

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, 2019 and 2018
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, 2019 and 2018

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Ernst & Young LLP
5 Times Square
New York, NY 10036-6530

Tel: +1 212 773 3000
Fax: +1 212 773 6350
ey.com

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, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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, 2019 and 2018, 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. 2016-02, *Leases*

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 changed its method of accounting for leases as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2016-02, *Leases*, effective January 1, 2019. Our opinion is not modified with respect to this matter.

Ernst + Young LLP

April 6, 2020

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

Consolidated Statements of Financial Position

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 123,557	\$ 122,551
Receivables:		
Patient care, less allowance for doubtful accounts (2019 – \$26,641; 2018 – \$19,972)	125,419	112,679
Insurance claims receivable	15,319	13,025
Other	49,631	36,014
Total receivables	190,369	161,718
Investments	559,276	465,652
Inventories	14,637	12,598
Prepaid expenses and other current assets	9,223	8,025
Pledges receivable	18,498	18,415
Due from affiliates – net	15,849	12,740
Total current assets	931,409	801,699
Insurance claims receivable, net of current portion	66,851	62,855
Operating lease assets	428,803	–
Other noncurrent assets	20,678	16,190
Due from affiliates – net	26,091	26,079
Pledges receivable	28,251	30,917
Assets limited as to use	20,360	23,447
Long-term investments	143,993	132,365
Interest in The Hospital for Special Surgery Fund, Inc.	72,070	60,604
Property, plant and equipment – net	637,309	614,302
Total assets	\$ 2,375,815	\$ 1,768,458

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 74,733	\$ 76,053
Accrued salaries and related liabilities	57,430	51,637
Current portion of long-term debt	24,837	28,762
Due to third-party payors – net	3,604	4,916
Insurance claims liabilities	15,319	13,025
Current portion of operating lease liabilities	39,748	–
Other current liabilities	32,775	24,328
Total current liabilities	<u>248,446</u>	198,721
Long-term debt	235,486	252,912
Insurance claims liabilities, net of current portion	66,851	62,855
Operating lease liabilities	430,047	–
Other noncurrent liabilities, including accrued retirement benefits and due to third-party payors – net	214,662	174,941
Total liabilities	<u>1,195,492</u>	<u>689,429</u>
Commitments and contingencies		
Net assets:		
Without Donor Restrictions:		
Undesignated	768,729	713,051
Designated for quasi-endowment	3,719	3,719
Non-controlling interest in subsidiaries	5,020	4,698
Total Without Donor Restrictions	<u>777,468</u>	721,468
With Donor Restrictions:		
Specific purpose	78,333	62,896
Plant replacement and expansion	29,745	25,939
Research	126,843	110,468
Endowment	167,934	158,258
Total With Donor Restrictions	<u>402,855</u>	357,561
Total net assets	<u>1,180,323</u>	1,079,029
Total liabilities and net assets	<u>\$ 2,375,815</u>	<u>\$ 1,768,458</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

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Operating revenue		
Net patient service revenue	\$ 1,084,429	\$ 1,003,383
Other operating revenue	229,290	197,217
Net assets released from restrictions for operations	21,732	20,417
Total operating revenue	1,335,451	1,221,017
Operating expenses		
Salaries and wages	591,519	548,890
Employee benefits	124,009	120,458
Supplies and other	446,052	403,194
Interest expense	8,817	8,384
Depreciation and amortization	78,839	70,309
Bad debt expense	9,730	9,490
Total operating expenses	1,258,966	1,160,725
Operating income before research operations and other items	76,485	60,292
Research operations:		
Net assets released from restrictions for research operations	40,613	37,083
Operating expenses, including depreciation (2019 – \$3,771; 2018 – \$3,563)	48,659	43,518
Net research operations	(8,046)	(6,435)
Excess of operating revenues over operating expenses before other items	68,439	53,857
Other Items		
Net realized and change in unrealized gains and losses on investment and change in value of alternative investments	43,618	(1,856)
Loss on extinguishment of debt	–	(3,650)
Other components of net periodic benefit cost	(5,316)	(8,794)
Change in interest The Hospital for Special Surgery Fund, Inc.	11,466	10,617
Operating gain attributable to non-controlling interest in subsidiaries	(1,202)	(219)
Excess of revenue over expenses	117,005	49,955

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, 2019

	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	
	<i>(In Thousands)</i>										
Excess of revenue over expenses (from page 5)	\$ 117,005	\$ -	\$ -	\$ 117,005	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 117,005
Non-controlling members' capital contribution	-	-	419	419	-	-	-	-	-	-	419
Non-controlling members' distribution	-	-	(1,299)	(1,299)	-	-	-	-	-	-	(1,299)
Operating gain attributable to non-controlling interest in subsidiaries	-	-	1,202	1,202	-	-	-	-	-	-	1,202
Net assets released from restrictions for capital expenditures	4,759	-	-	4,759	-	-	-	-	-	-	4,759
Changes in defined benefit pension and other postretirement plan liability to be recognized in future periods	(66,086)	-	-	(66,086)	-	-	-	-	-	-	(66,086)
Contributions, including research grants	-	-	-	-	26,914	9,922	32,431	9,676	78,943	78,943	78,943
Net asset reclassification	-	-	-	-	-	(2,621)	2,621	-	-	-	-
Investment activity, including net investment income of \$4,223, net realized losses of \$17 and change in net unrealized gains and losses and equity in earnings of alternative investments of \$29,215	-	-	-	-	10,877	451	22,127	-	33,455	33,455	33,455
Net assets released from restrictions for:											
Research operations	-	-	-	-	-	-	(40,613)	-	(40,613)	(40,613)	(40,613)
Capital expenditures	-	-	-	-	(622)	(3,946)	(191)	-	(4,759)	(4,759)	(4,759)
Operating expenses	-	-	-	-	(21,732)	-	-	-	(21,732)	(21,732)	(21,732)
Total net assets released from restrictions	-	-	-	-	(22,354)	(3,946)	(40,804)	-	(67,104)	(67,104)	(67,104)
Total change in net assets	55,678	-	322	56,000	15,437	3,806	16,375	9,676	45,294	101,294	101,294
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	1,079,029
Net assets at December 31, 2019	\$ 768,729	\$ 3,719	\$ 5,020	\$ 777,468	\$ 78,333	\$ 29,745	\$ 126,843	\$ 167,934	\$ 402,855	\$ 1,180,323	\$ 1,180,323

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, 2018

	Without Donor Restrictions				Total Without Donor Restrictions	With Donor Restrictions					Total With Donor Restrictions	Total
	Undesignated	Quasi- Endowment	Non-controlling Interest in Subsidiaries			Specific Purpose	Plant Replacement and Expansion	Research	Endowment			
	<i>(In Thousands)</i>											
Excess of revenue over expenses (from page 5)	\$ 49,955	\$ –	\$ –	\$ 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	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)	(6,199)	(6,199)
Net assets released from restrictions for:												
Research operations	–	–	–	–	–	–	(37,083)	–	(37,083)	(37,083)	(37,083)	(37,083)
Capital expenditures	–	–	–	–	(1,627)	(7,807)	(241)	–	(9,675)	(9,675)	(9,675)	(9,675)
Operating expenses	–	–	–	–	(20,417)	–	–	–	(20,417)	(20,417)	(20,417)	(20,417)
Total net assets released from restrictions	–	–	–	–	(22,044)	(7,807)	(37,324)	–	(67,175)	(67,175)	(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	119,308	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	959,721	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	\$ 1,079,029	\$ 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 Cash Flows

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Operating activities		
Change in net assets	\$ 101,294	\$ 119,308
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.	(11,466)	(10,617)
Distribution from The Hospital for Special Surgery Fund, Inc.	–	5,000
Loss on extinguishment of debt	–	3,650
Depreciation and amortization	82,610	73,872
Amortization of bond premium	–	(58)
Change in defined benefit pension and other postretirement plan liability to be recognized in future periods	66,085	(42,823)
Change in net unrealized gains and losses on investments and equity in earnings of alternative investments	(60,546)	34,949
Realized gains on investments	(12,305)	(8,381)
Contributions to net assets with donor restrictions	(9,676)	(19,659)
Contributions restricted to acquisition of plant assets – net	(9,922)	(20,814)
Employer contributions to pension plan	(20,500)	(31,500)
Changes in operating assets and liabilities:		
Receivables, net	(26,357)	(5,005)
Net due from affiliates	(84)	(574)
Pledges receivable, net	2,583	(24,720)
Accounts payable and accrued expenses and accrued salaries and related liabilities	4,473	1,246
Current amount due to third-party payors	(1,312)	1,407
Other noncurrent liabilities, including due to third-party payors	(5,864)	34,862
Other assets and liabilities, net	41,714	(16,272)
Net cash provided by operating activities	<u>140,727</u>	<u>93,871</u>
Investing activities		
Additions to property, plant and equipment	(105,486)	(92,426)
Net increase in investments	(35,672)	(51,993)
Net decrease in assets limited as to use	3,321	26,620
Net cash used in investing activities	<u>(137,837)</u>	<u>(117,799)</u>
Financing activities		
Repayments of Federal Housing Administration insured mortgage loans	–	(141,322)
Principal payments on other long-term debt	(30,898)	(35,145)
Proceeds from issuance of Series 2018 Bonds	–	179,220
Proceeds from other long-term borrowings	9,416	4,862
Contributions restricted to acquisition of plant assets – net	9,922	20,814
Contributions to net assets with donor restrictions	9,676	19,659
Net cash (used in) provided by financing activities	<u>(1,884)</u>	<u>48,088</u>
Net increase in cash and cash equivalents	1,006	24,160
Cash and cash equivalents at beginning of year	122,551	98,391
Cash and cash equivalents at end of year	<u>\$ 123,557</u>	<u>\$ 122,551</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, 2019

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 or Hospital for Special Surgery) 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), HSS – Florida Physicians LLC (HSS-Florida) and HS², LLC (HS²) 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).

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)

The members have the authority to elect the Hospital's Board of Trustees, as nominated by the 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. At December 31, 2019, the Hospital owned approximately 55% of Manhattan ASC and the remaining 45% is owned by certain members of the Hospital's surgical staff (51% and 49%, respectively, in 2018). 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 offers outpatient orthopedic surgery services in collaboration with a group of Hospital surgeons. Operations of West Side ASC commenced in August 2019. At December 31, 2019 and 2018, the Hospital owned approximately 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.

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 statements of operations and changes in net assets. Amounts were not significant in 2019 and 2018.

HS² is a limited liability company organized under the state laws of Delaware. HS² was formed in 2017 for the purpose of developing, owning and operating a surgeon talent management and services business that provides surgeon time, expertise, training, recruitment, advisory and oversight services to certain health care-related start-up and other ventures as approved by the Hospital. Additionally, HS² may make certain equity investments in ventures to which it provides services or in other health care ventures approved by the Hospital. At December 31, 2019 and 2018, the Hospital owned approximately 10% of HS² and the remaining 90% is owned by certain members of the Hospital's surgical staff. Operations of HS² commenced in June 2018. The Hospital has consolidated the activities of HS² in the consolidated financial statements. Non-controlling interests represent the portion of HS² not controlled by the Hospital, but are required to be presented in the Hospital's consolidated financial statements.

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 Florida licensed musculoskeletal outpatient clinics in West Palm Beach County, Florida. The Hospital controls and owns 51% and a limited liability company affiliated with a third-party health system owns 49%. Operations of HSS-Florida commenced in November 2019. The Hospital has consolidated the activities of HSS-Florida in the consolidated

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)

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.

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.

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 excess of revenue over expenses as the performance indicator. Changes in net assets without donor restrictions, which are excluded from the excess of revenue over expenses, include net assets released from restrictions for capital expenditures, changes in defined benefit pension and other postretirement plan liability to be recognized in future periods, operating gain attributable to non-controlling interest in subsidiaries, and changes in net unrealized gains and losses on investments and unrealized losses on securities included in accounts not managed by external parties for the year ended December 31, 2018 only (see Recently Adopted Accounting Pronouncements in Note 1).

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)

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. Management does not believe the credit risk related to these deposits to be significant. The Hospital does not hold any money market funds with significant liquidity restrictions that would require the funds to be excluded from cash equivalents.

Cash and cash equivalents held within assets limited as to use and investments are not considered to be significant.

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.

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)

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.

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.

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)

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.

	2019	2018
	<i>(In Thousands)</i>	
Financial assistance (charity care), net (see below)	\$ 13,774	\$ 13,515
Un-reimbursed cost of means-tested government sponsored health care	24,692	22,964
Cost of other means-tested government programs	672	435
Health professions education	48,342	46,776
Research	24,531	24,729
Other community benefit activities	9,264	8,548
	121,275	116,967
Un-reimbursed cost of providing Medicare sponsored health care	76,031	67,979
	\$ 197,306	\$ 184,946

Funds received to offset financial assistance provided are included above and totaled approximately \$1.8 million and \$1.9 million for the years ended December 31, 2019 and 2018, 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).

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Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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 \$19.0 million at December 31, 2019.

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 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.

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Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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. Prior to January 1, 2019, the net change in unrealized gains and losses was excluded from the performance indicator, unless deemed to be an other than temporary decline in fair value or if the unrealized loss pertained to securities included in accounts managed by external parties, in which case the amount is included within the performance indicator (See Recently Adopted Accounting Pronouncements)

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 \$2.4 million at December 31, 2019 and \$3.4 million at December 31, 2018 are due to be collected at December 31 over the following periods:

	2019	2018
	<i>(In Thousands)</i>	
Less than one year	\$ 20,926	\$ 20,834
One to five years	25,880	28,089
Greater than five years	5,510	6,264
	52,316	55,187
Less allowance for uncollectible amounts	5,567	5,855
	46,749	49,332
Less current portion	18,498	18,415
	\$ 28,251	\$ 30,917

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Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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 a money market mutual fund.

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 \$2.6 million and \$2.8 million at December 31, 2019 and 2018, respectively, have been reported as a direct reduction from long-term debt. Amortization expense was approximately \$0.2 million for each of the years ended December 31, 2019 and 2018, respectively.

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.

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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 are stated at the lower of cost (determined on a first-in, first-out method) or net realizable value.

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 2019, Fund made a restricted contribution to the Hospital of approximately \$5.5 million which is recorded within net assets with donor restrictions. In 2018, Fund made a distribution of \$5.0 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.

Recently Adopted Accounting Pronouncements

Effective January 1, 2019, the Hospital adopted ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). ASU 2016-01 requires 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. As a result of adopting ASU 2016-01, the change in unrealized gains and losses on equity securities classified as other than trading, and which are considered without donor restrictions, are included in the performance indicator. Retroactive adoption of ASU 2016-01 was not permitted.

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Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2016-02, *Leases* (ASU 2016-02), which requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the statements of financial position, including both finance and operating leases. ASU 2016-02 requires disclosure to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The recognition, measurement and presentation of expenses and cash flows arising from a lease primarily depends on its classification as a finance or operating lease.

The Hospital adopted ASU 2016-02 effective January 1, 2019, following the modified retrospective method of application. As such, the prior period consolidated financial statement amounts and disclosures have not been adjusted to reflect the provisions of the new standard. There was no cumulative-effect adjustment to the prior period consolidated net assets as a result of the adoption. The Hospital has made the transition-specific election to apply the package of practical expedients which allows for the carryforward of historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. Additionally, for operating leases entered into prior to January 1, 2019, the Hospital has elected to utilize the operating leases' initial lease term as of the date of adoption to determine the discount rate used to initially measure the liability. Certain other accounting policy elections and quantitative and qualitative information pertaining to the Hospital's adoption of ASU 2016-02 are described in Note 5.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash* (ASU 2016-18), which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Hospital adopted ASU 2016-18 using a retrospective transition method. The adoption of 2016-18 did not have a material impact on the consolidated financial statements.

Effective January 1, 2019, the Hospital adopted 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 are required to present the service cost component of net

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Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers must present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any intermediate measure of operations, if one is presented. The Hospital does not report an intermediate measure of operations. As a result of adopting ASU 2017-07, the Hospital recorded the service cost component of net periodic benefit cost related to its defined benefit plan and other postretirement benefit plan (aggregate of approximately \$15.6 million and \$19.3 million for the years ended December 31, 2019 and 2018, respectively) within salaries and wages on the consolidated statements of operations and changes in net assets and presented all other components (aggregate of approximately \$5.3 million and \$8.8 million for the years ended December 31, 2019 and 2018, respectively) in other components of net periodic benefit costs outside of operating expenses but within the performance indicator.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958); Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). ASU 2018-08 clarifies existing guidance in order to address diversity in practice in classifying grants (including governmental grants) and contracts received by not-for-profit entities and requires entities to evaluate whether the resource provider receives commensurate value. In addition, the standard clarifies the guidance on how entities determine when a contribution is conditional, including whether the agreement includes a barrier (or barriers) that must be overcome for the recipient to be entitled to the transferred assets (or a right of release of the promisor's obligation to transfer the assets). The Hospital adopted ASU 2018-08 effective January 1, 2019. The adoption of ASU 2018-08 did not have a material impact on the Hospital's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (ASU 2018-15), which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in ASU 2018-15. ASU 2018-15 requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and

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Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

which costs to expense. ASU 2018-15 also requires the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The amendments in ASU 2018-15 also require the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is also required to present the capitalized implementation costs in the consolidated balance sheets in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. The Hospital early adopted ASU 2018-15 effective January 1, 2018. The adoption of ASU 2018-15 did not have a material impact on the consolidated financial statements.

Other Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 amends guidance on reporting credit losses for certain assets held at amortized cost basis and other-than-trading debt securities. For assets held at amortized cost basis, typically trade and other receivables, contract assets, and loans and held-to-maturity debt securities, ASU 2016-13 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For other-than-trading debt securities, credit losses should be measured in a manner similar to current GAAP, however, ASU 2016-13 will require that credit losses be presented as an allowance rather than as a write-down. The provisions of ASU 2016-13 are effective for the Hospital for the year ending December 31, 2022. The adoption of ASU 2016-13 is not expected to have a material impact on the consolidated financial statements.

In May 2019, the FASB issued ASU 2019-06, *Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958)*. The standard allows not-for-profit entities (NFPs) to apply accounting alternatives that simplify the subsequent accounting for goodwill and the accounting for certain intangible assets they acquire. The alternatives were previously available only to private companies. NFPs that elect the goodwill accounting alternative will amortize goodwill and perform a one-step impairment test, at either the entity level or the reporting unit level, only when an impairment indicator exists. NFPs that elect

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Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

the intangible asset accounting alternative may recognize fewer intangible assets in an acquisition, and they would be required to elect the goodwill accounting alternative. The standard is effective upon issuance. The Hospital does not have any material goodwill or intangible assets at December 31, 2019 and will have the option to adopt this new standard in subsequent years upon recognition of goodwill and intangible 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 are 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. HS² is a Delaware 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 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. The provisions of TCJA to categorize certain qualified transportation fringe benefit expenses, offered by exempt organizations, as a source of unrelated business income subject to tax, has been retroactively repealed effective December 20, 2019 by the Taxpayer Certainty & Disaster Tax Relief Act of 2019. Regulations necessary to implement certain aspects of TCJA continue to be promulgated by the Internal Revenue Service (IRS) in 2020. As of and for the year ended December 31, 2019, 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 2018 financial statements to conform to the presentation in the 2019 financial statements.

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Notes to Consolidated Financial Statements (continued)

2. Patient Revenue and Receivables

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 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.

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 (continued)

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, *Revenue from Contracts with Customers* (ASU 2014-09) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient 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.

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, 2019, 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.

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Notes to Consolidated Financial Statements (continued)

2. Patient Revenue and Receivables (continued)

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.

Patient care receivables less allowance for doubtful accounts is comprised of the following components at December 31:

	2019	2018
	<i>(In Thousands)</i>	
Patient receivables	\$ 116,170	\$ 107,262
Contract assets	9,249	5,417
	<u>\$ 125,419</u>	<u>\$ 112,679</u>

Receivables related to physician practice are not significant at December 31, 2019 and December 31, 2018, respectively. 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 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.

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Notes to Consolidated Financial Statements (continued)

2. Patient Revenue and Receivables (continued)

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, 2019 and December 31, 2018, respectively.

Patient revenue by payor is as follows for the years ended December 31:

	2019		2018	
	Net Patient Service Revenue	Physician Practice Revenue	Net Patient Service Revenue	Physician Practice Revenue
	<i>(In Thousands)</i>		<i>(In Thousands)</i>	
Medicare and Medicare managed care	\$ 186,595	\$ 27,755	\$ 174,918	\$ 23,060
Medicaid and Medicaid managed care	16,981	682	16,213	628
International	25,852	1,555	27,176	1,706
Workers' compensation	17,659	3,634	19,660	3,610
Commercial	833,274	108,193	761,460	92,795
Self-pay	4,068	2,676	3,956	3,402
	\$ 1,084,429	\$ 144,495	\$ 1,003,383	\$ 125,201

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

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.

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Notes to Consolidated Financial Statements (continued)

2. Patient Revenue and Receivables (continued)

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.

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 2016. 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

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Notes to Consolidated Financial Statements (continued)

2. Patient Revenue and Receivables (continued)

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 11.7% from Medicare and Medicaid, 14.4% from self-pay and 73.9% from commercial insurance and others at December 31, 2019 (12.1%, 17.3% and 70.6% respectively, in 2018).

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.

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)

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

	2019	2018
	<i>(In Thousands)</i>	
Money market mutual funds	\$ 161,156	\$ 149,744
Marketable equity securities	29,107	22,752
Equity mutual funds	128,949	113,749
Fixed income mutual funds	35,972	31,598
Fixed income securities	55,203	52,090
Alternative investments:		
Hedge and common collective trust funds:		
U.S. equity large/small cap	32,089	35,386
International equity	81,842	36,397
Long/short equity	90,391	80,516
Multi-strategy	61,762	56,110
Real assets	3,136	2,770
Private equity	14,997	12,898
Other	8,665	4,007
	703,269	598,017
Less current portion	559,276	465,652
	\$ 143,993	\$ 132,365

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 \$22.3 million at December 31, 2019 and \$20.2 million at December 31, 2018). At December 31, 2019 and 2018, investments include amounts set aside by the Hospital's Board of Trustees for quasi-endowment of approximately \$4.3 and \$3.9 million. Investment income earned during the year is included in other operating revenue on the consolidated statements of operations and changes in net assets. Assets limited as to use of approximately \$20.4 million and \$23.4 million at December 31, 2019 and 2018, respectively, is comprised of money market mutual funds and is restricted for future capital expansion.

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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:

	2019	2018
	<i>(In Thousands)</i>	
Land and land improvements	\$ 2,006	\$ 2,006
Buildings and improvements	763,101	710,836
Furniture, equipment and software	637,306	573,160
	1,402,413	1,286,002
Less accumulated depreciation and amortization	790,350	709,150
	612,063	576,852
Add construction-in-progress	25,246	37,450
	\$ 637,309	\$ 614,302

At December 31, 2019, the Hospital had capital commitments of approximately \$11.9 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 \$92.8 million and \$87.8 million of capitalized software costs at December 31, 2019 and December 31, 2018, respectively. Accumulated amortization of capitalized software costs at December 31, 2019 and December 31, 2018 is \$60.4 million and \$51.6 million, respectively.

5. Leases

The Hospital determines if an arrangement is a lease at inception. The Hospital utilizes operating leases for the use of medical offices, administrative offices and automobiles. For leases with terms greater than 12 months, the Hospital records the related operating lease assets and operating lease liabilities at the present value of lease payments over the term. The present value of lease payments is calculated by utilizing the discount rate stated in the lease, when readily determinable. For leases for which this rate is not readily available, the Hospital has elected to use a discount rate comparable to the Hospital's incremental borrowing rate for financing over a comparable period. Leases with an initial term of 12 months or less are not recorded in the consolidated statements of

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Notes to Consolidated Financial Statements (continued)

5. Leases (continued)

financial position. Lease expense for operating leases is recognized on a straight-line basis over the lease term and included in supplies and other expenses in the consolidated statements of operations.

The following table presents the Hospital's lease-related assets and liabilities at December 31, 2019 (in thousands):

Statement of Financial Position Classification	December 31, 2019
	<i>(In Thousands)</i>
Assets:	
Operating lease assets	\$ 428,803
Liabilities:	
Operating lease liabilities, current portion	\$ 39,748
Operating lease liabilities, net of current portion	430,047
Total liabilities	\$ 469,795

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

	December 31, 2019
Weighted-average remaining lease term (years)	12.22
Weighted-average discount rate	3.64%

Other information related to operating leases for the year ended December 31, 2019 is as follows (in thousands):

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	\$ 51,666
Operating lease expense	56,084

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

5. Leases (continued)

Future minimum lease payments under non-cancellable operating leases as of December 31, 2019 were as follows (in thousands):

2020	\$	55,991
2021		54,425
2022		55,042
2023		43,084
2024		42,264
Thereafter		<u>340,284</u>
Total future minimum lease payments		591,090
Less imputed interest		<u>(121,295)</u>
	\$	<u>469,795</u>

The Hospital has entered into two operating leases with Properties where Properties is the owner of the real estate. At December 31, 2019, operating lease assets and liabilities attributed to these leases with Properties are approximately \$35.5 million and \$35.7 million, respectively and is included in the above amounts. For the year ended December 31, 2019, the expense related to leases with Properties was approximately \$14.0 million. All other operating leases between the Hospital and Properties are specifically related to instances where the Hospital is a sub-lessee under HSS Properties' lease agreements with third party lessors.

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

6. Debt-Related Matters

Long-Term Debt

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

	2019	2018
	<i>(In Thousands)</i>	
Series 2018 Bonds ^(a)	\$ 179,220	\$ 179,220
Promissory note ^(b)	16,542	19,007
Commercial mortgage loan ^(c)	–	352
Tax-exempt loans ^(d)	40,270	66,713
	236,032	265,292
Less unamortized deferred financing costs	2,612	2,755
	233,420	262,537
Manhattan ASC – Project Improvement and Working Capital Loans ^(e)	13,609	15,052
West Side ASC – Project Improvement and Working Capital Loans ^(f)	13,294	4,085
	260,323	281,674
Less current portion of long-term debt	24,837	28,762
	\$ 235,486	\$ 252,912

^(a) 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 \$2.8 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, 2019, 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)

6. Debt-Related Matters (continued)

- (i) Extinguish the outstanding balance on Federal Housing Administration-insured mortgages in the amount of \$138.6 million. The extinguishment resulted in a loss of approximately \$3.7 million for the year ended December 31, 2018.
 - (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 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.
- (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 was fully paid in 2019. The variable interest was 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 required that the Hospital maintain specified financial ratios.
- (d) 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:

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

6. Debt-Related Matters (continued)

Origination Year	Original Loan Amount	Monthly Principal and Interest Payments	Fixed Interest Rates	Final Payment
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

^(e) 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 guarantees a portion of its proportionate share of the debt. In January 2020, the Hospital's guaranteed portion was reduced from 100% to 50%.

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, which was fully drawn, was converted to a ten year term loan, and the Working Capital Loan, which was fully drawn, 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)

6. Debt-Related Matters (continued)

^(f) 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 guarantees 100% of its proportionate share 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 September 2019, the Project Improvement Loan, which was fully drawn, was converted to a ten year term loan and the Working Capital Loan, which was fully drawn, 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 3.20%. Monthly principal and interest payments of approximately \$0.2 million are due, with final payment due no later than September 2029. The Working Capital Loan bears interests at a rate of 3.06%. Monthly principal and interest payments of approximately \$0.02 million are due, with final payment due no later than October 2024.

On August 1, 2019, West Side ASC entered into a revolving loan agreement with the Hospital for an unsecured line of credit (the Line) for \$3.0 million. On October 31, 2019, the Line was increased to \$6.0 million. The Line is intended for short-term general working capital purposes. Interest only payments at 5.5% (based upon a third-party fair market value assessment) are required to be made on the draws. The Line expires on July 31, 2022. The amount drawn on the Line was \$4.2 million at December 31, 2019 and is eliminated upon consolidation.

Interest paid on all debt was approximately \$8.8 million and \$8.4 million in 2019 and 2018, respectively. Capitalized interest was not significant in 2019 and 2018.

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

6. Debt-Related Matters (continued)

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

	Total
	<i>(In Thousands)</i>
2020	\$ 24,837
2021	20,427
2022	10,222
2023	7,739
2024	6,219
Thereafter	192,851
	<u>\$ 262,935</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 2019 and 2018. The line of credit was scheduled to expire on July 31, 2020 (see Note 18).

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

7. Other Operating Revenue

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

	2019	2018
	<i>(In Thousands)</i>	
Physician practice revenue	\$ 144,495	\$ 125,201
Overhead recoveries	60,158	53,770
Investment income (interest and dividends)	7,064	6,525
Royalty income	558	458
Rebates and discounts	4,411	4,272
Dietary income	1,142	1,127
Other	11,462	5,864
	\$ 229,290	\$ 197,217

8. 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.

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

8. Insurance Coverage (continued)

MIAC's insurance liabilities, which have been evaluated by an independent actuarial firm, approximated \$129.3 million at December 31, 2019 and at \$113.3 million at December 31, 2018. Total assets were approximately \$142.5 million and \$128.1 million at December 31, 2019 and 2018, respectively. Underwriting income approximated \$24.5 million and \$22.3 million for 2019 and 2018, respectively. MIAC's net operating results in 2019 and 2018 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 \$82.2 million (approximately \$15.3 million current and \$66.9 million long term) as of December 31, 2019, and approximately \$75.9 million (approximately \$13.0 million current and \$62.9 million long term) as of December 31, 2018.

9. 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, 2019, 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.

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Notes to Consolidated Financial Statements (continued)

9. 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, 2019 and 2018 are the following amounts that have not yet been recognized in net periodic benefit cost:

	<u>2019</u>	<u>2018</u>
	<i>(In Thousands)</i>	
Net actuarial loss recognized in net assets without donor restrictions	<u>\$ (210,309)</u>	<u>\$ (144,301)</u>
	<u>\$ (210,309)</u>	<u>\$ (144,301)</u>

The actuarial loss included in other changes in net assets without donor restrictions at December 31, 2019 and expected to be recognized in net periodic benefit cost during the year ending December 31, 2020 is as follows (in thousands):

Net actuarial loss	<u>\$ 14,256</u>
	<u>\$ 14,256</u>

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

9. 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:

	Pension Plan		Postretirement Plan	
	2019	2018	2019	2018
	<i>(In Thousands)</i>			
Reconciliation of the projected benefit obligation				
Obligation at beginning of year	\$ 395,822	\$ 433,668	\$ 6,084	\$ 6,648
Service cost	15,534	19,278	61	67
Interest cost	16,609	15,688	235	213
Actuarial loss (gain)	106,941	(60,762)	298	(558)
Benefit payments, net	(16,993)	(12,050)	(294)	(286)
Obligation at end of year	\$ 517,913	\$ 395,822	\$ 6,384	\$ 6,084
Reconciliation of fair value of plan assets				
Fair value of plan assets at beginning of year	\$ 297,887	\$ 289,807	\$ —	\$ —
Actual gain (loss) on plan assets	52,761	(11,370)	—	—
Employer contributions	20,500	31,500	294	286
Plan participants' contributions	—	—	442	424
Benefit payments	(16,993)	(12,050)	(736)	(710)
Fair value of plan assets at end of year	\$ 354,155	\$ 297,887	\$ —	\$ —

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

9. Benefit Plans (continued)

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

	Pension Plan		Postretirement Plan	
	2019	2018	2019	2018
	<i>(In Thousands)</i>			
Funded status				
Unfunded status at end of year	\$ (163,758)	\$ (97,935)	\$ (6,384)	\$ (6,084)

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

	Pension Plan		Postretirement Plan	
	2019	2018	2019	2018
	<i>(In Thousands)</i>			
Service cost – benefits earned during the year	\$ 15,534	\$ 19,278	\$ 61	\$ 67
Interest cost on projected benefit obligations	16,609	15,688	235	213
Expected return on plan assets	(19,996)	(19,352)	–	–
Recognized actuarial loss	8,177	11,811	289	434
Net periodic benefit cost	\$ 20,324	\$ 27,425	\$ 585	\$ 714

The accumulated benefit obligation for the Plan as of December 31, 2019 and 2018 was approximately \$517.4 million and \$395.6 million, respectively.

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

9. 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	
	2019	2018	2019	2018
Discount rate	3.30%	4.30%	2.90%	4.00%
Rate of increase in compensation levels	3.70	3.70	—	—

The actuarial loss in 2019 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	
	2019	2018	2019	2018
Discount rate	4.30%	3.70%	4.00%	3.30%
Expected long-term rate of return on plan assets	6.50	6.50	—	—
Rate of increase in compensation levels	3.70	3.70	—	—

The Plan's weighted-average asset allocations at December 31, 2019 and 2018, by asset category, are as follows:

	2019	2018
Asset category:		
Money market mutual funds	4%	16%
Equity mutual funds	11	12
Fixed income mutual funds	36	32
Alternative investments	49	40
Total	100%	100%

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

9. 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 16 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 \$31.0 million and \$0.4 million to both the Pension Plan and Postretirement Plan, respectively, during 2020.

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

	Pension Plan	Postretirement Plan
	<i>(In Thousands)</i>	
2020	\$ 20,726	\$ 367
2021	19,014	402
2022	20,369	426
2023	21,402	444
2024	21,790	443
2025 to 2029	115,269	1,984

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

9. 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:

	2019		2018	
	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	(1)

The Hospital also provides pension benefits to certain employees through a defined contribution plan. Pension expense related to this plan was approximately \$16.9 million and \$15.1 million for the years ended December 31, 2019 and 2018, respectively.

10. 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, 2019 are as follows:

	Healthcare Services	Research	Fundraising	Management and Administrative	Total
Salaries	\$ 493,196	\$ 21,512	\$ –	\$ 98,323	\$ 613,031
Employee benefits	91,658	7,091	–	32,351	131,100
Supplies and other expenses	287,178	15,199	9,054	136,769	448,200
Insurance	22,332	–	–	449	22,781
Depreciation and amortization	77,831	3,771	–	1,008	82,610
Interest	8,607	1,086	–	210	9,903
Total	\$ 980,802	\$ 48,659	\$ 9,054	\$ 269,110	\$ 1,307,625

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

10. Functional Expenses (continued)

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	\$ 461,079	\$ 20,124	\$ –	\$ 87,811	\$ 569,014
Employee benefits	91,475	6,641	–	28,983	127,099
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	\$ 912,902	\$ 43,518	\$ 7,995	\$ 239,828	\$ 1,204,243

11. Net Assets with Donor Restrictions

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

	2019	2018
	<i>(In Thousands)</i>	
Assets to be held in perpetuity, the income from which is restricted for research	\$ 114,303	\$ 112,068
Assets to be held in perpetuity, the income from which is restricted for other specific purposes	53,221	45,780
Assets to be held in perpetuity, the income from which is unrestricted as to use	410	410
	\$ 167,934	\$ 158,258

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

11. Net Assets with Donor Restrictions (continued)

Changes in investment assets to be maintained in perpetuity (endowment investments) for the year ended December 31, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment investments, beginning balance	\$ 6,362	\$ 196,196	\$ 202,558
Total investment return	1,092	31,082	32,174
Contributions	–	11,778	11,778
Appropriation of endowment investments for expenditure	(199)	(9,180)	(9,379)
Endowment investments, ending balance	<u>\$ 7,255</u>	<u>\$ 229,876</u>	<u>\$ 237,131</u>

Changes in endowment investments for the year ended December 31, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
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>

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

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

11. 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 2019 and 2018 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)

11. 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, 2019 and 2018.

12. 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.

13. 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 \$38.2 million and \$34.9 million at December 31, 2019 and 2018, respectively. Income received from this trust was approximately \$1.9 million in 2019 and 2018, respectively and is recorded directly in the research funds (with donor restrictions).

14. Transactions with Affiliates

Fund and Properties purchase certain administrative, general and plant services from the Hospital. Amounts charged for these services (approximately \$6.0 million and \$5.6 million in 2019 and 2018, respectively) are determined principally on the basis of allocated costs. Fund provides certain fundraising services to the Hospital valued at approximately \$9.0 million in 2019 and \$8.0 million in 2018, 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 \$61.6 million and \$55.9 million for the years ended December 31, 2019 and 2018, respectively.

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

Notes to Consolidated Financial Statements (continued)

14. Transactions With Affiliates (continued)

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

	<u>2019</u>	<u>2018</u>
	<i>(In Thousands)</i>	
Fund	\$ 2,989	\$ 2,575
Properties	1,677	1,428
Horizons	4,024	3,791

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 \$22.3 million at December 31, 2019 and \$20.2 million at December 31, 2018).

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 \$7.0 million and \$4.4 million at December 31, 2019 and 2018, respectively.

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

14. Transactions With Affiliates (continued)

Following is a summary of consolidated financial information for Fund, Inc. and Affiliates as of December 31, 2019 and 2018 and for the years then ended:

	<u>2019</u>	<u>2018</u>
	<i>(In Thousands)</i>	
Total assets	<u>\$ 854,284</u>	<u>\$ 380,057</u>
Total liabilities	<u>\$ 697,466</u>	<u>\$ 245,521</u>
Total net assets	<u>\$ 156,818</u>	<u>\$ 134,536</u>
Operating revenue	<u>\$ 125,651</u>	<u>\$ 102,411</u>
Operating expenses	<u>\$ 103,581</u>	<u>\$ 79,016</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 6 and 7.

15. 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.

16. 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)

16. 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, 2019 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
Cash and cash equivalents	\$ 123,557	\$ –	\$ –	\$ 123,557
Marketable equity securities	29,107	–	–	29,107
Money market mutual funds	181,516	–	–	181,516
Equity mutual funds	128,949	–	–	128,949
Fixed income mutual funds	35,972	–	–	35,972
Fixed income securities	55,203	–	–	55,203
	\$ 554,304	\$ –	\$ –	\$ 554,304

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

Notes to Consolidated Financial Statements (continued)

16. Fair Value Measurements (continued)

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:

	Level 1	Level 2	Level 3	Total
	<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
	\$ 515,931	\$ —	\$ —	\$ 515,931

The Hospital's alternative investments, excluding alternative investments in the defined benefit plan, of approximately \$284.2 million and \$224.1 million and certain investments recorded at cost of approximately \$8.7 million and \$4.0 million at December 31, 2019 and 2018, 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, 2019 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
Money market mutual funds	\$ 12,180	\$ —	\$ —	\$ 12,180
Equity mutual funds	39,492	—	—	39,492
Fixed income mutual funds	128,875	—	—	128,875
	\$ 180,547	\$ —	\$ —	\$ 180,547

Alternative investments measured

at net asset value:

Hedge funds	157,118
Private equity	16,490
	\$ 354,155

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

Notes to Consolidated Financial Statements (continued)

16. Fair Value Measurements (continued)

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:

	Level 1	Level 2	Level 3	Total
	<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
	\$ 179,542	\$ —	\$ —	179,542
Alternative investments measured at net asset value:				
Hedge funds				106,767
Private equity				11,578
				\$ 297,887

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)

16. 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, 2019:

	Carrying Value	Unfunded Commitments	Redemption Notice Period	Funds Availability
	<i>(In Thousands)</i>			
U.S. equity large/small cap	\$ 63,126	\$ n/a	0 days – 60 days	1 week to 3 months
International equity	120,653	n/a	0 days – 90 days	1 week to 6 months
Long/short equity	156,634	n/a	45 days – 180 days	3 months to 2.25 years
Multi-strategy	82,790	n/a	60 days – 90 days	3 months to 2 years
Real assets	3,136	n/a	7 days – 45 days	1 month to 6 months
Private equity	31,487	30,304	none	1 year months to 12 years
	<u>\$ 457,826</u>	<u>\$ 30,304</u>		

17. Liquidity and Availability

At December 31, 2019 and 2018, the Hospital had financial assets consisting predominantly of cash and cash equivalents, receivables for patient care, current portion of investments and pledges receivable totaling approximately \$891.7 million and \$768.3 million, respectively, available for general expenditures within one year as presented on the consolidated statement of financial position. This includes certain donor restricted assets which are available for general expenditures within one year in the normal course of operations. 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 11 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)

18. Events Subsequent to December 31, 2019

Subsequent events have been evaluated through April 6, 2020, which is the date the consolidated financial statements were issued. Except for the subsequent event noted below, there are no other events that have occurred that require disclosure in or adjustment to the consolidated financial statements.

Due to the global viral outbreak caused by Coronavirus Disease 2019 (COVID-19) in 2020, there have been resulting effects which could negatively impact the Hospital's financial condition. The effects included the temporary suspension of elective musculoskeletal care including elective orthopedic surgery, solely performing essential and/or emergent orthopedic surgeries, and accepting non-orthopedic cases, including those diagnosed with COVID-19 from other hospitals and care providers and undergoing significant transformation of facilities in order to care for these populations. Other effects include significant stock market exchange volatility and supply chain disruptions. The ultimate impact of these matters to the Hospital and its financial condition is presently unknown. In response, the Hospital's line of credit (see Note 6) was increased to \$100 million and was fully drawn. The maturity date on the line of credit was extended to March 31, 2021. In addition, on April 6, 2020 the Hospital obtained an additional line of credit for \$100 million with a maturity date of April 30, 2021. The line is expected to be fully drawn during April 2020. The accompanying consolidated financial statements do not reflect the effects of these subsequent events.

Supplementary Information



Ernst & Young LLP
5 Times Square
New York, NY 10036-6530

Tel: +1 212 773 3000
Fax: +1 212 773 6350
ey.com

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, 2019, and have issued our report thereon dated April 6, 2020, 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 6, 2020

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, 2019

	HSS	TJA Orthopedic Surgery, PC	HSS ASC of Manhattan, LLC	HSS Westside ASC, LLC	HSS Florida Physicians, LLC	HS2	Eliminations	Consolidated
<i>(In Thousands)</i>								
Assets								
Current assets:								
Cash and cash equivalents	\$ 114,042	\$ -	\$ 4,595	\$ 856	\$ 3,062	\$ 1,002	\$ -	\$ 123,557
Receivables:								
Patient care, less allowance for doubtful accounts of \$26,641	120,654	-	3,131	1,634	-	-	-	125,419
Insurance claims receivable	15,319	-	-	-	-	-	-	15,319
Other	48,907	-	1	402	321	-	-	49,631
Total receivables	184,880	-	3,132	2,036	321	-	-	190,369
Investments	559,276	-	-	-	-	-	-	559,276
Inventories	11,620	-	2,019	991	7	-	-	14,637
Prepaid expenses and other current assets	8,326	-	870	7	3	17	-	9,223
Pledges receivable	18,498	-	-	-	-	-	-	18,498
Assets limited to use	-	-	-	-	-	-	-	-
Due from affiliates – net	29,308	-	-	-	-	-	(13,459)	15,849
Total current assets	925,950	-	10,616	3,890	3,393	1,019	(13,459)	931,409
Insurance claims receivable, net of current portion	66,851	-	-	-	-	-	-	66,851
Operating lease assets	403,791	-	6,963	17,818	231	-	-	428,803
Other noncurrent assets	20,212	-	319	223	19	4	(99)	20,678
Due from affiliates – net	26,091	-	-	-	-	-	-	26,091
Pledges receivable	28,251	-	-	-	-	-	-	28,251
Assets limited as to use	20,360	-	-	-	-	-	-	20,360
Long-term investments	143,993	-	-	-	-	-	-	143,993
Interest in The Hospital for Special Surgery Fund, Inc.	72,070	-	-	-	-	-	-	72,070
Interest in HSS ASC of Manhattan, LLC	2,136	-	-	-	-	-	(2,136)	-
Interest in HSS Westside ASC, LLC	(3,699)	-	-	-	-	-	3,699	-
Interest in HSS Florida Physicians, LLC	4,674	-	-	-	-	-	(4,674)	-
Property, plant and equipment – net	604,419	-	10,828	13,995	8,067	-	-	637,309
Total assets	<u>\$ 2,315,099</u>	<u>\$ -</u>	<u>\$ 28,726</u>	<u>\$ 35,926</u>	<u>\$ 11,710</u>	<u>\$ 1,023</u>	<u>\$ (16,669)</u>	<u>\$ 2,375,815</u>

*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, 2019

	HSS	TJA Orthopedic Surgery, PC	HSS ASC of Manhattan, LLC	HSS Westside ASC, LLC	HSS Florida Physicians, LLC	HS2	Eliminations	Consolidated
	<i>(In Thousands)</i>							
Liabilities and net assets								
Current liabilities:								
Accounts payable and accrued expenses	\$ 71,654	\$ -	\$ 1,553	\$ 1,302	\$ 198	\$ 26	\$ -	\$ 74,733
Accrued salaries and related liabilities	56,966	-	219	135	87	23	-	57,430
Current portion of long-term debt	22,071	-	1,500	1,266	-	-	-	24,837
Due to affiliates – net	-	5,831	884	4,911	1,823	10	(13,459)	-
Due to third-party payors – net	3,604	-	-	-	-	-	-	3,604
Insurance claims liabilities	15,319	-	-	-	-	-	-	15,319
Current portion of operating lease liabilities	37,644	-	1,474	604	26	-	-	39,748
Other current liabilities	32,550	-	121	25	79	-	-	32,775
Total current liabilities	239,808	5,831	5,751	8,243	2,213	59	(13,459)	248,446
Long-term debt	211,350	-	12,109	12,027	-	-	-	235,486
Insurance claims liabilities, net of current portion	66,851	-	-	-	-	-	-	66,851
Operating lease liabilities	401,294	-	7,244	21,177	332	-	-	430,047
Other noncurrent liabilities, including due to third-party payors – net	214,662	-	-	-	-	-	-	214,662
Total liabilities	1,133,965	5,831	25,104	41,447	2,545	59	(13,459)	1,195,492
Net assets:								
Without Donor Restrictions:								
Undesignated	774,560	(5,831)	3,622	(5,521)	9,165	964	(8,230)	768,729
Designated for quasi-endowment	3,719	-	-	-	-	-	-	3,719
Noncontrolling interest in subsidiaries	-	-	-	-	-	-	5,020	5,020
Total Without Donor Restrictions	778,279	(5,831)	3,622	(5,521)	9,165	964	(3,210)	777,468
With Donor Restrictions:								
Specific purpose	78,333	-	-	-	-	-	-	78,333
Plant replacement and expansion	29,745	-	-	-	-	-	-	29,745
Research	126,843	-	-	-	-	-	-	126,843
Endowment	167,934	-	-	-	-	-	-	167,934
Total With Donor Restrictions	402,855	-	-	-	-	-	-	402,855
Total net assets	1,181,134	(5,831)	3,622	(5,521)	9,165	964	(3,210)	1,180,323
Total liabilities and net assets	\$ 2,315,099	\$ -	\$ 28,726	\$ 35,926	\$ 11,710	\$ 1,023	\$ (16,669)	\$ 2,375,815

*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, 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>						
Assets							
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	15,902	—	288	—	—	—	16,190
Due from affiliates – net	26,079	—	—	—	—	—	26,079
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>						
Liabilities and net assets							
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
Net assets:							
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

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New York Society for the Relief of the Ruptured and
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Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions

December 31, 2019

	HSS	TJA Orthopedic Surgery, PC	HSS ASC of Manhattan, LLC	HSS Westside ASC, LLC	HSS Florida Physicians, LLC	HS2	Eliminations	Consolidated
Operating revenue								
Net patient service revenue	\$ 1,047,571	\$ 6,115	\$ 28,336	\$ 2,407	\$ –	\$ –	\$ –	\$ 1,084,429
Other operating revenue	232,003	–	–	–	452	556	(3,721)	229,290
Net assets released from restrictions for operations	21,732	–	–	–	–	–	–	21,732
Total operating revenue	<u>1,301,306</u>	<u>6,115</u>	<u>28,336</u>	<u>2,407</u>	<u>452</u>	<u>556</u>	<u>(3,721)</u>	<u>1,335,451</u>
Operating expenses								
Salaries and wages	578,600	5,378	4,933	2,273	585	207	(457)	591,519
Employee benefits	120,665	917	1,556	867	95	89	(180)	124,009
Supplies and other	430,513	2,689	11,009	3,630	1,353	157	(3,299)	446,052
Interest expense	8,030	–	648	201	–	–	(62)	8,817
Depreciation and amortization	75,709	–	2,337	783	10	–	–	78,839
Bad debt expense	9,637	–	79	14	–	–	–	9,730
Total operating expenses	<u>1,223,154</u>	<u>8,984</u>	<u>20,562</u>	<u>7,768</u>	<u>2,043</u>	<u>453</u>	<u>(3,998)</u>	<u>1,258,966</u>
Operating income before research operations and other items	78,152	(2,869)	7,774	(5,361)	(1,591)	103	277	76,485
Research operations:								
Net assets released from restrictions for research operations	40,613	–	–	–	–	–	–	40,613
Operating expenses, including depreciation of \$3,771	48,659	–	–	–	–	–	–	48,659
Net research operations	<u>(8,046)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(8,046)</u>
Excess of operating revenues over operating expenses before other items	70,106	(2,869)	7,774	(5,361)	(1,591)	103	277	68,439
Other items								
Net realized and changes in unrealized gains and losses on investment and change in value of alternative investments	43,618	–	–	–	–	–	–	43,618
Other components of net periodic pension costs	(5,316)	–	–	–	–	–	–	(5,316)
Change in unrestricted interest in The Hospital for Special Surgery Fund, Inc.	11,466	–	–	–	–	–	–	11,466
Operating (gain) loss attributable to noncontrolling interest in subsidiaries	–	–	–	–	–	–	(1,202)	(1,202)
Excess of revenue over expenses	<u>119,874</u>	<u>(2,869)</u>	<u>7,774</u>	<u>(5,361)</u>	<u>(1,591)</u>	<u>103</u>	<u>(925)</u>	<u>117,005</u>
Noncontrolling members' capital contribution	–	–	(353)	–	–	772	–	419
Controlling members' capital contribution	–	–	–	–	–	89	(89)	–
Noncontrolling members' distribution	–	–	(1,299)	–	–	–	–	(1,299)
Controlling members' distribution	–	–	(1,437)	–	–	–	1,437	–
Operating (gain) loss attributable to noncontrolling interest in subsidiaries	–	–	–	–	–	–	1,202	1,202
Net assets released from restrictions for capital expenditures	4,759	–	–	–	–	–	–	4,759
Equity transfer	–	–	–	–	–	–	–	–
Change in defined benefit pension and other post retirement liability to be recognized in future periods	(66,086)	–	–	–	–	–	–	(66,086)
Total change in unrestricted net assets	<u>\$ 58,547</u>	<u>\$ (2,869)</u>	<u>\$ 4,685</u>	<u>\$ (5,361)</u>	<u>\$ (1,591)</u>	<u>\$ 964</u>	<u>\$ 1,625</u>	<u>\$ 56,000</u>

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New York Society for the Relief of the Ruptured and
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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>						
Operating revenue							
Net patient service revenue	\$ 978,110	\$ 5,251	\$ 20,022	\$ –	\$ –	\$ –	\$ 1,003,383
Other operating revenue	199,164	–	–	–	50	(1,997)	197,217
Net assets released from restrictions for operations	20,417	–	–	–	–	–	20,417
Total operating revenue	1,197,691	5,251	20,022	–	50	(1,997)	1,221,017
Operating expenses							
Salaries and wages	539,094	5,267	4,259	270	–	–	548,890
Employee benefits	119,005	–	1,335	118	–	–	120,458
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
Total operating expenses	1,135,421	7,448	17,728	2,423	267	(2,562)	1,160,725
Operating income before research operations and other items	62,270	(2,197)	2,294	(2,423)	(217)	565	60,292
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)
Excess of operating revenues over operating expenses before other items	55,835	(2,197)	2,294	(2,423)	(217)	565	53,857
Other Items							
Net realized and changes in unrealized gains and losses on investment and change in value of alternative investments	(1,856)	–	–	–	–	–	(1,856)
Loss on extinguishment of debt	(3,650)	–	–	–	–	–	(3,650)
Other components of net periodic pension costs	(8,794)	–	–	–	–	–	(8,794)
Change in interest in The Hospital for Special Surgery Fund, Inc.	10,617	–	–	–	–	–	10,617
Operating gain attributable to noncontrolling interest in subsidiaries	–	–	–	–	–	(219)	(219)
Excess of revenue over expenses	52,152	(2,197)	2,294	(2,423)	(217)	346	49,955
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
Total change in net assets without donor restrictions	\$ 91,086	\$ (2,197)	\$ 2,294	\$ (2,423)	\$ 10,756	\$ (5,031)	\$ 94,485

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