BronxCare Health System

Independent Auditor's Reports and Consolidated Financial Statements

December 31, 2019 and 2018

BKD
CPAs & Advisors

BronxCare Health System

December 31, 2019 and 2018

Contents

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Independent Auditor's Report

The Boards of Trustees/Directors
BronxCare Health System
Bronx, New York

We have audited the accompanying consolidated financial statements of BronxCare Health System, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and 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 Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of BronxCare Health System as of December 31, 2019 and 2018, and the results of their operations, changes in their net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Other Matters

As described in *Note 21* to the consolidated financial statements, in 2019, BronxCare Health System adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers* (Topic 606), Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash*, ASU 2016-15, *Statement of Cash Flows* (Topic 230)*: Classification of Certain Cash Receipts and Cash Payments*, and ASU 2017-07, *Compensation – Retirement Benefits* (Topic 715): *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Our opinion is not modified with respect to these matters.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the schedule of operations - CFDA 93.224 and 93.527 Funded Programs vs. Other Programs as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit 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 consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2020 on our consideration of BronxCare Health System's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BronxCare Health System's internal control over financial reporting and compliance.

BKD, LLP

New York, New York
September 29, 2020

BronxCare Health System
Consolidated Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 129,430,379	$ 209,106,889
Certificates of deposit	94,842,692	42,916,128
Short-term investments	5,462	4,480
Patient accounts receivable (net of allowances for doubtful accounts of $39,517,710 in 2018)	61,657,296	71,024,225
Grants receivable	4,251,478	3,766,494
Other receivables	2,020,828	2,221,042
Due from third-party payors	1,006,830	2,450,123
Inventory of materials and supplies	3,110,247	2,924,317
Prepaid expenses, deposits and other assets	5,289,701	3,928,078
Tenant, patient and resident security deposits	271,287	238,157
Total current assets	301,886,200	338,579,933
Noncurrent Assets		
Certificates of deposit	90,404,539	40,000,000
Other assets	617,142	504,642
Investment in equity investees	1,168,637	646,119
Investment in health insurance organization	26,567,346	23,253,476
Assets limited as to use	2,339,330	3,764,756
Assets held for deferred compensation	13,779,264	11,275,892
Property and equipment, net	182,487,814	185,495,676
Total noncurrent assets	317,364,072	264,940,561
Total assets	$ 619,250,272	$ 603,520,494

BronxCare Health System
Consolidated Balance Sheets (Continued)
December 31, 2019 and 2018

	2019	2018
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 53,646,938	$ 58,478,338
Accrued salaries, wages and related expenses payable	71,920,287	76,035,631
Deferred grant revenue	43,847,692	40,104,444
Pension liability, current portion	23,040,868	19,700,429
Postretirement (other than pension) benefit costs, current portion	224,000	183,000
Long-term debt, current portion	2,340,038	2,268,744
Capital leases payable, current portion	1,123,137	2,420,898
Self-insurance reserve	300,000	300,000
Estimated amounts due to third-party payors	51,596,063	52,372,541
Other liabilities	2,511,375	1,843,141
Tenant, patient and resident security deposits	271,287	238,157
Total current liabilities	250,821,685	253,945,323
Long-term Liabilities		
Pension liability, less current portion	116,518,882	98,385,355
Postretirement (other than pension) benefit costs, less current portion	4,684,628	3,571,893
Deferred compensation payable	13,779,264	11,275,892
Long-term debt, net of debt issuance costs, less current portion	46,114,493	48,270,057
Capital leases payable, less current portion	834,954	3,426,247
Estimated amounts due to third-party payors	16,357,773	14,924,421
Total long-term liabilities	198,289,994	179,853,865
Total liabilities	449,111,679	433,799,188
Net Assets		
Without donor restrictions	168,335,188	167,917,901
With donor restrictions	1,803,405	1,803,405
Total net assets	170,138,593	169,721,306
Total liabilities and net assets	$ 619,250,272	$ 603,520,494

BronxCare Health System

Consolidated Statements of Operations and Changes in Net Assets

Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues Without Donor Restrictions		
Patient service revenues (net of contractual allowances and discounts)		$ 857,573,016
Provision for uncollectible accounts		(48,480,403)
Patient service revenues (less provision for uncollectible accounts for 2018)	$ 798,935,286	809,092,613
Grants	54,826,580	49,693,028
Auxiliary and other services	9,474,916	10,700,141
Total operating revenues without donor restrictions	863,236,782	869,485,782
Operating Expenses		
Salaries and wages	418,603,661	405,665,246
Employee benefits	129,442,130	135,599,468
Supplies and expenses	265,170,469	266,805,050
Leases and rentals	7,804,524	7,153,784
Interest	2,320,764	2,757,536
Depreciation and amortization	25,296,058	25,600,325
Total operating expenses	848,637,606	843,581,409
Operating Income	14,599,176	25,904,373
Nonoperating and Other		
Other revenue	405,373	515,295
Contributions and event income	470,317	429,986
Cost of annual event	-	(194,227)
Investment income, net	6,146,632	3,166,583
Changes in value in equity investment	629,333	(218,925)
Gain in investment in health insurance organization	6,820,685	3,727,948
Other components of net periodic pension and benefit costs	(8,199,516)	(10,936,708)
Excess of Revenues Over Expenses	20,872,000	22,394,325
Adjustment required to recognize an additional minimum pension liability	(20,454,713)	21,143,159
Increase in Net Assets Without Donor Restrictions and Change in Net Assets	417,287	43,537,484
Net Assets Without Donor Restrictions, Beginning of Year	169,721,306	126,183,822
Net Assets Without Donor Restrictions, End of Year	$ 170,138,593	$ 169,721,306

BronxCare Health System

Consolidated Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	$ 417,287	$ 43,537,484
Items not requiring (providing) operating cash flows		
Net unrealized and realized (gains) losses	(982)	1,100,650
Change in value of investment in health insurance organization, net of distributions	(3,313,870)	(1,393,776)
Change in value of investment in equity investments, net of distributions	(228,518)	393,925
Depreciation and amortization	25,296,058	25,600,325
Provision for bad debt	-	48,480,403
Amortized debt issuance costs included in interest expense	289,932	289,932
Changes in		
Patient accounts, grants and other receivables	9,082,159	(44,858,836)
Due from third-party payors	1,443,293	(1,617,223)
Inventory of materials and supplies	(185,930)	(178,454)
Prepaid expenses and other assets	(1,361,623)	13,742
Other assets	(112,500)	(300,000)
Accounts payable	(5,995,886)	6,390,977
Accrued salaries and related expenses payable	(4,115,344)	5,611,086
Deferred grants	3,743,248	13,085,505
Pension liability	21,473,966	(12,531,696)
Postretirement benefit costs	1,153,735	(164,686)
Due to third-party payors	690,004	(1,981,117)
Other current liabilities	668,234	(416,448)
Deferred compensation payable	2,503,372	(90,655)
Net cash provided by operating activities	51,446,635	80,971,138

BronxCare Health System

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2019 and 2018

	2019	2018
Investing Activities		
Purchase of certificates of deposit and investments	$ (145,086,133)	$ (82,755,530)
Proceeds from sale of investments	42,755,030	93,074,558
Contribution to equity investment	(294,000)	(124,431)
Decrease in assets limited as to use	(2,503,372)	90,655
Purchases of fixed assets	(21,123,710)	(15,378,043)
Net cash used in investing activities	(126,252,185)	(5,092,791)
Financing Activities		
Principal payments of long-term debt	(2,374,202)	(2,360,411)
Principal payments on capital leases	(3,889,054)	(4,114,285)
Net cash used in financing activities	(6,263,256)	(6,474,696)
(Decrease) Increase in Cash and Cash Equivalents	(81,068,806)	69,403,651
Cash and Cash Equivalents, Beginning of Year	213,109,802	143,706,151
Cash and Cash Equivalents, End of Year	$ 132,040,996	$ 213,109,802
Supplemental Cash Flows Information		
Cash paid for interest	$ 2,030,832	$ 2,274,412
Purchase of property and equipment in accounts payable	1,164,486	-
Cash, cash equivalents and restricted cash are included in the following line items on the consolidated balance sheets:		
Cash and cash equivalents	$ 129,430,379	$ 209,106,889
Restricted cash - tenant security deposits	271,287	238,157
Cash held in assets limited as to use	2,339,330	3,764,756
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	$ 132,040,996	$ 213,109,802

BronxCare Health System

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The accompanying consolidated financial statements include the following corporations (collectively the System):

BronxCare Health System

1650 BLHC Services Corp.

BronxCare New Directions Fund

BronxCare Special Care Center

The Bronx-Lebanon Highbridge Woodycrest Center

BronxCare Dr. Martin Luther King, Jr. Health Center

The BronxCare Development Corporation

Bronx Health Access IPA, Inc.

BLHC PPS, LLC

The above entities are related through board control by BronxCare Health System.

BronxCare Health System (the Hospital Center) is a not-for-profit acute care hospital that provides inpatient, ambulatory, psychiatric, preventive and emergency hospital care to the community. The Hospital Center provides a full range of health care services to the local community and qualifies as a tax-exempt organization under existing provisions of Section 501(c)(3) of the Internal Revenue Code. The Hospital Center is supported primarily by patient service fees paid by Medicaid, Medicare and commercial insurance carriers.

1650 BLHC Services Corp. (1650 BLHC) was incorporated in 2004 under New York State not-for-profit law and qualifies as a tax-exempt organization under existing provisions of Section 501(c)(3) of the Internal Revenue Code. 1650 BLHC is supported primarily by tenant rental fees. 1650 BLHC's purpose is to provide housing in support for employees and programs at the Hospital Center and Martin Luther King Jr. Health Center (MLK) which are related organizations.

BronxCare New Directions Fund (NDF) was organized to engage in fund-raising activities and to provide grants and scholarships to support not-for-profit organizations, including the Hospital Center. NDF is supported primarily through contributions. NDF qualifies as a tax-exempt organization under existing provisions of Internal Revenue Code Section 501(c)(3).

BronxCare Special Care Center, Inc. (BCSCC) is a not-for-profit voluntary nursing home located in the Bronx, New York, which is certified to provide care to 120 geriatric and 120 acquired immune deficiency syndrome (AIDS) residents. BCSCC is exempt from federal income tax under Internal Revenue Code Section 501(c)(3), and was organized under the provisions of Article 28 of the New York State Public Health Law and the Not-for-Profit Corporation Law. BCSCC is supported primarily by patient service fees paid by Medicaid, Medicare and private individuals.

The Bronx-Lebanon Highbridge Woodycrest Center (BLHWC) was incorporated in 1989 to establish and operate a not-for-profit special care nursing facility (NF) for adults and children who test positive for the human immunodeficiency virus (HIV) and are symptomatic or are diagnosed as having contracted AIDS. BLHWC operated a 90-bed NF whose primary sources of revenue was resident service fees paid by Medicaid. The Internal Revenue Service (IRS) has determined that BLHWC meets the requirements of the Internal Revenue Code under Section 501(c)(3) and is exempt from federal income tax. BLHWC ceased continuing operations in 2017 with the sale of its facility and operations and remains in existence primarily for purposes of certain third-party-payor settlements and appeals.

BronxCare Dr. Martin Luther King, Jr. Health Center (MLK) located in the Bronx, New York, is a free-standing diagnostic and treatment center licensed under Article 28 of the New York State Health Law and is recognized as a Federally Qualified Health Center. MLK provides a broad range of health services to a largely economically deprived population, and is supported primarily by patient service fees. MLK is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The Bronx Care Development Corporation (BCDC), a New York corporation, is wholly owned by the Hospital Center. BCDC, a general partner for .01 percent, Sterling Corporate Tax Credit Fund XXIII, L.P. (Investor), a limited partner for 99.98 percent and Sterling Corporate Services Inc., a special interest limited partner for .01 percent have entered into a partnership agreement to form Bronx Care Associates (LP). LP is a New York limited partnership established to develop a parcel of land located at 1600 Morris Avenue, Bronx, NY into a 52-unit affordable rental housing for low income, frail, elderly individuals and individuals with physical disabilities. The construction project was financed through tax credits. The Hospital Center has the right to buy the property from the partnership pursuant to the "Right of First Refusal Agreement" entered into by the partnership. The housing building became operational in 2007. Based on preliminary 2019 and 2018 numbers, the LP had total assets of $5,953,094 and $6,098,831, estimated total liabilities of $2,462,965 and $2,532,252, estimated total revenues of $637,325 and $611,863, and estimated total expenses of $788,049 and $782,312 as of and for the years ended December 31, 2019 and 2018, respectively. The Hospital Center's portion is not considered significant and is not included in these consolidated financial statements in 2019 and 2018.

In 2015, the Hospital Center created BLHC PPS LLC, in conjunction with other health care facilities in order to facilitate a new Medicaid reimbursement framework. In addition, in 2015 the Hospital Center changed the name of BronxCare Health System Alliance IPA, Inc., a dormant entity, to Bronx Health Access IPA, Inc. Both of these entities are for-profit organizations with no activities during 2019 or prior. The Hospital Center is the sole member for both of these entities.

Basis of Accounting Principles of Consolidation

The consolidated financial statements are prepared on the accrual basis. All material intercompany transactions and balances have been eliminated in the consolidation. The consolidated entity is referred to in these notes as "the System."

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

All liquid investments with original maturities of three months or less are deemed to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit. Deposit accounts restricted internally or externally by regulators, donors or tenants are considered to be restricted cash and cash equivalents.

At December 31, 2019, the System's cash accounts exceeded federally insured limits by approximately $147,060,000.

Investments and Net Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investments in non-negotiable certificates of deposit are held at amortized cost. Other investments are valued at the lower of cost or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expense.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the consolidated statements of operations and changes in net assets as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions. Unrealized gains and losses on investments are included in excess of revenues over expenses. Management considers all investments to be trading securities.

The investments in affiliated organizations and the health insurance organization are reported on the equity method of accounting.

Patient Accounts Receivable

Upon adoption of Topic 606, patient accounts receivable reflects the outstanding amount of consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. As a service to the patient, the System bills third-party payors directly and bills the patient when the patient's responsibility for co-pays, coinsurance and deductibles is determined. Patient accounts receivable are due in full when billed.

Prior to the adoption of Topic 606, accounts receivable was reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the System analyzed its past history and identified trends for each of its major payor sources of revenue to estimate the appropriate contractual allowance and provision for uncollectible accounts. Management regularly reviewed data for the sufficiency of the provision for uncollectible accounts. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System recorded a significant provision for uncollectible accounts in the period of service on the basis of their past experience, which indicated that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Contract Assets and Liabilities

Amounts related to health care services provided to patients which have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. Contract assets consist primarily of health care services provided to patients who are still receiving inpatient care in the System at the end of the year. At December 31, 2019 and 2018, the System had contract assets of approximately $5,850,000 and $5,890,000, respectively, included in patient accounts receivable on the consolidated balance sheets.

Amounts received related to health care services that have not yet been provided to patients are contract liabilities. Contract liabilities consist of payments made by patients and third-party payors for services not yet performed. At December 31, 2019 and 2018, the System did not have any contract liabilities.

Grants Receivable

Grants receivable represent amounts due from government agencies and others to fund and/or enhance various programs. No interest is charged on outstanding balances. Management has determined that there is no need to establish an allowance on these receivables.

Other Receivables

Other receivables represent amounts due from various sources for expense reimbursement. Included in other receivables are also amounts due for rental revenues. 1650 BLHC records rental income and tenant accounts receivable based on established rates and lease agreements. The lease is for one year with an option to renew. Rental income is included in auxiliary and other services in the consolidated statements of operations and changes in net assets. No interest is charged or accrued on outstanding receivables.

Estimated Amounts Due to Third-Party Payors

The System is responsible for reporting to various third parties, among which are the Center for Medicare and Medicaid Services (CMS) and New York State Department of Health (DOH). Amounts potentially owed back to these agencies for final settlements are estimated and accrued.

Inventory of Materials and Supplies

Inventories, consisting primarily of medical supplies, are stated at the lower of cost, determined using the first-in, first-out method, or net realizable value.

Tenant, Patient and Resident Deposits Held in Trust

Funds for the personal use of tenants, patients and residents are held in trust for them by the System. These funds are segregated in separate interest-bearing accounts for the tenants, patients and residents and are not available for other uses. Interest earned on security deposits is credited to the tenants' accounts.

Assets Limited as to Use

Assets limited as to use include assets set aside by indenture and other agreements for the repayment of capital debt, capital leases, deferred compensation and assets that are donor restricted. Investment income related to assets limited as to use such indenture agreements is included in nonoperating revenues in the consolidated statements of operations and changes in net assets.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Individual items with a cost in excess of $150 and an estimated useful life of greater than one year are capitalized. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	10-40 years
Land improvements	12-40 years
Leasehold improvements	15-20 years
Equipment	3-20 years

Long-Lived Asset Impairment

The System evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. The System records these costs as direct deductions from the related debt. Such costs are being amortized over the term of the respective debt using the effective interest method.

Deferred Grant Revenue

Deferred grant revenue represents unearned amounts received from government grants and Delivery System Reform Incentive Payments (DSRIP) (see *Note 20)*.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

Patient Service Revenues

Upon adoption of Topic 606, patient service revenue is recognized as the System satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to patients in accordance with the System's policies and implicit price concessions provided to uninsured patients.

The System determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payor groups. The System determines its estimates of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Prior to the adoption of Topic 606, patient service revenues were reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors, and reported net of contractual adjustments, discounts and provision for uncollectible accounts.

Charity Care and Uncompensated Services

The System provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the System does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as patient care service revenue. The System's direct and indirect costs for services furnished under its charity care policy aggregated approximately $40,475,000 and $32,340,000 in 2019 and 2018, respectively.

The System participates in the New York State Department of Health's Indigent Care Pool program which was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by a 1 percent assessment on hospital inpatient service revenue. During the years ended December 31, 2019 and 2018, the System recorded revenue of approximately $71.9 million and $84.5 million, respectively, from the Indigent Care Pool, of which approximately $40.4 million and $49.0 million, respectively, was related to charity care. The System's distribution is based on the System's need as a percentage of statewide need and available statewide funds. During the years ended December 31, 2019 and 2018, the System made payments into the pool for their assessment of approximately, $4.1 million and $3.9 million, respectively.

The System also provides unreimbursed services to the community, which include free or low-cost health screenings, educational programs and information and financial support to, and meeting space for, various community groups. In addition, services to beneficiaries of governmental programs (principally those relating to the Medicare and Medicaid programs) are generally provided at governmentally established rates, which are substantially lower than the System's standard rates and are considered part of the System's benefits to the community. Assistance is also provided to senior citizens and other patients and their families for the submission of forms for insurance, financial counseling and the application to the Medicare and Medicaid programs for health service coverage. The costs of these programs are included in operating expenses.

Professional Liability Claims

The System recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 11*.

Contributions

Contributions are provided to the System either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
Conditional gifts, with or without restriction	
Gifts that depend on the System overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, *i.e.*, the donor-imposed barrier is met

Nature of the Gift	Value Recognized
Unconditional gifts, with or without restriction	
Received at date of gift – cash and other assets	Fair value
Expected to be collected within one year	Net realizable value

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Grants

Generally, grants are recorded as conditional contributions and recognized when the imposed barriers have been met and the System is entitled to the funds. Expense-based grants are recognized as allowable expenses are incurred. Grants from government agencies are subject to audit by the agencies. No provision for any disallowance is reflected in the consolidated financial statements, since management does not anticipate any material adjustments.

The Vital Access/Safety Net Provider Program (VAP) is available to qualified hospitals, nursing homes, diagnostic and treatment centers and home care providers for supplemental financial assistance. Funds are used primarily to improve community care and to achieve defined financial, operational and quality improvement goals. BCSCC participated in the CINERGY Collaborative. This collaborative plans to achieve financial efficiency and quality objectives through participation in initiatives focused on shared services and administrative streamlining; health insurance cost containment; collaboration in an Independent Practice Association model to facilitate managed care contracting and deployment of common clinical and utilization management practices, and enhancement of workforce safety, wellness and effectiveness.

As a participating member of CINERGY Collaborative, BCSCC was awarded a sum for each of the three state fiscal years (SFY) 2018, 2019 and 2020. BCSCC has recorded $521,000 and $502,673 of grant revenue for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019, BCSCC has a conditional contribution with $130,361 remaining under the CINERGY Collaborative agreement, which expired on March 31, 2020. BCSCC had not recorded these amounts as receivables at December 31, 2019 as certain conditions of the agreement had not yet been met.

In 2019, BCSCC was awarded $818,212 related to the nursing home Advanced Training Initiative (ATI), a program aimed at teaching direct caregivers to detect early changes in a resident's status that could lead to health declines and/or hospitalizations. Recipients of ATI funding are to work with labor unions and other organizations to offer training to certified nurse aides and other front-line workers. The System has recorded the amount as a conditional contribution in other liabilities in the accompanying consolidated balance sheet until it satisfies the contribution's conditions which are to use the funds according to the program's requirements. BCSCC expects to satisfy the conditions in 2020.

Departmental funds are administered by specific department heads and, due to contractual arrangements, are not available for general operations of the System.

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include the change in defined benefit pension plan gains and losses, prior service costs or credits and transition assets or obligations.

Income Taxes

With the exception of BCDC, the System is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the System is subject to federal income tax on any unrelated business taxable income.

BCDC accounts for income taxes in accordance with income tax accounting guidance (Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. BCDC determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, the tax position will be realized or sustained upon examination. The term "more likely than not" means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

BCDC recognizes interest and penalties on income taxes as a component of income tax expense.

The System files tax returns in the U.S. federal jurisdiction.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 financial statement presentation. Departmental funds, patient service revenues (net of contractual allowances and discounts) of $30,746,168 that were previously classified as nonoperating income in 2018 were reclassified into patient service revenue within operating revenues without donor restrictions. Similarly, departmental funds expenses of $30,282,289 that were previously classified as nonoperating expenses in 2018 were reclassified into salaries and wages and supplies and expenses within operating expenses in the amount of $25,182,615 and $5,666,514, respectively. Also, accrued vacation payable of $26,514,283 was combined with accrued salaries, wages and related expenses payable on the consolidated balance sheet. These reclassifications had no effect on the excess of revenue over expenses or change in net assets.

Revisions

Certain immaterial revisions have been made to the 2018 financial statements. Security deposits of $204,642 in 2018 were removed from prepaid expenses, deposits, and other assets and included in other assets (noncurrent) on the consolidated balance sheet. These revisions did not have a significant impact on the financial statement line items impacted.

Note 2: Patient Service Revenues

Upon the adoption of Topic 606, patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance Obligations

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the System receiving inpatient acute care services or patients receiving services in its outpatient centers. The System measures the performance obligation from inpatient admission, 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 completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the System does not believe it is required to provide additional goods related to the patient.

Transaction Price

The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy and implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients. The System elected the practical expedient to apply the revenue guidance to a portfolio of contracts with similar characteristics in the revenue recognition model. The System also elected the optional exemption to not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied as of December 31, 2019.

Third-Party Payors and Government Programs

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare: Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.

Medicaid: Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service or per covered member.

Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The System is responsible to report to and is regulated by various governmental third parties, among which are:

- Center for Medicaid Services (CMS)
- Department of Health (DOH)
- New York State Office of the Attorney General's Medicaid Fraud Control Unit (MFCU)
- Internal Revenue Service
- New York State Office of the Attorney General's Charities Bureau
- New York State Department of Health's Independent Office of Medicaid Inspector General (OMIG)
- Other agencies have the right to audit fiscal as well as programmatic compliance, *i.e.*, clinical documentation, among other compliance requirements

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 System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the System's historical settlement activity, 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. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews and investigations.

Refund Liabilities

From time to time, the System will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of December 31, 2019 and 2018, the System's liability for refunds to third-party payors and patients were not significant.

Patient and Uninsured Payors

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients.

Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2019 and 2018, revenue recognized during the year due to changes in estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years was approximately $16,157,000 and $4,684,000, respectively. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Revenue Composition

The System has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies
- Length of the patient's service or episode of care
- Method of reimbursement (fee-for-service or capitation)
- The System's line of business that provided the service (for example, hospital inpatient, hospital outpatient, nursing home, etc.)

For the years ended December 31, 2019 and 2018, the System recognized all of its revenues for services provided to patients over time as the performance obligations were satisfied and the System did not have any patient service revenue for performance obligations satisfied at a point in time.

Revenue from capitation agreements amounted to $16,042,040 and $15,292,123 in 2019 and 2018, respectively. Laws and regulations governing health care programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near-term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from the Medicare and Medicaid programs.

Patient service revenue recognized in the years ended December 31, 2019 and 2018, respectively, was:

	2019	2018
Medicare and Medicare managed care	$ 281,066,677	$ 226,458,276
Medicaid and Medicaid managed care	393,702,606	451,728,604
Other third-party payors	122,913,782	136,583,394
Self-pay and patient responsibilities	1,252,221	42,802,742
Less 2018 provision for uncollectible accounts	-	(48,480,403)
Total	$ 798,935,286	$ 809,092,613

Note 3: Concentration of Credit Risk

The System grants credit without collateral to its patients, most of whom are area residents and are insured under third-party-payor agreements. The mix of net receivables from patients and third-party payors at December 31, 2019 and 2018 is:

	2019	2018
Medicaid and Medicaid managed care	40%	40%
Medicare and Medicare managed care	24%	28%
Other third-party payors	34%	30%
Self-pay and patient responsibilities	2%	2%
	100%	100%

Note 4: Investments

Assets Limited as to Use

Assets limited as to use, at December 31, comprised entirely of cash, include:

	2019	2018
Held by trustee under indenture agreement	$ 463,321	$ 1,869,561
Funds restricted by donor	1,774,136	1,789,520
Investments held by FOJP	101,873	101,349
Investments held by DASNY	-	4,326
	$ 2,339,330	$ 3,764,756

The composition of assets held for deferred compensation at December 31, includes:

	2019	2018
Cash	$ 452	$ 443
Fixed income, corporate obligations	1,493,231	972,655
Mutual funds, fixed income	3,688,003	3,420,892
Mutual funds, equities	7,632,245	5,898,565
Alternative investment		
Guaranteed investment contract	965,333	983,337
	$ 13,779,264	$ 11,275,892

Investments

Investments, all of which are short-term in nature are comprised of the following at December 31:

	2019	2018
Common stocks, pharmaceutical	$ 5,462	$ 4,480

During 2019 and 2018, the System also invested in certificates of deposit. The balance at December 31, 2019 and 2018 was $185,247,231 and $82,916,128, respectively.

Total investment return is comprised of the following:

	2019	2018
Interest and dividends, net	$ 6,145,650	$ 4,170,792
Net unrealized and realized gain (loss) on investments	982	(1,004,209)
	$ 6,146,632	$ 3,166,583

Note 5: Investment in Health Insurance Organization and Equity Investees

Health Insurance Organization

The Hospital Center has invested in a health insurance company as part of a joint venture. The Hospital Center is an 11.12 percent owner in HF Management Services, LLC which, based on the equity method, was valued at $26,567,346 and $23,253,476 as of December 31, 2019 and 2018, respectively.

	Health Insurance Organization	
	2019	2018
Beginning balance	$ 23,253,476	$ 21,859,700
Distributions	(3,506,815)	(2,334,172)
Change in value of investment in health insurance entity	6,820,685	3,727,948
Ending balance	$ 26,567,346	$ 23,253,476

Investments in the health insurance organization are not available for redemption unless the health insurance organization meets certain reserve requirements and distributes excess cash, or the Hospital Center's share is sold to other investors. There are no unfulfilled subscription agreement commitments outstanding.

HF Management Services, LLC has an investment in a subsidiary. Based on underlying financial information, management decided to fully reserve the Hospital Center's proportionate share of the book value of the subsidiary. Based on audited financials of HF Management Services, LLC, from 2019 and 2018, the LLC had approximately total assets of $432,770,000 and $392,481,000, total liabilities of $192,632,000 and $182,152,000, total revenues of $922,287,000 and $816,474,000, and total expenses of $860,928,000 and $782,929,000, respectively.

Equity Investees

BCSCC is invested in three organizations, Concourse Replacement, LLC, Mid-Bronx Endoscopy Center, LLC, and West Farms Morris Park Management, L.P. All three investments are accounted for on the equity method.

Concourse Replacement, LLC (Concourse) is a New York limited liability company owned 50 percent by BCSCC and 50 percent by Island Rehabilitative Services Corp. Concourse was formed for the purpose of owning and operating an end stage renal dialysis facility, established under Article 28 of the New York Public Health Law. Establishment was approved and operations began in November 2008. BCSCC did not invest any amounts in 2019 and 2018. BCSCC received distributions of $400,000 in 2019 and $175,000 in 2018 from Concourse. In addition, a gain of $355,917 and $349,398 was recorded on this investment for the years ended December 31, 2019 and 2018, respectively.

Based on audited draft financials of Concourse from 2019 and audited financials from 2018, the LLC had approximately total assets of $2,966,000 and $3,210,000 total liabilities of $1,840,000 and $1,995,000, total revenues of $8,354,000 and $8,003,000, and total expenses of $7,642,000 and $7,304,000, respectively.

In 2014, BCSCC invested $78,750 in Mid-Bronx Endoscopy Center, LLC (MBEC), a for-profit New York limited liability company, formed on June 18, 2014. During 2015, BCSCC transferred its $78,750 investment in MBEC to the Hospital Center. In 2016, the Hospital Center invested an additional $106,279 and transferred this investment back to BCSCC; BCSCC subsequently invested an additional $277,287 in MBEC during 2016. In 2017, BCSCC invested an additional $104,097 into MBEC and recorded a loss of $733,654. In 2018, BCSCC invested an additional $124,431 and recorded a loss of $162,184. In 2019 BCSCC recorded a gain of $336,540. BCSCC holds 45 percent of the membership interests in MBEC.

Additionally, on February 3, 2017, BCSCC guaranteed 45 percent of two promissory notes; one for $286,000 and one for $4,300,000, in favor of Capstar Bank on behalf of MBEC.

Based on draft financials of MBEC from 2019 and audited financials from 2018, the LLC had approximately total assets of $3,882,000 and $4,206,000, total liabilities of $3,938,000 and $5,009,000, total revenues of $4,244,000 and $2,544,000, and total expenses of $3,496,000 and $2,905,000, respectively.

On February 7, 2019, BCSCC invested $294,000 in West Farms Morris Park Management, L.P. (West Farms), a limited partnership formerly known as West Farms Medical Center, L.P. No activity has occurred since BCSCC's initial investment.

The investments in equity investees balances and activity at December 31, is as follows:

	2019	2018
Balance of beginning equity investment	$ 646,119	$ 915,613
Earnings from equity investments	629,333	(218,925)
Distribution from equity investees	(400,815)	(175,000)
Contribution to equity investees	294,000	124,431
	$ 1,168,637	$ 646,119

Note 6: Property and Equipment

	2019	2018
Land	$ 847,210	$ 847,210
Land improvements	4,548,973	4,547,874
Leasehold improvements	19,000,817	18,529,704
Buildings and building improvements	511,127,637	505,386,227
Equipment	225,335,754	218,507,458
Construction in progress	13,133,309	4,101,510
	773,993,700	751,919,983
Accumulated depreciation and amortization	(591,505,886)	(566,424,307)
	$ 182,487,814	$ 185,495,676

Equipment costing $15,436,362 and associated accumulated amortization of $13,478,271 are subject to capital lease agreements as described in *Note 8*.

Note 7: Long-Term Debt

	2019	2018
MC-Five Mile Commercial Mortgage Finance LLC (A)	$ 19,158,611	$ 19,513,396
DASNY (B)	29,412,545	31,157,040
ARAMARK (C)	880,000	1,040,000
Less unamortized debt issuance costs	(996,625)	(1,171,635)
Less current portion of long-term debt	(2,340,038)	(2,268,744)
Ending balance	$ 46,114,493	$ 48,270,057

A. Mortgages Payable – MC-Five Mile Commercial Mortgage Finance LLC

In December 2013, 1650 BLHC refinanced its building to pay off the remaining balance on an old mortgage and entered into a new mortgage loan agreement in the amount of $21,000,000 with MC-Five Mile Commercial Mortgage Finance, LLC. The mortgage has a fixed interest rate of 5.42 percent. Monthly payments in the amount of $118,184 began February 1, 2014. The loan matures in January 2024 with a balloon payment of $17,495,109 due at that point. The loan is secured by the land and building.

B. Mortgage Payable – DASNY

In February 2009, the Hospital Center entered into a mortgage agreement with DASNY for the construction of an Ambulatory Care Network building. The principal amount of the mortgage was $36,510,000. In December 2017, the Hospital Center took out a new mortgage with DASNY to pay off its old loan balance of $31,001,667. The new loan amount was $32,911,000 with monthly payments in the amount of $235,939 which began on January 1, 2018. The mortgage matures December 1, 2032. The mortgage is collateralized by all of the Hospital Center's property, buildings and equipment, aside from capital lease equipment. The mortgage has a fixed interest rate of 3.52 percent.

C. Long-Term Loan – ARAMARK Healthcare Support Services

On July 1, 2010, the Hospital Center and ARAMARK Healthcare Support Services (ARAMARK) entered into a fifteen-year contract to have ARAMARK provide exclusive management services in the areas of dietary, transportation, call center and clinical technology services. As part of this contract, ARAMARK made a financial commitment to lend interest-free $2,400,000 to the Hospital Center in order to buy certain medical equipment. The loan is payable over a fifteen-year period. If the Hospital Center decides to terminate the service contract before the fifteen years are complete, the loan will become due on termination, or will accrue interest at a 1.5 percent monthly interest rate or the maximum legally allowed interest rate, whichever is lower.

Summary of required minimum payments:

The aggregate amount of required principal payments of long-term indebtedness at December 31, 2019 is as follows:

2019	$ 2,340,038
2020	2,432,512
2021	2,522,902
2022	2,617,019
2023	2,360,592
Later years	37,178,093
Principal amount of required payments	49,451,156
Less current maturities	(2,340,038)
Less unamortized debt issuance costs	(996,625)
Noncurrent portion	$ 46,114,493

Note 8: Leases

The System leases various space and equipment under operating leases expiring 2019 and 2031, respectively, and capital lease agreements on equipment expiring in 2022. Total rent expense in 2019 was $7,804,524, after eliminating $2,092,100 of rent paid by MLK to the Hospital Center. Total rent expense in 2018 was $7,153,694, after eliminating $1,189,238 of rent paid by MLK to the Hospital Center.

The aggregate amount of required payments of all lease obligations at December 31, 2019 is as follows:

	Capital Leases	Operating Leases
2020	$ 1,123,137	$ 380,772
2021	782,647	167,247
2022	106,496	96,072
2023	-	41,076
Total minimum lease payments	2,012,280	$ 685,167
Less amount representing interest	(54,189)	
Future net minimum lease payments	1,958,091	
Less current portion	(1,123,137)	
Long-term obligation under capital leases	$ 834,954	

The System leases space under various leases expiring between 2020 and 2031. Future minimum payments under noncancelable leases are as follows:

2020	$ 7,590,646
2021	5,933,833
2022	5,635,586
2023	5,574,828
2024	502,832
Thereafter	2,357,269
	$ 27,594,994

Note 9: Pension Plans

The System has various retirement plans covering the majority of its employees. The expense for all plans for 2019 and 2018 was $39,680,215 and $40,424,062, respectively.

Substantially all nonunion and New York State Nurses Association (NYSNA) employees were covered by a noncontributory defined benefit pension plan. On June 30, 1998, the Hospital Center terminated coverage for nonunion employees. Effective July 1, 1998, nonunion employees are being covered by a noncontributory defined contribution pension plan.

Defined Contribution Plan

The System has a defined contribution pension plan through the Hospital Center. Contributions to the defined contribution pension plan are made at the discretion of the Hospital Center. The System's defined contribution pension expense for the years ended December 31, 2019 and 2018 was $6,874,489 and $6,216,713, respectively. Accrued pension payable on the defined contribution pension plan on December 31, 2019 and 2018 was $6,671,368 and $6,338,096, respectively, is included in the accrued pension liability, current portion on the consolidated balance sheets.

Defined Benefit Plan

The System has a noncontributory defined benefit pension plan covering all employees who meet the eligibility requirements. The System's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the System may determine to be appropriate from time to time. The System expects to contribute $16,369,500 to the plan in 2020.

The Hospital Center uses a fiscal measurement date for the plans. Information about the plan's funded status follows:

	Pension Benefits	
	2019	2018
Projected benefit obligation	$(369,964,131)	$(308,784,119)
Fair value of plan assets	237,075,749	197,036,431
Funded status	$(132,888,382)	$(111,747,688)

Net pension liabilities recognized in the consolidated balance sheets, which includes accrued amounts for the defined contribution pension plan of $6,671,368 and $6,338,096, as noted above, for the years ended December 31, 2019 and 2018, respectively, were:

	Pension Benefits	
	2019	2018
Current liabilities	$ 23,040,868	$ 19,700,429
Noncurrent liabilities	116,518,882	98,385,355

Amounts recognized in the change in net assets not yet recognized as components of net periodic benefit cost consist of:

	Pension Benefits	
	2019	2018
Net loss	$ 107,467,732	$ 93,958,574
Prior service cost	779,329	1,146,374
	$ 108,247,061	$ 95,104,948

The accumulated benefit obligation for all defined benefit pension plans was $334,210,123 and $282,425,270 at December 31, 2019 and 2018, respectively.

Information for pension plans with an accumulated and projected benefit obligation in excess of plan assets:

	Pension Benefits	
	2019	2018
Projected benefit obligation	$(369,964,131)	$(308,784,119)
Accumulated benefit obligation	(334,210,123)	(282,425,270)
Fair value of plan assets	237,075,749	197,036,431

Other significant balances and costs are:

	Pension Benefits	
	2019	2018
Benefit cost	$ 17,284,731	$ 21,109,034
Employer contributions	16,598,750	12,610,667
Benefits paid	14,204,518	34,574,274

The components of net periodic benefit cost other than the service cost component were $7,949,399 and $10,626,124 for the years ended December 31, 2019 and 2018, respectively, and are included in the line item other components of net pension and benefit costs in the consolidated statements of operations and changes in net assets.

Other changes in plan assets and benefit obligations recognized in change in net assets:

	Pension Benefits	
	2019	2018
Amounts arising during the period		
Net (gain) loss	$ 26,718,113	$ (6,798,789)
Amounts reclassified as components of net periodic benefit cost of the period		
Net (gain) loss	5,384,626	6,152,995
Net prior service cost (credit)	367,045	367,045

Significant assumptions include:

	Pension Benefits	
	2019	2018
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	3.27%	4.25%
Rate of compensation increase	2.75%	2.75%
Weighted-average assumptions used to determine benefit costs:		
Discount rate	4.25%	3.55%
Expected return on plan assets	5.79%	7.00%
Rate of compensation increase	2.75%	2.75%

The Hospital Center's overall investment strategy is to achieve a mix of approximately 5.1 percent of investments for long-term growth with a wide diversification of asset types, fund strategies and fund managers. The target asset allocation percentages for 2019 and 2018 are as follows:

	Pension Benefits Asset Allocation as of December 31,			
	2019		2018	
		Allowable Range		Allowable Range
Asset category				
Domestic Large	25%	7-36%	23%	9-39%
Domestic Mid/Small	13%	4-29%	11%	5-32%
International Equity	14%	12-23%	16%	15-25%
Flexible Capital	10%	4-14%	11%	4-14%
Flexible Income	32%	21-47%	32%	15-60%
Real Assets	4%	0-8%	3%	0-10%
Liquid Capital	2%	0-8%	4%	0-5%
	100%		100%	

Mutual fund securities include corporate funds, money market funds and equity funds. Other types of investments include investments in limited partnerships, comingled funds and other which are cash equivalents.

Pension Plan Assets

The following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include common stock and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include investment in limited partnerships and other investments at observable inputs. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy and include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair values of the System's pension plan assets at December 31, 2019 and 2018, by asset class are as follows:

	2019				
		Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV (A)
Asset Class					
Common stocks					
American Depository Receipts	$ 2,021,844	$ 2,021,844	$ -	$ -	$ -
Industrials	973,450	973,450	-	-	-
Materials	710,782	710,782	-	-	-
Consumer discretionary	7,052,506	7,052,506	-	-	-
Consumer staples	634,078	634,078	-	-	-
Financials	7,991,771	7,991,771	-	-	-
Information technology	10,286,621	10,286,621	-	-	-
Healthcare	2,762,535	2,762,535	-	-	-
Telecommunication	83,178	83,178	-	-	-
Other	898,244	898,244	-	-	-
Mutual funds					
Money market funds	4,770,973	4,770,973	-	-	-
Corporate bonds	66,214,369	66,214,369	-	-	-
Equity funds	71,971,666	71,971,666	-	-	-
Investment in limited partnerships	21,633,537	-	-	-	21,633,537
Commingled funds (A)					
Collective equity funds	39,044,391	-	-	-	39,044,391
Cash	25,804	-	-	-	-
Total	$237,075,749	$176,372,017	$ -	$ -	$ 60,677,928

	2018				
		Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV (A)
Asset Class					
Common stocks					
American Depository Receipts	$ 1,618,563	$ 1,618,563	$ -	$ -	$ -
Industrials	106,427	106,427	-	-	-
Materials	396,372	396,372	-	-	-
Consumer discretionary	5,115,816	5,115,816	-	-	-
Consumer staples	139,467	139,467	-	-	-
Energy	178,717	178,717	-	-	-
Financials	4,789,973	4,789,973	-	-	-
Information technology	5,201,740	5,201,740	-	-	-
Healthcare	1,371,706	1,371,706	-	-	-
Telecommunication	24,696	24,696	-	-	-
Other	422,552	422,552	-	-	-
Mutual funds					
Money market funds	5,766,453	5,766,453	-	-	-
Corporate bonds	53,509,000	53,509,000	-	-	-
Equity funds	62,084,750	62,084,750	-	-	-
Investment in limited partnerships	16,600,817	-	16,600,817	-	-
Other	1,030,000	-	1,030,000	-	-
Commingled funds (A)					
Collective equity funds	38,656,859	-	-	-	38,656,859
Cash and cash equivalents	22,523	-	-	-	-
Total	$197,036,431	$140,726,232	$ 17,630,817	$ -	$ 38,656,859

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2019:

2020	$ 17,178,000
2021	13,720,000
2022	14,423,000
2023	15,075,000
2024	15,641,000
2025-2029	82,560,000

Multiemployer Pension Plans

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

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

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

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

The System's participation in these plans for the annual period ended December 31, 2019, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2019 and 2018 is for the plan's year end at December 31, 2018, and December 31, 2017, respectively. The zone status is based on information the System received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded and plans in the green zone are at least 80 percent 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 date(s) of the collective-bargaining agreement(s) to which the plans are subject. There have been no significant changes that affect the comparability of 2019 and 2018 contributions.

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status 2018	Pension Protection Act Zone Status 2017	FIP/RP Status Pending / Implemented	Contributions of System 2019	Contributions of System 2018	Contributions of System 2017	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
1199 SEIU Health Care Employees Pension Fund	13-3604862 Plan No. 001	Green (a)	Green	N/A	$ 15,504,471	$ 12,701,468	$ 11,387,057	No	September 30, 2021

(a) The latest zone status certification stated that the Plan was in the "green zone" as of April 30, 2020.

(b) The System is party to a significant collective bargaining agreement that requires contributions to 1199 SEIU Health Care Employees Pension Fund. The agreement expires on September 30, 2021. Forty-one (41) percent of the Hospital Center's, eighty (80) percent of MLK's, and eighty (80) percent of BCSCC's employee participants in 1199 SEIU Health Care Employees Pension Fund are covered by that agreement.

Deferred Compensation Plans

The Hospital Center has 457(b) and 457(f) deferred compensation plans for its current senior executives and doctors. Contributions are made up to the annual limit set by the IRS. At December 31, 2019 and 2018, the Hospital Center maintained $11,595,307 and $8,815,732, respectively, for the 457(b) plan and $2,183,957 and $2,460,160 for the 457(f) plan, respectively, as an asset and a liability. The Hospital Center employees contributed $731,408 and $621,254 to the 457(b) plan during 2019 and 2018, respectively.

Note 10: Unemployment Insurance

The System has elected the option of reimbursing the State Unemployment Insurance Fund for payments made to former employees. Unemployment insurance expense for self-insured plans in 2019 and 2018 was $205,326 and $392,070, respectively.

Note 11: Professional Liability Claims

The System maintains a combined professional liability and general liability program on an occurrence basis with its primary layer purchased through a New York State-licensed insurance company. In addition, the System participates in a pooled professional and general liability excess program with certain other health care facilities (primarily hospitals). The participation is with captive and commercial insurance companies utilizing the occurrence-basis-type coverage.

The professional liability program consists of a primary layer in the amount of $10,000,000 per occurrence and $50,000,000 in the aggregate, and there are (batch) integrated occurrence excess policies with combined limits of $100,000,000 per occurrence and $100,000,000 in the aggregate. The (batch) integrated occurrence excess policies provide coverage to two or more claimants, for occurrences which commence over a period of 30 days or more from a single source, excess over $25,000,000 on a claims made basis with a retroactive date of January 1, 2005.

The general liability program consists of a primary layer in the amount of $2,000,000 per occurrence and $10,000,000 in the aggregate, and excess policies with combined limits of $100,000,000 per occurrence and $100,000,000 in the aggregate.

The System established a self-insurance trust to cover the first layer of coverage for claims through December 31, 1998. The self-insurance liability of $300,000 represents the present value of the Hospital Center's anticipated exposure as of December 31, 2019 and 2018.

In addition, the Hospital Center received "Deemed" status from the Health Resource and Services Administration (HRSA) for Free Clinic Federal Tort Claims Act (FTCA) Medical Malpractice Insurance. This is a federal program that covers physician and hospital services within the Hospital Center scope of the Section 330 grant from Bronx-Lebanon Integrated Services System, Inc.

Note 12: Due to and from Third Party Payors

Prior to 2019, BLHWC had filed various appeals based on a prior year reimbursement calculation. In 2019, approximately $4.1 million was awarded to BLHWC and paid to the Hospital Center.

Note 13: Functional Expenses

The System provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services, general and administrative and fundraising functional expense classifications based on the actual use, square footage, and other methods. The following schedule presents the natural classification of expenses by function as follows:

	2019						
		Support Services					
	Health Care Services	General and Administrative	Fundraising	Cost of Special Event	Subtotal	Other Components of Net Periodic Pension and Benefit Costs Included in Expenses	Total
Salaries and wages	$ 391,090,056	$ 27,513,605	$ -	$ -	$ 418,603,661	$ -	$ 418,603,661
Employee benefits	127,458,263	10,183,383	-	-	137,641,646	(8,199,516)	129,442,130
Purchased services and professional fees	62,434,264	54,901,333	-	-	117,335,597	-	117,335,597
Supplies and drugs	66,474,900	968,845	222,252	-	67,665,997	-	67,665,997
Utilities	9,201,431	986,572	-	-	10,188,003	-	10,188,003
Repairs and maintenance	17,701,849	1,359,618	-	-	19,061,467	-	19,061,467
Leases and rentals	5,856,185	1,948,339	-	-	7,804,524	-	7,804,524
Depreciation and amortization	23,747,984	1,548,074	-	-	25,296,058	-	25,296,058
Interest	1,174,018	1,146,746	-	-	2,320,764	-	2,320,764
Other	41,854,566	8,714,672	-	350,167	50,919,405	-	50,919,405
Total expenses	$ 746,993,516	$ 109,271,187	$ 222,252	$ 350,167	$ 856,837,122	$ (8,199,516)	$ 848,637,606

	2018						
		Support Services					
	Health Care Services	General and Administrative	Fundraising	Cost of Special Event	Total	Other Components of Net Periodic Pension and Benefit Costs Included in Expenses	Total
Salaries and wages	$ 370,703,785	$ 34,961,461	$ -	$ -	$ 405,665,246	$ -	$ 405,665,246
Employee benefits	133,722,960	13,220,392	-	-	146,943,352	(10,936,708)	136,006,644
Purchased services and professional fees	65,968,483	56,894,478	-	-	122,862,961	-	122,862,961
Supplies and drugs	84,812,516	931,690	-	-	85,744,206	-	85,744,206
Utilities	4,499,117	4,534,107	-	-	9,033,224	-	9,033,224
Repairs and maintenance	13,931,012	1,100,365	-	-	15,031,377	-	15,031,377
Leases and rentals	5,179,028	1,974,756	-	-	7,153,784	-	7,153,784
Depreciation and amortization	24,036,555	1,563,770	-	-	25,600,325	-	25,600,325
Interest	1,317,398	1,440,138	-	-	2,757,536	-	2,757,536
Other	25,397,140	8,229,979	98,987	194,227	33,920,333	-	33,920,333
Direct cost of special events	-	-	-	(194,227)	(194,227)	-	(194,227)
Total expenses	$ 729,567,994	$ 124,851,136	$ 98,987	$ -	$ 854,518,117	$ (10,936,708)	$ 843,581,409

Note 14: Commitments and Contingencies

Various suits and claims arising against the System in the normal course of operations are pending or are on appeal. Such suits and claims are either specifically covered by insurance or are not material. While the outcome of these suits cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the financial position or results of operations of the System.

Note 15: Accrued Postretirement Benefit Costs

The Hospital Center has a noncontributory postretirement health benefit plan which covers all employees who qualify for health benefits from New York State Nurses Association (NYSNA) which involves employment for a continuous period of 7 years immediately preceding retirement at age 65 or later or for a continuous period of 20 years immediately preceding retirement at ages 62 through 64. The following table sets forth the plan's combined unfunded status and amounts recognized in the balance sheet at:

	2019	2018
Benefit obligation at December 31,	$ (4,908,628)	$ (3,754,893)
Fair value of plan assets at December 31,	-	-
Funded status	$ (4,908,628)	$ (3,754,893)
Accrued benefit cost recorded	$ (4,908,628)	$ (3,754,893)
Benefit cost	$ 361,816	$ 444,938
Employer contribution	99,658	98,930
Benefits paid	99,658	98,930

Weighted average assumptions as of December 31:

	2019	2018
Discount rate	3.18%	4.19%
Rate of compensation increase	N/A	N/A

Cash Flows

Contributions

The Hospital Center expects to contribute $224,000 to the plan in 2020.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, are expected to be paid as follows:

2020	$ 224,000
2021	244,000
2022	260,000
2023	266,000
2024	271,000
2025-2029	1,384,000

Assets and liabilities recognized in the consolidated balance sheets:

	Post Retirement Benefits Cost	
	2019	2018
Current liabilities	$ 224,000	$ 183,000
Noncurrent liabilities	4,684,628	3,571,893

Note 16: Net Assets With Donor Restrictions

Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods:

	2019	2018
Endowments		
Investments subject to spending policy and appropriations to be held in perpetuity, the income is expendable	$ 1,803,405	$ 1,803,405

Note 17: Endowment Funds

General

The Hospital Center has donor-restricted endowment funds established to support health care services and to provide fellowships to further clinical and scientific investigation in the field of medicine. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Hospital Center adopted the *New York Prudent Management of Institutional Funds Act* (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Hospital Center is governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7 percent of the average of its previous five years' balance. As a result of this interpretation, the Hospital 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) 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 endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The objective of the Hospital Center is to maintain the principal endowment funds at the original amount designated by the donor, while generating income. The investment policy to achieve this objective is to invest in low-risk securities. Interest earned in relation to the endowment funds is recorded as unrestricted, since it is spent in the year that it is earned.

Funds with Deficiencies

The Hospital Center does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of December 31, 2019 and 2018

The endowment net asset composition of $1,803,405 consists of two permanently donor-restricted funds.

	With Donor Restrictions
Donor-restricted endowment funds	
To support health care services	$ 290,115
Fellowships to further clinical and scientific investigation in the field of medicine	1,513,290
	$ 1,803,405

Changes in Endowment Net Assets for the Year Ended December 31:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 1,803,405	$ 1,803,405
Interest income	9,616	-	9,616
Amounts appropriated for expenditure	(9,616)	-	(9,616)
Endowment net assets, end of year	$ -	$ 1,803,405	$ 1,803,405

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 1,803,405	$ 1,803,405
Interest income	4,023	-	4,023
Amounts appropriated for expenditure	(4,023)	-	(4,023)
Endowment net assets, end of year	$ -	$ 1,803,405	$ 1,803,405

Investment and Spending Policies

The Hospital Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Hospital Center must hold in perpetuity. The Hospital Center currently holds its held in perpetuity endowment in an interest bearing cash account.

The Hospital Center has a spending policy of appropriating for expenditure each year the return generated by the held in perpetuity endowment which is less than 7 percent of its endowment fund's average fair value over the prior two years which is within NYPMIFA's spending policy guidelines.

Note 18: Liquidity and Availability

The System's financial assets available within one year of the balance sheet date for general expenditure are:

	2019	2018
Financial assets at year end		
Cash and cash equivalents	$ 129,430,379	$ 209,106,889
Certificates of deposit	185,247,231	82,916,128
Investments	5,462	4,480
Patient accounts receivable, net	61,657,296	71,024,225
Grants receivable	4,251,478	3,766,494
Other receivable	2,020,828	2,221,042
Other assets	8,671,235	7,090,552
Investment in equity investees	1,168,637	646,119
Investment in health insurance organization	26,567,346	23,253,476
Assets limited as to use	2,339,330	3,764,756
Assets held for deferred compensation	13,779,264	11,275,892
Total financial assets	435,138,486	415,070,053
Less amounts not available to be used within one year		
Certificates of deposit	(90,404,539)	(40,000,000)
Investment in equity investees	(1,168,637)	(646,119)
Investment in health insurance organization	(26,567,346)	(23,253,476)
Assets limited as to use	(2,339,330)	(3,764,756)
Assets held for deferred compensation	(13,779,264)	(11,275,892)
Financial assets not available to be used within one year	(134,259,116)	(78,940,243)
Financial assets available to meet general expenditures within one year	$ 300,879,370	$ 336,129,810

The System has assets limited as to use for donor-restricted purposes and debt service and for deferred compensation. These assets limited as to use, which are more fully described in *Notes 1* and *4*, are not available for general expenditure within the next year. As part of the System's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the System invests cash in excess of daily requirements in short-term investments.

The Hospital Center's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is available for general expenditure. The Hospital Center invests in a series of certificates of deposit (CDs) with maturities beyond 12 months as of December 31, 2019. These CDs can be redeemed at a date earlier than their maturity date while incurring a penalty upon early redemption.

Note 19: Disclosures About Fair Value of Assets and Liabilities

Fair value is 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 must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

	2019				
		Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV (A)
Asset Class					
Common stocks, pharmaceutical	$ 5,462	$ 5,462	$ -	$ -	$ -
Fixed income					
Corporate obligations	1,493,231	-	1,493,231	-	-
Mutual funds					
Fixed income	3,688,003	3,688,003	-	-	-
Equity funds	7,632,245	7,632,245	-	-	-
		$ 11,325,710	$ 1,493,231	$ -	$ -
Guaranteed investment contract (A)	965,333				
Cash and cash equivalents	2,339,782				
Total	$ 16,124,056				

	2018				
		Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV (A)
Asset Class					
Common stocks, pharmaceutical	$ 4,480	$ 4,480	$ -	$ -	$ -
Fixed income					
Corporate obligations	972,655	-	972,655	-	-
Mutual funds					
Fixed income	3,420,892	3,420,892	-	-	-
Equity funds	5,898,565	5,898,565	-	-	-
		$ 9,323,937	$ 972,655	$ -	$ -
Guaranteed investment contract (A)	983,337				
Cash and cash equivalents	3,765,199				
Total	$ 15,045,128				

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2019 and 2018. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 securities.

Note 20: Conditional Grants and Contributions

The System has received the following conditional promises to give at December 31, 2019 and 2018 that are not recognized in the consolidated financial statements:

	2019	2018
Conditional promise to give upon the establishment of a Cancer Center	$ 4,000,000	$ -
Conditional grant to give upon incurring allowable expenditures under the agreement	51,524,139	79,417,167
	$ 55,524,139	$ 79,417,167

In 2014, the federal government approved a New York State Medicaid waiver request to reinvest $8 billion in federal savings to support implementation of transformative reforms to the State's health care system. Delivery system reforms were primarily implemented through $6 billion of DSRIP for community-level collaborations to achieve programmatic objectives with a goal of reducing avoidable hospital use by 25 percent over five years.

The Hospital Center was designated as a lead agency with numerous collaborating agencies included in the DSRIP. As such, certain funds flowed through the Hospital Center as well as other entities for distribution based on milestones and projects completed as well as reimbursement for applicable expenses to the Hospital Center as well as other members of the DSRIP. The maximum award allocated to the Hospital Center to be paid over the next five-year term, assuming all projects were completed within the prescribed time frame was $153,930,779. In 2019 and 2018, the Hospital Center received $35,670,101 and $36,476,311 and recognized $32,318,184 and $22,382,425 as revenue, respectively. In 2019 and 2018, the Hospital Center had applicable expenses of $16,848,842 and $22,382,425 to other members of DSRIP. In 2019, the DSRIP Sustainability Fund allocated $15,469,342 of the DSRIP funding provided to the Hospital to be used by the Hospital Center rather than distributed to partners. This amount is included in the grant revenue and did not have an associated expense for distributions to DSRIP partners. The unearned amounts of $3,351,917 and $14,093,886 are reflected within the consolidated balance sheets as deferred grant revenue as of December 31, 2019 and 2018, respectively.

Note 21: Change in Accounting Principle

FASB ASC 606, Revenue from Contracts with Customers (Topic 606)

On January 1, 2019, the System adopted Topic 606, *Revenue from Contracts with Customers* (Topic 606), using a modified retrospective method of adoption to all contracts with patients not completed at January 1, 2019.

The core guidance in Topic 606 is to recognize revenue to depict the transfer of promised goods or services to patients in amounts that reflect the consideration to which the System expects to be entitled in exchange for those goods or services. The amount to which the System expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing patient services to its patients.

Prior to the adoption of Topic 606, the majority of the provision for doubtful accounts related to patients without insurance, as well as patient responsibility balances for co-pays, co-insurance and deductibles for patients with insurance. Under Topic 606, the estimated amounts due from patients for which the System does not expect to be entitled or collect from the patients are considered implicit price concessions and excluded from the System’s estimation of the transaction price or revenue recorded.

Adoption of Topic 606 resulted in changes in presentation of financial statements and related disclosures in the notes to the consolidated financial statements. The following table presents the related effect of the adoption of Topic 606 on the consolidated statements of operations and changes in net assets for the year ended December 31, 2019:

Rev Rec

	December 31, 2019		
	Balances Without Adoption of Topic 606	As Reported	Effect of Adoption
Statements of operations and changes in net assets			
Revenues, gains and other support without donor restrictions			
Patient service revenue (net of contractual discounts and allowances)	$ 852,536,934	$ -	$ (852,536,934)
Provision for uncollectible accounts	(57,885,366)	-	57,885,366
Net patient service revenue less provision for uncollectible accounts	798,935,286	798,935,286	-
Total revenues and other support without donor restrictions	863,236,782	863,236,782	-
Statements of cash flows			
Provision for uncollectible accounts	57,885,366	-	(57,885,366)
Changes in patient accounts, grants and other receivables	(48,803,207)	9,082,159	57,885,366

ASU 2016-15 – Classification of Certain Cash Receipts and Cash Payments

In 2019, the System changed their method of presentation and classification for certain cash flow transactions by adopting the provisions of ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. The new accounting guidance in ASU 2016-15 provides clarification on presentation and classification requirements on certain cash flow transactions where previous accounting guidance is either unclear or does not provide specific guidance. This change was applied retrospectively to all periods presented which resulted in a reclassification for changes within the consolidated statement of cash flows for the year ended December 31, 2018. The adoption resulted in $2,509,172 of distributions received from the investments in the health insurance organization and equity investments previously considered to be cash flows from investing to now be included in cash flows from operating activities. The $2,509,172 was reclassified from investing activities to operating activities and there was no effect on the consolidated balance sheet, statement of operations and changes in net assets or overall change in cash, cash equivalents and restricted cash.

ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash

In 2019, the System changed its method of accounting for restricted cash and restricted cash equivalents by adopting the provisions of ASU 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end-of-period balances on the statements of cash flows. This change was applied retrospectively to all periods presented.

The adoption of ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments* and ASU 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash* resulted in the following changes within the statements of cash flows:

	As Stated	As Previously Reported	Effect of Change of Adoption of ASU 2016-15	Effect of Change of Adoption of ASU 2016-18
Operating Activities				
Change in value of investment in health insurance organization, net of distributions	$ (1,393,776)	$ (3,727,948)	$ 2,334,172	$ -
Change in value of investment in equity investments, net of distributions	393,925	218,925	175,000	-
Due to third parties	(1,981,117)	(2,001,331)	-	20,214
Net cash provided by operating activities	80,971,138	78,441,752	2,509,172	20,214
Investing Activities				
Decrease in assets limited as to use	90,655	(1,436,314)	-	1,526,969
Net cash used in investing activities	(5,092,791)	(4,110,588)	(2,509,172)	1,526,969
Increase (decrease) in cash, cash equivalents and restricted cash	$ 69,403,651	$ 67,856,468	$ -	$ 1,547,183
Cash, cash equivalents and restricted cash, beginning of year	143,706,151	141,250,421	-	2,455,730
Cash, cash equivalents and restricted cash, end of year	$ 213,109,802	$ 209,106,889	$ -	$ 4,002,913

ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.

In 2019, the System adopted the provisions of ASU 2017-07, *Compensation – Retirement Benefits* (Topic 715): *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The new accounting guidance provided for in ASU 2017-07 requires the service cost component of net periodic pension cost and net periodic postretirement benefit cost to be presented with other compensation costs arising from services rendered by employees during the year. The service cost component is the only component of net periodic pension cost and net periodic benefit cost eligible for capitalization as part of the construction of an asset. Additional disclosures are required to enhance the presentation of net periodic pension cost and net periodic postretirement cost in the notes to the financial statements. This change was applied retrospectively using the practical expedient for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement cost in the statement of operations and changes in net assets and prospectively as of the beginning of the period of adoption for the capitalization of the service cost component.

	As Stated	As Previously Reported		Effect of Change
Statements of operations and changes in net assets				
Expenses and losses				
Employee benefits	$ 135,599,468	$ 146,536,176	*	$ (10,936,708)
Total operating expenses	843,581,409	824,235,828	*	19,345,581
Operating income	25,904,373	14,503,786	*	11,400,587
Other income (expense)				
Other components of net periodic pension and benefit costs	(10,936,708)	-		(10,936,708)
Excess of revenues over expense	22,394,325	22,394,325		-

*Previously reported amounts herein have been adjusted for the reclassifications discussed in footnote 1 with respect to departmental funds expenses such that this table shows the effect of the System's adoption of ASU 2017-07 only.

ASU 2018-08 – New Grants and Contributions Guidance

In 2019, the System adopted ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies existing guidance on determining whether a transaction with a resource provider, *e.g.*, the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance required all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional. If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, *i.e.*, the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional. This adoption did not result in any changes to how grants are recorded in the consolidated financial statements.

Note 22: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Certificates of Deposit

The System invests in a series of CDs. CDs are exposed to various risks such as interest rate, market and credit risks. At December 31, 2019, the System's CD accounts exceeded federally insured limits by approximately $184,750,000.

Variable Consideration

Estimates of variable consideration in determining the transaction price for patient service revenue are described in *Notes 1* and *2*.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 11*.

General Litigation

The System is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. Some of these allegations are in areas not covered by the System's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The System evaluates such allegations by conducting investigations to determine the validity of each potential claim. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated balance sheets, and the statements of operations and changes in net assets and cash flows of the System. Events could occur that would change this estimate materially in the near term.

Deferred Compensation Agreement

As described in *Note 15*, the amount of annual expense accrued for deferred compensation is based on an estimate of the total amounts payable under the contract over the lifetimes of the beneficiaries.

Pension and Other Postretirement Benefit Obligations

The System has a noncontributory defined benefit pension and postretirement health care plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near-term.

Note 23: Subsequent Events

Subsequent events have been evaluated through September 29, 2020, which is the date the consolidated financial statements were available to be issued.

Current Economic Conditions

The economic conditions as a result of a novel strain of coronavirus (COVID-19) and the incidence of COVID-19 continues to present difficult circumstances and challenges, which in some cases have resulted in unanticipated declines in interest rates on deposits and declines in value of other assets, and could result in declines in contributions, constraints on liquidity and difficulties obtaining financing. Subsequent to year-end, the spread of COVID-19 began to cause some business disruption through reduced patient service revenue, specifically related to elective procedures and physician office visits.

Current and uncertain economic conditions, including unemployment and decreased working hours, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payors may significantly impact patient service revenue, which could have an adverse impact on the System's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program and other state and local reimbursement programs.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments in investment values and estimated price concessions for accounts receivable that could negatively impact the System's ability to meet debt covenants or maintain sufficient liquidity. The related financial impact and duration cannot be reasonably estimated at this time.

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act). The System has elected to defer applicable payroll taxes from March 27, 2020 through December 31, 2020. We currently estimate the deferred amount to be approximately $14,000,000. The deferred amount will be accrued when earned and will be due in two equal installments on December 31, 2021 and December 31, 2022.

In 2020, the System received federal grants from the Department of Health and Human Services as part of the CARES Act. Funds received related to these grants as of the date these consolidated financial statements were available to be issued amounted to approximately $158,945,216. The System was required to attest to the terms and conditions of the grant awards and the funds are conditional and restricted to cover lost revenue or additional costs incurred to prepare for, prevent and respond to COVID-19. The amount of grant funds where conditions will be met and funds retained cannot be reasonably estimated at this time. In addition, under the CARES Act, the System elected to received Medicare Advance payments of approximately $43,376,000 which will need to be paid back at a later date.

Note 24: Future Changes in Accounting Principles

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the consolidated balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The System is evaluating the impact the standard will have on the consolidated financial statements; however, the standard is expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

BronxCare Health System

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture				
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557			
Passed through New York State Department of Health (N)		C30438GG-3450000	$ -	$ 2,528,243
Total U.S. Department of Agriculture			-	2,528,243
U.S. Department of Health and Human Services				
Training in General, Pediatric, and Public Health Dentistry	93.059		-	998,962
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074		-	29,800
HIV-Related Training and Technical Assistance	93.145			
Passed through Albany Medical College		5U10HA29291-00	-	53,264
Title V State Sexual Risk Avoidance Education (Title V State SRAE) Program	93.235		-	121,933
Mental Health Research Grants	93.242			
Passed through New York State Psychiatric Institute		P50MH115843	-	27,311
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		-	609,866
Immunization Cooperative Agreements	93.268			
Passed through New York City Department of Health and Mental Hygiene (N)		GR101A	568,254	1,756,726

BronxCare Health System

Schedule of Expenditures of Federal Awards (Continued)

Year Ended December 31, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services (continued)				
Head Start	93.600			
Passed through Administration For Children and Families		02CH10045	$ -	$ 768,984
Children's Health Insurance Program (CHIP)	93.767			
Passed through New York State Department of Health		C-028912	-	9,533
Cardiovascular Diseases Research	93.837			
State University of New York at Buffalo		7R01HL13755803	-	346
Grants for Primary Care Training and Enhancement	93.884		-	573,308
HIV Emergency Relief Project Grants	93.914			
Passed through NYS DOH AIDS Institute		18-CCR-130	-	1,097,169
HIV Care Formula Grants	93.917			
Passed through Health Research Inc.		5331-04	-	272,872
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		-	634,859
Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants	93.924		-	304,596

BronxCare Health System

Schedule of Expenditures of Federal Awards (Continued)

Year Ended December 31, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services (continued)				
HIV Prevention Activities/Health Department Based	93.940			
Passed through Public Health Solutions		19-CON-130	$ -	$ 65,002
		18-NCT-130	-	194,840
Total HIV Prevention Activities - Health Department Based			-	259,842
Research and Development Cluster				
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153			
Passed through Montefiore Medical Center		5H12HA24849-07-00	-	165,247
Allergy and Infectious Diseases Research	93.855			
Passed through University of California		9879SC	-	35,741
Passed through Veterans Affairs Medical Center		M01-BR-005-0704	-	5,812
Child Health and Human Development Extramural Research	93.865			
Passed through Harvard School of Public Health		5U01 HD052102	-	932,288
Passed through University of North Carolina		5U24HD089880-02	-	73,323
Total Research and Development Cluster			-	1,212,411
Health Center Cluster				
Health Center Program Cluster				
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	H80CS00625	-	849,342
Grants for New and Expanded Services Under the Health Center Program	93.527	H80CS00625	-	2,664,722
Total Health Center Program Cluster			-	3,514,064

BronxCare Health System

Schedule of Expenditures of Federal Awards (Continued)

Year Ended December 31, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services (continued)				
Maternal, Infant, and Early Childhood Home Visiting Cluster				
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.870			
Passed through New York State Office of Children and Family Services		C028299	$ -	$ 205,632
Total Maternal, Infant, and Early Childhood Home Visiting Cluster			-	205,632
Medicaid Cluster				
Medical Assistance Program	93.778			
Passed through New York State Department of Health		C-028912	-	56,176
Total Medicaid Cluster			-	56,176
Total U.S. Department of Health and Human Services			-	12,507,654
Total expenditures of federal awards			$ -	$ 15,035,897

(N) - Includes noncash federal assistance

BronxCare Health System

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2019

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of BronxCare Health System under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of BronxCare Health System, it is not intended to and does not present the financial position, changes in net assets or cash flows of BronxCare Health System.

   BronxCare Health System's consolidated financial statements include the operations of BronxCare Dr. Martin Luther King, Jr. Health Center, which expended $2,319,132 in federal awards during the year ended December 31, 2019 and which are not included in the Schedule. BronxCare Dr. Martin Luther King, Jr. Health Center issues standalone financial statements, including its own schedule of expenditures of federal awards, which are separately audited.

2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. BronxCare Health System has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. BronxCare Health System received noncash assistance of $1,971,221 in the form of food instruments for Catalog of Federal Domestic Assistance (CFDA) number 10.557 during the year ended December 31, 2019, which were passed through from the New York State Department of Health. Distribution of the food instruments is reflected in the Schedule.

   BronxCare Health System received noncash assistance of $1,756,726 in the form of immunizations for CFDA number 93.268 during the year ended December 31, 2019, which were passed through from the New York City Department of Health and Mental Hygiene. Of the $1,756,726 noncash assistance received, $568,254 was passed through from BronxCare Health System to BronxCare Dr. Martin Luther King Jr. Health Center. Distribution of the immunizations is reflected in the Schedule.

4. BronxCare Health System had no federal loan programs during the year ended December 31, 2019.

BronxCare Health System

Schedule of Operations – CFDA 93.224 and 93.527 Funded Programs vs. Other Programs

Year Ended December 31, 2019

	CFDA 93.224/93.527 Funded Programs	Other Programs	Total
Operating Revenues			
Patient service revenues	$ 52,539,810	$ 620,926,678	$ 673,466,488
Grants	4,612,344	47,314,604	51,926,948
Auxiliary services	341,698	8,884,476	9,226,174
Total operating revenues without donor restrictions	57,493,852	677,125,758	734,619,610
Operating Expenses			
Salaries and wages	33,787,536	318,255,196	352,042,732
Employee benefits	13,846,456	96,987,485	110,833,941
Supplies and expenses	8,021,258	221,446,271	229,467,529
Leases and rentals	112,437	4,964,889	5,077,326
Interest	-	2,320,764	2,320,764
Depreciation and amortization	-	23,919,936	23,919,936
Total operating expenses	55,767,687	667,894,541	723,662,228
Gain from Operations	$ 1,726,165	$ 9,231,217	$ 10,957,382

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

The Boards of Trustees/Directors
BronxCare Health System
Bronx, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of BronxCare Health System, which comprise the consolidated balance sheet as of December 31, 2019 and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 29, 2020, which contained an "Emphasis of Matters" paragraph regarding changes in accounting principles.

The financial statements of 1650 BLHC Services Corp., BronxCare New Directions Fund, BronxCare Special Care Center, The Bronx-Lebanon Highbridge Woodycrest Center, The BronxCare Development Corporation, Bronx Health Access IPA, Inc., and BLHC PPS, LLC which are included in BronxCare Health System consolidated financial statements, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with BronxCare Health System.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered BronxCare Health System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of BronxCare Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of BronxCare Health System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BronxCare Health System's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

New York, New York
September 29, 2020

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Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

The Boards of Trustees/Directors
BronxCare Health System
Bronx, New York

Report on Compliance for Each Major Federal Program

We have audited BronxCare Health System's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of BronxCare Health System's major federal programs for the year ended December 31, 2019. BronxCare Health System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

BronxCare Health System's consolidated financial statements include the operations of BronxCare Dr. Martin Luther King, Jr. Health Center, which expended $2,319,132 in federal awards which is not included in BronxCare Health System's schedule of expenditures of federal awards during the year ended December 31, 2019. Our audit, described below, did not include the operations of BronxCare Dr. Martin Luther King, Jr. Health Center because BronxCare Dr. Martin Luther King, Jr. Health Center engaged BKD, LLP to perform a separate audit of compliance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of BronxCare Health System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about BronxCare Health System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of BronxCare Health System's compliance.

Opinion on Each Major Federal Program

In our opinion, BronxCare Health System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of BronxCare Health System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered BronxCare Health System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of BronxCare Health System's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

New York, New York
September 29, 2020

BronxCare Health System

Schedule of Findings and Questioned Costs

Year Ended December 31, 2019

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

   ☒ *Unmodified* ☐ *Qualified* ☐ *Adverse* ☐ *Disclaimer*

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)?	☐ *Yes*	☒ *None reported*
Material weakness(es)?	☐ *Yes*	☒ *No*

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ *Yes* ☒ *No*

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Significant deficiency(ies)?	☐ *Yes*	☒ *None reported*
Material weakness(es)?	☐ *Yes*	☒ *No*

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:

   ☒ *Unmodified* ☐ *Qualified* ☐ *Adverse* ☐ *Disclaimer*

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? ☐ *Yes* ☒ *No*

BronxCare Health System

Schedule of Findings and Questioned Costs (Continued)

Year Ended December 31, 2019

7. BronxCare Health System's major programs were:

Cluster/Program	CFDA Number
Training in General, Pediatric, and Public Health Dentistry	93.059
Health Center Program Cluster	93.224 and 93.527
Research and Development Cluster	93.153, 93.855, and 93.865

8. The threshold used to distinguish between Type A and Type B programs was $750,000.

9. BronxCare Health System qualified as a low-risk auditee? ☒ *Yes* ☐ *No*

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding

No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding

No matters are reportable.

BronxCare Health System

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2019

Reference Number	Summary of Finding	Status

No matters are reportable.