

CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

New York Society for the Relief of the Ruptured and Crippled,  
Maintaining the Hospital for Special Surgery  
Years Ended December 31, 2018 and 2017  
With Report of Independent Auditors

Ernst & Young LLP



New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Consolidated Financial Statements  
and Supplementary Information

Years Ended December 31, 2018 and 2017

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## Report of Independent Auditors

The Board of Trustees  
New York Society for the Relief of the Ruptured and Crippled,  
Maintaining the Hospital for Special Surgery

We have audited the accompanying consolidated financial statements of New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, 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 Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery at December 31, 2018 and 2017, and the consolidated results of its operations and changes in net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

### **Adoption of ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities***

As discussed in Note 1 to the consolidated financial statements, New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery adopted the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, effective December 31, 2018. Our opinion is not modified with respect to this matter.

*Ernst & Young LLP*

April 5, 2019

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Consolidated Statements of Financial Position

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 122,551	\$ 98,391
Receivables:		
Patient care, less allowance for doubtful accounts (2018 – \$19,972; 2017 – \$17,647)	112,679	108,134
Insurance claims receivable	13,025	13,498
Other	36,014	35,554
Total receivables	161,718	157,186
Investments	465,652	449,376
Inventories	12,598	10,973
Prepaid expenses and other current assets	8,025	8,245
Pledges receivable	18,415	14,303
Due from affiliates – net	12,740	13,727
Total current assets	801,699	752,201
Insurance claims receivable, net of current portion	62,855	63,550
Other noncurrent assets	31,198	14,664
Due from affiliates – net	11,071	11,071
Pledges receivable	30,917	10,309
Assets limited as to use	23,447	50,029
Long-term investments	132,365	121,693
Interest in The Hospital for Special Surgery Fund, Inc.	60,604	54,987
Property, plant and equipment – net	614,302	595,523
Total assets	\$ 1,768,458	\$ 1,674,027

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 76,053	\$ 81,713
Accrued salaries and related liabilities	51,637	44,731
Current portion of long-term debt	28,762	43,517
Due to third-party payors – net	4,916	3,509
Insurance claims liabilities	13,025	13,498
Other current liabilities	24,328	19,011
Total current liabilities	<u>198,721</u>	<u>205,979</u>
Long-term debt	252,912	230,375
Insurance claims liabilities, net of current portion	62,855	63,550
Other noncurrent liabilities, including accrued retirement benefits and due to third-party payors – net	174,941	214,402
Total liabilities	<u>689,429</u>	<u>714,306</u>
Commitments and contingencies		
Net assets:		
Without Donor Restrictions:		
Undesignated	713,051	624,162
Designated for quasi-endowment	3,719	3,719
Non-controlling interest in subsidiaries	4,698	(898)
Total Without Donor Restrictions	<u>721,468</u>	<u>626,983</u>
With Donor Restrictions:		
Specific purpose	62,896	67,134
Plant replacement and expansion	25,939	33,488
Research	110,468	93,517
Endowment	158,258	138,599
Total With Donor Restrictions	<u>357,561</u>	<u>332,738</u>
Total net assets	<u>1,079,029</u>	<u>959,721</u>
Total liabilities and net assets	<u>\$ 1,768,458</u>	<u>\$ 1,674,027</u>

*See accompanying notes.*

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Consolidated Statements of Operations and Changes in Net Assets

	<b>Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
<b>Operating revenue</b>		
Net patient service revenue	\$ 1,003,383	\$ 952,044
Other operating revenue	195,361	172,471
Net assets released from restrictions for operations	20,417	17,930
Total operating revenue	1,219,161	1,142,445
<b>Operating expenses</b>		
Salaries and wages	529,545	478,192
Employee benefits	148,597	133,048
Supplies and other	403,194	386,453
Interest expense	8,384	8,584
Depreciation and amortization	70,309	62,824
Bad debt expense	9,490	9,164
Total operating expenses	1,169,519	1,078,265
Operating income before research operations, change in interest in The Hospital for Special Surgery Fund, Inc., loss on extinguishment of debt and operating (gain) loss attributable to non-controlling interest in subsidiaries	49,642	64,180
Research operations:		
Net assets released from restrictions for research operations	37,083	35,524
Operating expenses, including depreciation (2018 – \$3,563; 2017 – \$3,483)	43,518	42,171
Net research operations	(6,435)	(6,647)
Change in interest in The Hospital for Special Surgery Fund, Inc.	10,617	13,276
Loss on extinguishment of debt	(3,650)	–
Operating income before operating (gain) loss attributable to non-controlling interest in subsidiaries	50,174	70,809
Operating (gain) loss attributable to non-controlling interest in subsidiaries	(219)	2,877
Operating income	49,955	73,686

*Continued on pages 6 and 7.*

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Consolidated Statements of Operations and Changes in Net Assets (continued)

Year Ended December 31, 2018

	Without Donor Restrictions				With Donor Restrictions					
	Undesignated	Quasi- Endowment	Non-controlling Interest in Subsidiaries	Total Without Donor Restrictions	Specific Purpose	Plant Replacement and Expansion	Research	Endowment	Total With Donor Restrictions	Total
	<i>(In Thousands)</i>									
Operating income (from page 5)	\$ 49,955	\$ -	\$ -	\$ 49,955	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49,955
Non-controlling members' capital contribution	-	-	5,377	5,377	-	-	-	-	-	5,377
Operating gain attributable to non-controlling interest in subsidiaries	-	-	219	219	-	-	-	-	-	219
Net assets released from restrictions for capital expenditures	9,675	-	-	9,675	-	-	-	-	-	9,675
Changes in net unrealized gains and losses on investments	(13,564)	-	-	(13,564)	-	-	-	-	-	(13,564)
Changes in defined benefit pension and other postretirement plan liability to be recognized in future periods	42,823	-	-	42,823	-	-	-	-	-	42,823
Contributions, including research grants	-	-	-	-	20,221	20,814	37,503	19,659	98,197	98,197
Net asset reclassification	-	-	-	-	339	(20,958)	20,619	-	-	-
Investment activity, including net investment income of \$4,949, net realized gains of \$3,569 and change in net unrealized gains and losses and equity in earnings of alternative investments of (\$14,717)	-	-	-	-	(2,754)	402	(3,847)	-	(6,199)	(6,199)
Net assets released from restrictions for:										
Research operations	-	-	-	-	-	-	(37,083)	-	(37,083)	(37,083)
Capital expenditures	-	-	-	-	(1,627)	(7,807)	(241)	-	(9,675)	(9,675)
Operating expenses	-	-	-	-	(20,417)	-	-	-	(20,417)	(20,417)
Total net assets released from restrictions	-	-	-	-	(22,044)	(7,807)	(37,324)	-	(67,175)	(67,175)
Total change in net assets	88,889	-	5,596	94,485	(4,238)	(7,549)	16,951	19,659	24,823	119,308
Net assets at December 31, 2017	624,162	3,719	(898)	626,983	67,134	33,488	93,517	138,599	332,738	959,721
Net assets at December 31, 2018	\$ 713,051	\$ 3,719	\$ 4,698	\$ 721,468	\$ 62,896	\$ 25,939	\$ 110,468	\$ 158,258	\$ 357,561	\$ 1,079,029

See accompanying notes.

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Consolidated Statements of Operations and Changes in Net Assets

Year Ended December 31, 2017

	Without Donor Restrictions				Total Without Donor Restrictions	With Donor Restrictions					Total
	Undesignated	Quasi- Endowment	Non-controlling Interest in Subsidiaries			Specific Purpose	Plant Replacement and Expansion	Research	Endowment	Total With Donor Restrictions	
	<i>(In Thousands)</i>										
Operating income (from page 5)	\$ 73,686	\$ -	\$ -	\$ -	\$ 73,686	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73,686
Operating loss attributable to non-controlling interest in subsidiaries	-	-	(2,877)	(2,877)	-	-	-	-	-	-	(2,877)
Net assets released from restrictions for capital expenditures	11,351	-	-	11,351	-	-	-	-	-	-	11,351
Change in net unrealized gains and losses on investments	22,258	-	-	22,258	-	-	-	-	-	-	22,258
Change in defined benefit pension and other postretirement plan liability to be recognized in future periods	(39,264)	-	-	(39,264)	-	-	-	-	-	-	(39,264)
Contributions, including research grants	-	-	-	-	20,292	3,799	24,391	6,831	55,313	55,313	55,313
Net asset reclassification	-	-	-	-	-	(10,752)	10,752	-	-	-	-
Investment activity, including net investment income of \$3,467, net realized gain of \$3,553 and change in net unrealized gains and losses and equity in earnings of alternative investments of \$21,867	-	-	-	-	8,740	212	19,935	-	28,887	28,887	28,887
Net assets released from restrictions for:											
Research operations	-	-	-	-	-	-	(35,524)	-	(35,524)	(35,524)	(35,524)
Capital expenditures	-	-	-	-	(1,121)	(9,888)	(342)	-	(11,351)	(11,351)	(11,351)
Operating expenses	-	-	-	-	(17,930)	-	-	-	(17,930)	(17,930)	(17,930)
Total net assets released from restrictions	-	-	-	-	(19,051)	(9,888)	(35,866)	-	(64,805)	(64,805)	(64,805)
Total change in net assets	68,031	-	(2,877)	65,154	9,981	(16,629)	19,212	6,831	19,395	84,549	
Net assets at December 31, 2016	556,131	3,719	1,979	561,829	57,153	50,117	74,305	131,768	313,343	875,172	
Net assets at December 31, 2017	\$ 624,162	\$ 3,719	\$ (898)	\$ 626,983	\$ 67,134	\$ 33,488	\$ 93,517	\$ 138,599	\$ 332,738	\$ 959,721	

See accompanying notes.

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Consolidated Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Change in net assets	\$ 119,308	\$ 84,549
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in interest in The Hospital for Special Surgery Fund, Inc.	(10,617)	(13,276)
Distribution from The Hospital for Special Surgery Fund, Inc.	5,000	4,000
Loss on extinguishment of debt	3,650	–
Depreciation and amortization	73,872	66,307
Amortization of bond premium	(58)	(266)
Change in defined benefit pension and other postretirement plan liability to be recognized in future periods	(42,823)	39,264
Change in net unrealized gains and losses on investments and equity in earnings of alternative investments	34,949	(56,008)
Realized gains on investments	(8,381)	(5,443)
Contributions to net assets with donor restrictions	(19,659)	(6,831)
Contributions restricted to acquisition of plant assets – net	(20,814)	(3,799)
Employer contributions to pension plan	(31,500)	(31,500)
Changes in operating assets and liabilities:		
Receivables, net	(5,005)	(12,810)
Net due from affiliates	(574)	(808)
Pledges receivable, net	(24,720)	9,740
Accounts payable and accrued expenses and accrued salaries and related liabilities	1,246	8,710
Current amount due to third-party payors	1,407	(364)
Other noncurrent liabilities, including due to third-party payors	34,862	37,876
Other assets and liabilities, net	(16,272)	(8,994)
Net cash provided by operating activities	<u>93,871</u>	<u>110,347</u>
<b>Investing activities</b>		
Additions to property, plant and equipment	(92,426)	(125,615)
Net (increase) decrease in investments	(51,993)	6,294
Net decrease in assets limited as to use	26,620	18,812
Net cash used in investing activities	<u>(117,799)</u>	<u>(100,509)</u>
<b>Financing activities</b>		
Repayments of Federal Housing Administration insured mortgage loans	(141,322)	–
Principal payments on other long-term debt	(35,145)	(45,219)
Proceeds from issuance of Series 2018 Bonds	179,220	–
Proceeds from other long-term borrowings	4,862	27,985
Contributions restricted to acquisition of plant assets – net	20,814	3,799
Contributions to net assets with donor restrictions	19,659	6,831
Net cash provided by (used) in financing activities	<u>48,088</u>	<u>(6,604)</u>
Net increase in cash and cash equivalents	24,160	3,234
Cash and cash equivalents at beginning of year	98,391	95,157
Cash and cash equivalents at end of year	<u>\$ 122,551</u>	<u>\$ 98,391</u>

See accompanying notes.

# New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery

## Notes to Consolidated Financial Statements

December 31, 2018

### 1. Organization and Significant Accounting Policies

#### Organization

The accompanying consolidated financial statements include the accounts of New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery (the Hospital) and its subsidiaries; HSS ASC of Manhattan, LLC (Manhattan ASC), HSS West Side Ambulatory Surgery Center, LLC (West Side ASC), TJA Orthopedic Surgery, P.C. (TJA) and HSS – Florida Physicians LLC (HSS-Florida) but do not include the Hospital's separately incorporated affiliates: The Hospital for Special Surgery Fund, Inc. (Fund); HSS Properties Corporation (Properties); HSS Horizons, Inc. (Horizons); HSS Ventures, Inc. (Ventures); and Medical Indemnity Assurance Company, Ltd. (MIAC).

Fund is a not-for-profit corporation organized under the Not-for-Profit Corporation Law of the State of New York for the purpose of supporting the charitable, educational and scientific purposes of the Hospital and other related charitable health care organizations. Fund's subsidiaries include Properties, Horizons, Ventures and MIAC, collectively referred to herein as Fund Inc. and Affiliates.

In 1998, The Society of the New York Hospital and The Presbyterian Hospital in the City of New York (Presbyterian) merged to form the New York Presbyterian Hospital (NYPH). Subsequently, the Hospital, NYPH and the Joan and Sanford I. Weill Medical College and Graduate School of Medical Sciences of Cornell University (Cornell) agreed to restructure their relationship, prompted in large measure by regulatory and operational issues raised by the addition of Presbyterian, a hospital with an established orthopedics department. The restructuring resulted in a Corporate Relationship Agreement (the Agreement) that reaffirms and continues the Hospital's medical and clinical affiliation with NYPH by permitting and requiring the Hospital to continue to function as the principal orthopedic and rheumatology facility for NYPH at its East 68-East 70 Street facility (East Campus). In 2018, the Hospital, NYPH and Cornell entered into a tri-partite agreement that augments the Agreement with respect to a limited orthopedic practice formed by the Hospital within NYPH at its East Campus.

Under the Agreement, the Hospital became a membership corporation, with the five Hospital members elected by an NYPH affiliate, subject to specific affiliation guidelines for each of the five member positions that require three of the Hospital members to come from the Hospital's Board of Trustees (with one of the three to also serve on the Board of the NYPH affiliate). The members have the authority to elect the Hospital's Board of Trustees, as nominated by the

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

Governance Committee of the Hospital's Board of Trustees or by a member. As a result of certain procedural elements of the Agreement, the Hospital has not had any significant changes in the nominating process for, or in the composition of, its Board of Trustees.

The Agreement did not involve a merger of the institutions and the Hospital's net assets remain under the Hospital's control.

As part of the restructuring, the Hospital executed an agreement with Cornell that established the orthopedics department at the Hospital as the Department of Orthopedics at Cornell. Additionally, the Hospital, NYPH and Cornell have developed a tri-partite agreement pertaining to the academic affiliation of the institutions, which maintains and enhances the historical clinical and academic relationship among the parties.

Manhattan ASC is a limited liability company organized under the laws of the State of New York. Manhattan ASC was formed in 2014 and offers outpatient orthopedic surgery services in collaboration with a group of Hospital surgeons. Operations of Manhattan ASC commenced in September 2017. The Hospital owns 51% of Manhattan ASC and the remaining 49% is owned by certain members of the Hospital's surgical staff. The Hospital has consolidated the activities of Manhattan ASC in the consolidated financial statements. Non-controlling interests represent the portion of Manhattan ASC not controlled by the Hospital, but are required to be presented in the Hospital's consolidated financial statements.

West Side ASC is a limited liability company organized under the laws of the State of New York. West Side ASC was formed in 2016 and will offer outpatient orthopedic surgery services in collaboration with a group of Hospital surgeons. The Hospital owns 67% of West Side ASC and the remaining 33% is owned by certain members of the Hospital's surgical staff. The Hospital has consolidated the activities of West Side ASC in the consolidated financial statements. Non-controlling interests represent the portion of West Side ASC not controlled by the Hospital, but are required to be presented in the Hospital's consolidated financial statements. Operations of West Side ASC are expected to commence during 2019.

# New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery

## Notes to Consolidated Financial Statements (continued)

### 1. Organization and Significant Accounting Policies (continued)

In 2016, the Hospital executed a Collaboration Agreement with The Stamford Hospital (SH), an acute care hospital in Stamford, Connecticut, and Stamford Health, Inc. (SHI), the sole member of SH. Under the Collaboration Agreement, the Hospital manages the SH Department of Orthopedic Surgery, including certain discrete orthopedic space and activities within the main building of SH, which has been named HSS Orthopedics at Stamford Hospital, and within SH's Tully Center, which has been named HSS Orthopedics at Tully, that SH operates.

Under the terms of the Collaboration Agreement, only SH-credentialed surgeons employed by or otherwise contractually affiliated with TJA, a New York professional service corporation owned by a designee of the Hospital, are permitted to perform surgery at HSS Orthopedics at Stamford Hospital and HSS Orthopedics at Tully. Operations at HSS Orthopedics at Tully and HSS Orthopedics at Stamford Hospital commenced in February 2017 and November 2017, respectively. Activity from the Collaboration Agreement is recognized within other operating revenue in the consolidated statement of operations and changes in net assets. Amounts were not significant in 2018 and 2017.

HSS-Florida Physicians, LLC (HSS-Florida) is a limited liability company organized under the laws of the State of Florida and was formed on January 4, 2018. The purpose of HSS-Florida is to develop and operate a Florida licensed musculoskeletal outpatient clinic in West Palm Beach, Florida. The Hospital controls and owns 51% and a limited liability company affiliated with a third-party health system owns 49%. The Hospital has consolidated the activities of HSS-Florida in the consolidated financial statements. Non-controlling interests represent the portion of HSS-Florida not controlled by the Hospital, but are required to be presented in the Hospital's consolidated financial statements. Operations of HSS-Florida are expected to commence in 2020.

#### Basis of Presentation

The financial statements of the Hospital have been prepared in accordance with U.S. generally accepted accounting principles, which require the Hospital to report information regarding its consolidated financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Hospital's management and the Board of Trustees.

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Hospital or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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

**Performance Indicator**

The consolidated statements of operations and changes in net assets include operating income as the performance indicator. Excluded from the performance indicator are net assets released from restrictions for capital expenditures, changes in net unrealized gains and losses on investments and unrealized losses on securities included in accounts not managed by external parties, change in defined benefit pension and other postretirement plan liability to be recognized in future periods, and operating (gain) loss attributable to non-controlling interest in subsidiaries.

**Cash and Cash Equivalents**

The Hospital considers highly liquid financial instruments purchased with a maturity of three months or less, excluding those held in its investment portfolio and assets limited as to use, to be cash equivalents. The Hospital maintains its cash deposits with certain financial institutions. Total deposits maintained at these institutions exceed the amount insured by Federal agencies and, therefore, bear a risk of loss. Cash and cash equivalents includes \$0.7 million of amounts held in escrow for various purposes at December 31, 2017. There is no amount held in escrow at December 31, 2018.

New York Society for the Relief of the Ruptured and  
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Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Patient Revenue and Receivables**

Patient revenue and receivables from third-party programs for which the Hospital receives payment under various reimbursement formulae or negotiated rates are stated at the estimated net amounts realizable and receivable from such payors, which are generally less than the Hospital's established billing rates. See Note 2 for additional information relative to third-party payor programs.

**Charity Care and Community Benefit**

The mission of the Hospital is to provide the highest quality patient care, improve mobility and enhance the quality of life for all and to advance the science of orthopedic surgery, rheumatology and their related fields through research and education. The Hospital does this regardless of race, color, creed, sexual orientation or ethnic origin.

Consistent with its mission, the Hospital invests significant amounts for the benefit of its local, national and international communities through patient care, education, research and other community benefit activities. The calculation of community benefits is consistent with the guidelines prescribed by the Internal Revenue Service.

The Hospital maintains a financial assistance program that provides full or partial uncompensated care to eligible patients. The eligibility threshold is 700% of the Federal Poverty Guidelines, which is in excess of the New York State minimum requirements of 300%. As the collection of amounts determined to qualify as financial assistance is not pursued, such amounts are not reported as a component of net patient service revenue. Costs of providing financial assistance are estimated by multiplying the total charges incurred by the patients that qualify for financial assistance by a ratio of historical expenses to charges as derived from the Hospital's accounting records.

The Hospital also provides health care services to patients with government sponsored means-tested insurance (Medicaid and other similar type plans) at amounts less than the estimated costs of those services. Losses from Medicaid insurance are obtained by identifying total cost (direct and indirect) in providing patient service to Medicaid and Medicaid Managed Care patients from the Hospital's accounting records.

New York Society for the Relief of the Ruptured and  
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Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

In addition to providing health care services to Medicaid patients at a loss, the Hospital also provides services to Medicare patients at a loss. The loss related to providing services to Medicare patients is calculated in a similar manner as described above for Medicaid patients.

The Hospital is a preeminent provider of education in the field of musculoskeletal medicine for physicians and allied health professionals. The community benefit represents estimated costs in excess of amounts reimbursed by third-party payors such as direct medical education from the Medicare program.

The Hospital is a leader in the advancement of research in musculoskeletal diseases. The Hospital's community benefit in research represents fully allocated amounts used for basic, translational and clinical research from governmental, other not-for-profit and Hospital resources. Community benefit for research is estimated using historical allocation percentages from the Hospital's accounting records.

The Hospital also participates in numerous other community activities, including social service, outreach and education to patients and the general public. The community benefit is derived from actual expenditures, less amounts funded from outside sources.

The following is a summary of the Hospital's community benefit for providing financial assistance, support of governmental sponsored insurance programs, health professions education, research and other community benefit activities. Amounts for activities as reported below are based on estimated and actual data, subject to changes in estimates upon finalization of the Hospital's cost report and other government filings.

	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
Financial assistance (charity care), net (see below)	\$ <b>13,071</b>	\$ 11,164
Un-reimbursed cost of means-tested government sponsored health care	<b>23,026</b>	22,344
Health professions education	<b>45,092</b>	43,507
Research	<b>22,015</b>	21,744
Other community benefit activities	<b>8,022</b>	7,752
	<b>111,226</b>	106,511
Un-reimbursed cost of providing Medicare sponsored health care	<b>73,680</b>	62,831
	<b>\$ 184,906</b>	\$ 169,342

New York Society for the Relief of the Ruptured and  
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Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

Funds received to offset financial assistance provided are included above and totaled approximately \$1.9 million and \$1.8 million for the years ended December 31, 2018 and 2017, respectively.

**Investments and Investment Income**

The Hospital maintains a pooled investment program for certain investments held by the Hospital, Fund and Properties. Investments consist of money market mutual funds, equity mutual funds, including exchange-traded funds, marketable equity securities, fixed income securities, fixed income mutual funds, alternative investments and cash and cash equivalents. All investments are carried at fair value based on quoted market prices (except alternative investments).

Alternative investments (nontraditional, not readily marketable securities) consist of common collective trust funds, event-driven funds, multi-strategy hedge funds, emerging market debt funds, global hedge funds and private equity funds. Alternative investment interests generally are structured such that the investment pool holds a limited partnership interest or an interest in an investment management company. The investment pool's ownership structure does not provide for control over the related investees and the investment pool's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. Future funding commitments for alternative investments in the investment pool aggregated approximately \$6.0 million at December 31, 2018.

Individual investment holdings within the alternative investments include non-marketable and market-traded debt and equity securities and interests in other alternative investments. The investment pool may be exposed indirectly to securities lending, short sales of securities and trading in futures and forward contracts, options and other derivative products. Alternative investments often have liquidity restrictions under which the pooled investment capital may be divested only at specified times. The liquidity restrictions range from approximately one month to twelve years. Liquidity restrictions may apply to all or portions of a particular invested amount.

Alternative investments included in the investment pool are stated in the accompanying consolidated statements of financial position based upon net asset values derived from the application of the equity method of accounting. Alternative investments held by the defined benefit pension plan are stated in the accompanying consolidated statements of financial position at fair value based upon, as a practical expedient, net asset values derived from the application of the

New York Society for the Relief of the Ruptured and  
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Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

equity method of accounting. Financial information used by the Hospital to evaluate its alternative investments is provided by the investment manager or general partner and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Hospital's annual financial statement reporting.

There is uncertainty in determining values of alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings and time lags associated with reporting by the investee companies. As a result, there is at least a reasonable possibility that estimates will change.

Investment income, including realized, and the net change in unrealized gains and losses and equity in earnings of alternative investments, earned on investment assets upon which restrictions have been placed by donors, is added to or reduces net assets with donor restrictions. All other investment income is reflected in the accompanying consolidated statements of operations and changes in net assets. The net change in unrealized gains and losses is excluded from the performance indicator, unless deemed to be an other than temporary decline in fair value or if the unrealized loss pertains to securities included in accounts managed by external parties, in which case the amount is included within the performance indicator. See Note 3 for additional information relative to investments.

New York Society for the Relief of the Ruptured and  
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Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Pledges**

Pledges (promises to give) are enforceable, but unsecured, and derived from individuals, corporations and foundations. Allowances for uncollectible amounts are provided to reflect pledges at their estimated realizable value based on management's review of individual pledges and historical collection percentages. Outstanding pledges receivable, net of present value allowances (based on a range of interest rates of 0.7% to 3.5%) of approximately \$3.4 million at December 31, 2018 and \$0.4 million at December 31, 2017 are due to be collected at December 31 over the following periods:

	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
Less than one year	\$ 20,834	\$ 16,272
One to five years	28,089	11,241
Greater than five years	6,264	213
	55,187	27,726
Less allowance for uncollectible amounts	5,855	3,114
	49,332	24,612
Less current portion	18,415	14,303
	<b>\$ 30,917</b>	<b>\$ 10,309</b>

**Assets Limited as to Use**

Assets limited as to use represent assets whose use is restricted for specific purposes under terms of agreements, donor stipulations or are internally designated. Such assets consist of money market mutual funds, fixed income securities and cash and cash equivalents.

New York Society for the Relief of the Ruptured and  
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Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Deferred Financing Costs**

Deferred financing costs represent costs incurred to obtain financing for construction and renovation projects at the Hospital. Amortization of these costs is provided using the effective interest method over the term of the related debt. Unamortized deferred financing costs of approximately \$2.8 million and \$4.5 million at December 31, 2018 and 2017, respectively, have been reported as a direct reduction from long-term debt. Amortization expense was approximately \$0.2 million and \$0.5 million for the years ended December 31, 2018 and 2017, respectively. The Hospital wrote off approximately \$4.4 million of deferred financing costs related to the extinguishment of certain long-term debt. See Note 5 for additional information relative to debt.

**Property, Plant and Equipment**

Property, plant and equipment purchased are stated at cost and those acquired by gifts and bequests are stated at fair value established at the date of acquisition. The carrying amounts of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. See Note 4 for additional information relative to property, plant and equipment.

**Depreciation and Amortization**

Depreciation and amortization of all depreciable assets is computed using the straight-line method over the estimated useful life of the asset or the lesser of the estimated useful life of the asset or lease term.

New York Society for the Relief of the Ruptured and  
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Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Contributions**

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

**Inventories of Supplies**

Inventories, consisting mainly of supplies, are stated at the lower of average cost or market determined by the first-in, first-out method.

**Assets Held by Related Organizations**

The Hospital recognizes its beneficial interest in the net assets without donor restrictions held by a related organization as interest in The Hospital for Special Surgery Fund, Inc. in its consolidated statements of financial position and also recognizes the periodic change in such interest in its consolidated statements of operations and changes in net assets. Such interest does not include the net assets of Fund's subsidiaries described above. In 2018 and 2017, Fund made distributions of \$5.0 million and \$4.0 million to the Hospital which is recorded as a reduction in the interest in The Hospital for Special Surgery Fund, Inc.

New York Society for the Relief of the Ruptured and  
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Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Use of Estimates**

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, such as estimated uncollectible for accounts receivable for services to patients, insurance claims liabilities and receivables and estimated receivables from and payables to third-party payors, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. The allowance for doubtful accounts, insurance claims liabilities and receivables and the estimated net amount due to third-party payors, among other accounts, require significant use of estimates. Actual results could differ from those estimates. Management believes that amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual should not have a material effect on the Hospital's consolidated financial position.

**Recent Accounting Pronouncements**

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). ASU 2016-01 will require business-oriented health care not-for-profit entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value, and recognize any changes in fair value in the performance indicator unless the investments qualify for a new practicability exception. The practicability exception is available for equity investments without readily determinable fair values. Health care not-for-profit entities will no longer be able to recognize unrealized gains and losses on equity securities they classify today as other than trading separately from the performance indicator. The guidance is effective for annual periods beginning after December 15, 2018, and for interim periods within annual periods beginning a year later. Early adoption is permitted for annual periods beginning after December 15, 2017, and interim periods therein. Adoption of ASU 2016-01 will require the Hospital to present the change in unrealized gains and losses on unrestricted investments within the performance indicator.

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Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The ASU requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet. The ASU will require disclosures to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The ASU is effective for the Hospital beginning January 1, 2019 and will be applied using a modified retrospective approach. The Hospital is currently in the process of evaluating its lease contracts as well as certain service contracts that may include embedded leases. Additionally, the Hospital is finalizing its analysis of certain key assumptions that will be utilized at the transition date including the incremental borrowing rate. The primary effect of the new standard will be to record right-of-use assets and obligations for current operating leases which will have a material impact on the consolidated statement of financial position and significant incremental disclosures in the consolidated financial statement footnotes. The transition adjustment is not expected to have a material impact on the consolidated statement of operations and changes in net assets.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Hospital adopted ASU 2016-14 on December 31, 2018. The adoption of ASU 2016-14 resulted in the presentation of two classes of net assets, without donor restrictions and with donor restrictions, which were previously presented as unrestricted, temporarily and permanently restricted net assets. Additionally, ASU 2016-14 requires additional disclosures around liquidity and functional expenses which have been included in Notes 9 and 16, respectively.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The standard is effective for the Hospital for fiscal years

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Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. Adoption of ASU 2017-07 will require the Hospital to include the service cost component of net periodic benefit cost related to its cash balance defined benefit plan and other postretirement benefit plan (aggregate of approximately \$19.3 million and \$16.1 million for 2018 and 2017, respectively) within salaries and wages on the consolidated statements of operations and changes in net assets and to present all other components (aggregate of approximately \$8.8 million and \$6.6 million for 2018 and 2017, respectively) as a separate line item outside of any subtotal within the performance indicator. Net periodic benefit cost is recorded currently as a component of employee benefits on the consolidated statements of operations and changes in net assets.

**Tax Status**

The Hospital and TJA are Section 501(c)(3) organizations exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code and is exempt from New York state and local income taxes. The Manhattan ASC and West Side ASC are New York limited liability companies classified as a partnership for U.S. Federal income tax purposes. HSS-Florida is a Florida limited liability company classified as a partnership for U.S. Federal income tax purposes.

The Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017. For tax-exempt entities, TCJA requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income subject to tax, pay an excise tax on compensation above certain thresholds, and record income or losses for tax determination purposes from unrelated business activities on an activity-by-activity basis, among other provisions. Regulations necessary to implement certain aspects of TCJA are expected to be promulgated by the Internal Revenue Service (IRS) in 2019. As of and for the year ended December 31, 2018, the Hospital has made reasonable estimates of the provision for income taxes, the compensation excise tax, and the effects, if any, on existing deferred tax balances based on accounting guidance included in Accounting Standards Codification 740, *Income Taxes*. The Hospital will continue to refine its calculations in future periods as additional regulations and guidance are issued by the IRS. The impact of TCJA should not have a significant effect on the Hospital's consolidated financial statements.

**Reclassifications**

Certain reclassifications have been made to the 2017 financial statements to conform to the presentation in the 2018 financial statements.

New York Society for the Relief of the Ruptured and  
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Notes to Consolidated Financial Statements (continued)

**2. Patient Revenue and Receivables**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition*, and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 are effective for the Hospital for annual periods beginning after December 15, 2017, and interim periods within that fiscal year. The Hospital adopted the standard effective January 1, 2018, using the modified retrospective method. The adoption did not have a significant impact on the consolidated financial statements.

Effective January 1, 2018 upon the adoption of ASU 2014-09, net patient service revenue and physician practice revenue (collectively "patient revenue") is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. Physician practice revenue is included as a component of other operating revenue in the consolidated statements of operations and changes in net assets. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration (reductions to revenue) for retroactive revenue adjustments due to settlement of ongoing and future audits, reviews, and investigations.

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

The Hospital's initial estimate of the transaction price for services provided to patients subject to revenue recognition is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts and other reductions to the Hospital's standard charges. The Hospital determines the transaction price associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered (see

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Notes to Consolidated Financial Statements (continued)

**2. Patient Revenue and Receivables (continued)**

description of third-party payor payment programs below). The estimates for contractual allowances and discounts are based on contractual agreements, and the Hospital's historical experience. For patients that are not otherwise covered under a contractual agreement and who do not qualify for financial assistance, the Hospital determines the transaction price associated with services on the basis of charges and performs procedures to determine whether it is possible that the patients will pay the amounts owed. While the Hospital fully expects to collect the entire amount due from patients, historical results indicate that the ultimate realization is slightly less than the full amount billed. Any amounts not collected are recorded as bad debt expense and are not considered implicit price concessions. Under the Hospital's financial assistance policy, if the patient's income for family size is at or below 700% of the Federal Poverty Level, based on the applicable screening process, the Hospital and its employed physicians will provide services at a discounted amount or for free. As the collection of amounts determined to qualify as financial assistance is not pursued, such amounts are not reported as a component of patient revenue.

Generally, the Hospital bills patients and third-party payors several days after the services are performed and/or the patient is discharged. Patient revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Hospital. Patient revenue for performance obligations satisfied over time is recognized based on the level of services provided during the reporting period. The Hospital believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient services. The Hospital measures the performance obligation from admission into the hospital or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or the completion of the outpatient visit.

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

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Notes to Consolidated Financial Statements (continued)

**2. Patient Revenue and Receivables (continued)**

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

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

At December 31, 2018, patient care receivables less allowance for doubtful accounts is comprised of the following components (in thousands):

Patient receivables	\$ 107,262
Contract assets	<u>5,417</u>
	<u>\$ 112,679</u>

Receivables related to physician practice are not significant at December 31, 2018. Contract assets are related to in-house patients who were provided services during the reporting period but were not discharged as of the reporting date and for which the Hospital does not have the right to bill.

Settlements with third-party payors (see description of third-party payor payment programs below) for cost report filings and retroactive adjustments due to ongoing and future audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Hospital's historical settlement activity (for example, cost report final settlements or repayments related to recovery audits), including an assessment to ensure that it is probable that a significant

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Notes to Consolidated Financial Statements (continued)

**2. Patient Revenue and Receivables (continued)**

reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item.

Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant for the year ended December 31, 2018.

Patient revenue for the year ended December 31, 2018, by payor is as follows (in thousands):

	<b>Net Patient Service Revenue</b>	<b>Physician Practice Revenue</b>
Medicare and Medicare managed care	\$ 174,918	\$ 23,060
Medicaid and Medicaid managed care	16,213	628
International	27,176	1,706
Workers' compensation	19,660	3,610
Commercial	761,460	92,795
Self-pay	3,956	3,402
	<b>\$ 1,003,383</b>	<b>\$ 125,201</b>

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

For periods commencing prior to January 1, 2018 (prior to the adoption of ASU 2014-09), patient revenue is reported at the estimated net realizable amounts due from patients; third-party payors and other for services rendered and includes estimated future retroactive revenue adjustments due to ongoing and future audits and reviews. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and

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Notes to Consolidated Financial Statements (continued)

**2. Patient Revenue and Receivables (continued)**

such adjustments are recorded in future periods as they become known or as years are no longer subject to audits, reviews and investigations. Patient revenue and accounts receivable from third-party programs for which the Hospital receives payment under various reimbursement formulae or negotiated rates are stated at the estimated net amounts realizable and receivable from such payors, which are generally less than the Hospital's established billing rates.

The amount of allowance for doubtful accounts is based upon management's assessment of historical and expected net collection, business and economic conditions, trends in health care coverage and other collection indicators. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

**Non-Medicare Reimbursement**

In New York State, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payors pay inpatient and outpatient hospital rates promulgated by the New York State Department of Health on a prospective payment basis system. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services (CMS), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS are not recognized until the Hospital is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payors will continue to be made in future years.

**Medicare Reimbursement**

Medicare pays hospitals for most inpatient and outpatient services under its respective national prospective payment systems, and uses other, generally fee schedule based, methodologies for payment for other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and Hospital-specific data, including quality measures.

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Notes to Consolidated Financial Statements (continued)

**2. Patient Revenue and Receivables (continued)**

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years' payment rates, based on industry-wide and Hospital-specific data. Such estimates are included in third-party payor liabilities in the accompanying consolidated statements of financial position.

Medicare cost reports, which serve as a basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through 2015. Other years remain open for audit and settlement as are cost reports and other issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained. The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Hospital is not aware of any allegations of noncompliance that could have a material adverse effect on the consolidated financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations.

There are various proposals at the Federal and State levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that have been enacted by the Federal and State governments, cannot presently be determined.

Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse effect on the Hospital. Additionally, certain payors' payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years might be realized.

The Hospital grants credit without collateral to its patients, most of whom are insured under various third-party agreements. The significant concentrations of accounts receivable for services to patients include 12.1% from Medicare and Medicaid, 17.3% from self-pay and 70.6% from commercial insurance and others at December 31, 2018 (12.6%, 15.7% and 71.7% respectively, in 2017).

In 2017, approximately 20.2% of the Hospital's net patient service revenue was derived from the Medicare and Medicaid programs.

New York Society for the Relief of the Ruptured and  
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Notes to Consolidated Financial Statements (continued)

**3. Investments and Assets Limited as to Use**

The Hospital maintains a pooled investment program for certain investments owned by the Hospital, Fund and Properties. The Hospital's pro rata share of the pooled investment program and its pro rata share of investment income, including realized gains and losses, and the net change in unrealized gains and losses and equity in earnings of alternative investments, are reflected in the accompanying consolidated financial statements.

Investments, including the pooled investment program pertaining to the Hospital, were as follows at December 31:

	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
Money market mutual funds	<b>\$ 149,744</b>	\$ 132,913
Marketable equity securities	<b>22,752</b>	26,519
Equity mutual funds	<b>113,749</b>	127,847
Fixed income mutual funds	<b>52,090</b>	24,381
Fixed income securities	<b>31,598</b>	43,038
Alternative investments:		
Hedge and common collective trust funds:		
U.S. equity large/small cap	<b>35,386</b>	37,627
International equity	<b>36,397</b>	36,331
Long/short equity	<b>80,516</b>	73,586
Multi-strategy	<b>56,110</b>	54,215
Real assets	<b>2,770</b>	3,009
Private equity	<b>16,905</b>	11,603
	<b>598,017</b>	571,069
Less current portion	<b>465,652</b>	449,376
	<b>\$ 132,365</b>	\$ 121,693

New York Society for the Relief of the Ruptured and  
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Notes to Consolidated Financial Statements (continued)

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

Additionally, a portion of Fund's investment portfolio represents net assets received by Fund on behalf of the Hospital which are due to the Hospital. These investments and related investment income, including change in net unrealized gains and losses and equity in earnings of alternative investments, are reflected in the accompanying consolidated financial statements within the amounts due from affiliates (approximately \$20.2 million at December 31, 2018 and \$22.2 million at December 31, 2017). At December 31, 2018 and 2017, investments include amounts set aside by the Hospital's Board of Trustees for quasi-endowment of approximately \$3.9 million and \$4.3 million. Investment income earned during the year is included in other operating revenue on the consolidated statements of operations and changes in net assets.

The composition of assets limited as to use at December 31, at fair value, is as follows:

	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
Money market mutual funds	\$ 23,447	\$ 24,959
Fixed income securities	—	25,070
	<b>\$ 23,447</b>	<b>\$ 50,029</b>
	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
Mortgage reserve funds	\$ —	\$ 25,969
Restricted assets – future campus expansion	23,447	24,060
	<b>\$ 23,447</b>	<b>\$ 50,029</b>

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Notes to Consolidated Financial Statements (continued)

**4. Property, Plant and Equipment**

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

	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
Land and land improvements	<b>\$ 2,006</b>	\$ 2,006
Buildings and improvements	<b>710,836</b>	674,308
Furniture, equipment and software	<b>573,160</b>	534,822
	<b>1,286,002</b>	1,211,136
Less accumulated depreciation and amortization	<b>709,150</b>	635,714
	<b>576,852</b>	575,422
Add construction-in-progress	<b>37,450</b>	20,101
	<b>\$ 614,302</b>	\$ 595,523

At December 31, 2018, the Hospital had capital commitments of approximately \$10.5 million related to construction and renovation projects, information technology, and certain other capital projects.

The Hospital capitalizes costs incurred in connection with the development of internal use software or purchased software modified for internal use. Included in property, plant, and equipment is \$87.8 million and \$84.4 million of capitalized software costs at December 31, 2018 and December 31, 2017, respectively. Accumulated amortization of capitalized software costs at December 31, 2018 and December 31, 2017 is \$51.6 million and \$43.8 million, respectively.

New York Society for the Relief of the Ruptured and  
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Notes to Consolidated Financial Statements (continued)

**5. Debt-Related Matters**

**Long-Term Debt**

Long-term debt consisted of the following at December 31:

	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
Series 2018 Bonds <sup>(a)</sup>	<b>\$ 179,220</b>	\$ —
Insured mortgage loan (2009) <sup>(a)</sup>	—	69,651
Insured mortgage loan (2011) <sup>(a)</sup>	—	32,854
Insured mortgage loan (2015) <sup>(a)</sup>	—	39,209
Promissory note <sup>(b)</sup>	<b>19,007</b>	21,329
Commercial mortgage loan <sup>(c)</sup>	<b>352</b>	1,758
Tax-exempt loans <sup>(f)</sup>	<b>66,713</b>	97,817
	<b>265,292</b>	262,618
Less unamortized deferred financing costs	<b>2,755</b>	4,539
Add unamortized mortgage premium	—	841
	<b>262,537</b>	258,920
Manhattan ASC – Project Improvement Loan <sup>(d)</sup>	<b>13,920</b>	13,722
Manhattan ASC – Working Capital Loan <sup>(d)</sup>	<b>1,132</b>	1,250
West Side ASC – Project Improvement Loan <sup>(e)</sup>	<b>4,085</b>	—
	<b>281,674</b>	273,892
Less current portion of long-term debt	<b>28,762</b>	43,517
	<b>\$ 252,912</b>	\$ 230,375

<sup>(a)</sup> In April 2018, the Hospital issued \$179.2 million in taxable bonds (the Series 2018 Bonds). The bonds are structured with interest only payments and three bullet maturities: \$57.3 million due April 1, 2028, \$59.7 million due April 1, 2038 and \$62.2 million due April 1, 2048 and bear interest at fixed rates of 3.74%, 4.08% and 4.13%, respectively. The Hospital incurred approximately \$2.9 million of financing costs in connection with the issuance that will be amortized over the life of the bonds using the effective interest method. In connection with the Series 2018 Bonds, the Hospital is required to maintain certain financial requirements. As of December 31, 2018, the Hospital was in compliance with the applicable financial requirements. Bond proceeds were used to:

New York Society for the Relief of the Ruptured and  
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Notes to Consolidated Financial Statements (continued)

**5. Debt-Related Matters (continued)**

- (i) Extinguish the outstanding balance on the following Federal Housing Administration-insured mortgages in the amount of \$138.6 million:
  - a. The Hospital's 2009 mortgage loan accrued interest at a rate of 6.03% per annum and was collateralized by certain of the Hospital's property and equipment. Monthly principal and interest payments of approximately \$0.5 million were due during each of the ensuing 20 years, with final payment due January 1, 2037.
  - b. The Hospital's 2011 mortgage loan accrued interest at an annual rate of 3.84% and was collateralized by certain of the Hospital's property and equipment. Monthly principal and interest payments of approximately \$0.6 million were due, with final payment due January 1, 2023.
  - c. The Hospital's 2015 mortgage loan accrued interest at an annual rate of 3.17% and was collateralized by certain of the Hospital's property and equipment. Monthly principal and interest payments of approximately \$0.3 million were due, with final payment due December 31, 2031.

The extinguishment of the above outstanding debt obligations resulted in a loss of approximately \$3.7 million.

- (ii) Fund various equipment purchases in 2018 and 2019 totaling \$22.5 million.
- (iii) Fund a loan to Properties in the amount of \$15.3 million for the acquisition of certain real property in 2019. The loan is unsecured and has three separate final maturity dates, approximately \$4.9 million due on April 1, 2028, approximately \$5.1 million due on April 1, 2038 and approximately \$5.3 million due on April 1, 2048 and bears interest at approximate fixed rates of 3.74%, 4.08% and 4.13%, respectively.
- (iv) Fund the cost of bond issuance in the amount of \$2.8 million.

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Notes to Consolidated Financial Statements (continued)

**5. Debt-Related Matters (continued)**

- (b) In January 2015, the Hospital entered into a promissory note agreement for approximately \$26.6 million to finance a portion of the purchase of a leasehold condominium interest. The note bears interest at a rate of 6.0% per annum. Monthly principal and interest payments of approximately \$0.3 million are due, with final payment due no later than July 1, 2025. The note can be prepaid at any time without penalty.
- (c) The commercial mortgage loan is collateralized by a first mortgage lien on the Caspary Building and also by marketable securities held by the Hospital and Fund (having a total fair value of approximately \$0.4 million at December 31, 2018), which have been pledged to reduce the interest rate. The variable interest rate is reduced to the extent that there is additional investment collateral pledged to the bank. The variable interest is calculated based on the bank's quarterly money market rates, plus 65 basis points (3.03% at December 31, 2018). The provisions of the mortgage loan require that the Hospital maintain specified financial ratios. As of December 31, 2018 and 2017, the Hospital met the various financial ratio requirements.
- (d) In May 2016, Manhattan ASC entered into a loan agreement with a commercial bank to borrow a total of \$15.75 million (\$14.50 million Project Improvement Loan for construction and equipment, and \$1.25 million Working Capital Loan). The Hospital has guaranteed its proportionate share (51%) of the debt.

For a period of up to two years from date of closing (the Draw Period), interest only payments were due on amounts drawn. Interest was charged at a variable rate equal to one month LIBOR plus 140 basis points during the Draw Period. In June 2018, the Project Improvement Loan was converted to a ten year term loan, and the Working Capital Loan was converted to a five year term loan. Interest was fixed at the then 10 year U.S. Treasury rate plus 140 basis points for the Project Improvement Loan and the 5 year U.S. Treasury rate plus 140 basis points for the Working Capital Loan.

The Project Improvement Loan bears interest at a rate of 4.46%. Monthly principal and interest payments of approximately \$0.1 million are due, with final payment due no later than June 1, 2028. The Working Capital Loan bears interests at a rate of 3.31%. Monthly principal and interest payments of approximately \$0.02 million are due, with final payment due no later than June 1, 2023.

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Notes to Consolidated Financial Statements (continued)

**5. Debt-Related Matters (continued)**

<sup>(e)</sup> In September 2017, West Side ASC entered into a loan agreement with a commercial bank to borrow a total of \$13.50 million (\$12.50 million Project Improvement Loan for construction and equipment, and \$1.0 million Working Capital Loan). The Hospital has guaranteed its proportionate share (67%) of the debt.

For a period of up to two years from date of closing (the Draw Period), interest only payments are due on amounts drawn. Interest is charged at a variable rate equal to one month LIBOR plus 140 basis points during the Draw Period. At the end of the Draw Period or sooner should West Side ASC elect, the Project Improvement Loan can be converted to an eight or ten year term loan and the Working Capital Loan can be converted to a five year term loan. Interest is fixed at the then 10 year U.S. Treasury rate plus 140 basis points for the Project Improvement Loan and the 5 year U.S. Treasury rate plus 140 basis points for the Working Capital Loan.

<sup>(f)</sup> The Hospital has balances outstanding under tax-exempt financing agreements under the Dormitory Authority Tax-Exempt Leasing Program relating primarily to investments in information technology and equipment purchases with some associated construction and soft costs. The following is a summary of the loans, for which the related equipment serves as collateral:

<b>Origination Year</b>	<b>Original Loan Amount</b>	<b>Monthly Principal and Interest Payments</b>	<b>Fixed Interest Rates</b>	<b>Final Payment</b>
2013	\$ 26.0 million	\$ 375,802	1.32%	July 2019
2014	28.0 million	403,571	1.24	May 2020
2014	62.4 million	916,608	1.86	August 2021
2015	18.0 million	260,664	1.43	June 2021
2016	20.0 million	287,058	1.10	June 2022
2017	15.0 million	218,607	1.64	July 2023

Interest paid on all debt was approximately \$8.4 million and \$10.1 million in 2018 and 2017, respectively. Capitalized interest was not significant in 2018 and 2017.

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Notes to Consolidated Financial Statements (continued)

**5. Debt-Related Matters (continued)**

Scheduled principal repayments on the long-term debt are as follows:

	<b>Total</b>
	<i>(In Thousands)</i>
2019	\$ 28,762
2020	26,164
2021	19,480
2022	9,251
2023	6,612
Thereafter	194,160
	<u>\$ 284,429</u>

**Line of Credit**

In July 2015, the Hospital entered into revolving loan agreements with a commercial bank for an unsecured line of credit for \$25.0 million. The \$25.0 million line is intended for general working capital needs. No amounts were drawn in 2018 and 2017. The line of credit expires on July 31, 2019.

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Notes to Consolidated Financial Statements (continued)

**6. Other Operating Revenue**

A summary of the components of other operating revenue is as follows for the years ended December 31:

	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
Physician practice revenue	<b>\$ 125,201</b>	\$ 99,407
Overhead recoveries	<b>53,770</b>	49,004
Investment income (interest and dividends)	<b>6,525</b>	3,953
Net realized gains on investments	<b>4,811</b>	1,890
Operating component of change in net unrealized gains and (losses) on investments and equity in earnings of alternative investments	<b>(6,667)</b>	11,883
Royalty income	<b>458</b>	425
Rebates and discounts	<b>4,272</b>	2,478
Dietary income	<b>1,127</b>	1,140
Other	<b>5,864</b>	2,291
	<b>\$ 195,361</b>	\$ 172,471

**7. Insurance Coverage**

The Hospital maintained commercial insurance for professional and general liabilities prior to March 1976 and for workers' compensation coverage prior to March 1980. Subsequent to those dates, those coverages have been purchased by the Hospital from commercial carriers that reinsure the majority of the primary portions of such coverages with MIAC, a Cayman Islands corporation organized by the Hospital in 1981 and licensed under Cayman Islands law to conduct an insurance business. Effective June 15, 2003, MIAC commenced to directly insure a buffer layer between the primary and excess positions of certain of such coverages. MIAC also reinsures the primary professional liability coverage of the majority of Hospital physicians and directly insures a buffer layer above the primary portion of such coverage. The Hospital, which in March 1981 had purchased for \$10,000 all of the outstanding stock of MIAC, transferred its interest in MIAC to the Hospital's affiliate, Fund as of January 1, 1985. The Hospital has guaranteed payment of certain of MIAC's obligations related to MIAC's existing professional, general liability and workers' compensation reinsurance commitments to the extent that MIAC's insurance liabilities might require such support.

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Notes to Consolidated Financial Statements (continued)

**7. Insurance Coverage (continued)**

MIAC's insurance liabilities, which have been evaluated by an independent actuarial firm, approximated \$113.3 million at December 31, 2018 and at December 31, 2017. Total assets were approximately \$128.1 million and \$127.7 million at December 31, 2018 and 2017, respectively. Underwriting income approximated \$22.3 million and \$21.7 million for 2018 and 2017, respectively. MIAC's net operating results in 2018 and 2017 were not significant.

In the accompanying consolidated financial statements, the Hospital has recognized estimated discounted professional claims liabilities, certain workers' compensation claims liabilities, and insurance recovery receivables of approximately \$75.9 million (approximately \$13.0 million current and \$62.9 million long term) as of December 31, 2018, and approximately \$77.0 million (approximately \$13.5 million current and \$63.5 million long term) as of December 31, 2017.

**8. Benefit Plans**

The Hospital maintains a noncontributory cash balance defined benefit pension plan (the Plan) that covers certain employees of the Hospital and its affiliates. The Hospital's funding policy is to contribute amounts to the Plan sufficient to meet the minimum funding requirements pursuant to the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Hospital may deem appropriate from time to time.

Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. At December 31, 2018, the assets of the Plan consist primarily of money market mutual funds, equity mutual funds, fixed income mutual funds and alternative investments.

In 2009, the Hospital amended the Plan to implement a "soft freeze" effective January 1, 2010. Any new employees hired after October 15, 2009 are not eligible to participate in the Plan. In addition, existing employees had the option to remain active in the Plan or freeze their status, with new benefits accruing to a new defined contribution plan effective January 1, 2010. The soft freeze did not constitute a curtailment of the Plan.

In addition to providing pension benefits, the Hospital provides certain health care benefits for certain retired employees through a postretirement plan. The Hospital accrues the obligation to provide postretirement health care and other welfare benefits during the years in which employees provide service and funds such benefits on a pay-as-you-go basis.

New York Society for the Relief of the Ruptured and  
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Notes to Consolidated Financial Statements (continued)

**8. Benefit Plans (continued)**

The Hospital recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the defined benefit and postretirement benefit plans in its consolidated statements of financial position.

Net actuarial losses and the net prior service costs at the reporting date will be subsequently recognized in the future as net periodic benefit cost pursuant to the Hospital's accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of net assets without donor restrictions.

Included in other changes in net assets without donor restrictions at December 31, 2018 and 2017 are the following amounts that have not yet been recognized in net periodic benefit cost:

	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
Net actuarial loss recognized in net assets without donor restrictions	<b>\$ (144,301)</b>	\$ (187,124)
	<b>\$ (144,301)</b>	\$ (187,124)

The actuarial loss included in other changes in net assets without donor restrictions at December 31, 2018 and expected to be recognized in net periodic benefit cost during the year ending December 31, 2019 is as follows (in thousands):

Net actuarial loss	\$ 8,466
	\$ 8,466

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Notes to Consolidated Financial Statements (continued)

**8. Benefit Plans (continued)**

The following tables provide a reconciliation of the changes in each of the plans' projected benefit obligations and fair value of plan assets as of December 31:

	<b>Pension Plan</b>		<b>Postretirement Plan</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>			
<b>Reconciliation of the projected benefit obligation</b>				
Obligation at beginning of year	\$ 433,668	\$ 351,250	\$ 6,648	\$ 5,298
Service cost	19,278	16,057	67	65
Interest cost	15,688	14,564	213	195
Actuarial (gain) loss	(60,762)	64,900	(558)	1,395
Benefit payments, net	(12,050)	(13,103)	(286)	(305)
Obligation at end of year	<u>\$ 395,822</u>	<u>\$ 433,668</u>	<u>\$ 6,084</u>	<u>\$ 6,648</u>
<b>Reconciliation of fair value of plan assets</b>				
Fair value of plan assets at beginning of year	\$ 289,807	\$ 236,103	\$ —	\$ —
Actual (loss) gain on plan assets	(11,370)	35,307	—	—
Employer contributions	31,500	31,500	286	305
Plan participants' contributions	—	—	424	387
Benefit payments	(12,050)	(13,103)	(710)	(692)
Fair value of plan assets at end of year	<u>\$ 297,887</u>	<u>\$ 289,807</u>	<u>\$ —</u>	<u>\$ —</u>

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Notes to Consolidated Financial Statements (continued)

**8. Benefit Plans (continued)**

The following table provides the amounts recognized as liabilities in the consolidated statements of financial position at December 31:

	<b>Pension Plan</b>		<b>Postretirement Plan</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>			
<b>Funded status</b>				
Unfunded status at end of year	<b>\$ (97,935)</b>	<b>\$ (143,861)</b>	<b>\$ (6,084)</b>	<b>\$ (6,648)</b>

The following table provides the components of the net periodic benefit cost for each of the plans for the years ended December 31:

	<b>Pension Plan</b>		<b>Postretirement Plan</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>			
Service cost – benefits earned during the year	<b>\$ 19,278</b>	<b>\$ 16,057</b>	<b>\$ 67</b>	<b>\$ 65</b>
Interest cost on projected benefit obligations	<b>15,688</b>	<b>14,564</b>	<b>213</b>	<b>195</b>
Expected return on plan assets	<b>(19,352)</b>	<b>(16,412)</b>	<b>–</b>	<b>–</b>
Recognized actuarial loss	<b>11,811</b>	<b>7,995</b>	<b>434</b>	<b>211</b>
Net periodic benefit cost	<b>\$ 27,425</b>	<b>\$ 22,204</b>	<b>\$ 714</b>	<b>\$ 471</b>

The accumulated benefit obligation for the Plan as of December 31, 2018 and 2017 was approximately \$395.6 million and \$433.2 million, respectively.

New York Society for the Relief of the Ruptured and  
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Notes to Consolidated Financial Statements (continued)

**8. Benefit Plans (continued)**

Prior service costs are amortized on a straight-line basis over the average remaining service period to full retirement eligibility of active participants. Gains and losses in excess of 10% of the greater of the benefit obligations and the market-related value of assets are amortized over the average remaining service period of active participants. The weighted-average assumptions used in the measurement of the Hospital's benefit obligations at December 31 were as follows:

	Pension Plan		Postretirement Plan	
	2018	2017	2018	2017
Discount rate	<b>4.30%</b>	3.70%	<b>4.00%</b>	3.30%
Rate of increase in compensation levels	<b>3.70</b>	3.70	—	—

The actuarial gain in 2018 primarily relates to a change in the discount rate as compared to the prior period.

The weighted-average assumptions used in the measurement of the Hospital's net periodic benefit cost for the years ended December 31 were as follows:

	Pension Plan		Postretirement Plan	
	2018	2017	2018	2017
Discount rate	<b>3.70%</b>	4.30%	<b>3.30%</b>	3.80%
Expected long-term rate of return on plan assets	<b>6.50</b>	6.50	—	—
Rate of increase in compensation levels	<b>3.70</b>	3.70	—	—

The Plan's weighted-average asset allocations at December 31, 2018 and 2017, by asset category, are as follows:

	2018	2017
Asset category:		
Money market mutual funds	<b>16%</b>	13%
Equity mutual funds	<b>12</b>	13
Fixed income mutual funds	<b>32</b>	35
Alternative investments	<b>40</b>	39
Total	<b>100%</b>	100%

New York Society for the Relief of the Ruptured and  
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Notes to Consolidated Financial Statements (continued)

**8. Benefit Plans (continued)**

To develop the expected long-term rate of return on plan assets assumption, the Hospital considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The defined benefit pension plan's investment objectives are to achieve long-term growth in excess of long-term inflation and to provide a rate of return that meets or exceeds the expected long-term rate of return on Plan assets over a long-term time horizon. In order to minimize the risk, the Plan aims to minimize the variability in yearly returns. The Plan also aims to diversify its holding among sectors, industries, and companies.

The assets of the Plan are managed in accordance with the Employee Retirement Income Security Act of 1974. The assets of the Plan are measured at fair value in accordance with the policies discussed in Note 1. Refer to Note 15 for fair value measurement information related to the defined benefit plan asset categories noted in the table above.

The Hospital expects to make contributions of approximately \$20.5 million and \$0.4 million to both the Pension Plan and Postretirement Plan, respectively, during 2019.

Benefit payments, which reflect expected future benefit accruals, as appropriate, are expected to be paid as follows:

	<b>Pension Plan</b>	<b>Postretirement Plan</b>
	<i>(In Thousands)</i>	
2019	\$ 17,643	\$ 403
2020	16,272	427
2021	15,952	447
2022	17,442	458
2023	18,796	464
2024 to 2028	101,817	2,116

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Notes to Consolidated Financial Statements (continued)

**8. Benefit Plans (continued)**

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

	2018		2017	
	1% Increase	1% Decrease	1% Increase	1% Decrease
	<i>(In Thousands)</i>			
Effect on total of service and interest cost components of net periodic postretirement benefit cost	\$ 1	\$ (1)	\$ 1	\$ (1)
Effect on the health care component of the accumulated postretirement benefit obligation	1	(1)	1	(3)

The Hospital also provides pension benefits to certain employees through a defined contribution plan. Pension expense related to this plan was approximately \$15.1 million and \$12.9 million for the years ended December 31, 2018 and 2017, respectively.

**9. Functional Expenses**

The Hospital provides musculoskeletal health care and related services, including research and graduate medical education. Expenses related to providing these services for the year ended December 31, 2018 are as follows:

	Healthcare Services	Research	Fundraising	Management and Administrative	Total
Salaries	\$ 441,734	\$ 20,124	\$ –	\$ 87,811	\$ 549,669
Employee benefits	119,614	6,641	–	28,983	155,238
Supplies and other expenses	262,444	11,883	7,995	123,034	405,356
Insurance	19,211	79	–	–	19,290
Depreciation and amortization	70,309	3,563	–	–	73,872
Interest	8,384	1,228	–	–	9,612
Total	\$ 921,696	\$ 43,518	\$ 7,995	\$ 239,828	\$ 1,213,037

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Notes to Consolidated Financial Statements (continued)

**9. Functional Expenses (continued)**

Expenses related to providing these services for the year ended December 31, 2017 are as follows:

	<b>Healthcare Services</b>	<b>Research</b>	<b>Fundraising</b>	<b>Management and Administrative</b>	<b>Total</b>
Salaries	\$ 402,189	\$ 19,641	\$ –	\$ 76,003	\$ 497,833
Employee benefits	107,983	6,481	–	25,065	139,529
Supplies and other expenses	287,536	11,133	6,924	83,389	388,982
Insurance	17,768	71	–	–	17,839
Depreciation and amortization	62,824	3,483	–	–	66,307
Interest	8,584	1,362	–	–	9,946
<b>Total</b>	<b>\$ 886,884</b>	<b>\$ 42,171</b>	<b>\$ 6,924</b>	<b>\$ 184,457</b>	<b>\$ 1,120,436</b>

**10. Net Assets with Donor Restrictions**

Net assets with donor restrictions to be maintained in perpetuity are as follows at December 31:

	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
Assets to be held in perpetuity, the income from which is restricted for research	<b>\$ 112,068</b>	\$ 98,849
Assets to be held in perpetuity, the income from which is restricted for other specific purposes	<b>45,780</b>	39,340
Assets to be held in perpetuity, the income from which is unrestricted as to use	<b>410</b>	410
	<b>\$ 158,258</b>	\$ 138,599

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Notes to Consolidated Financial Statements (continued)

**10. Net Assets with Donor Restrictions (continued)**

Changes in investment assets to be maintained in perpetuity (endowment investments) for the year ended December 31, 2018 are as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment investments, beginning balance	\$ 6,847	\$ 201,492	\$ 208,339
Total investment return	(288)	(8,494)	(8,782)
Contributions	–	11,922	11,922
Appropriation of endowment investments for expenditure	(197)	(8,724)	(8,921)
Endowment investments, ending balance	<u>\$ 6,362</u>	<u>\$ 196,196</u>	<u>\$ 202,558</u>

Changes in endowment investments for the year ended December 31, 2017 are as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment investments, beginning balance	\$ 6,425	\$ 176,724	\$ 183,149
Total investment return	680	27,331	28,011
(Transfers) contributions	–	6,321	6,321
Appropriation of endowment investments for expenditure	(258)	(8,884)	(9,142)
Endowment investments, ending balance	<u>\$ 6,847</u>	<u>\$ 201,492</u>	<u>\$ 208,339</u>

Endowment investments are restricted by donors to be maintained in perpetuity. Quasi-endowment represents amounts set aside by the Hospital's Board of Trustees for certain internally designated purposes. The Hospital follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) passed into law effective September 2010, as they relate to its endowment investments. The Hospital has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift, as of the gift date, of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. The Hospital classifies as endowment

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Notes to Consolidated Financial Statements (continued)

**10. Net Assets with Donor Restrictions (continued)**

investments the original value of the gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Returns on the endowment investments are used in accordance with the direction of the applicable donor gift. Returns on endowment investments are classified as with donor restrictions net assets until the amounts are appropriated for expenditure in accordance with a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effects of inflation and deflation; (5) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the institution; (6) the expected total return from income and the appreciation of investments; (7) other resources of the Hospital; and (8) the investment and spending policies of the Hospital. The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment.

Under Hospital policy, as approved by the Board of Trustees, the endowment investments are invested in a manner to provide that sufficient assets are available as a source of liquidity for the intended use of the funds, achieve the optimal return possible within the specified risk parameters, prudently invest assets in a high-quality diversified manner and adhere to the established guidelines.

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

The Hospital's endowment investments are managed according to endowment and similar fund policies that guide investment of donations, spending and distribution of total return investment income. The policies also provide the guidelines for setting the annual endowment spend rate (5% for 2018 and 2017 or income if the fair value is below the original endowment donation) and the treatment of any investment returns in excess of the annual spending rate. The 5% endowment spend rate is calculated on the year-end average three-year rolling fair value of each endowed fund. Any excess investment returns beyond the spending rate, to the extent available, are added to with donor restrictions and classified appropriately.

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Notes to Consolidated Financial Statements (continued)

**10. Net Assets with Donor Restrictions (continued)**

The Hospital distributes the investment income earned on the endowment investments as required for the donor restricted purpose of the endowment assets held in perpetuity.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level of the original principal donation. There are no significant deficiencies of this nature that are reported as net assets without donor restrictions as of December 31, 2018 and 2017.

**11. United States Public Health Service Research Grants**

Expenditures and overhead allocations charged to United States Public Health Service research grants are subject to audit by the funding agencies. It is management's opinion that adjustments, if any, will not be materially different from recorded amounts. The revenue from these grants is included in net assets released from restrictions for research operations.

**12. Bicknell Trust**

The Hospital's institutional research funds are the beneficiary of income from the Bicknell Trust. The fair value of investments in the trust was approximately \$34.9 million and \$39.1 million at December 31, 2018 and 2017, respectively. Income received from this trust was approximately \$1.9 million and \$1.8 million at December 31, 2018 and 2017, respectively and is recorded directly in the research funds (with donor restrictions).

**13. Transactions with Affiliates**

Fund and Properties purchase certain administrative, general and plant services from the Hospital. Amounts charged for these services (approximately \$5.6 million and \$5.5 million in 2018 and 2017, respectively) are determined principally on the basis of allocated costs. Fund provides certain fundraising services to the Hospital valued at approximately \$8.0 million in 2018 and \$6.9 million in 2017, respectively. The methodology used to allocate costs is based on a formula of historical contributions received. Amounts due to and from the Hospital for these services are reimbursed in the normal course of business. Additionally, Properties leases various facilities to the Hospital. Rental expense under these arrangements amounted to approximately \$55.9 million and \$50.5 million for the years ended December 31, 2018 and 2017, respectively.

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Notes to Consolidated Financial Statements (continued)

**13. Transactions With Affiliates (continued)**

At December 31, amounts due from the Hospital's affiliates are as follows:

	<u>2018</u>	<u>2017</u>
	<i>(In Thousands)</i>	
Fund	\$ 2,575	\$ 1,877
Properties	1,428	1,007
Horizons	3,791	3,587

In addition to the amounts above (and as discussed in Note 3), a portion of Fund's investment portfolio represents amounts received by Fund on behalf of the Hospital which are due to the Hospital (approximately \$20.2 million at December 31, 2018 and \$22.2 million at December 31, 2017).

Amounts due to and from affiliates generally are not interest-bearing.

Certain lease agreements entered into between the Hospital and Properties include tenant improvement allowances to be used for future renovations. The tenant improvement allowances will be amortized over the life of the leases as a reduction of rental expense. In accordance with the lease agreements, the Hospital will be reimbursed by Properties for renovation expenditures. Amounts to be reimbursed by Properties are recorded as a tenant improvement receivable. The balance of the tenant improvement receivable, which is included as a component of other receivables on the accompanying consolidated statements of financial position, is approximately \$4.4 million and \$10.0 million at December 31, 2018 and 2017, respectively. The balance of the leasehold incentive liability, which is included as a component of current and noncurrent other liabilities on the accompanying consolidated statements of financial position, is approximately \$15.3 million and \$13.4 million at December 31, 2018 and 2017, respectively.

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Notes to Consolidated Financial Statements (continued)

**13. Transactions With Affiliates (continued)**

Following is a summary of consolidated financial information for Fund, Inc. and Affiliates as of December 31, 2018 and 2017 and for the years then ended:

	<u>2018</u>	<u>2017</u>
	<i>(In Thousands)</i>	
Total assets	<u>\$ 380,057</u>	<u>\$ 357,902</u>
Total liabilities	<u>\$ 245,521</u>	<u>\$ 234,834</u>
Total net assets	<u>\$ 134,536</u>	<u>\$ 123,068</u>
Operating revenue	<u>\$ 102,411</u>	<u>\$ 90,312</u>
Operating expenses	<u>\$ 79,016</u>	<u>\$ 79,549</u>

The Hospital is not responsible for the debts or obligations of its affiliates, nor are such affiliates responsible for the debts or obligations of the Hospital other than as disclosed in Notes 5 and 7.

**14. Contingencies**

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

**15. Fair Value Measurements**

For assets and liabilities required to be measured at fair value, the Hospital measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the Hospital's perspective.

The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Notes to Consolidated Financial Statements (continued)

**15. Fair Value Measurements (continued)**

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

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

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

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

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

Financial instruments, excluding the defined benefit plan assets, carried at fair value as of December 31, 2018 are classified in the table below in one of the three categories described above:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(In Thousands)</i>			
Cash and cash equivalents	\$ 122,551	\$ –	\$ –	\$ 122,551
Marketable equity securities	22,752	–	–	22,752
Money market mutual funds	173,191	–	–	173,191
Equity mutual funds	113,749	–	–	113,749
Fixed income mutual funds	31,598	–	–	31,598
Fixed income securities	52,090	–	–	52,090
	<b>\$ 515,931</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 515,931</b>

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Notes to Consolidated Financial Statements (continued)

**15. Fair Value Measurements (continued)**

Financial instruments, excluding the defined benefit plan assets, carried at fair value as of December 31, 2017 are classified in the table below in one of the three categories described above:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(In Thousands)</i>			
Cash and cash equivalents	\$ 98,391	\$ —	\$ —	\$ 98,391
Marketable equity securities	26,519	—	—	26,519
Money market mutual funds	157,872	—	—	157,872
Equity mutual funds	127,847	—	—	127,847
Fixed income mutual funds	24,381	—	—	24,381
Fixed income securities	68,108	—	—	68,108
	<b>\$ 503,118</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 503,118</b>

The Hospital's alternative investments, excluding alternative investments in the defined benefit plan, of approximately \$224.1 million and \$215.6 million and investments in private equity at cost of approximately \$4.0 million and \$0.8 million at December 31, 2018 and 2017, respectively, are reported using the equity method of accounting and, therefore, are not included in the table above.

Defined benefit plan assets, carried at fair value as of December 31, 2018 are classified in the table below in one of the three categories described above:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(In Thousands)</i>			
Money market mutual funds	\$ 47,730	\$ —	\$ —	\$ 47,730
Equity mutual funds	36,795	—	—	36,795
Fixed income mutual funds	95,017	—	—	95,017
	<b>\$ 179,542</b>	<b>\$ —</b>	<b>\$ —</b>	<b>179,542</b>

Alternative investments measured

at net asset value:

Hedge funds	106,767
Private equity	11,578
	<b>\$ 297,887</b>

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Notes to Consolidated Financial Statements (continued)

**15. Fair Value Measurements (continued)**

Defined benefit plan assets, carried at fair value as of December 31, 2017 are classified in the table below in one of the three categories described above:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(In Thousands)</i>			
Money market mutual funds	\$ 36,250	\$ —	\$ —	\$ 36,250
Equity mutual funds	38,615	—	—	38,615
Fixed income mutual funds	101,849	—	—	101,849
	\$ 176,714	\$ —	\$ —	176,714
Alternative investments measured at net asset value:				
Hedge funds				109,923
Private equity				3,170
				\$ 289,807

The following is a description of the Hospital valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Notes to Consolidated Financial Statements (continued)

**15. Fair Value Measurements (continued)**

The following is a summary of investments, including alternative investments reported using the equity method and those in the defined benefit plan and the nature of restrictions on the Hospital's ability to redeem its investments at the measurement date, any unfunded capital commitments and investments strategies of the investees as of December 31, 2018:

	<b>Carrying Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Notice Period</b>	<b>Funds Availability</b>
	<i>(In Thousands)</i>			
U.S. equity large/small cap	\$ 52,008	\$ n/a	0 days – 60 days	1 week to 3 months
International equity	55,682	n/a	14 days – 90 days	1 week to 6 months
Long/short equity	131,853	n/a	45 days – 180 days	1 month to 2.25 years 3 months to
Multi-strategy	75,633	n/a	60 days – 120 days	2.25 years
Real assets	2,770	n/a	0 days – 45 days	3 months to 6 months
Private equity	27,475	11,620	none	3 months to 12 years
	<u>\$ 345,421</u>	<u>\$ 11,620</u>		

The carrying values and fair values (net of deferred financing costs) of the Hospital's financial instruments that are not required to be carried at fair value are as follows at December 31:

	<b>2018</b>		<b>2017</b>	
	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>
	<i>(In Thousands)</i>			
Long-term debt, including unamortized mortgage premium	<b>\$ 281,824</b>	<b>\$ 281,674</b>	<b>\$ 277,477</b>	<b>\$ 273,892</b>

The fair value of the Hospital's long-term debt is based on discounted cash flow analyses, using current borrowing rates for similar types of debt and is classified as Level 2 within the valuation hierarchy.

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Notes to Consolidated Financial Statements (continued)

**16. Liquidity and Availability**

The table below represents financial assets available for general expenditures within one year at December 31:

Financial assets at year-end:

	<b>2018</b>	<b>2017</b>
	<i>(In Thousands)</i>	
Cash and cash equivalents	<b>\$ 122,551</b>	\$ 98,391
Receivables	<b>161,718</b>	157,186
Investments	<b>598,017</b>	571,069
Pledges receivable	<b>49,332</b>	24,612
Assets limited as to use	<b>23,447</b>	50,029
Total financial assets	<b>955,065</b>	901,287

Less amounts not available to be used within one year:

Long-term investments (endowment corpus)	<b>132,365</b>	121,693
Assets limited as to use- mortgage reserve funds	–	25,969
Assets limited as to use- future campus expansion	<b>23,447</b>	24,060
Pledges receivable, long-term	<b>30,917</b>	10,309
Financial assets not available to be used within one year	<b>186,729</b>	182,031
Financial assets available to meet general expenditures within one year	<b>\$ 768,336</b>	\$ 719,256

The Hospital has certain donor restricted assets which are available for general expenditures within one year in the normal course of operations. Accordingly, these assets have been included in the table above for financial assets to meet general expenditures within one year. The Hospital has other assets limited to use which are donor restricted or earmarked for debt service purposes. Those assets, which are described further in Notes 3 and 10 are not available for general expenditure within the next year.

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Notes to Consolidated Financial Statements (continued)

**17. Events Subsequent to December 31, 2018**

Subsequent events have been evaluated through April 5, 2019, which is the date the consolidated financial statements were issued. No subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

## Supplementary Information



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## Report of Independent Auditors on Supplementary Information

The Board of Trustees  
New York Society for the Relief of the Ruptured and Crippled,  
Maintaining the Hospital for Special Surgery

We have audited the consolidated financial statements of New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery as of and for the year ended December 31, 2018, and have issued our report thereon dated April 5, 2019, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for the purposes of additional analysis and is 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. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Ernst + Young LLP*

April 5, 2019

# Consolidating Financial Statements

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Consolidating Statement of Financial Position

December 31, 2018

	Hospital for Special Surgery*	TJA Orthopedic Surgery, PC	HSS ASC of Manhattan, LLC	HSS West Side ASC, LLC	HSS Florida Physicians, LLC	Eliminations	Consolidated
	<i>(In Thousands)</i>						
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 108,167	\$ —	\$ 1,864	\$ 1,609	\$ 10,911	\$ —	\$ 122,551
Receivables:							
Patient care, less allowance for doubtful accounts of \$19,972	109,826	—	2,853	—	—	—	112,679
Insurance claims receivable	13,025	—	—	—	—	—	13,025
Other	37,930	—	—	24	—	(1,940)	36,014
Total receivables	160,781	—	2,853	24	—	(1,940)	161,718
Investments	465,652	—	—	—	—	—	465,652
Inventories	10,912	—	1,686	—	—	—	12,598
Prepaid expenses and other current assets	7,202	—	823	—	—	—	8,025
Pledges receivable	18,415	—	—	—	—	—	18,415
Due from affiliates – net	18,016	—	—	—	—	(5,276)	12,740
Total current assets	789,145	—	7,226	1,633	10,911	(7,216)	801,699
Insurance claims receivable, net of current portion	62,855	—	—	—	—	—	62,855
Other noncurrent assets	30,910	—	288	—	—	—	31,198
Due from affiliates – net	11,071	—	—	—	—	—	11,071
Pledges receivable	30,917	—	—	—	—	—	30,917
Assets limited as to use	23,447	—	—	—	—	—	23,447
Long-term investments	132,365	—	—	—	—	—	132,365
Interest in The Hospital for Special Surgery Fund, Inc.	60,604	—	—	—	—	—	60,604
Interest in HSS ASC of Manhattan, LLC	(543)	—	—	—	—	543	—
Interest in HSS West Side ASC, LLC	(107)	—	—	—	—	107	—
Interest in HSS Florida Physicians, LLC	5,485	—	—	—	—	(5,485)	—
Property, plant and equipment – net	592,639	—	12,838	8,825	—	—	614,302
Total assets	\$ 1,738,788	\$ —	\$ 20,352	\$ 10,458	\$ 10,911	\$ (12,051)	\$ 1,768,458

\*New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery is defined throughout the consolidating financial statements as Hospital for Special Surgery.

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Consolidating Statement of Financial Position (continued)

December 31, 2018

	Hospital for Special Surgery*	TJA Orthopedic Surgery, PC	HSS ASC of Manhattan, LLC	HSS West Side ASC, LLC	HSS Florida Physicians, LLC	Eliminations	Consolidated
	<i>(In Thousands)</i>						
<b>Liabilities and net assets</b>							
Current liabilities:							
Accounts payable and accrued expenses	\$ 73,529	\$ –	\$ 1,019	\$ 1,505	\$ –	\$ –	\$ 76,053
Accrued salaries and related liabilities	51,362	–	237	38	–	–	51,637
Current portion of long-term debt	27,016	–	1,434	312	–	–	28,762
Due to affiliates – net	–	2,962	1,050	1,109	155	(5,276)	–
Due to third-party payors – net	4,916	–	–	–	–	–	4,916
Insurance claims liabilities	13,025	–	–	–	–	–	13,025
Other current liabilities	24,074	–	150	104	–	–	24,328
Total current liabilities	193,922	2,962	3,890	3,068	155	(5,276)	198,721
Long-term debt	235,521	–	15,558	3,773	–	(1,940)	252,912
Insurance claims liabilities, net of current portion	62,855	–	–	–	–	–	62,855
Other noncurrent liabilities, including due to third-party payors – net	169,197	–	1,967	3,777	–	–	174,941
Total liabilities	661,495	2,962	21,415	10,618	155	(7,216)	689,429
<b>Net assets:</b>							
Without Donor Restrictions:							
Undesignated	716,013	(2,962)	(1,063)	(160)	10,756	(9,533)	713,051
Designated for quasi-endowment	3,719	–	–	–	–	–	3,719
Noncontrolling interest in subsidiaries	–	–	–	–	–	4,698	4,698
Total Without Donor Restrictions	719,732	(2,962)	(1,063)	(160)	10,756	(4,835)	721,468
With Donor Restrictions:							
Specific purpose	62,896	–	–	–	–	–	62,896
Plant replacement and expansion	25,939	–	–	–	–	–	25,939
Research	110,468	–	–	–	–	–	110,468
Endowment	158,258	–	–	–	–	–	158,258
Total With Donor Restrictions	357,561	–	–	–	–	–	357,561
Total net assets	1,077,293	(2,962)	(1,063)	(160)	10,756	(4,835)	1,079,029
Total liabilities and net assets	\$ 1,738,788	\$ –	\$ 20,352	\$ 10,458	\$ 10,911	\$ (12,051)	\$ 1,768,458

\*New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery is defined throughout the consolidating financial statements as Hospital for Special Surgery.

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Consolidating Statement of Financial Position

December 31, 2017

	Hospital for Special Surgery*	TJA Orthopedic Surgery, PC	HSS ASC of Manhattan, LLC	HSS West Side ASC, LLC	Eliminations	Consolidated
	<i>(In Thousands)</i>					
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 94,544	\$ –	\$ 604	\$ 3,243	\$ –	\$ 98,391
Receivables:						
Patient care, less allowance for doubtful accounts of \$22,458	107,057	–	1,077	–	–	108,134
Insurance claims receivable	13,498	–	–	–	–	13,498
Other	34,440	–	–	2,204	(1,090)	35,554
Total receivables	154,995	–	1,077	2,204	(1,090)	157,186
Investments	449,376	–	–	–	–	449,376
Inventories	9,858	–	1,115	–	–	10,973
Prepaid expenses and other current assets	7,749	–	496	–	–	8,245
Pledges receivable	14,303	–	–	–	–	14,303
Due from affiliates – net	15,868	–	–	–	(2,141)	13,727
Total current assets	746,693	–	3,292	5,447	(3,231)	752,201
Insurance claims receivable, net of current portion	63,550	–	–	–	–	63,550
Other noncurrent assets	14,300	–	364	–	–	14,664
Due from affiliates – net	11,071	–	–	–	–	11,071
Pledges receivable	10,309	–	–	–	–	10,309
Assets limited as to use	50,029	–	–	–	–	50,029
Long-term investments	121,693	–	–	–	–	121,693
Interest in The Hospital for Special Surgery Fund, Inc.	54,987	–	–	–	–	54,987
Interest in HSS ASC of Manhattan, LLC	(1,712)	–	–	–	1,712	–
Interest in HSS West Side ASC, LLC	1,516	–	–	–	(1,516)	–
Property, plant and equipment – net	579,966	–	14,700	857	–	595,523
Total assets	\$ 1,652,402	\$ –	\$ 18,356	\$ 6,304	\$ (3,035)	\$ 1,674,027

\*New York Society for the Relief of the Ruptured and Crippled, Maintaining the Hospital for Special Surgery is defined throughout the consolidating financial statements as Hospital for Special Surgery.

New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Consolidating Statement of Financial Position (continued)

December 31, 2017

	Hospital for Special Surgery*	TJA Orthopedic Surgery, PC	HSS ASC of Manhattan, LLC	HSS West Side ASC, LLC	Eliminations	Consolidated
	<i>(In Thousands)</i>					
<b>Liabilities and net assets</b>						
Current liabilities:						
Accounts payable and accrued expenses	\$ 79,586	\$ –	\$ 2,097	\$ 30	\$ –	\$ 81,713
Accrued salaries and related liabilities	44,542	–	189	–	–	44,731
Current portion of long-term debt	42,728	–	789	–	–	43,517
Due to affiliates – net	–	765	1,149	227	(2,141)	–
Due to third-party payors – net	3,509	–	–	–	–	3,509
Insurance claims liabilities	13,498	–	–	–	–	13,498
Other current liabilities	18,875	–	31	105	–	19,011
Total current liabilities	202,738	765	4,255	362	(2,141)	205,979
Long-term debt	216,192	–	15,273	–	(1,090)	230,375
Insurance claims liabilities, net of current portion	63,550	–	–	–	–	63,550
Other noncurrent liabilities, including due to third-party payors – net	208,538	–	2,185	3,679	–	214,402
Total liabilities	691,018	765	21,713	4,041	(3,231)	714,306
<b>Net assets:</b>						
Without Donor Restrictions:						
Undesignated	624,927	(765)	(3,357)	2,263	1,094	624,162
Designated for quasi-endowment	3,719	–	–	–	–	3,719
Noncontrolling interest in subsidiaries	–	–	–	–	(898)	(898)
Total Without Donor Restrictions	628,646	(765)	(3,357)	2,263	196	626,983
With Donor Restrictions:						
Specific purpose	67,134	–	–	–	–	67,134
Plant replacement and expansion	33,488	–	–	–	–	33,488
Research	93,517	–	–	–	–	93,517
Endowment	138,599	–	–	–	–	138,599
Total With Donor Restrictions	332,738	–	–	–	–	332,738
Total net assets	961,384	(765)	(3,357)	2,263	196	959,721
Total liabilities and net assets	\$ 1,652,402	\$ –	\$ 18,356	\$ 6,304	\$ (3,035)	\$ 1,674,027

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New York Society for the Relief of the Ruptured and  
Crippled, Maintaining the Hospital for Special Surgery

Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions

December 31, 2018

	Hospital for Special Surgery*	TJA Orthopedic Surgery, PC	HSS ASC of Manhattan, LLC	HSS West Side ASC, LLC	HSS Florida Physicians, LLC	Eliminations	Consolidated
	<i>(In Thousands)</i>						
<b>Operating revenue</b>							
Net patient service revenue	\$ 978,110	\$ 5,251	\$ 20,022	\$ –	\$ –	\$ –	\$ 1,003,383
Other operating revenue	197,308	–	–	–	50	(1,997)	195,361
Net assets released from restrictions for operations	20,417	–	–	–	–	–	20,417
<b>Total operating revenue</b>	<b>1,195,835</b>	<b>5,251</b>	<b>20,022</b>	<b>–</b>	<b>50</b>	<b>(1,997)</b>	<b>1,219,161</b>
<b>Operating expenses</b>							
Salaries and wages	519,749	5,267	4,259	270	–	–	529,545
Employee benefits	147,144	–	1,335	118	–	–	148,597
Supplies and other	392,178	2,181	8,972	2,035	267	(2,439)	403,194
Interest expense	7,782	–	725	–	–	(123)	8,384
Depreciation and amortization	68,072	–	2,237	–	–	–	70,309
Bad debt expense	9,290	–	200	–	–	–	9,490
<b>Total operating expenses</b>	<b>1,144,215</b>	<b>7,448</b>	<b>17,728</b>	<b>2,423</b>	<b>267</b>	<b>(2,562)</b>	<b>1,169,519</b>
Operating income before research operations and change in interest in The Hospital for Special Surgery Fund, Inc. and operating loss attributable to noncontrolling interest in subsidiaries	51,620	(2,197)	2,294	(2,423)	(217)	565	49,642
Research operations:							
Net assets released from restrictions for research operations	37,083	–	–	–	–	–	37,083
Operating expenses, including depreciation of \$3,563	43,518	–	–	–	–	–	43,518
Net research operations	(6,435)	–	–	–	–	–	(6,435)
Change in interest in The Hospital for Special Surgery Fund, Inc.	10,617	–	–	–	–	–	10,617
Loss on extinguishment of debt	(3,650)	–	–	–	–	–	(3,650)
Operating income before operating (gain) loss attributable to noncontrolling interest in subsidiaries	52,152	(2,197)	2,294	(2,423)	(217)	565	50,174
Operating gain attributable to noncontrolling interest in subsidiaries	–	–	–	–	–	(219)	(219)
<b>Operating income</b>	<b>52,152</b>	<b>(2,197)</b>	<b>2,294</b>	<b>(2,423)</b>	<b>(217)</b>	<b>346</b>	<b>49,955</b>
Noncontrolling members' capital contribution	–	–	–	–	5,377	–	5,377
Controlling members' capital contribution	–	–	–	–	5,596	(5,596)	–
Operating gain attributable to noncontrolling interest in subsidiaries	–	–	–	–	–	219	219
Net assets released from restrictions for capital expenditures	9,675	–	–	–	–	–	9,675
Changes in net unrealized gains and losses on investments	(13,564)	–	–	–	–	–	(13,564)
Changes in defined benefit pension and other postretirement plan liability to be recognized in future periods	42,823	–	–	–	–	–	42,823
<b>Total change in net assets without donor restrictions</b>	<b>\$ 91,086</b>	<b>\$ (2,197)</b>	<b>\$ 2,294</b>	<b>\$ (2,423)</b>	<b>\$ 10,756</b>	<b>\$ (5,031)</b>	<b>\$ 94,485</b>

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Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions

December 31, 2017

	Hospital for Special Surgery*	TJA Orthopedic Surgery, PC	HSS ASC of Manhattan, LLC	HSS West Side ASC, LLC	Eliminations	Consolidated
	<i>(In Thousands)</i>					
<b>Operating revenue</b>						
Net patient service revenue	\$ 948,987	\$ 914	\$ 2,143	\$ –	\$ –	\$ 952,044
Other operating revenue	169,683	–	–	–	2,788	172,471
Net assets released from restrictions for operations	17,930	–	–	–	–	17,930
Total operating revenue	<u>1,136,600</u>	<u>914</u>	<u>2,143</u>	<u>–</u>	<u>2,788</u>	<u>1,142,445</u>
<b>Operating expenses</b>						
Salaries and wages	475,235	1,086	1,871	–	–	478,192
Employee benefits	132,476	–	572	–	–	133,048
Supplies and other	381,367	593	3,455	1,851	(813)	386,453
Interest expense	8,483	–	101	–	–	8,584
Depreciation and amortization	62,053	–	771	–	–	62,824
Bad debt expense	9,164	–	–	–	–	9,164
Total operating expenses	<u>1,068,778</u>	<u>1,679</u>	<u>6,770</u>	<u>1,851</u>	<u>(813)</u>	<u>1,078,265</u>
Operating income (loss) before research operations and change in interest in The Hospital for Special Surgery Fund, Inc. and operating loss attributable to noncontrolling interest in subsidiaries	67,822	(765)	(4,627)	(1,851)	3,601	64,180
Research operations:						
Net assets released from restrictions for research operations	35,524	–	–	–	–	35,524
Operating expenses, including depreciation of \$3,483	42,171	–	–	–	–	42,171
Net research operations	<u>(6,647)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(6,647)</u>
Change in interest in The Hospital for Special Surgery Fund, Inc.	13,276	–	–	–	–	13,276
Operating income (loss) before operating loss attributable to noncontrolling interest in subsidiaries	74,451	(765)	(4,627)	(1,851)	3,601	70,809
Operating loss attributable to noncontrolling interest in subsidiaries	–	–	–	–	2,877	2,877
Operating income (loss)	<u>74,451</u>	<u>(765)</u>	<u>(4,627)</u>	<u>(1,851)</u>	<u>6,478</u>	<u>73,686</u>
Operating loss attributable to noncontrolling interest in subsidiaries	–	–	–	–	(2,877)	(2,877)
Net assets released from restrictions for capital expenditures	11,351	–	–	–	–	11,351
Changes in net unrealized gains and losses on investments	22,258	–	–	–	–	22,258
Changes in defined benefit pension and other postretirement plan liability to be recognized in future periods	(39,264)	–	–	–	–	(39,264)
Total change in net assets without donor restrictions	<u>\$ 68,796</u>	<u>\$ (765)</u>	<u>\$ (4,627)</u>	<u>\$ (1,851)</u>	<u>\$ 3,601</u>	<u>\$ 65,154</u>

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