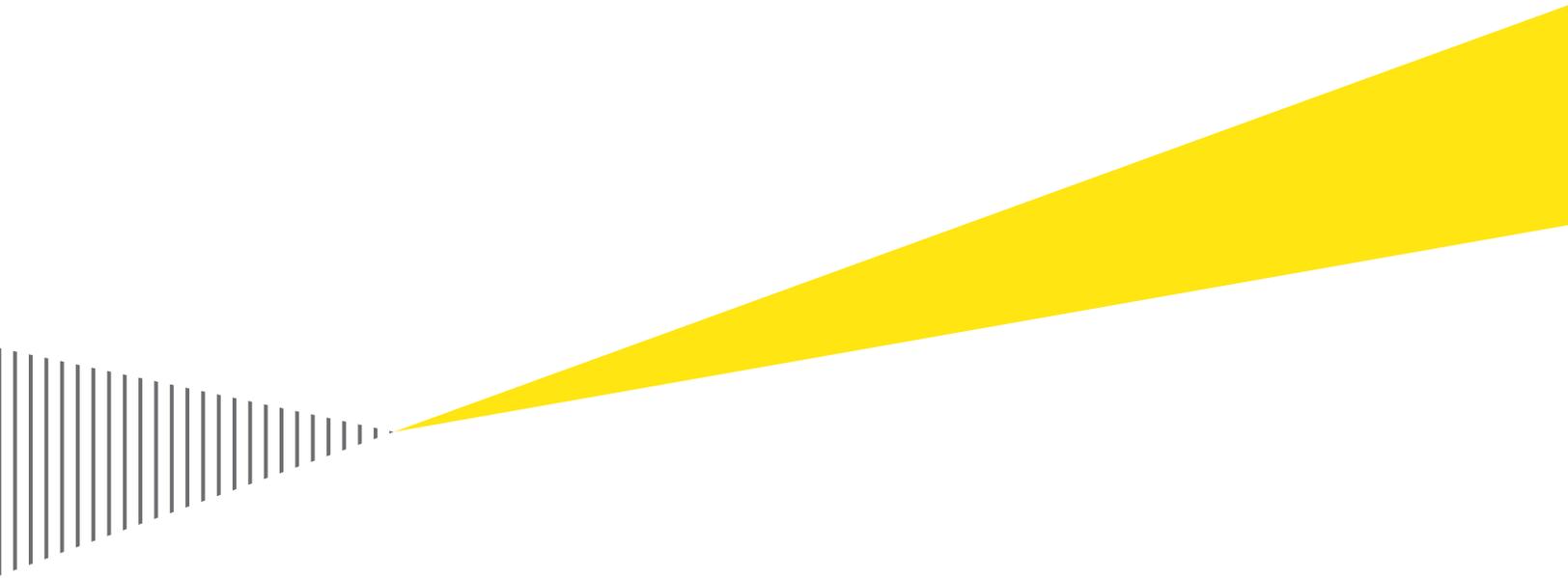


CONSOLIDATED FINANCIAL STATEMENTS

The Mount Sinai Hospital  
Years Ended December 31, 2017 and 2016  
With Report of Independent Auditors

Ernst & Young LLP



The Mount Sinai Hospital

Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

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

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

## Report of Independent Auditors

The Board of Trustees  
Mount Sinai Health System, Inc.

We have audited the accompanying consolidated financial statements of The Mount Sinai Hospital, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Mount Sinai Hospital at December 31, 2017 and 2016, and the 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.

*Ernst + Young LLP*

March 30, 2018

The Mount Sinai Hospital

Consolidated Statements of Financial Position

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 681,241	\$ 263,652
Short-term investments	234,236	173,244
Total cash and cash equivalents and short-term investments	915,477	436,896
Patient accounts receivable, less allowance for doubtful accounts (2017 – \$28,772; 2016 – \$27,402)	314,869	299,391
Professional liabilities insurance recoveries receivable	39,685	37,083
Assets limited as to use, current portion	36,207	22,543
Due from related organizations, net, current portion	217,870	255,470
Inventories	36,092	35,324
Other current assets	44,290	48,442
Total current assets	1,604,490	1,135,149
Pooled investments	861,765	733,549
Other investments	218,541	193,260
Assets limited as to use, less current portion	39,818	76,456
Due from related organizations, less current portion	153,047	3,294
Other assets	39,427	36,701
Professional liabilities insurance recoveries receivable, less current portion	224,882	210,137
Property, plant, and equipment, net	950,670	942,495
Total assets	<b>\$ 4,092,640</b>	<b>\$ 3,331,041</b>

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 185,931	\$ 171,193
Accrued salaries and related liabilities	122,250	129,508
Accrued interest payable	8,430	7,765
Accrued construction and capital asset liabilities	10,733	7,117
Current portion of long-term debt	32,370	32,671
Professional liabilities, current portion	39,685	37,083
Other current liabilities	139,166	71,949
Total current liabilities	<u>538,565</u>	457,286
Long-term debt, less current portion	875,899	567,230
Accrued postretirement benefits	16,602	16,085
Deferred gain on transfer of real estate	27,055	27,055
Professional liabilities, less estimated current portion	224,882	210,137
Other liabilities	392,036	400,766
Total liabilities	<u>2,075,039</u>	1,678,559
Commitments and contingencies		
Net assets:		
Unrestricted	1,829,431	1,488,878
Temporarily restricted	104,359	80,845
Permanently restricted	83,811	82,759
Total net assets	<u>2,017,601</u>	1,652,482
Total liabilities and net assets	<u>\$ 4,092,640</u>	<u>\$ 3,331,041</u>

*See accompanying notes.*

The Mount Sinai Hospital  
Consolidated Statements of Operations

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
<b>Operating revenue</b>		
Net patient service revenue	\$ 2,538,250	\$ 2,267,985
Provision for bad debts	<b>(25,030)</b>	(16,059)
Net patient service revenue, less provision for bad debts	<b>2,513,220</b>	2,251,926
Investment income and net realized gains on sales of securities	<b>33,407</b>	25,666
Contributions	<b>716</b>	245
Other revenue	<b>82,958</b>	65,110
Net assets released from restrictions for operations	<b>28,899</b>	25,310
Total operating revenue before other items	<b>2,659,200</b>	2,368,257
<b>Operating expenses</b>		
Salaries and wages	<b>937,165</b>	838,868
Employee benefits	<b>251,916</b>	225,882
Supplies and other	<b>1,127,691</b>	1,006,097
Depreciation	<b>109,229</b>	111,180
Interest and amortization	<b>28,032</b>	26,494
Total operating expenses before other items	<b>2,454,033</b>	2,208,521
Excess of operating revenue over operating expenses before other items	<b>205,167</b>	159,736

*Continued on following page.*

The Mount Sinai Hospital

Consolidated Statements of Operations (continued)

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Excess of operating revenue over operating expenses before other items	<b>\$ 205,167</b>	\$ 159,736
<b>Other items</b>		
Net change in unrealized gains and losses on investments and change in value of alternative investments	<b>51,441</b>	14,543
Third-party reimbursement settlements and other provisions	<b>66,548</b>	65,705
Gain on sale of clinical outreach laboratory business	<b>96,993</b>	—
Net change in participation in captive insurance program	<b>41,685</b>	20,749
Excess of revenue over expenses	<b>461,834</b>	260,733
<b>Other changes in unrestricted net assets</b>		
Transfers to affiliates	<b>(126,596)</b>	(46,821)
Distribution from MSMC Residential Realty LLC	<b>164</b>	—
Equity in income from related party	<b>474</b>	647
Equity in income from related party and distributions transferred to the Icahn School of Medicine at Mount Sinai	<b>(638)</b>	(647)
Net assets released from restrictions for capital asset acquisitions	<b>5,763</b>	9,777
Change in postretirement liability to be recognized in future periods	<b>(448)</b>	822
Total other changes in unrestricted net assets	<b>(121,281)</b>	(36,222)
Net increase in unrestricted net assets	<b>\$ 340,553</b>	\$ 224,511

*See accompanying notes.*

# The Mount Sinai Hospital

## Consolidated Statements of Changes in Net Assets

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
	<i>(In Thousands)</i>			
Net assets at beginning of year				
January 1, 2016	\$ 1,264,367	\$ 76,942	\$ 77,291	\$ 1,418,600
Net increase in unrestricted net assets	224,511	–	–	224,511
Donor restricted contributions, net	–	38,990	5,468	44,458
Net assets released from restrictions for operations	–	(25,310)	–	(25,310)
Net assets released from restrictions for capital asset acquisitions	–	(9,777)	–	(9,777)
Total change in net assets	224,511	3,903	5,468	233,882
Net assets at end of year				
December 31, 2016	1,488,878	80,845	82,759	1,652,482
Net increase in unrestricted net assets	<b>340,553</b>	–	–	<b>340,553</b>
Donor restricted contributions, net	–	<b>58,176</b>	<b>1,052</b>	<b>59,228</b>
Net assets released from restrictions for operations	–	<b>(28,899)</b>	–	<b>(28,899)</b>
Net assets released from restrictions for capital asset acquisitions	–	<b>(5,763)</b>	–	<b>(5,763)</b>
Total change in net assets	<b>340,553</b>	<b>23,514</b>	<b>1,052</b>	<b>365,119</b>
Net assets at end of year				
December 31, 2017	<b>\$ 1,829,431</b>	<b>\$ 104,359</b>	<b>\$ 83,811</b>	<b>\$ 2,017,601</b>

*See accompanying notes.*

# The Mount Sinai Hospital

## Consolidated Statements of Cash Flows

	Year Ended December 31	
	2017	2016
<i>(In Thousands)</i>		
<b>Operating activities</b>		
Change in net assets	\$ 365,119	\$ 233,882
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	109,229	111,180
Provision for bad debts	25,030	16,059
Amortization of deferred financing costs, bond premium, and discount	(354)	(545)
Net change in unrealized gains and losses on investments and change in value of alternative investments	(51,441)	(14,543)
Net donor-restricted contributions	(60,228)	(44,458)
Equity in income from related party	(474)	(647)
Transfers to affiliates	126,596	46,821
Gain on sale of clinical outreach laboratory business	(96,993)	-
Distribution from MSMC Residential Realty LLC	(164)	-
Changes in:		
Patient accounts receivable	(40,508)	(52,632)
Other operating assets	660	(21,824)
Due from related organizations	(111,679)	(55,581)
Accounts payable and accrued expenses	14,738	4,328
Accrued salaries and related liabilities	(7,258)	29,889
Accrued interest payable	665	(512)
Other operating liabilities	62,620	19,469
Net cash provided by operating activities	<u>335,558</u>	<u>270,886</u>
<b>Investing activities</b>		
Acquisitions of property, plant, and equipment, net	(117,404)	(128,482)
Increase in investments, net	(163,048)	(51,610)
Decrease (increase) in assets limited as to use	22,974	(29,899)
Transfers to affiliates	(126,596)	(46,821)
Proceeds from sale of clinical outreach laboratory business	96,993	-
Distribution from MSMC Residential Realty LLC	164	-
Net cash used in investing activities	<u>(286,917)</u>	<u>(256,812)</u>
<b>Financing activities</b>		
Proceeds from issuance of long term debt	382,000	-
Proceeds from loan	-	40,000
Payment of deferred financing costs	(3,241)	(57)
Principal payments on long-term debt	(70,039)	(29,727)
Net donor-restricted contributions	60,228	44,458
Net cash provided by financing activities	<u>368,948</u>	<u>54,674</u>
Net increase in cash and cash equivalents	417,589	68,748
Cash and cash equivalents at beginning of year	263,652	194,904
Cash and cash equivalents at end of year	<u>\$ 681,241</u>	<u>\$ 263,652</u>
<b>Non-cash investing and financing transaction</b>		
Assets acquired under capital leases	<u>\$ -</u>	<u>\$ 9,751</u>

See accompanying notes.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements

December 31, 2017

### **1. Organization and Summary of Significant Accounting Policies**

#### **Organization**

The Mount Sinai Hospital (the Hospital) is a quaternary care teaching hospital located in upper Manhattan with a division in Queens, New York. As a leading academic medical center, the Hospital provides a full range of ambulatory and inpatient general and specialty services to patients from the surrounding communities, across the country, and around the world and operates one of the largest graduate medical education programs in the country. The Mount Sinai Diagnostic & Treatment Center (MSDTC), located on the Hospital's campus, consisted of various outpatient diagnostic and treatment clinics that provided comprehensive primary and preventive care and specialty care to its patients. The Hospital is the sole member of MSDTC. MSDTC ceased operations effective December 31, 2016; services previously provided by MSDTC are now provided by the Hospital.

The Hospital is closely affiliated with the Icahn School of Medicine at Mount Sinai (the School of Medicine) and its affiliates. The School of Medicine is a separate legal entity and, along with the Hospital, shares a four block area campus on the upper east side of Manhattan.

On September 30, 2013, the Hospital, the School of Medicine, and The Mount Sinai Medical Center, Inc. (the Medical Center and, together with the Hospital and the School of Medicine, the Mount Sinai Entities) consummated a transaction pursuant to which the Mount Sinai Entities and Beth Israel Medical Center (BIMC), The St. Luke's-Roosevelt Hospital Center (SLR), and The New York Eye and Ear Infirmary (NYEEL) came together to create the Mount Sinai Health System, an integrated health care system and academic medical center (the Transaction). Pursuant to the Transaction, two new not-for-profit entities were formed: Mount Sinai Health System, Inc. (MSHS) and Mount Sinai Hospitals Group, Inc. (MSHG). MSHG was formed to be the sole member of the Hospital, BIMC, SLR, and NYEEL. MSHS was formed to be the sole member of MSHG, the School of Medicine, and the Medical Center.

In February 2018, MSHS and South Nassau Communities Hospital (SNCH) executed a definitive agreement pursuant to which MSHG will become the sole corporate member of SNCH and its "active parent" under New York Law. The parties expect the transaction to become effective in mid-2018, subject to the receipt of regulatory approvals and satisfaction of all closing conditions. Pursuant to the agreement, MSHG has agreed to contribute \$120 million over the next five years to be used in support of certain capital projects.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### **1. Organization and Summary of Significant Accounting Policies (continued)**

#### **Principles of Consolidation**

The accompanying consolidated financial statements consist of the Hospital, MSDTC and other controlled entities not significant to the operations of the Hospital. In the accompanying consolidated financial statements, the Hospital, MSDTC and the other controlled entities are referred to collectively as the Hospital. All significant intercompany balances and transactions have been eliminated. The accompanying consolidated financial statements do not include the accounts of organizations that are related to the Hospital through common management and/or Boards of Trustees.

Transactions among the Hospital and related organizations relate principally to the sharing of certain services, facilities, equipment, and personnel and are accounted for on the basis of allocated cost, as agreed among the parties. Amounts due from or to related organizations for these activities are currently receivable or payable and do not bear interest, except for amounts advanced by the Hospital to the School of Medicine for certain capital expenditures, and loans provided by the Hospital to BIMC and SLR. The Hospital has provided for amounts that are potentially uncollectible. The nature of the Hospital's transactions with various related organizations is described more fully in Note 10.

#### **Cash and Cash Equivalents**

The Hospital considers highly liquid financial instruments purchased with a maturity of three months or less, excluding those held in its investment portfolio and assets limited as to use, to be cash equivalents.

The Hospital has balances in financial institutions that exceed Federal depository insurance limits. Management does not believe the credit risk related to these deposits to be significant.

The Hospital does not hold any money market funds with significant liquidity restrictions that would require the funds to be excluded from cash equivalents.

#### **Patient Accounts Receivable/Allowance for Doubtful Accounts**

Patient accounts receivable result from the health care services provided by the Hospital. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### **1. Organization and Summary of Significant Accounting Policies (continued)**

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage, and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

#### **Investments**

A substantial portion of the Hospital's investments are pooled for management purposes with those held by related entities. The Medical Center has custody of investments held in the investment pool and records all of the pooled investments in its financial statements, with a corresponding liability due to each of the participants in the investment pool for their respective share of the pooled investments; the pool participants report their respective share of the investment pool as "pooled investments." Investment earnings on the pooled investments are recorded by the pool participants, based on their pro rata share of the pool's investment returns.

Investments, both pooled and nonpooled, consist of cash and cash equivalents, U.S. government and corporate bonds, money market funds, equity securities, and interests in alternative investments. Debt securities and equity securities with readily determinable values are carried at fair value based on independent published sources (quoted market prices).

Alternative investments (nontraditional, not readily marketable securities), carried in the investment pool, may consist of equity, debt, and derivatives both within and outside the U.S. in multi-strategy hedge funds, event-driven strategies, global investment mandates, distressed securities, and private funds. Alternative investment interests generally are structured such that the investment pool holds a limited partnership interest or an interest in an investment management company. The investment pool's ownership structure does not provide for control over the related investees and the investment pool's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. Future funding commitments by members of the investment pool for alternative investments aggregated approximately \$125.1 million at December 31, 2017.

Individual investment holdings within the alternative investments include nonmarketable and market-traded debt and equity securities and interests in other alternative investments. The Hospital may be exposed indirectly to securities lending, short sales of securities and trading in futures and forward contracts, options, and other derivative products.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### **1. Organization and Summary of Significant Accounting Policies (continued)**

Alternative investments often have liquidity restrictions under which the pooled investment capital may be divested only at specified times. Liquidity restrictions may apply to all or portions of a particular invested amount.

Alternative investments in the pool are stated at fair value based upon net asset values as a practical expedient. Financial information used to evaluate alternative investments is provided by the respective investment manager or general partner and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Hospital's annual financial statement reporting.

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

#### **Investment Income**

Investment income from the investment pool is allocated to investment pool participants using the market-value unit method. The annual spending rate for pooled funds is approved by the Board of Trustees annually (see Note 8). Realized gains and losses from the sale of securities are computed using the average cost method.

In the absence of donor restrictions, investment income, including realized gains and losses, is reflected in the accompanying consolidated statements of operations as operating revenue, with net unrealized gains and losses and the change in value of alternative investments, arising from pooled investments, reported as other items. See Notes 3, 6, and 12 for additional information relative to investments.

#### **Inventories**

The Hospital values its inventories at the lower of cost or net realizable value.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### **1. Organization and Summary of Significant Accounting Policies (continued)**

#### **Assets Limited as to Use**

Assets so classified represent assets whose use is restricted or internally designated for specific purposes under terms of agreements related to the Hospital's long-term debt and internally designated for funded depreciation requirements (see Notes 3, 4, 5 and 12). These assets consist primarily of U.S. Treasury obligations held in the trustee's accounts and money market funds. As the lead partner in its DSRIP Performing Provider System (PPS), the Hospital maintains an account for funds to be distributed to its PPS partners that is included in assets limited as to use.

#### **Other Assets**

The Hospital has invested in various health care entities, certain of which are accounted for using the equity method. These amounts are classified as other investments in the accompanying consolidated statements of financial position.

#### **Deferred Financing Costs**

Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of these costs is provided using the effective interest method. Unamortized deferred financing costs are reported as a direct deduction from long-term debt. See Note 5 for additional information relative to debt-related matters.

#### **Property, Plant, and Equipment**

Property, plant, and equipment purchased are stated at cost and those acquired by gifts and bequests are stated at appraised or fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operating results.

Annual provisions for depreciation are made based upon the straight-line method using a half-year convention over the estimated useful lives of the assets, ranging from 3 to 40 years (see Note 4 for additional information relative to property, plant, and equipment).

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### **1. Organization and Summary of Significant Accounting Policies (continued)**

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. See Note 8 for additional information relative to temporarily and permanently restricted net assets.

#### **Contributions**

Contributions, including unconditional promises to give cash and other assets (pledges), are reported at fair value on the date received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected in temporarily restricted net assets and net assets released from restrictions in the accompanying consolidated financial statements.

#### **Performance Indicator**

The consolidated statements of operations include excess of revenue over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets), and change in postretirement liability to be recognized in future periods.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### **1. Organization and Summary of Significant Accounting Policies (continued)**

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. In the accompanying consolidated financial statements, estimates principally relate to the valuation of net accounts receivable, amounts due from and to third-party payors, the net carrying value of the Hospital's interest in the captive insurance program, estimated professional liabilities and related insurance recoveries receivable, and the carrying value of alternative investments. Management believes that the amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual should not have a material effect on the Hospital's consolidated financial position. In 2017 and 2016, management realized revenue of approximately \$66.5 million and \$65.7 million, respectively, which was a result of settlements of prior years' third-party reimbursements net of reserve for potentially uncollectible loans from related organizations and is reflected in the accompanying consolidated statements of operations as other items.

#### **Tax Status**

The Hospital and MSDTC are Section 501(c)(3) organizations exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. They also are exempt from New York State and New York City income taxes.

As a result of the recent federal income tax reform enacted into law under the Tax Cuts and Jobs Act of 2017, certain provisions will impact tax-exempt organizations, including revisions to taxes on unrelated business activities, excise taxes on compensation of certain employees, and various other provisions. The regulations necessary to implement the law are expected to be promulgated throughout 2018 and the ultimate outcome of these regulations and the impact to the Hospital cannot be determined presently.

#### **Reclassifications**

Certain reclassifications have been made to 2016 balances previously reported in order to conform with the 2017 presentation.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

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

#### Sale of Clinical Outreach Laboratory

During 2017, the Hospital sold certain assets of its non-hospital clinical outreach laboratory to a commercial laboratory in a transaction that also included certain assets of the non-hospital clinical outreach laboratories of BIMC and SLR. The gain recoded on the sale for the Hospital is \$97.0 million.

#### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition*, and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 are effective for the Hospital for fiscal years beginning after December 15, 2017, and interim periods within that fiscal year. In accordance with ASU 2014-09, the Hospital will analyze revenue streams utilizing the portfolio approach to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. The adoption of ASU 2014-09 will require enhanced disclosures related to the disaggregation of revenue, information about contract balances, and other disclosures about contracts with customers, including revenue recognition policies to identify performance obligations and significant judgments in measurement and recognition. The Hospital plans to use the modified retrospective method of adoption in 2018. The Hospital anticipates that, as a result of certain changes required by ASU 2014-09, the majority of its provision for doubtful accounts will be recorded as a direct reduction to revenue instead of being presented as a separate line item. Additionally, the provision for bad debts will be presented as an expense item rather than a reduction of net patient service revenue. The Hospital continues to assess the impact of the adoption of ASU 2014-09 in relation to other revenue activity, as applicable; however, other revenue is less significant to the Hospital's consolidated statements of operations. Management does not anticipate ASU 2014-09 will have a significant impact on the Hospital's consolidated financial statements.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### **1. Organization and Summary of Significant Accounting Policies (continued)**

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require lessees to report most leases on their statement of financial position and recognize expenses on their income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. Lessors in operating leases continue to recognize the underlying asset and recognize lease income on either a straight-line or another systematic and rational basis. The provisions of ASU 2016-02 are effective for the Hospital for annual periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. The Hospital has not completed the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statement Presentation*, which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs will be required to classify net assets as net assets with donor restrictions or without donor restrictions. Among other things, the guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs will also be required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 are effective for the Hospital for annual periods beginning after December 15, 2017, and interim periods thereafter. The Hospital has begun the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the Hospital for annual periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. The Hospital does not expect ASU 2016-15 to have a significant effect on its consolidated financial statements.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### **1. Organization and Summary of Significant Accounting Policies (continued)**

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for the Hospital for annual periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. The Hospital does not expect ASU 2016-18 to have a significant effect on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The standard is effective for the Hospital for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. Adoption of ASU 2017-07 will require the Hospital to include the service cost component of net periodic benefit cost related to its other postretirement benefit plan (approximately \$269,000 for 2017) within salaries and wages on the consolidated statements of operations and to present all other components (aggregate of approximately \$0.9 million for 2017) as a separate line item outside of any subtotal of the performance indicator. Net periodic benefit cost is recorded currently as a component of employee benefits on the consolidated statements of operations.

### **2. Accounts Receivable for Services to Patients and Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations.

Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are provided and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual and formula-driven rates for the services rendered (see description of third-party payor payment programs below).

Net patient service revenue for the years ended December 31, 2017 and 2016, net of contractual allowances and discounts (but before the provision for bad debts), recognized from these major payor sources based on primary insurance designation, is as follows:

	<u>Third-Party</u>	<u>Self-Pay</u>	<u>Total all Payors</u>
	<i>(In Thousands)</i>		
2017	\$ 2,509,238	\$ 29,012	\$ 2,538,250
2016	2,242,251	25,734	2,267,985

Deductibles and copayments under third-party payment programs within the third-party payor amount above are the patient's responsibility and the Hospital considers these amounts in its determination of the provision for bad debts based on collection experience. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

The Hospital's allowance for doubtful accounts totaled approximately \$28.8 million and \$27.4 million at December 31, 2017 and 2016, respectively. The allowance for doubtful accounts for self-pay patients was approximately 18.8% and 14.1% of self-pay accounts receivable as of December 31, 2017 and 2016, respectively.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### **2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)**

Overall, the total of self-pay discounts and write-offs did not change significantly in 2017. The Hospital did not experience significant changes in write-off trends and did not change its charity care policy in 2017.

#### **Non-Medicare Payment**

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 the hospitals' established charges. Medicaid, workers' compensation, and no-fault payors pay hospital rates promulgated by the New York State Department of Health (NYSDOH). Payments to hospitals for Medicaid, workers' compensation, and no-fault inpatient services are based on a statewide prospective payment system, without retroactive adjustments except for the capital component of the rate. Outpatient services also are paid based on a statewide prospective payment system. Medicaid rate methodologies are subject to approval at the federal level by the Centers for Medicare and Medicaid Services (CMS), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the 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 Payment**

Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates based on industry-wide and hospital-specific data.

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

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

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through 2002, and for 2005 through 2012.

Other years remain open for audit and settlement as are New York State Medicaid cost reports for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained.

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 consolidated financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations.

There are various proposals at the Federal and State levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of or revisions to health care reform that has been enacted by the federal and state government cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Hospital.

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party agreements. The mix of receivables from patients and third-party payors at December 31, 2017 and 2016, is as follows:

	<b>2017</b>	<b>2016</b>
Medicare	<b>17%</b>	17%
Medicaid	<b>22</b>	22
Blue Cross	<b>12</b>	13
Managed care and other	<b>45</b>	44
Self-pay	<b>4</b>	4
	<b>100%</b>	100%

In 2017, approximately 27% and 19% of the Hospital's net patient service revenue was from Medicare and Medicaid programs, respectively (approximately 25% and 17%, respectively, in 2016).

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### **2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)**

#### **Uncompensated Care**

As a matter of policy, the Hospital provides significant amounts of partially or totally uncompensated patient care. For accounting purposes, such uncompensated care is treated either as charity care or provision for bad debts. The Hospital's charity care policy ensures the provision of quality health care to the community served while carefully considering the ability of the patient to pay. The policy has sliding fee schedules for inpatient, ambulatory, and emergency services provided to the uninsured and under-insured patients who qualify.

Patients are eligible for the charity care fee schedule if they meet certain income tests. Furthermore, as part of its charity care and financial aid policy, the Hospital obtains and uses additional financial information for uninsured or underinsured patients who have not supplied the requisite information to qualify for charity care. The additional information obtained is used by the Hospital to determine whether to qualify patients for charity care and/or financial aid in accordance with the Hospital's policies.

For accounting and disclosure purposes, charity care is considered to be the difference between the Hospital's customary charges and the sliding charity care fee schedule rates. Since payment of this difference is not sought, charity care allowances are not reported as revenue.

The Hospital provides care regardless of a patient's ability to pay. Uninsured patients seen in the emergency department, including patients subsequently admitted for inpatient services, often do not provide information necessary to allow the Hospital to qualify such patients for charity care. Uncollectible amounts due from such uninsured patients represent the substantial portion of the provision for bad debts reflected in the accompanying consolidated statements of operations.

The Hospital's estimated costs for charity care were approximately \$39.6 million for 2017 and 2016. The cost of charity includes the direct and indirect cost of providing charity care services. The cost is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care. Funds received from the New York State Indigent Care Pool to offset charity services provided totaled approximately \$22.5 million and \$8.6 million for the years ended December 31, 2017 and 2016, respectively. The charity care component of the indigent care pool payments is estimated utilizing a ratio of charity care charges to total charity care and bad debt charges applied to the indigent care pool reimbursement and excludes amounts designated for teaching programs.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### **2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)**

Additionally, patients who do not qualify for sliding-scale fees and all uninsured inpatients who do not qualify for Medicaid assistance are billed at the Hospital's rates. Uncollected balances for these patients are categorized as bad debts. Total uncompensated care as a result of bad debts for all patient services approximated \$25.0 million in 2017 and \$16.1 million in 2016.

### **Vital Access Provider Safety Net Program and Medicaid Enhanced Rates**

In September 2015, MSHG entered into an agreement with the NYSDOH to participate in the Vital Access Provider/Safety Net Program (VAP). MSHG was awarded approximately \$81.4 million in VAP funding over three years. In accordance with the governing agreement, MSHG will submit quarterly reports to the NYSDOH, detailing how the VAP funds are being expended, in line with approved objectives, budgets, timelines and benchmarks. In addition, MSHG has committed to complete a full asset merger of the Hospital, BIMC, SLR and NYEEI by no later than December 31, 2019.

The NYSDOH has also agreed to provide certain MSHG member hospitals with a temporary Medicaid rate enhancement for three years. The enhanced Medicaid rates are paid to the MSHG member hospitals directly by the Medicaid program or Medicaid managed care payors as patient services are rendered. The MSHG member hospitals will recognize revenue from the VAP payments on a quarterly basis as reporting requirements are completed and approved expenditures are incurred. The Hospital recognized VAP revenue of approximately \$18.9 million in 2017 (\$9.2 million in 2016). All amounts related to VAP funding for the MSHG member hospitals is received by BIMC; amounts due to the Hospital related to VAP funding are recorded as a component of due from related organizations.

The Hospital recognized approximately \$20.2 million and \$20.6 million in 2017 and 2016, respectively, of revenue associated with the Medicaid rate enhancements; the Hospital transferred the full amounts to BIMC in 2017 and 2016 (see Note 10). In the event that conditions of the governing agreement are not met, funding associated with the VAP program and the enhanced Medicaid rates will be refundable to the NYSDOH. Management believes the possibility that the condition will not be met is remote.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

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

Investments are maintained as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Pooled investments	<b>\$ 866,373</b>	\$ 740,518
Non-pooled investments	<b>448,166</b>	359,535
	<b><u>\$ 1,314,539</u></b>	<b><u>\$ 1,100,053</u></b>

At December 31, 2017 and 2016, approximately \$4.6 million and \$7.0 million, respectively, of pooled investments is included in short-term investments. Non-pooled investments primarily consist of marketable short term investments, investment in a captive insurance program (see Note 6) and certain non-marketable investments recorded under the equity method of accounting. Marketable short-term investments consist of money market funds and fixed income securities.

The following table summarizes the composition of the investment pool at December 31, 2017 and 2016; the Hospital's interests in the pooled investment components are proportionate based on the ratio of its pooled investment balance to the total of the pool. The Hospital owned 49.9% and 48.4% of the investment pool at December 31, 2017 and 2016, respectively.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 9,243	\$ 14,396
Fixed income:		
Mutual funds	13,458	12,900
Equities:		
U.S. equities	131,993	110,389
Global equities	54,460	42,924
Non-U.S. equities	129,884	100,850
Alternative investments:		
Hedge funds:		
Long-only equity <sup>(a)</sup>	247,773	178,263
Hedged equity <sup>(b)</sup>	326,244	305,098
Long/short credit <sup>(c)</sup>	44,334	47,058
Open mandate <sup>(d)</sup>	357,410	402,281
Macro <sup>(e)</sup>	74,434	62,968
Private investments:		
Equity <sup>(f)</sup>	50,522	46,759
Credit/distressed <sup>(g)</sup>	97,493	74,755
Real assets <sup>(h)</sup>	200,557	130,858
	<b>\$ 1,737,805</b>	<b>\$ 1,529,499</b>

<sup>(a)</sup> Investments, consisting of publicly traded equity holdings with long positions.

<sup>(b)</sup> Investments, consisting primarily of publicly traded equity holdings with both long and short positions.

<sup>(c)</sup> Investments, consisting primarily of publicly traded credit holdings with both long and short positions.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

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

- (d) Investments with a balanced mix of asset exposures and strategies. Underlying exposures primarily include publicly traded equity and credit positions in fundamental value, relative value, and various arbitrage strategies. Investments may reflect a tilt towards equity or credit with hedging and hold large cash positions if value opportunities are not found.
- (e) Investments focused on global macro dislocations rather than micro-driven opportunities. Holdings are both long and short in equity, fixed income, currency, and futures markets.
- (f) Investments targeting buyout, growth equity, and venture opportunities that require time to reach realization.
- (g) Investments in structured credit, claims, distressed positions of either a minority or controlling interest that require time to reach realization.
- (h) Real estate, natural resources, and asset backed royalty investments that require time to reach realization.

The total return on the total pooled investments comprises the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
Interest and dividend and other income	\$ 6,173	\$ 5,814
Net realized gains on sales of securities	70,730	61,296
Change in net unrealized gains and losses and change in value of alternative investments	115,721	29,984
Fees and other expenses	<b>(6,300)</b>	<b>(5,564)</b>
Total	<u>\$ 186,324</u>	<u>\$ 91,530</u>

The Hospital was allocated a total investment return from the pool based on agreements among the pool participants and donor stipulations of approximately \$87.8 million and \$36.5 million in 2017 and 2016, respectively.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

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

Total investment return recognized by the Hospital comprises the following for the years ended December 31:

	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Interest, dividend, and other income	\$ 5,847	\$ 2,672
Net realized gains on sales of securities	<b>27,560</b>	22,994
	<b>\$ 33,407</b>	\$ 25,666
Net change in unrealized gains and losses on investments and change in value of alternative investments	<b>\$ 51,441</b>	\$ 14,543

Assets limited as to use consist of the following at December 31:

	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Assets held under long-term debt agreements:		
Construction funds	\$ 3,653	\$ 40,359
Debt service fund	<b>10,093</b>	10,491
Debt service reserve fund	<b>34,641</b>	34,589
Internally designated for debt service	<b>11,370</b>	10,832
Funded depreciation	<b>1,523</b>	1,508
Delivery System Reform Incentive Payment program (DSRIP)	<b>14,745</b>	1,220
Total assets limited as to use	<b>76,025</b>	98,999
Less current portion	<b>36,207</b>	22,543
Assets limited as to use, less current portion	<b>\$ 39,818</b>	\$ 76,456

Assets limited to use consist of cash, money market funds and fixed income securities. The Medical Center has a bank letter of credit for \$1.0 million for the benefit of a captive insurance company in which the Hospital participates (see Note 6). The letter of credit is collateralized by \$1.0 million of marketable securities held by the Hospital.

## The Mount Sinai Hospital

### Notes to Consolidated Financial Statements (continued)

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

As the lead partner in its DSRIP PPS, the Hospital maintains an account for funds to be distributed to its PPS partners. A corresponding liability of \$14.7 million and \$1.2 million in 2017 and 2016, respectively, is included in other current liabilities.

#### 4. Property, Plant, and Equipment

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

	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Land and improvements	\$ 49,617	\$ 49,617
Buildings and improvements	643,950	630,388
Condominium interest <i>(Note 5)</i>	110,133	110,133
Fixed equipment	620,812	596,562
Movable equipment	914,128	859,191
	<b>2,338,640</b>	2,245,891
Less leasehold interest of the School of Medicine	<b>(68,146)</b>	(68,146)
	<b>2,270,494</b>	2,177,745
Less accumulated depreciation and amortization	<b>(1,324,917)</b>	(1,237,386)
	<b>945,577</b>	940,359
Capital projects in progress <i>(Note 5)</i>	<b>5,093</b>	2,136
	<b>\$ 950,670</b>	\$ 942,495

The Hospital capitalizes costs incurred in connection with the development of internal use software or purchased software modified for internal use. In 2017 and 2016, approximately \$7.0 million and \$6.3 million was capitalized, respectively.

In 2017 and 2016, the Hospital wrote off approximately \$25.0 million and \$17.0 million, respectively of fully depreciated assets that were no longer in use.

The School of Medicine has entered into a long-term lease with the Hospital relating to a portion of the Hospital-owned Annenberg Building, which is used by the School of Medicine. Accordingly, the Hospital reflects the School of Medicine's leasehold interest as a reduction of total property, plant, and equipment. Under the terms of the lease, the School of Medicine makes payments for its share of the building's operating expenses.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### **4. Property, Plant, and Equipment (continued)**

At December 31, 2017 and 2016, approximately \$11.8 million is included in buildings and improvements representing amounts paid by the Hospital to the School of Medicine relating to a portion of a multipurpose building owned by the School of Medicine that is leased and used by the Hospital. Under the terms of a lease agreement relative to this space, the Hospital made payments of approximately \$3.9 million and \$4.2 million in 2017 and 2016, respectively, for its share of the operating costs.

The Hospital entered into a lease agreement with the School of Medicine for a portion of the Center for Advanced Medicine building that is used by the Hospital. At December 31, 2017 and 2016, approximately \$4.7 million is included in the accompanying consolidated statements of operations representing amounts paid by the Hospital to the School of Medicine relating to the portion of the building used by the Hospital. In each of 2017 and 2016, under the terms of this lease, the Hospital paid the School of Medicine approximately \$2.8 million for its share of the operating costs of the related portion of the building.

Future minimum rental commitments under various leases with the School of Medicine are approximately \$6.6 million in 2018; \$6.3 million in 2019; \$6.0 million in 2020; \$5.8 million in 2021; \$5.5 million in 2022 and \$43.0 million thereafter.

Substantially all property, plant, and equipment have been pledged as collateral under various debt agreements.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 5. Long-Term Debt

A summary of long-term debt is as follows at December 31:

	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Series 2010 bonds; interest rates ranging from 1.8% to 5.0% <sup>(a)</sup>	<b>\$ 234,885</b>	\$ 255,265
Series 2011A bonds; interest rates ranging from 3.0% to 5.0% <sup>(b)</sup>	<b>58,810</b>	60,095
Series 2013 bonds; interest rate of 2.83% <sup>(c)</sup>	<b>104,533</b>	108,267
Accounts receivable financing <sup>(d)</sup>	<b>7,650</b>	9,562
Promissory note payable, including deferred interest <sup>(e)</sup>	<b>115,234</b>	116,939
Capital lease <sup>(f)</sup>	<b>7,388</b>	8,805
Bank loan <sup>(g)</sup>	–	39,606
Series 2017 bonds; interest rates ranging from 3.83% to 3.98% <sup>(h)</sup>	<b>382,000</b>	–
	<b>910,500</b>	598,539
Add net bond premium	<b>6,222</b>	7,503
Less deferred financing costs, net	<b>8,453</b>	6,141
Less current portion	<b>32,370</b>	32,671
	<b>\$ 875,899</b>	\$ 567,230

<sup>(a)</sup> In June 2010, the Hospital refunded and refinanced its outstanding Series 2000 bonds that had been issued through the Dormitory Authority of the State of New York (DASNY), partially at par and partially at 101%. The new bonds (Series 2010) were issued as both taxable and tax-exempt series (approximately \$28.5 million par amount of taxable bonds and approximately \$331.2 million par amount of tax-exempt bonds issued through DASNY). The bonds mature serially through July 1, 2026.

<sup>(b)</sup> In October 2011, DASNY issued \$65.4 million of tax-exempt bonds (Series 2011A) on behalf of the Hospital. The bonds were issued to finance the Hospital's share of the costs of construction of a cancer treatment center in the Leon and Norma Hess Center for Science and Medicine. The bonds mature serially through July 1, 2041.

<sup>(c)</sup> In December 2013, Build NYC Resource Corporation issued \$112.0 million of tax-exempt bonds (Series 2013) on behalf of the Hospital.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 5. Long-Term Debt (continued)

The bonds were issued to finance an expansion and renovation project at the Hospital's Queens campus. The bonds mature serially through January 1, 2044; the interest rate is fixed.

- <sup>(d)</sup> The Hospital had a revolving, amortizing loan with a commercial bank that expired on October 21, 2013. Interest was payable at the 30-day London Interbank Offered Rate plus 0.5% on a quarterly basis; principal also was payable quarterly. The loan was refinanced to a fixed rate of 2.44% and expires on October 21, 2020. Interest and principal are due quarterly. Under the terms of the agreement, the Hospital is required to maintain certain financial ratios and was in compliance with these ratios at December 31, 2017 and 2016.
- <sup>(e)</sup> In August 2014, the Hospital entered into a transaction pursuant to which the Hospital obtained approximately 450,000 square feet of space located at 150 East 42nd Street to consolidate corporate services of MSHS. The space replaced existing leased and owned office space to provide additional capacity for clinical and research activities. A leasehold condominium interest was purchased by the Hospital and, shortly thereafter, transferred to a special-purpose, limited liability company formed by the Hospital (included in the accompanying consolidated financial statements). The purchase was financed through the issuance of a promissory note payable with a principal amount of \$110.1 million, interest at a rate of 8%, and payments beginning in June 2015 and ending in March 2046. Payment of interest was deferred from August 2014 until May 2015. The Hospital and the School of Medicine guaranteed, on a joint and several basis, all of the obligations of the Hospital which include note payments, operating expenses and other carrying costs and charges, some of which escalate annually. The property is collateral for the related financing. In connection with this transaction, the seller/landlord provided the Hospital with a leasehold improvement/tenant allowance of approximately \$35.3 million, which was recorded in the accompanying consolidated statement of financial position as part of capital projects in process and other long-term liabilities at December 31, 2014. In 2015, the total amount of the leasehold improvement/tenant allowance was transferred from capital projects in process to buildings and improvements. Amortization of the leasehold improvement/tenant allowance commenced in 2015.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 5. Long-Term Debt (continued)

Common charges for the 150 East 42nd Street leasehold condominium property subsequent to December 31, 2017, are as follows (in thousands):

2018	\$	6,865
2019		7,268
2020		7,268
2021		7,268
2022		7,268

- <sup>(f)</sup> In June 2016, the Hospital entered into a \$9.8 million capital lease to finance the acquisition of hospital beds for the use of the members of MSHG. The lease term is for seven years at an effective interest rate of 1.91%.
- <sup>(g)</sup> In September 2016, the Hospital entered into a \$40.0 million loan agreement with a bank. The proceeds of the loan were intended to support strategic capital projects at SLR. Funds transferred to SLR from the Hospital are recorded a component of due from related organizations. Proceeds from the Series 2017 Bonds were used to repay the loan in December 2017.
- <sup>(h)</sup> In December 2017, the Hospital issued \$382.0 million of taxable bonds for general taxable purposes. Certain proceeds of the bonds (approximately \$106.0 million) were used to repay the outstanding debt of BIMC which the Hospital had previously guaranteed. Funds loaned to BIMC from the Hospital are recorded as a component of due from related organizations. Other proceeds of the bonds were used to repay the Hospital's \$40.0 million bank loan noted above. The bonds are structured with interest only payments until 2031 and two bullet maturities: one in 2035 and the second in 2048. There are mandatory annual sinking payments beginning in 2031.

As security for its obligations under the Series 2010A, Series 2011A, Series 2013A-B, and Series 2017 bonds, the Hospital provided a gross revenue pledge and executed a mortgage on its patient care property. Furthermore, the Hospital agreed to limitations on its ability to transfer assets and borrow additional funds as well as other limitations. In connection with the DASNY Series 2010 and Series 2011A bonds, the Hospital is required to maintain certain debt service funds and other reserve funds (included in assets limited as to use). The Hospital agreed to maintain certain financial ratios, including a debt service coverage ratio and days cash-on-hand ratio which are calculated semi-annually. At December 31, 2017 and 2016, the Hospital was in compliance with the required financial ratios.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 5. Long-Term Debt (continued)

Principal payments on long-term debt subsequent to December 31, 2017, are as follows (in thousands):

2018	\$	32,370
2019		33,380
2020		36,110
2021		35,964
2022		37,646
Thereafter		<u>735,030</u>
Total	\$	<u>910,500</u>

Interest paid for the years ended December 31, 2017 and 2016, aggregated approximately \$15.4 million and \$16.0 million, respectively. In 2017, the Hospital capitalized net interest of approximately \$0.9 million relating to construction activity in progress (\$2.9 million in 2016).

Future minimum lease payments under noncancelable operating leases, excluding leases with related parties (see Notes 4 and 10), with initial or remaining terms of one year or more at December 31, 2017, consisted of the following (in thousands):

2018	\$	759
2019		443
2020		142
2021		142
2022		<u>87</u>
Total minimum lease payments	\$	<u>1,573</u>

Rental expense to unrelated parties approximated \$19.8 million and \$21.9 million in 2017 and 2016, respectively.

### 6. Professional Liabilities Insurance Program

Primary coverage of professional and general liability incidents has been provided through participation in a pooled program with certain other health care facilities (principally hospitals) affiliated with the Federation of Jewish Philanthropies of New York (FOJP). This occurrence-basis insurance coverage participation is with captive insurance companies and commercial insurance companies.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### **6. Professional Liabilities Insurance Program (continued)**

The Hospital follows the equity method of accounting for its investment in the captive insurance company associated with its medical malpractice insurance program. Additionally, in connection with the pooled insurance program, the Hospital has recognized the present value of its allocated share of a portion of the program's accumulated surplus.

The aggregate net carrying value of the Hospital's interests in the insurance program was approximately \$185.5 million and \$169.1 million at December 31, 2017 and 2016, respectively, which is included in other investments in the accompanying consolidated statements of financial position. In December 2017, one of the captive insurance companies declared a dividend of approximately \$54.0 million to be distributed based on each owners respective ownership interest. As a result, the Hospital recorded a dividend receivable of approximately \$13.5 million which is recorded within other current assets on the accompanying consolidated statement of financial position at December 31, 2017

The Hospital, as part owner of its malpractice captive, guarantees a certain level of investment return. As a result of differences between guaranteed and actual returns, the Hospital and the School of Medicine were required to fund approximately \$775,000 in 2016, with approximately \$465,000 allocated to the Hospital. The Hospital and the School of Medicine were not required to fund any differences in 2017. Liabilities are required to be paid over a period of four years. During 2017, the Hospital paid approximately \$3.7 million towards the 2016 liability. As of December 31, 2017 and 2016, respectively, liabilities of approximately \$11.6 million and \$15.3 million are included in other current and other liabilities in the accompanying consolidated statements of financial position.

The undiscounted estimate of professional liabilities and the estimate for incidents that have been incurred but not reported is included in professional liabilities in the accompanying consolidated statements of financial position at the actuarially determined present value of approximately \$264.6 million (\$247.2 million at December 31, 2016), based on a discount rate of 3% at December 31, 2017 and 2016. The Hospital has recorded related insurance recoveries receivable of approximately \$264.6 million at December 31, 2017 (\$247.2 million at December 31, 2016), in consideration of the expected insurance recoveries. The current portion of professional liabilities and the related insurance recoveries receivable represent an estimate of expected settlements and insurance recoveries over the next 12 months.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### **6. Professional Liabilities Insurance Program (continued)**

The Hospital's estimates of professional liabilities are based upon complex actuarial calculations, which utilize factors such as historical claims experience for the Hospital and related industry factors, trending models, estimates for the payment patterns of future claims, and present value discount factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

In February 2014, the FOJP program and the various affiliated captive insurance companies began an internal investigation into several insurance regulatory and related matters that had come to the attention of the FOJP companies' management. The New York State Department of Financial Services (DFS) also conducted its own investigation into the issues that were raised and related matters. During 2017, the FOJP companies and DFS resolved the outstanding matters through an agreed upon stipulation which did not have a material effect on the Hospital's consolidated financial statements.

### **7. Pension and Similar Plans and Other Postretirement Benefits**

The Hospital provides pension and similar benefits to its employees through several defined benefit multiemployer union plans and tax sheltered annuity plans. Payments to the tax sheltered annuity plans are generally based on percentages of annual salaries. It is the Hospital's policy to fund accrued costs under these plans on a current basis. The Hospital's pension expense under all plans for the years ended December 31, 2017 and 2016, aggregated approximately \$92.0 million and \$63.5 million, respectively.

Additionally, the Hospital and the School of Medicine jointly offer a 457(b) plan to certain of their respective employees. Contributions, through payroll deductions, are made solely by the employees. The contributions are maintained in individual accounts held by a custodian and remain an asset and liability of the employer until the participant terminates employment. At December 31, 2017 and 2016, approximately \$12.5 million and \$9.9 million, respectively, is included in other assets and other liabilities in the accompanying consolidated statements of financial position related to the 457(b) plan.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 7. Pension and Similar Plans and Other Postretirement Benefits (continued)

In addition to the Hospital's pension plans, the Hospital provides health care benefits, including prescription drug benefits and life insurance benefits, to its retired employees if they reach normal retirement age while still working for the Hospital.

Prior to 2004, the Hospital-sponsored plan provided postretirement medical and life insurance benefits to full-time employees who had worked ten years and attained the age of 62 while in service with the Hospital. During 2004, the Hospital curtailed the plan to include the requirement that employees have 20 years of consecutive service, or have attained the age of 50 with ten or more years of service by January 1, 2004, to be eligible for benefits. The postretirement plan contains cost-sharing features such as deductibles and coinsurance. The postretirement plan is unfunded and the Hospital does not sponsor any other postretirement benefit plans.

The Hospital recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its retiree benefits plan, with a corresponding adjustment to unrestricted net assets for the portion of the unfunded liability that has not been recognized as postretirement cost. The adjustment to unrestricted net assets represents the net unrecognized actuarial losses and unrecognized prior service cost, which will be subsequently recognized as a component of net periodic postretirement cost through amortization.

The following tables provide a reconciliation of the changes in the postretirement plan's benefit obligation and a statement of the funded status of the plan as of December 31:

	2017	2016
	<i>(In Thousands)</i>	
<b>Reconciliation of the benefit obligation</b>		
Obligation at January 1	\$ 17,364	\$ 18,413
Service cost	269	256
Interest cost	698	771
Actuarial net gain	659	(531)
Benefit payments	(1,114)	(1,545)
Obligation at December 31	\$ 17,876	\$ 17,364
<b>Funded status</b>		
Net amount recognized – current portion	\$ 1,274	\$ 1,279
Net amount recognized – long-term portion	16,602	16,085
Total	\$ 17,876	\$ 17,364

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

**7. Pension and Similar Plans and Other Postretirement Benefits (continued)**

Included in other changes in unrestricted net assets at are the following changes in amounts that have not yet been recognized in postretirement cost:

	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
Unrecognized prior service cost	\$ 23	\$ 23
Unrecognized actuarial gain	425	(845)
Total	<u>\$ 448</u>	<u>\$ (822)</u>

The prior service cost and actuarial loss included in unrestricted net assets at December 31 and expected to be recognized in postretirement cost in the future are as follows:

	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
Unrecognized prior service credit	\$ —	\$ (23)
Unrecognized actuarial loss	5,217	4,792
Total	<u>\$ 5,217</u>	<u>\$ 4,769</u>

The estimated amount to be recognized in 2018 is \$304,000.

The Hospital expects to pay the following future plan benefit payments, which reflect expected future service (in thousands):

2018	\$ 1,274
2019	1,316
2020	1,342
2021	1,353
2022	1,319
2023 to 2027	5,953

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 7. Pension and Similar Plans and Other Postretirement Benefits (continued)

The following table provides the components of the net periodic postretirement cost for the plan for the years ended December 31:

	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Service cost	\$ <b>269</b>	\$ 256
Interest cost on projected benefit obligation	<b>698</b>	771
Net amortization	<b>211</b>	291
Total net periodic postretirement cost	<b>\$ 1,178</b>	\$ 1,318

The weighted-average discount rate used in the measurement of the Hospital's benefit obligation was 3.85% and 4.27% for 2017 and 2016, respectively. The weighted-average discount rate used in the measurement of net periodic postretirement cost was 4.27% for 2017 and 4.41% for 2016. For measurement purposes relative to 2017, an annual rate of increase in the per capita cost of covered health care benefits was assumed to be initially 7.3%, grading down to an ultimate rate of 5% in 2022. A 5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2017.

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

	<b>2017</b>		<b>2016</b>	
	<b>1% Increase</b>	<b>1% Decrease</b>	<b>1% Increase</b>	<b>1% Decrease</b>
	<i>(In Thousands)</i>			
Effect on total of service and interest cost components of net periodic postretirement cost	\$ <b>6</b>	\$ <b>(6)</b>	\$ 8	\$ (8)
Effect on the health care component of the accumulated benefit obligation	<b>177</b>	<b>(164)</b>	170	(158)

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 7. Pension and Similar Plans and Other Postretirement Benefits (continued)

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

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If an employer chooses to stop participating in some of its multiemployer plans, the employer may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Hospital's participation in these plans for the years ended December 31, 2017 and 2016, is outlined in the table below. The "EIN Number" column provides the Employer Identification Number (EIN). Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2017 and 2016 is for a plan's year-end at December 31, 2016 and 2015, respectively. The zone status is based on information that the Hospital received from the plans and is certified by the plans' actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is pending or has been implemented. The last column lists the expiration dates of the collective bargaining agreements to which the plans are subject.

Pension Fund	EIN Number	Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/Implemented	Contributions by the Hospital		Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
			2017	2016		2017	2016		
<i>(In Thousands)</i>									
New York State Nurses Association Pension Plan	13-6604799	001	<b>Green as of 1/01/2017</b>	Green as of 1/01/2016	No	\$ 20,742	\$ 19,596	No	12/31/2018
1199 SEIU Health Care Employees Pension Fund	13-3604862	001	<b>Green as of 1/01/2017</b>	Green as of 1/01/2016	No	49,745	24,719	No	09/30/2018
Local 32BJ SEIU	13-1879376	001	<b>Red as of 7/01/2017</b>	Red as of 7/01/2016	Yes	209	208	No	04/20/2018

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### **7. Pension and Similar Plans and Other Postretirement Benefits (continued)**

The Hospital was listed in the New York State Nurses Association Pension Plan's Forms 5500 as providing more than 5% of the total contributions during each of the plan's 2016 and 2015 plan years. At the date the Hospital's consolidated financial statements were issued, Forms 5500 are not yet available for any of the Pension funds for the plan years ended in 2017.

### **8. Temporarily and Permanently Restricted Net Assets**

Permanently restricted net assets represent endowments that have been restricted by donors to be maintained in perpetuity and invested by the Hospital.

The Hospital follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as they relate to its permanently restricted contributions and net assets.

The Hospital has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Accumulations to the permanent endowment are used in accordance with the direction of the applicable donor gift. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until the amounts are appropriated for expenditure in accordance with a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) the duration and preservation of the fund; (2) the purposes of the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the institution; (6) the expected total return from income and the appreciation of investments; (7) other resources of the Hospital; and (8) the investment and spending policies of the Hospital. The Hospital's policies provide the guidelines for setting the annual spending rate (4% in 2017 and 4.5% in 2016) and the treatment of any investment returns in excess of the annual spending rate. The endowment spend rate is calculated on the average three-year rolling market value of each endowed fund. Any excess investment returns beyond the spending rate, to the

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 8. Temporarily and Permanently Restricted Net Assets (continued)

extent available, are added to the endowed fund and classified as temporarily restricted net assets, unless also appropriated for expenditure. The Hospital expends the income distributed from certain restricted assets on an annual basis in support of health care services (2017 and 2016 distributions totaled approximately \$28.9 million and \$25.3 million, respectively).

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets are invested in a manner to provide that sufficient assets are available as a source of liquidity for the intended use of the funds, achieve the optimal return possible within the specified risk parameters, prudently invest assets in a high-quality diversified manner, and adhere to the established guidelines.

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

Temporarily restricted net assets are available to support program activities as stipulated by donors. Permanently restricted net assets are restricted to investment in perpetuity with the income expendable to support program activities as stipulated by donors. Temporarily restricted net assets are restricted as follows at December 31:

	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
Plant replacement and plant operating funds	\$ 920	\$ 552
Other specific-purpose funds	103,439	80,293
	<u>\$ 104,359</u>	<u>\$ 80,845</u>

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 8. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets are restricted as follows at December 31:

	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Investments to be held in perpetuity, the income from which is restricted for School of Medicine research and other purposes	<b>\$ 27,137</b>	\$ 27,137
Investments to be held in perpetuity, the income from which is unrestricted as to use	<b>56,674</b>	55,622
	<b>\$ 83,811</b>	\$ 82,759

Investments to be held in perpetuity are included in pooled investments in the accompanying consolidated statements of financial position.

During 2017 and 2016, temporarily restricted net assets were released from restrictions as follows:

	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Capital asset acquisitions	<b>\$ 5,763</b>	\$ 9,777
Other specific-purpose funds (various services)	<b>28,899</b>	25,310
	<b>\$ 34,662</b>	\$ 35,087

### 9. Functional Expenses

The Hospital provides inpatient and outpatient health care and related services, including graduate medical education, to patients throughout the world. It is not practicable to separately identify the expenses relating to each of the Hospital's programs. Expenses related to its services were as follows:

	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Health care-related services	<b>\$ 2,135,009</b>	\$ 1,921,413
General and administrative	<b>319,024</b>	287,108
	<b>\$ 2,454,033</b>	\$ 2,208,521

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 10. Related Organizations

Amounts due from (to) the Hospital's related organizations consisted of the following at December 31:

	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
The School of Medicine, net <sup>(a)</sup>	<b>\$ 194,726</b>	\$ 233,153
MSMC Realty Corporation (Realty Corp.) <sup>(b)</sup>	<b>(2,768)</b>	(2,282)
MSMC Residential Realty LLC (MSMCRRC) <sup>(c)</sup>	<b>154</b>	189
The Mount Sinai Medical Center, Inc.	<b>795</b>	693
Beth Israel Medical Center <sup>(d)</sup>	<b>11,047</b>	11,701
Beth Israel Medical Center Loan <sup>(d)</sup>	<b>105,776</b>	–
The St. Luke's-Roosevelt Hospital Center <sup>(e)</sup>	<b>12,222</b>	8,982
The St. Luke's-Roosevelt Hospital Center Loan <sup>(e)</sup>	<b>47,271</b>	3,294
The New York Eye and Ear Infirmary <sup>(f)</sup>	<b>1,258</b>	2,989
Other	<b>436</b>	45
Total due from related organizations	<b>370,917</b>	258,764
Less current portion	<b>217,870</b>	255,470
Due from related organizations, less current portion	<b>\$ 153,047</b>	\$ 3,294

<sup>(a)</sup> Transactions charged (at cost) by the Hospital to the School of Medicine totaling approximately \$1.7 billion in 2017 (\$1.6 billion in 2016), include payroll and benefits charges (93%) and various other shared services (7%).

Included in the benefits charges are certain employee health plan claims and premiums, which are paid by the Hospital and, subsequently, charged to the School of Medicine. Accordingly, the Hospital recognizes the actuarially determined liability (included in accrued salaries and related liabilities) for unreported health claims on behalf of the School of Medicine. These claims are reported as expenses on the School of Medicine's financial statements.

Additionally, the Hospital purchases professional services from the School of Medicine for the clinical care of its patients, teaching and supervision of its residents, the performance of certain administrative functions, and various strategic initiatives. The Hospital paid approximately \$252.8 million and \$223.5 million in 2017 and 2016, respectively, for these services.

## The Mount Sinai Hospital

### Notes to Consolidated Financial Statements (continued)

#### 10. Related Organizations (continued)

At December 31, 2017 and 2016, the Hospital was owed approximately \$29.2 million by the School of Medicine in relation to capital building projects.

- (b) The payable to Realty Corp. primarily relates to property, equipment and office space rental transactions, as well as other administrative transactions. In 2015 all of Realty Corp.'s income collected, net of expenses and reasonable estimates of anticipated liabilities, of approximately \$1.1 million was distributed to the Hospital, in accordance with an agreement among Realty Corp.'s members (included in investment income). In 2016, the Hospital transferred approximately \$0.1 million to Realty Corp. No amounts were distributed by Realty Corp. to the Hospital in 2016 or 2017.

The Hospital has entered into a lease agreement for the rental of certain property and equipment from Realty Corp. for a term of 30 years. Rental expense in 2017 and 2016, relative to the lease agreement with Realty Corp., was approximately \$0.8 million in 2017 and \$0.7 million in 2016. Future minimum rental commitments under the lease are approximately \$0.4 million in 2018; \$0.4 million in 2019; \$0.4 million in 2020; \$0.4 million in 2021; \$0.4 million in 2022.

Summarized financial information for Realty Corp., in which the Hospital, School of Medicine, and the Medical Center are members, at December 31 is as follows:

	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Total assets	<b>\$ 25,856</b>	\$ 25,867
Total liabilities	<b>(20,858)</b>	(20,869)
Net assets	<b>\$ 4,998</b>	\$ 4,998

- (c) During 2003, as part of a financing transaction with the School of Medicine and Realty Corp., the Hospital contributed to MSMCRRC, at net book value, property totaling approximately \$17.4 million. MSMCRRC was incorporated in 2003 under the New York State Not-for-Profit Corporation Law for the sole purpose of supporting its member corporations by managing, maintaining, holding, developing, acquiring, or disposing of real property for their benefit. MSMCRRC's members are the Hospital, the School of Medicine, Realty Corp., and MSMC Residential Realty Manager, Inc.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 10. Related Organizations (continued)

Property and equipment contributed by the Hospital, the School of Medicine, and Realty Corp. were utilized by MSMCRRC to secure \$125.0 million in financing from a bank, which was subsequently increased to \$145.0 million as a part of a refinancing during 2006. MSMCRRC paid approximately \$51.3 million in cash to the Hospital. The total amount received by the Hospital was based on the relative fair value of the property contributed, as compared to properties contributed by the School of Medicine and Realty Corp. that were part of the \$125.0 million financing. The amount received in excess of the net book value of the property and equipment transferred (approximately \$33.9 million) was recorded as a deferred gain on transfer of real estate. A gain will only be recognized in the consolidated statements of operations upon the sale of the property and equipment transferred to MSMCRRC to an entity that is not related to the Hospital by common ownership or control.

During 2017, MSMCRRC distributed approximately \$0.2 million to the Hospital which was subsequently distributed to the School of Medicine. No amounts were distributed by MSMCRRC to the Hospital in 2016.

Summarized financial information for MSMCRRC at December 31 is as follows:

	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
Total assets	<b>\$ 111,827</b>	\$ 109,030
Total liabilities	<b>(148,685)</b>	(148,367)
Net deficit	<b>\$ (36,858)</b>	\$ (39,337)

- <sup>(d)</sup> Transactions charged (at cost) by the Hospital to BIMC, totaling approximately \$22.6 million in 2017 (\$25.1 million in 2016), include payroll and benefits charges (43%) and various other shared services (57%). Included in the benefits charges are certain employee health plan claims and premiums, which are paid by the Hospital and, subsequently, charged to BIMC. In addition, included in amounts due from BIMC are funds related to VAP (see Note 2).

The Hospital used part of the Series 2017 Bond issuance to payoff BIMC long term debt and setup a corresponding loan receivable of \$105.8 million from BIMC which is included in the amount due from BIMC.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 10. Related Organizations (continued)

- (e) Transactions charged (at cost) by the Hospital to SLR, totaling approximately \$68.3 million in 2017 (\$44.3 million in 2016), include payroll and benefits charges (56%) and various other shared services (44%). Included in the benefits charges are certain employee health plan claims and premiums, which are paid by the Hospital and, subsequently, charged to SLR. The Hospital entered into a promissory note agreement with SLR for up to \$200 million to fund various capital projects, with monthly interest-only payments until July 1, 2030. The loan balance of \$47.3 million and \$3.3 million in 2017 and 2016 respectively, is included in the amount due from SLR.
- (f) Transactions charged (at cost) by the Hospital to NYEEI, totaling approximately \$6.5 million in 2017 (\$4.0 million in 2016), include payroll and benefits charges (66%) and various other shared services (34%). Included in the benefits charges are certain employee health plan claims and premiums, which are paid by the Hospital and, subsequently, charged to NYEEI.

During 2010, 8 East 102nd Street LLC was formed under the New York State Limited Liability Company Law for the sole purpose of supporting its member corporation by managing, maintaining, holding, developing, acquiring, or disposing of real property for its benefit. The School of Medicine, the Medical Center, and the Hospital are the members of 8 East 102nd Street Manager LLC (the Manager), which is the sole member of 8 East 102nd Street LLC. The Hospital guarantees a letter of credit which supports bonds issued by 8 East 102nd Street LLC; the debt had an outstanding balance of approximately \$143.7 million at December 31, 2017 and 2016.

On November 1, 2013, the members of the Manager, together with certain other persons, amended and restated the operating agreement of the Manager and elected for the Manager to be taxed as a real estate investment trust (the REIT) for U.S. Federal income tax purposes, effective January 1, 2014. As a result, the members own 99% of the partnership units of the REIT; 125 investors each purchased preferred shares of the Manager for \$1,000 each. In connection with the sale of tax credits associated with certain low income residential units in the 8 East 102nd Street property, the Hospital has guaranteed, under certain circumstances, scheduled tax credits and expected tax losses to be allocated to an investor in the low income units.

The School of Medicine, the Hospital, and the Medical Center, as members of the Manager, have agreed to distribute the net activities of the Manager (which, as the sole member of 8 East 102nd Street LLC, reflects the net activities of 8 East 102nd Street LLC) solely to the School of Medicine.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 10. Related Organizations (continued)

This agreement includes equity in income or loss of the Manager, as well as cash distributions. Accordingly, the Hospital transferred equity in income of related party of approximately \$474,000 and \$650,000 to the School of Medicine in 2017 and 2016, respectively. The Manager distributed approximately \$6.4 million and \$9.2 million in 2017 and 2016, respectively, to the School of Medicine derived from its net activities.

Summarized financial information for 8 East 102nd Street Manager LLC at December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
Total assets	\$ 109,181	\$ 115,124
Total liabilities	<u>(141,740)</u>	<u>(141,828)</u>
Members' deficit (including non-controlling interest of \$2,794 in 2017 and \$3,722 in 2016)	<u>\$ (32,559)</u>	<u>\$ (26,704)</u>

### Transfers to Affiliates

Transfers to affiliates consists of \$32.9 million in 2017 (\$26.2 million in 2016) for the Hospital's funding of the School of Medicine's community practice plan deficits, \$48.5 million in 2017 from the Hospital's proceeds from the sale of the clinical outreach laboratory business to the School of Medicine to satisfy certain intercompany amounts in support of strategic initiatives, \$20.2 million in 2017 (\$20.6 million in 2016) to BIMC for Medicaid enhanced rates (see Note 2) and \$25.0 million in 2017 to SLR for EPIC funding.

### 11. Commitments and Contingencies

#### Litigation

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

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 11. Commitments and Contingencies (continued)

#### Collective Bargaining Agreements

Approximately 63% of the Hospital's employees are union employees who are covered under the terms of various collective bargaining agreements. The League of Voluntary Hospitals and Homes of New York, which negotiates the 1199 contract on behalf of the Hospital, or 1199SEIU, can elect to terminate this contract on or after July 15, 2014; otherwise, the contract will expire on September 30, 2018. The Hospital's contract with NYSNA expires on December 31, 2018.

#### Other

The Hospital is self-insured, based on individual employees' elections, for medical, dental, and pharmaceutical benefits. The Hospital also is self-insured for unemployment benefits. Liabilities have been accrued at December 31, 2017 and 2016, based on expected future payments pertaining to such years (included in accrued salaries and related liabilities).

### 12. Fair Values of Financial Instruments

For assets and liabilities requiring fair value measurement, the Hospital measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Hospital follows a fair value hierarchy based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 12. Fair Values of Financial Instruments (continued)

In determining fair value, the Hospital uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers nonperformance risk in its assessment of fair value. Investments valued based upon net asset value (NAV) are not subject to the valuation hierarchy.

Financial assets carried at fair value by the Hospital as of December 31, 2017 and 2016, are classified in the tables below in one of the three categories described above:

	<b>December 31, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(In Thousands)</i>			
Cash and cash equivalents	\$ 708,453	\$ —	\$ —	\$ 708,453
U.S. government obligations	—	211,766	—	211,766
Corporate bonds	—	66,675	—	66,675
	<b>\$ 708,453</b>	<b>\$ 278,441</b>	<b>\$ —</b>	<b>986,894</b>
Investments measured at NAV as a practical expedient:				
Pooled investments				<b>866,373</b>
				<b>\$ 1,853,267</b>

	<b>December 31, 2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(In Thousands)</i>			
Cash and cash equivalents	\$ 288,426	\$ —	\$ —	\$ 288,426
U.S. government obligations	—	153,243	—	153,243
Corporate bonds	—	87,256	—	87,256
	<b>\$ 288,426</b>	<b>\$ 240,499</b>	<b>\$ —</b>	<b>528,925</b>
Investments measured at NAV as a practical expedient:				
Pooled investments				<b>740,518</b>
				<b>\$ 1,269,443</b>

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### 12. Fair Values of Financial Instruments (continued)

The table does not include other investments that are not carried at fair value (approximately \$218.6 million and \$193.3 million at December 31, 2017 and 2016, respectively).

The following is a summary of total investments (by major category) in the investment pool with restrictions to redeem the investments at the measurement date, any unfunded capital commitments, and investment strategies of the investees as of December 31, 2017:

Description of Investment	Carrying Value	Unfunded Commitments	Redemption Frequency	Notice Period	Funds Availability
<i>(In Thousands)</i>					
Hedge funds:					
Long-only equity	\$ 247,773	\$ —	Monthly/5 years	30 to 90 days	3 to 30 days
Hedged equity	326,244	—	Monthly/rolling 3 years	30 to 90 days	30 to 45 days
Long/short credit	44,334	—	Annually	90 days	30 days
Open mandate	357,410	—	Quarterly/rolling 2 years	60 to 90 days	15 to 30 days
Macro	74,434	—	Monthly/quarterly	30 to 65 days	30 days
Private investments:					
Equity	50,522	63,282	N/A	N/A	N/A
Credit/distressed	97,493	10,620	Monthly	30 days and N/A	180 days and N/A
Real assets	200,557	51,210	N/A	N/A	N/A
	<u>\$ 1,398,767</u>	<u>\$ 125,112</u>			

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

	2017		2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<i>(In Thousands)</i>				
Long-term debt	\$ 932,174	\$ 916,722	\$ 627,097	\$ 606,042

The fair value of long-term debt is classified as Level 2 in the fair value hierarchy as it uses a combination of quoted market prices and valuation based on current market rates.

# The Mount Sinai Hospital

## Notes to Consolidated Financial Statements (continued)

### **13. Other Revenue**

Other revenue includes operating revenues that are not directly related to the Hospital's patient services. Included in other revenue on the accompanying consolidated statements of operations are revenues derived from parking, cafeteria, DSRIP, VAP, and the pharmacy 340B program.

### **14. Subsequent Events**

For purposes of the accompanying consolidated financial statements, the Hospital has considered for accounting and disclosure events that occurred through March 30, 2018, the date the consolidated financial statements were issued. Except as disclosed in Note 1, there were no subsequent events or transactions that either resulted in recognition in the accompanying consolidated financial statements or required additional disclosure.

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