Development Properties Dubois Street II, Inc. (CDP) to construct, own and operate on property leased (through a ground lease) from St. Luke's, a 224,320 square-foot five-story public parking garage adjacent to St. Luke's containing approximately 550 parking spaces, a heliport and a skyway connecting the parking garage to St. Luke's. CDP is an affiliate of NDC Housing and Economic Development Corporation, a Virginia non-stock corporation exempt from federal income taxes.

The parking garage is owned and operated by CDP. In the year 2036, the parking garage and related improvements will transfer to St. Luke's upon the expiration of the ground lease. In addition, St. Luke's entered into a MakeWell Agreement with a bank in order to guarantee minimum payments and sufficient revenue for CDP to maintain certain required ratios under its financing agreements. Under this arrangement, U.S. generally accepted accounting principles require the parking garage assets to be reflected in the consolidated statements of financial position, along with the related debt incurred to finance these assets, and St. Luke's is also required to report the underlying operations of the project in the consolidated statements of operations. The parking garage was initially placed in limited service in December 2006 and was fully operational in April 2007.

The proceeds were obtained by CDP through financing with the City of Newburgh IDA. The Series 2005A Bonds are Variable Rate Demand Civic Facility Revenue Bonds, issued in aggregate principal amount of \$21.2 million maturing in October 2030. KeyBank National Association (KeyBank) holds the outstanding bonds as bank qualified bonds which contain a demand purchase option which allows the bank to exercise a demand provision on or after November 30, 2020. Approximately \$14.0 million and \$14.8 million was outstanding under this debt agreement at December 31, 2017 and 2016, respectively. The interest rate was 1.02% and 0.50% at December 31, 2017 and 2016, respectively.

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**6. Long-Term Debt (continued)**

In June 2006, St. Luke's borrowed funds for various hospital renovation projects. The proceeds were obtained in connection with the issuance and sale by Orange County IDA of its Variable Rate Demand Civic Facility Revenue bonds Series 2006 issued in the aggregate principal amount of approximately \$16.0 million, maturing in July 2032. KeyBank holds the outstanding bonds as bank qualified bonds which contain a demand purchase option which allows the bank to exercise a demand provision on or after November 30, 2020. Approximately \$11.7 million and \$12.2 million was outstanding under this debt agreement at December 31, 2017 and 2016, respectively. The interest rate was 1.02% and 0.50% at December 31, 2017 and 2016, respectively.

The aggregate amount of principal payments required under all long-term indebtedness based on scheduled repayment terms, including capital leases, exclusive of sinking funds requirements, at December 31, 2017 are as follows (in thousands):

2018	\$ 104,885
2019	119,086
2020	126,272
2021	85,579
2022	80,648
2023 and thereafter	409,733
	<u>\$ 926,203</u>

The Medical Center and White Plains are required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for the FHA insured mortgage loans. At December 31, 2017, the Medical Center and White Plains met the funding requirements and minimum mortgage reserve fund balances related to the FHA insured mortgage loans. White Plains mortgage reserve fund is fully funded, thus not requiring any further funding of the mortgage reserve fund as of such date.



Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**6. Long-Term Debt (continued)**

The Medical Center's funding requirements for the next five years are as follows (in thousands):

	<u>FHA 242<sup>(a)</sup></u>	<u>FHA 241<sup>(b)</sup></u>	<u>FHA 241<sup>(c)</sup></u>	<u>FHA 241<sup>(c)</sup></u>	<u>FHA 241<sup>(d)</sup></u>	<u>Total Funding Requirement</u>
2018	\$ —	\$ (3,145)	\$ —	\$ —	\$ —	\$ (3,145)
2019	—	(3,145)	—	—	—	(3,145)
2020	—	(3,145)	(1,164)	(191)	—	(4,500)
2021	(2,315)	(3,237)	(1,996)	(328)	—	(7,876)
2022	(3,969)	(3,145)	(1,997)	(327)	—	(9,438)

The Medical Center's required minimum mortgage reserve fund balances for the next five years are as follows (in thousands):

	<u>FHA 242<sup>(a)</sup></u>	<u>FHA 241<sup>(b)</sup></u>	<u>FHA 241<sup>(c)</sup></u>	<u>FHA 241<sup>(c)</sup></u>	<u>FHA 241<sup>(d)</sup></u>	<u>Total Funding Requirement</u>
2018	\$ 19,845	\$ 14,522	\$ 13,970	\$ 2,293	\$ 21,512	\$ 72,142
2019	19,845	11,377	13,970	2,293	21,512	68,997
2020	19,845	8,232	12,806	2,102	21,512	64,497
2021	17,530	4,995	10,810	1,774	21,512	56,621
2022	13,561	1,850	8,813	1,447	21,512	47,183

Substantially all of the Health System's property, buildings, and equipment and other assets serve as collateral under the various debt arrangements. In addition, the Medical Center, Nyack, White Plains and St. Luke's must maintain certain financial ratios and, among other things, obtain approval to incur additional debt above specified amounts. There were no instances of noncompliance with such covenants at December 31, 2017 and 2016 for the Medical Center and White Plains.

Nyack was not in compliance with the monthly covenants for six months during 2016. Nyack did not have any instances of noncompliance during 2017. However, Nyack anticipates that it will not meet the required fixed charge coverage ratio calculation for the first quarter and third quarter of 2018. Due to these instances of historical and anticipated noncompliance, Nyack's debt under the agreement with Gemino is classified as current in the accompanying consolidated statements of financial position.

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt (continued)

In October 2017, St. Luke's entered into a Forbearance Agreement (FA) with its lenders that expires March 31, 2020 and encompasses the IDA debt described above. Under the FA, the lenders have agreed to take no remedial action against St. Luke's (relating to St. Luke's noncompliance with certain financial ratio covenants under the existing loan agreements), as long as St. Luke's maintains a minimum of 25 days cash on hand and debt service coverage of at least 1.25 on each subsequent December 31<sup>st</sup> and June 30<sup>th</sup>. All other covenants remain as stated in the original debt and loan agreements. Based on the compliance measurements at December 31, 2017, St. Luke's is in compliance with the covenant requirements.

Interest paid during the years ended December 31, 2017 and 2016, amounted to \$37.0 million and \$38.4 million, respectively.

#### 7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Collateralizing bank financing, teaching and research	\$ 38,358	\$ 37,368
Health care related services	32,088	29,328
Construction and renovation projects	23,838	28,437
Research	6,724	8,466
Other	2,275	1,906
	<u>\$ 103,283</u>	<u>\$ 105,505</u>

The Health System follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as it relates to its permanently restricted endowments.

The Health System's endowments consist of donor-restricted funds established for a variety of purposes. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**7. Temporarily and Permanently Restricted Net Assets (continued)**

The Health System requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Health System classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) if applicable, any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted funds that are not classified in permanently restricted net assets is classified as temporarily restricted net assets until the purpose or time restriction expires. Endowment assets include those assets of donor-restricted funds that the Health System must hold in perpetuity or for a donor-specified term.

The Health System's investment and spending policies for endowment assets seek to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Health System must hold in perpetuity or for a donor-specified term.

For the years ended December 31, 2017 and 2016, the Health System had the following endowment-related activities:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<i>(In Thousands)</i>			
Endowment balance, beginning of year	\$ —	\$ 3,942	\$ 53,177	\$ 57,119
Additions and other adjustments	—	—	1,606	1,606
Investment income	893	662	312	1,867
Amounts appropriated for expenditure	(893)	(570)	—	(1,463)
Net change in endowment funds	—	92	1,918	2,010
Endowment balance, end of year	\$ —	\$ 4,034	\$ 55,095	\$ 59,129

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**7. Temporarily and Permanently Restricted Net Assets (continued)**

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<i>(In Thousands)</i>			
Endowment balance, beginning of year	\$ —	\$ 1,950	\$ 52,148	\$ 54,098
Additions and other adjustments	—	—	(434)	(434)
Investment income	497	301	—	798
Amounts appropriated for expenditure	(497)	(66)	—	(563)
Contributions received from acquisitions of St. Luke's and Burke	—	1,757	1,463	3,220
Net change in endowment funds	—	1,992	1,029	3,021
Endowment balance, end of year	\$ —	\$ 3,942	\$ 53,177	\$ 57,119

Permanently restricted net assets amounted to approximately \$55.1 million and \$53.2 million at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the fair value of marketable securities (including reinvested earnings over the life of endowments) exceeded the amount of permanently restricted net assets at such dates.

**8. Benefit Plans**

**Pension Plans**

Certain entities in the Health System provide pension and similar benefits to its 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.

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **8. Benefit Plans (continued)**

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 (ERISA) and the Pension Protection Act of 2006 PPA. 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.

Total expense related to these plans included in employee benefits expense in the accompanying consolidated statements of operations for the various plans, aggregated approximately \$151.4 million and \$147.8 million for the years ended December 31, 2017 and 2016, respectively. Cash payments relative to the various plans aggregated approximately \$150.3 million and \$146.0 million for the years ended December 31, 2017 and 2016, respectively.

#### **Postretirement Benefits**

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).

#### **Multiemployer Plans**

The Medical Center, MNR, MMV, SECC, Nyack, White Plains and St. Luke's contribute to various multiemployer defined benefit pension plans under the terms of collective bargaining agreements that cover its union-represented employees, including the New York State Nurses Association Pension Plan (NYSNA) and the 1199SEIU Healthcare Employees Pension Fund (1199SEIU). 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. The risks of participating in these multiemployer plans are different from single-employer plans in the following respects:

- Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**8. Benefit Plans (continued)**

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

These entities' participation in these plans for the years ended December 31, 2017 and 2016, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan numbers. Unless otherwise noted, the most recent Pension Protection Act zone status available in 2017 and 2016 is for the plan's year end at December 31, 2016 and 2015, respectively. The zone status is based on information received from the plans and is certified by the plans' actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration dates of the collective bargaining agreements to which the plans are subject.

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Pending/Implemented	Contributions from the Health System		Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
		January 1, 2017	January 1, 2016		2017	2016		

*(In Thousands)*

NYSNA	13-6604799/001	<b>Green</b>	Green	N/A	\$ 29,258	\$ 27,190	No	12/31/2018
1199SEIU	13-3604862/001	<b>Green</b>	Green	N/A	\$ 63,825	\$ 67,756	No	9/30/2018 4/30/2019

The Medical Center was listed in the plans' Forms 5500 as providing more than 5% of the total contributions for the following plan years:

Pension Fund	Year Contributions to Plan Exceeded More Than 5% of Total Contributions (as of December 31 of the Plan's Year End)
NYSNA	2016 and 2015
1199SEIU	2016 and 2015

At the date the Health System's consolidated financial statements were issued, Forms 5500 were not available for the plans' year ended in 2017.

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**8. Benefit Plans (continued)**

Certain White Plains employees represented by a bargaining unit participate in a multiemployer health and welfare plan. For these employees, White Plains contributes to the 1199SEIU National Benefit Fund for Health and Human Service Employees (the Multiemployer H&W Plan). The Multiemployer H&W Plan provides medical benefits to active union employees and retirees. White Plains contributed approximately \$2.8 million and \$2.2 million for the years ended December 31, 2017 and 2016, respectively.

**Defined Benefit Plans**

The Health System recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the defined benefit plans in its consolidated statements of financial position. Net unrecognized actuarial losses and net unrecognized prior service costs at the reporting date will be subsequently recognized in the future as net periodic pension benefit cost pursuant to the Health System's accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension benefit cost in the same periods will be recognized as a component of unrestricted net assets.

Included in unrestricted net assets at December 31, 2017 and 2016, are the following amounts that have not yet been recognized in net periodic benefit cost:

	<b>Pension Plans</b>		<b>Postretirement Plans</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>			
Unrecognized actuarial loss	\$ 20,885	\$ 18,633	\$ 43,819	\$ 29,414
Unrecognized prior service cost (credit)	89	2,758	(2,055)	(3,835)
	<u>\$ 20,974</u>	<u>\$ 21,391</u>	<u>\$ 41,764</u>	<u>\$ 25,579</u>

The unrecognized net prior service cost (credit) and actuarial loss included in unrestricted net assets expected to be recognized as net periodic pension benefit cost during the year ending December 31, 2018, are approximately (\$1.7) million and \$4.8 million, respectively.

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**8. Benefit Plans (continued)**

The following tables provide a reconciliation of the changes in the benefit obligations and fair value of plan assets for the years ended December 31, 2017 and 2016 and the funded status and accumulated benefit obligation as of December 31, 2017 and 2016 (combined for the plans):

	<b>Pension Plans</b>		<b>Postretirement Plans</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>			
<b>Changes in benefit obligation</b>				
Benefit obligation at January 1	\$ 441,463	\$ 262,318	\$ 162,019	\$ 149,519
Inclusion of obligations at Burke and St. Luke's acquisition dates	–	187,333	–	7,296
Service cost	8,872	6,882	11,496	11,669
Interest cost	18,019	19,313	7,147	6,607
Actuarial loss (gain)	29,808	4,943	16,638	(5,966)
Benefit payments, net	(27,247)	(21,041)	(4,790)	(7,106)
Plan settlements	(1,922)	(18,285)	–	–
Benefit obligation at December 31	<u>\$ 468,993</u>	<u>\$ 441,463</u>	<u>\$ 192,510</u>	<u>\$ 162,019</u>
<b>Change in plan assets</b>				
Fair value of plan assets at January 1	\$ 316,878	\$ 209,637	\$ –	\$ –
Inclusion of plan assets at Burke and St. Luke's acquisition dates	–	118,753	–	–
Actual return on plan assets	46,534	19,463	–	–
Employer contributions	13,571	6,816	4,790	7,106
Benefit payments, net	(27,389)	(21,201)	(4,790)	(7,106)
Plan settlements	–	(16,590)	–	–
Fair value of plan assets at December 31	<u>\$ 349,594</u>	<u>\$ 316,878</u>	<u>\$ –</u>	<u>\$ –</u>
<b>Funded status</b>				
Amounts recognized in the consolidated statements of financial position	<u>\$ (119,399)</u>	<u>\$ (124,585)</u>	<u>\$ (192,510)</u>	<u>\$ (162,019)</u>
Accumulated benefit obligation at December 31	<u>\$ 451,494</u>	<u>\$ 424,456</u>		



Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**8. Benefit Plans (continued)**

At December 31, 2017 and 2016, approximately \$15.5 million and \$7.7 million, respectively, was included in accrued salaries, wages and related items in the accompanying consolidated statements of financial position.

The actuarial losses are primarily related to a decrease in the discount rate and changes in the assumptions related to the mortality table and mortality projection scale used to measure the benefit obligation at December 31, 2017 and 2016.

The following table provides the components of the net periodic pension benefit cost for the years ended December 31, 2017 and 2016:

	<b>Pension Plans</b>		<b>Postretirement Plans</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>			
Service cost	\$ 8,872	\$ 6,882	\$ 11,496	\$ 11,669
Interest cost	18,019	19,313	7,147	6,607
Expected return on plan assets	(20,231)	(22,629)	–	–
Amortization of prior service cost (benefit)	116	206	(1,779)	(1,779)
Amortization of net loss	1,253	88	1,867	2,863
Settlement cost	1,139	1,168	–	–
Net periodic pension benefit cost	<b>\$ 9,168</b>	<b>\$ 5,028</b>	<b>\$ 18,731</b>	<b>\$ 19,360</b>

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**8. Benefit Plans (continued)**

The weighted-average assumptions used to determine benefit obligations and net periodic pension benefit cost as of and for the years ended December 31, 2017 and 2016 are as follows:

	<b>Pension Plans</b>		<b>Postretirement Plans</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Benefit Obligations:</b>				
Discount rate	<b>3.28%–3.90%</b>	3.69%–4.52%	<b>3.64%–3.90%</b>	4.25%– 4.50%
Rate of compensation increases	<b>2.00%–4.00%</b>	2.00%–4.00%	<b>3.00%</b>	3.00%
<b>Net Periodic Pension Benefit Cost:</b>				
Discount rate	<b>3.69%–4.52%</b>	3.85%–4.72%	<b>4.22%–4.50%</b>	4.21%–4.35%
Expected long-term rate of return on plan assets	<b>5.75%–7.50%</b>	6.50%–7.50%	N/A	N/A
Rate of compensation increases	<b>2.00%–4.00%</b>	2.50%–4.00%	N/A	N/A

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

	<b>2017</b>	<b>2016</b>
Health care cost trend rate	<b>7.60%</b>	6.95%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	<b>4.50%</b>	5.00%
Years that the rate reaches the ultimate trend rate	<b>2025</b>	2022–2023

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**8. Benefit Plans (continued)**

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

	2017		2016	
	1% Increase	1% Decrease	1% Increase	1% Decrease
	<i>(In Thousands)</i>			
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 3,540	\$ (2,829)	\$ 3,464	\$ (2,761)
Effect on the health care component of the accumulated postretirement benefit obligation	28,042	(23,171)	23,980	(19,747)

The overall expected long-term rate of return of the plan assets is based on the historical returns of each asset class weighted by the target asset allocation. The target asset allocation has been selected consistent with the Health System's desired risk and return characteristics. The Health System's independent consulting actuaries review the expected long-term rate periodically and, based on the building block approach, updated the rate for changes in the marketplace. The market conditions in 2017 and 2016 and changes in the pension asset allocations were considered in the Health System's evaluation of the expected long-term rate of return assumption.

**Plan Assets**

The Pension Plans have separate asset allocation targets. The overall objectives of the investment policies are to produce an asset allocation that will generate return annually in order to meet the expense and income needs and provide for sufficient annual asset growth. Funds are invested with a long-term return objective.

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**8. Benefit Plans (continued)**

The Pension Plans' asset allocations (combined) at December 31, 2017 and 2016, by asset category, are as follows:

	<b>2017</b>	<b>2016</b>	<b>Target Allocation</b>
Equity securities and real estate	<b>75.0%</b>	72.7%	40%-60%
Fixed income investments and cash	<b>20.1</b>	17.9	30%-60%
Alternative investments	<b>4.9</b>	9.4	0%-10%
Hedge funds	<b>0.0</b>	0.0	0%-10%
	<b>100.0%</b>	100.0%	

Defined benefit pension plan assets are carried at fair value and generally consist of fixed income securities issued or guaranteed by government agencies, money market funds, mutual funds, fixed income securities issued by corporations, equity securities, common collective funds and alternative investments. Common collective funds and alternative investments funds are stated at fair value based upon, as a practical expedient, net asset values derived from the application of the equity method of accounting. Refer to Note 11 for additional fair value measurement information related to the defined benefit plan asset categories noted in the table above.

The measurement dates used to determine defined benefit pension and postretirement plan costs were December 31, 2017 and 2016.

During the year ending December 31, 2018, the Health System expects to contribute approximately \$28.0 million and \$6.3 million to the Pension Plans and Postretirement Plans, respectively.

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**8. Benefit Plans (continued)**

Expected benefit payments by year as of December 31, 2017, follow:

	<b>Pension Plans</b>	<b>Postretirement Plans</b>
	<i>(In Thousands)</i>	
2018	\$ 32,902	\$ 6,322
2019	28,173	6,890
2020	36,121	7,458
2021	34,923	8,068
2022	30,090	8,650
2023 – 2027	149,319	56,231

**9. Contingencies and Other**

**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 December 31, 2017 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. 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.

**Professional and Other Insured Liabilities**

The Medical Center participates in the Federation of Jewish Philanthropies, which is a pooled insurance program for professional and general liabilities with certain other health care facilities (the FOJP Program). Participation in this occurrence basis insurance program is through captive and commercial insurance companies. The Medical Center's malpractice insurance program offers a deferred premium arrangement in which 36% of the annual premium is paid in the current year and the balance is paid over five years. Total liabilities associated with the Medical Center's

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **9. Contingencies and Other (continued)**

participation in the FOJP Program were approximately \$191.6 million and \$187.4 million at December 31, 2017 and 2016, respectively. The liabilities principally relate to the deferred premium arrangement, the participating hospitals' guarantee of certain investment returns of the captive companies and retroactive premium adjustments.

As of December 31, 2017, the Medical Center retained ownership interests of 25% in three captive insurance companies affiliated with the FOJP Program. The Medical Center has recognized its allocated share of the program's accumulated surplus using the equity method of accounting. Such amounts (approximately \$166.6 million and \$161.8 million at December 31, 2017 and 2016, respectively) are included in other noncurrent assets in the accompanying consolidated statements of financial position. In December 2017, one of the captive insurance companies declared a dividend of approximately \$54.0 million to be distributed based on each owner's respective ownership interest. As a result, the Medical Center recorded a dividend receivable of approximately \$13.5 million which is recorded within other receivables in the accompanying consolidated statement of financial position as of December 31, 2017.

The Medical Center has recognized estimated insurance claims receivable and estimated insurance claims liabilities of approximately \$540.6 million (approximately \$81.1 million current and \$459.5 million long-term) and approximately \$499.8 million (approximately \$75.0 million current and \$424.8 million long-term) at December 31, 2017 and 2016, respectively. Such amounts represent the actuarially determined present value, discounted at approximately 2.8% at December 31, 2017 and 2016, of insurance claims that are anticipated to be covered by insurance. The amounts reported in the December 31, 2017 and 2016, consolidated statements of financial position for estimated insurance claims receivable and estimated insurance claims liabilities reflect the financial impact of the Medical Center's employed physicians.

During the years ended December 31, 2017 and 2016, the Medical Center recorded approximately (\$1.2 million) and \$1.2 million, respectively, of malpractice insurance program adjustments associated with investment earnings (gains) shortfalls. The cumulative amounts owed are reflected in accounts payable and accrued expenses (approximately \$8.3 million and \$7.7 million at December 31, 2017 and 2016, respectively) and professional and other insured liabilities (approximately \$8.4 million and \$15.7 million at December 31, 2017 and 2016, respectively) in the consolidated statements of financial position.

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **9. Contingencies and Other (continued)**

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

Additionally, as a result of the investigation, the Medical Center, together with the other hospitals affiliated with FOJP, identified an unpaid state tax liability for independently-procured insurance under Article 33-A of the New York Tax Law relating to insurance purchased from three off-shore captive insurance companies owned by the Medical Center and the other FOJP-affiliated hospitals.

On October 9, 2015, the Medical Center submitted a filing to the New York State Department of Taxation and Finance (DT&F) to participate in the DT&F's Voluntary Disclosure and Compliance Program, which would allow the Medical Center to limit the period for which back taxes would be due and avoid penalties for non-payment. The Medical Center was accepted by the DT&F into the program with a limited look-back on the taxes owed of three years (2012-2014). The Medical Center completed a Voluntary Disclosure and Compliance Agreement in March 2016, resulting in a payment of approximately \$6.7 million (including taxes and interest).

#### **Nyack Insurance Liabilities**

Through December 31, 2017, Nyack was self-insured for medical malpractice claims. The estimated malpractice liability and the required funding level are based upon an actuarial valuation of the estimated effect of probable loss contingencies, including provisions for known and unknown incidents incurred but not yet reported. Accrued malpractice losses have been discounted at 2.5% at December 31, 2017 and 2016 and, in management's opinion in consultation with an independent actuary, provide an adequate reserve for loss contingencies. Malpractice liabilities are discounted based on the expected timing of the actuarially estimated future payments under the program.

Effective January 1, 2018, Nyack participates in the FOJP Program. The policy with the FOJP Program provides coverage on a claims made basis up to \$10.0 million per claim and \$20.0 million in aggregate with a retroactive date to March 1, 2007.

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **9. Contingencies and Other (continued)**

The estimated malpractice liabilities recorded at December 31, 2017 and 2016, is approximately \$10.7 million and \$9.9 million, respectively, and is recorded within professional and other insured liabilities in the consolidated statements of financial position.

#### **White Plains Insurance Liabilities**

Effective July 1, 1986, White Plains purchased primary insurance on an occurrence basis and provided for potential losses in excess of primary coverage through a combination of self-insurance and purchased excess insurance on a claims-made basis. Effective November 15, 1998, White Plains and certain other members of Stellaris Health Network (Stellaris) participated in a combined insurance program that provides coverage through purchased primary and excess insurance on a claims-made basis. Effective January 1, 2004, White Plains purchased excess professional liability insurance above its primary placement layer, on a claims-made basis, from a captive insurance company previously formed by Stellaris, NWLP Insurance Company Ltd. (NWLP).

Effective June 30, 2014, NWLP implemented a segregated “cell captive” structure which replaced the previous insurance structure. Under this program, NWLP utilized individual cells for each participating hospital, under which invested assets and insurance-related liabilities were segregated for each participant and there was no shared risk among the entities.

Effective January 1, 2016, White Plains entered into an agreement (the Commutation Agreement) with NWLP, whereby all claims previously recorded under the cell captive structure fully commuted to White Plains. In connection with the Commutation Agreement, NWLP initially transferred approximately \$24.0 million to White Plains in February 2016. Also effective January 1, 2016, White Plains entered into a separate agreement with Stellaris in order to distribute the assets held by NWLP in White Plains’ segregated cell and other contributed capital. White Plains received a final distribution of approximately \$8.0 million in March 2016.

Effective for claims incurred on or subsequent to July 1, 2015, White Plains participates in the FOJP Program. Exposure for claims incurred prior to July 1, 2015, and reported after the expiration of an extended reporting period provided under White Plains’ prior policies is retained by White Plains.



## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **9. Contingencies and Other (continued)**

Based on actuarially determined estimates that incorporate White Plains' past experience, as well as industry experience, including the nature of each claim or incident and relevant trend factors, management has recorded undiscounted, estimated professional liabilities for asserted claims and loss development estimates and incurred but not reported tail liabilities of approximately \$11.6 million and \$6.8 million as of December 31, 2017 and 2016, respectively. Estimated professional liabilities include approximately \$32.1 million and \$24.7 million as of December 31, 2017 and 2016, respectively, related to claims covered under the insurance programs described above. A corresponding estimated insurance recovery related to such claims is included in the accompanying consolidated statements of financial position. The current portion of the professional liabilities and the related insurance recoveries receivable represent an estimate of expected settlements and insurance recoveries over the next twelve months.

#### **St. Luke's Insurance Liabilities**

Prior to November 1, 2016, Physicians' Reciprocal Insurers Company and Coverys insured St. Luke's for professional liability on a claims-made basis. St. Luke's maintained professional liability insurance of \$1.0 million per claim and \$6.0 million in the aggregate. St. Luke's also maintained a first layer of excess professional liability coverage of \$1.0 million per claim and \$1.0 million in the aggregate through SLCH Insurance, a second layer of excess professional liability coverage of \$10.0 million per claim and \$10.0 million in the aggregate through Lexington Insurance Company (AIG), and a third layer of excess coverage of \$5.0 million per claim and \$5.0 million in the aggregate through CNA Insurance Company (CNA).

Effective November 1, 2016, St. Luke's participates in the FOJP Program.

At December 31, 2017 and 2016, St. Luke's did not have any asserted claims exceeding its coverage. At December 31, 2017 and 2016, St. Luke's recorded an estimate for malpractice claims incurred but not reported of approximately \$3.2 million and \$2.7 million, respectively, based on a discount rate of 3.0%, and an estimated insurance recovery receivable and insurance claim liability related to professional liabilities of approximately \$13.4 million and \$11.2 million, respectively.

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 9. Contingencies and Other (continued)

##### Albert Einstein College of Medicine, Inc. (Einstein)

On September 9, 2015, a controlled member of MMAHS, Einstein, acquired substantially all of the assets and assumed substantially all of the liabilities of a medical school operating as a division of YU. In connection with this transaction, Build NYC Resource Corporation loaned to Einstein, under a loan agreement, the proceeds of \$175.0 million Build NYC Resource Corporation Revenue Bonds. In accordance with their terms, the bonds were tendered by the original bondholder and remarketed on January 28, 2016. Prior to the remarketing, the required interest and principal payments on the bonds were guaranteed by the Medical Center. The Medical Center was not required to make any payments under the guarantee, which terminated upon the remarketing of the bonds on January 28, 2016.

In addition, on September 9, 2015, Einstein issued to YU a promissory note (the Note) under which it 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 2026, followed by a final payment of \$20.0 million in 2037.

In September 2017, approximately \$1.5 million was paid by the Medical Center on Einstein's behalf pursuant to the Guaranty Agreement, as amended. Einstein is obligated to repay the Medical Center in full, over five years beginning in September 2018 at an interest rate of 4.73%. At December 31, 2017, amounts due and receivable under the Note were \$1.5 million (none at December 31, 2016).

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **9. Contingencies and Other (continued)**

The Medical Center has an agreement to provide operating subsidies to Einstein over a five-year period commencing September 2015 in an aggregate amount of up to \$80.0 million. The Medical Center will provide this subsidy in varying amounts to be funded upon the receipt and approval of documentation of unreimbursed research expenses incurred. The subsidy will total an amount not to exceed \$10.0 million per year in each of the first two years, and not to exceed \$20.0 million per year in each of the third, fourth and fifth years (see Note 14).

The Medical Center has 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 December 2017 in the amount of \$35.0 million, to be repaid by Einstein over a five year period in equal annual installments commencing in December 2020 at an annual interest rate of 5.2% (see Note 14).

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.

#### **Other**

At December 31, 2017 and 2016, approximately 57% and 58%, respectively, 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 will expire in December 2018. Nyack's contract with NYSNA was effective through December 31, 2017. A new contract with NYSNA is being negotiated and is expected to be finalized in early 2018. The Medical Center, MNR, MMV, SECC and St. Luke's collective bargaining agreements with 1199SEIU will expire in September 2018. Nyack's and White Plains' contracts with 1199SEIU expire on April 30, 2019.

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

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **10. Acquisitions**

On January 14, 2016 (the St. Luke's Acquisition Date), the Health System acquired St. Luke's and its controlled organizations, a not-for-profit community health care provider located in Orange County, New York. On January 4, 2016 (the Burke Acquisition Date), the Health System acquired the Winifred Masterson Burke Rehabilitation Hospital, a not-for-profit rehabilitation hospital located in White Plains, New York.

The Health System acquired St. Luke's and Burke by means of an inherent contribution, where no consideration was transferred by the Health System. The Health System accounted for these business combinations by applying the acquisition method and, accordingly, the inherent contributions received were valued as the excess of assets acquired over liabilities assumed. In determining the inherent contributions received, all assets acquired and liabilities assumed were measured at fair value as of the respective acquisition dates. The results of St. Luke's and Burke's operations have been included in the consolidated financial statements since their respective acquisition dates.

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**10. Acquisitions (continued)**

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the St. Luke's and Burke Acquisition Dates:

	<b>St. Luke's (January 14, 2016)</b>	<b>Burke (January 4, 2016)</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 5,877	\$ 5,212
Investments and marketable securities	9,513	305
Assets limited as to use	3,792	30,576
Receivables for patient care	22,325	9,557
Other receivables	54	764
Other current assets	7,535	2,877
Property, buildings and equipment	68,494	36,201
Other noncurrent assets	14,989	21,007
Total assets acquired	<u>132,579</u>	<u>106,499</u>
<b>Liabilities</b>		
Accounts payable and accrued expenses	30,292	4,976
Accrued salaries, wages, and related items	4,877	2,119
Debt	52,237	620
Defined benefit and postretirement health plan liabilities	15,463	60,129
Estimated insurance claims liabilities	–	2,231
Other noncurrent liabilities	19,681	–
Total liabilities assumed	<u>122,550</u>	<u>70,075</u>
Excess of assets acquired over liabilities assumed	<u>\$ 10,029</u>	<u>\$ 36,424</u>
<b>Net assets acquired</b>		
Unrestricted net assets	\$ 8,976	\$ 32,741
Temporarily restricted net assets	378	2,895
Permanently restricted net assets	675	788
	<u>\$ 10,029</u>	<u>\$ 36,424</u>

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**10. Acquisitions (continued)**

The following table summarizes amounts attributable to St. Luke's since the St. Luke's Acquisition Date that are included in the accompanying 2016 consolidated statement of operations:

	<b>Period from January 15, 2016 to December 31, 2016</b>
	<i>(In Thousands)</i>
Total operating revenue	\$ 185,347
Total operating expenses	<u>202,390</u>
Deficiency of operating revenues over operating expenses before Value Based Payment and Vital Access Provider Programs	(17,043)
Value Based Payment and Vital Access Provider Programs	<u>10,500</u>
Deficiency of operating revenues over operating expenses before other items	(6,543)
Other income related to other items	<u>1,048</u>
Deficiency of revenues over expenses	<u><u>\$ (5,495)</u></u>
Changes in net assets:	
Unrestricted net assets	\$ (5,850)
Temporarily restricted net assets	827
Permanently restricted net assets	—
Total change in net assets	<u><u>\$ (5,023)</u></u>

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**10. Acquisitions (continued)**

The following table summarizes amounts attributable to Burke since the Burke Acquisition Date that are included in the accompanying 2016 consolidated statement of operations:

	<b>Period from January 5, 2016 to December 31, 2016</b>
	<i>(In Thousands)</i>
Total operating revenue	\$ 80,371
Total operating expenses	<u>74,527</u>
Excess of operating revenues over operating expenses	
before other items	5,844
Other income related to other items	<u>1,060</u>
Excess of revenues over expenses	<u><u>\$ 6,904</u></u>
Changes in net assets:	
Unrestricted net assets	\$ 4,393
Temporarily restricted net assets	487
Permanently restricted net assets	—
Total change in net assets	<u><u>\$ 4,880</u></u>

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 10. Acquisitions (continued)

The following table represents unaudited pro forma financial information of the Health System, assuming the acquisitions of St. Luke's and Burke had taken place prior to January 1, 2016. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on this date.

	<b>Year Ended December 31, 2016</b>
	<i>(In Thousands)</i>
Total operating revenue	\$ 5,269,136
Total operating expenses	<u>5,279,001</u>
Deficiency of operating revenues over operating expenses before other items	(9,865)
Other gains related to other items	<u>80,142</u>
Excess of revenues over expenses	<u><u>\$ 70,277</u></u>
Changes in net assets:	
Unrestricted net assets	\$ 63,437
Temporarily restricted net assets	11,842
Permanently restricted net assets	<u>(434)</u>
Total change in net assets	<u><u>\$ 74,845</u></u>

#### 11. 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.



Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**11. Fair Value Measurements (continued)**

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.

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.

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**11. 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, 2017:

	December 31, 2017			Total
	Level 1	Level 2	Level 3	
	<i>(In Thousands)</i>			
<b>Assets</b>				
Cash and cash equivalents	\$ 398,237	\$ –	\$ –	\$ 398,237
Managed cash and cash equivalents held for investment	72,570	–	–	72,570
Marketable and other securities:				
Non-equity mutual funds	215,905	–	–	215,905
Equity mutual funds	52,540	–	–	52,540
U.S. Government agency mortgage-backed securities	–	51,771	–	51,771
U.S. Treasury securities	126,648	–	–	126,648
U.S. Government agency-backed securities	–	26,764	–	26,764
Equity securities	107,234	–	–	107,234
Corporate debt	–	266,888	–	266,888
Investment contracts	–	2,146	–	2,146
Interest and other receivables	1,307	–	–	1,307
	<u>974,441</u>	<u>347,569</u>	<u>–</u>	<u>1,322,010</u>
<b>Defined benefit pension plan assets</b>				
Cash and cash equivalents	5,962	–	–	5,962
Equity mutual funds	135,151	–	–	135,151
Non-equity mutual funds	95,919	–	–	95,919
Investment contracts	–	2,406	–	2,406
	<u>237,032</u>	<u>2,406</u>	<u>–</u>	<u>239,438</u>
	<u>\$ 1,211,473</u>	<u>\$ 349,975</u>	<u>\$ –</u>	<u>1,561,448</u>
Investments measured at net asset value (defined benefit pension plan assets)				<u>110,156</u>
				<u>\$ 1,671,604</u>

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**11. 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, 2016:

	December 31, 2016			Total
	Level 1	Level 2	Level 3	
	<i>(In Thousands)</i>			
<b>Assets</b>				
Cash and cash equivalents	\$ 292,252	\$ –	\$ –	\$ 292,252
Managed cash and cash equivalents held for investment	76,180	–	–	76,180
Marketable and other securities:				
Non-equity mutual funds	180,850	–	–	180,850
Equity mutual funds	46,708	1,350	–	48,058
U.S. Government agency mortgage-backed securities	–	52,567	–	52,567
U.S. Treasury securities	113,271	–	–	113,271
U.S. Government agency-backed securities	–	40,167	–	40,167
Equity securities	84,177	–	–	84,177
Corporate debt	–	219,836	–	219,836
Investment contracts	–	2,456	–	2,456
Interest and other receivables	5,891	–	–	5,891
	<u>799,329</u>	<u>316,376</u>	<u>–</u>	<u>1,115,705</u>
<b>Defined benefit pension plan assets</b>				
Cash and cash equivalents	13,345	–	–	13,345
Equity securities	32,116	–	–	32,116
Equity mutual funds	136,447	–	–	136,447
Non-equity mutual funds	82,074	–	–	82,074
Corporate debt	–	3,438	–	3,438
Investment contracts	–	2,415	–	2,415
	<u>263,982</u>	<u>5,853</u>	<u>–</u>	<u>269,835</u>
	<u>\$ 1,063,311</u>	<u>\$ 322,229</u>	<u>\$ –</u>	<u>1,385,540</u>
Investments measured at net asset value (defined benefit pension plan assets)				<u>47,043</u>
				<u>\$ 1,432,583</u>

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**11. Fair Value Measurements (continued)**

At December 31, 2017 and 2016, the Health System's alternative investments and collective trusts, excluding those within the defined benefit plans, are reported using the equity method of accounting in the amount of approximately \$181.6 million and \$157.2 million, respectively, and, therefore, are not included in the tables above.

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.

The carrying values and fair values of the Health System's financial instruments that are not required to be carried at fair value are as follows at December 31:

	2017		2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	<i>(In Thousands)</i>			
Long-term debt	\$ 921,367	\$ 927,052	\$ 923,204	\$ 930,993

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

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

The fair value of the Health System's bonds payable is based on quoted market prices for the related bonds. The fair value of other debt is based upon discounted cash flow analyses, using estimated borrowing rates for similar types of debt. Fair value of bonds payable is classified as Level 1, while fair value of other debt is classified as Level 2.

#### **12. Concentration of Credit Risk**

At December 31, 2017 and 2016, excluding investments in bond mutual funds, approximately 14% and 17%, respectively, of the Health System's marketable securities were issued by either the United States Government or its agencies.

At December 31, 2017 and 2016, significant concentrations of receivables for patient care include approximately 9% and 12% from Medicaid, 19% and 15% from Medicare and 68% and 67% from commercial and managed care organizations, respectively, of which no individual commercial or managed care organization equaled 10% or greater.

Net patient service revenue from the Medicare and Medicare managed care programs accounted for approximately 33% and 31%, and net patient service revenue from the Medicaid and Medicaid managed care programs accounted for approximately 31% and 29% of the Health System's net patient service revenue for the years ended December 31, 2017 and 2016, respectively. No other specific payer exceeded 10% of net patient service revenue.

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements (continued)

**13. Other Revenue**

Other revenue included in the consolidated statements of operations for the years ended December 31, 2017 and 2016 consisted of the following:

	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Patient care quality incentive revenue	\$ 47,142	\$ 28,685
Staff housing and other rental income	18,840	23,370
DSRIP revenue	44,923	22,574
Government Electronic Health Record Incentive Program	5,004	7,848
Care management administrative fees	9,567	8,964
Interest and dividend income	12,869	9,305
Cafeteria revenue	4,837	5,111
Behavioral health program revenue	—	9,986
Gains on employee deferred compensation plan assets	6,557	2,784
Equity earnings from investments	34,197	27,672
Parking revenue	7,965	8,001
Continuing Medical Education programs	14,459	13,925
Information system services	8,028	10,011
Net assets released from restrictions used for operations	5,426	4,834
Shared savings programs	1,399	5,617
All other	37,479	45,321
	<b>\$ 258,692</b>	<b>\$ 234,008</b>

For the years ended December 31, 2017 and 2016, approximately \$47.1 million and \$28.7 million was recognized by the Health System related to several agreements under which insurance companies provide for additional revenue when certain patient care quality, compliance and patient satisfaction metrics are met. Due to the inherent uncertainty on timing and finalization of annual results of the patient care quality incentive programs, amounts are recorded by the Health System when received.

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 13. Other Revenue (continued)

New York State distributes federally-funded amounts through a payment mechanism referred to as the Delivery System Reform Incentive Payment (DSRIP) program. The DSRIP program is a five-year program intended to promote community-level collaborations to focus on health system reform and enhance the value provided by the health care system. DSRIP funding is available to certain hospitals and providers participating in networks (referred to as Performing Provider Systems, PPS) that are able to establish performance improvement activities in certain predefined clinical improvement areas. The PPS that the Medical Center coordinates has submitted plans for clinical improvement projects in order to be eligible for payments under the DSRIP program. The Health System received approximately \$52.3 million and \$25.9 million during 2017 and 2016, respectively, and recorded approximately \$44.9 million and \$22.6 million, respectively, in other revenue during the years ended December 31, 2017 and 2016 for amounts received under the DSRIP program. Certain payments under the DSRIP program are subject to meeting specified performance criteria and other requirements which may be evaluated in future periods.

#### 14. Related Party Transactions

At December 31, 2017 and 2016, amounts due from (to) members, net were comprised of the following:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Due from members:		
Albert Einstein College of Medicine, Inc. <sup>(a)</sup>	<b>\$ 36,163</b>	<b>\$ —</b>
Due to members, net:		
Albert Einstein College of Medicine, Inc. <sup>(a)</sup>	<b>\$ 2,818</b>	<b>\$ (3,198)</b>
MMAHS <sup>(b)</sup>	<b>(7,515)</b>	<b>(5,807)</b>
Due to members, net	<b>\$ (4,697)</b>	<b>\$ (9,005)</b>

## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 14. Related Party Transactions (continued)

- (a) Transactions between Einstein and the Health System relate to costs for clinical training, research, professional services and related supporting services (at cost). In addition, the Medical Center has 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 December 2017 in the amount of \$35.0 million. During 2017 and 2016, the Medical Center also made capital contributions of approximately \$14.4 million and \$8.3 million, respectively, to Einstein in accordance with an agreement to provide operating subsidies to Einstein over a five-year period (see Note 9). In addition, during 2017, the Medical Center forgave amounts owed from Einstein of approximately \$4.8 million recorded within transfers to members, net in the consolidated statements of operations.
- (b) The Health System purchases various management, administrative and staffing services from MMAHS. For the years ended December 31, 2017 and 2016, transactions charged (at cost) by MMAHS to the Health System were approximately \$23.4 million and \$27.2 million, respectively, comprised of payroll and benefits charges.

During the years ended December 31, 2017 and 2016, the Medical Center's performing provider system (PPS), MHVC, received approximately \$68.4 million and \$59.5 million in DSRIP Value Based Payment Quality Improvement Program (VBP QIP) funding, which was distributed to MNR, MMV, Nyack and St. Luke's. VBP QIP was created by New York State to provide financially distressed hospitals and the PPSs with which they are associated the opportunity to collaborate with Medicaid managed care organizations for the successful implementation of VBP contracts as a means toward long-term financial sustainability.

#### 15. Subsequent Events

The Health System evaluated subsequent events through April 20, 2018, which is the date the consolidated financial statements were issued, for potential recognition or disclosure in the accompanying consolidated financial statements for the year ended December 31, 2017.



## Montefiore Health System, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **15. Subsequent Events (continued)**

Effective January 1, 2018, the Health System acquired an equity interest in a joint venture with Crystal Run Healthcare, LLP for a purchase price of \$90.0 million, of which \$25.0 million was due at closing and \$20.0 million, \$25.0 million and \$20.0 million is due on the first, second and third anniversaries of the closing date, respectively (deferred payments). On January 4, 2018, MHS entered into a loan agreement with Bank of America, N.A providing for loans of up to \$50.0 million to finance the acquisition. In accordance with the purchase agreement, the Medical Center agreed to guarantee payments made by the Health System under the loan, and entered into a security agreement by which the Medical Center deposited \$30.0 million in escrow as security for the deferred payments.

On February 5, 2018, the State of New York approved the Health System's application to become active parent of Nyack and St. Luke's. Prior to such approval, the Health System was the passive parent of Nyack and St. Luke's. Concurrent with the switch to active parent status, the legal name of Nyack was changed to Montefiore Nyack Hospital.

No other events, except as disclosed in Note 9, occurred that require disclosure in or adjustment to the consolidated financial statements.

## Supplementary Information



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## Report of Independent Auditors on Supplementary Information

The Board of Trustees  
Montefiore Health System, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of Montefiore Health System, Inc. and its controlled organizations, as of and for the year ended December 31, 2017 and 2016, and have issued an unmodified opinion thereon dated April 20, 2018. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position as of December 31, 2017, and consolidating statement of operations for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Ernst + Young LLP*

April 20, 2018

Montefiore Health System, Inc.

Consolidating Statement of Financial Position  
(In Thousands)

December 31, 2017

	Montefiore Medical Center and Subsidiaries	Montefiore New Rochelle Hospital	Montefiore Mount Vernon Hospital	Schaffer Extended Care Center	Montefiore Information Technology, LLC	Montefiore North Ambulatory Care Center, Inc.	Montefiore HMO, LLC	The Montefiore IPA, Inc.	Bronx Accountable Healthcare Network IPA, Inc.	Montefiore Nyack Hospital and Subsidiaries	White Plains Hospital Center and Subsidiaries	The Winfred Masterson Burke Rehabilitation Hospital	St. Luke's Cornwall Hospital and Subsidiaries	Other Consolidating Entities	Montefiore Health System, Inc.	Eliminations	Consolidated Total
<b>Assets</b>																	
<b>Current assets:</b>																	
Cash and cash equivalents	\$ 253,978	\$ 3,151	\$ 2,478	\$ 480	\$ 4,454	\$ --	\$ 34,113	\$ --	\$ 11,188	\$ 902	\$ 45,231	\$ 7,706	\$ 12,769	\$ 3,250	\$ 18,537	\$ --	\$ 398,237
Marketable and other securities	656,290	--	--	77	--	--	--	24,526	--	61,986	--	11,502	5	--	--	--	754,309
Assets limited as to use, current portion	15,976	--	--	--	--	--	--	39,720	--	2,139	--	1,494	--	--	--	--	59,407
Receivables for patient care, less allowances for doubtful accounts	243,095	16,651	4,277	6,293	--	--	--	--	30,768	74,980	13,213	26,531	--	--	--	(1,549)	414,259
Other receivables	48,616	1,028	101	25	1,422	--	250	6,526	--	7,232	8,010	827	2,841	10	515	--	77,403
Estimated insurance claims receivable, current portion	81,097	4,292	2,682	175	--	--	--	--	--	600	6,696	--	--	--	--	--	95,542
Other current assets	56,305	2,757	1,329	106	196	--	--	--	--	4,419	13,464	1,602	5,098	405	459	--	86,140
Due from members, current portion	32,476	--	--	--	18,907	--	--	--	--	--	--	--	--	11,690	20,635	--	(83,708)
Total current assets	1,387,833	27,879	10,867	7,156	24,979	--	34,363	70,772	11,188	43,922	212,506	23,348	60,235	15,360	40,146	--	1,885,297
Assets limited as to use, net of current portion	200,092	17,186	--	--	--	--	3,170	--	--	3,294	30,401	35,135	2,398	1	--	--	291,677
Property, buildings and equipment, net	1,056,355	33,212	12,781	3,515	154	--	--	--	58,211	367,763	38,119	60,335	47,320	--	--	--	1,677,765
Estimated insurance claims receivable, net of current portion	459,548	24,322	15,198	993	--	--	--	--	--	25,376	--	13,401	--	--	--	--	538,838
Other noncurrent assets	218,432	148	--	--	--	--	--	--	--	8,512	40,879	21,004	4,715	1,827	468,833	(468,828)	295,522
Due from members, net of current portion	167,464	--	--	--	--	--	--	--	--	--	--	--	--	--	95,201	(226,502)	36,163
Total assets	\$ 3,489,724	\$ 102,747	\$ 38,846	\$ 11,664	\$ 25,133	\$ --	\$ 37,533	\$ 70,772	\$ 11,188	\$ 113,939	\$ 676,925	\$ 117,606	\$ 141,084	\$ 64,508	\$ 604,180	\$ (780,587)	\$ 4,725,262
<b>Liabilities and net assets (deficit)</b>																	
<b>Current liabilities:</b>																	
Accounts payable and accrued expenses	\$ 277,149	\$ 15,177	\$ 5,536	\$ 755	\$ 685	\$ --	\$ 13,880	\$ 58,853	\$ 9,731	\$ 31,652	\$ 58,308	\$ 1,187	\$ 33,802	\$ 15,017	\$ 1,296	\$ (1,700)	\$ 521,328
Accrued salaries, wages and related items	285,851	9,960	5,036	1,764	18,353	--	--	--	--	15,986	66,914	3,494	5,351	258	3,711	--	416,678
Professional and other insured liabilities, current portion	52,022	1,770	173	1	--	--	--	--	2,000	1,269	312	--	--	--	--	--	57,547
Estimated insurance claims liabilities, current portion	81,097	4,292	2,682	175	--	--	--	--	--	6,696	--	--	--	--	--	--	94,942
Estimated third-party payer liabilities, current portion	41,492	26,413	9,746	465	--	--	--	--	--	564	7,536	--	--	--	--	--	86,216
Long-term debt, current portion	74,475	--	--	--	--	--	--	--	--	13,480	10,645	3,040	3,245	--	--	--	104,885
Due to members, current portion	--	11,848	401	18,542	--	--	127	30,332	24,352	11,412	348	91	1,480	--	--	(94,236)	4,697
Total current liabilities	812,086	69,460	23,574	21,702	19,038	--	14,007	89,185	34,083	75,094	151,716	8,124	43,878	15,275	5,007	(95,936)	1,286,293
Long-term debt, net of current portion	724,216	--	--	--	--	--	--	--	--	709	47,673	--	43,895	--	--	--	816,493
Noncurrent defined benefit pension and other postretirement health plan liabilities	190,153	--	--	--	--	--	--	--	--	8,344	20,084	62,042	15,755	--	--	--	296,378
Professional and other insured liabilities, net of current portion	139,541	2,791	273	--	--	--	--	--	8,100	10,367	1,809	4,089	--	--	--	--	166,970
Employee deferred compensation	45,570	--	--	--	--	--	--	--	--	6,538	--	--	--	--	--	--	52,108
Estimated insurance claims liabilities, net of current portion	459,548	24,322	15,198	993	--	--	--	--	600	25,376	--	13,401	--	--	--	--	539,438
Estimated third-party payer liabilities, net of current portion	211,014	2,894	2,356	--	--	--	--	--	--	11,150	6,328	--	1,113	--	--	--	224,855
Other noncurrent liabilities	63,179	243	--	98	--	--	--	--	--	5,479	16,597	--	2,460	--	--	--	88,056
Due to members, net of current portion	--	25,951	14,560	5,823	--	--	7,357	--	--	--	--	--	--	48,867	123,944	(226,502)	--
Total liabilities	2,645,307	125,661	55,961	28,616	19,038	--	21,364	89,185	34,083	99,476	284,679	71,975	124,591	64,142	128,951	(322,438)	3,470,591
<b>Net assets (deficit):</b>																	
Unrestricted	732,749	(39,242)	(17,115)	(16,952)	6,095	--	16,169	(18,413)	(22,895)	11,059	371,251	41,194	14,947	366	444,848	(427,768)	1,096,293
Temporarily restricted	78,062	31	--	--	--	--	--	--	--	2,985	17,686	3,649	870	--	25,190	(25,190)	103,283
Permanently restricted	33,606	16,297	--	--	--	--	--	--	--	419	3,309	788	676	--	5,191	(5,191)	55,095
Total net assets (deficit)	844,417	(22,914)	(17,115)	(16,952)	6,095	--	16,169	(18,413)	(22,895)	14,463	392,246	45,631	16,493	366	475,229	(458,149)	1,254,671
Total liabilities and net assets (deficit)	\$ 3,489,724	\$ 102,747	\$ 38,846	\$ 11,664	\$ 25,133	\$ --	\$ 37,533	\$ 70,772	\$ 11,188	\$ 113,939	\$ 676,925	\$ 117,606	\$ 141,084	\$ 64,508	\$ 604,180	\$ (780,587)	\$ 4,725,262

Montefiore Health System, Inc.

Consolidating Statement of Operations  
(In Thousands)

Year Ended December 31, 2017

	Montefiore Medical Center and Subsidiaries	Montefiore New Rochelle Hospital	Montefiore Mount Vernon Hospital	Schaffer Extended Care Center	Montefiore Information Technology, LLC	Montefiore North Ambulatory Care Center, Inc.	Montefiore HMO, LLC	The Montefiore IPA, Inc.	Bronx Accountable Healthcare Network IPA, Inc.	Montefiore Nyack Hospital and Subsidiaries	White Plains Hospital Center and Subsidiaries	The Winfred Masterson Burke Rehabilitation Hospital	St. Luke's Cornwall Hospital and Subsidiaries	Other Consolidating Entities	Montefiore Health System, Inc.	Eliminations	Consolidated Total
<b>Operating revenue</b>																	
Net patient service revenue before bad debt expense	\$ 3,446,406	\$ 149,064	\$ 71,268	\$ 17,531	\$ --	\$ 1,660	\$ 72,735	\$ 419,498	\$ --	\$ 261,452	\$ 643,964	\$ 80,785	\$ 203,248	\$ 12,785	\$ --	\$ (171,831)	\$ 5,208,565
Bad debt expense	(33,486)	(4,971)	(2,711)	(546)	--	(298)	--	--	--	(7,764)	(19,898)	(157)	(5,131)	--	--	--	(74,962)
Net patient service revenue	3,412,920	144,093	68,557	16,985	--	1,362	72,735	419,498	--	253,688	624,066	80,628	198,117	12,785	--	(171,831)	5,133,603
Grants and contracts	82,247	3,491	582	223	--	--	--	--	--	1,206	--	--	776	--	--	--	100,108
Contributions	6,902	33	--	1	--	--	--	--	--	360	2,214	758	947	--	--	--	11,215
Other revenue	260,778	4,356	2,700	155	120,525	139	499	(1,411)	1,811	2,720	9,546	8,461	4,112	18,376	66,267	(240,342)	258,692
Total operating revenue	3,762,847	151,973	71,839	17,364	120,525	1,501	73,234	418,087	1,811	257,974	635,826	89,847	203,952	42,744	66,267	(412,173)	5,503,618
<b>Operating expenses</b>																	
Salaries and wages	1,761,775	81,690	39,105	9,404	79,386	1,038	--	--	--	128,706	298,821	51,593	76,940	11,641	8,329	--	2,548,428
Employee benefits	495,898	25,455	13,131	3,829	24,310	316	--	--	--	40,893	56,573	12,022	28,252	3,600	2,546	--	706,825
Supplies and other expenses	1,294,553	71,721	43,686	8,388	12,796	1,736	64,585	413,798	2,884	108,160	216,543	16,483	99,534	21,463	3,668	(362,793)	2,017,205
Depreciation and amortization	150,921	2,456	1,667	324	102	18	--	--	--	7,532	32,575	3,915	5,021	1,678	--	--	206,209
Interest	32,078	2,178	923	551	--	--	333	24	1	939	2,070	114	2,669	2,608	5,639	(12,060)	38,067
Total operating expenses	3,735,225	183,500	98,512	22,496	116,594	3,108	64,918	413,822	2,885	286,230	606,582	84,127	212,416	40,990	20,182	(374,853)	5,516,734
Excess (deficiency) of operating revenue over operating expenses before Value Based Payment and Vital Access Provider Programs	27,622	(31,527)	(26,673)	(5,132)	3,931	(1,607)	8,316	4,265	(1,074)	(28,256)	29,244	5,720	(8,464)	1,754	46,085	(37,320)	(13,116)
Value Based Payment and Vital Access Provider Programs	--	21,388	14,564	--	--	--	--	--	--	14,456	--	--	17,976	--	--	--	68,384
Excess (deficiency) of operating revenue over operating expenses before other items	27,622	(10,139)	(12,109)	(5,132)	3,931	(1,607)	8,316	4,265	(1,074)	(13,800)	29,244	5,720	9,512	1,754	46,085	(37,320)	55,268
Net realized and changes in net unrealized gains and losses on marketable and other securities	37,141	837	--	--	--	--	--	270	--	87	1,561	3,726	1,213	--	--	--	44,835
Net periodic pension and other postretirement benefit costs (non-service related)	(9,444)	--	--	--	--	--	--	--	--	604	2,241	(1,032)	100	--	--	--	(7,531)
Malpractice insurance program adjustments associated with investment earnings shortfall	1,209	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	1,209
Grants for the purchase of property, buildings and equipment	--	--	--	--	--	--	--	--	--	1,575	--	--	--	--	--	--	1,575
Other nonoperating losses	--	--	--	--	--	--	--	--	--	--	--	--	(517)	--	--	--	(517)
Change in fair value of derivative instrument	--	--	--	--	--	--	--	--	--	--	--	--	688	--	--	--	688
Excess (deficiency) of revenues over expenses	56,528	(9,302)	(12,109)	(5,132)	3,931	(1,607)	8,316	4,535	(1,074)	(11,534)	33,046	8,414	10,996	1,754	46,085	(37,320)	95,527
Change in defined benefit pension and other postretirement health plan liabilities to be recognized in future periods	(16,678)	--	--	--	--	--	--	--	--	749	3,725	(4,389)	825	--	--	--	(15,768)
Net assets released from restrictions used for purchases of property, buildings and equipment	--	--	--	--	--	--	--	--	--	894	5,242	35	--	--	--	--	6,171
Transfer of MCV to MHS	41,435	--	--	--	--	--	--	(22,948)	(21,821)	--	--	--	--	3,334	--	--	--
Transfers to members, net	(37,933)	--	--	--	--	1,340	--	--	--	--	17,353	--	--	147	17,353	(17,353)	(19,093)
Increase (decrease) in unrestricted net assets	\$ 43,352	\$ (9,302)	\$ (12,109)	\$ (5,132)	\$ 3,931	\$ (267)	\$ 8,316	\$ (18,413)	\$ (22,895)	\$ (9,891)	\$ 59,366	\$ 4,060	\$ 11,821	\$ 5,235	\$ 63,438	\$ (54,673)	\$ 66,837

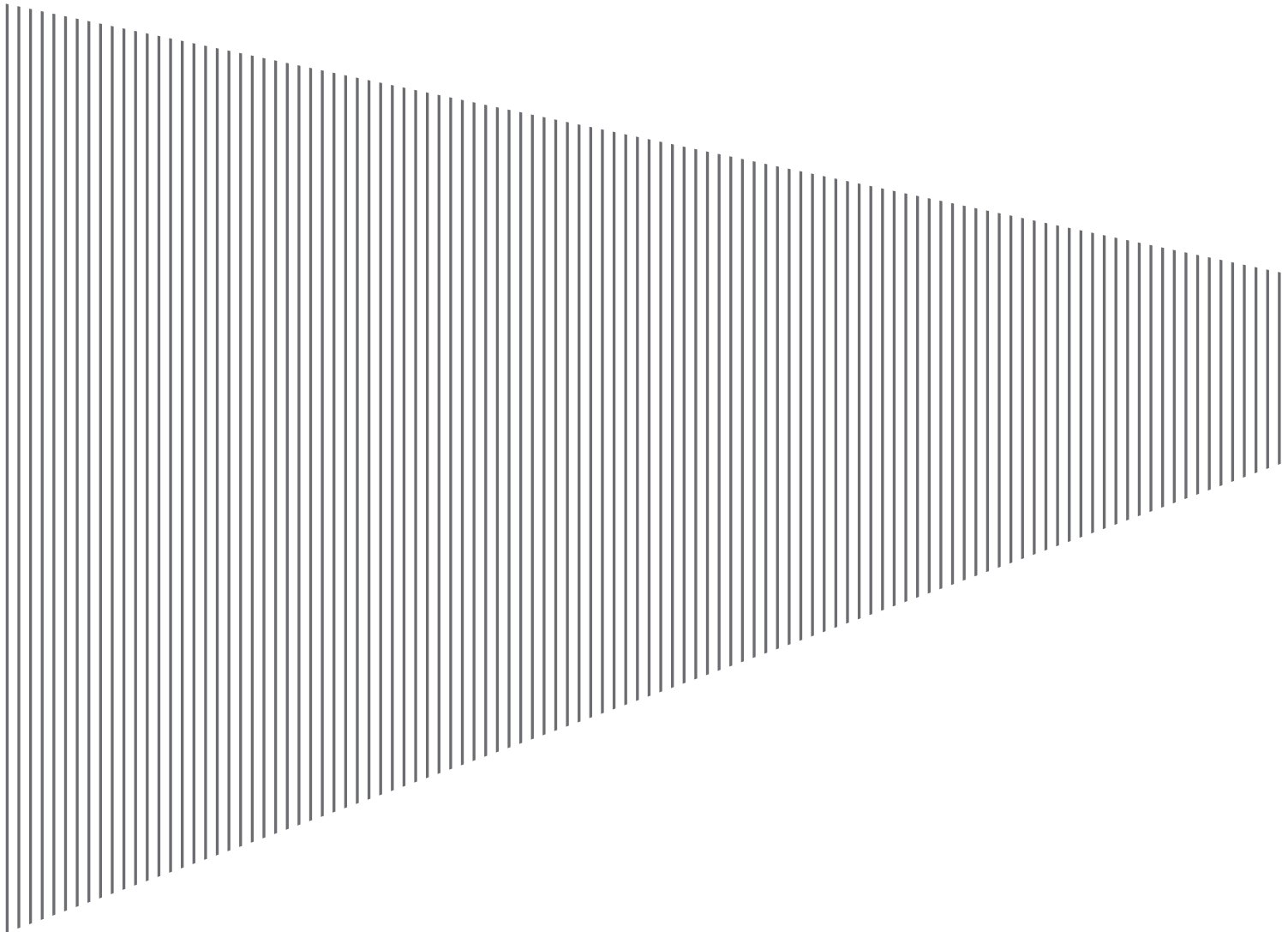
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**Appendix C**

**Summary of Certain Provisions of  
the Loan Agreement**

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**SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT**

The following is a brief summary, prepared by Bond Counsel, of certain provisions of the Loan Agreement pertaining to the Series 2018 Bonds. Such summary does not purport to be complete and reference is made to the Loan Agreement for full and complete statements of such and all provisions. Defined terms used in the Loan Agreement shall have the meanings ascribed to them in Appendix A to this Official Statement.

**Termination**

The Loan Agreement shall remain in full force and effect until no Bonds are Outstanding and until all other payments, expenses and fees payable under the Loan Agreement by the Institution shall have been made or provision made for the payment thereof; provided, however, pursuant to the Loan Agreement and the liabilities and the obligations of the Institution to provide reimbursement for or indemnification against expenses, costs or liabilities made or incurred pursuant to the Loan Agreement shall nevertheless survive any such termination. Upon such termination, an Authorized Officer of the Authority shall deliver such documents as may be reasonably requested by the Institution to evidence such termination and the discharge of its duties under the Loan Agreement, including the release or surrender of any security interests granted by the Institution to the Authority pursuant hereto.

*(Section 38)*

**Construction of Projects**

(a) The Institution agrees that, whether or not there are sufficient moneys available to it under the provisions of the Resolution and Loan Agreement, the Institution shall complete or cause the completion of the acquisition, design, construction, reconstruction, rehabilitation, renovation and improving or otherwise providing and furnishing and equipping of each Project in connection with which the Authority has issued Bonds for the benefit of the Institution, substantially in accordance with the Contract Documents relating thereto; or in the case of the refunding or defeasance of outstanding bonds or other undertaking of the Institution, the Institution shall complete the refinancing or defeasance of such outstanding bonds or other indebtedness. Subject to the conditions of the Loan Agreement, the Authority shall, to the extent of moneys available in the applicable Construction Fund, cause the Institution to be reimbursed for, or pay, costs and expenses incurred by the Institution which constitute Costs of the Project, provided such costs and expenses are approved by an Authorized Officer of the Authority and the Commissioner of Health for funds that are related to Public Health Law under Article 28-B.

(b) To the extent that moneys are available, moneys in an Applicable Construction Fund shall be disbursed as the construction of the Project for which such fund was established progresses, but not more frequently than once each month, unless otherwise agreed to in writing by an Authorized Officer of the Authority, in amounts as requested by the Institution pursuant to a request for disbursement as hereinafter provided, but not in excess of that amount reasonably determined by the Authority to be needed to reimburse the Institution for, or to pay, any costs and expenses constituting Costs of the Project previously paid or then due; provided, however, that the Authority may, in its sole discretion, withhold or delay making any advance in connection with a Project or part thereof at any time there is pending an action or proceeding, judicial or administrative, challenging the Institution's right to undertake such Project or such part thereof, or in which there is in issue (i) the validity of any governmental permit, consent or authorization, or the issuance thereof, necessary in connection with such Project or such part thereof, or (ii) the due authorization or validity of any Bonds issued in connection with such Project or

such part thereof, unless the Institution has provided the Authority with security in such form and amount as may be reasonably required by an Authorized Officer of the Authority.

(c) Prior to making and delivering any certificate required pursuant to the Resolution to be delivered to the Trustee in connection with payments to be made pursuant to the Resolution, subject to paragraph (i) below, the Institution shall have submitted to the Authority and the Department of Health, and have received Authority and Department of Health approval with respect to, the form and substance of, a Project budget and shall deliver to the Authority and the Department of Health in connection with the delivery of each certificate required pursuant to the Resolution the following:

(i) a list of amounts paid, with a summary description of the goods or services and a description of the building or buildings to which each of such payment relates;

(ii) a certificate executed by an Authorized Officer of the Institution certifying that:

(A) Expenses or monies for which payment is requisitioned have been incurred or expended for items which constitute Costs of the Project, as that term is defined in the Resolution, which Project has not been modified except as permitted by the Loan Agreement, specifying (if applicable) the portion of such requisition amount that is to be paid from the Construction Fund and the portion that is to be paid from Institution equity;

(B) Each amount for which payment is sought has not been the basis of any prior disbursement from the Construction Fund;

(C) The Institution has complied with all provisions of the Loan Agreement and the Tax Certificate (if applicable), including, but not limited to those related to the use of the Project and certain prohibitions against use for sectarian religious instruction or religious worship and certain non tax-exempt purposes; and.

(D) The Institution shall retain all original documentation related to expenditures for items which constitute Costs of the Project for at least seven (7) years after completion of the Project for inspection at any time by the Authority and subject to paragraph (i) below, the Department of Health, or any representative thereof.

(d) The Institution shall receive the disbursements of moneys in each Applicable Construction Fund to be made under the Loan Agreement, and shall hold the right to receive the same, as a trust fund for the purpose of paying the Costs of the Project for which each disbursement was made, and shall apply or cause the same to be applied first to such payment before using any part thereof for any other purposes.

(e) The Institution shall permit the Authority, the Applicable Credit Facility Issuer, if any, and subject to paragraph (i) below, the Department of Health, and their authorized representatives, at any time, upon notice and during normal business hours, to enter upon the property of the Institution or the Project to inspect the Project and all materials, fixtures and articles used or to be used in construction of the Projects, and to examine all Contract Documents. The Institution shall furnish to the Authority, the Applicable Credit Facility Issuer, if any, the Department of Health, subject to paragraph (i) below, and their authorized representatives, when requested, copies of such Contract Documents. The Institution agrees to retain all documentation of expenditures for items which constitute Costs of the Projects for at least seven (7) years after the date of completion of the Project to which such documentation relates.

(f) An Authorized Officer of the Authority, in such Authorized Officer's sole and absolute discretion, may waive, from time to time, any of the conditions set forth in this Section other than conditions relating to the rights and authority of the Department of Health, subject to paragraph (i) below. Any such waiver shall not be deemed a waiver by the Authority of its right to thereafter require compliance with any such condition. The Institution acknowledges and agrees that disbursements from an Applicable Construction Fund are to be made by the Trustee and shall be made in accordance with the Resolution only upon receipt by the Trustee of the documents required by the Resolution to be executed and delivered in connection with such disbursements.

(g) A Project shall be deemed to be complete upon delivery to the Authority and the Trustee of a certificate signed by an Authorized Officer of the Institution, which certificate shall be delivered as soon as practicable after the completion of such Project, or upon delivery to the Trustee and the Institution of a certificate signed by an Authorized Officer of the Authority and delivered at any time after completion of such Project. Any such certificate shall comply with the requirements of the Resolution. The Authority agrees that it shall not execute and deliver any such certificate unless the Authority has notified the Institution in writing that, in the judgment of the Authority and the Department of Health (subject to paragraph (i) below), such Project has been completed substantially in accordance with the plans and specifications for such Project and the Institution has failed to execute and deliver the certificate provided for in the Loan Agreement within thirty (30) days after such notice is given. The moneys, if any, remaining in the Applicable Construction Fund established for such Project after such Project has been deemed to be complete, shall be paid as provided in the Resolution.

(h) Notwithstanding the foregoing, if, on the date a Series of Bonds is issued or multiple Series of Bonds are issued, a Project in connection with which all or a portion of such Series of Bonds or multiple Series of Bonds are issued, have been deemed to be complete as provided in the Loan Agreement or otherwise, the provisions of the Loan Agreement relating to the construction of Projects are inapplicable to such Project, unless such Project is amended to increase the scope thereof pursuant to the Loan Agreement, in which case the provisions of the Loan Agreement relating to the construction of Projects shall apply to such Project.

(i) The provision of this Section 5 calling for provision of materials to or otherwise granting approval or other rights to the Department of Health are applicable only for those portions of the Project subject to review by the Department of Health.

*(Section 5)*

### **Financial Obligations of the Institution; General and Unconditional Obligation; Voluntary Payments**

(a) Except to the extent that moneys are available therefor under the Resolution or Loan Agreement, including moneys in the Applicable Debt Service Fund, but excluding moneys from the Applicable Debt Service Reserve Fund, and excluding interest accrued but unpaid on investments held in the Applicable Debt Service Fund, the Institution hereby unconditionally agrees to pay or cause to be paid, so long as the Applicable Series of Bonds are Outstanding, to or upon the order of the Authority, from its general funds or any other moneys legally available to it, including payments to be made under the Master Indenture:

(i) On or before the date of delivery of the Series 2018 Bonds, payment of the Authority Fee;

(ii) On or before the date of delivery of Bonds of a Series, such amount, if any, as is required in addition to the proceeds of such Bonds available therefor, to pay the Costs of Issuance of such Bonds, and other costs in connection with the issuance of such Bonds;

(iii) On the fifth Business Day preceding the date on which interest becomes due, the full amount of such interest on Bonds issued by the Authority for the benefit of the Institution;

(iv) On the fifth Business Day preceding the date on which the principal or a Sinking Fund Installment of Bonds becomes due, the full amount of the principal and Sinking Fund Installments on the Bonds issued by the Authority for the benefit of the Institution coming due;

(v) Unless otherwise agreed to in writing by the Authority, at least forty-five (45) days prior to any date on which the Redemption Price or purchase price in lieu of redemption of Bonds previously called for redemption or contracted to be purchased is to be paid, the amount required to pay the Redemption Price or purchase price in lieu of redemption of such Bonds.

(vi) On the dates set forth in the Agreement, one-half (1/2) of the Annual Administrative Fee payable during such Bond Year in connection with the Bonds issued by the Authority for the benefit of the Institution, and six months thereafter the balance of the Annual Administrative Fee payable during such Bond Year; provided, however, that the Annual Administrative Fee payable shall become effective, with respect to the Series 2018 Bonds, on the date of issuance thereof, and with respect to any other Series of Bonds on the date agreed to by the Institution and the Authority at the time the Bonds of such Series are issued; and, provided, further, that the Annual Administrative Fee with respect to the Series 2018 Bonds payable during the Bond Year during which such Annual Administrative Fee became effective shall be equal to the Annual Administrative Fee with respect to such Series of Bonds multiplied by a fraction, the numerator of which is the number of calendar months or parts thereof remaining in such Bond Year and the denominator of which is twelve (12);

(vii) Promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (i) for the Authority Fee then unpaid, (ii) to reimburse the Authority for payments made pursuant to Section 9(e) of the Loan Agreement and any actual out-of-pocket expenses or liabilities incurred by the Authority under the Loan Agreement, (iii) for the costs and expenses incurred to compel full and punctual performance of all the provisions of the Loan Agreement, the Resolution, the Master Indenture and the Obligation in accordance with the terms thereof, (iv) for the fees and expenses of the Trustee and any Paying Agent and reasonable attorneys' fees in connection with performance of their duties under the Resolution, and (v) to reimburse the Authority for any external costs or expenses incurred by it attributable to the issuance of the Bonds or the financing or construction of a Project or Projects for the benefit of the Institution;

(viii) On the date a Series of Bonds, other than the Series 2018 Bonds, is issued, an amount equal to the Authority Fee for such Series of Bonds;

(ix) Promptly upon demand by an Authorized Officer of the Authority (a copy of which shall be furnished to the Trustee), all amounts required to be paid by the Institution as a result of an acceleration pursuant to Section 26 of the Loan Agreement;

(x) Promptly upon demand by an Authorized Officer of the Authority, the difference between the amount on deposit in the Applicable Arbitrage Rebate Fund available to be rebated in connection with the Bonds of a Series or otherwise available therefor under the Resolution and the amount required to be rebated or otherwise paid to the Department of the Treasury of the United States of America in accordance with the Code in connection with the Bonds of such Series;

(xi) On the Business Day immediately preceding an interest payment date, if the amount on deposit in the Applicable Debt Service Fund is less than the amounts required for the payment of principal or Sinking Fund Installments of, or interest on, Bonds due and payable on such interest payment date, the amount of such deficiency; and

Subject to the provisions of the Resolution and the Loan Agreement, the Institution shall receive a credit against the amount required to be paid by the Institution during a Bond Year pursuant to paragraph (iv) above on account of any Sinking Fund Installments if, prior to the date notice of redemption is given pursuant to the Resolution with respect to Bonds to be redeemed through Sinking Fund Installments on the next succeeding August 1, the Institution delivers to the Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed on such August 1. The amount of the credit is equal to the principal amount of the Bonds so delivered.

The Authority hereby directs the Institution, and the Institution hereby agrees, to make the payments required by paragraphs (iii), (iv), (v), (iv), and (vi) above directly to the Trustee for deposit and application in accordance with the Resolution, the payments required by paragraph (ii) above directly to the Trustee for deposit in a Construction Fund or other fund established under the Resolution, as directed by an Authorized Officer of the Authority, the payments required by paragraphs (i), (vi), (vii) and (viii) above directly to the Authority, the payments required by paragraph (x) above to or upon the order of the Authority. In the event that the payments required to be made directly to the Trustee pursuant to the preceding sentence are less than the total amount required to be paid to the Trustee and such payments relate to more than one Series of Bonds, the payments shall be applied pro rata to each such Series of Bonds based upon the amount then due and payable on each Series of Bonds pursuant to paragraphs (iii), (iv), (v), (ix) and (xi) above bears to the total amount then due and payable for all Series of Bonds, pursuant to such paragraphs.

The Institution agrees that it shall also be obligated to make all payments when due on the Obligations to the applicable holders of the Obligations, and that the applicable holders are entitled to so receive all payments when due on the Obligations, it being the intention of the parties hereto that the Obligations and the Loan Agreement are separate (but not duplicative) obligations of the Institution (and, to the extent provided in the Obligations, of the Obligated Group), that payments by the Institution (or the Obligated Group) to the Trustee pursuant to the Obligation relating to the Applicable Series 2018 Bonds shall serve as a credit against amounts due from the Institution to the Authority pursuant to the Loan Agreement with regard to the Applicable Series of Bonds and that payments by the Institution to or upon the order of the Authority pursuant to the Loan Agreement shall serve as a credit against respective amounts due from the Institution (or the Obligated Group) to the Trustee pursuant to the Applicable Obligation.

(b) Notwithstanding any provisions in the Loan Agreement or in the Resolution to the contrary (except as otherwise specifically provided for in this subdivision), all moneys paid by the Institution to the Trustee pursuant hereto or otherwise held by the Trustee shall be applied in reduction of the Institution's indebtedness to the Authority under the Loan Agreement, first, with respect to interest and, then, with respect to the principal amount of such indebtedness, but only to the extent that, with respect to interest on such indebtedness, such moneys are applied by the Trustee for the payment of interest on Outstanding Bonds, and, with respect to the principal of such indebtedness, such moneys have been applied to, or are held for, payments in reduction of the principal amount of Outstanding Bonds and as a result thereof Bonds have been paid or deemed to have been paid in accordance with the Resolution. Notwithstanding any provision in the Loan Agreement or the Resolution or the Series Resolution to the contrary (except as otherwise specifically provided for in this subdivision), (i) all moneys paid by the Institution to the Trustee pursuant to paragraphs (iii), (iv), (v), (ix), and (xi) of subsection (a) of this Section (other than moneys received by the Trustee pursuant to the Resolution which shall be retained and

applied by the Trustee for its own account) shall be received by the Trustee as agent for the Authority in satisfaction of the Institution's indebtedness to the Authority with respect to the interest on and principal or Redemption Price of the Bonds to the extent of such payment and (ii) the transfer by the Trustee of any moneys (other than moneys described in paragraph (a) (ix) of this Section) held by it in the Applicable Construction Fund to the Applicable Debt Service Fund in accordance with the applicable provisions of the Loan Agreement or of the Resolution shall be deemed, upon such transfer, receipt by the Authority from the Institution of a payment in satisfaction of the Institution's indebtedness to the Authority with respect to the Redemption Price of the Bonds to the extent of the amount of moneys transferred. Except as otherwise provided in the Resolution, the Trustee shall hold such moneys in trust in accordance with the applicable provisions of the Resolution for the sole and exclusive benefit of the Holders of each Applicable Series of Bonds or Applicable Credit Facility Issuer, as the case may be, regardless of the actual due date or applicable payment date of any payment to the Holders of each Applicable Series of Bonds.

(c) The obligations of the Institution to make payments or cause the same to be made under the Loan Agreement shall be complete and unconditional and the amount, manner and time of making such payments shall not be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any right of set-off, recoupment or counterclaim which the Institution may otherwise have against the Authority, the Trustee or any Bondholder for any cause whatsoever including, without limiting the generality of the foregoing, failure of the Institution to complete a Project or the completion thereof with defects, failure of the Institution to occupy or use a Project, any declaration or finding that the Bonds or any Series of Bonds are, or the Resolution is, invalid or unenforceable or any other failure or default by the Authority or the Trustee; provided, however, that nothing in the Loan Agreement shall be construed to release the Authority from the performance of any agreements on its part under the Loan Agreement contained or any of its other duties or obligations, and in the event the Authority shall fail to perform any such agreement, duty or obligation, the Institution may institute such action as it may deem necessary to compel performance or recover damages for non-performance. Notwithstanding the foregoing, the Authority shall have no obligation to perform its obligations under the Loan Agreement to cause advances to be made to reimburse the Institution for, or to pay, the Costs of the Project, beyond the extent of moneys available in the Applicable Construction Fund established for such Project.

The Loan Agreement and the obligations of the Institution to make payments under the Loan Agreement are general obligations of the Institution.

(d) An Authorized Officer of the Authority, for the convenience of the Institution, shall furnish to the Institution statements of the due date, purpose and amount of payments to be made pursuant hereto. The failure to furnish such statements shall not excuse non-payment of the amounts payable under the Loan Agreement at the time and in the manner provided in the Loan Agreement.

(e) The Authority shall have the right in its sole discretion to make on behalf of the Institution any payment required pursuant to this Section which has not been made by the Institution when due. No such payment by the Authority shall limit, impair or otherwise affect the rights of the Authority under the Loan Agreement arising out of the Institution's failure to make such payment and no payment by the Authority shall be construed to be a waiver of any such right or of the obligation of the Institution to make such payment.

(f) The Institution, if it is not then in default under the Loan Agreement, shall have the right to make voluntary payments in any amount to the Trustee. In the event of a voluntary payment, the amount so paid shall be deposited in accordance with the directions of an Authorized Officer of the Authority in the Applicable Debt Service Fund or held by the Trustee for the payment of Bonds in

accordance with the Resolution. Upon any voluntary payment by the Institution or upon any deposit in a Applicable Debt Service Fund made pursuant to paragraph (b) of this Section, the Authority agrees to direct the Trustee in writing to purchase or redeem Bonds in accordance with the Resolution or to give the Trustee irrevocable instructions in accordance with the Resolution with respect to such Series of Bonds; provided, however, that in the event such voluntary payment is in the sole judgment of the Authority sufficient to pay all amounts then due under the Loan Agreement and the Resolution, including the purchase or redemption of all Bonds Outstanding, or to pay or provide for the payment of all Bonds Outstanding in accordance with the Resolution, the Authority agrees, in accordance with the instructions of the Institution, to direct the Trustee to purchase or redeem all Bonds Outstanding, or to cause all Bonds Outstanding to be paid or to be deemed paid in accordance with the Resolution.

*(Section 9)*

### **Consent to Pledge and Assignment by the Authority; Covenants, Representations, and Warranties**

(a) The Institution consents to and authorizes the assignment, transfer or pledge, if any, by the Authority to the Trustee of the Authority's rights to receive the payments required to be made pursuant to the Loan Agreement and any or all security interests granted by the Institution under the Loan Agreement. The Government Obligations, Federal Agency Obligations, Exempt Obligations and other Securities pursuant to the Loan Agreement and all funds and accounts established by the Resolution and pledged thereby in each case to secure any payment or the performance of any obligation of the Institution under the Loan Agreement or arising out of the transactions contemplated hereby whether or not the right to enforce such payment or performance shall be specifically assigned by the Authority to the Trustee. The Institution further agrees that the Authority may pledge and assign to the Trustee any and all of the Authority's rights and remedies under the Loan Agreement. Upon any pledge and assignment by the Authority to the Trustee authorized by this Section, the Trustee shall be fully vested with all of the rights of the Authority so assigned and pledged and may thereafter exercise or enforce, by any remedy provided therefor hereby or by law, any of such rights directly in its own name. Any such pledge and assignment shall be limited to securing the Institution's obligation to make all payments required hereby and to performing all other obligations required to be performed by the Institution under the Loan Agreement.

(b) The Institution covenants, warrants and represents that it is duly authorized by all applicable laws, its certificate of incorporation and by-laws or resolutions duly adopted pursuant thereto to enter into the Loan Agreement, to incur the indebtedness contemplated hereby and to pledge, grant a security interest in and assign to the Authority and the Trustee for the benefit of the Holders of the Bonds, the Government Obligations, Federal Agency Obligations, Exempt Obligations and other Securities delivered pursuant to paragraph (a) of Section 9 or Section 10 of the Loan Agreement in the manner and to the extent provided in the Loan Agreement and the Resolution. The Institution further covenants, warrants and represents that except with respect to additional Bonds, any and all pledges, security interests in and assignments made or to be made pursuant hereto are and shall be free and clear of any pledge, lien, charge, security interest or encumbrance thereon or with respect thereto, prior to, or of equal rank with, the pledge, security interest or assignment granted or made pursuant hereto, and that all corporate action on the part of the Institution to that end has been duly and validly taken. The Institution further covenants that the provisions of the Loan Agreement and thereof are and shall be valid and legally enforceable obligations of the Institution in accordance with their terms, subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights. The Institution further covenants that it shall at all times, to the extent permitted by law, defend, preserve and protect the pledge, security interest in and assignment of the Government Obligations, Federal Agency Obligations, Exempt Obligations and other Securities delivered pursuant to the Loan Agreement and all of the rights of the Authority under the Loan Agreement and the

Holders of Bonds under the Resolution against all claims and demands of all persons whomsoever. The Institution further covenants, warrants and represents that the execution and delivery of the Loan Agreement, and the consummation of the transaction in the Loan Agreement contemplated and compliance with the provisions of the Loan Agreement, including, but not limited to, the assignment as security or the granting of a security interest in the Government Obligations, Federal Agency Obligations, Exempt Obligations and Securities delivered to the Trustee pursuant to the Loan Agreement, do not violate, conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the certificate of incorporation or by-laws of the Institution or any indenture or mortgage, or any trusts, endowments or other commitments or agreements to which the Institution is party or by which it or any of its properties are bound, or any existing law, rule, regulation, judgment, order, writ, injunction or decree of any governmental authority, body, agency or other instrumentality or court having jurisdiction over the Institution or any of its properties.

*(Section 12)*

### **Maintenance of Corporate Existence**

The Institution covenants that it shall maintain its corporate existence, shall continue to operate as a not-for-profit organization, shall obtain, maintain and keep in full force and effect such governmental approvals, consents, licenses, permits and accreditations as may be necessary for the continued operation of the Projects by the Institution, shall not dissolve or otherwise dispose of all or substantially all of its assets and shall not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; provided, however, that if no Event of Default shall have occurred and be continuing and prior written approval shall have been obtained from the Authority and the Commissioner of Health, the Institution may (i) sell or otherwise transfer all or substantially all of its assets to, or consolidate with or merge into, another organization or corporation which qualifies under Section 501(c)(3) of the Code, or any successor provision of federal income tax law, or (ii) permit one or more corporations or any other organization to consolidate with or merge into it, or (iii) acquire all or substantially all of the assets of one or more corporations or any other organization; provided, however, (a) that any such sale, transfer, consolidation, merger or acquisition does not in the opinion of Bond Counsel adversely affect the exemption from federal income tax of the interest paid or payable on the Tax-Exempt Bonds, (b) that the surviving, resulting or transferee corporation, as the case may be, is incorporated under the laws of the State, and qualified under Section 501(c)(3) of the Code or any successor provision of federal income tax law, (c) that the surviving, resulting or transferee corporation, as the case may be, assumes in writing all of the obligations of and restrictions on the Institution under the Loan Agreement and furnishes to the Authority and the Credit Facility Issuer a certificate to the effect that upon such sale, transfer, consolidation, merger or acquisition such corporation shall be in compliance with each of the provisions of the Loan Agreement and shall meet the requirements of the Act, and (d) the surviving, resulting or transferee entity, as the case may be, shall provide the Authority and the Credit Facility Issuer with such other certificates and opinions as may reasonably be required by the Authority. In addition to the foregoing, any sale, transfer, consolidation, merger or acquisition or any change in the operator or in the control of the Institution shall be subject to and shall be accomplished in compliance with applicable provisions of the New York State Public Health Law and regulations of the Department of Health.

*(Section 15)*

### **Tax-Exempt Status**

The Institution represents that (i) it is an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law, and is not a “private foundation,” as such term is defined under



Section 509(a) of the Code, (ii) it has received a letter or other notification from the Internal Revenue Service to that effect, (iii) such letter or other notification has not been modified, limited or revoked, (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification, (v) the facts and circumstances which form the basis of such listing continue to exist, and (vi) it is exempt from federal income taxes under Section 501(a) of the Code. The Institution agrees that (a) it shall not perform any act or enter into any agreement which shall adversely affect such federal income tax status and shall conduct its operations in the manner which shall conform to the standards necessary to qualify the Institution as an organization within the meaning of Section 501(c)(3) of the Code or any successor provision of federal income tax law and (b) it shall not perform any act or enter into any agreement which could adversely affect the exclusion of interest on any of the Bonds from federal gross income pursuant to Section 103 of the Code.

*(Section 13)*

### **Use of Project**

Subject to the rights, duties and remedies of the Authority under the Loan Agreement and the statutory and regulatory powers of the Department of Health, the Institution shall have sole and exclusive control of, possession of and responsibility for (i) any Project financed under the Loan Agreement; (ii) the operation of such Projects and supervision of the activities conducted therein or in connection with any part thereof; and (iii) the maintenance, repair and replacement of such Projects.

*(Section 17)*

### **Defaults and Remedies**

(a) As used in the Loan Agreement the term “Event of Default” shall mean:

(i) the Institution shall default in the timely payment of any amount payable pursuant to the Loan Agreement when due;

(ii) the Institution defaults in the due and punctual performance of any other covenant contained in the Loan Agreement and such default continues for thirty (30) days after written notice requiring the same to be remedied has been given by the Authority or the Trustee, provided that, if, in the determination of the Authority, such default cannot be corrected within such thirty (30) day period but can be corrected by appropriate action, it shall not constitute an Event of Default if corrective action is instituted by the Institution within such period and is diligently pursued until the default is corrected;

(iii) as a result of any default in payment or performance required of the Institution or any Event of Default under the Loan Agreement, whether or not declared, the Authority shall be in default in the payment or performance of any of its obligations under the Resolution and an “Event of Default” (as defined in the Resolution) shall have been declared under the Resolution so long as such default or Event of Default shall remain uncured or the Trustee or Holders of the Bonds shall be seeking the enforcement of any remedy under the Resolution as a result thereof;

(iv) the Obligated Group shall be in default under the Master Indenture and such default continues beyond any applicable grace period;

(v) the Institution shall (i) be generally not paying its debts as they become due, (ii) file, or consent by answer or otherwise to the filing against it of, a petition under the United States Bankruptcy Code or under any other bankruptcy or insolvency law of any jurisdiction, (iii) make a general assignment

for the benefit of its general creditors, (iv) consent to the appointment of a custodian, receiver, trustee or other officer with similar powers of itself or of any substantial part of its property, (v) be adjudicated insolvent or be liquidated or (vi) take corporate action for the purpose of any of the foregoing;

(vi) a court or governmental authority of competent jurisdiction shall enter an order appointing, without consent by the Institution, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or an order for relief shall be entered in any case or proceeding for liquidation or reorganization or otherwise to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Institution, or any petition for any such relief shall be filed against the Institution and such petition shall not be dismissed within ninety (90) days;

(vii) the certificate of incorporation of the Institution shall be suspended or revoked;

(viii) a petition to dissolve the Institution shall be filed by the Institution with the Secretary of State of the State of New York, the Department of Health, the legislature of the State or any other governmental authority having jurisdiction over the Institution;

(ix) an order of dissolution of the Institution shall be made by the State of New York, the legislature of the State or any other governmental authority having jurisdiction over the Institution which order shall remain undismissed or unstayed for an aggregate of thirty (30) days;

(x) a petition shall be filed with a court having jurisdiction for an order directing the sale, disposition or distribution of all or substantially all of the property belonging to the Institution which petition shall remain undismissed or unstayed for an aggregate of ninety (90) days;

(xi) an order of a court having jurisdiction shall be made directing the sale, disposition or distribution of all or substantially all of the property belonging to the Institution, which order shall remain undismissed or unstayed for the earlier of (x) three (3) business days prior to the date provided for in such order for such sale, disposition or distribution or (y) an aggregate of thirty (30) days from the date such order shall have been entered; or

(xii) a final non-appealable judgment for the payment of money which in the reasonable judgment of the Authority shall materially adversely affect the rights of the Holders of the Bonds shall be rendered against the Institution and at any time after forty-five (45) days from the entry thereof, (i) such judgment shall not have been discharged, or (ii) the Institution shall not have taken and be diligently prosecuting an appeal therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, and shall not have caused, within forty-five (45) days, the execution of or levy under such judgment, order, decree or process or the enforcement thereof to have been stayed pending determination of such appeal.

(b) Upon the occurrence of an Event of Default, the Authority shall provide written notice of such Event of Default to the Department of Health upon receiving knowledge thereof, provided, however, that failure to give such notice shall in no manner impair or diminish the Authority's ability to take any action under the Loan Agreement. The Authority may take any one or more of the following actions upon the occurrence of an Event of Default:

(i) declare all sums payable by the Institution under the Loan Agreement or under the Obligations relating to the Applicable Bonds immediately due and payable;

(ii) direct the Trustee to withhold any and all payments, advances and reimbursements from the proceeds of Bonds or any Construction Fund or otherwise to which the Institution may otherwise be entitled under the Loan Agreement and in the Authority's sole discretion apply any such proceeds or moneys for such purposes as are authorized by the Resolution;

(iii) withhold any or all further performance under the Loan Agreement;

(iv) maintain an action against the Institution under the Loan Agreement or under any Obligation or against any or all members of the Obligated Group under the Master Indenture or the Obligation to recover any sums payable by the Institution or to require its compliance with the terms of the Loan Agreement or of the Master Indenture or the Applicable Obligation, as provided in the Master Indenture;

(v) permit, direct or request the Trustee to liquidate all or any portion of the assets of the Applicable Debt Service Reserve Fund, if any, by selling the same at public or private sale in any commercially reasonable manner and apply the proceeds thereof and any dividends or interest received on investments thereof to the payment of the principal, Sinking Fund Installment, if any, or redemption price of and interest on the Bonds, or any other obligation or liability of the Institution or the Authority arising herefrom or from the Resolution;

(vi) to the extent permitted by law, (i) enter upon any Project and complete the construction of any Project in accordance with the plans and specifications with such changes therein as the Authority may deem appropriate and employ watchmen to protect the Projects, all at the risk, cost and expense of the Institution, consent to such entry being hereby given by the Institution, (ii) at any time discontinue any work commenced in respect of the construction of any Project or change any course of action undertaken by the Institution and not be bound by any limitations or requirements of time whether set forth in the Loan Agreement or otherwise, (iii) assume any construction contract made by the Institution in any way relating to the construction of any Project and take over and use all or any part of the labor, materials, supplies and equipment contracted for by the Institution, whether or not previously incorporated into the construction of such Project, and (iv) in connection with the construction of any Project undertaken by the Authority pursuant to the provisions of this paragraph (f), (x) engage builders, contractors, architects, engineers and others for the purpose of furnishing labor, materials and equipment in connection with the construction of such Project, (y) pay, settle or compromise all bills or claims which may become liens against a Project or against any moneys of the Authority applicable to the construction of a Project, or which have been or may be incurred in any manner in connection with completing the construction of a Project or for the discharge of liens, encumbrances or defects in the title to a Project or against any moneys of the Authority applicable to the construction of a Project, and (z) take or refrain from taking such action under the Loan Agreement as the Authority may from time to time determine. The Institution shall be liable to the Authority for all sums paid or incurred for construction of any Project whether the same shall be paid or incurred pursuant to the provisions of this paragraph (f) or otherwise, and all payments made or liabilities incurred by the Authority under the Loan Agreement of any kind whatsoever shall be paid by the Institution to the Authority upon demand. For the purpose of exercising the rights granted by this subparagraph during the term of the Loan Agreement, the Institution hereby irrevocably constitutes and appoints the Authority its true and lawful attorney-in-fact to execute, acknowledge and deliver any instruments and to do and perform any acts in the name and on behalf of the Institution; and

(vii) take any action necessary to enable the Authority to realize on its liens under the Loan Agreement, or by law, including any other action or proceeding permitted by the terms of the Loan Agreement, or by law.

(c) All rights and remedies in the Loan Agreement given or granted to the Authority are cumulative, non-exclusive and in addition to any and all rights and remedies that the Authority may have or may be given by reason of any law, statute, ordinance or otherwise, and no failure to exercise or delay in exercising any remedy shall effect a waiver of the Authority's right to exercise such remedy thereafter.

(d) At any time before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of any Event of Default or before the completion of the enforcement of any other remedies under the Loan Agreement, the Authority may annul any declaration made or action taken pursuant to paragraph (b) of this Section and its consequences if such Events of Default shall be cured. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereto.

(e) The Institution shall give the Authority and the Department of Health telephone and written notice within one business day of receiving information that the Master Trustee has appointed or intends to appoint a receiver in accordance with the Master Indenture.

*(Section 26)*

### **Arbitrage**

(a) The Institution covenants that it shall not take any action or inaction, nor fail to take any action or permit any action to be taken, if any such action or inaction would adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Series 2018 Bonds which are Tax-Exempt Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Institution covenants that it shall comply with the instructions and requirements of the Tax Certificate, which is incorporated in the Loan Agreement as if set forth fully in the Loan Agreement. The Institution (or any related person, as defined in Section 147(a)(2) of the Code) shall not, pursuant to an arrangement, formal or informal, purchase Bonds (except in the case of a purchase in lieu of redemption) in an amount related to the amount of any obligation to be acquired from the Institution by the Authority. The Institution shall, on a timely basis, provide the Authority with all necessary information regarding funds not in the Authority's possession to enable the Authority to comply with the arbitrage and rebate requirements of the Code. The Institution shall be required to pay for any consultant or report necessary to satisfy any such arbitrage and rebate requirements.

(b) The Institution covenants that it shall not take any action or fail to take any action which would cause any representation or warranty of the Institution contained in the Tax Certificate then to be untrue and shall comply with all covenants and agreements of the Institution contained in the Tax Certificate, in each case to the extent required by and otherwise in compliance with such Tax Certificate. The Institution shall maintain adequate policies and procedures to enable the Institution to comply with the reporting requirements of the Internal Revenue Service applicable to the Bonds, including but not limited to Schedule K (Form 990). The Institution shall certify annually to the Authority that it is in full compliance with the Loan Agreement and the Tax Certificate.

(c) The Authority agrees that any report of Excess Earnings (as defined in the Resolution) with respect to any Bonds prepared pursuant to the Resolution shall be provided to the Institution as soon as practicable after the completion of such report and that, prior to directing any payment pursuant to said section of Resolution of any amount in the Arbitrage Rebate Funds for any Bonds to the Department of Treasury of the United States of America, the Authority shall provide to the Institution a copy of any form to be filed with the said department in connection with such payment and any related computation determining the amount of such payment.

(d) Notwithstanding any other provisions in the Loan Agreement or in the Resolution to the contrary, the Institution shall take full responsibility for performing all rebate calculations that may be required to be made from time to time with respect to the Bonds, and to coordinate with the Authority in order to permit the Authority to make timely payments of rebate liability to the Department of the Treasury of the United States of America (the “U.S. Treasury”). The Authority shall retain in its possession, so long as required by the Code, copies of all documents, reports and computations made by or provided to it, in connection with the calculation of Excess Earnings and the rebate of all or a portion thereof. The Institution agrees to maintain records adequately documenting calculations of rebate and payments, if any, or satisfaction of a spending exception to rebate in connection with the Bonds and the other bonds comprising the composite issue as described in the Tax Certificate. The Institution agrees to provide the Authority with copies of any documents, reports and computations in connection with such rebate calculations and payments of rebate to the U.S. Treasury in connection with said composite issue.

*(Section 31)*

### **Effective Date**

The Authority and the Institution hereby agree that the Loan Agreement shall become effective immediately upon the issuance of the Series 2018 Bonds.

*(Section 43)*

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**Appendix D**

**Summary of Certain Provisions of the Resolution**

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**SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION**

The following is a brief summary, prepared by Bond Counsel, of certain provisions of the Resolution, as amended and supplemented. Such summary does not purport to be complete and reference is made to the Resolution for full and complete statements of such and all provisions. Defined terms used in the Resolution shall have the meanings ascribed to them in Appendix A to this Official Statement.

**Resolution, the Series Resolutions and the Bonds Constitute Separate Contracts**

It is the intent of the Resolution to authorize the issuance by the Authority, from time to time, of its Bonds in one or more Series, each such Series to be authorized by a separate Applicable Series Resolution and, inter alia, to be separately secured from each other Series of Bonds. Each such Series of Bonds are separate and apart from any other Series of Bonds authorized by a different Series Resolution and the Holders of Bonds of such Series shall not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series of Bonds by the Applicable Series Resolution authorizing such Series of Bonds. With respect to each Applicable Series of Bonds, in consideration of the purchase and acceptance of any and all of the Bonds of such Applicable Series authorized to be issued under the Resolution and under the Applicable Series Resolution by those who hold or own the same from time to time, the Resolution and the Applicable Series Resolution shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Holders from time to time of the Bonds of such Applicable Series, and the pledge and assignment made in the Resolution and the covenants and agreements set forth to be performed by or on behalf of the Authority for the equal and ratable benefit, protection and security of the Holders of any and all of the Bonds of such Series, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any Bonds of such Series over any other Bonds of such Series except as expressly provided in the Resolution or permitted hereby or by the Applicable Series Resolution.

*(Section 1.03)*

**Pledge of Revenues**

The proceeds from the sale of an Applicable Series of Bonds, the Revenues and all funds authorized hereby and established pursuant to an Applicable Series Resolution, other than an Applicable Arbitrage Rebate Fund or an Applicable Credit Facility Repayment Fund, are hereby, subject to the adoption of an Applicable Series Resolution, pledged and assigned to the Trustee as security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Applicable Series of Bonds and as security for the performance of any other obligation of the Authority under the Resolution and under an Applicable Series Resolution with respect to such Series, all in accordance with the provisions of the Resolution and thereof. The pledge made hereby, subject to the adoption of an Applicable Series Resolution, shall relate only to the Bonds of an Applicable Series authorized by such Series Resolution and no other Series of Bonds and such pledge shall not secure any such other Series of Bonds. The pledge made hereby is valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of the Applicable Series of Bonds, the Revenues and all funds and accounts established hereby and pursuant to the Applicable Series Resolution which are pledged hereby and pursuant to the Applicable Series Resolution shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid, binding and perfected as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof. No instrument by which such pledge is created nor any financing statement need be recorded or filed. The Bonds of each

Applicable Series shall be special obligations of the Authority payable solely from and secured by a pledge of the proceeds from the sale of such Series of Bonds, the Revenues and the funds established hereby and pursuant to the Applicable Series Resolution, which pledge shall constitute a first lien thereon.

*(Section 5.01)*

### **Establishment of Funds**

Unless otherwise provided by the Applicable Series Resolution, the following funds are authorized to be established, held and maintained for each Applicable Series by the Trustee under the Applicable Series Resolution separate from any other funds established and maintained pursuant to any other Series Resolution:

Construction Fund;  
Debt Service Fund;  
Debt Service Reserve Fund;  
Arbitrage Rebate Fund; and  
Credit Facility Repayment Fund.

Accounts and sub-accounts within each of the foregoing funds shall from time to time be established in accordance with an Applicable Series Resolution, an Applicable Bond Series Certificate or upon the direction of the Authority. All moneys at any time deposited in any fund created hereby, other than the Applicable Arbitrage Rebate Fund and the Applicable Credit Facility Repayment Fund, shall be held in trust for the benefit of the Holders of the Applicable Series of Bonds, but shall nevertheless be disbursed, allocated and applied solely in connection with an Applicable Series of Bonds for the uses and purposes provided in the Resolution; *provided however*, that (i) any Debt Service Reserve Fund established by or pursuant to a Series Resolution, the amounts held therein and amounts derived from any Reserve Fund Facility related thereto, shall not be held in trust for the benefit of the Holders of Bonds other than the Bonds of the Series secured thereby as provided in such Series Resolution and are pledged solely thereto and no Holder of the Bonds of any other Series shall have any right or interest therein, and (ii) the proceeds derived from the remarketing of Option Bonds tendered or deemed to have been tendered for purchase or redemption in accordance with the Series Resolution authorizing the issuance of such Bonds or the Bond Series Certificate relating to such Bonds or derived from a Liquidity Facility relating to such Bonds, and any fund or account established by or pursuant to such Series Resolution for the payment of the purchase price or Redemption Price of Option Bonds so tendered or deemed to have been tendered, shall not be held in trust for the benefit of the Holders of Bonds other than such Option Bonds and are pledged hereby for the payment of the purchase price or Redemption Price of such Option Bonds.

*(Section 5.02)*

### **Application of Bond Proceeds and Allocation Thereof**

Upon the receipt of proceeds from the sale of an Applicable Series of Bonds, the Authority shall apply such proceeds as specified in the Resolution and in an Applicable Series Resolution authorizing such Series or in the Applicable Bond Series Certificate.

Accrued interest, if any, received upon the delivery of an Applicable Series of Bonds shall be deposited in the appropriate account in the Applicable Debt Service Fund unless all or any portion of such amount is to be otherwise applied as specified in the Applicable Series Resolution or the Applicable Bond Series Certificate.

*(Section 5.03)*

### **Application of Moneys in the Construction Fund**

1. For purposes of internal accounting, an account in an Applicable Construction Fund shall contain one or more subaccounts, as the Authority or the Trustee shall deem necessary or desirable. As soon as practicable after the delivery of an Applicable Series of Bonds, the Trustee shall deposit in the appropriate account in the Applicable Construction Fund the amount required to be deposited therein pursuant to the Applicable Series Resolution, the Applicable Loan Agreement or the Applicable Bond Series Certificate. In addition, the Authority shall remit to the Trustee and the Trustee shall deposit in the appropriate account in the Applicable Construction Fund any moneys paid or instruments payable to the Authority derived from insurance proceeds or condemnation awards from the Applicable Project.

2. Except as otherwise provided in this Article 5 and in the Applicable Series Resolution or Applicable Bond Series Certificate, moneys deposited in the Applicable Construction Fund shall be used only to pay the Costs of Issuance of the Bonds issued in connection with such Series Resolution or Bond Series Certificate and the Costs of the Project(s) in connection with which such Series of Bonds was issued.

3. Payments for Costs of an Applicable Project shall be made by the Trustee upon receipt of, and in accordance with, a certificate or certificates of the Authority stating the names of the payees, the purpose of each payment in terms sufficient for identification and the respective amounts of each such payment. Such certificate or certificates shall be substantiated by a certificate filed with the Authority signed by an Authorized Officer of the Applicable Institution, describing in reasonable detail the purpose for which moneys were used and the amount thereof, and further stating that such purpose constitutes a necessary part of the Costs of such Project except that payments to pay interest on the Applicable Series of Bonds shall be made by the Trustee upon receipt of, and in accordance with, the direction of an Authorized Officer of the Authority directing the Trustee to transfer such amount from the Applicable Construction Fund to the Applicable Debt Service Fund.

4. Any proceeds of insurance, condemnation or eminent domain awards received by the Trustee, the Authority or an Applicable Institution with respect to an Applicable Project financed with Tax Exempt Bonds shall be deposited in the appropriate account in the Applicable Construction Fund and, if necessary, such fund shall be reestablished for such purpose and if not used to repair, restore or replace such Project, transferred to the Applicable Debt Service Fund for the redemption of the Applicable Series of Bonds in accordance with the Applicable Loan Agreement.

5. An Applicable Project shall be deemed to be complete (a) upon delivery to the Authority and the Trustee of a certificate signed by an Authorized Officer of the Applicable Institution which certificate shall be delivered as soon as practicable after the date of completion of such Project or (b) upon delivery to the Applicable Institution and the Trustee of a certificate of the Authority which certificate shall be delivered at any time after completion of such Project. Each such certificate shall state that such Project has been completed substantially in accordance with the plans and specifications, if any, applicable to such Project and that such Project is ready for occupancy, and, in the case of a certificate of an Authorized Officer of such Applicable Institution, shall specify the date of completion, or if any portion of the Project has been abandoned and shall not be completed, such certificate shall so state.

Upon receipt by the Trustee of the certificate required pursuant to this subdivision, the moneys, if any, then remaining in the Applicable Construction Fund, after making provision in accordance with the written direction of the Authority for the payment of any Costs of Issuance of such Applicable Series of Bonds and Costs of the Applicable Project then unpaid, shall be paid by the Trustee as follows and in the following order of priority:

First: Upon the written direction of the Authority, to the Applicable Arbitrage Rebate Fund, the amount set forth in such direction;

Second: To the Applicable Debt Service Reserve Fund, such amount necessary to make the amount on deposit in such fund equal to the Applicable Debt Service Reserve Fund Requirement; and

Third: To the Applicable Debt Service Fund for the redemption or purchase of the Applicable Series of Bonds in accordance with the Resolution and the Applicable Series Resolution, any balance remaining.

*(Section 5.04)*

### **Enforcement of Obligations, Deposit of Revenues and Allocation Thereof**

1. To the extent an Applicable Institution fails to make any timely payment with respect to a Series of Bonds under the Applicable Loan Agreement, which payment would constitute a credit for payment of the Applicable Obligation in accordance with the terms thereof, the Trustee shall promptly make demand for payment under the Applicable Obligation in accordance with the terms thereof.

2. The Revenues, including all payments received under the Applicable Loan Agreement, the Master Indenture, the Applicable Supplemental Indenture and the Applicable Obligations, shall be deposited upon receipt by the Trustee to the appropriate account of the Applicable Debt Service Fund in the amounts, at the times and for the purposes specified in the Applicable Series Resolution or Applicable Loan Agreement. Except as provided in the Applicable Series Resolution or Applicable Bond Series Certificate, to the extent not required to pay the interest, principal, Sinking Fund Installments and moneys which are required or have been set aside for the redemption of Bonds of the Applicable Series, moneys in the Applicable Debt Service Fund shall be paid by the Trustee on or before the business day preceding each interest payment date as follows and in the following order of priority:

First: To reimburse, pro rata, the Applicable Facility Provider, if any, for Provider Payments which are then unpaid the respective Provider Payments and to replenish each Debt Service Reserve Fund to its respective Debt Service Reserve Fund Requirement, pro rata, in proportion to the amount the respective Provider Payments then unpaid to each Facility Provider and the amount of the deficiency in each Debt Service Reserve Fund bears to the aggregate amount of Provider Payments then unpaid and deficiencies in the respective Debt Service Reserve Funds;

Second: Upon the written direction of an Authorized Officer of the Authority, to the Applicable Arbitrage Rebate Fund in the amount set forth in such direction;

Third: To the Applicable Debt Service Reserve Fund, such amount, if any, necessary to make the amount on deposit in such fund equal to the Applicable Debt Service Reserve Fund Requirement; and

Fourth: To the Authority, unless otherwise paid, such amounts as are payable to the Authority for: (i) any expenditures of the Authority for fees and expenses of auditing, and fees and expenses of the Trustee and Paying Agents, all as required hereby, (ii) all other expenditures reasonably and necessarily

incurred by the Authority in connection with the financing of the Applicable Project, including expenses incurred by the Authority to compel full and punctual performance of all the provisions of the Applicable Loan Agreement in accordance with the terms thereof, and (iii) any fees of the Authority; but only upon receipt by the Trustee of a certificate signed by an Authorized Officer of the Authority, stating in reasonable detail the amounts payable to the Authority pursuant to this paragraph Fourth.

3. After making the payments described in subdivision 2, the balance, if any, of the Revenues then remaining, upon the written direction of an Authorized Officer of the Authority, be paid by the Trustee to the Applicable Construction Fund or the Applicable Debt Service Fund, or paid to the Applicable Institution, in the respective amounts set forth in such direction, free and clear of any pledge, lien, encumbrance or security interest created hereby. The Trustee shall notify the Authority and the Institution promptly after making the payments described in subdivision 1, of any balance of Revenues then remaining.

4. In the event that any payments received by the Trustee under the Resolution are less than the total amount required to be paid to the Trustee and such payments relate to more than one Series of Bonds, the payments shall be applied pro rata to each such Series of Bonds based upon the amounts then due and payable.

*(Section 5.05)*

#### **Debt Service Fund**

1. The Trustee, on or before the business day preceding each interest payment date with respect to a Series of Bonds, as required by the Applicable Series Resolution or Applicable Bond Series Certificate, pay, from the Applicable Debt Service Fund, to itself and any other Paying Agent:

(a) the interest due on all Outstanding Bonds of the Applicable Series on such interest payment date;

(b) the principal amount due on all Outstanding Bonds of the Applicable Series on such interest payment date;

(c) the Sinking Fund Installments, if any, due on all Outstanding Bonds of the Applicable Series on such interest payment date; and

(d) moneys required for the redemption of Bonds of the Applicable Series in accordance with the Resolution.

The amounts paid out pursuant to this Section are irrevocably pledged to and applied to such payments.

2. In the event that on the fourth business day preceding any Interest Payment Date for a Series of Bonds the amount in the Applicable Debt Service Fund shall be less than the amounts, respectively, required for payment of interest on the Outstanding Bonds of the Applicable Series, for the payment of principal of such Outstanding Bonds, for the payment of Sinking Fund Installments of such Outstanding Bonds due and payable on such interest payment date or for the payment of the Purchase Price or Redemption Price of such Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, the Trustee shall withdraw from the Applicable Debt Service Reserve Fund and deposit to the Applicable Debt Service Fund such amounts as shall increase the amount in the Debt Service Fund to an amount sufficient to make

such payments. The Trustee shall notify the Authority, the Applicable Facility Provider, if any, Credit Facility Issuer, if any, Master Trustee, Obligated Group Representative of a withdrawal from the Applicable Debt Service Reserve Fund.

3. Notwithstanding the provisions of subdivision 1 of this Section, the Authority shall, at any time subsequent to the first principal payment date of any Bond Year but in no event less than forty-five (45) days prior to the succeeding date on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys on deposit in the Applicable Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Applicable Term Bonds to be redeemed from such Sinking Fund Installment. Any Term Bond so purchased and any Term Bond purchased by a Member of the Obligated Group and delivered to the Trustee in accordance with the Applicable Loan Agreement shall be canceled upon receipt thereof by such Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of each Term Bond so canceled shall be credited against the Sinking Fund Installment due on such date, provided that such Term Bond is canceled by the Trustee prior to the date on which notice of redemption is given.

4. Moneys in the Applicable Debt Service Fund in excess of the amount required to pay the principal and Sinking Fund Installments of Outstanding Bonds of an Applicable Series of Bonds payable on or prior to the next succeeding principal payment date, the interest on such Outstanding Bonds payable on the next succeeding interest payment date, and the Purchase Price or Redemption Price of Applicable Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, shall be applied by the Trustee in accordance with the written direction of an Authorized Officer of the Authority to the purchase of Applicable Outstanding Bonds of any Series at Purchase Prices not exceeding the Redemption Price applicable on the next interest payment date on which such Bonds are redeemable, plus accrued and unpaid interest to such date, at such times, at such purchase prices and in such manner as an Authorized Officer of the Authority shall direct. If sixty (60) days prior to the end of a Bond Year an excess, calculated as aforesaid, exists in the Applicable Debt Service Fund, such moneys shall be applied by the Trustee: (i) in accordance with the direction of an Authorized Officer of the Authority given pursuant to the Resolution to the redemption of Bonds as provided in Article 4 of the Resolution, at the Redemption Prices specified in the Applicable Series Resolution or Applicable Bond Series Certificate or (ii) as shall otherwise be directed by the Authority.

*(Section 5.06)*

### **Arbitrage Rebate Fund**

The Trustee for a Series of Tax-Exempt Bonds shall deposit to the appropriate account in the Applicable Arbitrage Rebate Fund any moneys delivered to it by the Applicable Institution for deposit therein and, notwithstanding any other provisions of the Resolution, shall transfer to the Applicable Arbitrage Rebate Fund, in accordance with the directions of the Authority, moneys on deposit in any other funds held by such Trustee under the Resolution at such times and in such amounts as set forth in such directions.

Moneys on deposit in the Applicable Arbitrage Rebate Fund shall be applied by the Trustee in accordance with the direction of the Authority to make payments to the Department of the Treasury of the United States of America at such times and in such amounts as the Authority determines to be required by the Code to be rebated to the Department of the Treasury of the United States of America. Moneys which the Authority determines to be in excess of the amount required to be so rebated shall be deposited to any Applicable Fund in accordance with the directions of the Authority.

If and to the extent required by the Code, the Authority shall periodically, at such times as shall be required to comply with the Code, determine the amount of Excess Earnings with respect to each Applicable Series of Bonds and direct the Trustee to (i) transfer from any other of the Applicable funds held by the Trustee under the Resolution and deposit to the Applicable Arbitrage Rebate Fund, all or a portion of the Excess Earnings with respect to such Series of Bonds and (ii) pay out of the Applicable Arbitrage Rebate Fund to the Department of the Treasury of the United States of America the amount, if any, required by the Code to be rebated thereto.

*(Section 5.08)*

### **Application of Moneys in Certain Funds for Retirement of Bonds**

Notwithstanding any other provisions of the Resolution, if at any time (i) the amounts held in the Applicable Debt Service Fund and the Applicable Debt Service Reserve Fund, if any, are sufficient to pay the principal or Redemption Price of all Outstanding Bonds of a Series and the interest accrued and unpaid and to accrue on such Bonds to the next date of redemption when all such Bonds are redeemable, (ii) the amounts held in the Applicable Debt Service Reserve Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds of the Series secured thereby and the interest accrued and unpaid and to accrue on such Bonds to the next date on which such Bonds shall be redeemed or (iii) in either case, to make provision pursuant to the Resolution for the payment of such Outstanding Bonds at the maturity or redemption dates thereof, the Trustee shall notify the Authority and the Applicable Institution(s). Upon receipt of such notice, the Authority shall (i) direct the Trustee in writing to redeem all such Outstanding Bonds of the Applicable Series, at which point the Trustee shall proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds hereby and by a Series Resolution as provided in the Resolution, or (ii) give the Trustee irrevocable instructions in accordance with the Resolution and make provision for the payment of such Outstanding Bonds at the maturity or redemption dates thereof in accordance with such instruction.

*(Section 5.09)*

### **Investment of Funds Held by the Trustee**

1. Money held under the Resolution by the Trustee, if permitted by law, shall, as nearly as shall be practicable, be invested by the Trustee, upon direction of the Authority given in writing (which direction shall specify the amount thereof to be so invested), in Government Obligations, Federal Agency Obligations or Exempt Obligations; provided, however, that each such investment shall permit the money so deposited or invested to be available for use at the times at which the Authority reasonably believes such money shall be required for the purposes of the Resolution.

2. In lieu of the investments of money in obligations authorized in the Resolution, the Trustee, to the extent permitted by law, upon direction of the Authority given in writing, signed by an Authorized Officer of the Authority, invest money in the Construction Fund in any Permitted Investment; provided, however, that each such investment shall permit the money so deposited or invested to be available for use at the times at which the Authority reasonably believes such money shall be required for the purposes of the Resolution, provided, further, that (x) any Permitted Collateral required to secure any Permitted Investment shall have a market value, determined by the Trustee or its agent periodically, but no less frequently than weekly, at least equal to the amount deposited or invested including interest accrued thereon, (y) the Permitted Collateral shall be deposited with and held by the Trustee or an agent of the Trustee approved by an Authorized Officer of the Authority, and (z) the Permitted Collateral shall be free and clear of claims of any other person.

3. Permitted Investments purchased or other investments made as an investment of moneys in any fund held by the Trustee under the provisions of the Resolution shall be deemed at all times to be a part of such fund and the income or interest earned, profits realized or losses suffered by a fund due to the investment thereof be retained in, credited or charged, as the case may be, to such fund unless otherwise provided in the Applicable Series Resolution.

4. In computing the amount in any fund held by the Trustee under the Resolution, each Permitted Investment purchased as an investment of moneys therein or held therein shall be valued at par or the market value thereof, plus accrued interest, whichever is lower, except that investments held in the Applicable Debt Service Reserve Fund shall be valued at the market value thereof, plus accrued interest and except that Investment Agreements shall be valued at original cost, plus accrued interest.

5. The Authority, in its discretion, shall direct the Trustee to, and the Trustee shall, sell, or present for redemption or exchange any investment held by the Trustee pursuant hereto and the proceeds thereof shall be reinvested as provided in this Section. Except as otherwise provided in the Resolution, the Trustee shall sell at the best price obtainable, or present for redemption or exchange, any investment held by it pursuant hereto whenever it is necessary in order to provide moneys to meet any payment or transfer from the fund in which such investment is held. The Trustee shall advise the Authority and the Institution in writing, on or before the fifteenth (15th) day of each calendar month, of the amounts required to be on deposit in each fund and account under the Resolution and of the details of all investments held for the credit of each fund in its custody under the provisions of the Resolution as of the end of the preceding month and as to whether such investments comply with the provisions of subdivisions 1, 2 and 3 of this Section. The details of such investments shall include the par value, if any, the cost and the current market value of such investments as of the end of the preceding month. The Trustee shall also describe all withdrawals, substitutions and other transactions occurring in each such fund in the previous month.

6. No part of the proceeds of any Applicable Series of Bonds or any other funds of the Authority shall be used directly or indirectly to acquire any securities or investments the acquisition of which would cause any Bond to be an "arbitrage bond" within the meaning of Section 148(a) of the Code.

*(Section 6.02)*

### **Security for Deposits**

All moneys held under the Resolution by the Trustee of a Series of Bonds shall be continuously and fully secured, for the benefit of the Authority and the Holders of the Applicable Series of Bonds, by direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America of a market value equal at all times to the amount of the deposit so held by the Trustee; provided, however, (a) that if the securing of such moneys is not permitted by applicable law, then in such other manner as shall then be required or permitted by applicable State or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds, and (b) that it shall not be necessary for the Trustee of a Series of Bonds or any Paying Agent of a Series of Bonds to give security for the deposit of any moneys with them pursuant to the Resolution and held in trust for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of or interest on any Applicable Series of Bonds, or for the Trustee to give security for any moneys which shall be represented by obligations purchased or other investments made under the provisions of the Resolution as an investment of such moneys.

*(Section 6.01)*



## Refunding Bonds

All or any portion of one or more Series of Refunding Bonds shall be authenticated and delivered to refund all Outstanding Bonds of one or more Series of Bonds, one or more series of bonds or other obligations, a portion of a Series of Outstanding Bonds or a portion of a series of bonds or other obligations, a portion of a maturity of a Series of Outstanding Bonds or a portion of a maturity of bonds or other obligations. The Authority by resolution of its members shall issue Refunding Bonds of a Series in an aggregate principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of this Section and of the Series Resolution authorizing such Series of Refunding Bonds or by the provisions of the resolution or resolutions authorizing the bonds or other obligations issued by the Authority, as the case may be.

(i) With respect to Refunding Bonds issued to refund all or any portion of any Series of Outstanding Bonds or to refund all or a portion of one or more series of Bonds, the Refunding Bonds of such Series shall be authenticated and delivered by the Trustee only upon receipt by the Trustee (in addition to the documents required by the Resolution) of:

(a) If the Bonds to be refunded are to be redeemed, irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Bonds, as the case may be, to be refunded on a redemption date specified in such instructions;

(b) Irrevocable instructions to the Trustee, satisfactory to it, to mail the notice provided for in the Resolution to the Holders of the Bonds being refunded;

(c) Either or both of (1) moneys in an amount sufficient to effect payment of the principal at the maturity date therefor or the Redemption Price on the applicable redemption date of the Bonds to be refunded, together with accrued interest on such Bonds to the maturity or redemption date, which money shall be held by the Trustee or any one or more of the Paying Agents or such other fiduciary appointed by the Authority in a separate account irrevocably in trust for and assigned to the respective Holders of the Applicable Bonds to be refunded and (2) Defeasance Securities in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications, as necessary to comply with the provisions of the Resolution or the resolution authorizing such Bonds, as may be applicable, which Defeasance Securities and moneys shall be held in trust and used only as provided in said Section; and

(d) A certificate of the Authority containing such additional statements as may be reasonably necessary to show compliance with the requirements of this Section.

The proceeds, including accrued interest, of such Refunding Bonds shall be applied simultaneously with the delivery of such Refunding Bonds in the manner provided in or determined in accordance with the Series Resolution authorizing such Refunding Bonds.

(ii) With respect to the Refunding Bonds issued to refund all or any portion of any bonds or other obligations issued by the Authority, the proceeds, including accrued interest, shall be applied simultaneously with the delivery of such Refunding Bonds in the manner provided or as determined in accordance with the resolution or resolutions authorizing such bonds or other obligations.

*(Section 2.04)*

## **Additional Obligations**

The Authority reserves the right to issue bonds, notes or any other obligations or otherwise incur indebtedness pursuant to other and separate resolutions or agreements of the Authority, so long as such bonds, notes or other obligations are not, or such other indebtedness is not, entitled to a charge or lien or right prior or equal to the charge or lien created hereby and pursuant to any Applicable Series Resolution, or prior or equal to the rights of the Authority and Holders of any Applicable Series of Bonds provided hereby or with respect to the moneys pledged under the Resolution or pursuant to any Applicable Series Resolution.

*(Section 2.05)*

## **Tax Exemption: Rebates**

Except as otherwise provided in an Applicable Series Resolution, in order to maintain the exclusion from gross income for purposes of federal income taxation of interest on the Tax-Exempt Bonds of each Applicable Series, the Authority shall comply with the provisions of the Code applicable to the Bonds of each Applicable Series of Tax-Exempt Bonds, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Proceeds of each Applicable Series of Bonds, reporting of earnings on the Gross Proceeds of each Applicable Series of Bonds and rebates of Excess Earnings to the Department of the Treasury of the United States of America. Except as otherwise provided in the Resolution, the Authority shall comply with the letter of instructions as to compliance with the Code with respect to each such Series of Bonds, to be delivered by Bond Counsel at the time the Bonds of an Applicable Series are issued, as such letter may be amended from time to time, as a source of guidance for achieving compliance with the Code.

The Authority shall not take any action or fail to take any action, which would cause the Bonds of an Applicable Series to be “arbitrage bonds” within the meaning or Section 148(a) of the Code.

Notwithstanding any other provision of the Resolution to the contrary, the Authority’s failure to comply with the provisions of the Code applicable to the Bonds of an Applicable Series shall not entitle the Holder of Bonds of any other Applicable Series, or the Trustee acting on their behalf, to exercise any right or remedy provided to Bondholders under the Resolution based upon the Authority’s failure to comply with the provisions of this Section or of the Code.

*(Section 7.11)*

## **Events of Default**

An event of default shall exist under the Resolution and under an Applicable Series Resolution (in the Resolution called “event of default”) if:

(a) With respect to the Applicable Series of Bonds, payment of the principal, Sinking Fund Installments, Purchase Price or Redemption Price of any such Bond shall not be made by the Authority when the same becomes due and payable, either at maturity or by proceedings for redemption or otherwise; or

(b) With respect to the Applicable Series of Bonds, payment of an installment of interest on any such Bond shall not be made by the Authority when the same becomes due and payable; or

(c) With respect to the Applicable Series of Tax-Exempt Bonds, the Authority shall default in the due and punctual performance of the covenants contained in the Resolution and, as a result, the interest on the Bonds of such Series shall no longer be excludable from gross income under Section 103 of the Code; or

(d) With respect to the Applicable Series of Bonds, the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions for the benefit of the holders of such Bonds contained in the Resolution or in the Bonds of such Series or in the Applicable Series Resolution on the part of the Authority to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority by the Trustee (unless such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within thirty (30) days and diligently prosecutes the cure thereof), which shall give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Applicable Series with the prior written consent of the Applicable Credit Facility Issuer; or

(e) The Authority shall have notified the Trustee that an “Event of Default”, as defined in the Applicable Loan Agreement, arising out of or resulting from the failure of the Applicable Institution to comply with the requirements of the Applicable Loan Agreement shall have occurred and be continuing and all sums payable by the Institution under the Applicable Loan Agreement shall have been declared to be immediately due and payable, which declaration shall not have been annulled.

An event of default under the Resolution in respect of an Applicable Series of Bonds shall not in and of itself be or constitute an event of default in respect of any other Applicable Series of Bonds.

*(Section 11.02)*

### **Acceleration of Maturity**

Upon the happening and continuance of any event of default specified in the Resolution, other than an event of default specified in paragraph (c) of Section 11.02 summarized above, then and in every such case the Trustee may with the consent of the Applicable Credit Facility Issuer, if any, and upon the written request of (i) the Applicable Credit Facility Issuers, if any, or the Holders of not less than twenty-five per centum (25%) in principal amount of an Applicable Series of Outstanding Bonds, with the prior written consent of the Applicable Credit Facility Issuers, if any, or (ii) if one or more Applicable Credit Facility Issuers, if any, have deposited with the Trustee a sum sufficient to pay the principal of and interest on the Applicable Outstanding Bonds due upon the acceleration thereof, upon the request of an Applicable Credit Facility Issuer, if any, or Applicable Credit Facility Issuers, if any, making such deposit, shall: (A) by a notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Bonds of the Applicable Series to be due and payable immediately and (B) request that the Master Trustee declare all applicable Outstanding Obligations (as defined in the Master Indenture) to be immediately due and payable. At the expiration of thirty (30) days after the giving of notice of such declaration, such principal and interest shall become and be immediately due and payable, anything in the Resolution or in any Applicable Series Resolution or in the Bonds to the contrary notwithstanding. In the event that an Applicable Credit Facility Issuer shall make any payments of principal of or interest on any Bonds of the Applicable Series pursuant to an Applicable Credit Facility and the Bonds of the Applicable Series are accelerated, such Applicable Credit Facility Issuer shall at any time and at its sole option, pay to the Bondholders all or such portion of amounts due under such Bonds of the Applicable Series prior to the stated maturity dates thereof. At any time after the principal of the Bonds of the Applicable Series shall have been so declared to be due and payable, and before the entry of final judgment or decree in any

suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee shall, with the prior written consent of Applicable Credit Facility Issuers, if any, which have issued Applicable Credit Facilities for not less than twenty-five per centum (25%) in principal amount of the Applicable Bonds not then due by their terms and then Outstanding, or the Holders of not less than twenty-five per centum (25%) in principal amount of the Applicable Outstanding Bonds, with the prior written consent of the Applicable Credit Facility Issuers, if any, and by written notice to the Authority, annul such declaration and its consequences if: (i) moneys have accumulated in the Applicable Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Applicable Outstanding Bonds (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agent; (iii) all other amounts then payable by the Authority under the Resolution and under the Applicable Series Resolution (other than principal amounts payable only because of a declaration and acceleration under this Section) have been paid or a sum sufficient to pay the same has been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Resolution or in the Applicable Series Resolution or in the Bonds (other than a default in the payment of the principal of such Bonds then due only because of a declaration under the Resolution) has been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

*(Section 11.03)*

### **Enforcement of Remedies**

Upon the happening and continuance of any event of default specified in the Resolution, then and in every such case, the Trustee of a Series of Bonds shall proceed, and upon the written request of the Applicable Credit Facility Issuers, if any, which have issued Applicable Credit Facilities for not less than twenty-five per centum (25%) in principal amount of the Applicable Outstanding Bonds, or of the Holders of not less than twenty-five per centum (25%) in principal amount of the Applicable Outstanding Bonds with the consent of the Applicable Credit Facility Issuers, if any, or, in the case of a happening and continuance of an event of default specified in paragraph (c) of Section 11.02 of the Resolution, upon the written request of the Applicable Holders of not less than twenty-five per centum (25%) in principal amount of the Applicable Outstanding Bonds of the Series affected thereby with the consent of the Applicable Credit Facility Issuer, if any, of such Series of Bonds, shall proceed (subject to the provisions of the Resolution), to protect and enforce its rights and the rights of the Bondholders or of such Applicable Facility Provider, if any, under the Resolution or under the Applicable Series Resolution or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Resolution or under the Applicable Series Resolution or in aid or execution of any power granted in the Resolution or the Applicable Series Resolution, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee deems most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Resolution and under the Applicable Series Resolution, the Trustee is entitled to sue for, enforce payment of, and receive any and all amounts then, or during any default becoming, and at any time remaining, due from the Authority for principal or interest or otherwise under any of the provisions of the Resolution or of any Applicable Series Resolution or of the Applicable Series of Bonds, with interest on overdue payments of the principal of or interest on the Bonds at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the Resolution and under any Applicable Series Resolution and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders of such

Bonds, and to recover and enforce judgment or decree against the Authority but solely as provided in the Resolution, in any Applicable Series Resolution and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable.

*(Section 11.04)*

### **Bondholders' Direction of Proceedings**

Anything in the Resolution to the contrary notwithstanding, the Applicable Credit Facility Issuers, if any, or the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of an Applicable Series with the prior written consent of the Applicable Credit Facility Issuers, if any, or, in the case of an event of default specified in paragraph (c) of Section 11.02 of the Resolution, the Holders of a majority in principal amount of the Outstanding Bonds of the Applicable Series with the prior written consent of the Applicable Credit Facility Issuers, if any, shall have the right by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Resolution and under the Applicable Series Resolution, provided, such direction shall not be otherwise than in accordance with law or the provisions of the Resolution and of the Applicable Series Resolution, and that the Trustee has the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

*(Section 11.07)*

### **Limitation of Rights of Individual Bondholders**

Neither any Holder nor any Applicable Credit Facility Issuer with respect to any of the Bonds of an Applicable Series has any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution or under any Applicable Series Resolution, or for any other remedy under the Resolution unless such Holder or Applicable Credit Facility Issuer has previously given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of an Applicable Series with the prior written consent of the Applicable Credit Facility Issuer or, in the case of an event of default specified in paragraph (c) of Section 11.02 of the Resolution, the Holders of not less than a majority in principal amount of the Outstanding Bonds of such Series with the prior written consent of the Applicable Credit Facility Issuer, has made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, has accrued, and has afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted hereby or to institute such action, suit or proceeding in its or their name, and unless, also there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Resolution or for any other remedy under the Resolution and thereunder. It is understood and intended that no one (1) or more of the Applicable Credit Facility Issuers of an Applicable Series secured hereby and by an Applicable Series Resolution has any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution or to enforce any right under the Resolution except in the manner provided in the Resolution, and that all proceedings at law or in equity shall be instituted and maintained for the benefit of all Holders of the Outstanding Bonds of such Series. Notwithstanding any other provision of the Resolution, the Holder of any Bond of an Applicable Series has the right which is absolute and unconditional to receive payment of the principal of

(or Redemption Price, if any) and interest on such Bond on the stated maturity expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

*(Section 11.08)*

### **Modification and Amendment Without Consent**

Notwithstanding any other provisions of this Article 9 or Article 10 of the Resolution, the Authority shall adopt at any time or from time to time, with prior written notice to the Applicable Credit Facility Issuer, if any, Supplemental Resolutions for any one or more of the following purposes, and any such Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by the Authority:

(a) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds of an Applicable Series, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(b) To prescribe further limitations and restrictions upon the issuance of Bonds of an Applicable Series and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(c) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(d) To confirm, as further assurance, any pledge under, and the subjection to any lien, claim or pledge created or to be created by the provisions of, the Resolution, the Master Indenture, or any Applicable Series Resolution, the Revenues, or any pledge of any other moneys, Securities or funds;

(e) To modify any of the provisions of the Resolution or of any previously adopted Applicable Series Resolution in any other respects, provided that such modifications shall not be effective until after all Bonds of an Applicable Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution shall cease to be Outstanding, and all Bonds of an Applicable Series issued under an Applicable Series Resolution shall contain a specific reference to the modifications contained in such subsequent resolutions;

(f) With the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable, provided that any such modifications are not contrary to or inconsistent herewith as theretofore in effect, or to modify any of the provisions of the Resolution or of any previously adopted Applicable Series Resolution or Applicable Supplemental Resolution in any other respect, provided that such modification shall not adversely affect the interests of the Holders of Bonds of an Applicable Series in any material respect;

(g) Upon any mandatory tender and remarketing of Variable Rate Bonds, to modify or amend any provision of the Resolution or an Applicable Series Resolution which modification or amendment shall be effective only with respect to the Series of Variable Interest Rate Bonds subject to such mandatory tender and remarketing, provided that the substance of such modification or amendment

was disclosed to prospective Holder in the offering document prepared in connection with such mandatory tender and remarketing.

*(Section 9.02)*

### **Applicable Supplemental Resolutions Effective With Consent of Bondholders**

The provisions of the Resolution and an Applicable Series Resolution shall also be modified or amended at any time or from time to time by an Applicable Supplemental Resolution, subject to the consent of the Applicable Bondholders in accordance with and subject to the provisions of Article 10 of the Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by the Authority.

*(Section 9.03)*

### **Amendment of Loan Agreements**

The Authority shall not amend, change, modify, alter or terminate a Loan Agreement so as to materially adversely affect the interest of the Holders of Outstanding Bonds without the prior written consent of the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding, with the prior written consent of the Applicable Credit Facility Issuer, if any, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modifications or amendments, the Holders of not less than a majority in aggregate principal amount of the Bonds of each Series so affected then Outstanding, with the prior written consent of each Applicable Credit Facility Issuer, if any; provided, however, that if such modification or amendment shall, by its terms, not take effect so long as any Bonds of any such specified Series remain Outstanding, the consent of the Holders of such Bonds and each Applicable Credit Facility Issuer, if any, shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section; provided, further, that no such amendment, change, modification, alteration or termination shall reduce the percentage of the aggregate principal amount of Outstanding Bonds the consent of the Holders of which is a requirement for any such amendment, change, modification, alteration or termination, or decrease the amount of any payment required to be made by an Applicable Institution under its Applicable Loan Agreement that is to be deposited with the Trustee or extend the time of payment thereof or reduce the amount of any payment required to be made under the Obligations held by the Authority. A Loan Agreement shall be amended, changed, modified or altered without the consent of the Trustee and the Holders of Outstanding Bonds to provide necessary changes in connection with the acquisition, construction, reconstruction, rehabilitation and improvement, or otherwise providing, furnishing and equipping, of any facilities constituting a part of the Applicable Projects or which shall be added to or adjacent to the Applicable Projects or the issuance of Bonds, to cure any ambiguity, or to correct or supplement any provisions contained in an Applicable Loan Agreement, which shall be defective or inconsistent with any other provisions contained in the Resolution or in the Loan Agreement. Notwithstanding anything in this Section 7.09 to the contrary, if an Applicable Loan Agreement expressly provides for the consent of any other person or entity to an amendment to such Loan Agreement, such consent shall be required to be obtained as provided in such Loan Agreement. Prior to execution by the Authority of any amendment, a copy thereof certified by an Authorized Officer of the Authority shall be filed with the Trustee.

For the purposes of this Section, a Series is deemed to be adversely affected by an amendment, change, modification or alteration of an Applicable Loan Agreement if the same adversely affects or diminishes the rights of the Holders of the Bonds of the Applicable Series in any material respect. The Trustee shall in its discretion determine whether or not, in accordance with the foregoing provisions,

Bonds of any Applicable Series would be adversely affected in any material respect by any amendment, change, modification or alteration, and any such determination is binding and conclusive on an Applicable Institution, the Members of the Obligated Group, the Authority and all Holders of Bonds.

For all purposes of this Section, the Trustee is entitled to rely upon an opinion of counsel, which counsel is satisfactory to the Trustee, with respect to whether any amendment, change, modification or alteration adversely affects the interests of any Holders of Bonds then Outstanding in any material respect.

*(Section 7.09)*

## **Defeasance**

1. If the Authority pays or causes to be paid to the Holders of the Bonds of an Applicable Series the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, thereof and interest thereon, at the times and in the manner stipulated therein, in the Resolution, and in the Applicable Series Resolution and Applicable Bonds Series Certificate, then the pledge of the Revenues or other moneys and securities pledged to such Series of Bonds and all other rights granted hereby to such Series of Bonds shall be discharged and satisfied, and the right, title and interest of the Trustee in the Applicable Loan Agreement, and the Revenues shall thereupon cease with respect to such Series of Bonds. Upon such payment or provision for payment, the Trustee, on demand of the Authority, shall release the lien of the Resolution and Applicable Series Resolution but only with respect to such Applicable Series, except as it covers moneys and securities provided for the payment of such Bonds, and shall execute such documents to evidence such release as shall be reasonably required by the Authority and the Obligated Group and shall turn over to the Obligated Group or such person, body or authority as shall be entitled to receive the same, upon such indemnification, if any, as the Authority or the Trustee shall reasonably require, all balances remaining in any funds held under the Applicable Series Resolution after paying or making proper provision for the payment of the principal or Redemption Price (as the case may be) of, and interest on, all Bonds of the Applicable Series and payment of expenses in connection therewith; provided that if any, of such Bonds are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption has been duly mailed in accordance with the Resolution and the Applicable Series Resolution or irrevocable instructions to mail such notice shall have been given to the Trustee.

2. Bonds of an Applicable Series for which moneys have been set aside, held in trust by the Trustee for the payment or redemption thereof, (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in subdivision 1 of this Section. All Outstanding Bonds of an Applicable Series or any maturity within such Series or a portion of a maturity within such Series prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the Resolution if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority has given to the Trustee, in form satisfactory to it, irrevocable instructions to mail, as provided in Article 4 of the Resolution, notice of redemption on said date of such Bonds, (b) except as otherwise set forth in a Series Resolution or Bond Series Certificate with respect to an Applicable Series of Bonds, there is deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities, which obligations are not subject to redemption prior to maturity other than at the option of the holder or which have been irrevocably called for redemption on a stated future date, the principal of and interest on which when due shall provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Bonds of an Applicable Series on and prior to the redemption date or maturity date



thereof, as the case may be, (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority has given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the holders of said Bonds at their respective last known addresses, if any, appearing on the registration books, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds. The Authority shall give written notice to the Trustee of its selection of the maturity for which payment shall be made in accordance with this Section. The Trustee shall select which Bonds of such Series and which maturity thereof shall be paid in accordance with this Section in the manner provided in the Resolution. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds; provided that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, to the extent practicable, be reinvested in the Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on such Bonds on and prior to such redemption date or maturity date thereof, as the case may be. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, to the extent certified by the Trustee to be in excess of the amount required in the Resolution to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: first, to the Applicable Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; second, to the Authority the amount certified by the Authority to be then due or past due pursuant to the Applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; third, as directed by the Authority and any such moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created hereby or by such Loan Agreement; and then, to the extent any moneys are remaining, to the Authority or at the Authority's discretion, to the Institution.

3. For purposes of determining whether Variable Interest Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of money, or Defeasance Securities and money, if any, in accordance with clause (b) of the second sentence of paragraph 2 of this Section 12.01, the interest to come due on such Variable Interest Rate Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the Maximum Interest Rate permitted by the terms thereof; provided, however, that if on any date, as a result of such Variable Interest Rate Bonds having borne interest at less than such Maximum Interest Rate for any period, the total amount of money and Defeasance Securities on deposit with the Trustee for the payment of interest on such Variable Interest Rate Bonds is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Variable Interest Rate Bonds in order to satisfy clause (b) of the second sentence of paragraph 2 of this Section, the Trustee shall, if requested by the Authority, pay the amount of such excess as follows: first, to the Applicable Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; second, to each Facility Provider the Provider Payments which have not been repaid, pro rata, based on the respective Provider Payments then unpaid to each Facility Provider; third, to the Authority the amount certified by the Authority to be then due or past due pursuant to the Applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the Applicable Institution, and any such moneys so paid by the Trustee shall be

released of any trust, pledge, lien, encumbrance or security interest created hereby or by such Loan Agreement.

4. Option Bonds are deemed to have been paid in accordance with clause (b) of the second sentence of paragraph 2 of this Section 12.01 only if, in addition to satisfying the requirements of clauses (a) and (c) of such sentence, there shall have been deposited with the Trustee money in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Bonds which could become payable to the Holders of such Bonds upon the exercise of any options provided to the Holders of such Bonds; provided, however, that if, at the time a deposit is made with the Trustee pursuant to clause (b) of paragraph 2 of this Section 12.01, the options originally exercisable by the Holder of an Option Bond are no longer exercisable, such Bond shall not be considered an Option Bond for purposes of this paragraph 4. If any portion of the money deposited with the Trustee for the payment of the principal of and premium, if any, and interest on Option Bonds is not required for such purpose, the Trustee, if requested by the Authority, pay the amount of such excess as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to each Facility Provider the Provider Payments which have not been repaid, pro rata, based upon the respective Provider Payments then unpaid to each Facility Provider; third, to the Authority the amount certified by an Authorized Officer of the Authority to be then due or past due pursuant to the Applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the Applicable Institution, and any such money so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created hereby or by the Applicable Loan Agreement.

5. Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee or Paying Agent in trust for the payment and discharge of any of the Bonds of an Applicable Series which remain unclaimed for three (3) years after the date when such moneys become due and payable, upon such Bonds either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee or Paying Agent at such date, at the written request of the Authority, be repaid by the Trustee or Paying Agent to the Authority as its absolute property and free from trust, and the Trustee or Paying Agent shall be released and discharged with respect thereto and the Holders of Bonds of such Series shall look only to the Authority for the payment of such Bonds; provided, however, that, before being required to make any such payment to the Authority, the Trustee or Paying Agent shall, at the expense of the Authority, cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not less than forty (40) nor more than ninety (90) days after the date of publication of such notice, the balance of such moneys then unclaimed shall be returned to the Authority. In lieu of publishing such notice in an Authorized Newspaper, the Authority shall post, or cause the Institution to post the matters set forth in the Resolution on the Electronic Municipal Market Access portal of the Municipal Securities Rulemaking Board to all applicable CUSIP numbers.

6. No principal or Sinking Fund Installment of or installment of interest on a Bond shall be considered to have been paid, and the obligation of the Authority for the payment thereof shall continue, notwithstanding that an Applicable Credit Facility Issuer, if any, pursuant to the Applicable Credit Facility issued with respect to such Bond has paid the principal or Sinking Fund Installment thereof or the installment of interest thereon.

7. In addition to any further requirements that may be set forth in a Series Resolution or Bond Series Certificate with respect to an Applicable Series of Bonds, prior to any defeasance of a Series of Bonds becoming effective under the Resolution, each Applicable Credit Facility Issuer shall have received (a) the final official statement delivered in connection with the refunding of such Series of Bonds, if any, (b) a copy of the accountants' verification report, (c) a copy of the escrow deposit

agreement or letter of instructions in form and substance acceptable to such Applicable Credit Facility Issuer, and (d) a copy of an opinion of Bond Counsel, dated the date of defeasance and addressed to such Applicable Credit Facility Issuer, to the effect that such Bonds have been paid within the meaning and with the effect expressed in the Resolution and the Applicable Series Resolution, and that the covenants, agreements and other obligations of the Authority to the Holders of such Bonds have been discharged and satisfied.

*(Section 12.01)*

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**Appendix E**

**Form of Master Indenture**

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MASTER TRUST INDENTURE

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MONTEFIORE MEDICAL CENTER

AND

MONTEFIORE HEALTH SYSTEM, INC.,

solely in its capacity as Credit Group Representative

AND

THE BANK OF NEW YORK MELLON,

as Master Trustee

Dated as of August 1, 2018

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## TABLE OF CONTENTS

	<b>Page</b>
ARTICLE I DEFINITIONS AND INTERPRETATION.....	1
Section 1.01.    Definitions.....	1
Section 1.02.    Interpretation.....	23
Section 1.03.    References to Master Indenture .....	24
Section 1.04.    Contents of Certificates and Opinions; Use of GAAP.....	24
ARTICLE II AUTHORIZATION AND ISSUANCE OF MASTER INDENTURE	
OBLIGATIONS; MORTGAGES.....	24
Section 2.01.    Authorization of Obligations .....	24
Section 2.02.    Issuance of Obligations.....	25
Section 2.03.    Appointment of Credit Group Representative .....	25
Section 2.04.    Execution and Authentication of Obligations.....	25
Section 2.05.    Conditions to the Issuance of Obligations .....	26
Section 2.06.    Mortgages .....	27
Section 2.07.    Substitution and Release of Mortgaged Property. ....	28
ARTICLE III PAYMENTS WITH RESPECT TO MASTER INDENTURE	
OBLIGATIONS; DESIGNATED AFFILIATES; CREDIT GROUP COVENANTS ....	29
Section 3.01.    Payment of Required Payments .....	29
Section 3.02.    Transfers from Designated Affiliates.....	30
Section 3.03.    Designation of Designated Affiliates.....	30
Section 3.04.    Covenants of Corporate Existence, Maintenance of Properties, Etc .....	31
Section 3.05.    Gross Receivables Pledge.....	32
Section 3.06.    Against Encumbrances.....	32
Section 3.07.    Debt Service Coverage .....	33
Section 3.08.    Merger, Consolidation, Sale or Conveyance .....	34
Section 3.09.    Membership in Obligated Group .....	35
Section 3.10.    Withdrawal from Obligated Group.....	36
Section 3.11.    Limitation on Disposition of Assets .....	36
Section 3.12.    Limitation on Indebtedness.....	38
Section 3.13.    Filing of Financial Statements, Certificate of No Default, Other Information. ....	40
Section 3.14.    Days Cash on Hand.....	42
Section 3.15.    Substitution of Master Trust Indenture.....	42



ARTICLE IV DEFAULTS .....	45
Section 4.01.    Events of Default .....	45
Section 4.02.    Acceleration; Annulment of Acceleration .....	46
Section 4.03.    Additional Remedies and Enforcement of Remedies .....	47
Section 4.04.    Application of Moneys After Default .....	48
Section 4.05.    Remedies Not Exclusive .....	49
Section 4.06.    Remedies Vested in the Master Trustee.....	49
Section 4.07.    Master Trustee to Represent Holders.....	49
Section 4.08.    Holders’ Control of Proceedings .....	49
Section 4.09.    Termination of Proceedings .....	50
Section 4.10.    Waiver of Event of Default.....	50
Section 4.11.    Appointment of Receiver .....	50
Section 4.12.    Remedies Subject to Provisions of Law .....	51
Section 4.13.    Notice of Default.....	51
ARTICLE V THE MASTER TRUSTEE .....	51
Section 5.01.    Certain Duties and Responsibilities .....	51
Section 5.02.    Certain Rights of Master Trustee .....	52
Section 5.03.    Right to Deal in Obligations and Related Conduit Issuer Bonds.....	54
Section 5.04.    Removal and Resignation of the Master Trustee .....	55
Section 5.05.    Compensation and Reimbursement .....	56
Section 5.06.    Recitals and Representations .....	56
Section 5.07.    Separate or Co-Master Trustee .....	56
Section 5.08.    Merger or Consolidation.....	58
ARTICLE VI SUPPLEMENTS AND AMENDMENTS.....	58
Section 6.01.    Supplements Not Requiring Consent of Holders.....	58
Section 6.02.    Supplements Requiring Consent of Holders.....	59
Section 6.03.    Execution and Effect of Supplements.....	60
Section 6.04.    Amendment of Related Supplements.....	61
ARTICLE VII SATISFACTION AND DISCHARGE .....	61
Section 7.01.    Satisfaction and Discharge of Master Indenture.....	61
Section 7.02.    Payment of Obligations After Discharge of Lien .....	62
ARTICLE VIII MISCELLANEOUS PROVISIONS.....	62
Section 8.01.    Limitation of Rights.....	62
Section 8.02.    Severability .....	62

Section 8.03.	Holidays .....	62
Section 8.04.	Credit Enhancer Deemed Holder of Obligation.....	62
Section 8.05.	Governing Law .....	63
Section 8.06.	Counterparts .....	63
Section 8.07.	Immunity of Individuals .....	63
Section 8.08.	Binding Effect.....	63
Section 8.09.	No Third Party Beneficiary.....	63
Section 8.10.	Notices .....	63

APPENDICES

APPENDIX A	DESCRIPTION OF MORTGAGED PROPERTY .....	A-1
APPENDIX B	EXISTING PERMITTED LIENS .....	B-1

## MASTER TRUST INDENTURE

THIS MASTER TRUST INDENTURE, dated as of August 1, 2018 (the “Master Indenture”), among MONTEFIORE MEDICAL CENTER, a not-for-profit corporation incorporated under the laws of the State of New York (the “Corporation”), MONTEFIORE HEALTH SYSTEM, INC., a not-for-profit corporation incorporated under the laws of the State of New York, solely in its capacity as Credit Group Representative, and The Bank of New York Mellon, a national banking association duly organized and existing under the laws of the United States of America and being qualified to accept and administer the trusts hereby created (as more specifically defined herein, the “Master Trustee”).

### WITNESSETH:

WHEREAS, the Corporation is authorized and deem it necessary and desirable to enter into this Master Indenture for the purpose of providing for the issuance from time to time of Obligations hereunder to provide for the financing or refinancing of the acquisition, construction, equipping or improvement of health care or other facilities, or for other lawful and proper corporate purposes; and

WHEREAS, the Master Trustee agrees to accept and administer the trusts created hereby;

NOW, THEREFORE, in consideration of the premises, of the acceptance by the Master Trustee of the trusts hereby created, and of the giving of consideration for and acceptance of the Obligations issued hereunder by the Holders thereof, and for the purpose of fixing and declaring the terms and conditions upon which such Obligations are to be issued, authenticated, delivered and accepted by all Persons who shall from time to time be or become Holders thereof, the Corporation covenants and agrees with the Master Trustee for the equal and proportionate benefit of the respective Holders from time to time of Obligations issued hereunder, as follows:

### ARTICLE I

#### DEFINITIONS AND INTERPRETATION

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section shall for all purposes of this Master Indenture and of any supplemental indenture issued hereafter and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, equally applicable to both singular and plural forms of any of the terms herein defined.

#### Accountant

“Accountant” means any independent certified public accountant or firm of such accountants selected by the Credit Group Representative.

### Affiliated Person

“Affiliated Person” means any Person that, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with a Credit Group Member.

### Annual Debt Service

“Annual Debt Service” means for each Fiscal Year the sum (without duplication) of the aggregate amount of scheduled principal and interest due and payable in such Fiscal Year on all Long-Term Indebtedness of the Credit Group then Outstanding, whether by scheduled maturity, acceleration, mandatory redemption or otherwise, but not including purchase price becoming due as a result of mandatory or optional tender or put, less any amounts of such principal or interest paid during such Fiscal Year from (a) the proceeds of Indebtedness or (b) moneys or Government Obligations subject to an Irrevocable Deposit for the purpose of paying such principal or interest; provided that if an Identified Financial Product Agreement has been entered into by any Member with respect to Long-Term Indebtedness and the counterparty thereto has not defaulted in payment obligations thereunder, interest on such Long-Term Indebtedness shall be included in the calculation of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Long-Term Indebtedness in such Fiscal Year at the rate or rates stated in such Long-Term Indebtedness plus any Financial Product Payments under an Identified Financial Product Agreement payable in such Fiscal Year minus any Financial Product Receipts under an Identified Financial Product Agreement receivable in such Fiscal Year; provided that in no event shall any calculation made pursuant to this clause result in a number less than zero being included in the calculation of Annual Debt Service.

### Authorized Representative

“Authorized Representative” means with respect to each Credit Group Member and the Credit Group Representative, its chair or vice chair of the board, president, chief executive officer, chief financial officer, or any other person designated as an Authorized Representative of such Credit Group Member by a certificate of that Credit Group Member signed by its chair or vice chair of the board, president, chief executive officer, or chief financial officer and filed with the Master Trustee.

### Balloon Indebtedness

“Balloon Indebtedness” means Long-Term Indebtedness, twenty-five percent (25%) or more of the principal of which (calculated as of the date of issuance) becomes due during any period of twelve (12) consecutive months if such maturing principal amount is not required to be amortized below such percentage by mandatory redemption prior to such 12-month period.

### Bond Index

“Bond Index” means, as selected by the Credit Group Representative, either (i) the Bond Buyer thirty (30) year “Revenue Bond Index,” as then published most recently by *The Bond Buyer*, New York, New York or a comparable index, if such index is no longer available, or (ii) the Securities Industry and Financial Markets Association (SIFMA) Index, or (iii) such other

interest rate or interest rate index as may be certified in writing to the Master Trustee as appropriate to the situation by the Credit Group Representative.

#### Book Value

“Book Value” means, when used in connection with Property, Plant and Equipment or other Property of any Credit Group Member, the value of such Property, net of accumulated depreciation, as it is carried on the books of the Credit Group Member and in conformity with GAAP, and when used in connection with Property, Plant and Equipment or other Property of the Credit Group, means the aggregate of the values so determined with respect to such Property of each Credit Group Member determined in such a way that no portion of such value of Property of any Credit Group Member is included more than once.

#### Code

“Code” means the Internal Revenue Code of 1986 and the regulations promulgated thereunder.

#### Collateral

“Collateral” means any and all of the following, whether currently owned or hereafter acquired by any Member: all current and future interests of each Member in the Gross Receivables, and other Property of any Member in which a Lien has expressly been granted to secure all Obligations issued hereunder from time to time in Related Supplements, and the proceeds thereof.

#### Completion Indebtedness

“Completion Indebtedness” means any Long-Term Indebtedness incurred for the purpose of financing the completion of construction or equipping of any project for which Long-Term Indebtedness or Interim Indebtedness has theretofore been incurred in accordance with the provisions hereof, to the extent necessary to provide a completed and fully equipped facility of the type and scope contemplated at the time said Long-Term Indebtedness or Interim Indebtedness was incurred, and in accordance with the general plans and specifications for such facility as prepared in connection with said Long-Term Indebtedness or Interim Indebtedness as certified by an Officer’s Certificate.

#### Controlling Member

“Controlling Member” means the Obligated Group Member designated by the Credit Group Representative to establish and maintain control over a Designated Affiliate.

#### Corporate Trust Office

“Corporate Trust Office” means the office of the Master Trustee at which its corporate trust business is conducted, which at the date hereof is located at 101 Barclay Street, Floor 7-E, New York, New York 10286, Attn: Corporate Trust Services.

### Corporation

“Corporation” means Montefiore Medical Center, a not-for-profit corporation duly organized and existing under the laws of the State of New York, or any corporation that is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under this Master Indenture.

### Credit Group or Credit Group Members

“Credit Group” or “Credit Group Members” means all Obligated Group Members and Designated Affiliates.

### Credit Group Financial Statements

“Credit Group Financial Statements” has the meaning set forth in Section 3.13.

### Credit Group Representative

“Credit Group Representative” means Montefiore Health System, Inc. or an Obligated Group Member (or Obligated Group Members acting jointly) as may have been designated pursuant to written notice to the Master Trustee executed by the Corporation or a successor Credit Group Representative.

For the avoidance of doubt and notwithstanding anything in the Master Indenture to the contrary, Montefiore Health System, Inc. is not an Obligated Group Member, shall have no obligation for the payment on any Obligation and has not pledged its assets or revenues to secure any Obligation. Only Members of the Obligated Group are obligated to make payment on Obligations issued under the Master Indenture.

### Days Cash on Hand

“Days Cash on Hand” means, for the Credit Group, as of any date, the product of 365 times (i) the unrestricted cash and cash equivalents plus unrestricted securities and other unrestricted investments (in accordance with GAAP) as reflected in the Credit Group Financial Statements of the most recent Fiscal Year, plus board and management designated assets and interest funds in any trusteed funds which are to be applied to the current Fiscal Year’s interest expense, divided by (ii) the operating and non-operating expenses of the Credit Group as reflected in the Credit Group Financial Statements of the most recent Fiscal Year, excluding from such expenses: (a) depreciation and amortization of debt and bond issuance costs, (b) any amount included in the operating and non-operating expenses representing bad debt expense, and (c) any extraordinary or non-recurring item.

### Debt Service Coverage Ratio

“Debt Service Coverage Ratio” means, for any period of time, the ratio determined by dividing Income Available for Debt Service of the Credit Group by Maximum Annual Debt Service of the Credit Group.

### Default

“Default” means an event that, with the passage of time or the giving of notice or both, would become an Event of Default.

### Designated Affiliate

“Designated Affiliate” means any Person that has been so designated by the Credit Group Representative in accordance with Section 3.03 so long as such Person has not been further designated by the Credit Group Representative as no longer being a Designated Affiliate in accordance with Section 3.03.

### Electronic Means

“Electronic Means” has the meaning set forth in Section 5.02(j) hereof.

### Event of Default

“Event of Default” means any of the events specified in Section 4.01 hereof.

### Fair Market Value

“Fair Market Value,” when used in connection with Property, means the fair market value of such Property as determined by:

(a) an appraisal of the portion of such Property that is real property made within five years of the date of determination by a “Member of the Appraisal Institute” and by an appraisal of the portion of such Property that is not real property made within five years of the date of determination by any expert qualified in relation to the subject matter, provided that any such appraisal shall be performed by an Independent Consultant, adjusted for the period, not in excess of five years, from the date of the last such appraisal for changes in the implicit price deflator for the gross national product as reported by the United States Department of Commerce or its successor agency, or if such index is no longer published, such other index certified to be comparable and appropriate in an Officer’s Certificate delivered to the Master Trustee; or

(b) a bona fide offer for the purchase of such Property made on an arm’s-length basis within six months of the date of determination, as established by an Officer’s Certificate; or

(c) an Authorized Representative of the Credit Group Representative (whose determination shall be made in good faith and set forth in an Officer’s Certificate filed with the Master Trustee) if the fair market value of such Property is less than or equal to the greater of \$10,000,000 or 2.5% of cash and equivalents as shown on the Credit Group Financial Statements.

### Financial Product Agreement

“Financial Product Agreement” means any interest rate exchange agreement, hedge or similar arrangement, including, *inter alia*, an interest rate swap, asset swap, a constant maturity swap, a forward or futures contract, cap, collar, option, floor, forward or other hedging agreement, arrangement or security, direct funding transaction or other derivative, however denominated and whether entered into on a current or forward basis.

### Financial Product Extraordinary Payments

“Financial Product Extraordinary Payments” means any payments required to be paid to a counterparty by a Credit Group Member pursuant to a Financial Product Agreement in connection with the termination thereof, tax gross-up payments, expenses, default interest, and any other payments or indemnification obligations to be paid to a counterparty by a Credit Group Member under a Financial Product Agreement, and which payments are not Financial Product Payments.

### Financial Product Payments

“Financial Product Payments” means regularly scheduled payments required to be paid to a counterparty by a Credit Group Member pursuant to a Financial Product Agreement.

### Financial Product Receipts

“Financial Product Receipts” means regularly scheduled payments required to be paid to a Credit Group Member by a counterparty pursuant to a Financial Product Agreement.

### Fiscal Year

“Fiscal Year” means the period beginning on January 1 of each year and ending on the next succeeding December 31, or any other twelve-month period hereafter designated by the Credit Group Representative as the fiscal year of the Credit Group.

### GAAP

“GAAP” means accounting principles generally accepted in the United States of America, consistently applied.

### Governing Body

“Governing Body” means, when used with respect to any Credit Group Member, its board of directors, board of trustees or other board or group of individuals in which all of the powers of such Credit Group Member are vested, except for those powers reserved to the corporate membership of such Credit Group Member by the articles of incorporation or bylaws of such Credit Group Member.



### Government Issuer

“Government Issuer” means any municipal corporation, political subdivision, state, territory or possession of the United States, or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, which obligations would constitute Related Conduit Issuer Bonds hereunder.

### Government Obligations

“Government Obligations” means: (a) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by the United States of America; (b) obligations issued or guaranteed by any agency, department or instrumentality of the United States of America if the obligations issued or guaranteed by such entity are rated in one of the two highest Rating Categories of a Rating Agency; (c) certificates that evidence ownership of the right to the payment of the principal of and interest on obligations described in the preceding clause (a), in the preceding clause (b) or in both clauses, provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian; and (d) obligations the interest on which is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, and the timely payment of the principal of and interest on which is fully provided for by the deposit in trust of cash and/or obligations described in one or more of preceding clauses (a), (b) and (c).

### Government Restriction

“Government Restriction” means federal, state or other applicable governmental laws or regulations or general industry standards or general industry conditions affecting any Credit Group Member and its health care facilities or other licensed facilities placing restrictions and limitations on the (a) fees and charges to be fixed, charged or collected by any Credit Group Member or (b) the timing of the receipt of such revenues.

### Gross Receivables

“Gross Receivables” means all of the accounts, chattel paper, instruments and payment intangibles (all as defined in the UCC) of each Obligated Group Member, as are now in existence or as may be hereafter acquired and the proceeds thereof; excluding, however, all Restricted Moneys.

### Guaranty

“Guaranty” means any obligation of any Credit Group Member guaranteeing directly any obligation of any other Person that would, if such other Person were a Credit Group Member, constitute Indebtedness.

## Holder

“Holder” means the registered owner of any Obligation in registered form or the bearer of any Obligation in coupon form that is not registered or is registered to bearer or the party or parties to any contractual obligation designated to be an Obligation set forth in a Related Supplement and identified therein as the party to whom payment is due thereunder or the “holder” thereof.

## Identified Financial Product Agreement

“Identified Financial Product Agreement” means a Financial Product Agreement identified to the Master Trustee in an Officer’s Certificate of the Credit Group Representative as having been entered into by an Obligated Group Member with a Qualified Provider with respect to Indebtedness (that is either then-Outstanding or to be issued after the date of such Officer’s Certificate) identified in such Officer’s Certificate, with a notional amount not in excess of the principal amount of such Indebtedness.

## Immaterial Affiliates

“Immaterial Affiliates” means Persons that are not Members of the Credit Group and whose combined total assets, as shown on their audited financial statements for their most recently completed fiscal year for which audited financial statements are available, aggregated less than 10% of (i) the combined or consolidated total assets of the Credit Group as shown on the Credit Group Financial Statements for the most recent Fiscal Year, plus (ii) the total combined assets of such Persons as if they were Members of the Credit Group for such period.

## Income Available for Debt Service

“Income Available for Debt Service” means, unless the context provides otherwise, with respect to the Credit Group as to any period of time, or excess of revenues over expenses (excluding income from all Irrevocable Deposits) before depreciation, amortization, taxes, and interest expense (including Financial Product Payments and Financial Product Receipts on Identified Financial Product Agreements), as determined in accordance with GAAP and as shown on the Credit Group Financial Statements, expressly including any Delivery System Reform Incentive Payment (DSRIP) income or grants or other funds from federal or state government agencies; provided, that no determination thereof shall take into account:

- (a) Restricted Moneys;
- (b) the net proceeds of insurance (other than business interruption insurance) and condemnation awards;
- (c) any gain or loss resulting from the extinguishment of Indebtedness;
- (d) any gain or loss resulting from the sale, exchange or other disposition of assets not in the ordinary course of business; provided, however, that, at the Credit Group Representative’s election, gain from a sale-leaseback under GAAP may be taken into account;

- (e) any gain or loss resulting from any discontinued operations;
- (f) any gain or loss resulting from pension terminations, settlements or curtailments;
- (g) any unusual charges for employee severance;
- (h) adjustments to the value of assets or liabilities resulting from changes in GAAP;
- (i) unrealized gains or losses, including, without limitation, “other than temporary” declines in Book Value of investments;
- (j) gains or losses resulting from changes in valuation of any hedging, derivative, interest rate exchange or similar contract (including Financial Product Agreements);
- (k) any Financial Product Extraordinary Payments or similar payments on any hedging, derivative, interest rate exchange or similar contract that does not constitute a Financial Product Agreement;
- (l) unrealized gains or losses from the write-down, reappraisal or revaluation of assets; or
- (m) other nonrecurring items of any nature that do not involve the receipt, expenditure or transfer of assets;

provided, however, at the option of the Credit Group Representative, net realized gains and losses from the sale of investments may be included in the computation of Income Available for Debt Service on the basis of the average annual amount of those gains and losses for the three (3) Fiscal Years immediately preceding the computation date (rather than including the actual amount of net realized gains and losses from the sale of investments for the period for which a computation is being made).

### Indebtedness

“Indebtedness” means any obligation of any Credit Group Member (a) for repayment of borrowed money, (b) with respect to capital or finance leases, or (c) under installment sale agreements, and any Guaranty (other than any Guaranty by any Credit Group Member of Indebtedness of any other Credit Group Member); provided, however, that if more than one Credit Group Member shall have incurred or assumed a Guaranty of a Person other than a Credit Group Member, or if more than one Credit Group Member shall be obligated to pay any other Indebtedness, for purposes of any computations or calculations under this Master Indenture such Guaranty or other Indebtedness shall be included only one time. Financial Product Agreements and physician income guaranties shall not constitute Indebtedness. For purposes of determining Indebtedness, no lease obligations, other than capital leases, shall be deemed to be Indebtedness, whether or not those lease obligations are shown as a liability on the Credit Group Financial Statements.

### Independent Consultant

“Independent Consultant” means a firm (but not an individual) that (a) is in fact independent, (b) does not have any direct financial interest or any material indirect financial interest in any Credit Group Member (other than the agreement pursuant to which such firm is retained), (c) is not connected with any Credit Group Member as an officer, employee, promoter, trustee, partner, director or person performing similar functions and (d) is qualified to pass upon questions relating to the financial affairs of organizations similar to the Credit Group or facilities of the type or types operated by the Credit Group and having the skill and experience necessary to render the particular opinion or report required by the provisions hereof in which such requirement appears.

### Industry Restrictions

“Industry Restrictions” means federal, state or other applicable governmental laws or regulations, including conditions imposed specifically on the Credit Group Members or the Credit Group Members’ facilities, or general industry standards or general industry conditions placing restrictions and limitations on the rates, fees and charges to be fixed, charged and collected by the Credit Group Members.

### Insurance Consultant

“Insurance Consultant” means an independent Person or firm which is selected by the Credit Group Representative or an Obligated Group Member, as the case may be, and acceptable to the Master Trustee and qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations.

### Interim Indebtedness

“Interim Indebtedness” means Indebtedness with an original maturity not in excess of five years, the proceeds of which are to be used to provide interim financing for capital improvements in anticipation of the issuance of Long-Term Indebtedness. Interim Indebtedness shall be considered Long-Term Indebtedness for purposes of this Master Indenture.

### Irrevocable Deposit

“Irrevocable Deposit” means the irrevocable deposit in trust of cash in an amount, or Government Obligations, or other securities permitted for such purpose pursuant to the terms of the documents governing the payment of or discharge of Indebtedness, the principal of and interest on which will be an amount, and under terms sufficient to pay all or a portion of the principal of, premium, if any, and interest on, as the same shall become due, any such Indebtedness that would otherwise be considered Outstanding. The trustee of such deposit may be the Master Trustee, a Related Bond Trustee or any other trustee or escrow agent authorized to act in such capacity.

## Lien

“Lien” means any mortgage or pledge of, or security interest in, or lien or encumbrance on, any Property of a Credit Group Member (a) that secures any Indebtedness or any other obligation of such Credit Group Member or (b) that secures any obligation of any Person other than a Credit Group Member, and excluding liens applicable to Property in which a Credit Group Member has only a leasehold interest unless the lien secures Indebtedness of that Credit Group Member.

## Long-Term Indebtedness

“Long-Term Indebtedness” means Indebtedness other than Short-Term Indebtedness. Classification of Indebtedness as long-term under GAAP shall not be controlling.

## Master Indenture

“Master Indenture” means this Master Trust Indenture, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms hereof.

## Master Trustee

“Master Trustee” means The Bank of New York Mellon, a national banking association organized under the laws of the United States of America, and, subject to the limitations contained in Section 5.07, any other corporation or association that may be co-trustee with the Master Trustee, and any successor or successors to said trustee or co-trustee in the trusts created hereunder.

## Material Credit Group Members

“Material Credit Group Members” means the Credit Group Members whose combined or consolidated total assets, as shown on their financial statements for their most recently completed fiscal year for which audited financial statements are available, were equal to or greater than 90% of the combined or consolidated total assets of the entire Credit Group as shown on the Credit Group Financial Statements for the most recently completed Fiscal Year of the Credit Group for which audited financial statements are available.

## Maximum Annual Debt Service

“Maximum Annual Debt Service” means the aggregate maximum Annual Debt Service payments (including mandatory sinking fund redemption requirements) of the Credit Group on Long-Term Indebtedness (excluding any Long-Term Indebtedness of any entities not in the Credit Group) for any succeeding Fiscal Year. Such amount may be calculated as set forth in either (a) or (b) below:

(a) *Projection Based on Adjusted Annual Payments.* Maximum Annual Debt Service may be projected based on adjusted annual payments, determined as follows:

(i) Annual Debt Service requirements on Long-Term Indebtedness, or portions thereof, shall not be included in the computation of the Maximum Annual Debt Service (A) until the Fiscal Year in which such Annual Debt Service, or portions thereof, first become payable, only to the extent that it shall be payable, from sources other than amounts deposited in trust, escrowed or otherwise set aside for the payment thereof at the time of incurrence of Indebtedness (including without limitations, so as to prevent the double-counting of any Indebtedness in the computation of the Maximum Annual Debt Service, capitalized interest and accrued interest so deposited into trust, escrowed or otherwise set aside) with the Master Trustee, a Related Bond Trustee or another Person approved by the Master Trustee; and (B) to the extent that an Irrevocable Deposit sufficient to pay such Annual Debt Service has been made;

(ii) the principal amount of any Long-Term Indebtedness required to be redeemed in any Fiscal Year shall be deemed to be payable in such Fiscal Year rather than the Fiscal Year of its stated maturity; provided, however, that if a Financial Product Agreement has been entered into that in effect provides for payment of a variable interest rate for any portion of such Indebtedness, the Obligated Group may treat the related portion of such Indebtedness as Variable Rate Indebtedness for the term of the Financial Product Agreement and calculate or project the interest rate payable as a result of the Financial Product Agreement pursuant to the provisions of clause (iii) below;

(iii) the amount of interest on Variable Rate Indebtedness during any period prior to the date of calculation shall be calculated on the basis of actual interest paid on such Indebtedness during such prior periods, and the amount of interest on Variable Rate Indebtedness for periods subsequent to the date of calculation shall be calculated as if the interest rate on such Indebtedness was (A) if such Indebtedness was Outstanding during the entire twelve months immediately preceding such determination, the average rate of interest thereon for that twelve-month period, (B) if such Indebtedness was Outstanding for only a portion of such immediately preceding twelve-month period, the average rate of interest which would have been in effect if such Indebtedness had been Outstanding during the entire period, or (C) if such Indebtedness was not Outstanding during such immediately preceding twelve-month period, the rate of interest such Indebtedness bears on the date of the calculation of the Debt Service Coverage Ratio; provided, however, that the Obligated Group may project the interest payments on the related portion of such Indebtedness by using the fixed rate payable on a related Identified Financial Product Agreement;

(iv) Annual Debt Service on Balloon Indebtedness and any Interim Indebtedness, shall be projected assuming (A) that the principal balance of such Indebtedness on the date of determination is refinanced on the date of determination over a term equal to the greater of thirty (30) years or the date of maturity of such Indebtedness, (B) that such principal balance will bear interest at the Bond Index, and (C) that Annual Debt Service on such Indebtedness after the date of determination will be payable in equal annual installments sufficient to pay both principal and interest;

(v) Annual Debt Service on Indebtedness arising from any Guaranty shall be taken into account as follows: (A) equal to twenty (20%) of the Annual Debt Service on the obligation guaranteed, so long as no Obligated Group Member has made any payments

pursuant to such Guaranty within the eighteen (18) months preceding the date of calculation; and (B) otherwise shall be calculated as equal to one hundred percent (100%) of the Annual Debt Service on the obligation guaranteed;

(vi) there shall be excluded from Long-Term Indebtedness: (i) any obligation owed by one Credit Group Member to another Credit Group Member and (ii) any Subordinated Indebtedness or Nonrecourse Indebtedness incurred by any Credit Group Member;

(vii) any periodic fees payable to any Person providing a credit facility for any Long-Term Indebtedness incurred by any Credit Group Member shall be included as payments of interest on such Long-Term Indebtedness; and

(viii) the terms of any reimbursement obligation to any Person providing a credit facility for any such Long-Term Indebtedness shall be excluded from Long-Term Indebtedness, except to the extent and for periods during which payments have been required to be made pursuant to such reimbursement obligation to such Person advancing funds and not being reimbursed; or

(b) *Projection Based on Assumed Level Annual Payments.* Maximum Annual Debt Service may be projected based on assumed level annual payments, determined as follows:

(i) The amount of principal and interest payable during each year on such Indebtedness after the date of determination shall be projected assuming (A) that the principal balance of such Indebtedness (after adjustment as provided in paragraph (b)(ii) of this definition) on the date of determination will be refinanced, (B) that such principal balance will be payable over a term of thirty (30) years, (C) that such principal balance will bear interest at the Bond Index, and (D) that Annual Debt Service on such Indebtedness will be payable in equal annual installments sufficient to pay both principal and interest.

(ii) If the Obligated Group has paid, directly or indirectly, any principal or interest on Indebtedness arising from any Guaranty at any time during the 18-month period next preceding such determination, one hundred percent (100%) of the principal balance of such Indebtedness shall be included in the projection. If the Obligated Group has not paid, directly or indirectly, any principal or interest on Indebtedness arising from any Guaranty at any time during the 18-month period next preceding such determination, only twenty percent (20%) of the principal balance on such Indebtedness shall be included in the projection.

(iii) If an Irrevocable Deposit shall have been made in respect of Indebtedness, then such Indebtedness (or any portion thereof) and the interest thereon as it comes due, such principal (or portion thereof), as the case may be, shall not be included in such projection.

### Merger Transaction

“Merger Transaction” has the meaning set forth in Section 3.08.

### Mortgage

“Mortgage” means the Mortgage granted pursuant to Section 2.06.

### Mortgaged Property

“Mortgaged Property” means the real property described in Exhibit A hereto, subject to and with the benefit of all rights and easements appurtenant thereto and all buildings, structures, fixtures and improvements thereon, whether in existence on the date hereof or later coming into existence and whether owned by the Corporation (or any other Obligated Group Member) on the date hereof or acquired hereafter, together with any additional real property not included in the foregoing provisions which may be added to the Mortgaged Property by a Related Supplement, subject always to Section 2.07 hereof.

### New Master Indenture

“New Master Indenture” has the meaning set forth in Section 3.15 hereof.

### New Master Trustee

“New Master Trustee” has the meaning set forth in Section 3.15 hereof.

### New Obligated Group

“New Obligated Group” has the meaning set forth in Section 3.15 hereof.

### Nonrecourse Indebtedness

“Nonrecourse Indebtedness” means any Indebtedness that is not a general obligation and that is secured by a Lien on Property, Plant and Equipment acquired or constructed with the proceeds of such Indebtedness, liability for which is effectively limited to the Property, Plant and Equipment subject to such Lien with no recourse, directly or indirectly, to any other Property of any Credit Group Member.

### Obligated Group

“Obligated Group” means all Obligated Group Members.

### Obligated Group Member or Member

“Obligated Group Member” or “Member” means each Person that is obligated hereunder from and after the date upon which such Person joins the Obligated Group, but excluding any Person that withdraws from the Obligated Group to the extent and in accordance with the provisions of Section 3.10 hereof, from and after the date of such withdrawal.

### Obligation

“Obligation” means any obligation of the Obligated Group issued pursuant to Section 2.02 hereunder, as a joint and several obligation of each Obligated Group Member, that may be



in any form set forth in a Related Supplement, including, but not limited to, bonds, notes, obligations, debentures, reimbursement agreements, loan agreements, Financial Product Agreements or leases. Reference to a Series of Obligations or to Obligations of a Series means Obligations or Series of Obligations issued pursuant to a single Related Supplement.

#### Officer's Certificate

“Officer's Certificate” means a certificate meeting the requirements of Section 1.04 signed by an Authorized Representative of the Credit Group Representative.

#### Opinion of Bond Counsel

“Opinion of Bond Counsel” means a written opinion signed by an attorney or firm of attorneys experienced in the field of public finance whose opinions are generally accepted by purchasers of bonds issued by or on behalf of a Government Issuer.

#### Opinion of Counsel

“Opinion of Counsel” means a written opinion signed by a reputable and qualified attorney or firm of attorneys who may be counsel for the Credit Group Representative.

#### Outstanding

“Outstanding,” when used with reference to Indebtedness or Obligations, means, as of any date of determination, all Indebtedness or Obligations theretofore issued or incurred and not paid and discharged other than (a) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation or otherwise deemed paid in accordance with the terms hereof, (b) Obligations in lieu of which other Obligations have been authenticated and delivered or that have been paid pursuant to the provisions of a Related Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser, (c) any Obligation held by any Credit Group Member and (d) Indebtedness deemed paid and no longer outstanding pursuant to the terms thereof; provided, however, that if two or more Obligations that constitute Indebtedness represent the same underlying Obligation (as when an Obligation secures an issue of Related Conduit Issuer Bonds and another Obligation secures repayment obligations to a bank under a letter of credit that secures such Related Conduit Issuer Bonds) for purposes of calculating compliance with the various financial covenants contained herein, but only for such purposes, only one of such Obligations shall be deemed Outstanding and the Obligation so deemed to be Outstanding shall be that Obligation which produces the greatest amount of Annual Debt Service to be included in the calculation of such covenants.

#### Parity Financial Product Extraordinary Payments

“Parity Financial Product Extraordinary Payments” means Financial Product Extraordinary Payments that (a) are with respect to a Financial Product Agreement secured or evidenced by an Obligation and (b) have been specified to be payable on a parity with Financial Product Payments in the Related Supplement authorizing the issuance of such Obligation.

## Permitted Liens

“Permitted Liens” means and include:

(a) any judgment lien or notice of pending action against any Credit Group Member so long as the judgment or pending action is being contested and execution thereon is stayed or while the period for responsive pleading has not lapsed;

(b) (i) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (A) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the Value thereof, or (B) purchase, condemn, appropriate or recapture, or designate a purchase of, such Property; (ii) any liens on any Property for taxes, assessments, levies, fees, water and sewer charges, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, that are not delinquent, or the amount or validity of which are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due and payable or that are not delinquent, or the amount or validity of which, are being contested or, with respect to liens of mechanics, materialmen and laborers, have been due for less than sixty (60) days, or the amount or validity of which are being contested; (iii) easements, rights-of-way, water, mineral and oil and gas rights, servitudes, waivers, reservations of abutter’s rights, governmental requirements, and defects, encumbrances, and irregularities in the title to any Property that do not materially impair the use of such Property or materially and adversely affect the Value thereof; (iv) condominium plans, condominium maps, tract maps, lot splits or lot line adjustment maps affecting such Property; and (v) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property in any manner, or materially and adversely affect the Value thereof;

(c) any Lien existing on the date of execution hereof as set forth in Appendix B hereto, or as exists upon addition of a Credit Group Member with respect to Liens existing on the Property of such additional Credit Group Member, provided that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Credit Group Member not subject to such Lien on such date and the principal amount of Indebtedness secured thereby may not be increased, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien;

(d) any Lien in favor of the Master Trustee securing all Outstanding Obligations equally and ratably;

(e) Liens arising by reason of good faith deposits with any Credit Group Member in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Credit Group Member to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(f) any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Credit Group Member to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements, and any Lien granted to a bank or similar entity providing a letter or line of credit to secure any obligation of the kind referred to in this clause (f);

(g) any Lien arising by reason of any escrow or reserve fund established to pay debt service with respect to Indebtedness;

(h) any Lien in favor of a creditor or a trustee on the proceeds of Indebtedness and any earnings thereon prior to the application of such proceeds and such earnings;

(i) Liens on moneys deposited by patients or residents or others with any Credit Group Member as security for or as prepayment for the cost of patient or residential care;

(j) Liens on Property received by any Credit Group Member through gifts, grants, bequests or research grants, such Liens being due to restrictions on such gifts, grants, bequests or research grants or the income thereon;

(k) rights of the United States of America, including, without limitation, the Federal Emergency Management Agency ("FEMA"), or the City or State of New York, or its agency or instrumentality, by reason of FEMA and other federal, city, and State of New York funds made available to any Credit Group Member under federal, city, or State of New York statutes or municipal codes, including without limitation funds from the New York State Office of Alcoholism and Substance Abuse Services;

(l) Liens on Property securing Indebtedness incurred to refinance Indebtedness previously secured by a Lien on such Property, provided that (i) the amount of such new Indebtedness does not exceed the amount of such refinanced Indebtedness, and (ii) the Property securing such Indebtedness is not increased;

(m) Liens granted by a Credit Group Member to another Credit Group Member;

(n) Liens securing Nonrecourse Indebtedness incurred pursuant to the provisions hereof;

(o) Liens consisting of purchase money security interests (as defined in the UCC) and lessors' interest in capitalized leases, and proceeds of casualty insurance relating to the Property that is the subject of such purchase money security interest or capitalized leases;

(p) Liens on the Credit Group Members' accounts receivable and proceeds thereof securing Indebtedness (including Guaranties) in an amount not to exceed 30% of such accounts receivable and proceeds thereof net of bad debt, as shown as patients accounts

receivable, less allowances for uncollectible accounts, on the most recent Credit Group Financial Statements at the time such Indebtedness (or Guaranty) is incurred;

(q) Liens on revenues constituting rentals in connection with any other Lien permitted hereunder on the Property from which such rentals are derived;

(r) the lease or license of the use of a part of the Credit Group Members' facilities for use in performing professional or other services necessary for the customary and economical operation of such facilities in accordance with customary business practices in the industry, including, without limitation, office space for physicians, health care and educational institutions, food service facilities, gift shops and radiology or other hospital-specialty services, pharmacy and similar departments;

(s) Liens created on amounts deposited by a Credit Group Member pursuant to a security annex or similar document to collateralize obligations of such Credit Group Member under a Financial Product Agreement;

(t) Liens junior to Liens in favor of the Master Trustee;

(u) Liens in favor of banking or other depository institutions encumbering the deposits of any Credit Group Member held in the ordinary course of business by such banking institution (including any right of setoff or statutory bankers' liens) so long as such deposit account is not established or maintained for the purpose of providing such Lien, right of setoff or bankers' lien;

(v) UCC financing statements filed with the Secretary of State of the State (or such other office maintaining such records) in connection with an operating lease entered into by any Credit Group Member in the ordinary course of business so long as such financing statement does not evidence the grant of a Lien other than a Permitted Lien;

(w) rights of tenants under leases or rental agreements pertaining to Property, Plant and Equipment owned by any Credit Group Member so long as the lease arrangement is in the ordinary course of business of the Credit Group Member;

(x) leases for Fair Market Value, not exceeding in the aggregate at any time more than 10% of the net square footage of the Credit Group's real property;

(y) deposits of Property by any Credit Group Member to meet regulatory requirements for a governmental workers' compensation, unemployment insurance or social security program, other than any Lien imposed by the Employee Retirement Income Security Act of 1974 (ERISA);

(z) deposits to secure the performance of another party with respect to a bid, trade contract, statutory obligation, surety bond, appeal bond, performance bond or lease, and other similar obligations incurred in the ordinary course of business of a Credit Group Member;

(aa) Liens resulting from deposits to secure bids from or the performance of another party with respect to contracts incurred in the ordinary course of business of a Credit

Group Member (other than contracts creating or evidencing an extension of credit to the depositor or otherwise for the payment of Indebtedness);

(bb) present or future zoning laws, ordinances or other laws or regulations restricting the occupancy, use or enjoyment of Property, Plant and Equipment of any Credit Group Member;

(cc) any Lien on inventory that does not exceed 25% of the Value thereof;

(dd) any Lien on Property due to the rights of third-party payors for recoupment or offset of amounts paid to any Credit Group Member and escrows therefor;

(ee) any Lien on Property to secure Indebtedness incurred under Section 3.12(g);

(ff) any Liens which are pre-existing prior to a Person's becoming an Obligated Group Member pursuant to Section 3.09 or a merger, consolidation, sale or conveyance pursuant to Section 3.08;

(gg) any Liens arising from a Credit Group Member's participation in an accountable care organization or other similar health care delivery organization (collectively, a "Provider Group Arrangement") pursuant to which the Credit Group Member is responsible for its own or one or more other health care provider's escrow funds, withhold, deductible, shared savings, or other payments due with respect to contractual arrangements with governmental or third party payors, and Liens on revenues held by such Credit Group Member on behalf of other participants to a Provider Group Arrangement;

(hh) any Lien existing for not more than 10 days after the Credit Group Member shall have received notice thereof;

(ii) any Lien on Property to secure an Obligation issued under a Related Supplement, so long as such Lien secures all Outstanding Obligations equally and ratably;

(jj) leases, licenses or similar rights existing as of the date of the initial execution and delivery of this Master Indenture to use Property owned on such date by any Person who was a Credit Group Member on such date, and any renewal extensions thereof; and any leases, licenses or similar rights to use Property whereunder a Credit Group Member is lessee, licensee or the equivalent thereof; and

(kk) any Lien on Property with a Value that does not, together with the Value of Property subject to other Liens incurred under this clause (kk), exceed 10% of the Value of all Property of the Credit Group Members as of the most recently available Credit Group Financial Statements preceding the date of incurrence of such Lien.

### Person

“Person” means an individual, corporation, limited liability company, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

### Property

“Property” means any and all rights, titles and interests in and to any and all assets of any Credit Group Member, whether real or personal, tangible or intangible and wherever situated, other than Restricted Moneys as determined in accordance with GAAP. For purposes of performing calculations under this Master Indenture, the Credit Group Representative may treat “total assets” as shown on the Credit Group Financial Statements as the Book Value of the Credit Group’s Property.

### Property, Plant and Equipment

“Property, Plant and Equipment” means all Property of any Credit Group Member that is considered property, plant and equipment of such Credit Group Member under GAAP.

### Qualified Provider

“Qualified Provider” means any financial institution or insurance company or corporation that is a party to a Financial Product Agreement if (a) the unsecured long-term debt obligations of such provider (or of the parent or a subsidiary of such provider if such parent or subsidiary guarantees or otherwise assures the performance of such provider under such Financial Product Agreement), or (b) obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such provider (or such guarantor or assuring parent or subsidiary), are rated in one of the three highest Rating Categories of a Rating Agency at the time of the execution and delivery of the Financial Product Agreement.

### Rating Agency

“Rating Agency” means Fitch Inc., Moody’s Investors Service, Inc., S&P Global Ratings, a division of The McGraw-Hill Companies, any successor thereof and any other national rating agency then rating Obligations or Related Conduit Issuer Bonds.

### Rating Category

“Rating Category” means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier, outlook or otherwise.

### Rating Upgrade

“Rating Upgrade” has the meaning set forth in Section 3.15(a) hereof.

### Related Conduit Issuer Bonds

“Related Conduit Issuer Bonds” means the revenue bonds or other obligations issued by any Government Issuer, the proceeds of which are loaned or otherwise made available to a Credit Group Member in consideration of the execution, authentication and delivery of an Obligation or Obligations to or for the order of such Government Issuer.

### Related Bond Indenture

“Related Bond Indenture” means any indenture, bond resolution, trust agreement or other comparable instrument pursuant to which a series of Related Conduit Issuer Bonds are issued.

### Related Bond Issuer

“Related Bond Issuer” means the Government Issuer of any issue of Related Conduit Issuer Bonds.

### Related Bond Trustee

“Related Bond Trustee” means the trustee and its successors in the trusts created under any Related Bond Indenture, and if there is no such trustee, means the Related Bond Issuer.

### Related Supplement

“Related Supplement” means an indenture supplemental to, and authorized and executed pursuant to the terms of, this Master Indenture.

### Replacement Note

“Replacement Note” has the meaning set forth in Section 3.15 hereof.

### Required Payment

“Required Payment” means any payment, whether at maturity, by acceleration, upon proceeding for redemption or otherwise, including, without limitation, Financial Product Payments, Financial Product Extraordinary Payments and the purchase price of Related Conduit Issuer Bonds tendered or deemed tendered for purchase pursuant to the terms of a Related Bond Indenture, required to be made by any Obligated Group Member pursuant to any Related Supplement or any Obligation.

### Responsible Officer

“Responsible Officer” means, with respect to the Master Trustee, any vice president, any senior associate, any associate, or any other officer of the Master Trustee customarily performing functions similar to those performed by the persons above designated or to whom any corporate trust matter is referred because of such person’s knowledge of and familiarity with the particular subject and having direct responsibility for the administration of this Master Indenture.

### Restricted Moneys

“Restricted Moneys” means (a) the proceeds of any grant, gift, bequest, contribution or other donation (and, to the extent subject to the applicable restrictions, the investment income derived from the investment of such proceeds), and (b) any income and gains and the proceeds thereof of a Member that is a captive insurance company; to the extent in each case as restricted by law or its terms to an object or purpose inconsistent with their use for the payment of Required Payments.

### Short-Term Indebtedness

“Short-Term Indebtedness” means all Indebtedness (other than Interim Indebtedness) having an original maturity less than or equal to one year and not renewable at the option of a Credit Group Member for a term greater than one year from the date of original incurrence or issuance, or Indebtedness with a maturity greater than one year or renewable at the option of a Credit Group Member for a term greater than one year, if by the terms of such Indebtedness, for a period of at least twenty (20) consecutive days during each calendar year no Indebtedness is permitted to be Outstanding thereunder. For purposes of this definition, (a) only the stated maturity of Indebtedness (and not any tender or put right of the holder of such Indebtedness) shall be taken into account in determining if such Indebtedness constitutes Short-Term Indebtedness hereunder and (b) classification of Indebtedness as current or short-term under GAAP shall not be controlling. Interim Indebtedness shall not constitute Short-Term Indebtedness for any purpose under this Master Indenture.

### State

“State” means the State of New York.

### Subordinated Indebtedness

“Subordinated Indebtedness” means Long-Term Indebtedness specifically subordinated as to payment and security to the payment of all Required Payments and other obligations of the Credit Group Members under this Master Indenture.

### Surviving Entity

“Surviving Entity” has the meaning set forth in Section 3.08.

### Tax-Exempt Organization

“Tax-Exempt Organization” means a Person organized under the laws of the United States of America or any state thereof that is an organization described in Section 501(c)(3) of the Code and exempt from federal income taxes under Section 501 (a) of the Code (other than the tax on unrelated business income under Section 511 of the Code), or corresponding provisions of federal income tax laws from time to time in effect.



### Total Revenues

“Total Revenues” means, for the period of calculation in question, the sum of total unrestricted revenue and other support (including net patient service revenue), other operating revenue, and net assets released from restrictions, as shown on the Credit Group Financial Statements for the most recent Fiscal Year.

### Transaction Test

“Transaction Test” means, with respect to any specified transaction, that (a) no Event of Default or Default would exist; and (b) following such transaction, the Obligated Group could satisfy the conditions for the issuance of additional Long-Term Indebtedness equal to \$1.00 set forth in Section 3.12(a), assuming that such transaction occurred at the start of the most recent Fiscal Year preceding such transaction for which Credit Group Financial Statements are available and taking into account any other action taken by the Credit Group in reliance upon the Transaction Test within the then current Fiscal Year.

### UCC

“UCC” means the Uniform Commercial Code of the State, as amended from time to time.

### Value

“Value,” when used with respect to Property, means the aggregate value of all such Property, with each component of such Property valued, at the option of the Credit Group Representative, at either its Fair Market Value or its Book Value.

### Variable Rate Indebtedness

“Variable Rate Indebtedness” means any portion of Indebtedness the interest rate on which has not been established at a fixed or constant rate to maturity.

#### Section 1.02. Interpretation.

(a) Any reference herein to any officer of a Credit Group Member shall include those succeeding to the functions, duties or responsibilities of such officer pursuant to or by operation of law or who are lawfully performing the functions of such officer.

(b) Unless the context otherwise indicates, words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. The singular shall include the plural and vice versa.

(c) Headings of Articles and Sections herein and the table of contents hereto are solely for convenience of reference, and do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(d) Provisions calling for the redemption of Obligations do not mean or include the payment of Obligations at their stated maturity.

Section 1.03. References to Master Indenture. The terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder,” and any similar terms, used in this Master Indenture refer to this Master Indenture.

Section 1.04. Contents of Certificates and Opinions; Use of GAAP.

(a) Any such certificate or opinion provided for herein with respect to compliance with any provision hereof made or given by an officer of a Credit Group Member or the Master Trustee may be based, insofar as it relates to legal, accounting or health care matters, upon a certificate or opinion or representation of counsel, an Accountant or Independent Consultant unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or opinion may be based, as aforesaid, is erroneous. Any such certificate, opinion or representation made or given by counsel, an Accountant or an Independent Consultant, may be based, insofar as it relates to factual matters (with respect to which information is in the possession of any Credit Group Member) upon the certificate or opinion of, or representation by an officer of any Credit Group Member unless such counsel, Accountant or Independent Consultant knows that the certificate, opinion of or representation by such officer, with respect to the factual matters upon which such Person’s certificate or opinion may be based, is erroneous. The same officer of any Credit Group Member or the same counsel or Accountant or Independent Consultant, as the case may be, need not certify as to all the matters required to be certified under any provision hereof, but different officers, counsel, Accountants or Independent Consultants may certify as to different matters.

(b) Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation, combination or other accounting computation is required to be made for the purposes of this Master Indenture or of any agreement, document or certificate executed and delivered in connection with or pursuant to this Master Indenture, such determination or computation shall be done in accordance with GAAP, to the extent applicable, except where such principles are inconsistent with the requirements hereof or of such agreement, document or certificate, in which case such agreement, document or certificate shall state that it was not done in accordance with GAAP in effect as of, in the sole discretion of the Credit Group Representative, (i) the date such determination or computation is made for any purpose of this Master Indenture, or (ii) the date of execution and delivery of this Master Indenture if the Credit Group Representative delivers an Officer’s Certificate to the Master Trustee explaining the basis for such treatment (including, but not limited to, to exclude the effect of “FASB ASC Topic 842, Leases” relating to the treatment of leases formerly classified as operating leases under GAAP); provided, however, that intercompany balances and liabilities among the Credit Group Members shall be disregarded.

## ARTICLE II

### AUTHORIZATION AND ISSUANCE OF MASTER INDENTURE OBLIGATIONS; MORTGAGES

Section 2.01. Authorization of Obligations. Each Obligated Group Member hereby authorizes to be issued from time to time Obligations or Series of Obligations, without limitation

as to amount, except as provided herein or as may be limited by law, and subject to the terms, conditions and limitations established herein and in any Related Supplement.

Section 2.02. Issuance of Obligations. From time to time when authorized by this Master Indenture and subject to the terms, limitations and conditions established in this Master Indenture or in a Related Supplement, the Credit Group Representative may authorize the issuance of an Obligation or a Series of Obligations by entering into a Related Supplement. The Obligation or the Obligations of any such Series may be issued and delivered to the Master Trustee for authentication upon compliance with the provisions hereof and of any Related Supplement.

Each Related Supplement authorizing the issuance of an Obligation or a Series of Obligations shall specify (a) the purposes for which such Obligation or Series of Obligations are being issued; (b) the form, title, designation, manner of numbering or denominations, if applicable, of such Obligations; (c) the date or dates of maturity or other final expiration of the term of such Obligations; the date of issuance of such Obligations; and (d) any other provisions deemed advisable or necessary by the Credit Group Representative. Each Related Supplement authorizing the issuance of an Obligation shall also specify and determine the principal amount of such Obligation (if any) for purposes of calculating the percentage of Holders of Obligations required to take actions or give consents pursuant to this Master Indenture (which, if such Obligation does not evidence or secure Indebtedness, shall be equal to zero, except with respect to any action that requires the consent of all of the Holders of Obligations or actions of the Holders pursuant to Article IV hereof). The designation of zero as a principal amount of an Obligation shall not in any manner affect the obligation of the Members to make Required Payments with respect to such Obligation.

Section 2.03. Appointment of Credit Group Representative. Each Obligated Group Member, by becoming an Obligated Group Member, irrevocably appoints the Credit Group Representative as its agent and attorney-in-fact and grants full power to the Credit Group Representative (a) to execute (i) Related Supplements authorizing the issuance of Obligations or Series of Obligations, (ii) Obligations and (iii) all security-related agreements, certificates, disclosure documents, filings, registrations and other instruments ancillary to the issuance of Obligations and in furtherance of their purposes, and (b) to bind such Obligated Group Member by making covenants or agreements on behalf of such Obligated Group Member.

Section 2.04. Execution and Authentication of Obligations.

(a) All Obligations shall be executed by an Authorized Representative of the Credit Group Representative for and on behalf of the Obligated Group as provided in the Related Supplement authorizing such Obligation. The signatures of such Authorized Representative may be mechanically or photographically reproduced on the Obligations. If any Authorized Representative whose signature appears on any Obligation ceases to be such Authorized Representative before delivery thereof, such signature shall remain valid and sufficient for all purposes as if such Authorized Representative had remained in office until such delivery. Each Obligation shall be manually authenticated by an authorized signatory of the Master Trustee, and no Obligation shall be entitled to the benefits hereof without such authentication.

(b) The form of Certificate of Authentication to be printed on each Obligation and manually executed by an authorized signatory of the Master Trustee shall be as follows:

[FORM OF MASTER TRUSTEE'S CERTIFICATE OF AUTHENTICATION]

The undersigned Master Trustee hereby certifies that this Obligation No. \_\_\_ is one of the Obligations described in the within mentioned Master Indenture.

Dated: \_\_\_\_\_

[Name of Master Trustee],  
as Master Trustee

By \_\_\_\_\_

Authorized Signatory

Section 2.05. Conditions to the Issuance of Obligations. The issuance, authentication and delivery of any Obligation or Series of Obligations shall be subject to the following specific conditions:

(a) The Credit Group Representative and the Master Trustee shall have entered into a Related Supplement providing for the terms and conditions of such Obligations and the repayment thereof; and

(b) The Master Trustee receives an Officer's Certificate to the effect that:

(i) each Obligated Group Member is in full compliance with all warranties, covenants and agreements set forth in this Master Indenture and in any Related Supplement; and

(ii) neither an Event of Default nor any event which with the passage of time or the giving of notice or both would become an Event of Default has occurred and is continuing or would occur upon issuance of such Obligations under this Master Indenture or any Related Supplement; and

(iii) all requirements and conditions, if any, to the issuance of such Obligations set forth in the Related Supplement have been satisfied; and

(c) The Master Trustee receives an Opinion of Counsel, subject to customary qualifications and exceptions, to the effect that:

(i) such Obligations and Related Supplement have been duly authorized, executed and delivered by the Credit Group Representative on behalf of the

Obligated Group and constitute valid and binding obligations of the Obligated Group, enforceable in accordance with their terms; and

(ii) such Obligations are not subject to registration under the Securities Act of 1933, as amended, and such Related Supplement is not subject to registration under the Trust Indenture Act of 1939, as amended (or that any such registration, if required, has occurred);

(d) The Credit Group Representative shall have delivered or caused to be delivered to the Master Trustee such opinions, certificates, proceedings, instruments and other documents as the Master Trustee may (but is not obligated to) reasonably request; and

(e) If such Obligation constitutes or secures Indebtedness, the requirements of Section 3.12 are satisfied.

#### Section 2.06. Mortgages.

(a) To secure their obligation to make Required Payments hereunder and their other obligations, agreements and covenants to be performed and observed hereunder, each Obligated Group Member hereby grants to the Master Trustee, by way of the Mortgages, a lien on the Mortgaged Property of which such Obligated Group Member is the owner.

(b) Upon written request of the Credit Group Representative, the Master Trustee shall execute and deliver such releases, subordinations, requests for reconveyance, termination statements, or other instruments as may be reasonably requested by the Credit Group Representative in connection with (1) the disposition of the Mortgaged Property in accordance with Section 3.11, (2) the withdrawal of an Obligated Group Member pursuant to Section 3.10, and (3) the granting by an Obligated Group Member of any Lien which constitutes a Permitted Lien that is not junior to the Lien granted to the Master Trustee, as certified to the Master Trustee in writing by the Credit Group Representative.

(c)

(i) The Master Trustee and the Obligated Group may agree to amendments to the Mortgages without the consent of or notice to any of the Holders for one or more of the following purposes:

(A) to cure ambiguity or formal defect or omission in the Mortgages and which shall not materially adversely affect the interests of the Holders; and

(B) to correct or supplement any provision in the Mortgages which may be inconsistent with any other provision in the Mortgages, or to make any other provisions with respect to matters or questions arising under the Mortgages and which shall not materially adversely affect the interests of the Holders.

(ii) The Master Trustee and the Obligated Group may agree to any other amendments to the Mortgages with the consent of the Holders of not less than a majority in aggregate principal amount of Outstanding Obligations.

(d) The Master Trustee shall also execute any consent, joinder, amendment, release, or other instrument required to be executed by the Master Trustee in its capacity as the mortgagee in order to: (i) allow, provide for, or release any Permitted Lien; (ii) subject any additional property of an Obligated Group Member to the lien of the Mortgages or modify, clarify, correct, or properly reflect the description of the property subject to the Mortgages; (iii) preserve the lien of the Mortgages or provide for the Mortgages (or replacement thereof); (iv) properly reflect the identities of the mortgagor or mortgagee; (v) release the lien of the Mortgages upon the discharge of this Master Indenture; or (vi) provide or execute estoppel certificates and nondisturbance agreements requested by the Credit Group Representative. The consent or approval of the Holders shall not be required in connection with items (i) through (vi) above. For purposes of determining whether the Master Trustee may execute any such consent, joinder, amendment, or other instrument, the Master Trustee may conclusively rely on an Officer's Certificate stating that: (x) the execution of such instrument is necessary or advisable in connection with the use, ownership, or operation of the Mortgaged Property; and (y) the execution and delivery of such instrument by the Master Trustee will not materially adversely affect the interests of the Holders. The Obligated Group shall pay (A) all costs of drafting, executing, recording, and filing, and (B) all other expenses and taxes (if any) applicable to or arising from any instruments described above and to be executed by the Master Trustee.

(e) Notwithstanding anything contained herein or in the Mortgages to the contrary, upon the occurrence and continuance of an Event of Default, before taking any foreclosure action or any action which may subject the Master Trustee to liability under any environmental law, statute, regulation or similar requirement relating to the environment, the Master Trustee may require that a satisfactory indemnity bond, indemnity or environmental impairment insurance be furnished for the payment or reimbursement of all expenses to which it may be put and to protect it against all liability resulting from any claims, judgments, damages, losses, penalties, fines, liabilities (including strict liability) and expenses which may result from such foreclosure or other action.

#### Section 2.07. Substitution and Release of Mortgaged Property.

So long as there is not then an Event of Default, the Obligated Group may at any time substitute for any portion of the existing Mortgaged Property, any other real or personal property with an aggregate Appraised Value equal to or greater than the Appraised Value of the portion of the Mortgaged Property for which it is to be substituted; provided, however, that such substituted property (a) includes acute care hospital facilities housing an emergency department and the highest number of licensed acute care beds of any licensed facility of the Corporation, and (b) is not subject to any Liens other than Liens that are Permitted Liens for the Mortgaged Property. "Appraised Value" means a market value appraisal performed at the Obligated Group's expense by an independent M.A.I. appraiser selected by the Obligated Group, dated not more than one year prior to the date presented and accompanied by a bring-down letter from the appraiser, dated not more than one week prior to the date of substitution, to the effect that the condition and Appraised Value of the appraised property have not changed materially from the date of the appraisal. Any grant of substitute Mortgaged Property shall be accompanied by a mortgagee's policy of title insurance reasonably satisfactory to the Master Trustee and evidence reasonably satisfactory to the Master Trustee, in the form of zoning coverage in the title insurance policy or

an Opinion of Counsel, or both, that the substitute Mortgaged Property and any remaining Mortgaged Property meet applicable zoning requirements.

### ARTICLE III

#### PAYMENTS WITH RESPECT TO MASTER INDENTURE OBLIGATIONS; DESIGNATED AFFILIATES; CREDIT GROUP COVENANTS

##### Section 3.01. Payment of Required Payments.

(a) Each Obligated Group Member jointly and severally covenants to promptly pay, or cause to be paid, all Required Payments at the place, on or before the dates and in the manner provided herein or in any Related Supplement or Obligation. Each Obligated Group Member acknowledges that the time of such payment and performance is of the essence of the Obligations hereunder. Each Obligated Group Member further covenants to faithfully observe and perform all of the conditions, covenants and requirements of this Master Indenture, any Related Supplement and any Obligation.

The obligation of each Obligated Group Member with respect to Required Payments shall not be abrogated, prejudiced or affected by:

(i) the granting of any extension, waiver or other concession given to any Obligated Group Member by the Master Trustee or any Holder or by any compromise, release, abandonment, variation, relinquishment or renewal of any of the rights of the Master Trustee or any Holder or anything done or omitted or neglected to be done by the Master Trustee or any Holder in exercise of the authority, power and discretion vested in them by this Master Indenture, or by any other dealing or thing that, but for this provision, might operate to abrogate, prejudice or affect such obligation; or

(ii) the liability of any other Obligated Group Member under this Master Indenture ceasing for any cause whatsoever, including the release of any other Obligated Group Member pursuant to the provisions of this Master Indenture or any Related Supplement; or

(iii) any Obligated Group Member's failing to become liable as, or losing eligibility to become, an Obligated Group Member with respect to an Obligation; or

(iv) the validity or sufficiency of consideration given to support the obligations of the Obligated Group Members under this Master Indenture.

Subject to the provisions of Section 3.10 hereof permitting withdrawal from the Obligated Group, the obligation of each Obligated Group Member to make Required Payments is a continuing one and is to remain in effect until all Required Payments have been paid or deemed paid in full in accordance with Article VII hereof. All moneys from time to time received by the Credit Group Representative or the Master Trustee to reduce liability on Obligations, whether from or on account of the Obligated Group Members or otherwise, shall be regarded as payments in gross without any right on the part of any one or more of the Obligated Group Members to claim the benefit of any moneys so received until the whole of the amounts owing on Obligations

has been paid or satisfied and so that in the event of any such Obligated Group Member's filing a bankruptcy petition, the Credit Group Representative or the Master Trustee shall be entitled to prove up the total indebtedness or other liability on Obligations Outstanding as to which the liability of such Obligated Group Member has become fixed.

Each Obligation shall be a primary obligation of the Obligated Group Members and shall not be treated as ancillary to or collateral with any other obligation and shall be independent of any other security so that the covenants and agreements of each Obligated Group Member hereunder shall be enforceable without first having recourse to any such security or source of payment and without first taking any steps or proceedings against any other Person. The Credit Group Representative and the Master Trustee are each empowered to enforce each covenant and agreement of each Obligated Group Member hereunder and to enforce the making of Required Payments. Each Obligated Group Member hereby authorizes each of the Credit Group Representative and the Master Trustee to enforce or refrain from enforcing any covenant or agreement of the Obligated Group Members hereunder or under any other contract or agreement pursuant to which the Credit Group Representative has made covenants by or on behalf of any such Obligated Group Member and to make any arrangement or compromise with any Obligated Group Member or Obligated Group Members as the Credit Group Representative or the Master Trustee may deem appropriate, consistent with this Master Indenture and any Related Supplement. Each Obligated Group Member hereby waives in favor of the Credit Group Representative and the Master Trustee all rights against the Credit Group Representative, the Master Trustee and any other Obligated Group Member, insofar as is necessary to give effect to any of the provisions of this Section.

Section 3.02. Transfers from Designated Affiliates. Each Controlling Member hereby covenants and agrees that it shall cause each of its Designated Affiliates to pay, loan or otherwise transfer to the Credit Group Representative such amounts as are necessary to enable the Obligated Group Members to comply with the provisions of this Master Indenture, including, without limitation, the provisions of Section 3.01; provided, however, that nothing herein shall be construed to require any Controlling Member to cause its Designated Affiliate to pay, loan or otherwise transfer to the Credit Group Representative any amounts that constitute Restricted Moneys.

Section 3.03. Designation of Designated Affiliates.

(a) The Credit Group Representative by resolution of its Governing Body may from time to time designate Persons as Designated Affiliates. In connection with such designation, the Credit Group Representative shall designate for each Designated Affiliate an Obligated Group Member to serve as the Controlling Member for such Designated Affiliate. The Credit Group Representative shall at all times maintain an accurate and complete list of all Persons designated as Designated Affiliates (and of the Controlling Members for such Designated Affiliates). When, as and if the complement of Designated Affiliates changes, the Credit Group Representative shall file notice thereof and file such list with the Master Trustee (and any Related Bond Issuer that shall request such list in writing) within thirty (30) days of such change.



(b) Each Controlling Member shall cause each of its Designated Affiliates to provide to the Credit Group Representative a resolution of its Governing Body accepting such Person's designation as a Designated Affiliate and acknowledging the provisions of this Master Indenture that affect the Designated Affiliates. So long as such Person is designated as a Designated Affiliate, the Controlling Member of such Designated Affiliate shall either (i) maintain, directly or indirectly, control of such Designated Affiliate to the extent necessary to cause such Designated Affiliate to comply with the terms of this Master Indenture, whether through the ownership of voting securities, by contract, corporate membership, reserved powers or the power to appoint corporate members, trustees or directors, or otherwise, or (ii) execute and have in effect such contracts or other agreements that the Credit Group Representative and the Controlling Member, in the judgment of their respective Governing Bodies, deem sufficient for the Controlling Member to cause such Designated Affiliate to comply with the terms of this Master Indenture as they relate to Designated Affiliates.

(c) Each Controlling Member hereby covenants and agrees that it will, to the extent permitted by law, cause each of its Designated Affiliates to comply with any and all directives of the Controlling Member given pursuant to the provisions of this Master Indenture applicable to a Designated Affiliate.

(d) Any Person may cease to be a Designated Affiliate (and thus not subject to the terms of this Master Indenture) provided that prior to such Person ceasing to be a Designated Affiliate the Master Trustee receives:

(i) a resolution of the Governing Body of the Credit Group Representative declaring such Person no longer a Designated Affiliate; and

(ii) an Officer's Certificate to the effect that immediately following such Person ceasing to be a Designated Affiliate neither a Default nor an Event of Default would exist by reason of such Person ceasing to be a Designated Affiliate.

Section 3.04. Covenants of Corporate Existence, Maintenance of Properties, Etc. Each Obligated Group Member agrees, and each Controlling Member agrees to cause each of its Designated Affiliates:

(a) Except as otherwise expressly provided herein, to preserve its corporate or other legal existence and all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs and to be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualification; provided, however, that nothing herein contained shall be construed to obligate it to retain or preserve any of its rights or licenses no longer used or useful in the conduct of its business or affairs.

(b) At all times to cause its Property, Plant and Equipment to be maintained, preserved and kept in good repair, working order and condition, reasonable wear and tear excepted, and all needed and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in this subsection shall be construed to (i) prevent it from ceasing to operate any immaterial portion of its Property, Plant and Equipment, (ii) prevent it from ceasing to operate any material portion of its Property, Plant and Equipment if in its

judgment it is advisable not to operate the same, or (iii) obligate it to retain, preserve, repair, renew or replace any Property, Plant and Equipment no longer used or useful in the conduct of its business.

(c) To procure and maintain all necessary licenses and permits necessary, in the judgment of its Governing Body, to the operation of its health care Property and the status of its health care Property (other than that not currently having such status or not having such status on the date a Person becomes a Credit Group Member) as providers of health care services eligible for payment under those third party payment programs that its Governing Body determines are appropriate; provided, however, that it need not comply with this subsection if and to the extent that its Governing Body shall have determined in good faith, evidenced by a resolution of the Governing Body, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

#### Section 3.05. Gross Receivables Pledge.

(a) To secure their obligation to make Required Payments hereunder and their other obligations, agreements and covenants to be performed and observed hereunder, each Obligated Group Member hereby grants to the Master Trustee security interests in the Gross Receivables.

(b) This Master Indenture shall be deemed a “security agreement” for purposes of the UCC.

(c) The Master Trustee’s security interest in the Gross Receivables shall be perfected, to the extent that such security interest may be so perfected, by the filing of financing statements that comply with the requirements of the UCC. Each Member (or the Credit Group Representative on such Member’s behalf) shall cause to be filed, in accordance with the requirements of the UCC, financing statements; and, from time to time thereafter, shall execute and deliver such other documents (including, but not limited to, continuation statements as required by the UCC) as may be necessary or reasonably requested by the Master Trustee in order to perfect or maintain perfected such security interests or give public notice thereof.

(d) Upon written request from the Credit Group Representative, the Master Trustee shall take all procedural steps necessary to effect the subordination of its security interest in the Gross Receivables granted herein to security interests constituting Permitted Liens.

(e) Each Obligated Group Member shall notify the Master Trustee of any change of name and change of address of its chief executive office to enable a new appropriate financing statement or an amendment to be filed in accordance with the requirements of the UCC, in order to maintain the perfected security interest granted herein.

#### Section 3.06. Against Encumbrances.

(a) Each Member has granted security interests in the Gross Receivables. The Corporation and each other Member, respectively, agrees to execute and deliver such other agreements as may be necessary from time to time to grant to the Master Trustee a security interest in the Gross Receivables, subject only to Permitted Liens.

(b) Each Obligated Group Member agrees that it will not, and will cause its Designated Affiliates (if such Obligated Group Member is a Controlling Member) to not, create or suffer to be created or permit the existence of any Lien upon the Gross Receivables and Property now owned or hereafter acquired by it other than Permitted Liens. Each Obligated Group Member, respectively, further covenants and agrees that if such a Lien (other than a Permitted Lien) is nonetheless created by someone other than an Obligated Group Member and is assumed by any Obligated Group Member, the Credit Group Representative will make or cause to be made effective a provision whereby all Obligations will be secured prior to any such Indebtedness or other obligation secured by such Lien.

(c) Upon written request of the Credit Group Representative, the Master Trustee shall execute and deliver such releases, subordinations, requests for reconveyance, termination statements or other instruments as may be reasonably requested by the Credit Group Representative in connection with (i) the disposition of Property in accordance with the provisions of Section 3.11 and the applicable provisions of any Related Supplement, (ii) the withdrawal of a Member pursuant to Section 3.10 and the applicable provisions of any Related Supplement and (iii) the granting by a Credit Group Member of any Lien which constitutes a Permitted Lien hereunder, as certified to the Master Trustee in writing by the Credit Group Representative.

#### Section 3.07. Debt Service Coverage.

(a) Each Obligated Group Member agrees that the Debt Service Coverage Ratio shall be not less than 1.10:1.00 for each Fiscal Year, commencing with the Fiscal Year ending December 31, 2018, provided that an Event of Default shall occur only if (i) the Obligated Group fails to reasonably comply with the requirements of subsections (b) through and including (d) below, or (ii) the Debt Service Coverage Ratio for any two consecutive Fiscal Years is less than 1.00:1.00.

(b) The Credit Group Representative covenants that, if the Debt Service Coverage Ratio, as calculated as of the end of any Fiscal Year is less than 1.10:1.00, it will cause to be retained an Independent Consultant to make recommendations to increase Income Available for Debt Service for subsequent Fiscal Years to the levels required or, if in the opinion of the Independent Consultant the attainment of such level is impracticable, to the highest practicable level. The Credit Group Representative agrees to transmit a copy thereof to the Master Trustee within twenty (20) days of the receipt of such recommendations. Each Obligated Group Member, respectively, agrees that it will, to the extent permitted by law, substantially follow the recommendations of the Independent Consultant or file with the Master Trustee its reasons for not following the recommendations. In no event may the Debt Service Coverage Ratio for any two consecutive Fiscal Years be less than 1.00:1.00.

(c) If the Credit Group substantially complies with the recommendations of the Independent Consultant, as applicable under subsection (b), respectively, hereof, the Credit Group will be deemed to have complied with the covenants set forth in this Section for such Fiscal Year, notwithstanding that the Debt Service Coverage Ratio shall be less than 1.10:1.00; provided, however, that the Debt Service Coverage Ratio shall not be reduced to less than 1.00:1.00 for any two consecutive Fiscal Years. Notwithstanding the foregoing, the Credit

Group Members shall not be excused from taking any action or performing any duty required under this Master Indenture and no other Event of Default shall be waived by the operation of the provisions of this subsection (c).

(d) If a report of the Credit Group Representative or an Independent Consultant is delivered to the Master Trustee and the Related Bond Issuers, which report shall state that Government Restrictions or Industry Restrictions have been imposed that make it impossible for the Income Available for Debt Service to satisfy the requirement of subsection (a) hereof, then the required amount of Income Available for Debt Service shall be reduced to the maximum coverage permitted by such Government Restrictions or Industry Restrictions but in no event less than an amount to pay the Annual Debt Service on all Indebtedness of the Credit Group for such Fiscal Year; but in no event may the Debt Service Coverage Ratio for any two consecutive Fiscal Years be less than 1.00:1.00.

(e) Notwithstanding the foregoing, an Obligated Group Member may permit the rendering of services or the use of its Property without charge or at reduced charges, at the discretion of the Governing Body of such Obligated Group Member, to the extent necessary for maintaining its tax-exempt status or the tax-exempt status of its Property, Plant and Equipment or its eligibility for grants, loans, subsidies or payments from governmental entities, or in compliance with any recommendation for free services or services for advanced fees that may be made by an Independent Consultant.

Section 3.08. Merger, Consolidation, Sale or Conveyance. Each Obligated Group Member covenants that it will not merge or consolidate with any other Person that is not an Obligated Group Member or sell or convey all or substantially all of its assets to any Person that is not an Obligated Group Member (a “Merger Transaction”) unless:

(a) After giving effect to the Merger Transaction,

(i) the successor or surviving entity (hereinafter, the “Surviving Entity”) is an Obligated Group Member, or

(ii) the Surviving Entity shall

(A) be a corporation or other entity organized and existing under the laws of the United States of America or any state thereof, and

(B) prior to or simultaneously with the merger, become an Obligated Group Member pursuant to Section 3.09 and, pursuant to the Related Supplement required by Section 3.09(b), shall expressly assume in writing the due and punctual payment of all Required Payments of the disappearing Obligated Group Member hereunder and its joint and several obligation with respect to Obligations;

(b) The Master Trustee receives an Officer’s Certificate to the effect that the Transaction Test is satisfied in connection with the Merger Transaction;

(c) So long as any Related Conduit Issuer Bonds that are tax-exempt obligations are Outstanding, the Master Trustee receives an Opinion of Bond Counsel to the

effect that, under then existing law, the consummation of the Merger Transaction, in and of itself, would not result in the inclusion of interest on such Related Conduit Issuer Bonds in gross income for purposes of federal income taxation;

(d) The Master Trustee receives an Opinion of Counsel, subject to customary qualifications and exceptions, to the effect that (i) all conditions in this Section 3.08 relating to the Merger Transaction have been complied with; (ii) the Surviving Entity meets the conditions set forth in this Section 3.08 and in all Obligations then Outstanding; (iii) the Merger Transaction will not adversely affect the validity of any Obligations then Outstanding and such Obligations then Outstanding are enforceable against the Surviving Entity in accordance with their respective terms; and (iv) the Merger Transaction will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(e) The Surviving Entity shall be substituted for its predecessor in interest in all Obligations and agreements then in effect that affect or relate to any Obligation, and the Surviving Entity shall execute and deliver to the Master Trustee appropriate documents in order to effect the substitution.

From and after the effective date of such substitution (as set forth in the above-mentioned documents), the Surviving Entity shall be treated as an Obligated Group Member and shall thereafter have the right to participate in transactions hereunder relating to Obligations to the same extent as the other Obligated Group Members. All Obligations issued hereunder on behalf of a Surviving Entity shall have the same legal rank and benefit under this Master Indenture as Obligations issued on behalf of any other Obligated Group Member.

Section 3.09. Membership in Obligated Group. Additional Obligated Group Members may be added to the Obligated Group from time to time, provided that prior to such addition the Master Trustee receives:

(a) a copy of a resolution of the Governing Body of the proposed new Obligated Group Member that authorizes the execution and delivery of a Related Supplement and compliance with the terms of this Master Indenture; and

(b) a Related Supplement executed by the Credit Group Representative, the new Obligated Group Member and the Master Trustee pursuant to which the proposed new Obligated Group Member:

(i) agrees to become an Obligated Group Member, and

(ii) agrees to be bound by the terms of this Master Indenture, the Related Supplements and the Obligations, and

(iii) irrevocably appoints the Credit Group Representative as its agent and attorney-in-fact and grants to the Credit Group Representative the requisite power and authority to execute Related Supplements authorizing the issuance of Obligations or Series of Obligations and to execute and deliver Obligations, and

(c) an Opinion of Counsel, subject to customary qualifications and exceptions, to the effect that (i) the proposed new Obligated Group Member has taken all necessary action to become an Obligated Group Member, and upon execution of the Related Supplement, such proposed new Obligated Group Member will be bound by the terms of this Master Indenture, (ii) the addition of such Obligated Group Member would not adversely affect the validity of any Obligation then Outstanding and (iii) the addition of such Obligated Group Member will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(d) an Officer's Certificate to the effect that immediately after the addition of the proposed new Obligated Group Member, the Transaction Test would be satisfied; and

(e) so long as any Related Conduit Issuer Bonds that are tax-exempt obligations are Outstanding, an Opinion of Bond Counsel to the effect that the addition of the proposed new Obligated Group Member will not, in and of itself, result in the inclusion of interest on any Related Conduit Issuer Bonds in gross income for purposes of federal income taxation.

Section 3.10. Withdrawal from Obligated Group. The Corporation may not withdraw from the Obligated Group. Any other Obligated Group Member may withdraw from the Obligated Group and be released from further liability or obligation under the provisions of this Master Indenture, provided that prior to such withdrawal the Master Trustee receives:

(a) an Officer's Certificate to the effect that the Credit Group Representative has approved the withdrawal of such Obligated Group Member;

(b) an Officer's Certificate to the effect that immediately following the withdrawal of such Obligated Group Member, the Transaction Test would be satisfied; and

(c) an Opinion of Counsel, subject to customary qualifications and exceptions, to the effect that (i) the withdrawal of such Obligated Group Member would not adversely affect the validity of any Obligation then Outstanding and (ii) the withdrawal of such Obligated Group Member will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended.

Upon compliance with the conditions contained in this Section 3.10, the Master Trustee shall execute any documents reasonably requested by the withdrawing Obligated Group Member to evidence the termination of such Obligated Group Member's obligations hereunder, under all Related Supplements and under all Obligations, and shall execute and deliver such releases, subordinations, requests for reconveyance, termination statements or other instruments as may be reasonably requested by the Credit Group Representative pursuant to Section 3.06(c).

Section 3.11. Limitation on Disposition of Assets.

(a) Each Obligated Group Member covenants that it will not, and each Controlling Member agrees that it will not permit its Designated Affiliates to, sell, lease or otherwise dispose of any part of its Property in any Fiscal Year (other than (A) in the ordinary

course of business or in compliance with the requirements imposed on any asset upon its acquisition, or (B) as part of a disposition of all or substantially all of its assets as permitted by Section 3.08, or (C) to another Obligated Group Member or Designated Affiliate), with a value in excess of 5% of the Property of the Obligated Group, unless:

(i) such Property is inadequate, obsolete, unsuitable, undesirable or unnecessary for the operation and functioning of the primary health care operations of the Credit Group Members; or

(ii) the disposition is for Fair Market Value; or

(iii) prior to such disposition there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is being transferred to a Person who is not an Obligated Group Member but such Person shall become a Member pursuant to Section 3.09 coincidental to such transfer; or

(iv) prior to such disposition there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the Property transferred pursuant to this subsection (iv) was transferred at fair and reasonable terms, no less favorable to the Credit Group Member, which could have been attained in a comparable arms-length transaction; or

(v) prior to such disposition there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the transaction would constitute and be treated as a true sale-leaseback under GAAP; or

(vi) the transfer is to any affiliate physician group practice and is used solely to support commercially reasonable salary and benefits of physician employees of such group practice; or

(vii) prior to such disposition there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is being transferred to an entity controlled by, under common control with, or contractually affiliated with, one or more Credit Group Members for establishing, capitalizing, and maintaining a program of insurance that provides insurance coverage to one or more Credit Group Members, provided that prior to such transfer, an Insurance Consultant shall have issued a report stating that the establishment of such insurance and the proposed funding thereof are consistent with reasonable insurance practices; which transferee entity may be organized under the laws of any jurisdiction or nation and which may include an entity providing insurance to entities other than Credit Group Members.

(b) Notwithstanding the foregoing, nothing shall prohibit any disposition of assets among Credit Group Members nor shall prohibit any Credit Group Member from: (i) making loans, including, without limitation, employee relocation loans, physician recruitment loans or other credit/funding extensions, provided that such loans or other credit/funding extensions are in writing and (x) such loans are in furtherance of the exempt purposes of the Credit Group Member (if it is a Tax-Exempt Organization) or (y) the Credit Group Member reasonably expects such loans to be repaid and such loans bear interest at a reasonable rate of interest and on commercially reasonable terms; or (ii) transferring gifts restricted to a purpose

inconsistent with their use for the payment of debt service on Obligations or operating expenses to a Person that has the purpose to receive and use or disburse such restricted gifts.

Section 3.12. Limitation on Indebtedness. Each Obligated Group Member covenants that it will not, and each Controlling Member covenants that it will not permit its Designated Affiliates to, incur any Indebtedness except that the Obligated Group Members and Designated Affiliates may incur the following Indebtedness:

(a) Long-Term Indebtedness, if prior to the date of incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee an Officer's Certificate to the effect that:

(i) the Debt Service Coverage Ratio for the most recent Fiscal Year for which Credit Group Financial Statements are available with respect to all Long-Term Indebtedness then Outstanding at the time of such certification and the additional Long-Term Indebtedness to be incurred, but excluding any Long-Term Indebtedness to be refunded with the proceeds of said additional Long-Term Indebtedness to be incurred, was not less than 1.20:1.00; or

(ii) (A) the Debt Service Coverage Ratio for the most recent Fiscal Year (excluding the additional Long-Term Indebtedness to be incurred) was not less than 1.20:1.00 and (B) the Debt Service Coverage Ratio for the Fiscal Year beginning with the Fiscal Year commencing after the estimated completion of the facilities to be financed by the Indebtedness to be incurred with respect to all Long-Term Indebtedness projected to be outstanding (including the additional Long-Term Indebtedness to be incurred but excluding any Long-Term Indebtedness to be refunded with the proceeds of said additional Long-Term Indebtedness to be incurred), is projected to be not less than 1.35:1.00. Notwithstanding the foregoing, if the Master Trustee receives a report of an Independent Consultant to the effect that Government Restrictions or Industry Restrictions prevent the Credit Group Members from generating the required levels of Income Available for Debt Service sufficient to result in a Debt Service Coverage Ratio of not less than 1.35:1.00, the 1.35:1.00 ratio requirement described in this subsection (a)(ii) shall be reduced to a ratio of not less than 1.00:1.00; or

(iii) the forecasted Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, for the first complete Fiscal Year succeeding the date on which the proposed Long-Term Indebtedness is to be incurred, is not less than 1.30:1.00, as shown by forecasted statements of revenues and expenses for each such Fiscal Year, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based.

(b) Completion Indebtedness without limitation provided that an Officer's Certificate is delivered to the Master Trustee stating that the Credit Group Representative reasonably expected the aggregate principal amount of Long-Term or Interim Indebtedness originally issued to finance the construction or equipping of the project for which such Completion Indebtedness is being incurred, together with other funds reasonably anticipated to be available for such purposes, to be fully sufficient to provide a completed and fully equipped facility of the type and scope contemplated at the time said Long-Term Indebtedness or Interim



Indebtedness was originally incurred, and in accordance with the general plans and specifications for such facility as originally prepared and approved in connection with the related financing, modified or amended only in conformance with the provisions of the documents pursuant to which the related financing was undertaken.

(c) Short-Term Indebtedness provided that the provisions described in subsection (a) above are satisfied calculated as if such Short-Term Indebtedness was Long-Term Indebtedness or an Officer's Certificate is delivered to the Master Trustee stating that:

(i) the total amount of such Short-Term Indebtedness shall not exceed twenty percent (20%) of Total Revenues; and

(ii) In every Fiscal Year, there shall be at least a consecutive twenty (20) day period when the balances of such Short-Term Indebtedness (excluding Short-Term Indebtedness consisting of commercial paper that is intended to be refinanced with additional commercial paper) is reduced to an amount that shall not exceed five percent (5%) of Total Revenues.

(d) Nonrecourse Indebtedness without limitation.

(e) Long-Term Indebtedness, if such Long-Term Indebtedness is issued or incurred to refund Long-Term Indebtedness and the Master Trustee receive an Officer's Certificate to the effect that the issuance of such Long-Term Indebtedness would not increase Maximum Annual Debt Service by more than ten percent (10%).

(f) Subordinated Indebtedness without limitation.

(g) Reimbursement or other repayment obligations under reimbursement agreements or similar agreements relating to credit facilities and/or liquidity facilities that provide credit support and/or liquidity for Indebtedness or for Financial Products Agreements.

(h) Indebtedness incurred in connection with (i) the \$685,150,000 Dormitory Authority of the State of New York Montefiore Medical Center Obligated Group Revenue Bonds, Series 2018A and 2018B or (ii) the \$481,950,000 Montefiore Obligated Group Taxable Bonds, Series 2018C.

(i) Indebtedness to any Credit Group Member.

(j) Pre-existing Indebtedness of a Member assumed in connection with Section 3.08.

(k) Indebtedness incurred for the purpose of funding a debt service reserve fund established in connection with any series of Related Conduit Issuer Bonds or any other Obligation.

(l) Any other Indebtedness, provided that an Officer's Certificate is delivered to the Master Trustee stating that the aggregate principal amount of such Indebtedness, together with the aggregate principal amount of Indebtedness incurred pursuant to the provisions of

subsection (c) of this Section 3.12, does not, as of the date of incurrence, exceed 10% of Total Revenues.

Indebtedness incurred pursuant to any one of the subsections of this Section 3.12 may be reclassified as Indebtedness incurred pursuant to any other of such subsections if the tests set forth in the subsection to which such Indebtedness is to be reclassified are met at the time of such reclassification.

Section 3.13. Filing of Financial Statements, Certificate of No Default, Other Information.

(a) The Credit Group Representative covenants and agrees that it will furnish to the Master Trustee financial statements:

(i) As soon as practicable, but in no event more than 150 days after the last day of each Fiscal Year, one or more financial statements that, in the aggregate, shall include the Material Credit Group Members. Such financial statement shall constitute the "Credit Group Financial Statements." Such financial statements:

(A) may, at the election of the Credit Group Representative, consist either of (1) consolidated or combined financial results of the Credit Group Members and prepared in accordance with GAAP or (2) similarly prepared special purpose financial statements including only Credit Group Members;

(B) shall be audited by an Accountant as having been prepared in accordance with GAAP (except in the case of special purpose financial statements);

(C) shall include a consolidated or combined balance sheet, statement of operations and changes in net assets; and

(D) if more than one financial statement is delivered to the Master Trustee pursuant to this subsection (a)(i), or if a single financial statement is delivered that includes Persons other than Credit Group Members and Immaterial Affiliates and such other Credit Group Members and Immaterial Affiliates represent more than twenty percent (20%) of the Total Revenues of the entities included in such financial statements (considered in aggregate), then each such financial statement shall contain, as "other financial information," a combining or consolidating schedule from which financial information solely relating to the Credit Group Members and Immaterial Affiliates may be derived.

(ii)

(A) If a special purpose financial statement containing information solely related to the Credit Group Members (which may, but need not, include any Immaterial Affiliates) is delivered pursuant to clause (a)(i)(A) above, then such financial statement shall constitute the "Credit Group Financial Statements" if deemed to be as such by the Credit Group Representative for the purposes of meeting that specific submission.

(B) If a single financial statement containing information related solely to the Credit Group Members and, at the option of the Credit Group Representative, any Immaterial Affiliates is not delivered pursuant to clause (a)(i) above, the Credit Group Representative shall prepare an unaudited balance sheet and statement of operations for such Fiscal Year. The unaudited financial statements shall be prepared as soon as practicable, but in no event more than 150 days after the last day of each Fiscal Year beginning with the Fiscal Year ending December 31, 2018, and shall be based on the accompanying unaudited combining or consolidating schedules delivered with the audited financial statements described in clause (a)(i)(D) above. The unaudited financial statements prepared in accordance with this clause (ii)(B) shall be the “Credit Group Financial Statements.”

(C) The Credit Group Financial Statements:

- (1) shall include all Material Credit Group Members;
- (2) at the option of the Credit Group Representative, may, but need not, include one or more Immaterial Affiliates as provided in subsection (b) below;
- (3) at the option of the Credit Group Representative, may exclude one or more Credit Group Members that are not Material Credit Group Members; and
- (4) shall exclude all combined or consolidated entities that are neither Credit Group Members nor Immaterial Affiliates.

(iii) At the time of the delivery of the Credit Group Financial Statements, an Officer’s Certificate of the Credit Group Representative, stating that no event that constitutes an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken to cure such Event of Default.

(b) Notwithstanding the foregoing, the submission of the Corporation’s consolidated financial statements shall be in full satisfaction of any requirement under this or other Sections of this Master Indenture to submit Credit Group Financial Statements as defined herein in this Section 3.13 for so long as the Corporation is the sole Member of the Obligated Group.

(c) Notwithstanding the foregoing, the results of operations and financial position of Immaterial Affiliates need not be excluded from financial statements delivered to the Master Trustee pursuant to this Section, and such results of operation and financial position may be considered as if they were a portion of the results of operation and financial position of the Credit Group Members for all purposes of this Master Indenture notwithstanding the inclusion of the results of operation and financial position of such Immaterial Affiliates.

(d) The Master Trustee shall have no duty to review, verify or analyze such financial statements and shall hold such financial statements solely as a repository for the benefit of the Holders. The Master Trustee shall not be deemed to have notice of any information

contained in such financial statements or event of default that may be disclosed therein in any manner.

Section 3.14. Days Cash on Hand.

The Obligated Group shall maintain Days Cash on Hand of at least forty-five (45) days at the end of each Fiscal Year. Within one hundred fifty (150) days after the end of each Fiscal Year, the Obligated Group shall furnish to the Master Trustee an Officer's Certificate stating, based on calculations shown in such Officer's Certificate, that the requirement of the foregoing sentence was met at the end of the Fiscal Year, calculated as of the end of such Fiscal Year based on the Credit Group Financial Statements for such Fiscal Year. If the Days Cash on Hand, as so calculated at the end of any Fiscal Year, is less than forty-five (45) days, the Obligated Group covenants to retain an Independent Consultant to make recommendations to increase the Days Cash on Hand for subsequent Fiscal Years to the levels required or, if in the opinion of the Independent Consultant the attainment of such level is impracticable, to the highest practicable level. Each Member of the Obligated Group, respectively, agrees that it will, to the extent permitted by law and subject to any applicable governmental regulations, contractual, third-party payor, fiduciary and other restrictions and limitations on its legal authority, substantially follow the recommendations of the Independent Consultant or file with the Master Trustee its reasons for not following the recommendations. So long as the Obligated Group shall retain an Independent Consultant and each Member of the Obligated Group shall follow such Independent Consultant's recommendations except as set forth above, this Section shall be deemed to have been complied with even if the Days Cash on Hand for any subsequent Fiscal Year is less than 45. If at the end of any Fiscal Year the Days Cash on Hand is less than 45, the Obligated Group will not be required to retain an Independent Consultant to make such recommendations if a written report of an Independent Consultant is filed with the Master Trustee which contains an opinion of such Independent Consultant that (i) applicable laws or regulations have prevented the maintenance of 45 Days Cash on Hand, (ii) the Members of the Obligated Group have generated the maximum amount of Income Available for Debt Service which in the opinion of such Independent Consultant could reasonably have been generated given such laws and regulations during the period affected thereby and (iii) the Days Cash on Hand actually achieved was at least 30. The Obligated Group shall not be required to cause the Independent Consultant's report referred to in this paragraph to be prepared more frequently than once every two Fiscal Years if at the end of the first of such two Fiscal Years the Obligated Group provides to the Master Trustee (who shall provide a copy to each Holder, Related Bond Trustee and Related Bond Issuer) an Opinion of Counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) to the effect that the applicable laws and regulations underlying the Independent Consultant's report delivered in respect of the previous Fiscal Year have not changed in any material way. Notwithstanding any provision of this Section 3.14 to the contrary, if at the end of any Fiscal Year the Days Cash on Hand is less than 30, then the Obligated Group shall be deemed to be in default hereunder.

Section 3.15. Substitution of Master Trust Indenture.

Notwithstanding anything in this Master Indenture to the contrary, each then-Outstanding Obligation may, upon the request of the Credit Group Representative (and without the consent of

any Holder) and the satisfaction of all terms and conditions described below, be substituted with an original replacement note or notes or similar obligations (collectively, a “Replacement Note”) issued by an obligated issuer or group of obligated issuers or other obligated entities (collectively, the “New Obligated Group”) under and pursuant to and secured by a master trust indenture or another agreement or agreements pursuant to which entities may become jointly and severally liable on specified obligations and which provide that financial and operational covenants be measured on the basis of the results of the entities that are party to such agreement or agreements (the “New Master Indenture”) executed by the New Obligated Group and an independent corporate trustee (the “New Master Trustee”), upon receipt by the Master Trustee of the following:

(a) (i) if the Master Trustee receives written confirmation from each Rating Agency then rating each series of Related Conduit Issuer Bonds that, upon consummation of the proposed transaction, the ratings on each such series of Related Conduit Issuer Bonds (without regard to any credit enhancement of each such series of Related Conduit Issuer Bonds) by each Rating Agency then rating each series of Related Conduit Issuer Bonds will be no less than “A2” or “A” or its equivalent as a result of the execution of the New Master Indenture and the substitution of each then-Outstanding Obligation with a Replacement Note (a “Rating Upgrade”), then an Officer’s Certificate certifying that (A) after giving effect to each such Replacement Note and assuming that the New Obligated Group constituted the Obligated Group under the original Master Indenture, the New Obligated Group could demonstrate compliance with the Transaction Test, assuming the incurrence of \$1.00 of additional Indebtedness and (B) the New Master Indenture contains a pledge of Gross Receivables substantially similar to the pledge of Gross Receivables under the original Master Indenture as of the date thereof; provided, however, that in the event that the Master Trustee receives written confirmation from each Rating Agency then rating each series of Related Conduit Issuer Bonds that, upon consummation of the proposed transaction, the ratings on each such series of Related Conduit Issuer Bonds (without regard to any credit enhancement of each such series of Related Conduit Issuer Bonds) by each Rating Agency then rating each series of Related Conduit Issuer Bonds will be no less than “AA-” or its equivalent as a result of the execution of the New Master Indenture and the substitution of each then-Outstanding Obligation with a Replacement Note, then a Gross Receivables pledge shall not be necessary; or

(ii) if the Master Trustee does not receive written confirmation from each Rating Agency then rating each series of Related Conduit Issuer Bonds of a Rating Upgrade, then (A) written confirmation from each Rating Agency then rating each series of Related Conduit Issuer Bonds that, upon consummation of the proposed transaction, the ratings on each such series of Related Conduit Issuer Bonds (without regard to any credit enhancement of each such series of Related Conduit Issuer Bonds) will not be decreased or withdrawn (including instances in which the Rating Category level remains unchanged but the rating modifier (such as “+” or “-”) is decreased as a result of the entry into the New Master Indenture and the substitution of each then-Outstanding Obligation with a Replacement Note, but not including instances in which the outlook alone is decreased), (B) an Officer’s Certificate certifying that after giving effect to each such Replacement Note and assuming that the New Obligated Group constituted the Obligated Group under the original Master Indenture, the New Obligated Group could demonstrate compliance with the Transaction Test, assuming the incurrence of \$1.00 of additional Indebtedness, and (C) an Officer’s Certificate confirming that

(1) the New Master Indenture contains (x) a pledge of Gross Receivables substantially similar to the pledge of Gross Receivables in the original Master Indenture as of the date thereof, and (y) affirmative and negative covenants that are materially consistent with the covenants described herein under Sections 3.06 (Against Encumbrances), 3.07 (Debt Service Coverage), and 3.11 (Limitation on Disposition of Assets) as of the date of the original Master Indenture (except for modifications to such covenants in accordance with Section 6.01), and (2) the Mortgages, or mortgages substantially similar thereto in all material respects, will secure obligations issued under the New Master Indenture;

(b) an original executed counterpart of the New Master Indenture;

(c) an original Replacement Note for each then-Outstanding Obligation issued by or on behalf of the New Obligated Group under and pursuant to and secured by the New Master Indenture, which Replacement Note has been duly authenticated by the New Master Trustee under the terms of the New Master Indenture;

(d) an Opinion of Counsel addressed to the Master Trustee to the effect that: (1) the New Master Indenture has been duly authorized, executed and delivered by each member of the New Obligated Group, each Replacement Note has been duly authorized, executed and delivered by or on behalf of the New Obligated Group and the New Master Indenture and each Replacement Note are each a legal, valid and binding obligation of each member of the New Obligated Group, subject in each case to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity and to any other exceptions set forth in the original Master Indenture; (2) all requirements and conditions to the issuance of each Replacement Note set forth in the New Master Indenture have been complied with and satisfied; and (3) registration of each Replacement Note under the Securities Act of 1933, as amended, is not required; and

(e) an Opinion of Bond Counsel to the effect that the surrender of each Obligation and the acceptance of each Replacement Note will not adversely affect the validity of any series of Related Conduit Issuer Bonds or any exemption for the purposes of federal income taxation to which interest on each series of Related Conduit Issuer Bonds would otherwise be entitled.

Upon receipt of the items described above, the Master Trustee will mail to each Holder notice that the requirements described above have been satisfied and that each Obligation has been replaced with a Replacement Note, and direct such Holder to surrender the applicable Obligation to the Master Trustee for cancellation in exchange for a Replacement Note. Upon receipt of such notice from the Master Trustee, the Holders of all Obligations are required to surrender the Obligations to the Master Trustee for cancellation in exchange for a Replacement Note. Following the surrender of the Obligations, and satisfaction of the conditions set forth above in this Section 3.145, and receipt of security and indemnity satisfactory to the Master Trustee, the Master Trustee shall cancel the Obligations and this Master Indenture shall terminate. Then and thereafter, Holders shall no longer be entitled to any rights and remedies under this Master Indenture, but shall have all of the rights and remedies granted under the New Master Indenture. Upon the release of this Master Indenture, the Master Trustee shall provide written notice thereof to the Holders of all Obligations.

## ARTICLE IV

### DEFAULTS

Section 4.01. Events of Default. Each of the following events shall be an Event of Default hereunder:

(a) Failure on the part of the Obligated Group Members to make due and punctual payment of the principal of, redemption premium, if any, interest on or any other Required Payment on any Obligation

(b) Failure on the part of the Obligated Group Members to attain a Debt Service Coverage Ratio of at least 1.00:1.00 for any two consecutive Fiscal Years.

(c) Any Obligated Group Member shall fail to observe or perform any other covenant or agreement under this Master Indenture (including covenants or agreements contained in any Related Supplement or Obligation) and shall not have cured such failure within sixty (60) days after the date on which written notice of such failure, requiring the failure to be remedied, shall have been given to the Credit Group Representative by the Master Trustee or to the Credit Group Representative and the Master Trustee by the Holders of 25% in aggregate principal amount of Outstanding Obligations (provided that if such failure can be remedied but not within such sixty (60) day period, such failure shall not become an Event of Default for so long as the Credit Group Representative or Obligated Group Members shall diligently proceed to remedy the failure).

(d) Any Obligated Group Member shall default in the payment of Indebtedness (other than (i) Subordinated Indebtedness, (ii) Nonrecourse Indebtedness, and (iii) Indebtedness secured by an Obligation, which shall be governed by subsection (a) of this Section) in an aggregate outstanding principal amount equal to the greater of one percent (1%) of the aggregate principal amount of Total Revenues of the Credit Group, and any grace period for such payment shall have expired; provided, however, that such default shall not constitute an Event of Default within the meaning of this Section if, within sixty (60) days or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, (x) any Obligated Group Member in good faith commences proceedings to contest the existence or payment of such Indebtedness, and (y) sufficient moneys are deposited in escrow with a bank or trust company or a bond acceptable to the Master Trustee is posted for the payment of such Indebtedness.

(e) A court having jurisdiction shall enter a decree or order for relief in respect of any Obligated Group Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of the Property of any Obligated Group Member, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of sixty (60) consecutive days.

(f) Any Obligated Group Member shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of its Property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing.

(g) An event of default shall exist under any Related Bond Indenture.

Section 4.02. Acceleration; Annulment of Acceleration.

(a) Upon the occurrence and during the continuation of an Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of Outstanding Obligations shall, by notice to the Credit Group Representative, declare all Outstanding Obligations immediately due and payable. Upon such declaration of acceleration, all Outstanding Obligations shall be immediately due and payable. If the terms of any Related Supplement give a Person the right to consent to acceleration of the Obligations issued pursuant to such Related Supplement, the Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In the event of acceleration, an amount equal to the aggregate principal amount of all Outstanding Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, that accrues on such principal and interest to the date of payment, and all other amounts due thereunder, shall be due and payable on the Obligations.

(b) At any time after the Obligations have been declared to be due and payable, and before the entry of a final judgment or decree in any proceeding instituted with respect to the Event of Default that resulted in the declaration of acceleration, the Master Trustee may annul such declaration and its consequences if:

(i) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all payments then due on all Outstanding Obligations (other than payments then due only because of such declaration); and

(ii) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all fees and expenses of the Master Trustee then due; and

(iii) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all other amounts then payable by the Obligated Group hereunder; and

(iv) every Event of Default (other than a default in the payment of the principal or other payments of such Obligations then due only because of such declaration) has been remedied.



No such annulment shall extend to or affect any subsequent Event of Default or impair any right with respect to any subsequent Event of Default.

Section 4.03. Additional Remedies and Enforcement of Remedies.

(a) Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of the Outstanding Obligations (and upon indemnification of the Master Trustee to its satisfaction for any such request), shall, proceed to protect and enforce its rights and the rights of the Holders hereunder by such proceedings as may be deemed expedient, including but not limited to:

(i) Enforcement of the right of the Holders to collect amounts due or becoming due under the Obligations;

(ii) Civil action upon all or any part of the Obligations;

(iii) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders of Obligations;

(iv) Civil action to enjoin any acts that may be unlawful or in violation of the rights of the Holders of Obligations;

(v) Civil action against any Obligated Group Member or Controlling Member, or against any officer or member of the Governing Body of any Obligated Group Member or Controlling Member to compel performance of any act specifically required by this Master Indenture or any Obligation;

(vi) Exercise any and all remedies with respect to Collateral; and

(vii) Enforcement of any other right or remedy of the Holders conferred by law or hereby.

(b) Regardless of the occurrence of an Event of Default, if requested in writing by the Holders of not less than a majority in aggregate principal amount of the Outstanding Obligations (and upon indemnification of the Master Trustee to its satisfaction for any such request), the Master Trustee shall institute and maintain such proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security hereunder by any acts that may be unlawful or in violation hereof, or (ii) to preserve or protect the interests of the Holders. However, the Master Trustee shall not comply with any such request or institute and maintain any such proceeding that is in conflict with any applicable law or the provisions hereof or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not making such request. Nothing herein shall be deemed to authorize the Master Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment, or composition affecting the Obligations or the rights of any Holder thereof, or to authorize the Master Trustee to vote in respect of the claim of any Holder in any such proceeding without the approval of the Holders so affected.

Section 4.04. Application of Moneys After Default. During the continuance of an Event of Default, all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of this Article (after payment of the costs of the proceedings resulting in the collection of such moneys and payment of all fees, expenses and other amounts owed to the Master Trustee) shall be applied as follows:

(a) Unless all Outstanding Obligations have become or have been declared due and payable (or if any such declaration is annulled in accordance with the terms of this Article):

First: To the payment of all Required Payments then due on the Obligations (including Financial Product Payments to the extent made pursuant to a Financial Product Agreement secured or evidenced by an Obligation and Parity Financial Product Extraordinary Payments), in the order of their due dates, and, if the amount available is not sufficient to pay in full all Required Payments due on the same date, then to the payment thereof ratably, according to the amount Required Payments due on such date, without any discrimination or preference;

Second: To the payment of all Financial Product Extraordinary Payments made pursuant to a Financial Product Agreement secured or evidenced by an Obligation (other than Parity Financial Product Extraordinary Payments), in the order of their due dates, and, if the amount available is not sufficient to pay in full all Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of Financial Product Extraordinary Payments due on such date, without any discrimination or preference.

(b) If all Outstanding Obligations have become or have been declared due and payable (and such declaration has not been annulled under the terms of this Article):

First: To the payment of all Required Payments then due on the Obligations (including (i) Financial Product Payments to the extent made pursuant to a Financial Product Agreement secured or evidenced by an Obligation and (ii) Parity Financial Product Extraordinary Payments), and, if the amount available is not sufficient to pay in full the whole amount then due and unpaid, then to the payment thereof ratably, without preference or priority, according to the amounts due respectively, without any discrimination or preference; and

Second: To the payment of all Financial Product Extraordinary Payments made pursuant to a Financial Product Agreement secured or evidenced by an Obligation (other than Parity Financial Product Extraordinary Payments), and, if the

amount available is not sufficient to pay in full all such Financial Product Extraordinary Payments, then to the payment thereof ratably, without any discrimination or preference.

Such moneys shall be applied at such times as the Master Trustee shall determine, having due regard for the amount of moneys available and the likelihood of additional moneys becoming available in the future. Upon any date fixed by the Master Trustee for the application of such moneys to the payment of principal, interest on the amounts of principal to be paid on such date shall cease to accrue. The Master Trustee shall give such notices as it may deem appropriate of the deposit with it of such moneys or of the fixing of such dates. The Master Trustee shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation (and all unmatured interest coupons, if any) is presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations have been paid under the terms of this Section and all fees and expenses of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive such balance. If no other Person is entitled thereto, then the balance shall be paid to the Members of the Obligated Group or to such Person as a court of competent jurisdiction may direct.

Section 4.05. Remedies Not Exclusive. No remedy granted by the terms of this Master Indenture is intended to be exclusive of any other remedy. Each remedy shall be cumulative and shall be in addition to every other remedy given hereunder or existing at law or in equity.

Section 4.06. Remedies Vested in the Master Trustee. All rights of action (including the right to file proof of claims) hereunder or under any of the Obligations may be enforced by the Master Trustee without the possession of any of the Obligations or the production thereof in any proceeding relating thereto. Any proceeding instituted by the Master Trustee may be brought in its name as the Master Trustee without the necessity of joining any Holders as plaintiffs or defendants. Subject to the provisions of Section 4.04 hereof, any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding Obligations.

Section 4.07. Master Trustee to Represent Holders. The Master Trustee is hereby irrevocably appointed as trustee and attorney in fact for the Holders for the purpose of exercising on their behalf the rights and remedies available to the Holders under the provisions of this Master Indenture, the Obligations, any Related Supplement and applicable provisions of law, in each case subject to the provisions of Section 4.08. The Holders, by taking and holding the Obligations, shall be conclusively deemed to have so appointed the Master Trustee.

Section 4.08. Holders' Control of Proceedings. If an Event of Default has occurred and is continuing, notwithstanding anything herein to the contrary, the Holders of at least a majority in aggregate principal amount of Outstanding Obligations shall have the right (upon the indemnification of the Master Trustee to its satisfaction) to direct the method and/or place of conducting any proceeding to be taken in connection with the enforcement of the terms hereof. Such direction must be in writing, signed by such Holders and delivered to the Master Trustee. However, the Master Trustee shall not follow any such direction that is in conflict with any applicable law or the provisions hereof or is unduly prejudicial to the interests of the Holders not

joining in such direction. Nothing in this Section shall impair the right of the Master Trustee to take any other action authorized by this Master Indenture that it may deem proper and that is not inconsistent with such direction by Holders.

Section 4.09. Termination of Proceedings. In case any proceeding instituted by the Master Trustee with respect to any Event of Default is discontinued or abandoned for any reason or is determined adversely to the Master Trustee or the Holders, then the Obligated Group Members, the Master Trustee and the Holders shall be restored to their former positions and rights hereunder. All rights, remedies and powers of the Master Trustee and the Holders shall continue as if no such proceeding had been taken.

Section 4.10. Waiver of Event of Default.

(a) No delay or omission of the Master Trustee or of any Holder to exercise any right with respect to any Event of Default shall impair such right or shall be construed to be a waiver of or acquiescence to such Event of Default. Every right and remedy given by this Article to the Master Trustee and the Holders may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee may waive any Event of Default that in its opinion has been remedied before the entry of a final judgment or decree in any proceeding instituted by it under the provisions hereof, or before the completion of the enforcement of any other remedy hereunder.

(c) Upon the written request of the Holders of at least a majority in aggregate principal amount of Outstanding Obligations, the Master Trustee shall waive any Event of Default hereunder and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) of Section 4.02 hereof, the failure to pay the principal of, premium, if any, or interest on any Obligation when due may not be waived without the written consent of the Holders of all Outstanding Obligations.

(d) In case of any waiver by the Master Trustee of an Event of Default, the Obligated Group Members, the Master Trustee and the Holders shall be restored to their former positions and rights. No waiver shall extend to, or impair any right with respect to, any other Event of Default.

Section 4.11. Appointment of Receiver. Upon the occurrence and continuance of any Event of Default, the Master Trustee shall be entitled (a) without declaring the Obligations to be due and payable, (b) after declaring the Obligations to be due and payable, or (c) upon the commencement of any proceeding to enforce any right of the Master Trustee or the Holders, to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group Members (without the necessity of notice to any Obligated Group Member or any other Person), with such powers as the court making such appointment shall confer. Each Obligated Group Member consents, subject to the imposition on the receiver of any applicable Government Restriction, and will if requested by the Master Trustee, consent at the time of application by the Master Trustee for appointment of a receiver, to the appointment of such receiver and agrees that such receiver may be given the right, to the extent the right may lawfully be given, to take

possession of, operate and deal with such Property and the revenues, profits and proceeds therefrom, with the same effect as the Obligated Group Member could, and to borrow money and issue evidences of indebtedness as such receiver.

Section 4.12. Remedies Subject to Provisions of Law. All rights, remedies and powers provided by this Article may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law or any Government Restriction. All the provisions of this Article are intended to be limited to the extent necessary so that they will not render any provision hereof invalid or unenforceable under the provisions of any applicable law or inconsistent with any Government Restriction.

Section 4.13. Notice of Default. Within thirty (30) days after a Responsible Officer of the Master Trustee has actual knowledge or has received written notice of the occurrence of an Event of Default, the Master Trustee shall mail notice of such Event of Default to all Holders, unless such Event of Default has been cured before the giving of such notice (the term “Event of Default” for the purposes of this Section being limited to the events specified in Section 4.01). Except in the case of default in the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified in subsections (f) and (g) of Section 4.01, the Master Trustee shall be protected in withholding such notice if and so long as the Master Trustee in good faith determines that the withholding of such notice is in the best interest of the Holders.

## ARTICLE V

### THE MASTER TRUSTEE

#### Section 5.01. Certain Duties and Responsibilities.

(a) Except during the continuance of an Event of Default:

(i) The Master Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Master Indenture, and no implied covenant or obligation shall be read into this Master Indenture against the Master Trustee; and

(ii) In the absence of bad faith on its part, the Master Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Master Trustee and conforming to the requirements of this Master Indenture; but in the case of any certificate or opinion specifically required by the provisions hereof to be furnished to the Master Trustee, the Master Trustee shall be under a duty to examine such certificate or opinion to determine whether or not it conforms to the requirements of this Master Indenture on its face.

(b) In case an Event of Default has occurred and is continuing, the Master Trustee shall exercise such of the rights and powers vested in it by this Master Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person’s own affairs.

(c) No provision of this Master Indenture shall be construed to relieve the Master Trustee from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(i) this subsection shall not be construed to limit the effect of subsection (a) of this Section;

(ii) the Master Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Master Trustee was negligent in ascertaining the pertinent facts;

(iii) the Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders given in accordance with Section 4.08; and

(iv) no provision of this Master Indenture shall require the Master Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not reasonably assured.

The Master Trustee will keep on file at its office a list of the names and addresses of the last known Holders of all Obligations and the serial numbers of such Obligations held by each of such Holders. At reasonable times and under reasonable regulations established by the Master Trustee, said list may be inspected and copied by the Obligated Group Members, any Obligation Holder or the authorized representative thereof, provided that the ownership of such Holder and the authority of any such designated representative shall be evidenced to the satisfaction of the Master Trustee.

(d) Every provision of this Master Indenture relating to the conduct of, affecting the liability of or affording protection to the Master Trustee shall be subject to the provisions of this Section.

Section 5.02. Certain Rights of Master Trustee. Subject to Section 5.01:

(a) The Master Trustee may conclusively rely upon any document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Any request or direction of the Credit Group Representative mentioned herein shall be sufficiently evidenced by an Officer's Certificate. Any action of the Governing Body of any Obligated Group Member shall be sufficiently evidenced by a copy of a resolution certified by the secretary or an assistant secretary of the Obligated Group Member to have been duly adopted by the Governing Body and to be in full force and effect on the date of such certification and delivered to the Master Trustee.

(c) Whenever in the administration of this Master Indenture the Master Trustee shall deem it desirable that a matter be proved or established prior to taking, allowing or omitting any action hereunder, the Master Trustee may (in the absence of bad faith on its part

and unless other evidence is specifically prescribed by this Master Indenture) request and conclusively rely upon an Officer's Certificate.

(d) The Master Trustee may consult with counsel of its selection, and any opinion of such counsel shall be full and complete authorization and protection with respect to any action taken, allowed or omitted by it hereunder in good faith and in reliance thereon.

(e) The Master Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Master Indenture at the request or direction of any of the Holders, unless such Holders shall have offered to the Master Trustee reasonable security or indemnity satisfactory to the Master Trustee against the costs, expenses and liabilities that might be incurred by it in compliance with such request or direction.

(f) The Master Trustee shall not be bound to make any investigation into the facts stated in any document delivered to it hereunder, but the Master Trustee, in its discretion, may make such further inquiry or investigation into such facts as it may see fit. If the Master Trustee determines to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of any Credit Group Member (excluding specifically donor records, patient records and personnel records), personally or by agent or attorney, during regular business hours and after reasonable notice.

(g) The Master Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or through agents, attorneys, custodians, or nominees. The Master Trustee shall not be responsible for any misconduct or negligence on the part of any agent, attorney, custodian, or nominee appointed by it with due care.

(h) The Master Trustee shall not be liable for any action taken, suffered, or omitted to be taken by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Master Indenture.

(i) The Master Trustee shall not be deemed to have notice of any Default or Event of Default unless a Responsible Officer of the Master Trustee has actual knowledge thereof or unless written notice of any event that is in fact such a default is received by the Master Trustee at the Corporate Trust Office of the Master Trustee, and such notice references this Master Indenture.

(j) The Master Trustee shall have the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to this Master Indenture or a Related Supplement and delivered using Electronic Means; provided, however, that the Credit Group Representative shall provide to the Master Trustee an incumbency certificate listing officers with the Credit Group Representative to provide such Instructions ("Authorized Officers") and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the Credit Group Representative whenever a person is to be added or deleted from the listing. If the Credit Group Representative elects to give the Master Trustee Instructions using Electronic Means and the Master Trustee in its discretion elects to act upon such Instructions, the Master Trustee's understanding of such Instructions shall be deemed controlling. The Credit Group Representative understands and agrees that the Master

Trustee cannot determine the identity of the actual sender of such Instructions and that the Master Trustee shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Master Trustee have been sent by such Authorized Officer. The Credit Group Representative shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the Master Trustee and that the Credit Group Representative and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the Credit Group Representative. The Master Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Master Trustee's reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The Credit Group Representative agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Master Trustee, including, without limitation, the risk of the Master Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Master Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the Credit Group Representative; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Master Trustee immediately upon learning of any compromise or unauthorized use of the security procedures. "Electronic Means" for purposes of this Section shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Master Trustee, or another method or system specified by the Master Trustee as available for use in connection with its services hereunder.

(k) The Master Trustee shall not be liable to the parties hereto or deemed in breach or default hereunder if and to the extent its performance hereunder is prevented by reason of force majeure. The term "force majeure" means an occurrence that is beyond the control of the Master Trustee and could not have been avoided by exercising due care. Force majeure shall include acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

(l) The permissive right of the Master Trustee to do things enumerated in this Master Indenture shall not be construed as a duty and the Master Trustee shall not be answerable for other than its negligence or willful misconduct. The Master Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(m) The Master Trustee shall have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Obligations, except for any information provided by the Master Trustee, and shall have no responsibility for compliance with any state or federal securities laws in connection with the Obligations.

Section 5.03. Right to Deal in Obligations and Related Conduit Issuer Bonds. The Master Trustee may buy, sell or hold and deal in any Obligations and Related Conduit Issuer



Bonds with the same effect as if it were not the Master Trustee. The Master Trustee may commence or join in any action that a Holder or holder of a Related Conduit Issuer Bond is entitled to take with the same effect as if the Master Trustee were not the Master Trustee.

Section 5.04. Removal and Resignation of the Master Trustee.

(a) The Master Trustee may be removed with thirty (30) days' notice by an instrument or instruments in writing signed by (i) the Holders of not less than a majority of the principal amount of Outstanding Obligations or (ii) (unless an Event of Default has occurred and is then continuing) the Credit Group Representative.

(b) The Master Trustee may at any time resign by giving written notice of such resignation to the Credit Group Representative.

(c) No such resignation or removal shall become effective unless and until a successor Master Trustee has been appointed and has assumed the trusts created hereby. Written notice of removal of the predecessor Master Trustee and/or appointment of the successor Master Trustee shall be given by the successor Master Trustee within ten (10) days of the successor's acceptance of appointment to the Obligated Group Members and to each Holder at the addresses shown on the books of the Master Trustee. A successor Master Trustee may be appointed at the direction of the Holders of not less than a majority in aggregate principal amount of Outstanding Obligations, or, if the Master Trustee has resigned or has been removed by the Credit Group Representative, by the Credit Group Representative. In the event a successor Master Trustee has not been appointed and qualified within sixty (60) days of the date notice of resignation or removal is given, the Master Trustee, any Obligated Group Member or any Holder may apply at the expense of the Obligated Group Members to any court of competent jurisdiction for the appointment of an interim successor Master Trustee to act until such time as a permanent successor is appointed.

(d) Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee shall be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least \$50,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

(e) Every successor Master Trustee shall execute and deliver to its predecessor and to each Obligated Group Member a written instrument accepting such appointment. Upon the delivery of such acceptance, the successor Master Trustee shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor. The predecessor shall execute and deliver to the successor Master Trustee a written instrument transferring to the successor Master Trustee all the rights, powers and trusts of the predecessor. The predecessor Master Trustee (upon payment of all amounts owed to it) shall execute any documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee shall promptly deliver all records relating to the trust or copies thereof and communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

Section 5.05. Compensation and Reimbursement. Subject to the provisions of any specific agreement between the Credit Group Representative and the Master Trustee relating to the compensation of the Master Trustee, each Obligated Group Member agrees:

(a) To pay the Master Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust).

(b) Except as otherwise expressly provided herein, to reimburse the Master Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Master Trustee in accordance with any provision of this Master Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and its agents), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith.

(c) To indemnify each of the Master Trustee and its officers, directors, agents and employees and any predecessor Master Trustee for, and to hold it and them harmless against, any and all loss, liability, damages, claim or expense, including taxes (other than taxes based on the income of the Master Trustee) incurred without negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of this trust or its duties hereunder, including, without limitation, legal fees and expenses and the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

When the Master Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 4.01(e) or (f), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law.

The provisions of this Section shall survive the termination of this Master Indenture and the removal or resignation of the Master Trustee.

Section 5.06. Recitals and Representations. The recitals, statements and representations contained herein or in any Obligation (excluding the Master Trustee's authentication on the Obligations) shall be taken and construed as made by and on the part of the Obligated Group Members, and not by the Master Trustee. The Master Trustee assumes no responsibility for the correctness of such statements.

The Master Trustee makes no representation as to, and is not responsible for, the validity or sufficiency of this Master Indenture or of the Obligations. The Master Trustee shall not be concerned with or accountable to anyone for the use or application of any moneys that shall be released or withdrawn in accordance with the provisions hereof.

Section 5.07. Separate or Co-Master Trustee. At any time, for the purpose of meeting any legal requirements of any jurisdiction, the Master Trustee may appoint one or more Persons either to act as co-master trustee with the Master Trustee, or to act as separate master trustee, and to vest in such Persons or Persons, such rights, powers, duties, trusts or obligations as the Master

Trustee may consider necessary or desirable, subject to the remaining provisions of this Section, provided that doing so shall not impose a material burden on the Obligated Group Members (financial or otherwise).

Every co-master trustee or separate master trustee shall, to the extent permitted by law, be appointed subject to the following terms:

(a) The Obligations shall be authenticated and delivered solely by the Master Trustee.

(b) All rights, powers, trusts, duties and obligations conferred or imposed upon the trustees shall be conferred or imposed upon and exercised or performed as shall be provided in the instrument appointing such co-master trustee or separate master trustee, except to the extent that, under the law of any jurisdiction in which any particular act or acts are to be performed, the Master Trustee is incompetent or unqualified to perform such act or acts, in which event such act or acts shall be performed by such co-master trustee or separate master trustee.

(c) Any request in writing by the Master Trustee to any co-master trustee or separate master trustee to take or to refrain from taking any action hereunder shall be sufficient for the taking, or the refraining from taking, of such action by such Person.

(d) Any co-master trustee or separate master trustee may, to the extent permitted by law, delegate to the Master Trustee the exercise of any right, power, trust, duty or obligation, discretionary or otherwise.

(e) The Master Trustee may at any time, by an instrument in writing, accept the resignation of or remove any co-master trustee or separate master trustee appointed under this Section. Upon the request of the Master Trustee, the Obligated Group Members shall join with the Master Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal.

(f) No trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder, nor will the act or omission of any trustee hereunder be imputed to any other trustee.

(g) Any demand, request, direction, appointment, removal, notice, consent, waiver or other action in writing delivered to the Master Trustee shall be deemed to have been delivered to each such co-master trustee or separate master trustee.

(h) Any moneys, papers, securities or other items of personal property received by any such co-master trustee or separate master trustee hereunder shall be turned over to the Master Trustee immediately.

Upon the acceptance in writing of such appointment by any co-master trustee or separate master trustee, such Person shall be vested with such rights, powers, duties or obligations as are specified in the instrument of appointment jointly with the Master Trustee (except insofar as local law makes it necessary for any such co-master trustee or separate master trustee to act

alone) subject to all the terms hereof. Every such acceptance shall be filed with the Master Trustee. To the extent permitted by law, any co-master trustee or separate master trustee may, at any time by an instrument in writing, constitute the Master Trustee its attorney-in-fact and agent, with full power and authority to do all acts and things and to exercise all discretion on its behalf and in its name.

In case any co-master trustee or separate master trustee shall become incapable of acting, resign or be removed, all rights, powers, trusts, duties and obligations of such Person shall, so far as permitted by law, vest in and be exercised by the Master Trustee unless and until a successor co-master trustee or separate master trustee shall be appointed in the manner herein provided.

Section 5.08. Merger or Consolidation. Any company into which the Master Trustee may be merged or converted, or with which it may be consolidated, or any company resulting from any merger, conversion or consolidation to which it is a party, or any company to which the Master Trustee may sell or transfer all or substantially all of its corporate trust business (provided such company is eligible under Section 5.04) shall be the successor to the Master Trustee without the execution or filing of any paper or any further act.

## ARTICLE VI

### SUPPLEMENTS AND AMENDMENTS

Section 6.01. Supplements Not Requiring Consent of Holders. The Credit Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Related Supplements for any of the following purposes:

- (a) To correct any ambiguity or formal defect or omission in this Master Indenture;
- (b) To correct or supplement any provision that may be inconsistent with any other provision, or to make any other provision with respect to matters or questions arising hereunder and that does not materially and adversely affect the interests of the Holders;
- (c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority, or to add to the covenants of and restrictions on the Obligated Group Members;
- (d) To qualify this Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal law from time to time in effect;
- (e) To create and provide for the issuance of an Obligation or Series of Obligations as permitted hereunder;
- (f) To obligate a successor to any Obligated Group Member as provided in Section 3.07;
- (g) To add a new Obligated Group Member as provided in Section 3.08;

(h) To make any change necessary or advisable to preserve the intent or effect of any provision hereof affected by amendment or replacement of the Code; or

(i) To make any other change that does not materially and adversely affect the interests of the Holders.

In entering into any Related Supplement, the Master Trustee may rely on an Opinion of Counsel as described in Section 6.03(a) hereof.

**Section 6.02. Supplements Requiring Consent of Holders.**

(a) Other than Related Supplements referred to in Section 6.01 hereof and subject to the terms contained in this Article, the Holders of not less than a majority in aggregate principal amount of the Outstanding Obligations shall have the right to consent to and approve the execution by the Credit Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee of such Related Supplements as shall be deemed necessary or desirable for the purpose of modifying, altering, amending, adding to or rescinding any of the terms contained herein; provided, however, that nothing in this Section shall permit or be construed as permitting a Related Supplement that would:

(i) Extend the stated maturity of or time for paying interest on any Obligation or reduce the principal amount of or the redemption premium or rate of interest or change the method of calculating interest payable on or reduce any other Required Payment on any Obligation without the consent of the Holder of such Obligation;

(ii) Modify, alter, amend, add to or rescind any of the terms or provisions contained in Section 3.01 or Article IV hereof so as to affect the right of the Holders of any Obligations in default as to payment to compel the Master Trustee to declare the principal of all Obligations to be due and payable, or the priority of payment of Obligations, without the consent of the Holders of all Outstanding Obligations; or

(iii) Reduce the aggregate principal amount of Outstanding Obligations the consent of the Holders of which is required to authorize such Related Supplement without the consent of the Holders of all Obligations then Outstanding.

(b) The Master Trustee may execute a Related Supplement (in substantially the form delivered to it as described below) without liability or responsibility to any Holder (whether or not such Holder has consented to the execution of such Related Supplement) if the Master Trustee receives:

(i) a request of the Credit Group Representative to enter into such Related Supplement; and

(ii) a certified copy of the resolution of the Governing Body of the Credit Group Representative approving the execution of such Related Supplement; and

(iii) the proposed Related Supplement; and

(iv) an instrument or instruments executed by the Holders of not less than the aggregate principal amount or number of Obligations specified in subsection (a) for the Related Supplement in question which instrument or instruments shall refer to the proposed Related Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee.

(c) Any such consent shall be binding upon the Holder of the Obligation giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Related Supplement, such revocation and, if such Obligation or Obligations are transferable by delivery, proof that such Obligations are held by the signer of such revocation. At any time after the Holders of the required principal amount or number of Obligations shall have filed their consents to the Related Supplement, the Master Trustee shall file a written statement to that effect with the Credit Group Representative. Such written statement shall be conclusive evidence that such consents have been so filed.

(d) If the Holders of the required principal amount or number of the Outstanding Obligations have consented to the execution of such Related Supplement, no Holder shall have any right to object to the execution thereof, to object to any of the terms and provisions contained therein or the operation thereof, to question the propriety of the execution thereof or to enjoin or restrain the Master Trustee or the Credit Group Representative from executing such Related Supplement or from taking any action pursuant to the provisions thereof.

#### Section 6.03. Execution and Effect of Supplements.

(a) In executing any Related Supplement permitted by this Article, the Master Trustee shall be entitled to receive and to rely upon an Opinion of Counsel stating that the execution of such Related Supplement is authorized or permitted hereby. The Master Trustee may (but shall not be obligated to) enter into any Related Supplement that materially and adversely affects the Master Trustee's own rights, duties or immunities.

(b) Upon the execution and delivery of any Related Supplement in accordance with this Article, the provisions of this Master Indenture shall be deemed modified in accordance therewith. Such Related Supplement shall form a part hereof for all purposes and every Holder shall be bound thereby.

(c) Any Obligation authenticated and delivered after the execution and delivery of any Related Supplement in accordance with this Article may, and, if required by the Credit Group Representative or the Master Trustee shall, bear a notation in form approved by the Master Trustee as to any matter provided for in such Related Supplement. If the Credit Group Representative or the Master Trustee shall so determine, new Obligations so modified as to conform in the opinion of the Master Trustee and the Governing Body of the Credit Group Representative to any such Related Supplement may be prepared and executed by the Credit Group Representative and authenticated and delivered by the Master Trustee in exchange for and upon surrender of Obligations then Outstanding.

Section 6.04. Amendment of Related Supplements. Any Related Supplement may provide that the provisions thereof may be amended without the consent of or notice to any of the Holders, or pursuant to such terms and conditions as may be specified in such Related Supplement. If a Related Supplement does not contain provisions relating to the amendment thereof, the amendment of such Related Supplement shall be governed by the provisions of Section 6.01 and Section 6.02 hereof.

## ARTICLE VII

### SATISFACTION AND DISCHARGE

Section 7.01. Satisfaction and Discharge of Master Indenture. This Master Indenture shall cease to be of further effect (except for Section 5.05 hereof, which shall survive) if:

(a) all Obligations previously authenticated (other than any Obligations that have been mutilated, destroyed, lost or stolen and that have been replaced or paid as provided in any Related Supplement) and not cancelled are delivered to the Master Trustee for cancellation; or

(b) all Obligations not previously cancelled or delivered to the Master Trustee for cancellation are paid; or

(c) an Irrevocable Deposit is made in trust with the Master Trustee (or with one or more banks, national banking associations or trust companies acceptable to the Master Trustee pursuant to one or more agreements between an Obligated Group Member and such national banking associations or trust companies in form acceptable to the Master Trustee) in cash or Government Obligations or both, sufficient to pay at maturity or upon redemption all Obligations not previously cancelled or delivered to the Master Trustee for cancellation, including principal and interest or other payments (including Financial Product Payments and Financial Product Extraordinary Payments evidenced by an Obligation) due or to become due to such date of maturity, redemption date or payment date, as the case may be; and all other sums payable hereunder by the Obligated Group Members are also paid. The Master Trustee, on demand of the Credit Group Representative and at the cost and expense of the Obligated Group Members, shall execute proper instruments acknowledging satisfaction of and discharging this Master Indenture and authorizing the Credit Group Representative to file such terminations and releases as may be necessary to evidence the termination of the Master Trustee's security interest in the Gross Receivables. The Master Trustee shall be entitled to receive a verification report of an independent accounting firm in connection with the discharge of Obligations pursuant to this subsection (c).

The Obligated Group Members shall pay and indemnify the Master Trustee against any tax, fee or other charge imposed on or assessed against the Government Obligations deposited pursuant to this Section 7.01 or the principal and interest received in respect thereof other than any such tax, fee or other charge that by law is for the account of the Holders of Outstanding Obligations.

Section 7.02. Payment of Obligations After Discharge of Lien. Notwithstanding the discharge of the lien of this Master Indenture as provided in this Article, the Master Trustee shall retain such rights, powers and duties as may be necessary and convenient for the payment of amounts due or to become due on the Obligations and for the registration, transfer, exchange and replacement of Obligations. Any moneys held by the Master Trustee for the payment of the principal of, premium, if any, or interest or other Required Payment on any Obligation remaining unclaimed for one year after the principal of all Obligations has become due and payable, whether at maturity, upon proceedings for redemption or by declaration as provided herein, shall then be paid to the Obligated Group Members. The Holders of any Obligations or coupons not previously presented for payment shall thereafter be entitled to look only to the Obligated Group Members for payment thereof as unsecured creditors and all liability of the Master Trustee with respect to such moneys shall thereupon cease.

## ARTICLE VIII

### MISCELLANEOUS PROVISIONS

Section 8.01. Limitation of Rights. With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Master Indenture or the Obligations is intended or shall be construed to give to any Person other than each Obligated Group Member, the Master Trustee, the Related Conduit Issuer Bonds Issuers and the Holders any legal or equitable right, remedy or claim under or with respect to this Master Indenture. This Master Indenture and all of the covenants, conditions and provisions hereof are intended to be and are for the sole and exclusive benefit of the parties mentioned in this Section.

Section 8.02. Severability. If any part of this Master Indenture is for any reason held invalid or unenforceable, no other part shall be invalidated or deemed unenforceable.

Section 8.03. Holidays. Except to the extent a Related Supplement or an Obligation provides otherwise:

(a) Subject to subsection (b), when any action is provided herein to be done on a day or within a time period named, and the day or the last day of the period falls on a day on which banking institutions in the State or in the jurisdiction where the Corporate Trust Office is located are authorized by law to remain closed, the action may be done on the next ensuing day that is not a day on which banking institutions in such jurisdiction are authorized by law to remain closed, with the same effect as if done on the day or within the time period named.

(b) When the date on which principal of or interest or premium on any Obligation is due and payable is a day on which banking institutions at the place of payment are authorized by law to remain closed, payment may be made on the next ensuing day on which banking institutions at such place are not authorized by law to remain closed with the same effect as if payment were made on the due date, and, if such payment is made, no interest shall accrue from and after such due date.

Section 8.04. Credit Enhancer Deemed Holder of Obligation. Except to the extent a Related Supplement or an Obligation provides otherwise, any credit enhancer of Related Conduit



Issuer Bonds shall be deemed the Holder of the related Obligation for purposes of this Master Indenture for so long as the credit enhancement is in effect and the credit enhancer is not in default thereunder. If the credit enhancement is applicable to a portion of Related Conduit Issuer Bonds, such related Obligation shall be treated as if such related Obligation were two Obligations, one in the principal amount of the Related Conduit Issuer Bonds for which the credit enhancement is applicable and another in the principal amount of the remainder of the Related Conduit Issuer Bonds.

Section 8.05. Governing Law. This Master Indenture and the Obligations are contracts made under the laws of the State, and shall be governed by and construed in accordance with such laws applicable to contracts made and performed in said State.

Section 8.06. Counterparts. This Master Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

Section 8.07. Immunity of Individuals. No recourse shall be had for the payment of the principal of, premium, if any, or interest on any of the Obligations issued hereunder or for any claim based thereon or upon any obligation, covenant or agreement herein against any past, present or future officer, director, trustee, member, employee or agent of any Obligated Group Member that is a corporation, whether directly or indirectly. All liability of any such individual is hereby expressly waived and released as a condition of and in consideration for the execution hereof and the issuance of the Obligations.

Section 8.08. Binding Effect. This instrument shall inure to the benefit of and shall be binding upon each Obligated Group Member, the Master Trustee and their respective successors and assigns, subject to the limitations contained herein.

Section 8.09. No Third Party Beneficiary. This Master Indenture is not intended for the benefit of, and shall not be construed to create, rights in parties other than the Obligated Group, the Credit Group Representative, the Master Trustee, and the Holders.

Section 8.10. Notices.

(a) Unless otherwise expressly specified or permitted by the terms hereof, all notices, consents or other communications required or permitted hereunder shall be in writing and shall be deemed sufficiently given or served if given: (i) by facsimile or electronic mail with prompt telephonic confirmation of receipt; (ii) personally by hand; (iii) by overnight delivery service; or (iv) by first class mail, postage prepaid and addressed as follows:

(i) If to the Credit Group Representative, addressed to it at: Montefiore Health System, Inc., 555 S Broadway, Tarrytown, NY 10591, Attention: Chief Financial Officer;

(ii) If to the Master Trustee, addressed to it at the Corporate Trust Office; or

(iii) If to the registered Holder of an Obligation, addressed to such Holder at the address shown on the books of the Master Trustee.

(b) The Credit Group Representative or the Master Trustee may from time to time designate a different address or addresses for notice by notice in writing to the others and to the Holders.

*[Signature page immediately follows]*

IN WITNESS WHEREOF, MONTEFIORE MEDICAL CENTER has caused this Master Indenture to be duly executed in its name and on its behalf by its duly authorized officer, and to evidence its acceptance of the trusts and agreements hereby created, all as of the day and year first above written. Each of MONTEFIORE HEALTH SYSTEM, INC. and THE BANK OF NEW YORK MELLON has caused this Master Indenture to be duly executed in its name and on its behalf by one of its duly authorized officers, all as of the day and year first above written.

MONTEFIORE MEDICAL CENTER,

By: \_\_\_\_\_  
Authorized Representative

MONTEFIORE HEALTH SYSTEM, INC.,  
solely in its capacity as Credit Group  
Representative

By: \_\_\_\_\_  
Authorized Representative

THE BANK OF NEW YORK MELLON,  
as Master Trustee

By: \_\_\_\_\_  
Authorized Officer

**APPENDIX A TO MASTER INDENTURE**  
**DESCRIPTION OF THE MORTGAGED PROPERTY**

**APPENDIX B TO MASTER INDENTURE**  
**EXISTING PERMITTED LIENS**

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**Appendix F**

**Proposed Forms of Approving Opinion  
of Co-Bond Counsel**

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**FORMS OF APPROVING OPINIONS  
OF BOND COUNSEL**

**FORM OF APPROVING OPINION OF HAWKINS DELAFIELD & WOOD LLP,  
CO-BOND COUNSEL TO DASNY FOR THE SERIES 2018 BONDS**

Upon delivery of the Series 2018 Bonds, Hawkins Delafield & Wood LLP, Co-Bond Counsel to DASNY, proposes to issue its legal opinion in substantially the following form:

HAWKINS DELAFIELD & WOOD LLP  
7 WORLD TRADE CENTER  
250 GREENWICH STREET, 41<sup>ST</sup> FLOOR  
NEW YORK, NEW YORK 10007

Dormitory Authority of the  
State of New York  
515 Broadway  
Albany, New York 12207

Ladies and Gentlemen:

We, as Co-Bond Counsel to the Dormitory Authority of the State of New York (the "Authority"), a body corporate and politic of the State of New York (the "State"), constituting a public benefit corporation created and existing under the Dormitory Authority Act, being Chapter 524 of the Laws of New York of 1944, as amended (the "Dormitory Authority Act"), have examined a record of proceedings relating to the issuance of \$309,045,000 aggregate principal amount of Montefiore Obligated Group Revenue Bonds, Series 2018A (Tax-Exempt) (the "Series 2018A Bonds") and \$376,105,000 aggregate principal amount of Montefiore Obligated Group Revenue Bonds, Series 2018B (Federally Taxable) (the "Series 2018B Bonds" and together with the Series 2018A Bonds, the "Series 2018 Bonds").

The Series 2018 Bonds are issued under and pursuant to the Dormitory Authority Act, the New York State Medical Care Facilities Finance Agency Act, being Chapter 392 of the Laws of New York of 1973, as amended, and the Health Care Financing Consolidation Act, being a part of Chapter 83 of the Laws of New York of 1995 (collectively, the "Act"), the Montefiore Obligated Group Revenue Bond Resolution adopted by the Authority on June 20, 2018 (the "Bond Resolution"), as supplemented by the Series 2018A Resolution Authorizing Up To \$988,000,000 Montefiore Obligated Group Revenue Bonds, Series 2018A and the Series 2018B Resolution Authorizing Up To \$988,000,000 Montefiore Obligated Group Revenue Bonds, Series 2018B, each adopted by the Authority on June 20, 2018 (collectively, the "Series 2018 Resolutions"). The Bond Resolution and the Series 2018 Resolutions are herein collectively referred to as the "Resolutions."

The Series 2018 Bonds are dated, mature, are payable, bear interest and are subject to redemption and purchase as provided in the Resolutions and the respective Bond Series Certificate of the Authority fixing the terms and the details of such Series 2018 Bonds (collectively, the "Series 2018 Certificates").

The Authority has reserved the right to issue additional bonds on the terms and conditions and for the purposes stated in the Bond Resolution. Under and subject to the provisions of the Bond Resolution, the Series 2018 Bonds and all bonds heretofore and hereafter issued under the Bond Resolution (the "Bonds") rank and will rank equally as to security and payment.

Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolutions.

In rendering our opinion, we have relied upon and assumed the accuracy of the opinions of counsel to Montefiore Medical Center (the "Institution") and MMC Corporation regarding other matters, the current

qualification of the Institution and MMC Corporation, respectively, as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). We note that such opinions are subject to a number of qualifications and limitations. The Institution for itself and on behalf of MMC Corporation has covenanted that it will comply with the requirements of the Code and any applicable regulations throughout the term of the Series 2018A Bonds. Failure of the Institution or MMC Corporation to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of their respective status as organizations described in Section 501(c)(3) of the Code or use of the Series 2018A Bond-financed assets in activities that constitute unrelated trades or businesses of the Institution or MMC Corporation, as applicable, within the meaning of Section 513 of the Code, may result in interest on the Series 2018A Bonds being included in gross income for Federal income tax purposes, possibly from the date of issuance of the Series 2018A Bonds.

As to questions of fact material to our opinion, we have, with your consent, relied upon the certified proceedings and other certifications of public officials and officers of the Institution furnished to us, without undertaking to verify the same by independent investigation.

Based upon our examination, we are of the opinion that under existing law:

1. The Authority has been duly created and is validly existing under the Act and has the right, power and authority to adopt the Resolutions and the Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with their terms.

2. The Bond Resolution creates the valid pledge which it purports to create of the proceeds of the sale of the Bonds, the Revenues and all funds and accounts established by the Bond Resolution (other than the Arbitrage Rebate Fund, as defined in the Bond Resolution), including the investments thereof and the proceeds of such investments, if any, subject only to the provisions of the Bond Resolution permitting the application thereof to the purposes and on the terms and conditions set forth in the Bond Resolution.

3. The Series 2018 Bonds have been duly and validly authorized and issued by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Resolutions.

4. The Series 2018 Bonds are not a debt of the State of New York, and the State of New York is not liable thereon, nor shall the Series 2018 Bonds be payable out of funds of the Authority other than those pledged for the payment of the Series 2018 Bonds.

5. The Loan Agreement, dated as of June 20, 2018 (the “Loan Agreement”), between the Authority and the Institution, has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery thereof by the Institution, constitutes a legal, valid and binding obligation of the Authority enforceable in accordance with its terms.

6. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the Series 2018A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Series 2018A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed for taxable years beginning prior to January 1, 2018. In rendering our opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the Institution and others in connection with the Series 2018A Bonds, and we have assumed compliance by the Authority, the Institution and MMC Corporation with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2018A Bonds from gross income under Section 103 of the Code. The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 2018A Bonds in order that, for Federal income tax purposes, interest on the Series 2018A Bonds be excluded from gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of Series 2018A Bond proceeds, restrictions on the investment of Series 2018A Bond proceeds prior to expenditure and the requirement that certain earnings be rebated

to the Federal government. Noncompliance with such requirements may cause interest on the Series 2018A Bonds to become subject to Federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained. On the date of delivery of the Series 2018A Bonds, the Authority and the Institution will execute the Tax Certificate and Agreement containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate and Agreement, the Authority and the Institution covenant that they will comply with the provisions and procedures set forth therein and that they will do and perform all acts and things necessary or desirable to assure that interest paid on the Series 2018A Bonds will, for Federal income tax purposes, be excluded from gross income. In rendering the opinion in this paragraph 6, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate and Agreement with respect to matters affecting the status of interest paid on the Series 2018A Bonds, and (ii) compliance by the Institution with the procedures and covenants set forth in the Tax Certificate and Agreement with respect to such tax matters.

7. Interest on the Series 2018B Bonds is included in gross income for Federal income tax purposes pursuant to the Code.

8. Under existing statutes, interest on the Series 2018 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Except as stated in paragraphs 6, 7 and 8 above, we express no opinion regarding any Federal, state or local tax consequences with respect to the Series 2018 Bonds. We render this opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to our attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2018A Bonds, or the exemption from personal income taxes of interest on the Series 2018 Bonds under state and local tax law.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Series 2018 Bonds, the Resolutions and the Loan Agreement may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted and is subject to general principles of equity, including those related to equitable subordination (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Very truly yours,

FORM OF APPROVING OPINION OF MCGLASHAN LAW FIRM, P.C.,  
CO-BOND COUNSEL TO DASNY FOR THE SERIES 2018 BONDS

Upon delivery of the Series 2018 Bonds, McGlashan Law Firm, P.C., Co-Bond Counsel to DASNY, proposes to issue its legal opinion in substantially the following form:

MCGLASHAN LAW FIRM, P.C.  
733 3<sup>RD</sup> AVENUE, SUITE 1512  
NEW YORK, NEW YORK 10017

Dormitory Authority of the  
State of New York  
515 Broadway  
Albany, New York 12207

Ladies and Gentlemen:

We, as Co-Bond Counsel to the Dormitory Authority of the State of New York (the "Authority"), a body corporate and politic of the State of New York (the "State"), constituting a public benefit corporation created and existing under the Dormitory Authority Act, being Chapter 524 of the Laws of New York of 1944, as amended (the "Act"), have examined a record of proceedings relating to the issuance of \$309,045,000 aggregate principal amount of Montefiore Obligated Group Revenue Bonds, Series 2018A (Tax-Exempt) (the "Series 2018A Bonds") and \$376,105,000 aggregate principal amount of Montefiore Obligated Group Revenue Bonds, Series 2018B (Federally Taxable) (the "Series 2018B Bonds" and together with the Series 2018A Bonds, the "Series 2018 Bonds").

The Series 2018 Bonds are issued under and pursuant to the Dormitory Authority Act, the New York State Medical Care Facilities Finance Agency Act, being Chapter 392 of the Laws of New York of 1973, as amended, and the Health Care Financing Consolidation Act, being a part of Chapter 83 of the Laws of New York of 1995 (collectively, the "Act"), the Montefiore Obligated Group Revenue Bond Resolution adopted by the Authority on June 20, 2018 (the "Bond Resolution"), as supplemented by the Series 2018A Resolution Authorizing Up To \$988,000,000 Montefiore Obligated Group Revenue Bonds, Series 2018A and the Series 2018B Resolution Authorizing Up To \$988,000,000 Montefiore Obligated Group Revenue Bonds, Series 2018B, each adopted by the Authority on June 20, 2018 (collectively, the "Series 2018 Resolutions"). The Bond Resolution and the Series 2018 Resolutions are herein collectively referred to as the "Resolutions

The Series 2018 Bonds are dated, mature, are payable, bear interest and are subject to redemption and purchase as provided in the Resolutions and the respective Bond Series Certificate of the Authority fixing the terms and the details of such Series 2018 Bonds (collectively, the "Series 2018 Certificates").

The Authority has reserved the right to issue additional bonds on the terms and conditions and for the purposes stated in the Bond Resolution. Under and subject to the provisions of the Bond Resolution, the Series 2018 Bonds and all bonds heretofore and hereafter issued under the Bond Resolution (the "Bonds") rank and will rank equally as to security and payment."

Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolutions.

As to questions of fact material to our opinion, we have, with your consent, relied upon the certified proceedings and other certifications of public officials and officers of the Montefiore Medical Center (the "Institution") furnished to us, without undertaking to verify the same by independent investigation.

Based upon our examination, we are of the opinion that under existing law:

1. The Authority has been duly created and is validly existing under the Act and has the right, power and authority to adopt the Resolutions and the Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with their terms.

2. The Bond Resolution creates the valid pledge which it purports to create of the proceeds of the sale of the Bonds, the Revenues and all funds and accounts established by the Bond Resolution (other than the Arbitrage Rebate Fund, as defined in the Bond Resolution), including the investments thereof and the proceeds of such investments, if any, subject only to the provisions of the Bond Resolution permitting the application thereof to the purposes and on the terms and conditions set forth in the Bond Resolution.

3. The Series 2018 Bonds have been duly and validly authorized and issued by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Resolutions.

4. The Series 2018 Bonds are not a debt of the State of New York, and the State of New York is not liable thereon, nor shall the Series 2018 Bonds be payable out of funds of the Authority other than those pledged for the payment of the Series 2018 Bonds.

5. The Loan Agreement, dated as of June 20, 2018 (the "Loan Agreement"), between the Authority and the Institution, has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery thereof by the Institution, constitutes a legal, valid and binding obligation of the Authority enforceable in accordance with its terms.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Series 2018 Bonds, the Resolutions and the Loan Agreement may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted and is subject to general principles of equity, including those related to equitable subordination (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Very truly yours,

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**Appendix G**

**Proposed Form of Continuing Disclosure Agreement**

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## **AGREEMENT TO PROVIDE CONTINUING DISCLOSURE**

### **DORMITORY AUTHORITY OF THE STATE OF NEW YORK MONTEFIORE OBLIGATED GROUP REVENUE BONDS, SERIES 2018A AND SERIES 2018B**

This **AGREEMENT TO PROVIDE CONTINUING DISCLOSURE** (the “Disclosure Agreement”), dated as of August 1, 2018, is executed and delivered by Montefiore Medical Center (the “Obligated Person”), The Bank of New York Mellon, as trustee (the “Trustee”) and Digital Assurance Certification, L.L.C. (“DAC”), as exclusive Disclosure Dissemination Agent (the “Disclosure Dissemination Agent”) for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) issued by the Dormitory Authority of the State of New York (the “Issuer” or “DASNY”) and in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”).

The services provided under this Disclosure Agreement solely relate to the execution of instructions received from the parties hereto through use of the DAC system and are not intended to constitute “advice” within the meaning of the United States Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”). DAC is not obligated hereunder provide any advice or recommendation to the Issuer, the Obligated Person or anyone on the Issuer’s or the Obligated Person’s behalf regarding the “issuance of municipal securities” or any “municipal financial product” as defined in the Act and nothing in this Disclosure Agreement shall be interpreted to the contrary.

**SECTION 1. Definitions.** Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Resolution (hereinafter defined). The capitalized terms shall have the following meanings:

“Annual Filing Date” means the date, set in Sections 2(a) and 2(f), by which the Annual Report is to be filed with the MSRB.

“Annual Financial Information” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

“Annual Report” means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

“Audited Financial Statements” means the Credit Group Financial Statements as described in Section 3.13 of that certain Master Trust Indenture, dated as of August 1, 2018, by and between the Obligated Person, Montefiore Health System, Inc., solely in its capacity as Credit Group Representative, and The Bank of New York Mellon, as master trustee, for the prior fiscal year, certified by an independent auditor as prepared in accordance with accounting principles generally accepted in the United States of America

or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

“Bonds” means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Voluntary Financial Disclosure, Notice Event notice, Failure to File Event notice or Voluntary Event Disclosure delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Voluntary Financial Disclosure, Notice Event notice, Failure to File Event notice or Voluntary Event Disclosure required to be or voluntarily submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Obligated Person and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“Disclosure Dissemination Agent” means Digital Assurance Certification, L.L.C., acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Obligated Person pursuant to Section 9 hereof.

“Disclosure Representative” means the Chief Financial Officer of the Obligated Person or his or her designee, or such other person as the Obligated Person shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Failure to File Event” means the Obligated Person’s failure to file an Annual Report on or before the Annual Filing Date.

“Force Majeure Event” means: (i) acts of God, war or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access System maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent’s reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

“Holder” means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

“Information” means collectively, the Annual Reports, the Audited Financial Statements (if any), the Notice Event notices, the Failure to File Event notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

“Issuer” means the Dormitory Authority of the State of New York, as conduit issuer of the Bonds.

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the United States Securities Exchange Act of 1934, as amended.

“Notice Event” means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

“Obligated Person” means any person who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities), as shown on Exhibit A.

“Official Statement” means that Official Statement prepared by the Issuer and the Obligated Person in connection with the Bonds, as listed on Exhibit A.

“Resolution” means DASNY’s bond resolution(s) pursuant to which the Bonds were issued.

“Trustee” means The Bank of New York Mellon and its successors and assigns.

“Voluntary Event Disclosure” means information of the category specified in any of subsections (e)(vi)(1) through (e)(vi)(11) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(a) of this Disclosure Agreement.

“Voluntary Financial Disclosure” means information of the category specified in any of subsections (e)(vii)(1) through (e)(vii)(9) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(b) of this Disclosure Agreement.

## SECTION 2. Provision of Annual Reports.

(a) The Obligated Person shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than 150 days after the end of each fiscal year of the Obligated Person (or any time thereafter following a Failure to File Event as described in this Section), commencing with the fiscal year ending December 31, 2018, such date and each anniversary thereof, the “Annual Filing Date.” Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide the Annual Report to the MSRB through its Electronic Municipal Market Access (“EMMA”) system for municipal securities disclosure. The Annual Financial Information and Audited Financial Statements may be

submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Obligated Person of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall, not later than two (2) business days prior to the Annual Filing Date, either: (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Financial Information, Audited Financial Statements, if available, and unaudited financial statements, if audited financial statements are not available in accordance with subsection (d) below and the Certification, or (ii) instruct the Disclosure Dissemination Agent in writing, with a copy to the Trustee, that a Failure to File Event may occur, state the date by which the Annual Financial Information and Audited Financial Statements for such year are expected to be provided, and, at the election of the Obligated Person, instruct the Disclosure Dissemination Agent to send a notice to the MSRB in substantially the form attached as Exhibit B on the Annual Filing Date, accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on the Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the Obligated Person hereby irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit B without reference to the anticipated filing date for the Annual Report, accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(d) If Audited Financial Statements are prepared but not available prior to the Annual Filing Date, the Obligated Person shall provide unaudited financial statements for filing prior to the Annual Filing Date in accordance with Section 3(b) hereof and, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, together with a copy for the Trustee, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

- (i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;
- (ii) upon receipt, promptly file each Annual Report received under Section 2(a) and 2(b) with the MSRB;
- (iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with the MSRB;

(iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) with the MSRB, identifying the Notice Event as instructed pursuant to Section 4(a) or Section 4(b)(ii) (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Agreement:

1. Principal and interest payment delinquencies;
2. Non-Payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, IRS notices or events affecting the tax-exempt status of the securities;
7. Modifications to rights of securities holders, if material;
8. Bond calls, if material;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, if material;
11. Ratings changes;
12. Tender offers;
13. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;
14. Merger, consolidation, or acquisition of the Obligated Person, if material; and
15. Appointment of a successor or additional trustee, or the change of name of a trustee, if material;
16. Failure to provide annual financial information as required, together with a completed copy of Exhibit B to this Agreement; and
17. Other Material Event Notice.

- (v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as “Failure to provide annual financial information as required” when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;
  
- (vi) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 7(a) with the MSRB, identifying the Voluntary Event Disclosure as instructed by the Obligated Person pursuant to Section 7(a) (being any of the categories set forth below) when filing pursuant to Section 7(a) of this Disclosure Agreement:
  - 1. “amendment to continuing disclosure undertaking;”
  - 2. “change in obligated person;”
  - 3. “notice to investors pursuant to bond documents;”
  - 4. “certain communications from the Internal Revenue Service;”
  - 5. “secondary market purchases;”
  - 6. “bid for auction rate or other securities;”
  - 7. “capital or other financing plan;”
  - 8. “litigation/enforcement action;”
  - 9. “change of tender agent, remarketing agent, or other on-going party;”
  - 10. “derivative or other similar transaction;” and
  - 11. “other event-based disclosures;”
  
- (vii) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 7(b) with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the Obligated Person pursuant to Section 7(b) (being any of the categories set forth below) when filing pursuant to Section 7(b) of this Disclosure Agreement:
  - 1. “quarterly/monthly financial information;”
  - 2. “change in fiscal year/timing of annual disclosure;”

3. “change in accounting standard;”
4. “interim/additional financial information/operating data;”
5. “budget;”
6. “investment/debt/financial policy;”
7. “information provided to rating agency, credit/liquidity provider or other third party;”
8. “consultant reports;” and
9. “other financial/operating data;”

(viii) provide the Obligated Person evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Obligated Person may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, the Trustee and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) If Audited Financial Statements are not available on the Filing Date, the Obligated Person shall be in compliance under this agreement if unaudited financial statements are filed on the Annual Filing Date along with a certificate of the Obligated Person stating when the Audited Financial Statements are expected to become available and agreeing to file Audited Financial Statements as soon as they become available in accordance with Section 2(d) above. In such case the Dissemination Agent shall not file the notices described in Section 2(c) above and the Obligated Person shall instruct the Dissemination Agent not to file such notices.

(h) Any Information received by the Disclosure Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

### SECTION 3. Content of Annual Reports.

Each Annual Report shall contain:

(a) Annual Financial Information with respect to the Obligated Person which shall include operating data and financial information of the type included in the Official Statement for the Bonds as described in APPENDIX A – “MONTEFIORE OBLIGATED GROUP” relating to: (i) utilization statistics of the type set forth under the heading “Utilization”; (ii) sources of net patient service revenue of the type set forth under the heading “Sources of Net Patient Service Revenue”; (iii) revenue and expense data of the type set forth under the heading “Summary of Consolidated Historical Revenues and Expenses”; and (v) financial information of the type set forth under the headings “Liquidity”, “Debt Service Coverage” and “Long-term Debt to Capitalization - MMC”, together with a narrative explanation as may be necessary to avoid misunderstanding regarding the presentation of such Annual Financial Information concerning the Obligated Person; and

(b) Audited Financial Statements prepared in accordance with generally accepted accounting principles (“GAAP”) or alternate accounting principles as described in the Official Statement will be included in the Annual Report. If Audited Financial Statements are not available, the Obligated Person shall be in compliance under this Disclosure Agreement if unaudited financial statements, prepared in accordance with GAAP or alternate accounting principles as described in the Official Statement, are included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Obligated Person is an “obligated person” (as defined by the Rule), which have been previously filed the Securities and Exchange Commission or available from the MSRB Internet Website. If the document incorporated by reference is a Final Official Statement, it must be available from the MSRB. The Obligated Person will clearly identify each such document so incorporated by reference.

Any Annual Financial Information containing modified operating data or financial information shall include an explanation, in narrative form, of such modifications.

### SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;



5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices and determinations with respect to the tax status of the securities or other material events affecting the tax status of the securities;
7. Modifications to rights of the security holders, if material;
8. Bond calls, if material;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds, if material;
11. Rating changes;
12. Tender offers;
13. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

**Note to subsection (a)(13) of this Section 4:** For the purposes of the event described in subsection (a)(13) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

14. The consummation of a merger, consolidation or acquisition involving the Obligated Person, or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
15. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The Obligated Person shall, in a timely manner not in excess of ten business days after its occurrence, notify the Trustee and the Disclosure Dissemination Agent in writing upon the

occurrence of a Notice Event. Upon actual knowledge of the occurrence of a Notice Event, the Trustee shall promptly notify the Obligated Person and also shall notify the Disclosure Dissemination Agent in writing of the occurrence of such Notice Event. Each such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the desired text of the disclosure, the written authorization for the Disclosure Dissemination Agent to disseminate such information, and identify the desired date for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the Obligated Person or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Obligated Person or the Disclosure Representative, such notified party will within two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the Obligated Person determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Obligated Person desires to make, contain the written authorization of the Obligated Person for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Obligated Person desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed as prescribed in subsection (a) or as prescribed in subsection (b) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with MSRB, in accordance with Section 2(e)(iv) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

#### SECTION 5. CUSIP Numbers.

Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference in the Annual Reports, Audited Financial Statements, Notice Event notices and Voluntary Event Disclosure, the Obligated Person shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

## SECTION 6. Additional Disclosure Obligations.

The Obligated Person acknowledges and understands that other state and federal laws, including but not limited to the United States Securities Act of 1933, as amended, and Rule 10b-5 promulgated under the United States Securities Exchange Act of 1934, as amended, may apply to the Obligated Person, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws. The Obligated Person acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

## SECTION 7. Voluntary Filing.

(a) The Obligated Person may instruct the Disclosure Dissemination Agent to file Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(e)(vi) of this Disclosure Agreement), include the text of the disclosure that the Obligated Person desires to make, and identify the date the Obligated Person desires for the Disclosure Dissemination Agent to disseminate the information. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The Obligated Person may instruct the Disclosure Dissemination Agent to file Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(e)(vii) of this Disclosure Agreement), include the desired text of the disclosure, contain the written authorization for the Disclosure Dissemination Agent to disseminate such information, if applicable, and identify the desired date for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Obligated Person as prescribed in this Section 7(b) to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(e)(vii) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-3.

(c) The parties hereto acknowledge that neither the Issuer nor the Obligated Person is obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 7(a) hereof or to file any Voluntary Financial Disclosure pursuant to Section 7(b) hereof.

(d) Nothing in this Disclosure Agreement shall be deemed to prevent the Obligated Person from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Section 7, or including any other information in any Annual Report, Failure to File Event notice or Notice Event notice in addition to that which is specifically required by this Disclosure Agreement. If the Obligated Person chooses to include any information in any Annual Report, Failure to File Event notice or Notice Event notice in addition to that which is specifically required by this Disclosure Agreement or to file Voluntary

Event Disclosure or Voluntary Financial Disclosure, the Obligated Person shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Voluntary Financial Disclosure, Voluntary Event Disclosure, Failure to File Event Notice or Notice Event notice.

SECTION 8. Termination of Reporting Obligation.

The obligations of the Obligated Person and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Obligated Person is no longer an Obligated Person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent.

The Obligated Person hereby appoints DAC as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Obligated Person may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Obligated Person or DAC, the Obligated Person agrees to appoint a successor Disclosure Dissemination Agent or, alternatively, agrees to assume all responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Obligated Person shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Obligated Person.

SECTION 10. Remedies in Event of Default.

In the event of a failure of the Obligated Person or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Disclosure Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Obligated Person has provided such information to the Disclosure Dissemination Agent as provided in this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any

Information, or any other information, disclosures or notices provided to it by the Obligated Person and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Obligated Person, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Obligated Person's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine or liability for failing to determine whether the Obligated Person has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Obligated Person at all times.

THE OBLIGATED PERSON AGREES TO INDEMNIFY AND SAVE THE DISCLOSURE DISSEMINATION AGENT, THE ISSUER AND THE TRUSTEE AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS, HARMLESS AGAINST ANY LOSS, EXPENSE AND LIABILITY WHICH THEY MAY INCUR ARISING OUT OF OR IN THE EXERCISE OR PERFORMANCE OF THEIR POWERS AND DUTIES HEREUNDER, INCLUDING THE COSTS AND EXPENSES (INCLUDING ATTORNEYS FEES) OF DEFENDING AGAINST ANY CLAIM OF LIABILITY, BUT EXCLUDING LOSSES, EXPENSES AND LIABILITIES DUE TO THE DISCLOSURE DISSEMINATION AGENT'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT AND THE TRUSTEE'S (AND ITS OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS') NEGLIGENCE OR WILLFUL MISCONDUCT.

The obligations of the Obligated Person under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and it shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The fees and expenses of such counsel shall be payable by the Obligated Person.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Disclosure Agreement shall be provided in an electronic format through the EMMA System and accompanied by identifying information as prescribed by the MSRB.

#### SECTION 12. No Issuer or Trustee Responsibility.

The Obligated Person and the Disclosure Dissemination Agent acknowledge that neither the Issuer nor the Trustee have undertaken any responsibility, and shall not be required to undertake any responsibility, with respect to any reports, notices or disclosures required by or provided pursuant to this Disclosure Agreement other than those notices required under Section 4 hereof, and shall have no liability to any person, including any Holder of the Bonds, with respect to any such reports, notices or disclosures other than those notices required under Section 4 hereof. DASNY (as conduit issuer) is not, for purposes of and within the meaning of the Rule, (i) committed by contract or other arrangement to support payment of all, or part of, the

obligations on the Bonds, or (ii) a person for whom annual financial information and notices of material events will be provided. The Trustee shall be indemnified and held harmless in connection with this Disclosure Agreement to the same extent provided in the Resolution for matters arising thereunder.

#### SECTION 13. Amendment; Waiver.

Notwithstanding any other provision of this Disclosure Agreement, the Obligated Person, the Trustee and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to each of the Obligated Person, the Trustee and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided none of the Obligated Person, the Trustee or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Obligated Person, the Trustee and the Disclosure Dissemination Agent shall have the right to amend this Disclosure Agreement for any of the following purposes:

(i) to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time;

(ii) to add or change a dissemination agent for the information required to be provided hereby and to make any necessary or desirable provisions with respect thereto;

(iii) to evidence the succession of another person to the Obligated Person or the Trustee and the assumption by any such successor of the covenants of the Obligated Person or the Trustee hereunder;

(iv) to add to the covenants of the Obligated Person or the Disclosure Dissemination Agent for the benefit of the Holders, or to surrender any right or power herein conferred upon the Obligated Person or the Disclosure Dissemination Agent;

(v) for any purpose for which, and subject to the conditions pursuant to which, amendments may be made under the Rule, as amended or modified from time to time, or any formal authoritative interpretations thereof by the Securities and Exchange Commission.

#### SECTION 14. Beneficiaries.

This Disclosure Agreement shall inure solely to the benefit of the Obligated Person, the Trustee, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Governing Law.

This Disclosure Agreement shall be governed by the laws of the State of New York (without regard to its conflicts of laws provisions).

SECTION 16. Counterparts.

This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[remainder of page intentionally left blank]

The Disclosure Dissemination Agent, the Trustee and the Obligated Person have caused this Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

**DIGITAL ASSURANCE CERTIFICATION,  
L.L.C., as Disclosure Dissemination Agent**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**MONTEFIORE MEDICAL CENTER,  
Obligated Person**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**THE BANK OF NEW YORK MELLON,  
as Trustee**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**EXHIBIT A**

**NAME AND CUSIP NUMBERS OF BONDS**

Name of Issuer: Dormitory Authority of the State of New York  
 Obligated Person(s): Montefiore Medical Center  
 Name of Bond Issue: Montefiore Obligated Group Revenue Bonds, Series 2018A and Series 2018B  
 Date of Issuance: August 1, 2018  
 Date of Official Statement: July 26, 2018

**\$309,045,000  
 Series 2018A (Tax-Exempt)**

<u>Maturity</u> <u>August</u> <u>1,</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>Numbers<sup>1</sup></u>	<u>Maturity</u> <u>August</u> <u>1,</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>Numbers<sup>1</sup></u>
2024	\$12,500,000	5.000%	64990GFT4	2032	\$21,345,000	5.000%	64990GGB2
2025	15,170,000	5.000	64990GFU1	2033	22,410,000	5.000	64990GGC0
2026	15,930,000	5.000	64990GFV9	2034	23,535,000	5.000	64990GGD8
2027	16,725,000	5.000	64990GFW7	2035	24,715,000	5.000	64990GGE6
2028	17,565,000	5.000	64990GFX5	2036	25,950,000	4.000	64990GGF3
2029	18,445,000	5.000	64990GFY3	2037	26,990,000	4.000	64990GGG1
2030	19,370,000	5.000	64990GFZ0	2038	28,060,000	4.000	64990GGH9
2031	20,335,000	5.000	64990GGA4				

**\$376,105,000  
 SERIES 2018B (Federally Taxable)**

\$74,920,000 5.096% Term Bonds Due August 1, 2034, CUSIP<sup>1</sup> 64990GGJ5  
 \$301,185,000 4.946% Term Bonds Due August 1, 2048, CUSIP<sup>1</sup> 64990GGK2

<sup>1</sup> Copyright, American Bankers Association (“ABA”). CUSIP is a registered trademark of the ABA. CUSIP data herein are provided by CUSIP Global Services, which is managed on behalf of the ABA by S&P Global Market Intelligence, a division of S&P Global Inc. CUSIP numbers have been assigned by an organization not affiliated with DASNY and are included solely for the convenience of the holders of the 2018 DASNY Bonds. DASNY is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to the correctness of the CUSIP numbers as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the 2018 DASNY Bonds.

**EXHIBIT B**

**NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Dormitory Authority of the State of New York  
Obligated Person(s): Montefiore Medical Center  
Name of Bond Issue: Montefiore Obligated Group Revenue Bonds, Series 2018A and Series 2018B  
Date of Issuance: August 1, 2018  
  
CUSIP Numbers:

NOTICE IS HEREBY GIVEN that the Obligated Person has not provided an Annual Report with respect to the above-named Bonds as required by the Agreement to Provide Continuing Disclosure, dated as of August \_\_, 2018, by and among the Obligated Person, The Bank of New York Mellon, as Trustee and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Obligated Person has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

Digital Assurance Certification, L.L.C., as  
Disclosure Dissemination Agent, on behalf of the  
Obligated Person

---

cc: Obligated Person

**EXHIBIT C-1  
EVENT NOTICE COVER SHEET**

This cover sheet and accompanying "event notice" will be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and Obligated Person's Names:

\_\_\_\_\_

Six-Digit CUSIP Number:

\_\_\_\_\_

or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates:

\_\_\_\_\_

Number of pages attached: \_\_\_\_\_

Description of Notice Events (Check One):

1. \_\_\_\_\_ "Principal and interest payment delinquencies;"
2. \_\_\_\_\_ "Non-Payment related defaults, if material;"
3. \_\_\_\_\_ "Unscheduled draws on debt service reserves reflecting financial difficulties;"
4. \_\_\_\_\_ "Unscheduled draws on credit enhancements reflecting financial difficulties;"
5. \_\_\_\_\_ "Substitution of credit or liquidity providers, or their failure to perform;"
6. \_\_\_\_\_ "Adverse tax opinions, IRS notices or events affecting the tax status of the security;"
7. \_\_\_\_\_ "Modifications to rights of securities holders, if material;"
8. \_\_\_\_\_ "Bond calls, if material;"
9. \_\_\_\_\_ "Defeasances;"
10. \_\_\_\_\_ "Release, substitution, or sale of property securing repayment of the securities, if material;"
11. \_\_\_\_\_ "Rating changes;"
12. \_\_\_\_\_ "Tender offers;"
13. \_\_\_\_\_ "Bankruptcy, insolvency, receivership or similar event of the obligated person;"
14. \_\_\_\_\_ "Merger, consolidation, or acquisition of the obligated person, if material;" and
15. \_\_\_\_\_ "Appointment of a successor or additional trustee, or the change of name of a trustee, if material."

\_\_\_\_\_ Failure to provide annual financial information as required.

I hereby represent that I am authorized by the obligated person or its agent to distribute this information publicly:

Signature:

\_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Digital Assurance Certification, L.L.C.  
390 N. Orange Avenue  
Suite 1750  
Orlando, FL 32801  
407-515-1100

Date:

**EXHIBIT C-2**  
**VOLUNTARY EVENT DISCLOSURE COVER SHEET**

This cover sheet and accompanying “voluntary event disclosure” will be sent to the MSRB, pursuant to the Continuing Disclosure Agreement dated as of \_\_\_\_\_ by and among the Obligated Person, the Trustee and DAC.

Issuer’s and Obligated Person’s Names:

\_\_\_\_\_

Six-Digit CUSIP Number:

\_\_\_\_\_

\_\_\_\_\_

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

\_\_\_\_\_

Number of pages attached: \_\_\_\_\_

Description of Voluntary Event Disclosure (Check One):

1. \_\_\_\_\_ “amendment to continuing disclosure undertaking;”
2. \_\_\_\_\_ “change in obligated person;”
3. \_\_\_\_\_ “notice to investors pursuant to bond documents;”
4. \_\_\_\_\_ “certain communications from the Internal Revenue Service;”
5. \_\_\_\_\_ “secondary market purchases;”
6. \_\_\_\_\_ “bid for auction rate or other securities;”
7. \_\_\_\_\_ “capital or other financing plan;”
8. \_\_\_\_\_ “litigation/enforcement action;”
9. \_\_\_\_\_ “change of tender agent, remarketing agent, or other on-going party;”
10. \_\_\_\_\_ “derivative or other similar transaction;” and
11. \_\_\_\_\_ “other event-based disclosures.”

I hereby represent that I am authorized by the obligated person or its agent to distribute this information publicly:

Signature:

\_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Digital Assurance Certification, L.L.C.  
390 N. Orange Avenue  
Suite 1750  
Orlando, FL 32801  
407-515-1100

Date:

**EXHIBIT C-3**  
**VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET**

This cover sheet and accompanying "voluntary financial disclosure" will be sent to the MSRB, pursuant to the Continuing Disclosure Agreement dated as of \_\_\_\_\_ by and among the the Obligated Person, the Trustee and DAC.

Issuer's and Obligated Person's Names:

\_\_\_\_\_

Six-Digit CUSIP Number:

\_\_\_\_\_

\_\_\_\_\_

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

\_\_\_\_\_

Number of pages attached: \_\_\_\_\_

Description of Voluntary Financial Disclosure (Check One):

1. \_\_\_\_\_ "quarterly/monthly financial information;"
2. \_\_\_\_\_ "change in fiscal year/timing of annual disclosure;"
3. \_\_\_\_\_ "change in accounting standard;"
4. \_\_\_\_\_ "interim/additional financial information/operating data;"
5. \_\_\_\_\_ "budget;"
6. \_\_\_\_\_ "investment/debt/financial policy;"
7. \_\_\_\_\_ "information provided to rating agency, credit/liquidity provider or other third party;"
8. \_\_\_\_\_ "consultant reports;" and
9. \_\_\_\_\_ "other financial/operating data."

I hereby represent that I am authorized by the obligated person or its agent to distribute this information publicly:

Signature:

\_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Digital Assurance Certification, L.L.C.  
390 N. Orange Avenue  
Suite 1750  
Orlando, FL 32801  
407-515-1100

Date:

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**Appendix H**

**Specimen of Municipal Bond Insurance Policy**

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# MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
1633 Broadway, New York, N.Y. 10019  
(212) 974-0100

Form 500NY (5/90)



# Montefiore



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