

COMBINED FINANCIAL STATEMENTS

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations
Years Ended December 31, 2019 and 2018
With Report of Independent Auditors

Ernst & Young LLP



Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Combined Financial Statements

Years Ended December 31, 2019 and 2018

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Report of Independent Auditors

The Board of Managers
Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

We have audited the accompanying combined financial statements of Memorial Sloan Kettering Cancer Center and Affiliated Corporations (the Institution), which comprise the combined balance sheets as of December 31, 2019 and 2018, and the related combined statements of activities without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the combined 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 did not audit the financial statements of MSK Insurance US, Inc., a wholly owned subsidiary, which statements reflect total assets constituting 2.4% in 2019 and 2018, total liabilities constituting 5.9% in 2019 and 6.8% in 2018, and total revenues constituting 0.2% in 2019 and 2018 of the related combined totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for MSK Insurance US, Inc., is based solely on the report of the other auditors. 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, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Institution at December 31, 2019 and 2018, and the combined results of its operations, changes in its 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 combined financial statements, Memorial Sloan Kettering Cancer Center 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.



April 3, 2020

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Combined Balance Sheets

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 833,102	\$ 677,079
Short-term investments – at fair value	–	89,184
Accounts receivable, net	622,098	615,885
Pledges, trusts and estates receivable	125,902	170,148
Other current assets	235,093	121,078
Total current assets	<u>1,816,195</u>	<u>1,673,374</u>
Noncurrent assets:		
Assets whose use is limited:		
Investments in marketable securities – at fair value:		
Construction and debt service funds	84,935	149,799
Captive insurance funds	60,900	59,572
Employee benefit funds	93,736	80,068
Total investments in marketable securities whose use is limited	<u>239,571</u>	<u>289,439</u>
Investments – at fair value	4,399,849	3,343,092
Investments internally designated for major capital projects	–	609,377
Property and equipment – net	4,655,681	4,284,338
Pledges, trusts and estates receivable	213,077	321,621
Other noncurrent assets	297,080	102,326
Total noncurrent assets	<u>9,805,258</u>	<u>8,950,193</u>
Total assets	<u>\$ 11,621,453</u>	<u>\$ 10,623,567</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 429,539	\$ 580,598
Accrued expenses	437,834	414,405
Current portion of operating lease liabilities	35,378	–
Current portion of long-term debt and finance lease liability	79,766	52,771
Total current liabilities	<u>982,517</u>	<u>1,047,774</u>
Noncurrent liabilities:		
Long-term debt and finance lease liability, less current portion	2,475,905	2,348,600
Operating lease liabilities, less current portion	161,937	–
Other noncurrent liabilities	1,025,754	799,780
Total liabilities	<u>4,646,113</u>	<u>4,196,154</u>
Net assets:		
Without donor restrictions:		
Undesignated	5,110,809	4,608,791
Board-designated	491,377	420,860
Total without donor restrictions	<u>5,602,186</u>	<u>5,029,651</u>
With donor restrictions	1,373,154	1,397,762
Total net assets	<u>6,975,340</u>	<u>6,427,413</u>
Total liabilities and net assets	<u>\$ 11,621,453</u>	<u>\$ 10,623,567</u>

See notes to combined financial statements.

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Combined Statements of Activities Without Donor Restrictions

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Undesignated operating revenues		
Hospital care and services	\$ 4,560,174	\$ 3,973,778
Grants and contracts	368,743	334,536
Contributions	172,525	168,226
Net assets released from restrictions	96,000	122,701
Other income	123,489	159,140
Investment returns allocated to operations	162,445	151,473
Total operating revenues	5,483,376	4,909,854
Operating expenses		
Compensation and fringe benefits	2,892,770	2,587,336
Purchased supplies and services	2,026,254	1,756,174
Depreciation and amortization	329,774	300,239
Interest	40,099	47,045
Total operating expenses	5,288,897	4,690,794
Income from operations	194,479	219,060
Nonoperating income and expenses, net		
Net assets released from restrictions for capital purposes	75,000	25,000
Investment returns, net of expenses, allocated to operations and amounts recorded in net assets with donor restrictions	479,394	(112,061)
Pension settlement cost	-	(40,414)
Other nonoperating income and expenses, net	(21,926)	(34,927)
Total nonoperating income and expenses, net	532,468	(162,402)
Change in postretirement benefit obligation to be recognized in future periods	(224,929)	114,966
Increase in undesignated net assets	502,018	171,624
Board-designated		
Board-designated philanthropy	7,844	114,132
Board-designated investment return	24,344	30,626
Board-designated other additions	38,329	82,295
Increase in Board-designated net assets	70,517	227,053
Increase in net assets without donor restrictions	\$ 572,535	\$ 398,677

See notes to combined financial statements.

Memorial Sloan Kettering Cancer Center
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Combined Statements of Changes in Net Assets

Years Ended December 31, 2019 and 2018

	Total Without Donor Restrictions	With Donor Restrictions			Total With Donor Restrictions	Total Net Assets
		Time Restricted	Purpose Restricted	Endowments		
<i>(In Thousands)</i>						
Net assets at January 1, 2018	\$ 4,630,974	\$ 771,880	\$ 27,000	\$ 675,249	\$ 1,474,129	\$ 6,105,103
Increase in net assets without donor restrictions	398,677	—	—	—	—	398,677
Contributions, pledges, and bequests	—	73,053	2,243	25,687	100,983	100,983
Investment return on endowments	—	(31,020)	—	1,371	(29,649)	(29,649)
Net assets released from restrictions	—	(147,701)	—	—	(147,701)	(147,701)
Net asset transfers	—	(4,249)	4,249	—	—	—
Net assets at December 31, 2018	5,029,651	661,963	33,492	702,307	1,397,762	6,427,413
Increase in net assets without donor restrictions	572,535	—	—	—	—	572,535
Contributions, pledges, and bequests	—	63,310	1,835	8,887	74,032	74,032
Investment return on endowments	—	70,438	—	1,922	72,360	72,360
Net assets released from restrictions	—	(170,687)	(313)	—	(171,000)	(171,000)
Net asset transfers	—	(4,151)	(249)	4,400	—	—
Net assets at December 31, 2019	\$ 5,602,186	\$ 620,873	\$ 34,765	\$ 717,516	\$ 1,373,154	\$ 6,975,340

See notes to combined financial statements.

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Combined Statements of Cash Flows

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Operating activities		
Change in net assets	\$ 547,927	\$ 322,310
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	329,774	300,239
Equity in earnings of investments, net	11,073	707
Unrealized net (gains) losses	(492,232)	189,477
Realized net gains	(226,153)	(172,297)
Accretion (amortization) of bond premium and issuance costs	36,721	(5,799)
Donor restricted contributions, pledges and bequests transferred to investing activities	(74,032)	(100,983)
Pension settlement cost	–	40,414
Change in postretirement benefit obligation to be recognized in future periods	224,929	(114,966)
Changes in assets:		
Accounts receivable, net	(6,213)	(118,338)
Pledges, trusts and estates receivable	152,790	40,348
Other current assets	(114,015)	8,708
Other noncurrent assets	(205,827)	(1,748)
Changes in liabilities:		
Accounts payable and accrued expenses	6,601	89,475
Other noncurrent liabilities	163,352	9,781
Net cash provided by operating activities	354,695	487,328
Investing activities		
Net acquisitions of property and equipment	(627,668)	(700,827)
Increase in investments, net	351,798	437,035
Donor restricted contributions, pledges and bequests transferred from operating activities	74,032	100,983
Net cash used in investing activities	(201,838)	(162,809)
Financing activities		
Proceeds from financing	284,545	–
Repayment of debt	(339,638)	(381,878)
Net cash used in financing activities	(55,093)	(381,878)
Net change in cash, cash equivalents and restricted cash	97,764	(57,359)
Cash, cash equivalents and restricted cash at beginning of year	843,052	900,411
Cash, cash equivalents and restricted cash at end of year	\$ 940,816	\$ 843,052
Supplemental information		
Finance lease obligation incurred	\$ 172,672	\$ –

See notes to combined financial statements.

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Notes to Combined Financial Statements

December 31, 2019

1. Organization and Significant Accounting Policies

The mission of Memorial Sloan Kettering Cancer Center and Affiliated Corporations is to provide leadership in the prevention, treatment and cure of cancer through excellence, vision and cost effectiveness in patient care, outreach programs, research and education. The accompanying financial statements are presented on a combined basis and include the accounts of the following tax exempt, Section 501(c)(3), incorporated affiliates: Memorial Sloan Kettering Cancer Center (the Center), Memorial Hospital for Cancer and Allied Diseases (the Hospital), Sloan Kettering Institute for Cancer Research (the Institute), S.K.I. Realty, Inc., MSK Insurance US, Inc. (MSKI), the Louis V. Gerstner Jr. Graduate School of Biomedical Sciences, Prostate Cancer Clinical Trials Consortium, LLC, Ralph Lauren Center for Cancer Care and Prevention, and MSK Proton, Inc. All of these entities are collectively referred to as the “Institution”.

The following is a summary of the Institution’s significant accounting policies:

Cash and Cash Equivalents

The Institution considers as cash and cash equivalents, all current investments, cash and certain highly liquid investments with original maturities of less than three months. Amounts within restricted cash include cash and cash equivalents held within assets whose use is limited and represent funds set aside based on contractual arrangements.

The following is a reconciliation of cash and cash equivalents between the combined balance sheets and combined statements of cash flows:

	2019	2018
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 833,102	\$ 677,079
Restricted cash within assets whose use is limited	107,714	165,973
Total cash, cash equivalents, and restricted cash	<u>\$ 940,816</u>	<u>\$ 843,052</u>

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Notes to Combined Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Investments

Investments in marketable securities are carried at fair value, based on quoted market prices.

Alternative investments are stated in the accompanying combined balance sheets at fair value, which is estimated using the net asset values (NAV) as a practical expedient, of each alternative investment. Financial information used by the Institution to evaluate its alternative investments is provided by the investment manager or general partner and may include 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 always coincide with the Institution's annual financial statement reporting.

Realized gains or losses on investments sold or redeemed, together with unrealized appreciation or depreciation on investments and investment income, are distributed to all categories of net assets, as appropriate. The total investment return (investment income and realized and unrealized gains and losses) is reflected in the accompanying combined statements of activities without donor restrictions in two portions. The investment return allocated to operating revenues is determined by application of a 4% normal return to a three-year average market value of investments. In addition, actual investment earnings on short-term fixed income funds are included in investment returns allocated to operations.

Investment returns allocated to operations consist of the following:

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Allocation of endowment income	\$ 52,535	\$ 51,273
Allocation of board-designated income	2,023	–
Short-term investment income	23,387	17,827
Allocation of long-term investment income	84,500	82,373
Total	\$ 162,445	\$ 151,473

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The investment return classified as nonoperating represents the difference between the actual total investment return and the amount allocated to operating revenues less amounts recorded in net assets with donor restrictions for endowments. Investment expenses, other than fees paid directly to investment managers, amounted to \$9.6 million and \$8.1 million in 2019 and 2018, respectively, and are included in the combined statements of activities without donor restrictions in investment returns, net of expenses, allocated to operations and amounts recorded in net assets with donor restrictions.

Total investment returns, net of investment expenses, consist of the following:

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Investment income	\$ 20,158	\$ 54,900
Realized gains	226,153	172,297
Unrealized gains (losses)	492,232	(189,477)
Total	\$ 738,543	\$ 37,720

Grants and Contracts Revenues

Grants and contracts revenues represent reimbursements of costs incurred in direct support of research and other sponsored activities related to the prevention and treatment of cancer. The Institution contracted with federal, state, and private agencies which are recorded as conditional contributions of approximately \$214.0 million and \$209.0 million for 2019 and 2018, respectively. The Institution records conditional contribution revenue upon performance of the conditions or barriers on when they depend, as stated in the contracts, have been substantially met. Additionally, the Institution contracted with industry sponsors which are recorded as exchange transactions of approximately \$154.7 million and \$125.5 million for the years ended 2019 and 2018, respectively. Exchange transactions are recognized as revenue at the amount that reflects the consideration to which the Institution expects to be entitled in exchange for performance under the contract.

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Contributions and Unconditional Promises to Give

Contributions represent the utilization of donor funds which are intended to support the current period's operations. Contributions of cash and other assets are reported at fair value at the date the assets are received. Unconditional promises to give are recorded at fair value when the gift intent is made known in writing. A receivable has been established and net assets with donor restrictions have been increased by the time-discounted value of the promises. Irrevocable trusts are recorded at the point of notification and are recorded as net assets with donor restrictions as determined by the trust instruments. Estates are estimated and recorded at the conclusion of probate.

Total contributions, pledges, trusts and estates raised through fund raising efforts were approximately \$254.4 million and \$383.3 million for 2019 and 2018, respectively.

The Institution is aware of numerous unconditional promises to give and estimates the year of receipt to the extent possible. The anticipated present value of the receivable is as follows (in thousands):

2020	\$ 125,902
2021	56,137
2022	39,418
2023	28,423
2024	13,188
Thereafter	75,911
	<u>\$ 338,979</u>

The present value discount and allowance for doubtful accounts on unconditional promises to give is approximately \$37.7 million and \$50.8 million at December 31, 2019 and 2018, respectively.

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions may be expended for any purpose in fulfilling the Institution's mission. These net assets may be used at the discretion of the Institution's management and Board of Managers (the Board).

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Notes to Combined Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The Institution's governing Board, through specific action, has created self-imposed limits on certain net assets without donor restrictions. As of December 31, 2019 and 2018, funds have been established for \$491.4 million and \$420.9 million, respectively, to support various strategic initiatives. All board-designated net assets function as endowments and follow the Institution's policy of appropriating for spending an annualized percentage of each funds' value. However, unlike endowments, all board-designated net assets are available for general expenditures with Board approval and will not accumulate investment returns in excess or deficit of the spending rate.

Net Assets With Donor Restrictions

Gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Institution, or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets are reclassified as net assets without donor restrictions and reported in the combined financial statements as net assets released from restrictions or as net assets released from restrictions for capital purposes. Donor restricted contributions whose restrictions are met within the same year as received are reflected as contributions in the accompanying combined statements of activities without donor restrictions.

Gifts that have been restricted by donors to be maintained by the Institution in perpetuity are reflected in the accompanying combined statements of changes in net assets as endowments within the net assets with donor restrictions.

The Institution follows the New York Prudent Management of Institutional Funds Act (NYPMIFA) which was enacted on September 17, 2010. The Institution has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while maintaining the historic dollar value of endowment contributions. The Institution classifies as endowments (a) the original value of the gifts donated, (b) the original value of subsequent gifts, (c) the net realizable value of future payments in accordance with the donor's gift instrument (outstanding pledges, net of applicable discount) and (d) appreciation (depreciation), gains (losses) and income earned on the fund when the donor states that such increases or decreases are to be treated as changes in endowments. The endowment assets are pooled with assets without donor restrictions and invested in various diversified asset classes.

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The Institution has a policy of appropriating for spending an annualized percentage of each endowment fund's value, with certain exceptions. In establishing this policy, the Institution considered the long-term expected return on its investment portfolio and the impact of inflation. The spending rate appropriated by the Institution was 4% in 2019 and 2018.

The Institution's endowment investment returns in excess or deficit of the spending rate will be accumulated and added to the endowment fund's value in order to calculate the appropriation for spending.

To satisfy its long-term rate-of-return objectives, the Institution 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 Institution targets a diversified asset allocation (see Note 4) to achieve its long-term return objectives within prudent risk constraints. As a result of fluctuations in the investment markets, from time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Institution to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2019 and 2018.

Changes in donor endowment funds for the year ended December 31, 2019, consisted of the following:

	Without Donor Restrictions	Time Restricted	Endowments
	<i>(In Thousands)</i>		
Balance at January 1, 2019	\$ —	\$ 248,120	\$ 702,307
Investment return on endowments	51,036	70,438	1,922
Contributions	—	—	13,287
Appropriations	(51,036)	—	—
Balance at December 31, 2019	\$ —	\$ 318,558	\$ 717,516

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Changes in donor endowment funds for the year ended December 31, 2018, consisted of the following:

	Without Donor Restrictions	Time Restricted	Endowments
	<i>(In Thousands)</i>		
Balance at January 1, 2018	\$ —	\$ 279,210	\$ 675,249
Investment return on endowments	49,354	(31,020)	1,371
Contributions	—	—	25,687
Appropriations	(49,354)	—	—
Balance at December 31, 2018	\$ —	\$ 248,120	\$ 702,307

Included in endowments are amounts that represent the Institution's beneficial interest in certain perpetual trusts which are held by third-party trustees. The underlying assets of the perpetual trusts are included in other noncurrent assets on the combined balance sheets and consist of equity securities and mutual funds. The fair value at December 31, 2019 and 2018, was approximately \$21.5 million and \$19.6 million, respectively. The change in fair value of the beneficial interest in perpetual trusts held by third parties is included in the change in net assets with donor restrictions.

Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization. Depreciation on building components and equipment is computed on the straight-line method over the estimated useful service lives. Leasehold improvements are being amortized over the lesser of the term of the lease or estimated useful service life, based on the straight-line method.

The carrying amount of assets and the related accumulated depreciation or amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations.

All eligible costs incurred for the development of computer software for internal use are capitalized and carried at cost, less accumulated amortization. Amortization of capitalized internal use software cost is based on the straight-line method over the estimated useful life of the software.

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Use of Estimates

The preparation of the combined financial statements in conformity with U.S. generally accepted accounting principles requires management to make prudent and conservative estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax Status

The entities comprising the Institution are Section 501(c)(3) organizations exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. The entities are also exempt from New York State and City income taxes. Income taxes from unrelated business activities of the tax-exempt entities are not significant to the accompanying combined financial statements.

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 Taxpayer Certainty and Disaster Tax Relief Act of 2019, signed into law on December 20, 2019, retroactively repealed IRC Section 512(a)(7) which subjected amounts paid or incurred by an exempt organization to provide certain transportation fringe benefits to its employees to taxation as unrelated business taxable income. As of and for the year ended December 31, 2019, the Institution has made reasonable estimates of the compensation excise tax and the effects on existing deferred tax balances based on accounting guidance included in Accounting Standards Codification 740, *Income Taxes*. The Institution will continue to refine its calculations in future periods as additional regulations and guidance are issued by the IRS.

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*, which requires the rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the consolidated balance sheets, 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 Institution adopted ASU 2016-02 effective January 1, 2019, following the modified retrospective method of application. As such, the prior period combined 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 combined net assets as a result of the adoption. The Institution 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 Institution has elected to utilize the operating leases' remaining 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 Institution's adoption of ASU 2016-02 are described in Note 10.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The adoption of ASU 2016-15 did not have a material impact on the combined financial statements.

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, 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. The Institution adopted ASU 2016-18 effective December 31, 2019. 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 Institution adopted ASU 2016-18 using a retrospective transition method.

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*, 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 the ASU. 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 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 Institution early adopted ASU 2018-15 effective January 1, 2019. The adoption of ASU 2018-15 did not have a material impact on the combined financial statements.

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Notes to Combined Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The new credit losses standard changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, contract assets recognized as a result of applying ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), loans and certain other instruments, entities will be required to use a new forward looking “expected loss” model that generally will result in earlier recognition of credit losses than under today’s incurred loss model. ASU 2016-13 is effective for annual periods beginning after December 31, 2021. The Institution has not completed the process of evaluating the impact of ASU 2016-13 on its combined financial statements.

2. Community Benefit Programs

Consistent with its mission, the Institution invests significant amounts for the benefit of the worldwide community that is served through its patient care, education and research activities. Listed below are quantifiable benefits provided.

Charity care represents the cost of services provided to patients who cannot afford health care services due to inadequate resources and/or are uninsured or underinsured. A patient is classified as a charity care patient in accordance with the Institution’s established policies and where insufficient payment for such services is anticipated. For the periods presented, the Institution considers patients for charity care if household income is less than 500% of the federal poverty guidelines. Services provided as charity care are not reported as revenue in the combined statements of activities without donor restrictions. Costs of providing charity care are estimated by multiplying the total charges incurred by patients that qualify for charity care by a ratio of historical expenses to charges as derived from the Institution’s accounting records. The Institution receives payments from the New York State Public Goods Pool for charity care and such amounts totaled approximately \$10.9 million and \$11.3 million for the years ended December 31, 2019 and 2018, respectively. Payments made into the pool by the Institution were approximately \$9.8 million and \$9.9 million for the years ended December 31, 2019 and 2018, respectively.

The Institution provides services to patients who participate in government-sponsored health programs, such as Medicare and Medicaid. Payments received by the Institution for patient services provided under these programs are less than the actual cost of providing such services. Therefore, to the extent Medicare and Medicaid payments are less than the cost of care provided, the uncompensated cost of that care is considered to be a community benefit.

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Notes to Combined Financial Statements (continued)

2. Community Benefit Programs (continued)

Research community benefit costs represent the Institution's costs for basic, translational and clinical research.

The Institution is a preeminent provider of health training to health professionals who desire training in the skills necessary to treat cancer patients. The Institution trains physicians, radiology students, nursing students, social work students and individuals looking to create a career in the field of cancer research. The amounts shown below represent costs in excess of amounts reimbursed by third-party payors such as training grant revenues and direct medical education payments from the Medicare and Medicaid program.

The following is a summary of the Institution's estimated costs of providing community benefit program services:

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Charity care	\$ 25,899	\$ 21,342
Unpaid cost of government sponsored health care	515,556	490,085
Research supported by governmental/voluntary agencies	214,033	208,987
Other research	492,929	446,056
Health training	267,800	233,401
Other	20,566	21,664
	\$ 1,536,783	\$ 1,421,535

3. Hospital Care and Services Revenue

Hospital Care and Services Revenue and Accounts Receivable

Hospital care and services revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration (reductions to revenue) in determining a transaction price.

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Notes to Combined Financial Statements (continued)

3. Hospital Care and Services Revenue (continued)

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 inpatient revenue and major payor classes and types of services provided for outpatient 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 allowances, discounts, implicit price concessions, 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, the Hospital's discount policies and historical experience. For uninsured and under-insured patients who do not qualify for charity care, the Hospital determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on the Hospital's historical collection experience for applicable patient portfolios. Patients who meet the Hospital's criteria for charity care are provided care without charge; such amounts are not reported as revenue.

Generally, the Hospital bills patients and third-party payors several days after the services are performed and/or the patient is discharged. Hospital care and services revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Hospital. Hospital care and services revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. 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 acute care services or patients receiving services in the Hospital's outpatient and ambulatory care centers. 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.

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Notes to Combined Financial Statements (continued)

3. Hospital Care and Services Revenue (continued)

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

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to patient service revenue in the period of the change (see third-party payment programs below). Portfolio collection estimates are updated monthly based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2019 and 2018, was not significant.

The Hospital has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, lines of business and timing of when revenue is recognized. Tables providing details of these factors are presented below.

The percent of hospital care and services revenue for the years ended December 31, 2019 and 2018, by payor, is as follows:

	2019	2018
Medicare	27%	27%
Medicaid	2	2
Contracted managed care	66	65
Non-contracted managed care and self-pay	5	6
	100%	100%

Deductibles, copayments and coinsurance under third-party payment programs which are the patient's responsibility are included within the non-contracted managed care and self-pay category above.

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Notes to Combined Financial Statements (continued)

3. Hospital Care and Services Revenue (continued)

The Hospital provides pharmaceuticals and related support services to patients through a retail and specialty pharmacy. Revenue is recognized at the point in time of the transaction.

Hospital care and services revenue for the years ended December 31, 2019 and 2018, by line of business is as follows (in thousands):

	2019	2018
Hospital	\$ 3,688,514	\$ 3,203,428
Physician services	681,485	625,887
Retail and specialty pharmacy	190,175	144,463
	\$ 4,560,174	\$ 3,973,778

The Hospital has elected the practical expedient allowed under ASU 2014-09 and does not adjust the expected 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.

Third-Party Payment Programs

Settlements with third-party payors 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. 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.

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Notes to Combined Financial Statements (continued)

3. Hospital Care and Services Revenue (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 pays hospital rates promulgated by the New York State Department of Health. The Hospital is exempt from the New York prospective payment system used to reimburse hospitals for inpatient services provided to Medicaid beneficiaries and instead is paid using a cost-based methodology. These payments are based on cost from 2005 updated with trend factors as determined by the New York State Department of Health to 2010. Outpatient services are paid based on a statewide prospective system. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare & 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

The Hospital is exempt from the national prospective payment system used to reimburse hospitals for inpatient services provided to Medicare beneficiaries and instead is paid using a cost-based methodology. These payments are subject to a limit that is based on average costs from 2003 to 2006 for rate years beginning on or subsequent to January 1, 2007, which are then updated based on annual trend factors calculated by CMS. The Hospital is paid for outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. The outpatient payments are subject to a floor that ensures the Hospital receives a percentage of its Medicare defined allowable outpatient costs. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on hospital-specific data.

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. The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare Administrative Contractor and settled through the year ended December 31, 2013. Other

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Notes to Combined Financial Statements (continued)

3. Hospital Care and Services Revenue (continued)

Medicare cost report years remain open for audit and subsequent settlement, as are certain issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled, audits are completed and additional information is obtained. Changes in these estimates could also affect the amounts reported as the unpaid cost of government sponsored health care (see Note 2). Approximately 2.11% of operating revenues in 2019 and 1.07% of operating revenues in 2018 are due to adjustments of prior year operating revenues. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Hospital is not aware of any allegations of noncompliance that could have a material adverse effect on the combined financial statements and believes that it is in compliance with all applicable laws and regulations.

There are various Federal and State proposals that could, among other things, 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 by the Federal or State government, cannot presently be determined. Future changes in Medicare and Medicaid programs could have an impact, positive or negative, on the Hospital. Additionally, Medicare 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.

Significant concentrations of accounts receivable at December 31, 2019, include 27% from government-related programs, 22% from Empire Health Choice and 14% from UnitedHealthcare (28%, 19%, and 15%, respectively, at December 31, 2018).

4. Cash, Cash Equivalents, and Investments at Fair Value

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

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Notes to Combined Financial Statements (continued)

4. Cash, Cash Equivalents, and Investments at Fair Value (continued)

The Institution 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 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 Institution 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. Any investments valued based upon the NAV are not subject to classification in the valuation hierarchy.

Mutual funds are valued based on the quoted market prices of the securities as reported on national securities exchanges.

United States-based and international equities consist of individually held securities and commingled funds. Individual securities and certain commingled funds are valued based on the quoted market prices of the securities as reported on national securities exchanges. Commingled funds primarily are valued based on the NAV of shares held by the Institution at year end.

Fixed income securities include corporate bonds, U.S. government securities, and commingled funds. Corporate bonds and U.S. government securities are valued based on readily available market quotations received from commercial pricing services. Such pricing services and brokers will generally provide bid-side quotations. Commingled funds are valued based on quoted market prices as reported on national securities exchanges, if applicable, or the NAV of shares held by the Institution at year end.

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Notes to Combined Financial Statements (continued)

4. Cash, Cash Equivalents, and Investments at Fair Value (continued)

Alternative investments include absolute return funds, long/short funds, global macro funds, inflation hedging funds, opportunistic funds, hard assets, private equity funds and venture capital. Alternative investment interests generally are structured such that the Institution holds a limited partnership interest. The Institution's ownership structure does not provide for control over the related investees and the Institution's financial risk is limited to the funded and unfunded commitment for each investment. As of December 31, 2019, the Institution had outstanding commitments to provide additional capital of approximately \$696.0 million to various alternative investment managers.

Individual investment holdings within the alternative investments include nonmarketable and market-traded debt and equity securities and interests in other alternative investments. The Institution 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 Institution's capital may be divested only at specified times. The Institution's liquidity restrictions range from several months to ten years for certain private equity investments. Liquidity restrictions may apply to all or portions of a particular invested amount.

There is uncertainty in determining fair values of alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, time lags associated with reporting by the investee companies and the subjective evaluation of liquidity restrictions. As a result, the estimated fair values reported in the accompanying combined balance sheets might differ from the values that would have been used had a ready market for the alternative investment interests existed and there is at least a reasonable possibility that those estimates will change.

The following is a description of the Institution's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Fair value for Level 3 is based on unobservable inputs when little or no market data is available, which include estimates and risk-adjusted value ranges. Inputs are obtained from various sources, including market participants,

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Notes to Combined Financial Statements (continued)

4. Cash, Cash Equivalents, and Investments at Fair Value (continued)

dealers and brokers. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Institution 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.

Financial instruments, other than pension plan assets (see Note 8), carried at fair value as of December 31, 2019, are classified in the table below as described above:

	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
Investments measured at fair value				
Cash and cash equivalents	\$ 940,816	\$ —	\$ —	\$ 940,816
Mutual funds	92,798	—	—	92,798
United States-based equity securities	159,528	274,264	—	433,792
International equity securities	350,455	14,503	—	364,958
Fixed income investments:				
Corporate bonds	—	62,588	—	62,588
U.S. government and other	53,371	124,106	—	177,477
	<u>\$ 1,596,968</u>	<u>\$ 475,461</u>	<u>\$ —</u>	<u>2,072,429</u>
Investments measured at NAV as a practical expedient				
Commingled funds:				
United States-based equity				316,962
International equity				394,585
Alternative investments:				
Marketable:				
Absolute return funds				299,790
Long/short funds				821,389
Global macro funds				226,333
Inflation hedging funds				147,447
Nonmarketable:				
Venture capital				601,807
Private equity				300,862
Opportunistic funds				142,256
Hard assets				148,662
Total investments at fair value				<u>\$ 5,472,522</u>

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Notes to Combined Financial Statements (continued)

4. Cash, Cash Equivalents, and Investments at Fair Value (continued)

Financial instruments, other than pension plan assets (see Note 8), carried at fair value as of December 31, 2018, are classified in the table below as described above:

	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
Investments measured at fair value				
Cash and cash equivalents	\$ 843,052	\$ —	\$ —	\$ 843,052
Short-term investments	89,184	—	—	89,184
Mutual funds	79,409	—	—	79,409
United States-based equity securities	92,680	204,757	—	297,437
International equity securities	285,381	9,585	—	294,966
Fixed income investments:				
Corporate bonds	—	609,480	—	609,480
U.S. government and other	114,476	68,084	—	182,560
	<u>\$ 1,504,182</u>	<u>\$ 891,906</u>	<u>\$ —</u>	<u>2,396,088</u>
Investments measured at NAV as a practical expedient				
Commingled funds:				
United States-based equity				211,618
International equity				270,031
Alternative investments:				
Marketable:				
Absolute return funds				282,402
Long/short funds				609,691
Global macro funds				216,583
Inflation hedging funds				43,768
Nonmarketable:				
Venture capital				474,313
Private equity				224,717
Opportunistic funds				131,297
Hard assets				147,663
Total investments at fair value				<u>\$ 5,008,171</u>

Other financial instruments that are not required to be carried at fair value include debt, pledges and mortgages receivable. Debt, pledges and mortgages receivable are recorded at carrying value, net of applicable discounts in the accompanying combined balance sheets which approximates fair value.

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Notes to Combined Financial Statements (continued)

4. Cash, Cash Equivalents, and Investments at Fair Value (continued)

As part of the Institution's liquidity management, it has a practice to structure its financial assets to be available for its operating and capital needs. Working capital requirements are held in cash and cash equivalents and short-term investments. Accounts receivable, net and the current portion of pledges, trusts and estates receivable on the combined balance sheets represent amounts expected to be collected within one year. Investments internally designated for major capital projects represent assets set aside for capital expenditures, but could be made available immediately if necessary. Additionally, to help manage unanticipated liquidity needs, the Institution has committed lines of credit which it could draw upon.

Additionally, the Institution invests in a diversified long-term investment portfolio (the Unified Pool). Although the Institution does not intend to spend from the Unified Pool other than amounts appropriated for spending as part of its annual budget approval and appropriation process discussed in Note 1, amounts from the Unified Pool could be made available if necessary. However, the Unified Pool contains investments with lock-up provisions that would reduce the total investments that could be made available.

The following represents assets that could be made available within one year:

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 833,102	\$ 677,079
Short-term investments – at fair value	–	89,184
Accounts receivable, net	622,098	615,885
Pledges, trusts and estates receivable, current portion	125,902	170,148
Investments internally designated for major capital projects	–	609,377
Investments – at fair value	2,904,470	2,205,490
Undrawn lines of credit	200,000	250,000
	\$ 4,685,572	\$ 4,617,163

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Notes to Combined Financial Statements (continued)

5. Property and Equipment

Property and equipment consists of the following:

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Land	\$ 388,332	\$ 380,703
Buildings and leasehold improvements	4,767,049	3,962,458
Equipment	1,829,942	1,720,147
Construction-in-progress	1,027,322	1,411,505
	8,012,645	7,474,813
Less accumulated depreciation and amortization	3,356,964	3,190,475
	\$ 4,655,681	\$ 4,284,338

The Institution wrote off approximately \$160.6 million and \$16.3 million of fully depreciated assets in 2019 and 2018, respectively. As described in Note 10, a finance lease obligation of approximately \$172 million is included in building and leasehold improvements in the table above.

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Notes to Combined Financial Statements (continued)

6. Long-Term Debt and Finance Lease Liability

Long-term debt and finance lease consist of the following:

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
DASNY Series 1998, tax-exempt bonds maturing through 2023 at various fixed interest rates ranging from 5.50% to 5.75%	\$ 100,700	\$ 122,900
DASNY Series 2010, tax-exempt bonds maturing through 2023 at a fixed interest rate of 2.18%	30,000	38,000
Series 2011A taxable bonds maturing in 2042 at a fixed interest rate of 5.00%	400,000	400,000
DASNY Series 2012, tax-exempt bonds maturing through 2021 at a fixed interest rate of 4.00%	4,355	80,380
DASNY 2012 Series 1, tax-exempt bonds maturing through 2021 at various fixed interest rates ranging from 4.00% to 5.00%	49,045	262,265
Series 2012A taxable bonds maturing in 2052 at a fixed interest rate of 4.125%	400,000	400,000
Series 2015A taxable bonds maturing in 2055 at a fixed interest rate of 4.20%	550,000	550,000
DASNY Series 2016-1, tax-exempt bonds repaid through 2028 at a fixed interest rate of 1.97%	98,764	102,389
NJEDA Series 2016-2, tax-exempt bonds maturing through 2026 at a fixed rate interest rate of 1.43%	97,874	112,375
DASNY Series 2017-1, tax-exempt bonds maturing through 2047 at various fixed interest rates ranging from 4.00% to 5.00%	288,025	290,420
DASNY Series 2019-1, tax-exempt bonds maturing through 2039 at various fixed interest rates ranging from 2.00% to 5.00%	284,545	—
Finance lease liability <i>(Note 10)</i>	173,000	—
Unamortized bond premiums, discounts and issuance costs	79,363	42,642
	2,555,671	2,401,371
Less current portion	79,766	52,771
	\$ 2,475,905	\$ 2,348,600

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Notes to Combined Financial Statements (continued)

6. Long-Term Debt and Finance Lease Liability (continued)

In July 2018, the Institution redeemed the remaining balance of the outstanding Dormitory Authority of the State of New York (DASNY) Series 2008 tax-exempt bonds for approximately \$333.7 million.

In September 2019, the Institution legally defeased approximately \$213.2 million of the DASNY 2012 Series 1 tax-exempt bonds (the 2012 Series 1 Bonds) and \$74.0 million of the DASNY Series 2012 tax-exempt bonds (the Series 2012 Bonds). Amounts sufficient to meet future principal and interest requirements of the 2012 Series 1 Bonds and the Series 2012 Bonds have been irrevocably deposited into an escrow account. Both defeasance transactions combined resulted in an extinguishment loss of approximately \$4.2 million which is included in other non-operating income and expenses, net.

In November 2019, the Institution issued \$284.5 million of DASNY Series 2019-1 tax-exempt bonds (the 2019 Bonds). The proceeds were used to pay costs for ambulatory care expansion, equipment and to pay for costs of issuance of the 2019 Bonds. The 2019 Bonds were issued at a premium of approximately \$57.7 million, which lowered the Institution's effective interest rates and the all-in yield.

Annual maturities on all long-term debt, excluding financing lease payments, as of December 31, 2019, for the years 2020 through 2024 are as follows (in thousands):

2020	\$	78,823
2021		80,198
2022		54,719
2023		59,162
2024		26,516

Total interest paid in 2019 and 2018 (including portions supporting capitalized costs) was approximately \$89.3 million and \$105.2 million, respectively. Interest expense related to the Series 2011A, the Series 2012A and the 2015 Bonds will be included in other nonoperating income and expenses, net until the related capital projects are placed into service. Nonoperating interest expense was approximately \$11.2 million and \$18.2 million during 2019 and 2018, respectively. The Institution capitalized interest of approximately \$43.4 million and \$40.4 million during 2019 and 2018, respectively.

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Notes to Combined Financial Statements (continued)

6. Long-Term Debt and Finance Lease Liability (continued)

Certain of the above debts are secured by a pledge of revenues from certain facilities, bond insurance and springing collateral, which would require the Institution to mortgage a substantial portion of real property if certain financial covenants and ratios are not maintained. The Institution was in compliance with all such financial requirements during 2019 and 2018.

At December 31, 2019 and 2018, the Institution had unsecured lines of credit available with banks totaling \$200.0 million and \$250.0 million, respectively, with varying renewable terms and interest. There were no amounts drawn at December 31, 2019 and 2018. In March 2020, the Institution drew \$100.0 million from its unsecured lines of credit.

7. Other Noncurrent Liabilities

Other noncurrent liabilities consist of the following:

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Pension obligations <i>(Note 8)</i>	\$ 487,127	\$ 265,433
Postretirement obligation <i>(Note 8)</i>	126,155	125,551
Insurance reserves <i>(Note 9)</i>	273,748	279,617
Deferred compensation <i>(Note 8)</i>	78,875	65,895
Asset retirement obligations	38,498	38,868
Deferred gift annuities	18,917	17,268
All other	2,434	7,148
	\$ 1,025,754	\$ 799,780

The Center is the certificate holder authorized to issue gift annuities and the liability for all deferred gift annuities issued is recorded within the Center.

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Notes to Combined Financial Statements (continued)

8. Retiree Pension and Health Plans

The Institution has a retirement annuity plan which provides eligible staff members with retirement income through individual deferred annuity contracts purchased in each participant's name. In addition, the Institution maintains a nonqualified deferred compensation plan which is used for employer contributions in excess of those allowed by the retirement annuity plan. The effective date of this plan was January 1, 1983, and it has been grandfathered from the changes made by the Tax Reform Act of 1986. The plans' assets are included in assets whose use is limited in the combined balance sheets and consist of money market and mutual funds. The Institution contributes a fixed percentage of an individual's compensation to these plans.

Effective January 1, 2013, the Institution amended an existing 403(b) plan (composed of the basic plan and the voluntary plan) to have a new plan design and be renamed as the Memorial Sloan Kettering Cancer Center Retirement Savings Plan (the RSP). Under the RSP, all Institution employees are eligible to make voluntary employee contributions (salary deferrals), subject to IRS limits. Mandatory employee contributions are not required.

The Institution makes base contributions to the RSP for eligible employees, which depend on the employee's age (determined as of the preceding December 31). Additionally, the Institution matches contributions for voluntary employee contributions made by eligible employees. The Institution's cost for these plans was approximately \$98.2 million and \$83.6 million in 2019 and 2018, respectively.

The Institution also maintains a trustee defined benefit plan (the Plan) for employees not covered by the above retirement annuity plan. The benefits are based on years of service, the employee's average compensation during the highest five of the last ten years of employment and a pension formula. The Plan has been amended and is frozen to new participants hired on or after December 16, 2012.

In June 2018, the Institution entered into a contract and sold approximately \$214.1 million of its anticipated defined benefit pension liabilities to an insurance company via an annuity buy-out. The funding was paid from the Plan assets and only impacted a select group of retirees. These affected participants had no impact to their retirement benefits. This resulted in a reduction of the Plan liability of approximately \$238.0 million and an approximate \$40.4 million settlement cost for 2018.

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

8. Retiree Pension and Health Plans (continued)

The Institution offers retirees and their spouses hospital and basic medical coverage which supplements any available Medicare coverage. The plan pays the balance of charges not paid by Medicare up to Medicare allowable charges. All employees become eligible for postretirement health care if they retire at age 60 or older, with at least 10 years of service, or under age 60 with 30 years of service. The accounting for the health care plans anticipates future retiree contributions increasing by annual health care cost increases plus 2%. Employees hired after December 31, 2006, are required to pay 100% of the coverage cost.

Effective January 1, 2016, the Institution provides each Medicare-eligible retiree and spouse with a defined contribution amount that can be used to purchase individual Medicare supplemental coverage. This defined contribution replaces the Institution's hospital and basic medical coverage for all Medicare-eligible participants who retire subsequent to December 31, 2006.

The Institution recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the defined benefit plans in its combined balance sheets. Net unrecognized actuarial gains or losses and the net unrecognized prior service credits or costs at the reporting date will be subsequently recognized in the future as net periodic benefit cost pursuant to the Institution'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 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: unrecognized prior service credit of \$38.7 million and \$47.7 million, respectively, and unrecognized actuarial losses of \$507.9 million and \$296.2 million, respectively. The prior service credit and actuarial gain included in net assets without donor restrictions and expected to be recognized in net periodic benefit cost during the year ending December 31, 2019, are approximately \$7.9 million and \$21.3 million, respectively.

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Notes to Combined Financial Statements (continued)

8. Retiree Pension and Health Plans (continued)

The accumulated benefit obligation for the plans as of December 31, 2019 and 2018, was approximately \$1.56 billion and \$1.20 billion, respectively.

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

	Pension Benefits		Postretirement Health	
	2019	2018	2019	2018
	<i>(In Thousands)</i>			
Components of net periodic benefit cost				
Service cost	\$ 72,057	\$ 76,543	\$ 3,379	\$ 3,835
Interest cost	64,384	64,302	5,752	5,361
Expected return on assets	(66,851)	(72,825)	–	–
Settlement cost	–	40,414	–	–
Amortization of net loss	9,241	10,741	747	1,923
Amortization of prior service cost (credit)	288	288	(9,310)	(9,310)
Total net periodic benefit cost	\$ 79,119	\$ 119,463	\$ 568	\$ 1,809

Actuarial Assumptions

Weighted-average assumptions used to determine benefit obligations are as follows:

	Pension Benefits		Postretirement Health	
	December 31		December 31	
	2019	2018	2019	2018
Discount rate	3.56%	4.55%	3.50%	4.40%
Rate of compensation increase	3.83	3.83	–	–

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

8. Retiree Pension and Health Plans (continued)

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

	Pension Benefits		Postretirement Health	
	December 31		December 31	
	2019	2018	2019	2018
Discount rate	4.55%	4.50%	4.40%	3.80%
Rate of compensation increase	3.83	3.83	–	–
Expected long-term return on plan assets	5.71	5.65	–	–

The expected return of the portfolio was arrived at using the weighted-average of the expected returns of the underlying benchmark asset classes.

The health care cost trend rate assumptions for the postretirement hospital and basic medical coverage plan at December 31 are as follows:

	2019	2018
Health care cost trend rate assumed for next year	6.75%	7.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00	5.00
Year that the rate reaches the ultimate trend rate	2025	2025

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

8. Retiree Pension and Health Plans (continued)

Effect of Change in Health Care Trends

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

	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 health care benefit cost	\$ 1,792	\$ (1,412)	\$ 1,942	\$ (1,508)
Effect on the health care component of the accumulated postretirement benefit obligation	21,040	(17,004)	21,848	(17,510)

Plan Assets

The following table presents the weighted-average long-term target asset allocations and the percentages of the fair value of pension plan assets as of December 31:

	Target Allocation	Percentage of Plan Assets	
	2019	2019	2018
U.S.-based equity securities	25%	31%	27%
International equity investments	10	5	11
Fixed income investments	25	32	28
Alternative investments	40	32	34

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Notes to Combined Financial Statements (continued)

8. Retiree Pension and Health Plans (continued)

The Plan assets consist of cash and cash equivalents, U.S. equities, fixed income securities, commingled funds, and alternative investments. Alternative investments are listed by their corresponding strategy and holdings include relative value funds, long/short equity funds, merger arbitrage/event driven funds, real estate, credit funds, private debt, and private equity. These investments pursue multiple strategies to diversify risk and reduce volatility.

Equities and real estate investment trusts are valued based on the quoted market prices of the securities as reported on national securities exchanges. Fixed income securities are valued based on readily available market quotations received from commercial pricing services. Such pricing services and brokers will generally provide bid-side quotations. Commingled funds are valued based on the NAV of shares held by the pension plan at year end. Alternative investments are stated at fair value as determined by Morgan Guaranty Trust Company of New York or by the investees. Value may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, fair value is stated at NAV, which reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses.

The financial statements of the investees are audited annually by independent auditors. These investments may indirectly expose the pension plan to securities lending, short sales of securities, and trading in futures and forward contracts, options, swap contracts and other derivative products. While these financial instruments may contain varying degrees of risk, the pension plan's risk with respect to such transactions is limited to its capital balance in each investment.

Certain Plan assets could have liquidity restrictions that range from several months to ten years for certain alternative investments. Liquidity restrictions may apply to all or portions of a particular invested amount. Unfunded commitments for the alternative investments in the pension plan at December 31, 2019, are approximately \$286.6 million.

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

8. Retiree Pension and Health Plans (continued)

Financial instruments of the Plan of the Institution, carried at fair value as of December 31, 2019, are classified in the table below as described in Note 4:

	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
Investments measured at fair value				
Cash, cash equivalents, and money market funds	\$ 22,938	\$ —	\$ —	\$ 22,938
U.S. equity investments:				
Equity securities	42,609	—	—	42,609
Real estate investment trusts	2,624	—	—	2,624
Fixed income investments:				
U.S. government and other	9,903	—	—	9,903
Private equity funds	—	—	13,117	13,117
	\$ 78,074	\$ —	\$ 13,117	91,191
 Investments measured at NAV as a practical expedient				
Commingled funds:				
U.S. equity				365,951
International equity				77,114
Fixed income				418,382
Alternative investments:				
Relative value funds				970
Long/short equity funds				43,501
Real estate				30,332
Credit funds				187,830
Private debt				20,815
Private equity funds				184,950
Total investments at fair value				\$ 1,421,036

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

8. Retiree Pension and Health Plans (continued)

Financial instruments of the Plan of the Institution, carried at fair value as of December 31, 2018, are classified in the table below as described in Note 4:

	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
Investments measured at fair value				
Cash, cash equivalents, and money market funds	\$ 18,610	\$ —	\$ —	\$ 18,610
U.S. equity investments:				
Equity securities	30,958	—	—	30,958
Real estate investment trusts	2,274	—	—	2,274
Fixed income investments:				
U.S. government and other	7,758	—	—	7,758
Private equity funds	—	—	11,343	11,343
	\$ 59,600	\$ —	\$ 11,343	70,943
 Investments measured at NAV as a practical expedient				
Commingled funds:				
U.S. equity				265,296
International equity				132,767
Fixed income				312,575
Alternative investments:				
Relative value funds				2,042
Long/short equity funds				34,170
Merger arbitrage/event driven funds				47
Real estate				21,043
Credit funds				169,635
Private debt				20,180
Private equity funds				133,670
Total investments at fair value				\$ 1,162,368

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

8. Retiree Pension and Health Plans (continued)

The following table represents a rollforward of the total plan assets classified by the Institution within Level 3 of the valuation hierarchy defined in Note 4:

	2019	2018
	<i>(In Thousands)</i>	
Fair value at beginning of year	\$ 11,343	\$ 7,528
Unrealized gains	1,774	3,815
Fair value at end of year	\$ 13,117	\$ 11,343

Plan Objectives and Guidelines

The overall investment objective of the pension trust fund is to outperform a composite benchmark (an asset-weighted series of market indices used to measure the performance of each asset class) over a market cycle, while maintaining similar risk to the benchmark.

The portfolio is diversified to reduce the impact of losses in individual investments in a manner that is responsive to fiduciary standards. Single issuers are limited to 5% of the portfolio's aggregate market value at time of purchase, with the exception of U.S. government and agency securities and commingled funds. The underlying products that comprise a diversified portfolio may have exposure to derivatives which are managed and controlled.

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

8. Retiree Pension and Health Plans (continued)

Cash Flows

Contributions: The Institution expects to contribute \$96.0 million to its pension plan in 2020.

Estimated future benefit payments: The Institution expects to pay the following benefit payments, which reflect expected future service, as appropriate:

	Pension Benefits	Postretirement Health
	<i>(In Thousands)</i>	
2020	\$ 29,346	\$ 3,973
2021	35,114	4,598
2022	40,426	5,180
2023	45,899	5,603
2024	51,480	5,925
2025 to 2029	353,705	34,856

9. Insurance Programs

MSKI, a domestic tax-exempt corporation, is the primary insurance company for certain insurable risks of the Institution. The primary coverages provided by MSKI to the Institution are health care professional liability, warranty coverage for covered health care equipment, terrorism and assumed coverage for workers' compensation, general liability and certain employee benefits of long-term disability and life insurance. The Institution's liability is limited, with catastrophic risk insured by commercial insurance carriers, or in the case of terrorism risk, by the U.S. Government under a formula established by Federal law.

Insurance reserves of MSKI represent estimated unpaid losses and loss adjustment expenses. Such amounts are established using management's estimates on the basis of claims records and independent actuarial reviews and include an amount for the adverse development of reported claims. Adjustments to the estimate of the liability for losses are reflected in earnings in the period in which the adjustment is determined. The insurance reserves are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may vary significantly from the amount provided. The estimated unpaid losses and loss adjustment

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

9. Insurance Programs (continued)

expenses, including losses incurred but not reported at December 31, 2019 and 2018, were approximately \$282.1 million and \$278.9 million, respectively, and are recorded at the actuarially determined present value of approximately \$273.7 million and \$279.6 million, respectively, based on a discount rate of 3.0% in each year.

10. Leases

As described in Note 1, the Institution adopted ASU 2016-02 effective January 1, 2019. The Institution leases certain property and equipment under finance and operating leases. Leases are classified as either finance or operating leases based on the underlying terms of the agreement and certain criteria, such as the term of the lease relative to the useful life of the asset and the total lease payments to be made as compared to the fair value of the asset, amongst other criteria. Finance leases result in an accounting treatment similar to an acquisition of the asset.

For leases with initial terms greater than a year (or initially, greater than one year remaining under the lease at the date of adoption of ASU 2016-02), the Institution records the related right-of-use assets and liabilities at the present value of the lease payments to be paid over the life of the related lease. The Institution's leases may include variable lease payments and renewal options. Variable lease payments are excluded from the amounts used to determine the right-of-use assets and liabilities unless the variable lease payments depend on an index or rate or are in substance fixed payments. Lease payments related to periods subject to renewal options are also excluded from the amounts used to determine the right-of-use assets and liabilities unless the Institution is reasonably certain to exercise the option to extend the lease. 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 Institution has elected to use a risk-free discount rate determined using a period comparable with that of the lease term. The Institution has made an accounting policy election not to separate lease components from nonlease components in contracts when determining its lease payments for its asset classes. As such, the Institution accounts for the applicable nonlease components together with the related lease components when determining the right-of-use assets and liabilities.

The Institution has made an accounting policy election not to record leases with an initial term of less than a year as right-of-use assets and liabilities.

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

10. Leases (continued)

The following schedule summarizes information related to the lease assets and liabilities as of December 31, 2019 (in thousands):

	2019
Lease cost for the year ended December 31, 2019:	
Operating lease cost	\$ 41,120
Finance lease cost:	
Amortization of right-of-use asset	480
Interest on lease liabilities	328
Short-term lease cost	2,333
Total lease cost	\$ 44,261
Other information:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 40,086
Financing cash flows from finance leases	542
Right-of-use assets obtained in exchange for new operating lease liabilities:	
Weighted-average remaining lease term – operating leases	7.86 years
Weighted-average discount rate – operating leases	2.58%
Weighted-average remaining lease term – financing leases	29.92 years
Weighted-average discount rate – financing leases	2.28%

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

10. Leases (continued)

The following table presents the lease-related assets and liabilities (in thousands):

	<u>Combined Balance Sheet Classification</u>	<u>December 31, 2019</u>
Assets:		
Operating leases	Other noncurrent assets	\$ 190,659
Finance lease	Property, buildings, and equipment, net	172,192
Total lease assets		<u>\$ 362,851</u>
Liabilities:		
Current:		
Operating leases	Current portion of operating lease liabilities	\$ 35,378
Finance lease	Current portion of long-term debt and finance lease liability	943
Noncurrent:		
Operating leases	Operating lease liabilities, less current portion	161,937
Finance lease	Long-term debt and finance lease liability, less current portion	172,057
Total lease liabilities		<u>\$ 370,315</u>

The following table reconciles the undiscounted lease payments to the lease liabilities recorded on the accompanying combined balance sheet at December 31, 2019 (in thousands):

	<u>Operating Leases</u>	<u>Financing Leases</u>
2020	\$ 40,516	\$ 4,879
2021	37,166	6,505
2022	34,272	6,505
2023	26,218	6,505
2024	21,889	6,559
Thereafter	59,167	217,837
Total lease payments	219,228	248,790
Less imputed interest	21,913	75,790
Total lease obligation	197,315	173,000
Less current portion	35,378	943
Long-term portion	<u>\$ 161,937</u>	<u>\$ 172,057</u>

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Notes to Combined Financial Statements (continued)

10. Leases (continued)

In January 2019, the Institution entered into an agreement to lease a building for a 30-year term. The Institution will become liable to make payments upon possession, which is expected to take place in 2021. Total lease payments are expected to be approximately \$175.9 million and are excluded from the table above.

11. Grant Awards

The accompanying combined financial statements do not include amounts related to research grants (or portions thereof) that have been awarded to the Institute for which expenditures have not been incurred or cash has not been received. Such grant awards approximated \$121.3 million and \$113.5 million at December 31, 2019 and 2018, respectively.

12. Other Income

Other income consists of the following:

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Royalty income	\$ 37,377	\$ 75,679
Housing and parking	40,960	38,021
Cafeteria and food service	7,395	7,376
Services provided	5,351	4,987
Other	32,406	33,077
	\$ 123,489	\$ 159,140

13. Commitments and Contingencies

The Institution is involved in various litigation and claims that are not considered unusual given the complexity and size of the Institution's business. Management believes that the ultimate resolution of these matters will not have a material impact on the Institution's combined financial statements.

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Notes to Combined Financial Statements (continued)

14. Functional Expenses

The functional expenses related to the fulfillment of the Institution's mission for the years ended December 31, 2019 and 2018, are as follows (in thousands):

	Patient Care	Research	Education	Fundraising	Management and General	2019 Total
Compensation and fringe benefits	\$ 2,250,271	\$ 362,185	\$ 233,554	\$ 36,972	\$ 9,789	\$ 2,892,770
Purchased supplies and services	1,660,159	261,626	39,887	38,754	25,828	2,026,254
Depreciation and amortization	239,054	75,928	6,245	1,241	7,307	329,774
Interest	28,832	7,223	–	–	4,044	40,099
Total	\$ 4,178,316	\$ 706,962	\$ 279,685	\$ 76,967	\$ 46,967	\$ 5,288,897

	Patient Care	Research	Education	Fundraising	Management and General	2018 Total
Compensation and fringe benefits	\$ 2,012,926	\$ 332,338	\$ 197,111	\$ 33,676	\$ 11,285	\$ 2,587,336
Purchased supplies and services	1,429,456	236,147	37,229	35,627	17,715	1,756,174
Depreciation and amortization	206,478	76,368	10,505	1,217	5,671	300,239
Interest	31,213	10,190	–	–	5,642	47,045
Total	\$ 3,680,073	\$ 655,043	\$ 244,845	\$ 70,520	\$ 40,313	\$ 4,690,794

15. Subsequent Events

Subsequent events have been evaluated through April 3, 2020, which is the date the combined financial statements were issued. Except as disclosed in Note 6 or below, no subsequent events have occurred that require disclosure in or adjustment to the combined financial statements.

Memorial Sloan Kettering Cancer Center
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Notes to Combined Financial Statements (continued)

15. Subsequent Events (continued)

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 Institution's financial condition, including significant stock market exchange volatility, various temporary business closures and event cancellations, and other effects which could result in supply disruptions and/or decisions to defer elective procedures and other medical treatments at the Institution as the broader economic impact of COVID-19 develops. The ultimate impact of these matters to the Institution and its financial condition is presently unknown. The accompanying combined financial statements as of and for the year ended December 31, 2019 do not reflect the effects of these subsequent events.

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