

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

The New York and Presbyterian Hospital
Years Ended December 31, 2019 and 2018
With Report of Independent Auditors

Ernst & Young LLP



The New York and Presbyterian Hospital

Consolidated Financial Statements and
Supplementary Information

Years Ended December 31, 2019 and 2018

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Report of Independent Auditors

The Board of Trustees
The New York and Presbyterian Hospital

We have audited the accompanying consolidated financial statements of The New York and Presbyterian Hospital (the Hospital), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, 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 New York and Presbyterian Hospital at December 31, 2019 and 2018, and the consolidated results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of ASU No. 2016-02, *Leases*

As discussed in Note 1 to the consolidated financial statements, the Hospital changed its method of accounting for leases as a result of the adoption of the amendments to the Financial Accounting Standards Board Accounting Standards Codification resulting from Accounting Standards Update No. 2016-02, *Leases*, effective January 1, 2019. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and operations as of and for the year ended December 31, 2019, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

April 20, 2020

The New York and Presbyterian Hospital
Consolidated Statements of Financial Position

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash, cash equivalents and short-term investments:		
Cash and cash equivalents	\$ 359,292	\$ 590,045
Short-term investments <i>(Notes 3 and 13)</i>	2,232,518	2,258,140
Total cash, cash equivalents and short-term investments	2,591,810	2,848,185
Patient accounts receivable – net	1,110,468	997,706
Other current assets	319,578	258,365
Assets limited as to use – current portion <i>(Notes 3, 4, 5, 8, and 13)</i>	63,415	63,836
Professional liabilities insurance recoveries receivable and related deposits – current portion <i>(Note 8)</i>	91,075	94,568
Beneficial interest in net assets held by related organizations – current portion <i>(Note 7)</i>	68,510	60,735
Due from related organizations – net <i>(Note 10)</i>	9,807	–
Total current assets	4,254,663	4,323,395
Assets limited as to use – noncurrent <i>(Notes 3, 4, 5, 8, and 13)</i>	4,028,298	2,870,811
Property, buildings and equipment – net <i>(Note 4)</i>	4,958,136	4,718,139
Operating lease assets <i>(Note 6)</i>	398,681	–
Other noncurrent assets – net	51,586	35,163
Professional liabilities insurance recoveries receivable and related deposits – noncurrent <i>(Note 8)</i>	328,166	293,909
Beneficial interest in net assets held by related organizations – noncurrent <i>(Note 7)</i>	2,101,494	1,962,300
Total assets	\$ 16,121,024	\$ 14,203,717

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Long-term debt – current portion <i>(Note 5)</i>	\$ 86,165	\$ 77,001
Operating lease liability – current portion <i>(Note 6)</i>	55,947	–
Accounts payable and accrued expenses	821,917	786,989
Accrued salaries and related liabilities	478,769	420,728
Pension and postretirement benefit liabilities – current portion <i>(Note 9)</i>	28,410	25,872
Professional and other insurance liabilities – current portion <i>(Note 8)</i>	117,945	125,569
Other current liabilities <i>(Note 2)</i>	214,262	247,818
Due to related organizations – net <i>(Note 10)</i>	–	16,522
Total current liabilities	1,803,415	1,700,499
Long-term debt <i>(Note 5)</i>	3,179,992	2,737,844
Operating lease liability <i>(Note 6)</i>	360,075	–
Professional and other insurance liabilities <i>(Note 8)</i>	718,481	677,404
Pension liability <i>(Note 9)</i>	268,506	187,989
Postretirement benefit liability <i>(Note 9)</i>	69,566	63,172
Other noncurrent liabilities <i>(Note 2)</i>	471,333	532,600
Total liabilities	6,871,368	5,899,508
Commitments and contingencies <i>(Notes 2, 3, 4, 5, 6, 7, 8, 9, 10, 12, 13 and 14)</i>		
Net assets:		
Net assets without donor restrictions	7,027,580	6,233,164
Net assets with donor restrictions	2,222,076	2,071,045
Total net assets	9,249,656	8,304,209
Total liabilities and net assets	\$ 16,121,024	\$ 14,203,717

See accompanying notes.

The New York and Presbyterian Hospital

Consolidated Statements of Operations

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Operating revenues		
Net patient service revenue <i>(Note 2)</i>	\$ 8,567,369	\$ 8,153,755
Other revenue <i>(Note 11)</i>	426,675	330,141
Total operating revenues	8,994,044	8,483,896
Operating expenses		
Salaries and wages	4,238,758	3,944,516
Employee benefits	1,101,633	1,056,505
Supplies and other expenses	2,769,378	2,638,027
Interest and amortization of deferred financing fees	117,040	109,917
Depreciation and amortization	466,107	418,584
Total operating expenses	8,692,916	8,167,549
Operating income	301,128	316,347
Investment return – net <i>(Note 3)</i>	605,209	(93,143)
Voluntary retirement program costs <i>(Note 1)</i>	(35,276)	–
Expected return on plan assets and other components of net periodic pension and postretirement cost <i>(Note 9)</i>	34,539	23,686
Excess of revenues over expenses	905,600	246,890
Other changes in net assets without donor restrictions:		
Net asset transfers to related parties <i>(Note 10)</i>	(7,230)	(3,982)
Net assets released from restriction for the purchase of fixed assets	221	799
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets <i>(Note 10)</i>	91,873	299,635
Change in pension and postretirement benefit liabilities to be recognized in future periods <i>(Note 9)</i>	(196,048)	(16,598)
Change in net assets without donor restrictions	\$ 794,416	\$ 526,744

See accompanying notes.

The New York and Presbyterian Hospital
Consolidated Statements of Changes in Net Assets

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Beneficial Interest in Net Assets with Donor Restrictions Held by Related Organizations					Total Beneficial Interest	Total Net Assets with Donor Restrictions	Total Net Assets
			Plant Replacement	Specific Purpose	Endowment Earnings	Permanent Endowment				
Net assets at January 1, 2018	\$ 5,706,420	\$ 56,050	\$ 857,506	\$ 785,912	\$ 220,143	\$ 256,378	\$ 2,119,939	\$ 2,175,989	\$ 7,882,409	
Change in net assets without donor restriction	526,744	–	–	–	–	–	–	–	526,744	
Transfer of donor restricted net assets related to New York-Presbyterian Fund, Inc.	–	(6,987)	–	–	–	–	–	(6,987)	(6,987)	
Net investment return – donor restricted	–	(254)	–	–	–	–	–	(254)	(254)	
Net assets released from restrictions for the purchase of fixed assets	–	(799)	–	–	–	–	–	(799)	(799)	
Changes in beneficial interest in net assets held by related organizations (Note 7)	–	–	(148,963)	65,143	(16,933)	3,849	(96,904)	(96,904)	(96,904)	
Changes in net assets	526,744	(8,040)	(148,963)	65,143	(16,933)	3,849	(96,904)	(104,944)	421,800	
Net assets at December 31, 2018	6,233,164	48,010	708,543	851,055	203,210	260,227	2,023,035	2,071,045	8,304,209	
Change in net assets without donor restrictions	794,416	–	–	–	–	–	–	–	794,416	
Net investment return – donor restricted	–	4,283	–	–	–	–	–	4,283	4,283	
Net assets released from restrictions for the purchase of fixed assets	–	(221)	–	–	–	–	–	(221)	(221)	
Changes in beneficial interest in net assets held by related organizations (Note 7)	–	–	46,661	80,310	14,354	5,644	146,969	146,969	146,969	
Changes in net assets	794,416	4,062	46,661	80,310	14,354	5,644	146,969	151,031	945,447	
Net assets at December 31, 2019	\$ 7,027,580	\$ 52,072	\$ 755,204	\$ 931,365	\$ 217,564	\$ 265,871	\$ 2,170,004	\$ 2,222,076	\$ 9,249,656	

See accompanying notes.

The New York and Presbyterian Hospital

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Operating activities		
Change in net assets	\$ 945,447	\$ 421,800
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	466,107	418,584
Amortization of deferred financing costs, deferred revenue, fair value adjustment to debt related to NYP/Lower Manhattan Hospital acquisition and mortgage discount	3,510	3,709
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets	(91,873)	(299,635)
Net investment return—without donor restrictions, excluding interest and dividends <i>(Note 3)</i>	(567,541)	155,660
Equity in income from investee	(6,799)	(7,524)
Donor restricted contributions and other	—	(769)
Net asset transfers to related parties	7,230	3,982
Increase in debt for interest accretion <i>(Note 5)</i>	1,107	18,704
Changes in operating assets and liabilities:		
Patient accounts receivable – net	(112,762)	(98,807)
Other assets and operating lease assets	(40,887)	1,027
Beneficial interest in net assets held by related organizations	(146,969)	96,904
Accounts payable and accrued expenses	34,928	89,942
Accrued salaries and related liabilities	58,041	45,662
Due to related organizations – net	(26,329)	(7,463)
Other liabilities	(94,823)	(11,779)
Professional and other insurance liabilities and related insurance recoveries receivable and deposits	2,689	(5,448)
Pension and postretirement benefit liabilities	89,449	(32,557)
Net cash provided by operating activities	520,525	791,992
Investing activities		
Net purchases of investments and assets limited as to use	(560,042)	(62,281)
Acquisitions of property, buildings and equipment – net	(673,685)	(782,825)
Distribution from investee	5,000	3,500
Loan to Silvercrest Center for Rehabilitation and Nursing Home	(17,609)	—
Cash paid for the acquisition of endoscopy center	—	(7,509)
Net cash used in investing activities	(1,246,336)	(849,115)
Financing activities		
Repayments of long-term debt	(79,881)	(76,445)
Proceeds from the issuance of long-term debt	500,000	—
Payment of deferred financing costs	(5,843)	—
Donor restricted contributions and other	—	769
Net asset transfers to related parties	(7,230)	(3,982)
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets	91,873	299,635
Net cash provided by financing activities	498,919	219,977
Net (decrease) increase in cash and cash equivalents and restricted cash and restricted cash equivalents	(226,892)	162,854
Cash and cash equivalents and restricted cash and restricted cash equivalents at beginning of year	632,024	469,170
Cash and cash equivalents and restricted cash and restricted cash equivalents at end of year	\$ 405,132	\$ 632,024
Supplemental disclosure of cash flow information		
Assets acquired under finance lease obligations	\$ 32,419	\$ 38,119
Property, buildings and equipment acquired in the purchase of endoscopy center	\$ —	\$ 845
Other assets acquired in the purchase of endoscopy center	\$ —	\$ 6,664

See accompanying notes.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements

December 31, 2019

1. Organization and Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation: The accompanying consolidated financial statements include the accounts of The New York and Presbyterian Hospital (as a legal entity separate from its subsidiaries, NYPH), NYP Community Programs, Inc. (Community Programs) and other consolidated entities as described below. NYPH is the sole member of Community Programs. The reporting entity resulting from the consolidation of these entities is referred to herein as the “Hospital.” All significant intercompany balances and transactions have been eliminated in consolidation.

NYPH is a tax-exempt organization that was incorporated under New York State not-for-profit corporation law. NYPH is a major academic medical center operating at seven campuses comprised of 2,795 beds, providing a full range of inpatient and outpatient services, mainly to residents of the New York metropolitan area. The Board of Trustees of NYPH consists of persons who have first been elected as members of New York-Presbyterian Foundation, Inc. (Foundation, Inc.), a New York State not-for-profit corporation. Foundation, Inc. is related to a number of organizations.

Community Programs is the sole member of the following entities: Hudson Valley Hospital Center, Westchester Putnam Health Management System, Inc. and their subsidiaries (collectively referred to herein as NYP/Hudson Valley or Hudson Valley); NewYork-Presbyterian/Queens and its controlled affiliates (collectively referred to herein as NYP/Queens or Queens); and NewYork-Presbyterian/Brooklyn Methodist and its controlled affiliates (collectively referred to herein as NYP/Brooklyn Methodist or Methodist). NYP/Hudson Valley consists of a 128-bed acute care hospital located in Cortlandt Manor, Westchester County, New York, a foundation, a multi-specialty physician practice and certain other entities primarily formed to purchase and lease space. NYP/Queens consists of a 535-bed acute care hospital located in Queens County, New York, a multi-specialty physician practice and certain other entities. NYP/Brooklyn Methodist consists of a 591-bed acute care hospital located in Kings County, New York, physician practices and certain other entities.

Through March 31, 2018, Community Programs was also the sole member of NewYork-Presbyterian/Lawrence Hospital and Subsidiaries, which consists of a 291-bed acute care hospital located in Bronxville, New York (NYP/Lawrence Hospital or LH), a certified home health agency (LCHS), a certified hospice program, a bereavement center, a durable medical equipment company and Lawrence Medical Associates, P.C. (d/b/a NewYork-Presbyterian Medical Group/Westchester)(NYPMG/W). Effective April 1, 2018, NYP/Lawrence Hospital was merged into NYPH with NYPH receiving substantially all assets and liabilities of NYP/Lawrence Hospital,

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

and Community Programs was disestablished as the active parent of NYP/Lawrence Hospital. This change had no impact on the Hospital's consolidated financial statements as NYP/Lawrence Hospital and its related entities were previously included in the consolidated financial statements.

In connection with and effective on the same date as the merger of NYP/Lawrence Hospital into NYPH, the by-laws of Lawrence Care, Inc. (LCI), which was formerly a subsidiary of NYP/Lawrence Hospital and is the sole corporate member of LCHS, were amended such that LCI has no corporate member and a majority of its Board of Directors will consist of individuals concurrently participating in the supervision, control or management of NYPH. LCHS operates a certified home health agency, a certified hospice program and a bereavement center. Additionally, effective as of the date of the merger, NYPMG/W, a State of New York professional corporation exempt from federal income tax that was organized in 2009 for the sole purpose of supporting and furthering the charitable purposes of NYP/Lawrence Hospital, now supports and furthers the charitable purposes of NYPH.

NYP Sports Performance, LLC (NYP Sports Performance) was incorporated on July 30, 2019 to operate facilities for the provision of services, training and skills development related to physical fitness, sports performance and well being.

Although NYPH, Community Programs and the other entities described above have been consolidated for financial statement reporting purposes under applicable accounting requirements, there may be limitations on the use of one entity's funds by another member of the consolidated group resulting from the charitable nature of some of the entities or other factors.

Hudson Valley, Queens and Methodist are collectively referred to as the "Regional Hospitals."

The following is a summary of significant accounting policies:

Recently Adopted Accounting Pronouncements: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2016-02, *Leases*, which requires the rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the statements of financial position, including both finance leases (formerly referred to as capital leases) and operating leases. ASU 2016-02 requires expanded disclosure related to lease agreements (see Note 6) to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The recognition, measurement and presentation of expenses

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

and cash flows arising from a lease primarily depend on its classification as a finance or operating lease. The Hospital adopted ASU 2016-02 effective January 1, 2019, following the modified retrospective method of application. As such, the 2018 consolidated financial statement amounts and disclosures have not been adjusted to reflect the provisions of the new standard. There was no cumulative-effect impact to the 2018 consolidated net assets as a result of the adoption. The Hospital has made the transition-specific election to apply the package of practical expedients which allows for the carryforward of historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. Additionally, for operating leases entered into prior to January 1, 2019, the Hospital has elected to utilize the operating leases' initial lease term to determine the discount rate used to initially measure the liability. Certain other accounting policy elections and quantitative and qualitative information pertaining to the Hospital's adoption of ASU 2016-02 are described in Note 6.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 requires entities to classify gains and losses from certain equity investments within its performance indicator. As the Hospital accounts for its equity investments as trading securities, the Hospital's adoption in 2019 of this ASU did not have an impact on the recognition of income related to the Hospital's equity investments.

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

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. 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 Hospital adopted ASU 2016-18 in 2019 using a retrospective transition method.

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 became effective for the Hospital for annual periods beginning after December 15, 2018. The Hospital adopted ASU 2017-07 effective in its December 31, 2019 consolidated financial statements which required classification of the service cost component of net periodic benefit cost related to its defined benefit plans within salaries and wages on the consolidated statements of operations and to present all other components of net periodic benefit cost as a separate line item excluded from the subtotal for operating income. Net periodic benefit cost was previously reported within employee benefits expense on the consolidated statements of operations. The effects of the adoption of ASU 2017-07 were applied retrospectively. Adoption of ASU 2017-07 did not impact the Hospital's consolidated net assets.

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

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

prospective basis to agreements that were not completed as of the effective date and to agreements entered into after the effective date. The Hospital adopted ASU 2018-08 effective January 1, 2019. The adoption of ASU 2018-08 did not have a material impact on the Hospital's consolidated financial statements.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, such as collections on accounts receivable for services to patients, valuation of alternative investments, estimated settlements with third-party payors, professional liabilities and pension and postretirement benefit liabilities, and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term.

Cash and Cash Equivalents and Short-term Investments: The Hospital classifies as cash equivalents all highly liquid financial instruments with a maturity of three months or less when purchased, excluding those held in short-term investments and assets limited as to use for funded depreciation and board designated purposes as such holdings are within investment portfolios. A reconciliation of amounts reported on the statements of financial position to the statements of cash flows as of and for the year ended December 31, 2019 and 2018 follows (in thousands):

	2019		2018
Cash and cash equivalents	\$ 359,292	\$	590,045
Assets limited as to use – funds held under loan agreements: cash and cash equivalents	9,941		7,467
Assets limited as to use – funded self-insurance (professional liabilities): cash and cash equivalents	22,069		21,199
Assets limited as to use – donor restricted: cash and cash equivalents	13,830		13,313
Total cash and cash equivalents and restricted cash and restricted cash equivalents	\$ 405,132	\$	632,024

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

Investments that are readily marketable and that are not classified as assets limited as to use are considered short-term investments and are classified as current assets. Short-term investments are used for cash management purposes and consist of cash and cash equivalents, fixed income securities, equity securities, hedge funds and pooled investments held by related parties. At December 31, 2019 and 2018, the Hospital's cash and cash equivalents include money market funds and interest-bearing accounts that are not fully insured by the U.S. government. The Hospital does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents.

Receivables for Patient Care: Patient accounts receivable for which the Hospital receives payment under prospective payment formulae, cost reimbursement or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payors, which are generally less than the established billing rates of the Hospital (see Note 2).

Supplies: Supplies, which are determined on the first-in, first-out method, are stated at the lower of cost or net realizable value. Supplies are used in the provision of patient care and are not held for sale. Supplies are included in other current assets in the accompanying consolidated statements of financial position at December 31, 2019 and 2018.

Investments and Investment Return: All investments are classified as trading investments and, excluding interests in common collective/commingled trusts, alternative investments and pooled investments held by related parties, are carried at fair value determined as described in Note 13. Common collective/commingled trusts are reported in the accompanying consolidated statements of financial position based upon net asset values derived from the application of the equity method of accounting.

Alternative investment interests generally are structured such that the Hospital holds a limited partnership interest or an interest in an investment management company, including hedge funds, private equity funds and private real estate funds. The Hospital's ownership structure does not provide for control over the related investees and the Hospital's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

Individual investment holdings within the alternative investments include non-marketable and market-traded debt, equity and real asset 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. Alternative investments often have liquidity restrictions under which the Hospital's capital may be divested only at specified times.

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

Interests in pooled investments with related parties are reported based upon unitized net asset value (see Note 3). Assets held in the Hospital's defined benefit pension plans are carried at fair value (see Note 9).

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

Investments received as a gift are recorded at fair value on the date of contribution.

All investment transactions are recorded on the dates such trades take place. Realized gains and losses on sales of marketable securities are based on the average cost method. Interest income is recorded as earned. Dividends are recorded on the ex-dividend date. Investment return is included within the performance indicator in the accompanying consolidated statements of operations, unless restricted by donor or by law. Investment return is reported net of external and direct internal investment expenses, such as trustee fees, investment fund manager fees and salaries and related costs for the Hospital's investment management personnel.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

Assets Limited as to Use: Assets so classified represent investments whose use is restricted for specific purposes under internal and/or external designation, terms of loan agreements and for self-insured professional liabilities. Assets limited as to use which are internally designated for funded depreciation represent amounts that will be expended in future periods for acquisitions of property, buildings and equipment. Assets limited as to use required to meet current liabilities are reported as current assets.

Beneficial Interest in Net Assets Held by Related Organizations: New York-Presbyterian Fund, Inc. (Fund, Inc.) was incorporated under New York State not-for-profit corporation law to solicit, receive and administer funds to be applied exclusively for charitable, educational and scientific purposes, primarily for the benefit of health care related charitable organizations. The directors of Fund, Inc. consist of persons who have first been elected as members of Foundation, Inc. Fund, Inc. is related to NYPH and a number of other organizations.

The Hospital recognizes its accumulated interest in the net assets held by Fund, Inc. and The New York Weill Cornell Medical Center Fund, Inc. (WCMC Fund) as beneficial interest in net assets held by related organizations in its consolidated statements of financial position and also recognizes the periodic changes in such interests in its consolidated statements of changes in net assets.

Related-Party Transactions: The entities comprising the Hospital provide various inter-entity services to their affiliated entities. The services consist of certain financial planning, information systems and telecommunications, general accounting, and other services. Charges for such services are based on the approximate cost to provide the services and are allocated between the entities based on an agreed-upon method which reflects the approximate level of usage by each entity. Such inter-entity charges and all intercompany balances between the entities comprising the Hospital eliminate in consolidation.

Property, Buildings and Equipment: Property, buildings and equipment purchased are initially recorded at cost. Assets acquired through acquisitions of businesses not previously under common control, gifts and bequests are initially recorded at appraised or fair value established at the date of the transaction. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. Depreciation of buildings, building improvements, and fixed equipment is recorded using the straight-line method over the estimated useful lives of the assets. Depreciation of NYPH movable equipment is recorded using the sum-of-the-years-

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

digits method. Depreciation of the Regional Hospitals' movable equipment is recorded using the straight-line method over the estimated useful lives of the assets. Equipment under finance lease obligations and leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful life of the asset or the lease term. Such amortization is included in depreciation and amortization in the accompanying consolidated statements of operations.

Deferred Financing Costs: Capitalized financing costs are included as a deduction to long-term debt in the accompanying consolidated statements of financial position and are amortized using the effective interest method over the term that the related debt is expected to be outstanding.

Classification of Net Assets: The Hospital separately accounts for and reports net assets with donor restrictions and net assets without donor restrictions. Net assets without donor restrictions are not externally restricted for identified purposes by donors or grantors. Net assets without donor restrictions include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the Hospital and an outside party other than the donor or grantor.

Net assets with donor restrictions are those whose use by the Hospital has been limited by donors to a specific time frame or purpose, or have been restricted by donors as permanent endowments to be maintained in perpetuity. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restriction.

The Hospital also recognizes governmental grants where commensurate value is not exchanged as contributions when conditions and restrictions are satisfied and reports such amounts within other revenue (see Note 11).

Operating Leases: Scheduled base rent increases under operating leases are recognized as rental expense on a straight-line basis over the lease term (see Note 6).

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

Program Services: The Hospital's program services consist of providing health care and related services, including graduate medical education. For the year ended December 31, 2019, expenses related to providing these services are summarized as follows (in thousands):

	Health Care and Related Services		Program Support and General Services		Total
	Regional Hospitals		Regional Hospitals		
	NYPH		NYPH		
Salaries and wages	\$ 2,653,295	\$ 931,817	\$ 476,940	\$ 176,706	\$ 4,238,758
Employee benefits	675,057	267,362	105,927	53,287	1,101,633
Supplies and other expenses	1,638,149	639,870	384,237	107,122	2,769,378
Interest and amortization of deferred financing fees	85,269	7,385	19,454	4,932	117,040
Depreciation and amortization	303,560	59,481	95,243	7,823	466,107
	\$ 5,355,330	\$ 1,905,915	\$ 1,081,801	\$ 349,870	\$ 8,692,916

For the year ended December 31, 2018, expenses related to providing these services are summarized as follows (in thousands):

	Health Care and Related Services		Program Support and General Services		Total
	Regional Hospitals		Regional Hospitals		
	NYPH		NYPH		
Salaries and wages	\$ 2,484,402	\$ 830,519	\$ 435,674	\$ 193,921	\$ 3,944,516
Employee benefits	737,592	252,424	20,116	46,373	1,056,505
Supplies and other expenses	1,554,153	647,270	346,738	89,866	2,638,027
Interest and amortization of deferred financing fees	72,577	7,969	19,686	9,685	109,917
Depreciation and amortization	281,797	59,461	72,605	4,721	418,584
	\$ 5,130,521	\$ 1,797,643	\$ 894,819	\$ 344,566	\$ 8,167,549

The accompanying consolidated financial statements report expense categories that are attributable to more than one health care service or support function. Costs not directly attributable to a function are allocated on a functional basis based on internal records and estimates.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

The Hospital maintains academic affiliations with two medical colleges: The Columbia University College of Physicians & Surgeons (Columbia VP&S) and the Joan and Sanford I. Weill Medical College of Cornell University (Weill Cornell Medical College) (collectively, the Schools). Transactions occur on a routine basis between the Hospital and the Schools, based upon arrangements between the parties.

Performance Indicator: The accompanying consolidated statements of operations include excess of revenues over expenses as the performance indicator. Excluded from the performance indicator are permanent transfers of assets to or from related entities, net assets released from restrictions and distributions received for the purchase of fixed assets, and the change in pension and postretirement benefit liabilities to be recognized in future periods. Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and operating expenses and are included in operating income. Investment return and certain transactions, which are peripheral or of an infrequent nature, are excluded from operating income.

In October 2019, the Hospital offered a voluntary retirement option (VRO) to certain eligible employees aged 60 or older with a minimum of 15 years of total service (as defined). The VRO includes enhanced benefits including salary continuation and coverage for certain medical and other benefits. Eligible participants who enrolled in the VRO will retire between February 15, 2020 and July 31, 2020. VRO costs incurred in 2019 totaled approximately \$35.3 million related to severance and other accrued amounts under the VRO.

Tax Status: The majority of the entities comprising the Hospital are Section 501(c)(3) organizations exempt from Federal income taxes on related income under Section 501(a) of the Internal Revenue Code (IRC). These entities also are exempt from New York State income taxes. NYPH, Community Programs, NYP/Queens and NYP/Brooklyn Methodist are exempt from New York City income taxes.

Certain subsidiaries of the Hospital are for-profit entities. Taxable operations and the potential for income taxes from these entities and from unrelated business activities of the tax exempt entities are not significant to the accompanying consolidated financial statements. As of and for the year, ended December 31, 2019 and 2018, the Hospital has made reasonable estimates of the provision for unrelated business income taxes and will continue to refine its calculations in future periods as additional regulations and guidance are issued by the Internal Revenue Service (IRS).

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

The Taxpayer Certainty and Disaster Tax Relief Act of 2019, signed into law on December 20, 2019 retroactively repealed IRC Section 512(a)(7) which subjected amounts paid or incurred by an exempt organization to provide certain transportation fringe benefits to its employees to taxation as unrelated business taxable income. Prior year income tax payments, as well as current year payments for income taxes associated with IRC 512(a)(7) for which refunds have been requested, are recorded as receivables at December 31, 2019. These amounts are not significant to the accompanying consolidated financial statements.

Recent Accounting Pronouncements: In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The main objective of ASU 2016-13 and related ASU updates is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this Update are effective for the Hospital for fiscal years beginning after December 15, 2022. The Hospital is in the process of evaluating the impact of ASU 2016-13 on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the standard. ASU 2018-15 will require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. ASU 2018-15 also requires the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, among other provisions. The amendments in ASU 2018-15 are effective for annual reporting periods beginning after December 15, 2020, and interim periods thereafter. Early adoption is permitted. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

1. Organization and Basis of Presentation and Significant Accounting Policies (continued)

The Hospital has not completed the process of evaluating the impact of ASU 2018-15 on its consolidated financial statements.

The FASB has amended certain guidance related to various disclosures in ASU 2018-09, *Codification Improvements*, ASU 2018-13, *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)—Recognition and Measurement of Financial Assets and Financial Liabilities*, and ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)—Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*. Among various provisions, ASU 2018-09 may result in additional assets included in an entity's fair value disclosure table if, among other criteria, net asset value has public visibility. ASU 2018-13 includes several disclosure changes involving transfers between the fair value levels and other updates related to fair value Level 3 investments. ASU 2018-13 also requires entities that use the practical expedient to measure the fair value of certain investments at their net asset values to disclose (1) the timing of liquidation of an investee's assets and (2) the date when redemption restrictions will lapse, but only if the investee has communicated this information to the entity or announced it publicly. The guidance in ASU 2018-14 requires all sponsors of defined benefit plans to provide certain new disclosures: the weighted-average interest crediting rate for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. Among other changes, ASU 2018-14 eliminates the required disclosure for all sponsors of defined benefit plans to disclose the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. The updates noted above have effective dates as follows with early adoption permitted: ASU 2018-09: fiscal years beginning after December 15, 2018, adopted by the Hospital in 2019 with no significant impact; ASU 2018-13: fiscal years beginning after December 15, 2019; and ASU 2018-14: fiscal years ending after December 15, 2021. The Hospital has not completed the process of evaluating the impact of ASU 2018-13 and ASU 2018-14 on its consolidated financial statements.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue

Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes provisions for variable consideration (reductions to revenue) for retroactive revenue adjustments, including adjustments due to the settlement of ongoing and future audits, reviews, and investigations.

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

The Hospital's initial estimate of the transaction price for services provided to patients is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, and other reductions to the Hospital's standard charges. The Hospital determines the transaction price associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered. The estimates for contractual allowances and discounts are based on contractual agreements, the Hospital's discount policies and historical experience. For uninsured and under-insured patients who do not qualify for charity care, the Hospital determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on the Hospital's historical collection experience for applicable patient portfolios. Under the Hospital's charity care policy, a patient who has no insurance or is under-insured and is ineligible for any government assistance program has his or her bill reduced to (1) the lesser of charges or the Medicaid diagnostic-related group for inpatient and (2) a discount from Medicaid fee-for-service rates for outpatient. Patients who meet the Hospital's criteria for free care are provided care without charge; such amounts are not reported as revenue.

Generally, the Hospital bills patients and third-party payors several days after the services are performed and/or the patient is discharged. Net patient service revenue is recognized as

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue (continued)

performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Hospital. Net patient service revenue for performance obligations satisfied over time is recognized based on the estimated expected payment at that point in time. The Hospital believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in the Hospital's outpatient and ambulatory care centers. The Hospital measures the performance obligation from admission into the Hospital or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or the completion of the outpatient visit. Substantially all of its performance obligations relate to contracts with a duration of less than one year. Unsatisfied or partially unsatisfied performance obligations primarily relate to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients). The performance obligations for in-house patients are generally completed when the patients are discharged, which for the majority of the Hospital's in-house patients occurs within days or weeks after the end of the reporting period.

Net patient service revenue for the years ended December 31 by payor is as follows (in thousands):

	2019				
	NYPH	Regional Hospitals		Total	
Medicare	\$ 1,678,185	26%	\$ 799,861	38%	\$ 2,478,046
Medicaid	1,006,518	15	454,005	22	1,460,523
Commercial carriers and health maintenance organizations	3,741,420	58	812,602	39	4,554,022
Self-pay	44,207	1	30,571	1	74,778
	\$ 6,470,330	100%	\$ 2,097,039	100%	\$ 8,567,369
	2018				
	NYPH	Regional Hospitals		Total	
Medicare	\$ 1,537,747	25%	\$ 835,559	40%	\$ 2,373,306
Medicaid	1,007,125	17	536,654	26	1,543,779
Commercial carriers and health maintenance organizations	3,485,309		678,319	32	4,163,628
Self-pay	39,304	1	33,738	2	73,042
	\$ 6,069,485	100%	\$ 2,084,270	100%	\$ 8,153,755

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue (continued)

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

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to patient service revenue in the period of the change. Changes in the Hospital's estimates of implicit price concessions, discounts, contractual adjustments or other reductions to expected payments for performance obligations satisfied in prior periods were not significant. Portfolio collection estimates are updated quarterly based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2019 and 2018 was not significant.

For services provided through December 31, 2017, net patient service revenue and the related accounts receivable estimates were subject to the accounting requirements prior to the adoption of ASU 2014-09, Revenue from Contracts with Customers. Estimates for the allowance for uncollectible accounts pertaining to this service period are reevaluated monthly and certain revisions to such estimates continue to be made based on recent collection trends and management's expectations for the ultimate collection of accounts receivable balances existing at December 31, 2017. The allocation for uncollectible accounts totaled \$148.7 million and \$237.8 million at December 31, 2019 and 2018, respectively.

At December 31, accounts receivable is comprised of the following components (in thousands):

	<u>2019</u>	<u>2018</u>
Patient receivables	\$ 1,031,124	\$ 929,289
Contract assets	79,344	68,417
	<u>\$ 1,110,468</u>	<u>\$ 997,706</u>

Contract assets are related to in-house patients who were provided services during the reporting period but were not discharged as of the reporting date and for which the Hospital may not have the right to bill.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue (continued)

Third-Party Payment Programs

The Hospital has agreements with third-party payors that provide for payment for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

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

Non-Medicare: In New York State, hospitals and all non-Medicare payors (including Medicare and Medicaid managed care plans), except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health (DOH). Payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive and/or prospective adjustments. Outpatient services also are paid based on a statewide prospective 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.

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. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through 2001 and years 2005, 2006 and 2014 for NYPH and for various years ranging from 2008 to 2015 for the Regional Hospitals, although revisions to final settlements or other retroactive changes could be made. Other years and various issues remain open for Medicare audit and settlement, as are numerous issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue (continued)

will change by a material amount when open years are settled, audits are completed and additional information is obtained. Settlements with third-party payors for cost report filings and retroactive adjustments due to ongoing and future audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Hospital's historical settlement activity (for example, cost report final settlements or repayments related to recovery audits), including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. For the years ended December 31, 2019 and 2018, the net effect of the Hospital's revisions to prior year estimates resulted in net patient service revenue increasing by approximately \$64.0 million and \$59.2 million, respectively.

The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. Non-compliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Hospital is not aware of any allegations of non-compliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance with all applicable laws and regulations, except for the matter disclosed in Note 12.

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 or will be enacted by the federal and state governments, cannot be determined presently. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Hospital. Additionally, certain payors' payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years could be realized.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue (continued)

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. Significant concentrations of patient accounts receivable at December 31, 2019 and 2018 are as follows:

	2019	2018
Medicare	30%	30%
Medicaid	20	22
Commercial carriers and health maintenance organizations	43	41
Self-pay patients	7	7
	100%	100%

Uncompensated Care and Community Benefit Expense

The Hospital's Division of Community and Population Health (the CPH Division) collaborates with community, hospital, and academic organizations to improve the health and well-being of children, adolescents, and adults in the communities served by the Hospital.

The CPH Division conducts a comprehensive community needs assessment every three years to increase management and staff's understanding of the health and social needs of the communities served by the Hospital. Based on the results, the Hospital creates a community service plan outlining health priorities to address the approach to each priority. The Hospital collaborates with community members and entities to decrease local health disparities through population health initiatives, care provider training, scholarship, and research that are collaboratively developed, executed, assessed, and maintained.

The Hospital's commitment to community service is evidenced by services provided to special populations such as minorities, the elderly, persons with disabilities, the mentally ill, persons with AIDS and poor persons (Special Populations) and benefits provided to the broader community. Services provided to such Special Populations include services provided to persons who cannot afford health care because of inadequate resources and who are uninsured or underinsured.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue (continued)

The Hospital provides quality medical care regardless of race, creed, sex, sexual orientation, national origin, handicap, age or ability to pay. Although payment for services rendered is critical to the operations and financial stability of the Hospital, the Hospital recognizes that not all individuals have the ability to pay for medically necessary services and, furthermore, the Hospital's mission is to serve the community with respect to health care. Therefore, in keeping with the Hospital's commitment to serve members of the community, the Hospital provides uncompensated care through: medical care to the indigent for free or at discounted prices (charity care/financial aid) and care to persons covered by governmental programs that pay the Hospital less than the full cost of services provided.

In addition, the Hospital provides significant community benefit activities which include, among others impacted by social determinants of health: wellness programs, community education and health literacy programs, behavioral health clinical services, childhood and adolescent obesity programs, prenatal care, weight management and nutrition education, HIV counseling, testing and comprehensive services, other health screenings and a broad variety of community support services, health professionals' education, school based programs, and subsidized health services.

The Hospital believes it is important to quantify comprehensively the benefits it provides to the community, which is an area of emphasis for not-for-profit health care providers. The costs of uncompensated care and community benefit activities are derived from various Hospital records. Amounts for activities as reported below are based on estimated and actual data, subject to changes in estimates upon the finalization of the Hospital's annual cost reports and other government filings. The amounts reported below are calculated in accordance with guidelines prescribed by the IRS; 2018 estimates have been updated to reflect reported amounts. The net cost of charity care includes the direct and indirect cost of providing charity care services, offset by revenues received from indigent care pools and other subsidies. 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 to offset implicit price concessions and charity services totaled approximately \$68.0 million and \$75.3 million for the years ended December 31, 2019 and 2018, respectively, including approximately \$66.8 million and \$74.0 million, respectively, from the Indigent Care Pool under the New York State Medicaid program. The charity care component of the Indigent Care Pool payments (approximately 59 % for 2019 and 56% for 2018) is estimated utilizing a ratio of charity care charges to total charity care and bad debt charges applied to the indigent care pool payment.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue (continued)

Net costs related to uncompensated care and community benefit activities are summarized for the years ended December 31, 2019 and 2018 as follows (in thousands):

	2019	2018
Charity care – net ^(a)	\$ 69,509	\$ 54,831
Means-tested programs ^(b)	533,591	517,236
Other community benefits ^{(c)(d)}	637,843	619,536
Total charity care and other community benefits	\$ 1,240,943	\$ 1,191,603

Charity care, at cost, and means-tested programs include the following (and exclude losses incurred on providing services to Medicare patients):

^(a) *Charity Care:* As part of its charity care and financial aid policy, the Hospital obtains and uses additional financial information for uninsured or under-insured 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.

The Hospital makes available free care programs for qualifying patients under its charity care and financial aid policy. During the registration, billing and collection process, a patient's eligibility for free care funds is determined. For patients who do not receive free care and who are determined to be eligible for charity care in the form of discounted medical services under the Hospital's charity care and financial aid policy, care given but not paid for is classified as charity care. Amounts related to patients who were determined by the Hospital to have the ability to pay but did not represent implicit price concessions and are not classified as charity care. Distinguishing between charity care and implicit price concessions is difficult, in part because services are often rendered prior to the Hospital's full evaluation of a patient's ability to pay. Implicit price concessions were approximately \$155.6 million and \$151.5 million in 2019 and 2018, respectively.

Annually, the Hospital accrues for potential losses that meet the definition of charity care (including free and discounted medical care) allowances.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue (continued)

^(b) *Means-Tested Programs:* Community benefits include losses incurred in providing services to patients who participate in certain public health programs such as Medicaid. Payments received by the Hospital for patient services provided to Medicaid program participants are less than the actual cost of providing such services. Therefore, to the extent Medicaid payments are less than the cost of care provided to Medicaid patients, the uncompensated cost of that care is considered to be a community benefit.

Other community benefits include the following:

^(c) *Community Health Improvement Services and Community Benefit Operations:* The Hospital is committed to serving the vast array of neighborhoods comprising its service area and recognizes the importance of preserving a local community focus to effectively meet community need. The Hospital adheres to a single standard for assessing and meeting community need, while retaining a geographically focused approach for soliciting community participation and involvement and providing community outreach.

The Hospital has fostered continued community participation and outreach activities through linkages with numerous community-based groups. Community health improvement services and related operations include clinical services, screening and exams, and other education or support services in areas such as the following: asthma, behavioral health, cancer, children's health, community-based outreach and health education, digestive diseases, emergency services/emergency preparedness, heart disease, HIV/AIDS, neuroscience, vascular disease and women's health (a complete description of each service can be found in the Hospital's annual community service plan). The net cost of such services is accumulated based on actual expenditures plus estimates using the Hospital's cost to charge ratio and related standard charges associated with the services, offset by payments received.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue (continued)

^(d) *Health Professional Education:* Helping to prepare future health care professionals is a distinguishing characteristic of major academic not-for-profit teaching hospitals and constitutes a significant community benefit. NYPH has world renowned residency program and trains approximately 1,800 residents each year in all clinical programs (the programs are in two medical schools and cover 150 accredited graduate medical education programs). The Hospital is committed to offering quality graduate medical education programs as part of its education mission. The estimated cost of health professional education consists primarily of personnel costs provided to graduate staff, offset by amounts received from CMS and the DOH for medical education programs.

3. Investments, Assets Limited as to Use and Liquidity

Investments are either separately invested or held on a pooled basis with related parties. On April 1, 2018, Hudson East River Systems, LLC (HERS) began a program to actively manage certain investments of the Hospital and other related organizations in a unitized structure. Each entity's member capital account for HERS is tracked for various strategic pools of investments. Each entity is allocated income from investments on a monthly basis based on the underlying fair values and net asset values of the invested securities and their individual unitized ownership. The Hospital recognizes in its consolidated statements of financial position only the unitized portion of the HERS assets attributable to the Hospital's member capital account. The HERS assets attributable to the Hospital, consisting of separate member capital accounts for NYPH, NYP/Hudson Valley, NYP/Queens and NYP/Brooklyn Methodist, represented approximately 71% and 62% of the total HERS portfolio at December 31, 2019 and 2018, respectively; the composition of the HERS investment portfolio asset allocation is provided in this Note.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

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

The composition and reported value of short-term investments at December 31, 2019 and 2018 consist of the following (in thousands):

	2019	2018
Investments held by the Hospital:		
Marketable securities, carried at fair value <i>(Note 13)</i>	\$ 408,860	\$ 566,592
Hedge funds, accounted for using the equity method <i>(Note 13)</i>	4,969	50,767
Total investments held by the Hospital	413,829	617,359
Unitized investments held by HERS, accounted for using the equity method	1,814,342	1,637,740
Pooled investments held by Fund, Inc. on behalf of NYP/Queens, accounted for using the equity method	4,347	3,041
Total short-term investments	\$ 2,232,518	\$ 2,258,140

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

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

The composition and reported value of assets limited as to use, which excludes the beneficial interest in net assets held by related organizations (see Note 7), at December 31, 2019 and 2018 consist of the following (in thousands):

	<u>2019</u>	<u>2018</u>
Investments accounted for at fair value:		
Marketable securities, carried at fair value (<i>Note 13</i>)	\$ 344,962	\$ 846,644
Investments held by captive insurance companies, at allocated fair value (<i>Note 13</i>)	<u>229,822</u>	214,448
Total investments accounted for at fair value	<u>574,784</u>	1,061,092
Hospital held investments accounted for using the equity method:		
Equities and bonds held in common collective/commingled trusts:		
U.S. equities	34,463	261,066
Non-U.S. equities	–	217,891
Total equities and bonds held in common collective/commingled trusts	<u>34,463</u>	478,957
Hedge funds	1,290	4,274
Private equity	3,319	48,933
Private real assets	<u>41,621</u>	54,915
Total Hospital held investments accounted for using the equity method	<u>80,693</u>	587,079
Pooled investments held by Fund, Inc. on behalf of NYP/Queens, accounted for using the equity method	24,263	23,390
Unitized investments held by HERS, accounted for using the equity method	<u>3,411,973</u>	1,263,086
Total investments accounted for using the equity method	<u>3,516,929</u>	1,873,555
Total assets limited as to use	<u>4,091,713</u>	2,934,647
Less current portion	<u>63,415</u>	63,836
Assets limited as to use – noncurrent	<u>\$ 4,028,298</u>	<u>\$ 2,870,811</u>

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

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

The asset allocation of the HERS investment portfolio and unfunded commitments and liquidity restrictions of certain alternative investments held by HERS at December 31, 2019 are as follows (in thousands):

Description of Investment	Asset Allocation	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Cash and cash equivalents	8%			
Fixed income securities:				
U.S. government bonds and notes	14			
Mortgage and asset-backed	7			
Corporate	7			
Equities:				
U.S. equities	4			
Non-U.S. equities	3			
Real asset investments	1			
Common collective/commingled trusts – equities	21	\$ –	Daily to annually	3 to 90 days
Hedge funds	14	–	Monthly to annually	30 to 180 days
Private equity	15	661,602	*	*
Private real assets	6	546,931	*	*
	100%	\$ 1,208,533		

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

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

The asset allocation of HERS and the unfunded commitments and liquidity restrictions of alternative investments held by HERS at December 31, 2018 are as follows (in thousands):

Description of Investment	Asset Allocation	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Cash and cash equivalents	2%			
Fixed income securities:				
U.S. government bonds and notes	11			
Mortgage and asset-backed	7			
Corporate	12			
Equities:				
U.S. equities	4			
Non-U.S. equities	8			
Real asset investments	2			
Common collective/commingled trusts – equities	15	\$ –	Daily to annually	3 to 90 days
Hedge funds	16	–	Monthly to annually	30 to 180 days
Private equity	15	490,764	*	*
Private real assets	8	383,205	*	*
	<u>100%</u>	<u>\$ 873,969</u>		

* HERS' liquidity restrictions range from several months to ten years for certain private equity and real asset investments. Liquidity restrictions may apply to all or portions of a particular invested amount.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

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

Assets limited as to use at December 31, 2019 and 2018 are limited to the following (in thousands):

	2019	2018
Funded depreciation	\$ 1,550,585	\$ 1,198,217
Funds held under loan agreements	81,031	78,454
Board designated funds – capital expenditures (Note 5)	2,064,362	1,280,967
Board designated funds – other (Note 5)	54,670	40,959
Employee benefit funds	34,463	36,982
Funded self-insurance (professional liabilities) (Note 8)	38,895	41,836
Investments held by captive insurance companies (Note 8)	229,822	214,448
Donor restricted	37,885	42,784
	\$ 4,091,713	\$ 2,934,647

The funded depreciation balance included approximately \$97.8 million at December 31, 2018 in funds required to be designated for capital projects under a mortgage issued in 2013 (see Note 5).

Funds held under loan agreements at December 31, 2019 and 2018 are for the following purposes (in thousands):

	2019	2018
Mortgage reserve funds	\$ 69,756	\$ 67,356
Escrow fund (Note 5)	656	680
Capital reserve fund	3,596	3,532
Debt service fund	7,023	6,886
	\$ 81,031	\$ 78,454

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

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

Investment return, net related to net assets without donor restrictions for the years ended December 31, 2019 and 2018 consisted of the following (in thousands):

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 37,668	\$ 62,517
Net realized gains (losses) on sales of investments	18,223	(1,557)
Equity in earnings of common collective/commingled trusts and alternative investment companies and investment return of captive insurance companies	70,259	(21,229)
Change in interest in unitized investments held by HERS	422,790	(34,849)
Change in interest in pooled investments held by Fund, Inc. on behalf of NYP/Queens	1,458	142
Net change in unrealized gains and losses	54,811	(98,167)
Total	<u>\$ 605,209</u>	<u>\$ (93,143)</u>

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

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

The table below presents financial assets and liquidity resources available for general expenditures within one year at December 31 (in thousands):

	2019	2018
Financial assets as reported on the accompanying statement of financial position:		
Cash and cash equivalents	\$ 359,292	\$ 590,045
Short-term investments	2,232,518	2,258,140
Patient accounts receivable – net	1,110,468	997,706
Assets limited as to use	4,091,713	2,934,647
Total financial assets as reported on the accompanying statement of financial position	7,793,991	6,780,538
Liquidity resources:		
Lines of credit (<i>Note 5</i>)	350,000	364,100
Total financial assets and liquidity resources	8,143,991	7,144,638
Less amounts not available to be used for general expenditures within one year:		
Assets limited as to use	4,091,713	2,934,647
Financial assets available to be used for general expenditures within one year	\$ 4,052,278	\$ 4,209,991

The Hospital has assets limited as to use which are not available for general expenditure within one year in the normal course of operations. Accordingly, these assets have not been included in the total for financial assets to meet general expenditures within one year.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

4. Property, Buildings and Equipment

A summary of property, buildings and equipment at December 31, 2019 and 2018 follows (in thousands):

	2019	2018
Land and land improvements	\$ 238,475	\$ 235,460
Buildings, building improvements and fixed equipment	5,098,052	5,015,874
Movable equipment	1,480,068	1,328,654
Leasehold improvements	371,245	342,407
	7,187,840	6,922,395
Less accumulated depreciation and amortization	3,000,910	2,754,466
	4,186,930	4,167,929
Construction-in-progress	771,206	550,210
	\$ 4,958,136	\$ 4,718,139

During 2019 and 2018, the Hospital wrote off approximately \$219.7 million and \$375.0 million of fully depreciated assets, respectively.

Substantially all property, buildings and equipment have been pledged as collateral under various debt agreements (see Note 5).

At December 31, 2019 and 2018, assets recorded in connection with finance leases aggregated approximately \$234.9 and \$220.4 million, respectively, with accumulated amortization aggregating approximately \$153.1 and \$142.0 million, respectively.

The Hospital leases certain buildings from Royal Charter Properties – Westchester, Inc., a related entity (see Note 10).

The Hospital is in the process of constructing two significant capital projects. The total expected cost of the projects is approximately \$839.2 million. As of December 31, 2019, contracts of approximately \$569.6 million exist for the projects of which the remaining unrecorded commitment is approximately \$269.6 million.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

4. Property, Buildings and Equipment (continued)

In October 2017, the Hospital entered into a software licensing and hosting contract with Epic Systems Corporation for their integrated electronic medical records and revenue cycle solution. The new system is scheduled to be a multiyear installation across the Hospital's various campuses, with the initial campus implementation finalized February 1, 2020. The net incremental cost to the Hospital of approximately \$476.6 million over the life of the agreement. Software licensing costs under the contract total approximately \$52.1 million.

5. Long-Term Debt

A summary of long-term debt at December 31, 2019 and 2018 follows (in thousands):

	2019	2018
The New York and Presbyterian Hospital taxable bonds, Series 2019 (a)	\$ 500,000	\$ —
The New York and Presbyterian Hospital taxable bonds, Series 2016 (b)	850,000	850,000
The New York and Presbyterian Hospital taxable bonds, Series 2015 (c)	750,000	750,000
FHA Section 242 insured mortgage loan – 1998 – Downtown Campus (d)	137,811	159,250
FHA Section 241 insured mortgage loan – 2007 (e)	198,404	208,542
Secured hospital revenue refunding bonds – 2011 – Lower Manhattan Campus (f)	12,515	16,285
FHA Section 241 insured mortgage loan – 2013 (g)	421,859	435,881
Term loan payable (h)	13,884	16,034
FHA Section 241 insured mortgage loan – 1999 – NYP/Queens (i)	23,728	26,676
Build NYC Resource Corporation 2014 Revenue Refunding Bonds, Series 2014 – Methodist (j)	22,860	24,440
Leasehold condominium note payable (k)	278,553	277,446
Finance leases (l)	106,939	98,493
	3,316,553	2,863,047
Add unamortized fair value adjustment related to acquisitions and unamortized bond premium	2,005	2,521
Less deferred financing costs – net of accumulated amortization	52,401	50,723
Less current portion – net of current deferred financing costs	86,165	77,001
Long-term portion	\$ 3,179,992	\$ 2,737,844

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

- (a) *The New York and Presbyterian Hospital Taxable Bonds, Series 2019*: In October 2019, NYPH issued \$500.0 million in unsecured, taxable bonds. The bonds bear interest at a fixed rate of 3.95%, payable semi-annually. The bonds have a final maturity date of August 1, 2119, at which time the full principal balance is due. NYPH is the only member of the obligated group for this debt. NYPH incurred approximately \$5.8 million of financing costs in connection with the issuance of the bonds that will be amortized over the life of the bonds using the effective interest method. Bond proceeds that have not been expended are included in assets limited as to use as Board designated funds. The proceeds of the Series 2019 Bonds may be used for eligible corporate purposes of NYPH and its affiliates.
- (b) *The New York and Presbyterian Hospital Taxable Bonds, Series 2016*: In June 2016, NYPH issued \$850.0 million in unsecured, taxable bonds (the Series 2016 Bonds). The bonds have three separate final maturity dates, \$250.0 million due August 1, 2036, \$350.0 million due August 1, 2056, and \$250.0 million due August 1, 2116, and bear interest at approximate fixed rates of 3.6%, 4.1% and 4.8%, respectively. NYPH is the only member of the obligated group for this debt. Bond proceeds that have not been expended are included in assets limited as to use as Board designated funds. The proceeds of the Series 2016 Bonds may be used for eligible corporate purposes of NYPH and its affiliates, which have included the following: (a) making a loan to NYP/Hudson Valley to refinance its then outstanding 1993 and 2007 U.S. Department of Housing and Urban Development Federal Housing Agency (FHA) insured mortgage loans, (b) making a loan to NYP/Queens to refinance its then outstanding 2007 FHA-insured mortgage loan, (c) making a loan to NYP/Lawrence Hospital to refinance its then outstanding Westchester County Industrial Development Agency bonds (as part of LH's merger into NYPH in 2018, the inter-entity mortgage was relieved effective April 1, 2018), (d) refinancing outstanding debt of NYPH and other outstanding debt of certain NYPH affiliates, (e) financing of one or more projects of NYPH and certain NYPH affiliates, and (f) making a loan to Methodist for a capital project in 2017.

In November 2016, NYPH loaned NYP/Hudson Valley \$56.5 million and loaned NYP/Queens \$124.9 million from the proceeds of the Series 2016 Bonds to finance the repayment of certain of their obligations. In connection with these loans, NYP/Hudson Valley and NYP/Queens issued mortgage loans to NYPH to repay the obligations. The mortgage loans are secured by substantially all of the property, buildings and equipment and the gross receipts of the respective entities. The loans bear interest at a fixed rate of 4.21% and call for monthly payments of interest and principal through 2035.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

In January 2017, proceeds from the Series 2016 Bonds were used to loan Methodist \$327.0 million to finance the design, construction and equipping of the Center for Community Health, an approximately 400,000 square foot ambulatory care facility which will be located in Brooklyn, New York. The loan bears interest at a fixed rate of 4.21% and calls for monthly payments of interest only through January 1, 2020, and monthly payments of interest and principal of approximately \$1.7 million through January 1, 2047.

In September 2017 and 2018, proceeds from the Series 2016 Bonds were used to loan NYP/Queens \$16.0 million and \$39.4 million, respectively, to finance contributions into NYP/Queens' pension plan. In connection with the loans, NYP/Queens issued promissory notes to NYPH. The interest rate on the loans resets annually on December 1 to a variable LIBOR-based rate. In no event shall the rate be less than 1.00% or greater than 4.21%. The loans call for monthly payments of interest through December 1, 2037, with the entire principal amount of each loan due on that date.

The outstanding principal balance and interest payments related to all of the loans to the Regional Hospitals are eliminated in the accompanying consolidated financial statements as of and for the years ended December 31, 2019 and 2018.

- (c) *The New York and Presbyterian Hospital Taxable Bonds, Series 2015*: In February 2015, NYPH issued \$750.0 million in unsecured, taxable bonds. The bonds bear interest at a fixed rate of 4.02%, payable semi-annually. The bonds have a final maturity date of August 1, 2045, at which time the full principal balance is due. NYPH is the only member of the obligated group for this debt. Bond proceeds that have not been expended are included in assets limited as to use as Board designated funds.
- (d) *FHA Section 242 Insured Mortgage Loan – 1998*: In 1998 the Dormitory Authority of the State of New York (DASNY) issued revenue bonds to fund a mortgage loan to NYPH. NYPH's original mortgage agreement with DASNY was insured under the provisions of the FHA Section 242 mortgage insurance program.

During 2005, NYPH received \$8.4 million from DASNY in relation to a release of assets held by DASNY in reserve under the mortgage note and recorded the receipts as an increase to NYPH's deferred revenue balance in the accompanying consolidated statements of financial position. The deferred revenue was amortized over the remaining life of the mortgage using the effective interest method and was fully amortized as of December 31, 2019.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

In August 2009, NYPH completed the final endorsement of the FHA Section 242 Insured Mortgage Loan – 1998. The remaining amortization schedule was finalized with principal interest payments due through July 1, 2025. The terms of the mortgage were amended and, effective September 1, 2009, interest was to be paid at a fixed annual rate of 5.99% of the unpaid balance until the loan was fully paid. As a result of the final endorsement, DASNY released to NYPH an additional \$40.8 million of unused proceeds from the initial mortgage loan and NYPH received approximately \$2.9 million from the IRS related to prior years' bond proceeds arbitrage, all used for certain capital projects and as additional equity for the December 2010 transaction (see below). Additionally, the final endorsement resulted in NYPH's debt escrow fund (approximately \$12.5 million at final endorsement) being released for partial payment of the debt obligation at various future intervals.

In December 2010, DASNY assigned NYPH's mortgage to Prudential Huntoon Paige Associates, Ltd. (Prudential); the mortgage continues to be FHA-insured. In connection with the assignment of the mortgage, the associated DASNY bonds were defeased and Prudential issued new Government National Mortgage Association bonds to fund the mortgage loan. This transaction resulted in a reduction in the interest rate of the mortgage loan, effective December 15, 2010, to a fixed rate of 4.22% over the remaining term and required NYPH to make an equity contribution of \$23.8 million (\$15.1 million of the equity contribution was made, with the remaining balance of amounts held in assets limited as to use as part of the final endorsement). The equity contribution is being amortized over the remaining life of the mortgage using the effective interest method and has a balance that is a reduction to long-term debt, net of accumulated amortization, of approximately \$3.7 million and \$5.1 million at December 31, 2019 and 2018, respectively. All other material terms of the mortgage remained the same.

- (e) FHA Section 241 Insured Mortgage Loan – 2007: In September 2007, DASNY issued \$296.1 million of The New York and Presbyterian Hospital FHA-Insured Mortgage Hospital Revenue Bonds, Series 2007. A portion of the proceeds of the bonds was used to fund a mortgage loan from DASNY to NYPH. The maximum principal amount of \$278.5 million incorporated a discount of \$5.4 million. The mortgage is insured under the provisions of the FHA Section 241 mortgage insurance program. The mortgage bore interest at a rate of 6.5% through May 31, 2010, and 4.9% through July 31, 2012 (in addition, NYPH paid an incremental rate of 1.6% until final endorsement). On

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

August 7, 2012, NYPH completed final endorsement and the terms of the mortgage were amended and, effective August 1, 2012, interest was paid at a rate of 4.55%. The remaining amortization schedule was finalized, with principal and interest payments through June 1, 2035.

In December 2012, DASNY assigned NYPH's mortgage loan to Prudential; the mortgage continues to be FHA-insured. In connection therewith, the DASNY bonds were refunded and Prudential issued new Government National Mortgage Association securities to fund NYPH's mortgage. This transaction resulted in a reduction in the interest rate on the mortgage loan to a fixed rate of 2.74% over the remaining term of the loan, effective December 13, 2012. All other material terms of the mortgage remained the same.

- (f) *Secured Hospital Revenue Refunding Bonds – 2011*: In March 2011, NewYork-Presbyterian/Lower Manhattan Hospital (NYP/LMH), a campus of NYPH, issued \$32.6 million of Secured Hospital Revenue Refunding Bonds – 2011 through DASNY. The bonds bear interest at a fixed interest rate of 5%, payable semi-annually, with a final maturity date of February 15, 2022. NYP/LMH has granted to DASNY, with certain permitted exceptions, a security interest in gross receipts and certain fixtures, furnishings and equipment that secure the payment of the debt. The bonds are further secured by amounts, if required, that would be payable under a service contract between DASNY and the State of New York.
- (g) *FHA Section 241 Insured Mortgage Loan – 2013*: In September 2013, NYPH executed a \$500.0 million mortgage note with Prudential. The mortgage note bears interest at a fixed interest rate of 4.5%, payable semi-annually. The loan has a final maturity of September 1, 2038, with principal payable annually. The proceeds of the loan were deposited into a construction escrow account and were used to construct an ambulatory care center and pay related costs (see Note 3).
- (h) *Term Loan Payable*: In September 2013, LH signed a term loan agreement with an initial principal amount of \$25.7 million to be used for the construction of a three-story building to house a surgery and oncology center and a six-room operating suite on LH's property. The loan is payable through 2025 with interest at a fixed rate of 3.4% per annum. As a result of LH's merger into NYPH effective April 1, 2018, the term loan was assumed by NYPH.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

- (i) *FHA Section 241 Insured Mortgage Loan – 1999*: In August 1999, Queens entered into a mortgage agreement with DASNY. The mortgage is insured by the FHA under the provisions of the Section 241 mortgage insurance program. The loan is secured by a first mortgage lien on certain real and personal property of NYP/Queens. Effective December 7, 2006, the loan was subject to a fixed interest rate of 5.6%. In 2007, the loan was final endorsed by the FHA, at which time the remaining amortization schedule was finalized with principal payments due through October 2026. In December 2010, the DASNY bonds underlying the loan were defeased and Prudential issued new Government National Mortgage Association securities. In connection with the defeasance, DASNY assigned Queens' mortgage to Prudential; the mortgage continues to be FHA-insured. The transaction resulted in a reduction in the interest rate of the mortgage loan, effective December 2, 2010, to a fixed rate of 4.1% over the remaining term. All other material terms of the mortgage remained the same.
- (j) *Build NYC Resource Corporation Bonds, Series 2014*: On September 17, 2014, the Build NYC Resource Corporation issued \$29.7 million of Tax-Exempt Revenue Refunding Bonds, Series 2014 (The New York Methodist Hospital Project) (the Series 2014 Bonds) on behalf of Methodist with an original issue premium of approximately \$3.8 million. The proceeds of the Series 2014 Bonds were lent to Methodist pursuant to a loan agreement and related master trust indenture, among other agreements, under which an obligated group was formed (Methodist is the only member of the obligated group for this debt). The Series 2014 Bonds have a coupon interest rate of 5.0% and an effective interest cost of 3.65%.
- (k) *Leasehold Condominium Note Payable*: In June 2017, the Hospital entered into a transaction pursuant to which the Hospital purchased a 30-year leasehold condominium interest (with an option to extend) in approximately 480,000 square feet of space located at 466 Lexington Avenue (the Leasehold Condominium) to consolidate corporate services of the Hospital. To finance the acquisition of the Leasehold Condominium, the Hospital issued to the seller a promissory note in the principal amount of \$249.9 million (the Promissory Note) which bears interest at a rate of 7% per annum. Interest payments for the period from July 2017 through December 2018 are deferred. The debt service terms require principal and interest payments in escalating amounts over the life of the note, ranging from \$1.5 million to \$2.5 million commencing January 2019 through December 2048. Unpaid interest incurred during the period accrues to the outstanding principal balance on

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

the Promissory Note. Under this arrangement, the amount due will increase to an ultimate principal balance of \$283.3 million in December 2023. As of December 31, 2019, the balance due includes the original principal amount of the Promissory Note and accrued interest of approximately \$28.7 million. The Promissory Note is secured by a mortgage granted by the Hospital in its interest in the Leasehold Condominium. In connection with this transaction, the seller/landlord provided the Hospital with a tenant allowance for leasehold improvements of approximately \$75.6 million, which is recorded in the accompanying consolidated statements of financial position within other current assets and other noncurrent assets based on the timing of the related cash receipts from the seller/landlord and other noncurrent liabilities for the deferred benefit, to be amortized over the term of the Promissory Note. As of December 31, 2019 and 2018, the accompanying consolidated statements of financial position include \$5.6 million and \$11.0 million as receivable for leasehold improvements in current assets, respectively, a \$19.2 million receivable recorded in noncurrent assets at a net present value of approximately \$4.0 and \$3.6 million, respectively, and noncurrent liabilities totaling approximately \$69.6 million and \$72.0 million, respectively.

- (1) *Finance Leases*: Certain equipment leases are the equivalent of an installment purchase for purposes of financial statement reporting. The lenders hold a first security interest in the financed equipment. The Hospital entered into several finance leases in 2019 and 2018 totaling approximately \$32.4 million and \$38.1 million, respectively. Interest rates related to the Hospital's outstanding finance lease obligations range from 0.0% to 5.6%.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

Estimated principal payments under long-term debt (reflective of amounts obligated to date) for the next five years and thereafter, excluding finance leases, consist of the following (in thousands):

2020	\$ 58,361
2021	60,787
2022	63,301
2023	61,321
2024	64,852
Thereafter	2,900,992

Pursuant to the debt agreements, NYPH and the Regional Hospitals are required to maintain certain debt service and other funds, including mortgage reserve funds (see Note 3). In addition, NYPH and the Regional Hospitals are required to maintain certain working capital, debt service coverage and other financial ratios and financial conditions, and to obtain approvals to incur additional debt above specified levels if certain covenant requirements are not met. At December 31, 2019 and 2018, NYPH, NYP/Hudson Valley, NYP/Queens and Methodist were in compliance with the applicable financial covenants.

The various debt instruments described above are collateralized by substantially all of NYPH's and the Regional Hospitals' property, buildings and equipment and gross receipts derived from operations on an entity-specific basis.

Interest paid under all borrowings for the years ended December 31, 2019 and 2018 aggregated approximately \$110.9 million and \$109.7 million, respectively.

The Hospital has an unsecured \$200.0 million line of credit agreement with a commercial bank available through June 30, 2022. Due to the matters disclosed in Note 15, effective March 2020, the commitment was amended to \$350.0 million and the termination date was extended through March 31, 2023. The Hospital borrowed \$200.0 million from this line of credit in March 2020.

The Hospital has an unsecured \$150.0 million line of credit with a second commercial bank available through August 15, 2022. The Hospital borrowed \$150.0 million from this line of credit in March 2020. Effective April 2020, the Hospital entered into an additional unsecured \$100.0 million line of credit available through April 2021. The Hospital has not drawn on this line of credit through April 20, 2020.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

Effective March 2020, the Hospital entered into an unsecured \$200.0 million line of credit with a third commercial bank available through March 2021. The Hospital borrowed \$200.0 million from this line of credit in March 2020.

There were no borrowings on the lines of credit during 2019 or 2018.

6. Leases

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

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

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

Operating leases with a present value of approximately \$373.7 million were recorded as right-of-use liabilities and assets as of January 1, 2019 upon the adoption of ASU 2016-02.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

6. Leases (continued)

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

Lease cost	
Finance lease cost:	
Amortization of right-of-use asset	\$ 24,488
Interest on lease liabilities	2,412
Operating lease cost	70,583
Short-term lease cost	1,616
Variable lease cost	6,561
Total lease cost	<u>\$ 105,660</u>
 Right-of-use assets	
Right-of-use assets – finance leases	\$ 80,258
Right-of-use assets – operating leases	398,681
Total right-of-use assets	<u>\$ 478,939</u>
 Right-of-use liabilities	
Right-of-use liabilities – finance leases	\$ 106,939
Right-of-use liabilities – operating leases	416,022
Total right-of-use liabilities	<u>\$ 522,961</u>
 Other information	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases	\$ 2,399
Operating cash flows from operating leases	69,832
Financing cash flows from finance leases	24,264
 Right-of-use assets obtained in exchange for new finance lease liabilities	 \$ 32,813
Right-of-use assets obtained in exchange for new operating lease liabilities	42,352
 Weighted-average remaining lease term – finance leases	 3.96
Weighted-average remaining lease term – operating leases	9.59
Weighted-average discount rate – finance leases	2.84
Weighted-average discount rate – operating leases	2.60

For finance leases, right-of-use assets are recorded in property, buildings and equipment and lease liabilities are recorded in long-term debt in the accompanying consolidated statements of financial position. For operating leases, right-of-use assets are recorded in operating lease assets and lease liabilities are recorded in operating lease liabilities, current and noncurrent, in the accompanying consolidated statements of financial position.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

6. Leases (continued)

The following table reconciles the undiscounted lease payments to the lease liabilities recorded on the accompanying consolidated statements of financial position at December 31, 2019 (in thousands):

	Finance Leases	Operating Leases
2020	\$ 34,198	\$ 66,397
2021	26,418	55,319
2022	22,097	47,337
2023	13,587	42,605
2024	9,948	38,943
Thereafter	7,185	234,528
Total lease payments	113,433	485,129
Less imputed interest	6,494	69,107
Total lease obligation	106,939	416,022
Less current portion	25,100	55,947
Long-term portion	\$ 81,839	\$ 360,075

Total rental expense for the years ended December 31, 2019 and 2018, aggregated approximately \$98.1 million and \$88.7 million, respectively. Sublease income and contingent rentals were not significant. The Hospital leases certain properties owned by related entities (see Note 10).

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

7. Beneficial Interest in Net Assets Held by Related Organizations

The Hospital recognizes its accumulated interest in certain net assets held by Fund, Inc. and WCMC Fund, which were as follows at December 31, 2019 and 2018 (in thousands):

	2019	2018
Fund, Inc.:		
Building and equipment replacement	\$ 755,204	\$ 708,543
Specific purpose health care services	931,365	851,055
Endowment earnings restricted for specific-purpose health care services	217,564	203,210
Permanent endowment to be held in perpetuity	226,702	222,775
	2,130,835	1,985,583
WCMC Fund:		
Investments held in perpetual trust	39,169	37,452
Total beneficial interest in net assets held by related organizations	2,170,004	2,023,035
Less current portion	68,510	60,735
	\$ 2,101,494	\$ 1,962,300

Certain net assets that are included in the beneficial interest in net assets held by related organizations represent endowments that have been restricted by donors to be maintained in perpetuity and are held by Fund, Inc. and WCMC Fund on behalf of the Hospital. The Hospital follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as they relate to permanent endowment 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. The Hospital classifies as net assets with donor restrictions – permanent endowment 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, such amounts are expended annually.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

7. Beneficial Interest in Net Assets Held by Related Organizations (continued)

The Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (i) the duration and preservation of the fund; (ii) the purposes of the Hospital and the donor-restricted endowment fund; (iii) general economic conditions; (iv) the possible effects of inflation and deflation; (v) 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 Hospital; (vi) the expected total return from income and the appreciation of investments; (vii) other resources of the Hospital and (viii) the investment and spending policies of the Hospital. Fund, Inc.'s endowment investment returns distribution policy, which applies to the Hospital, allows for expenditures of investment return only, at a rate not to exceed 4.5% of the permanent endowment net asset balance on an annual basis.

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding related to the endowment funds, while seeking to maintain the purchasing power of the funds. To satisfy long-term 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 employs a long-term equity oriented strategy of investing in both traditional and alternative asset classes.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

7. Beneficial Interest in Net Assets Held by Related Organizations (continued)

Assets held by Fund, Inc. and WCMC Fund for the benefit of the Hospital consist of pledges and investments (at fair value) that represent allocated amounts from Fund, Inc.'s pooled investments portfolio, a significant portion of which is invested in the HERS program, and WCMC Fund's interest in a perpetual trust. These assets are comprised of the following at December 31, 2019 and 2018 (in thousands):

	2019	2018
Fund, Inc. pooled investment portfolio allocation:		
Marketable securities:		
Cash and cash equivalents	\$ 289,696	\$ 105,087
Fixed income:		
U.S. government	179,718	84,845
Equities:		
U.S. equities	46,728	19,907
Non-U.S. equities	48,474	100,893
Common collective/commingled trusts	430,394	306,866
Real assets	–	16,585
Total marketable securities	995,010	634,183
Hedge funds	292,799	335,799
Private equity	322,260	373,938
Private real assets	177,985	223,073
Total Fund, Inc. pooled investment portfolio allocation	1,788,054	1,566,993
Fund, Inc. pledges receivable – net	342,781	418,590
	2,130,835	1,985,583
WCMC Fund:		
Investment held in perpetual trusts	39,169	37,452
Total beneficial interests in net assets held by related organizations	2,170,004	2,023,035
Less current portion	68,510	60,735
	\$ 2,101,494	\$ 1,962,300

The current portion of beneficial interest in net assets held by related organizations represents amounts the Hospital expects to receive and expend on operations in the subsequent year.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

7. Beneficial Interest in Net Assets Held by Related Organizations (continued)

Pledges receivable by Fund, Inc. at December 31, 2019 and 2018, are to be paid as follows (in thousands):

	2019	2018
Less than one year	\$ 115,128	\$ 146,772
One to five years	159,560	201,664
Thereafter and bequests	142,200	145,540
	416,888	493,976
Allowance for uncollectible pledges and discounts	(74,107)	(75,386)
	\$ 342,781	\$ 418,590

Estimated cash flows from pledges receivable due after one year are discounted using a risk-adjusted rate, ranging from 1.69% to 7.35%.

Changes in the beneficial interest in net assets held by Fund, Inc. and WCMC Fund on the Hospital's behalf are recognized in the Hospital's consolidated statements of changes in net assets for the years ended December 31, 2019 and 2018 and are summarized as follows (in thousands):

	Plant Replacement	Specific Purpose	Endowment Earnings	Permanent Endowment	Total Changes in Beneficial Interest
Year ended December 31, 2019					
Gifts, bequests and similar items	\$ 87,331	\$ 82,925	\$ –	\$ 2,406	\$ 172,662
Investment return – net	51,802	75,956	19,848	8,239	155,845
Net assets released from restrictions for administrative and fundraising costs	(9,734)	(6,985)	(5,244)	–	(21,963)
Net assets released from restrictions for program expenditures	(15,272)	(54,214)	(223)	–	(69,709)
Net assets released from restrictions for distribution to the Hospital for the purchase of fixed assets	(84,912)	(4,927)	(27)	–	(89,866)
Transfers of donor-related net assets	17,446	(12,445)	–	(5,001)	–
Changes in net assets	\$ 46,661	\$ 80,310	\$ 14,354	\$ 5,644	\$ 146,969
Year ended December 31, 2018					
Gifts, bequests and similar items	\$ 125,648	\$ 143,887	\$ –	\$ 2,142	\$ 271,677
Investment return – net	13,076	2,739	(12,018)	(3,567)	230
Net assets released from restrictions for administrative and fundraising costs	(8,869)	(6,364)	(4,778)	–	(20,011)
Net assets released from restrictions for program expenditures	(6,587)	(54,738)	(609)	–	(61,934)
Net assets released from restrictions for distribution to the Hospital for the purchase of fixed assets	(284,898)	(8,890)	(65)	–	(293,853)
Transfers of donor-related net assets	12,667	(11,491)	537	5,274	6,987
Changes in net assets	\$ (148,963)	\$ 65,143	\$ (16,933)	\$ 3,849	\$ (96,904)

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

8. Insurance

Professional Liability Insurance: In 1978, NYPH, in conjunction with a number of unrelated health care entities, participated in the formation of captive insurance companies (collectively, the Captive) to provide professional liability and general liability insurance to its participants. The premiums are based on a modified claims-made coverage and are actuarially determined based on the actual experience of the Captive, NYPH-specific experience, and estimated current exposure. The Captive has reinsurance coverage from reinsurers for certain amounts above its coverage level per claim limits. The professional liability tower provides coverage in excess of \$270.0 million to the Hospital and the Captive participants.

In January 1996, rights to equity in the Captive were transferred to Fund, Inc. Accordingly, insurance premiums are paid by the Hospital initially to Fund, Inc. (see Note 10).

Effective July 1, 2013, August 1, 2014, February 1, 2015 and December 1, 2015, NYP/LMH, NYP/Lawrence, NYP/Hudson Valley and NYP/Queens, respectively, became insured by the Captive. Prior to each entity's respective effective date with the Captive, the entities were covered by various self-insured, claims-made and excess insurance policies.

Exposure for claims that occurred prior to and reported after the respective dates of NYP/Lawrence Hospital, NYP/Hudson Valley and NYP/Queens being insured by the Captive is retained by each hospital and will be paid under a deposit program with the Captive (assets totaling \$36.6 million and \$39.6 million that are on deposit with the Captive at December 31, 2019 and 2018, respectively, are reported within professional liabilities insurance recoveries receivable and related deposits in the accompanying consolidated statements of financial position).

In 1983, Methodist and a number of other health care providers unrelated to Methodist or the Hospital formed Combined Coordinating Council, Inc. of New York (CCCI) to coordinate the access to insurance for professional and comprehensive general liability risks and to serve as a risk management advisor to the providers who participate in CCCI. The shareholders of CCCI are also the shareholders of CCC Insurance Company, Ltd. of Bermuda, a captive insurer formed in 1983, and its subsidiary, CCC Corporation of Barbados, formed in 1987. Through June 30, 2004, the CCCI insurance program provided insurance under a common occurrence-basis structure with reinsurance from outside reinsurers for specified amounts above per-claim limits.

Effective July 1, 2004, CCCI formed CCC Insurance SCC and implemented a "cell captive" structure which replaced the previous coverage structure. Under this program, primary coverage for individual claims for each participating hospital is provided through a commercial insurance carrier on an

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

8. Insurance (continued)

occurrence basis. The first layer of excess coverage under the program utilizes individual segregated cells for each participating hospital, under which invested assets and insurance-related liabilities are segregated for each participant and there is no shared risk among the entities. In addition to coverage for the participating hospitals' professional liability, the program also includes coverage of voluntary attending physicians' professional liability with premiums paid by the participating physicians.

The Hospital records its investment under the cell captive structure, the related changes in its segregated account as reported by CCC Insurance SCC and its investments in other insurance companies within the CCC insurance group in the accompanying consolidated statements of financial position. At December 31, 2019 and 2018, investments held in the CCC segregated cell totaling approximately \$229.8 million and \$214.4 million, respectively, are included in assets limited as to use in the accompanying consolidated statements of financial position (see Note 3).

Other self-insurance funded amounts are included in assets limited as to use in the accompanying consolidated statements of financial position (see Note 3).

The Hospital's undiscounted estimate for professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately \$878.2 million and \$845.6 million at December 31, 2019 and 2018, respectively, and is included in professional and other insurance liabilities in the accompanying consolidated statements of financial position at the actuarially determined present value of approximately \$802.7 million and \$796.0 million, respectively, based on a composite discount rate of approximately 3.0% at December 31, 2019 and 2018. The Hospital has recorded related insurance recoveries receivable of approximately \$378.0 million and \$346.3 million at December 31, 2019 and 2018, respectively. The current portion of professional liabilities and the related insurance recoveries receivable represents an estimate of expected settlements and insurance recoveries over the next 12 months.

The Hospital's estimates for 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 (see Note 12). 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.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

8. Insurance (continued)

Workers' Compensation Insurance: Prior to April 1, 1999, NYPH was self-insured for workers' compensation claims. From April 1, 1999 through March 31, 2019, NYPH has purchased insurance through the New York State Insurance Fund in a program that effectively transfers risk from NYPH. At December 31, 2019 and 2018, the estimate for workers' compensation claims and incurred but not reported liabilities pertaining to NYPH under this insurance program and liabilities related to the Regional Hospitals totaled approximately \$10.7 million and \$7.0 million, respectively.

Effective April 1, 2019, the Hospital entered into a workers' compensation insurance program with a commercial insurer which includes a \$1.0 million deductible per occurrence, as defined within the policy. At December 31, 2019, the estimate for workers' compensation claims and incurred but not reported liabilities under this program is approximately \$22.9 million.

In connection with the workers' compensation self-insurance programs, the Hospital maintains two letters of credit through banks in the aggregate amount of approximately \$13.4 million, which satisfies the collateral deposit requirement.

9. Pension and Similar Benefit Plans

Pension Plans: The Hospital provides pension and similar benefits to its employees through several plans, including various multiemployer plans for union employees (see Note 14), a qualified noncontributory defined benefit plan primarily for eligible non-union employees of NYPH (the Qualified Pension Plan), a nonqualified defined benefit plan for certain NYPH executives (the Nonqualified Pension Plan), a defined benefit retirement plan under a collective bargaining agreement for certain employees of NYP/LMH (the NYP/LMH Pension Plan), a non-contributory defined benefit retirement plan for eligible NYP/Lawrence Hospital employees (the Lawrence Pension Plan), a nonqualified defined benefit plan for certain NYP/Lawrence Hospital executives (the Lawrence Nonqualified Pension Plan), a defined benefit plan for union and nonunion employees of NYP/Queens that was frozen for future benefit accruals in 2003 (the Queens Pension Plan) and a defined benefit plan primarily for eligible nonunion employees of Methodist (the Methodist Pension Plan) (these non-multiemployer plans are collectively referred to as the Pension Plans).

The Hospital funds the noncontributory defined benefit plans in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA), plus additional amounts that the Hospital may deem appropriate from time to time.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

9. Pension and Similar Benefit Plans (continued)

Amounts contributed to the Pension Plans are based on actuarial valuations. The benefits for participants or their beneficiaries in the Pension Plans sponsored by the Hospital are based on years of service and employees' compensation during their years of employment as applicable to each plan.

On November 15, 2017, the Lawrence Pension Plan was amended such that effective after December 31, 2017, benefit accruals for certain participants will be frozen, resulting in a plan curtailment. Non-union participants who were at least age 59 with 10 years of credited service as of December 31, 2017, are grandfathered and will continue to accrue benefits. Current retirees and employees who meet the current grandfathering rules will retain their current retiree medical and life insurance benefits.

The Hospital also sponsors several other contributory and non-contributory defined contribution plans.

Postretirement Benefits: NYPH, NYP/Queens, NYP/Lawrence Hospital and Methodist provide certain health care and life insurance benefits to certain eligible retired non-union employees through several plans (the Postretirement Benefit Plans).

The Hospital recognizes in the accompanying consolidated statements of financial position an asset, for a defined benefit postretirement plan's overfunded status, or a liability, for a plan's underfunded status; measures a defined benefit postretirement plan's assets and obligations that determine funded status as of the end of the fiscal year; and recognizes the periodic change in the funded status of a defined benefit postretirement plan as a component of changes in net assets without donor restrictions in the year in which the change occurs. Amounts that are recognized as a component of changes in net assets without donor restrictions will be subsequently recognized as net periodic pension and postretirement cost.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

9. Pension and Similar Benefit Plans (continued)

The reconciliation of the beginning and ending balances of the Pension Plans' aggregated benefit obligation and the fair value of the Pension Plans' assets and of NYPH's and NYP/Queens' Postretirement Benefit Plans' aggregated benefit obligation and the fair value of such plans' assets for the years ended December 31, 2019 and 2018 is as follows (in thousands):

	Pension Plans		NYPH and NYP/Queens Postretirement Benefit Plans	
	2019	2018	2019	2018
Benefit obligation				
Benefit obligation at beginning of year	\$ 2,128,646	\$ 2,161,172	\$ 58,161	\$ 60,299
Service cost	89,776	89,611	2,015	2,141
Interest cost	88,869	80,041	2,347	2,171
Actuarial losses (gains)	284,583	(108,679)	5,365	(3,404)
Plan amendments	-	-	400	-
Settlements paid	(3,325)	(2,771)	-	-
Effect of curtailments	-	-	(3,255)	-
Medicare Part D subsidy	-	-	20	26
Plan participant contributions	-	-	923	850
Benefits paid	(95,586)	(90,728)	(3,502)	(3,922)
Benefit obligation at end of year	2,492,963	2,128,646	62,474	58,161
Fair value of plan assets				
Fair value of plan assets at beginning of year	1,919,884	1,921,424	-	-
Actual return on plan assets	216,446	(23,531)	-	-
Hospital contributions	161,187	115,490	2,579	3,072
Plan participant contributions	-	-	923	850
Settlements paid	(1,123)	(2,771)	-	-
Benefits paid	(95,586)	(90,728)	(3,502)	(3,922)
Fair value of plan assets at end of year	2,200,808	1,919,884	-	-
Funded status	\$ (292,155)	\$ (208,762)	\$ (62,474)	\$ (58,161)

The net actuarial losses in 2019 and net actuarial gains in 2018 primarily relate to changes in the discount rate used to measure the projected benefit obligation.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

9. Pension and Similar Benefit Plans (continued)

At December 31, 2019 and 2018, the funded status of the Pension Plans are reported in the accompanying consolidated statements of financial position as follows (in thousands):

	Pension Plans	
	2019	2018
Current liability	\$ 23,649	\$ 20,773
Noncurrent liability	268,506	187,989
	\$ 292,155	\$ 208,762

The total estimated liability of the Postretirement Benefit Plans, including the NYP/Lawrence and the Methodist plans, was approximately \$74.3 million and \$68.3 million, at December 31, 2019 and 2018, respectively, the current portion of which totaled approximately \$4.8 million and \$5.1 million at December 31, 2019 and 2018, respectively.

Included in other changes in net assets without donor restrictions for the years ended December 31, 2019 and 2018 are the following amounts related to the Pension Plans that have not yet been recognized in net periodic pension cost (in thousands):

	Pension Plans	
	2019	2018
Unrecognized prior service cost	\$ 1,460	\$ 1,105
Unrecognized actuarial losses	822,331	626,638
	\$ 823,791	\$ 627,743

The change in net assets from pension and postretirement benefit liabilities to be recognized in future periods as reported in the accompanying consolidated statements of operations are decreases in net assets of approximately \$196.0 million and \$16.6 million for 2019 and 2018, respectively, and represents the combined change in the amounts for the Pension Plans and the Postretirement Benefit Plans.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

9. Pension and Similar Benefit Plans (continued)

The prior service cost and actuarial losses included in changes in net assets without donor restrictions at December 31, 2019 that are expected to be recognized in net periodic pension cost during the year ending December 31, 2020 are as follows (in thousands):

	<u>Pension Plans</u>
Unrecognized prior service cost	\$ 714
Unrecognized actuarial losses	52,580

The projected benefit obligation, accumulated benefit obligation, and fair value of the plans' assets by type of defined benefit pension plan follow (in thousands):

	<u>December 31, 2019</u>	
	<u>Qualified Pension Plans</u>	<u>Nonqualified Pension Plan</u>
Projected benefit obligation	\$ 2,439,994	\$ 52,969
Accumulated benefit obligation	2,417,114	41,618
Fair value of plans' assets	2,200,808	—

	<u>December 31, 2018</u>	
	<u>Qualified Pension Plans</u>	<u>Nonqualified Pension Plan</u>
Projected benefit obligation	\$ 2,080,815	\$ 47,831
Accumulated benefit obligation	2,054,425	36,533
Fair value of plans' assets	1,919,884	—

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

9. Pension and Similar Benefit Plans (continued)

Weighted-average assumptions used in determining the pension and postretirement benefits obligations as of December 31, 2019 and 2018, were as follows:

	Pension Plans		Postretirement Benefit Plans	
	2019	2018	2019	2018
Discount rates	3.25%	4.25%	3.00-3.25%	4.00-4.25%
Rates of compensation increase	3.00-4.00	3.00-4.00	—	—

Net periodic pension cost for the Pension Plans and net periodic postretirement benefits cost for the NYPH and NYP/Queens Postretirement Benefit Plans for the years ended December 31, 2019 and 2018, consist of the following (in thousands):

	Pension Plans		NYPH and NYP/Queens Postretirement Benefit Plans	
	2019	2018	2019	2018
Service cost	\$ 89,776	\$ 89,611	\$ 2,015	\$ 2,141
Interest cost	88,869	80,041	2,347	2,171
Expected return on plan assets	(154,935)	(143,615)	—	—
Net amortization of prior service cost	718	527	(528)	(555)
Recognized actuarial loss	29,195	36,430	923	1,437
Recognized actuarial gain due to curtailment	—	—	(1,561)	—
Recognized actuarial loss due to settlement	176	350	—	—
Net periodic pension cost and postretirement benefits cost	<u>\$ 53,799</u>	<u>\$ 63,344</u>	<u>\$ 3,196</u>	<u>\$ 5,194</u>

The aggregated periodic postretirement benefit cost of the Postretirement Benefit Plans, including the NYP/Lawrence Hospital and the NYP/Brooklyn Methodist plans, was approximately \$4.4 million and \$5.9 million for the years ended December 31, 2019 and 2018, respectively.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

9. Pension and Similar Benefit Plans (continued)

Weighted-average assumptions used in determining the net periodic pension and postretirement benefits cost for the years ended December 31, 2019 and 2018 were as follows:

	Pension Plans		Postretirement Benefit Plans	
	2019	2018	2019	2018
Discount rates	4.25%	3.75%	4.00-4.25%	3.50-3.75%
Expected rates of return on plan assets	7.25-7.5	7.25-7.50	–	–
Rates of compensation	3.50-4.00	2.50-4.00	–	–

The overall expected long-term rate of return on assets of the Pension Plans is based on the historical returns of each asset class weighted by the target asset allocation. The target asset allocation has been selected consistent with the Hospital's desired risk and return characteristics. The Hospital reviews the expected long-term rate periodically and, based on the building block approach, updates the rate for changes in the marketplace. The market conditions in 2019 and 2018 and changes in the pension asset allocations were considered in the Hospital's evaluation of the expected long-term rate of return assumption.

The measurement date used to determine the pension and postretirement benefits measurements is December 31.

Plan Assets: The overall objectives of the investment policies are to produce an asset allocation that will generate return annually in order to meet the expense and income needs and provide for sufficient annual asset growth. Funds are invested with a long-term (five years or greater) return objective.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

9. Pension and Similar Benefit Plans (continued)

The investment policies include the following strategic asset allocation guideline target:

<u>Asset Category</u>	<u>NYPH Master Trust Investment Pool¹</u>
Equities	36%
Fixed income	7
Hedge Funds	19
Private equity	17
Natural resources	8
Real estate	4
Opportunistic credit	1

¹ Effective January 1, 2018, the NYP/Brooklyn Methodist and NYP/LMH defined benefit pension plans began participating in the NYPH Master Trust Investment Pool (NYPH Master Trust). At December 31, 2019, the qualified defined pension plans of NYPH, NYP/Queens, NYP/Lawrence Hospital, Methodist and NYP/LMH participate in the NYPH Master Trust.

The policy target percentages are reevaluated at least quarterly. Investment performance is reviewed quarterly with performance results and benchmarks.

Assets invested for the Pension Plans are carried at fair value. Fixed income and equity securities and real assets with readily determinable values are carried at fair value as determined based on independent published sources. Alternative investments are stated at fair value, as estimated in an unquoted market. Fair value for alternative investments is determined for each investment using net asset values as a practical expedient, as permitted by U.S. generally accepted accounting principles, rather than using another valuation method to independently estimate fair value.

The composition and reported value of the Pension Plans' assets at December 31, 2019 and 2018 are disclosed in Note 13.

The Hospital is not required to contribute to its Pension Plans in 2020.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

9. Pension and Similar Benefit Plans (continued)

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

Year:	<u>Pension Plans</u>
2020	\$ 138,410
2021	128,639
2022	137,877
2023	145,255
2024	161,336
2025 to 2029	781,529

10. Related Organizations

Fund, Inc. is an affiliated not-for-profit public charity whose revenue is derived from soliciting, receiving, investing and administering funds. Royal Charter Properties, Inc. (RCP, Inc.), Royal Charter Properties-East, Inc. (RCP-East) and Royal Charter Properties-Westchester, Inc. (RCP-West) are affiliated not-for-profit support corporations that derive revenue from acquiring and holding direct and indirect interests in real estate and related personal property, which are primarily used to provide residential housing, office space and parking to NYPH and its employees based on the market value of such services. RCP, Inc., RCP-East and RCP-West provide services primarily to or for the benefit of NYPH.

Amounts received by NYPH from or amounts contributed by NYPH to related support organizations, reflected in other revenue in the accompanying consolidated statements of operations for the years ended December 31, 2019 and 2018 are as follows (see Note 11) (in thousands):

	2019	2018
Distributions from (payments to) according to organization's bylaws:		
RCP, Inc.	\$ 6,760	\$ —
RCP-East	32,054	31,860
RCP-West	(64)	(59)
	\$ 38,750	\$ 31,801

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

10. Related Organizations (continued)

Fund, Inc. also pays certain program related costs on behalf of NYPH (see Note 7). Fund, Inc. paid approximately \$13.2 million and \$12.7 million related to malpractice and postretirement costs incurred by NYPH for the years ended December 31, 2019 and 2018, respectively, and approximately \$3.5 million in 2019 for Regional Hospital medical group expansion activities. Other distributions made by Fund, Inc. to NYPH include approximately \$91.9 million and \$299.6 million in 2019 and 2018, respectively, for the purchase of fixed assets.

Services provided to NYPH by related entities for the years ended December 31, 2019 and 2018 are as follows (in thousands):

	2019	2018
Fund, Inc. – insurance (<i>Note 8</i>)	\$ 64,075	\$ 69,219
RCP, Inc. – rentals (net)	4,424	4,459
RCP-East – rentals	9,202	9,955
RCP-West – rentals	266	307
	\$ 77,967	\$ 83,940

In connection with a financing completed by RCP, Inc. in 2001 for the renovation and improvement of a parking garage facility, NYPH entered into a noncancellable lease with RCP, Inc., for a period not longer than 29 years, whereby NYPH will lease 50% of the parking spaces at an amount sufficient to cover the debt service on the financing.

In connection with the financing completed by RCP-East in 1998, NYPH entered into a lease through April 2035, whereby NYPH is required to pay a fixed rent in the event that RCP-East does not meet certain covenants.

NYPH received income distributions of \$17.5 million and \$12.5 million in 2019 and 2018, respectively, from Weill Cornell Imaging at New York-Presbyterian, a radiology and imaging joint venture affiliated with NYPH and Weill Cornell Medical College. Additionally, NYPH received an income distribution of \$3.5 million in 2019 from ColumbiaDoctors/NewYork-Presbyterian Imaging, a radiology and imaging joint venture affiliated with NYPH and Columbia VP&S.

The Hospital provides employee and other services to related entities for which the Hospital receives reimbursement, and the costs of providing such services are recorded directly by those entities. Accordingly, such amounts are not included in the accompanying consolidated financial statements of the Hospital. Charges for such services are based on the approximate cost to provide

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

10. Related Organizations (continued)

the services and totaled approximately \$24.1 million and \$22.8 million for the years ended December 31, 2019 and 2018, respectively. The services consist of patient accounting, financial planning, information systems and telecommunications, general accounting, medical supplies, biomedical engineering services, house staff, ambulance services, institutional billings, engineering and other services.

The following net balances are due from (to) related organizations at December 31, 2019 and 2018 (in thousands):

	2019	2018
Fund, Inc.	\$ 18,983	\$ 6,144
RCP, Inc.	(13,150)	(20,259)
RCP-East	2,277	1,115
RCP-West	(446)	(405)
Network Recovery Services, Inc.	1,477	11
The Silvercrest Center for Nursing and Rehabilitation	3,107	684
The Hospital for Special Surgery	1,437	977
The New York Gracie Square Hospital, Inc. (Gracie)(a)	13,243	7,860
New York-Presbyterian Healthcare System, Inc.	(3,337)	(3,249)
The Rogosin Institute	1,481	741
	25,072	(6,381)
Less noncurrent portion included in other noncurrent assets, before valuation allowance	15,265	10,141
Due from (to) related organizations – net	\$ 9,807	\$ (16,522)

(a) During 2019 and 2018, NYPH transferred approximately \$7.2 million and \$4.0 million, respectively, to Gracie.

The Hospital periodically assesses the collectibility of amounts due from related organizations. The amounts included in other noncurrent assets are adjusted to state the receivables at their estimated net realizable value. The balances due from certain related organizations are provided for through a valuation allowance.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

11. Other Revenue

Other revenue consisted of the following for the years ended December 31, 2019 and 2018 (in thousands):

	2019	2018
Grants and contracts	\$ 44,019	\$ 40,740
Amounts received from related organizations – net (<i>Note 10</i>)	63,232	44,301
Rental of space	57,358	54,579
Cafeteria and vending	16,950	16,653
Net assets released from restrictions, including changes in beneficial interest in net assets held by related organizations	72,573	63,206
Affiliation agreements	8,500	14,075
Professional fees and other receipts	16,532	12,009
Equity in income from investee	6,799	7,524
Specialty pharmacy	70,014	13,487
Other	70,698	63,567
	\$ 426,675	\$ 330,141

12. Commitments and Contingencies

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

Litigation pending against the Hospital includes certain cases in which the Hospital is a co-defendant with Columbia VP&S involving alleged sexual abuse by a former faculty member of Columbia VP&S. These cases have received recent media attention and on February 28, 2020, the Hospital received notice that plaintiffs' counsel filed a proposed class action lawsuit arising from claims of sexual abuse by the former Columbia VP&S faculty member. Based on the information presently available to the Hospital concerning the number and types of claims, management believes, upon advice of legal counsel, it to be unlikely the federal court will certify the class.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

Management therefore currently believes that the probable recoveries and estimated costs and expenses of defense of this litigation, after application of any available insurance coverage, will not materially and adversely affect the Hospital's operations or financial condition.

At December 31, 2019 and 2018, approximately 43% and 44% of the Hospital's employees were covered by collective bargaining agreements, respectively. Collective bargaining agreements covering all such employees are set to expire at various dates through 2022.

Effective January 1, 2009, the IRS issued final regulations for purposes of determining common control for qualified retirement plans sponsored by tax-exempt organizations. In general, tax-exempt entities that are under common control are treated as one entity for certain of the requirements of qualified plans. The regulations determine control based on facts and circumstances; for this purpose, common control would exist if, among other situations, at least 80% of the directors or trustees of one organization were either representatives of, or directly or indirectly controlled by, another organization. These regulations could have an effect on the operations of the Hospital's and its related entities' retirement plans and the responsibilities of those entities for associated liabilities, although such effects are uncertain at this time.

In April 2016, Methodist, on behalf of a controlled professional corporation (PC), submitted a letter to the United States Department of Health and Human Services, Office of Counsel to the Inspector General, Office of Inspector General (the OIG) through the OIG's Self-Disclosure Protocol (SDP) notifying the OIG of potential issues concerning certain physician compensation, billing and other matters that potentially violate the Federal Civil Monetary Penalties Law (CMPL). A copy of the submission was also sent to the New York State Office of the Medicaid Inspector General (OMIG). Corrective action relating to the matters discussed in the April 2016 letter has been taken. On May 10, 2016, the OIG accepted Methodist into the SDP. On August 30, 2016, Methodist and the PC reported the results of their internal investigation into the self-disclosed conduct to the OIG, including, among other things, their estimates of potential damages to Federal health care programs relating thereto. The OIG SDP was established to encourage providers to voluntarily identify, disclose and resolve certain matters involving Federal health care programs under the OIG's civil monetary penalties authorities. As previously described in Note 2, noncompliance with Medicare and Medicaid laws and regulations can result in repayment obligations, fines, penalties or exclusion from such programs. However, the OIG's SDP indicates that a provider's good faith participation in the SDP can potentially mitigate the provider's exposure under the OIG's civil monetary penalties authorities as compared to what might otherwise be required in resolving a Government-initiated investigation and may result in faster resolution of such issues.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

In the accompanying consolidated financial statements, 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 which may arise from future audits, reviews and investigations. However, at December 31, 2019, and as of the issuance of the accompanying consolidated financial statements, the amount of potential repayment obligations to (or other actions that may be taken by) the OIG, other government agencies and/or others in connection with the referenced self-disclosure is unknown. In addition, the amount of any fines or penalties which may be assessed in connection with the referenced self-disclosure is also presently unknown and will be recorded by the Hospital when reasonably estimable.

13. Fair Value Measurements

The Hospital uses various methods of calculating fair value of its financial assets and liabilities, when applicable. The Hospital defines fair value as 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 and establishes a framework for measuring fair value. Fair value measurements are applied based on the unit of account from the Hospital's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated).

The Hospital uses a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is 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. In determining fair value, the Hospital uses valuation techniques that maximize the use of observable inputs and minimize the

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

13. Fair Value Measurements (continued)

use of unobservable inputs to the extent possible and considers non-performance risk in its assessment of fair value.

The following table presents financial instruments carried at fair value, excluding assets invested in the Pension Plans, as of December 31, 2019 and 2018 (in thousands):

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents – held for investment	\$ 122,426	\$ 122,426	\$ –	\$ –
Fixed income:				
U.S. government	76,768	76,768	–	–
Non U.S. governmental bonds	–	–	–	–
Corporate	123,683	101,397	22,286	–
Mortgage and asset-backed	8,305	–	8,305	–
Other	–	–	–	–
Equities:				
U.S. equities ^(a)	63,739	63,739	–	–
Non-U.S. equities ^(b)	46,741	46,741	–	–
Real assets ^(c)	–	–	–	–
Mutual funds	312,160	312,160	–	–
Alternative investments – investments held by captive insurance companies ^(d)	229,822	–	195,951	33,871
	<u>\$ 983,644</u>	<u>\$ 723,231</u>	<u>\$ 226,542</u>	<u>\$ 33,871</u>

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents – held for investment	\$ 153,831	\$ 153,831	\$ –	\$ –
Fixed income:				
U.S. government	300,665	300,665	–	–
Non U.S. governmental bonds	–	–	–	–
Corporate	127,319	94,111	33,208	–
Mortgage and asset-backed	15,597	–	15,597	–
Other	2,638	564	2,074	–
Equities:				
U.S. equities ^(a)	15,510	15,510	–	–
Non-U.S. equities ^(b)	2,330	2,330	–	–
Real assets ^(c)	157,986	157,986	–	–
Mutual funds	637,360	637,360	–	–
Alternative investments – investments held by captive insurance companies ^(d)	214,448	–	184,211	30,237
	<u>\$ 1,627,684</u>	<u>\$ 1,362,357</u>	<u>\$ 235,090</u>	<u>\$ 30,237</u>

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

13. Fair Value Measurements (continued)

- (a) Equity portfolios invested in common stock of corporations primarily domiciled in the United States.
- (b) Equity portfolios invested in common stock of corporations primarily domiciled outside the United States, including emerging market countries.
- (c) Equity portfolios invested in common stock of real estate or natural resources.
- (d) Investments held by captive insurance companies consist of assets which are pooled with other assets maintained by the companies and include investments in marketable securities and alternative investments that are recorded by the captive insurance companies at fair value based on quoted market prices or other means for the companies' holdings of alternative investments. The Hospital reports an allocation of the fair value of the pooled investments in its consolidated statements of financial position.
- (e) Common collective/commingled trusts invested in common stock of corporations domiciled in the United States and outside the United States, including emerging market countries.
- (f) Hedge funds include long and short equity, multi-strategy, event driven and relative value funds invested with managers who invest with different strategies and typically employ some leverage. In long and short equity, fund managers create a portfolio of long positions in stocks expected to appreciate over time and short positions in stocks expected to depreciate. Event driven managers create a portfolio designed to profit from corporate events such as mergers, spin-offs, defaults and bankruptcy. Relative value managers invest in long and short positions, but typically have a more neutral net market position than long and short. Multi-strategy is a fund employing a variety of hedge fund strategies.
- (g) Private equity investments include limited partnership investments in funds pursuing strategies in corporate buyouts, venture capital, growth equity, distressed and turnaround investments.
- (h) Real estate and natural resources investments.

The following is a description of the Hospital's valuation methodologies for assets measured at fair value. The fair value methodologies are not necessarily indicators of investment risk, but are descriptive of the measures used to arrive at fair value pricing. Fair value for Level 1 is based upon quoted market prices. Investments classified as Level 2 are primarily valued using techniques that are consistent with the market approach. Valuations for Level 2 are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs, which include broker/dealer quotes, reported/comparable trades, and benchmark yields are obtained from various sources including market participants, dealers and brokers. The Pension Plans' common collective/commingled trusts and alternative investments are measured at net asset value; the valuation for these alternative investments is described in Note 9. The methods described above may produce a fair value that is not indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

13. Fair Value Measurements (continued)

The following is a summary of investments (by major class) that have restrictions on the Hospital's or the Hospital's Pension Plans' ability to redeem its investments at the measurement date, any unfunded capital commitments and the investments strategies of the investees as of December 31, 2019 (including investments accounted for using the equity method) (in thousands):

Description of Investment	December 31, 2019 Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Common collective/commingled trusts	\$ 616,394	\$ –	Daily to annually	3 to 90 days
Hedge funds	448,219	–	Monthly to annually	30 to 180 days
Private equity	501,614	348,606	*	*
Private real assets	277,291	295,705	*	*
	<u>\$ 1,843,518</u>	<u>\$ 644,311</u>		

* The Hospital's liquidity restrictions range from several months to ten years for certain private equity and real asset investments. Liquidity restrictions may apply to all or portions of a particular invested amount.

Following is a rollforward of the statement of financial position amounts for financial instruments classified by the Hospital in Level 3 of the valuation hierarchy defined above (in thousands):

	2019	2018
Fair value at beginning of year	\$ 30,237	\$ 15,961
Purchases	–	15,026
Total realized and unrealized gains or losses	3,598	(751)
Other receipts	36	1
Fair value at end of year	<u>\$ 33,871</u>	<u>\$ 30,237</u>
Change in unrealized (losses) gains related to financial instruments held at end of year	<u>\$ 4,349</u>	<u>\$ (1,925)</u>

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

14. Multiemployer Pension Plans

Applicable entities comprising the Hospital contribute to the New York State Nurses Association Pension Plan (NYSNA), the 1199 SEIU Healthcare Employees Pension Fund (1199 SEIU) and the International Union of Operating Engineers Local 30 Pension Fund (Local 30). These are multiemployer defined benefit pension plans under the terms of collective bargaining agreements that cover the Hospital's union-represented employees. Contributions to union plans are based on union employee gross salary levels and rates required under union contractual arrangements.

The risks of participating in these multiemployer plans are different from single-employer plans in the following respects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Hospital chooses to stop participating in some of its multiemployer plans, the Hospital 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 annual period ended December 31, 2019 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2019 and 2018 is for the plan's year-end at December 31, 2018 and 2017, respectively. The zone status is based on information that the Hospital received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% 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" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the NYPH expiration dates of the collective bargaining agreements to which the plans are subject (applicable Regional Hospital expiration dates range from September 30, 2021 to April 30, 2023).

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

14. Multiemployer Pension Plans (continued)

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status	Contributions by the Hospital		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2019	2018		2019	2018		
<i>(In Thousands)</i>								
NYSNA	13-6604799/ Plan No. 001	Green	Green	No	\$ 44,606	\$ 41,979	No	12/31/2022
1199 SEIU	13-3604862/ Plan No. 001	Green	Green	No	62,145	55,940	No	9/30/2021
Local 30	51-6045848/ Plan No. 001	Yellow	Green	No	1,769	1,718	No	9/30/2021
					<u>\$ 108,520</u>	<u>\$ 99,637</u>		

NYPH was listed in the NYSNA and 1199 SEIU plans' Forms 5500 as providing more than 5% of the total contributions during each of the plans 2018 and 2017 plan years. Forms 5500 are not yet available for the plan year ended in 2019.

15. Events Subsequent to December 31, 2019

Subsequent events have been evaluated through April 20, 2020, which is the date the consolidated financial statements were issued. Except as disclosed in Notes 5 and 12 and below, no events have occurred that require disclosure in or adjustment to the accompanying consolidated financial statements.

Due to the global viral outbreak caused by Coronavirus Disease 2019 (COVID-19) in 2020, there have been resulting effects which could negatively impact the Hospital's financial condition, including significant stock market exchange volatility, such as various temporary volatility trading halts which commenced initially on March 9, 2020 due to market declines, various temporary business closures and event cancellations, and other effects which have resulted in supply disruptions and/or decisions to defer elective procedures and other medical treatments at the Hospital as the broader economic impact of COVID-19 develops. Management continues to closely monitor the impact of COVID-19 in many respects and provided further information in a voluntary disclosure filed on March 18, 2020 with the Municipal Securities Rulemaking Board, accessible through its Electronic Municipal Market Access Database. The ultimate impact of these matters to the Hospital and its financial condition is presently unknown. To enhance available

The New York and Presbyterian Hospital

Notes to Consolidated Financial Statements (continued)

15. Events Subsequent to December 31, 2019 (continued)

liquidity, in March 2020, the Hospital entered an additional line of credit of \$200.0 million and drew down approximately \$200.0 million against this line, certain of which are revolving draws. Also in March 2020, the Hospital drew down \$350.0 million on its previously existing lines of credit (see Note 5). Additionally, the Hospital is participating in the Centers for Medicare & Medicaid Services' Accelerated and Advance Payment Program under which it was approved for approximately \$739.9 million as of April 20, 2020 in expedited payments for future services on an interest-free basis. The majority of the advance payment amount will be reconciled with Medicare after submission of the Hospital's cost reports in May 2021. The Hospital also received an initial grant distribution under the Coronavirus Aid, Relief, and Economic Security (CARES) Act totaling \$97.9 million in April 2020. Management of the Hospital anticipates that additional CARES funding and funding from other governmental agencies, such as the Federal Emergency Management Agency, will be available to the Hospital. The accompanying consolidated financial statements as of and for the year ended December 31, 2019 do not reflect the effects of these subsequent events.

Supplementary Information

The New York and Presbyterian Hospital
Consolidating Statement of Financial Position

December 31, 2019
(In Thousands)

	Obligated Group		NYP Community Programs, Inc.			Eliminations/ Reclassifications	Consolidated
	NYPH	Other Entities	NYP/Hudson Valley	NYP/Queens	NYP/Brooklyn Methodist		
Assets							
Current assets:							
Cash, cash equivalents and short-term investments:							
Cash and cash equivalents	\$ 198,259	\$ 11,424	\$ 27,346	\$ 17,253	\$ 105,010	\$ –	\$ 359,292
Short-term investments	1,779,007	–	31,101	40,132	382,278	–	2,232,518
Total cash, cash equivalents and short-term investments	1,977,266	11,424	58,447	57,385	487,288	–	2,591,810
Patient accounts receivable – net	855,466	6,320	32,277	119,382	97,023	–	1,110,468
Other current assets	212,805	1,298	10,294	53,029	42,152	–	319,578
Assets limited as to use – current portion	38,248	–	–	7,484	17,683	–	63,415
Professional liabilities insurance recoveries receivable and related deposits – current portion	72,266	–	2,392	16,417	–	–	91,075
Beneficial interest in net assets held by related organizations – current portion	68,510	–	–	–	–	–	68,510
Due from related organizations – net	137,824	–	–	–	–	(128,017)	9,807
Loans receivable from Regional Hospitals – current portion	13,566	–	–	–	–	(13,566)	–
Total current assets	3,375,951	19,042	103,410	253,697	644,146	(141,583)	4,254,663
Assets limited as to use – noncurrent	3,495,622	12,751	12,181	53,656	454,088	–	4,028,298
Property, buildings and equipment – net	3,984,592	7,909	155,434	291,474	518,727	–	4,958,136
Operating lease assets	230,221	15,560	34,660	59,107	59,133	–	398,681
Other noncurrent assets – net	86,959	–	8,322	18,242	2,061	(63,998)	51,586
Loans receivable from Regional Hospitals – noncurrent	470,874	–	–	–	–	(470,874)	–
Professional liabilities insurance recoveries receivable and related deposits – noncurrent	253,202	–	10,185	54,687	10,092	–	328,166
Beneficial interest in net assets held by related organizations – noncurrent	2,101,494	–	–	–	–	–	2,101,494
Total assets	\$ 13,998,915	\$ 55,262	\$ 324,192	\$ 730,863	\$ 1,688,247	\$ (676,455)	\$ 16,121,024

The New York and Presbyterian Hospital

Consolidating Statement of Financial Position (continued)

December 31, 2019

(In Thousands)

	Obligated Group NYPH	Other Entities	NYP Community Programs, Inc.			Eliminations/ Reclassifications	Consolidated
			NYP/Hudson Valley	NYP/Queens	NYP/Brooklyn Methodist		
Liabilities and net assets							
Current liabilities:							
Long-term debt – current portion	\$ 78,374	\$ –	\$ 391	\$ 5,148	\$ 2,252	\$ –	\$ 86,165
Loans payable to NYPH – current portion	–	–	2,293	5,187	6,086	(13,566)	–
Operating lease liability – current portion	35,185	2,325	2,456	9,592	6,389	–	55,947
Accounts payable and accrued expenses	621,868	25,639	22,018	66,584	94,948	(9,140)	821,917
Accrued salaries and related liabilities	364,701	5,831	19,027	25,663	63,547	–	478,769
Pension and postretirement benefit liabilities – current portion	26,865	–	–	1,079	466	–	28,410
Professional and other insurance liabilities – current portion	74,376	–	2,431	23,455	17,683	–	117,945
Other current liabilities	198,387	–	14	5,201	10,660	–	214,262
Due to related organizations – net	–	7,970	32,844	71,675	6,388	(118,877)	–
Total current liabilities	1,399,756	41,765	81,474	213,584	208,419	(141,583)	1,803,415
Long-term debt	3,129,861	–	1,522	28,387	20,222	–	3,179,992
Loans payable to NYPH	–	–	44,992	168,967	320,913	(534,872)	–
Operating lease liability	207,749	13,236	32,295	50,274	56,521	–	360,075
Professional and other insurance liabilities	408,148	5,433	14,808	103,546	186,546	–	718,481
Pension liability	244,243	–	–	10,852	13,411	–	268,506
Postretirement benefit liability	24,432	–	–	37,857	7,277	–	69,566
Other noncurrent liabilities	311,380	308	9,070	49,887	100,688	–	471,333
Total liabilities	5,725,569	60,742	184,161	663,354	913,997	(676,455)	6,871,368
Net assets:							
Net assets without donor restrictions	6,095,727	(5,929)	136,493	53,787	747,502	–	7,027,580
Net assets with donor restrictions	2,177,619	449	3,538	13,722	26,748	–	2,222,076
Total net assets	8,273,346	(5,480)	140,031	67,509	774,250	–	9,249,656
Total liabilities and net assets	\$ 13,998,915	\$ 55,262	\$ 324,192	\$ 730,863	\$ 1,688,247	\$ (676,455)	\$ 16,121,024

The New York and Presbyterian Hospital

Consolidating Statement of Operations

Year Ended December 31, 2019

(In Thousands)

	Obligated Group NYPH	Other Entities	NYP Community Programs, Inc.			Eliminations/ Reclassifications	Consolidated
			NYP/Hudson Valley	NYP/Queens	NYP/Brooklyn Methodist		
Operating revenues							
Net patient service revenue	\$ 6,418,543	\$ 51,787	\$ 263,374	\$ 873,096	\$ 960,569	\$ –	\$ 8,567,369
Other revenue	291,131	51,405	13,374	80,984	39,569	(49,788)	426,675
Total operating revenues	6,709,674	103,192	276,748	954,080	1,000,138	(49,788)	8,994,044
Operating expenses							
Salaries and wages	3,065,562	64,673	144,482	468,582	495,459	–	4,238,758
Employee benefits	762,943	18,041	37,358	144,960	138,331	–	1,101,633
Supplies and other expenses	2,049,738	22,436	88,010	322,213	336,769	(49,788)	2,769,378
Interest and amortization of deferred financing fees	104,723	–	2,161	6,811	3,345	–	117,040
Depreciation and amortization	398,075	728	11,824	29,403	26,077	–	466,107
Total operating expenses	6,381,041	105,878	283,835	971,969	999,981	(49,788)	8,692,916
Operating income (loss)	328,633	(2,686)	(7,087)	(17,889)	157	–	301,128
Investment return – net	495,152	1,933	2,851	7,377	97,896	–	605,209
Voluntary retirement program costs	(28,577)	–	(1,520)	(3,653)	(1,526)	–	(35,276)
Expected return on plan assets and other components of net periodic pension and postretirement cost	28,529	–	–	3,477	2,533	–	34,539
Excess (deficiency) of revenues over expenses	823,737	(753)	(5,756)	(10,688)	99,060	–	905,600
Other changes in net assets without donor restrictions:							
Net asset transfers (to) from related parties	(20,107)	–	–	12,877	–	–	(7,230)
Net assets released from restrictions for the purchase of fixed assets	(472)	(174)	–	–	867	–	221
Distributions from New York-Presbyterian Fund, Inc. for the purchase of fixed assets	91,873	–	–	–	–	–	91,873
Change in pension and postretirement benefit liabilities to be recognized in future periods	(163,944)	–	–	(25,522)	(6,582)	–	(196,048)
Change in net assets without donor restrictions	\$ 731,087	\$ (927)	\$ (5,756)	\$ (23,333)	\$ 93,345	\$ –	\$ 794,416

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