

CONSOLIDATED FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION, AUDIT REPORTS
AND SCHEDULES RELATED TO THE UNIFORM
GUIDANCE

The Mount Sinai Hospital
Year Ended December 31, 2019
With Reports of Independent Auditors

Ernst & Young LLP



The Mount Sinai Hospital

Consolidated Financial Statements, Supplementary Information,
Audit Reports and Schedules Related to the Uniform Guidance

Year Ended December 31, 2019

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Report of Independent Auditors

Management and the Board of Trustees
Mount Sinai Health System, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Mount Sinai 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 consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Mount Sinai Hospital as of 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 Mount Sinai Hospital changed their method of accounting for leases as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2016-02, *Leases*, effective January 1, 2019. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to March 31, 2020. The Schedule of Expenditures of Federal Awards for the year ended December 31, 2019 as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated March 31, 2020 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.



March 31, 2020, except for our report on the
Schedule of Expenditures of Federal Awards for
which the date is September 30, 2020

The Mount Sinai Hospital

Consolidated Statements of Financial Position

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 439,243	\$ 110,221
Short-term investments	282,658	452,833
Total cash and cash equivalents and short-term investments	721,901	563,054
Patient accounts receivable, net	399,284	370,347
Professional liabilities insurance recoveries receivable	30,643	39,453
Assets limited as to use, current portion	75,387	33,868
Due from related organizations, net, current portion	137,850	200,797
Inventories	44,964	39,921
Other current assets	54,607	35,178
Total current assets	1,464,636	1,282,618
Pooled investments	1,036,141	878,190
Other investments	90,349	229,694
Assets limited as to use, less current portion	2,573	39,940
Due from related organizations, less current portion	844,702	506,594
Beneficial interest in self-insurance trust	83,277	44,083
Other assets	79,287	41,501
Right-of-use assets	391,894	-
Professional liabilities insurance recoveries receivable, less current portion	139,599	179,732
Property, plant, and equipment, net	1,044,714	984,751
Total assets	<u>\$ 5,177,172</u>	<u>\$ 4,187,103</u>

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 190,892	\$ 205,213
Accrued salaries and related liabilities	128,705	114,823
Accrued interest payable	10,310	14,916
Accrued construction and capital asset liabilities	12,047	9,658
Current portion of long-term debt	10,607	33,380
Operating lease liabilities, current portion	14,291	–
Professional liabilities, current portion	30,643	39,453
Other current liabilities	102,263	37,280
Total current liabilities	<u>499,758</u>	<u>454,723</u>
Long-term debt, less current portion	1,078,626	841,627
Operating lease liabilities, less current portion	386,928	–
Accrued postretirement benefits	9,691	9,831
Estimated self-insurance liability	83,277	44,083
Deferred gain on transfer of real estate	27,055	27,055
Professional liabilities, less estimated current portion	139,599	179,732
Other liabilities	457,058	446,107
Total liabilities	<u>2,681,992</u>	<u>2,003,158</u>
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions	2,294,820	1,989,529
Net assets with donor restrictions	200,360	194,416
Total net assets	<u>2,495,180</u>	<u>2,183,945</u>
Total liabilities and net assets	<u>\$ 5,177,172</u>	<u>\$ 4,187,103</u>

See accompanying notes.

The Mount Sinai Hospital
Consolidated Statements of Operations

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Operating revenue		
Net patient service revenue	\$ 2,887,774	\$ 2,713,429
Investment income and net realized gains and losses on sales of securities	57,421	44,766
Contributions	640	1,008
Other revenue	119,207	105,533
Net assets released from restrictions for operations	33,440	32,053
Total operating revenue before other items	3,098,482	2,896,789
Operating expenses		
Salaries and wages	1,139,068	1,051,451
Employee benefits	282,909	273,085
Supplies and other	1,328,294	1,218,482
Depreciation	114,465	108,720
Interest and amortization	31,956	34,372
Total operating expenses before other items	2,896,692	2,686,110
Excess of operating revenue over operating expenses before other items	201,790	210,679

Continued on following page.

The Mount Sinai Hospital

Consolidated Statements of Operations (continued)

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Excess of operating revenue over operating expenses before other items	\$ 201,790	\$ 210,679
Other items		
Net change in unrealized gains and losses on investments and change in value of alternative investments	103,424	(60,131)
Third-party reimbursement settlements and other provisions	17,514	45,440
Gain on sale of clinical outreach laboratory business	–	2,773
Loss on extinguishment of debt	(5,856)	–
Gain on sale of captive insurance company	14,564	–
Net change in participation in captive insurance program	55,048	49,327
Net periodic postretirement cost other than service cost	(466)	(1,358)
Excess of revenue over expenses	386,018	246,730
Other changes in net assets without donor restrictions		
Transfers to affiliates	(78,925)	(95,989)
Equity in income from related party and distributions transferred to the Icahn School of Medicine at Mount Sinai	(123)	(1,386)
Net assets released from restrictions for capital asset acquisitions	512	4,654
Change in postretirement liability to be recognized in future periods	(2,191)	6,089
Total other changes in net assets without donor restrictions	(80,727)	(86,632)
Net increase in net assets without donor restrictions	\$ 305,291	\$ 160,098

See accompanying notes.

The Mount Sinai Hospital

Consolidated Statements of Changes in Net Assets

	Net Assets with Donor Restrictions				Total
	Net Assets without Donor Restrictions	Purpose and Time Restrictions	Permanent Endowment	Total Net Assets with Donor Restrictions	
	<i>(In Thousands)</i>				
Net assets at beginning of year January 1, 2018	\$ 1,829,431	\$ 104,359	\$ 83,811	\$ 188,170	\$ 2,017,601
Net increase in net assets without donor restrictions	160,098	–	–	–	160,098
Donor restricted contributions, net	–	40,803	2,150	42,953	42,953
Net assets released from restrictions for operations	–	(32,053)	–	(32,053)	(32,053)
Net assets released from restrictions for capital asset acquisitions	–	(4,654)	–	(4,654)	(4,654)
Total change in net assets	160,098	4,096	2,150	6,246	166,344
Net assets at end of year December 31, 2018	1,989,529	108,455	85,961	194,416	2,183,945
Net increase in net assets without donor restrictions	305,291	–	–	–	305,291
Donor restricted contributions, net	–	39,896	–	39,896	39,896
Net assets released from restrictions for operations	–	(33,440)	–	(33,440)	(33,440)
Net assets released from restrictions for capital asset acquisitions	–	(512)	–	(512)	(512)
Total change in net assets	305,291	5,944	–	5,944	311,235
Net assets at end of year December 31, 2019	\$ 2,294,820	\$ 114,399	\$ 85,961	\$ 200,360	\$ 2,495,180

See accompanying notes.

The Mount Sinai Hospital

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2019	2018
	<i>(In Thousands)</i>	
Operating activities		
Change in net assets	\$ 311,235	\$ 166,344
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	114,465	108,720
Amortization of deferred financing costs, bond premium, and discount	(261)	(254)
Net change in unrealized gains and losses on investments and change in value of alternative investments	(103,424)	60,131
Loss on refunding of debt	5,856	-
Net donor-restricted contributions	(39,896)	(42,953)
Transfers to affiliates	78,925	95,989
Gain on sale of clinical outreach laboratory business	-	(2,773)
Gain on sale of captive insurance company	(14,564)	-
Changes in:		
Patient accounts receivable	(28,937)	(55,478)
Other operating assets	(64,707)	3,209
Due from related organizations	(204,400)	(184,137)
Accounts payable and accrued expenses	(14,321)	15,050
Accrued salaries and related liabilities	13,882	(7,427)
Accrued interest payable	(4,606)	6,486
Other operating liabilities	138,018	(11,578)
Change in right-of-use assets	9,325	-
Net cash provided by operating activities	<u>196,590</u>	<u>151,329</u>
Investing activities		
Acquisitions of property, plant, and equipment, net	(174,428)	(143,033)
Due from related organizations for capital purposes	(70,761)	(152,105)
Decrease (increase) in investments, net	149,687	(272,377)
(Increase) decrease in assets limited as to use	(4,152)	2,217
Funding of self-insurance trust	(52,522)	(39,851)
Transfers to affiliates	(78,925)	(95,989)
Proceeds from sale of clinical outreach laboratory business	-	2,773
Proceeds from sale of captive insurance company	170,641	-
Net cash used in investing activities	<u>(60,460)</u>	<u>(698,365)</u>
Financing activities		
Repayment of Series 2010 and 2011A of long-term debt	(258,552)	-
Proceeds from issuance of long term debt	500,000	-
Payment of deferred financing costs	(4,279)	-
Principal payments on long-term debt	(33,402)	(33,008)
Net donor-restricted contributions	39,896	42,953
Net cash provided by financing activities	<u>243,663</u>	<u>9,945</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	379,793	(537,091)
Cash, cash equivalents and restricted cash at beginning of year	144,150	681,241
Cash, cash equivalents and restricted cash at end of year	<u>\$ 523,943</u>	<u>\$ 144,150</u>
Reconciliation of cash, cash equivalents and restricted cash at end of year to the balance sheets		
Cash and cash equivalents	\$ 439,243	\$ 110,221
Assets limited or restricted as to use: cash and cash equivalents	73,788	25,892
Investments: cash and cash equivalents	10,912	8,037
Total cash, cash equivalents, and restricted cash	<u>\$ 523,943</u>	<u>\$ 144,150</u>

See accompanying notes.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements

December 31, 2019

1. Organization and Summary of Significant Accounting Policies

Organization

The Mount Sinai Hospital (the Hospital) is a quaternary care teaching hospital located in upper Manhattan with a division in Queens, New York. As a leading academic medical center, the Hospital provides a full range of ambulatory and inpatient general and specialty services to patients from the surrounding communities, across the country, and around the world and operates one of the largest graduate medical education programs in the country.

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

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

In February 2018, MSHS and South Nassau Communities Hospital (SNCH) executed a definitive agreement pursuant to which MSHG would become the sole corporate member of SNCH and its "active parent" under New York Law. The transaction became effective in October 2018. Pursuant to the agreement, MSHG agreed to contribute \$120.0 million over a five-year period to be used in support of certain capital projects. For each of the years ended December 31, 2019 and 2018, the Hospital contributed \$20.0 million to SNCH, which is included in the transfers to affiliates line of the consolidated statement of operations. Effective September 2019, SNCH is doing business as (d/b/a) Mount Sinai South Nassau (MSSN).

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

Principles of Consolidation

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

Transactions among the Hospital and related organizations relate principally to the sharing of certain services, facilities, equipment, and personnel and are accounted for on the basis of allocated cost, as agreed among the parties. Amounts due from or to related organizations for these activities are currently receivable or payable and do not bear interest, except for amounts advanced by the Hospital to the School for certain capital expenditures, and loans provided by the Hospital to BIMC and SLR. The Hospital has provided for amounts that are potentially uncollectible. The nature of the Hospital's transactions with various related organizations is described more fully in Note 11.

Cash and Cash Equivalents

The Hospital considers highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents. The Hospital has balances in financial institutions that exceed Federal depository insurance limits. Management does not believe the credit risk related to these deposits to be significant. The Hospital does not hold any money market funds with significant liquidity restrictions that would require the funds to be excluded from cash equivalents.

Amounts within restricted cash include cash held within investments and assets limited or restricted as to use and represent funds set aside within investments based on management's policy or contractual arrangements.

Patient Accounts Receivable, net and Net Patient Service Revenue

Patient accounts receivable, net and net patient service revenue result from the health care services provided by the Hospital and is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration in determination of the transaction price.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

Investments

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

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

Alternative investments (nontraditional, not readily marketable securities), carried in the investment pool, may consist of equity, debt, and derivatives both within and outside the U.S. in multi-strategy hedge funds, event-driven strategies, global investment mandates, distressed securities, and private funds. Alternative investment interests generally are structured such that the investment pool holds a limited partnership interest or an interest in an investment management company. The investment pool's ownership structure does not provide for control over the related investees and the investment pool's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. Future funding commitments by members of the investment pool for alternative investments aggregated approximately \$194.0 million at December 31, 2019.

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

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

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

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

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

Investment Income

Investment income from the investment pool is allocated to investment pool participants using the market-value unit method. The annual spending rate for pooled funds is approved by the Board of Trustees annually (see Note 9). Realized gains and losses from the sale of securities are computed using the average cost method.

In the absence of donor restrictions, investment income, including realized gains and losses, is reflected in the accompanying consolidated statements of operations as operating revenue, with net unrealized gains and losses and the change in value of alternative investments, arising from pooled investments, reported as other items. See Notes 3, 7, and 13 for additional information relative to investments.

Inventories

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

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

Assets Limited as to Use

Assets so classified represent assets whose use is restricted or internally designated for specific purposes under terms of agreements related to the Hospital's long-term debt and internally designated for funded depreciation requirements (see Notes 3, 4, 5 and 13). These assets consist primarily of U.S. Treasury obligations held in the trustee's accounts and money market funds. As the lead partner in its DSRIP Performing Provider System (PPS), the Hospital maintains an account for funds to be distributed to its PPS partners that is included in assets limited as to use.

Other Assets

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

Deferred Financing Costs

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

Property, Plant, and Equipment

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

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

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Hospital's management and the Board of Trustees.

Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Hospital or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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

Contributions

Contributions, including unconditional promises to give cash and other assets (pledges), are reported at fair value on the date received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions. Donor-restricted contributions, including grants, whose restrictions are met within the same year as received are reflected in net assets with donor restrictions and net assets released from restrictions in the accompanying consolidated financial statements.

Performance Indicator

The consolidated statements of operations include excess of revenue over expenses as the performance indicator. Changes in net assets without donor restrictions, which are excluded from the excess of revenue over expenses, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets), and change in postretirement liability to be recognized in future periods.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

The Hospital differentiates its operating activities through the use of the excess of operating revenue over operating expenses before other items as an intermediate measure of operations. For the purposes of display, items which management does not consider components of the Hospital's operating activities are excluded from this measure and reported as other items in the consolidated statements of operations.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. In the accompanying consolidated financial statements, estimates principally relate to the valuation of net accounts receivable, amounts due from and to third-party payors, the net carrying value of the Hospital's interest in the captive insurance program, estimated professional liabilities and related insurance recoveries receivable, and the carrying value of alternative investments. Management believes that the amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual should not have a material effect on the Hospital's consolidated financial position. In 2019 and 2018, management realized revenue of approximately \$17.5 million and \$45.4 million, respectively, which was a result of settlements of prior years' third-party reimbursements net of reserve for potentially uncollectible loans from related organizations and is reflected in the accompanying consolidated statements of operations as third-party reimbursement settlements and other provisions in other items.

Tax Status

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

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. The impact of the Taxpayer Certainty and Disaster Tax Relief Act of 2019 was not significant to the accompanying consolidated financial statements.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

Sale of Captive Insurance Company

On November 27, 2018, the Hospital, BIMC, Montefiore Health System, and Maimonides Medical Center, collectively the owners of Hospitals Insurance Company (HIC) and FOJP Service Corporation (FOJP), announced their agreement to sell HIC and FOJP to The Doctors Company for \$718.9 million, after closing adjustments. The transaction closed on July 31, 2019, and the hospitals shared in the proceeds ratably according to their ownership. The Hospital received approximately \$170.6 million in 2019 and recorded a gain on the sale of approximately \$14.6 million (See Note 7).

Recently Adopted Accounting Pronouncements

Effective January 1, 2019, the Hospital adopted ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). ASU 2016-01 requires business-oriented health care not-for-profit entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in the performance indicator unless the investments qualify for a new practicability exception. The Hospital adopted ASU 2016-01 effective January 1, 2019. The adoption of ASU 2016-01 did not have a material impact on the consolidated financial statements.

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 the 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 to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The recognition, measurement and presentation of expenses and cash flows arising from a lease primarily depends on its classification as a finance or operating lease.

The Hospital adopted ASU 2016-02 effective January 1, 2019, following the modified retrospective method of application. As such, 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

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

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 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.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Hospital adopted ASC 2016-18 effective December 31, 2019. 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 has adopted ASU 2016-18 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

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

after December 15, 2018. The Hospital adopted ASU 2017-07 effective in its December 31, 2019, consolidated financial statements, which required the service cost component of net periodic benefit cost related to its defined benefit plan and other postretirement plan to be reported 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 excess of operating revenue over operating expenses before other items. 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 have a material impact on the Hospital's consolidated financial statements.

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

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, 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 requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. ASU 2018-15 also requires the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, amongst other provisions. The amendments in ASU 2018-15 are effective for annual reporting periods beginning

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

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

Other Recent Accounting Pronouncements

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

In May 2019, the FASB issued ASU 2019-06, *Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958), Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. Under ASU 2019-06, entities that elect the goodwill accounting alternative will amortize goodwill and perform a one-step impairment test, at either the entity level or the reporting unit level, only when an impairment indicator exists. Entities that elect the intangible asset accounting alternative may recognize fewer intangible assets in an acquisition, and they would be required to elect the goodwill accounting alternative. Entities that elect to adopt the alternatives do not have to demonstrate preferability and will follow the alternatives’ transition guidance. Entities that elect this accounting alternative will amortize goodwill on a straight-line basis over 10 years or over a shorter period if they are able to demonstrate that another useful life is more appropriate. The Hospital has not completed the process of evaluating the impact of ASU 2019-06 on its consolidated financial statements.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

The FASB has amended certain guidance related to various disclosures in 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*. 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. 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 2018-13: 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.

Reclassifications

Certain reclassifications have been made to 2018 balances previously reported in order to conform with the 2019 presentation. These reclassifications have no impact on the net assets previously reported.

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

Net patient service revenue is reported at the amount that reflects the consideration for which the Hospital expects to be entitled in exchange for providing patient care.

The Hospital uses a portfolio approach to account for categories of patient contracts as collective groups rather than recognizing revenue on an individual contract basis. The portfolio consists of major payor classes for inpatient revenue and 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 Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

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 (see description of third-party payor payment programs below). The estimates for contractual allowances and discounts are based on contractual agreements, the Hospital's discount policies and historical experience. For uninsured and under-insured patients who do not qualify for charity care, the Hospital determines the transaction price associated with services rendered 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.

Generally, the Hospital bills patients and third-party payors after the services are performed and the patient is discharged. Net patient service revenue is recognized as 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 actual charges incurred in relation to total charges. The Hospital believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in the Hospital's outpatient settings. 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.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

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. For the years ended December 31, 2019 and 2018, 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 years were not significant. Portfolio collection estimates are updated based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2019 and 2018, was not significant.

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

Net patient service revenue disaggregated by payor comprises the following for the years ended December 31:

	2019	2018
	<i>(In Thousands)</i>	
Medicare	\$ 579,281	\$ 542,529
Medicare HMO	301,204	268,569
Medicaid	98,071	118,017
Medicaid HMO	419,464	437,722
Blue Cross	572,361	524,480
Managed care	700,566	637,630
Commercial and other	175,065	151,375
Self-pay	41,762	33,107
	\$ 2,887,774	\$ 2,713,429

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

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

Net patient service revenue disaggregated by lines of service comprises the following for the years ended December 31:

	2019	2018
	<i>(In Thousands)</i>	
Inpatient services	\$ 1,901,430	\$ 1,807,617
Outpatient services	986,344	905,812
	\$ 2,887,774	\$ 2,713,429

Patient accounts receivable, net is comprised of the following components for the years ended December 31:

	2019	2018
	<i>(In Thousands)</i>	
Patient receivables	\$ 364,790	\$ 343,607
Contract assets	34,494	26,740
	\$ 399,284	\$ 370,347

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

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

2. Accounts Receivable for Services to Patients and 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. 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.

Other Third-Party Payors: The Hospital also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge or days of hospitalization and discounts from established charges.

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 2002, and for 2005 through 2014, although revisions to final settlements or other retroactive changes could be made. Other years and various issues remain open for 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 will change by a material amount when open years are settled, audits are completed and additional information is obtained.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

Settlements with third-party payors (see description of third-party payor payment programs above) 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.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital. 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.

In addition, certain contracts the Hospital has with commercial payors also provide for retroactive audit and review of claims.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

There are various proposals at the federal and state levels that could, among other things, significantly change 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 Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. Significant concentrations of patient accounts receivable, net at December 31, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Medicare	15%	16%
Medicaid	23	22
Blue cross	13	13
Managed care and other	45	46
Self-pay	4	3
	<u>100%</u>	<u>100%</u>

Uncompensated Care and Community Benefit Expense

For patients who are deemed eligible for charity care and patients who apply and qualify for financial aid under the Hospital's financial aid policy, care given but not paid for is classified as charity care. For the years ended December 31, 2019 and 2018, the estimated cost of charity care was approximately \$45.0 million and \$46.4 million, respectively. The estimated cost of charity care includes the direct and indirect cost of providing charity care services and is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

Vital Access Provider Safety Net Program and Medicaid Enhanced Rates

In September 2015, MSHG entered into an agreement with the New York State Department of Health (NYSDOH) to participate in the Vital Access Provider/Safety Net Program (VAP). MSHG was awarded approximately \$81.4 million in VAP funding over three years. In accordance with the governing agreement, MSHG submitted quarterly reports to the NYSDOH, detailing how the VAP funds were being expended, in line with approved objectives, budgets, timelines and benchmarks. In addition, MSHG has committed to complete a full asset merger of the Hospital, BIMC, SLR and NYEEL. The full asset merger is expected to be completed no later than January 1, 2021. MSHG continues to have discussions with the NYSDOH regarding the provisions of the proposed full asset merger.

The NYSDOH had also agreed to provide certain MSHG member hospitals with a temporary Medicaid rate enhancement for three years. The enhanced Medicaid rates were paid to the MSHG member hospitals directly by the Medicaid program or Medicaid managed care payors as patient services were rendered. The MSHG member hospitals recognized revenue from the VAP payments on a quarterly basis as reporting requirements were completed and approved expenditures were incurred. The Hospital recognized VAP revenue of approximately \$4.0 million in 2019 (\$25.0 million in 2018). All amounts related to VAP funding for the MSHG member hospitals were received by BIMC; For the year ended December 31, 2018, amounts due to the Hospital related to VAP funding were recorded as a component of due from related organizations. There were no such transfers made for the year ended December 31, 2019. In accordance with VAP stipulations, MSHG spent all remaining VAP funds during the first quarter of 2019.

The Medicaid rate enhancement ended on March 31, 2018, and as such, no revenue was recognized in 2019. The Hospital recognized approximately \$4.7 million in 2018 of revenue associated with the Medicaid rate enhancements; the Hospital transferred the full amounts to BIMC in 2018 (see Note 11). In the event that conditions of the governing agreement are not met, funding associated with the VAP program and the enhanced Medicaid rates will be refundable to the NYSDOH. Management believes the possibility that the condition will not be met is remote.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

3. Investments and Assets Limited as to Use

Investments are maintained as follows:

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Pooled investments	\$ 1,049,383	\$ 900,539
Non-pooled investments	359,765	660,178
	<u>\$ 1,409,148</u>	<u>\$ 1,560,717</u>

At December 31, 2019 and 2018, approximately \$13.2 million and \$22.3 million, respectively, of pooled investments is included in short-term investments. Non-pooled investments primarily consist of marketable short-term investments, investment in a captive insurance program (see Note 7) and certain non-marketable investments recorded under the equity method of accounting. Marketable short-term investments consist of money market funds and fixed income securities.

The following table summarizes the composition of the investment pool at December 31, 2019 and 2018; the Hospital's interests in the pooled investment components are proportionate based on the ratio of its pooled investment balance to the total of the pool. The Hospital owned 52.6% and 51.9% of the investment pool at December 31, 2019 and 2018, respectively.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 25,165	\$ 43,870
Fixed income:		
Mutual funds	24,153	4,241
Equities:		
U.S. equities	198,906	129,962
Global equities	59,771	47,802
Non-U.S. equities	168,754	133,291
Alternative investments:		
Hedge funds:		
Long-only equity ^(a)	315,111	213,772
Hedged equity ^(b)	339,801	324,608
Long/short credit ^(c)	58,749	64,407
Open mandate ^(d)	296,325	283,157
Macro ^(e)	105,610	122,529
Private investments:		
Equity ^(f)	105,763	75,482
Credit/distressed ^(g)	62,827	65,216
Real assets ^(h)	233,203	224,672
	\$ 1,994,138	\$ 1,733,009

^(a) Investments, consisting of publicly traded equity holdings with long positions.

^(b) Investments, consisting primarily of publicly traded equity holdings with both long and short positions.

^(c) Investments, consisting primarily of publicly traded credit holdings with both long and short positions.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

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

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

	2019	2018
	<i>(In Thousands)</i>	
Interest and dividend and other income	\$ 8,586	\$ 6,615
Net realized gains on sales of securities	94,267	80,920
Change in net unrealized gains and losses and change in value of alternative investments	195,198	(124,976)
Fees and other expenses	(6,488)	(7,136)
Total	\$ 291,563	\$ (44,577)

The Hospital was allocated a total investment return from the pool based on agreements among the pool participants and donor stipulations of approximately \$148.6 million and \$(26.2) million in 2019 and 2018, respectively.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

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

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

	2019	2018
	<i>(In Thousands)</i>	
Interest, dividend, and other income	\$ 15,419	\$ 10,738
Net realized gains on sales of securities	42,002	34,028
	\$ 57,421	\$ 44,766
Net change in unrealized gains and losses on investments and change in value of alternative investments	\$ 103,424	\$ (60,131)

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

	2019	2018
	<i>(In Thousands)</i>	
Assets held under long-term debt agreements:		
Construction funds	\$ 1,023	\$ 3,864
Debt service fund	12,773	9,905
Debt service reserve fund	–	34,525
Internally designated for debt service	–	19,487
Funded depreciation	1,589	1,552
Delivery System Reform Incentive Payment program (DSRIP)	62,575	4,475
Total assets limited as to use	77,960	73,808
Less current portion	75,387	33,868
Assets limited as to use, less current portion	\$ 2,573	\$ 39,940

As the lead partner in its DSRIP PPS, the Hospital maintains an account for funds to be distributed to its PPS partners. A corresponding liability of \$62.6 million and \$4.5 million in 2019 and 2018, respectively, is included in other current liabilities.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

4. Property, Plant, and Equipment

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

	2019	2018
	<i>(In Thousands)</i>	
Land and improvements	\$ 49,617	\$ 49,617
Buildings and improvements	652,696	649,041
Condominium interest <i>(Note 5)</i>	110,133	110,133
Fixed equipment	673,787	646,734
Movable equipment	1,069,166	980,628
	2,555,399	2,436,153
Less leasehold interest of the School	(68,146)	(68,146)
	2,487,253	2,368,007
Less accumulated depreciation and amortization	(1,504,226)	(1,410,385)
	983,027	957,622
Capital projects in progress <i>(Note 5)</i>	61,687	27,129
	\$ 1,044,714	\$ 984,751

The Hospital capitalizes costs incurred in connection with the development of internal use software or purchased software modified for internal use. In 2019 and 2018, approximately \$4.1 million and \$5.4 million was capitalized, respectively.

In 2019 and 2018, the Hospital wrote off approximately \$24.8 million and \$26.8 million, respectively of fully depreciated assets that were no longer in use.

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

At December 31, 2019 and 2018, approximately \$11.8 million is included in buildings and improvements representing amounts paid by the Hospital to the School relating to a portion of a multipurpose building owned by the School that is leased and used by the Hospital. Under the terms of a lease agreement relative to this space, the Hospital made payments of approximately \$3.5 million and \$3.7 million in 2019 and 2018, respectively, for its share of the operating costs.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

4. Property, Plant, and Equipment (continued)

The Hospital entered into a lease agreement with the School for a portion of the Center for Advanced Medicine building that is used by the Hospital. At December 31, 2019 and 2018, approximately \$4.7 million is included in the accompanying consolidated statements of operations representing amounts paid by the Hospital to the School relating to the portion of the building used by the Hospital. In each of 2019 and 2018, under the terms of this lease, the Hospital paid the School approximately \$2.8 million for its share of the operating costs of the related portion of the building.

Future minimum rental commitments under various leases with the School are approximately \$6.0 million in 2020; \$5.8 million in 2021; \$5.5 million in 2022; \$4.6 million in 2023; \$2.8 million in 2024 and \$35.5 million thereafter.

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

5. Long-Term Debt

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

	2019	2018
	<i>(In Thousands)</i>	
Series 2010 bonds; interest rates ranging from 1.8% to 5.0% ^(a)	\$ —	\$ 213,490
Series 2011A bonds; interest rates ranging from 3.0% to 5.0% ^(b)	—	57,465
Series 2013 bonds; interest rate of 2.83% ^(c)	97,067	100,800
Accounts receivable financing ^(d)	1,913	4,462
Promissory note payable, including deferred interest ^(e)	111,482	113,304
Finance lease ^(f)	4,554	5,971
Series 2017 bonds; interest rates ranging from 3.83% to 3.98% ^(g)	382,000	382,000
Series 2019 bonds; interest rate of 3.74% ^(h)	500,000	—
	1,097,016	877,492
Add net bond premium	—	5,048
Less deferred financing costs, net	7,783	7,533
Less current portion	10,607	33,380
	\$ 1,078,626	\$ 841,627

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

- (a) In June 2010, the Hospital refunded and refinanced its outstanding Series 2000 bonds that had been issued through the Dormitory Authority of the State of New York (DASNY), partially at par and partially at 101%. The new bonds (Series 2010) were issued as both taxable and tax-exempt series (approximately \$28.5 million par amount of taxable bonds and approximately \$331.2 million par amount of tax-exempt bonds issued through DASNY). The bonds were scheduled to mature serially through July 1, 2026. Through the proceeds of the Series 2019 bonds, the outstanding balance of approximately \$198.5 million was placed in escrow with a trustee to pay bondholders at future redemption dates during 2020. At December 31, 2019, the Series 2010 bonds are considered defeased and escrow funds are legally isolated to fund defeasance of the Series 2010 bonds when they become due.
- (b) In October 2011, DASNY issued \$65.4 million of tax-exempt bonds (Series 2011A) on behalf of the Hospital. The bonds were issued to finance the Hospital's share of the costs of construction of a cancer treatment center in the Leon and Norma Hess Center for Science and Medicine. The bonds were scheduled to mature serially through July 1, 2041. Through the proceeds of the Series 2019 bonds, the outstanding balance of approximately \$60.1 million was placed in escrow with a trustee to pay bondholders at future redemption dates during 2020 and 2021. At December 31, 2019, the Series 2011A bonds are considered defeased and escrow funds are legally isolated to fund defeasance of the Series 2011A bonds when they become due.
- (c) In December 2013, Build NYC Resource Corporation issued \$112.0 million of tax-exempt bonds (Series 2013) on behalf of the Hospital. The bonds were issued to finance an expansion and renovation project at the Hospital's Queens campus. The bonds mature serially through January 1, 2044; the interest rate is fixed.
- (d) The Hospital had a revolving, amortizing loan with a commercial bank that expired on October 21, 2013. Interest was payable at the 30-day London Interbank Offered Rate plus 0.5% on a quarterly basis; principal also was payable quarterly. The loan was refinanced to a fixed rate of 2.44% and expires on October 21, 2020. Interest and principal are due quarterly. Under the terms of the agreement, the Hospital is required to maintain certain financial ratios and was in compliance with these ratios at December 31, 2019 and 2018.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

^(e) In August 2014, the Hospital entered into a transaction pursuant to which the Hospital obtained approximately 450,000 square feet of space located at 150 East 42nd Street to consolidate corporate services of MSHS. The space replaced existing leased and owned office space to provide additional capacity for clinical and research activities. A leasehold condominium interest was purchased by the Hospital and, shortly thereafter, transferred to a special-purpose, limited liability company formed by the Hospital (included in the accompanying consolidated financial statements). The purchase was financed through the issuance of a promissory note payable with a principal amount of \$110.1 million, interest at a rate of 8%, and payments beginning in June 2015 and ending in March 2046. Payment of interest was deferred from August 2014 until May 2015. The Hospital and the School guaranteed, on a joint and several basis, all of the obligations of the Hospital which include note payments, operating expenses and other carrying costs and charges, some of which escalate annually. The property is collateral for the related financing. In connection with this transaction, the seller/landlord provided the Hospital with a leasehold improvement/tenant allowance of approximately \$35.3 million. Amortization of the leasehold improvement/tenant allowance commenced in 2015.

Common charges for the 150 East 42nd Street leasehold condominium property subsequent to December 31, 2019, are as follows (in thousands):

2020	\$	8,040
2021		8,040
2022		8,040
2023		8,040
2024		8,443

^(f) In June 2016, the Hospital entered into a \$9.8 million capital lease to finance the acquisition of hospital beds for the use of the members of MSHG. The lease term is for seven years at an effective interest rate of 1.91%.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

- ^(g) In December 2017, the Hospital issued \$382.0 million of taxable bonds for general taxable purposes. Certain proceeds of the bonds (approximately \$106.0 million) were used to repay the outstanding debt of BIMC which the Hospital had previously guaranteed. Funds loaned to BIMC from the Hospital are recorded as a component of due from related organizations. Other proceeds of the bonds were used to repay the Hospital's \$40.0 million bank loan noted above. The bonds are structured with interest only payments until 2031 and two bullet maturities: one in 2035 and the second in 2048. There are mandatory annual sinking payments beginning in 2031.
- ^(h) In November 2019, the Hospital issued \$500.0 million of taxable bonds (Series 2019) for general purposes. The Series 2019 bonds are structured with interest only payments through 2044 and one bullet maturity in 2049. Annual sinking fund payments begin in 2045. As noted above, Certain proceeds of the bonds (approximately \$258.6 million) were placed in escrow to pay bondholders at future redemption dates. In connection with the refunding of the 2010 and 2011 series bonds, the Hospital recognized a loss in 2019 of approximately \$5.9 million, principally related to the write off of deferred financing costs and the payment of the call premiums. The Hospital incurred approximately \$4.3 million of financing cost in connection with the issuance that will be amortized over the life of the bonds using the effective interest method.

As security for its obligations under the Series 2013, Series 2017 and Series 2019 bonds, the Hospital provides a gross receivable pledge. For Series 2010 and 2011A the Hospital also executed a mortgage on its patient care property. Furthermore, the Hospital agreed to limitations on its ability to transfer assets and borrow additional funds as well as other limitations. In accordance with the Master Trust Indenture, the Hospital agreed to maintain a minimum debt service coverage ratio which is calculated annually. Previously, the Hospital was required to maintain certain financial ratios, including a debt service coverage ratio and days cash-on-hand ratio as well as maintain certain debt service funds and other reserve funds (included in assets limited as to use at December 31, 2018). At December 31, 2019 and 2018, the Hospital was in compliance with the minimum debt service coverage ratio and other required financial ratios, respectively.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

Principal payments on long-term debt subsequent to December 31, 2019, are as follows (in thousands):

2020	\$	10,607
2021		9,785
2022		10,170
2023		9,439
2024		9,199
Thereafter		<u>1,047,816</u>
Total		<u>\$ 1,097,016</u>

Interest paid for the years ended December 31, 2019 and 2018, aggregated approximately \$27.6 million and \$21.8 million, respectively. In 2019, the Hospital capitalized net interest of approximately \$3.1 million relating to construction activity in progress (\$1.6 million in 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, the classification of which is based on the underlying terms of the agreement and certain criteria, such as lease term relative to useful life and total lease payments compared to fair value, among others. Finance leases result in an accounting treatment similar to an acquisition of the asset.

For leases with initial terms greater than one 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

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

6. Leases (continued)

using a period comparable with that of the lease term. The Hospital has made an accounting policy election not to separate lease components from non-lease components in contracts when determining its lease payments, as permitted by ASU 2016-02. As such, the Hospital accounts 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 one year as right-of-use assets and liabilities.

Upon the adoption of ASU 2016-02, operating leases with a present value of approximately \$402.7 were recorded as right of use assets and liabilities.

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

Right of use assets and liabilities

Right of use assets – operating leases	<u>\$ 391,894</u>
Lease liability – operating leases	<u>\$ 401,219</u>

Other information

Operating cash flows from operating leases	26,004
Weighted-average remaining lease term – operating leases	22.81
Weighted-average discount rate – operating leases	2.93%

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

6. Leases (continued)

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 right-of-use assets and lease liabilities are recorded in operating lease liabilities, current and non-current, in the accompanying consolidated statement of financial position.

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

	Finance Leases	Operating Leases
2020	\$ 3,063	\$ 25,675
2021	1,241	22,177
2022	1,017	19,792
2023	243	17,586
2024	–	15,181
Thereafter	–	487,958
Total lease payments	5,564	588,369
Less imputed interest	(1,010)	(187,150)
Total lease obligations	4,554	401,219
Less current portion	–	(14,291)
Long-term portion	\$ 4,554	\$ 386,928

Rental expense to unrelated parties approximated \$31.2 million and \$27.5 million in 2019 and 2018, respectively.

7. Professional Liabilities Insurance Program

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

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

7. Professional Liabilities Insurance Program (continued)

As described in Note 1, the Hospital, BIMC, Maimonides Medical Center and Montefiore Medical Center, collectively the owners of HIC and FOJP, announced their agreement to sell HIC and FOJP to The Doctors Company for approximately \$718.9 million, after closing adjustments. The transaction closed on July 31, 2019, and the hospitals shared in the proceeds ratably according to their ownership. HIC has provided the hospitals and related physicians with medical malpractice insurance for 40 years. Healthcare Risk Advisors (HRA) (formerly FOJP), continues to provide the same services to the Hospital and the member hospitals as prior to the transaction.

As of December 31, 2019, the Hospital retained ownership interest of 25% in two captive insurance companies affiliated with the FOJP Program. The Hospital follows the equity method of accounting for its investment in the captive insurance companies and has recognized its allocated share of a portion of the program's accumulated surplus.

The aggregate net carrying value of the Hospital's interests in the insurance program was approximately \$56.5 million and \$200.6 million at December 31, 2019 and 2018, respectively, which is included in other investments in the accompanying consolidated statements of financial position. During the years ended, December 31, 2019 and 2018, the Hospital received cash distributions of approximately \$25.3 million and \$42.8 million, respectively.

During the years ended December 31, 2019 and 2018, the Hospital recorded approximately \$55.0 million and \$49.3 million, respectively, of net change in participation in captive insurance program in the consolidated statements of operations. Approximately \$25.3 million and \$29.7 million of the 2019 amount related to retroactive premium adjustments and net change in equity investments in the captive insurance companies, respectively. Approximately \$25.0 million and \$24.3 million of the 2018 amounts related to retroactive premium adjustments and net change in equity investments in the captive insurance companies, respectively.

The estimate of professional liabilities and the estimate for incidents that have been incurred but not reported is included in professional liabilities in the accompanying consolidated statements of financial position at the actuarially determined present value of approximately \$170.2 million (\$219.2 million at December 31, 2018), based on a discount rate of 3.5% and 4% at December 31, 2019 and 2018, respectively. The Hospital has recorded related insurance recoveries receivable of approximately \$170.2 million at December 31, 2019 (\$219.2 million at December 31, 2018), in consideration of the expected insurance recoveries. The current portion of professional liabilities and the related insurance recoveries receivable represent an estimate of expected settlements and insurance recoveries over the next 12 months.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

7. Professional Liabilities Insurance Program (continued)

The Hospital, as part owner of its malpractice captive, guarantees a certain level of investment return of the captive insurance companies and may be required to fund shortfalls resulting from differences between guaranteed and actual investment returns. The Hospital and the School were not required to fund any differences in 2019 and 2018.

The Hospital's estimates of professional liabilities are based upon complex actuarial calculations, which utilize factors such as historical claims experience for the Hospital and related industry factors, trending models, estimates for the payment patterns of future claims, and present value discount factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

Effective January 1, 2018, the Mount Sinai Health System Self-Insurance Trust (the Self-Insurance Trust) was established to provide coverage in excess of FOJP Program limits. Currently, the Hospital, BIMC, SLR, and NYEEI participate in the Self-Insurance Trust, which is irrevocable.

As of December 31, 2019, the Self-Insurance Trust held investments of \$92.4 million on behalf of the Hospital and a payable to the Hospital of \$9.1 million (\$39.9 million and a receivable from the Hospital of \$4.2 million as of December 31, 2018), both of which are included in beneficial interest in self-insurance trust in the accompanying 2019 consolidated statement of financial position and consolidated statement of operations, respectively. In addition, as of December 31, 2019 and 2018, the Self-Insurance Trust had actuarially determined liabilities of approximately \$83.3 million and \$44.1 million respectively, discounted at 3.5% (for each year ended December 31, 2019 and 2018) which are included as estimated self-insurance liability in the consolidated statements of financial position.

8. Pension and Similar Plans and Other Postretirement Benefits

The Hospital provides pension and similar benefits to its employees through several defined benefit multiemployer union plans and tax-sheltered annuity plans. Payments to the tax-sheltered annuity plans are generally based on percentages of annual salaries. It is the Hospital's policy to fund accrued costs under these plans on a current basis. The Hospital's pension expense under all plans for the years ended December 31, 2019 and 2018, aggregated approximately \$87.4 million and \$81.3 million, respectively.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

8. Pension and Similar Plans and Other Postretirement Benefits (continued)

Additionally, the Hospital and the School jointly offer a 457(b) plan to certain of their respective employees. Contributions, through payroll deductions, are made solely by the employees. The contributions are maintained in individual accounts held by a custodian and remain an asset and liability of the employer until the participant terminates employment. At December 31, 2019 and 2018, approximately \$17.1 million and \$13.1 million, respectively, is included in other assets and other liabilities in the accompanying consolidated statements of financial position related to the 457(b) plan.

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

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

The Hospital recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its retiree benefits plan, with a corresponding adjustment to unrestricted net assets for the portion of the unfunded liability that has not been recognized as postretirement cost. The adjustment to net assets without donor restrictions represents the net unrecognized actuarial losses and unrecognized prior service cost, which will be subsequently recognized as a component of net periodic postretirement cost through amortization.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

8. Pension and Similar Plans and Other Postretirement Benefits (continued)

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

	2019	2018
	<i>(In Thousands)</i>	
Reconciliation of the benefit obligation		
Obligation at January 1	\$ 11,081	\$ 17,876
Service cost	55	300
Interest cost	465	777
Actuarial net loss (gain)	2,192	(5,508)
Benefit payments	<u>(2,830)</u>	<u>(2,364)</u>
Obligation at December 31	<u>\$ 10,963</u>	<u>\$ 11,081</u>
Funded status		
Net amount recognized – current portion	\$ 1,272	\$ 1,250
Net amount recognized – long-term portion	<u>9,691</u>	<u>9,831</u>
Total	<u>\$ 10,963</u>	<u>\$ 11,081</u>

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

	2019	2018
	<i>(In Thousands)</i>	
Unrecognized actuarial gain (loss)	<u>\$ 2,191</u>	<u>\$ (6,089)</u>

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

	2019	2018
	<i>(In Thousands)</i>	
Unrecognized actuarial loss (gain)	<u>\$ 1,319</u>	<u>\$ (872)</u>

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

8. Pension and Similar Plans and Other Postretirement Benefits (continued)

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

2020	\$	1,272
2021		1,276
2022		1,217
2023		1,137
2024		1,026
2025 to 2029		3,732

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

	2019		2018
	<i>(In Thousands)</i>		
Service cost	\$ 55	\$	300
Interest cost on projected benefit obligation	466		777
Net amortization	–		581
Total net periodic postretirement cost	<u>\$ 521</u>	<u>\$</u>	<u>1,658</u>

The weighted-average discount rate used in the measurement of the Hospital's benefit obligation was 3.23% and 4.55% for 2019 and 2018, respectively. The weighted-average discount rate used in the measurement of net periodic postretirement cost was 4.45% for 2019 and 3.85% for 2018. For measurement purposes relative to 2019, an annual rate of increase in the per capita cost of covered health care benefits was assumed to be initially 6.9%, grading down to an ultimate rate of 5% in 2022. A 5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2019.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

8. Pension and Similar Plans and Other Postretirement Benefits (continued)

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

	2019		2018	
	1% Increase	1% Decrease	1% Increase	1% Decrease
	<i>(In Thousands)</i>			
Effect on total of service and interest cost components of net periodic postretirement cost	\$ 9	\$ (8)	\$ 11	\$ (10)
Effect on the health care component of the accumulated benefit obligation	222	(207)	202	(188)

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

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

The Hospital's participation in these plans for the years ended December 31, 2019 and 2018, is outlined in the table below. The "EIN Number" column provides the Employer Identification Number (EIN). Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2019 and 2018 is for a plan's year-end at December 31, 2018. The zone status is based on information that the Hospital received from the plans and is certified by the plans' actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is pending or has been implemented.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

8. Pension and Similar Plans and Other Postretirement Benefits (continued)

The last column lists the expiration dates of the collective bargaining agreements to which the plans are subject.

Pension Fund	EIN Number	Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	Contributions by the Hospital		Surcharge Imposed	Expiration Date of Collective- Bargaining Agreement
			2019	2018		2019	2018		
<i>(In Thousands)</i>									
New York State Nurses Association Pension Plan	13-6604799	001	Green as of 1/01/2019	Green as of 1/01/2018	No	\$ 27,373	\$ 23,829	No	12/31/2022
1199 SEIU Health Care Employees Pension Fund	13-3604862	001	Green as of 1/01/2019	Green as of 1/01/2018	No	35,575	34,340	No	09/30/2021
Local 32BJ SEIU	13-1879376	001	Red as of 7/01/2019	Red as of 7/01/2018	Yes	232	217	No	04/20/2022

The Hospital was listed in the New York State Nurses Association Pension Plan's Forms 5500 as providing more than 5% of the total contributions during each of the plan's 2018 and 2017 plan years. At the date the Hospital's consolidated financial statements were issued, Forms 5500 are not yet available for any of the Pension funds for the plan years ended in 2019.

9. Net Assets with Donor Restrictions

Net assets with donor restrictions include endowments that have been restricted by donors to be maintained in perpetuity and invested by the Hospital.

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

The Hospital has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies within net assets with donor restrictions the original value of the gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Accumulations to the permanent endowment are used in accordance with the direction of the applicable donor gift. The remaining portion of the donor-restricted endowment fund is also classified in net assets with

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

9. Net Assets with Donor Restrictions (continued)

donor restrictions until the amounts are appropriated for expenditure in accordance with a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) the duration and preservation of the fund; (2) the purposes of the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the institution; (6) the expected total return from income and the appreciation of investments; (7) other resources of the Hospital; and (8) the investment and spending policies of the Hospital. The Hospital's policies provide the guidelines for setting the annual spending rate (4.5% in 2019 and 2018, respectively) and the treatment of any investment returns in excess of the annual spending rate. The endowment spend rate is calculated on the average three-year rolling market value of each endowed fund. Any excess investment returns beyond the spending rate, to the extent available, are added to the endowed fund and classified as net assets with donor restrictions, unless also appropriated for expenditure. The Hospital expends the income distributed from certain restricted assets on an annual basis in support of health care services (2019 and 2018 distributions totaled approximately \$33.4 million and \$32.1 million, respectively).

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

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

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

9. Net Assets with Donor Restrictions (continued)

Net assets with donor restrictions that are temporary in nature are available to support program activities as stipulated by donors. Net assets with donor restrictions that are perpetual in nature are restricted to investment in perpetuity with the income expendable to support program activities as stipulated by donors. Net assets with donor restrictions that are temporary in nature are restricted as follows at December 31:

	2019	2018
	<i>(In Thousands)</i>	
Plant replacement and plant operating funds	\$ 17,876	\$ 657
Other specific-purpose funds	96,523	107,798
	\$ 114,399	\$ 108,455

Net assets with donor restrictions that are perpetual in nature are restricted as follows at December 31:

	2019	2018
	<i>(In Thousands)</i>	
Investments to be held in perpetuity, the income from which is restricted for research and other purposes of the School	\$ 27,137	\$ 27,137
Investments to be held in perpetuity, the income from which is unrestricted as to use	58,824	58,824
	\$ 85,961	\$ 85,961

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

During 2019 and 2018, net assets were released from restrictions as follows:

	2019	2018
	<i>(In Thousands)</i>	
Capital asset acquisitions	\$ 512	\$ 4,654
Other specific-purpose funds (various services)	33,440	32,053
	\$ 33,952	\$ 36,707

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

10. Functional Expenses

The Hospital provides inpatient and outpatient health care and related services, including graduate medical education, to patients throughout the world. Expenses related to its services for the years ended December 31, 2019 and 2018, were as follows:

	December 31, 2019			December 31, 2018		
	Health Care and Related Services	Program Support and General Services	Total	Health Care and Related Services	Program Support and General Services	Total
Salaries and wages	\$ 990,989	\$ 148,079	\$ 1,139,068	\$ 914,501	\$ 136,950	\$ 1,051,451
Employee benefits	246,131	36,778	282,909	239,026	34,059	273,085
Supplies and other	1,129,384	154,007	1,283,391	1,025,680	153,262	1,178,942
Insurance	39,515	5,388	44,903	34,400	5,140	39,540
Depreciation	99,585	14,880	114,465	94,586	14,134	108,720
Interest and amortization	27,802	4,154	31,956	29,904	4,468	34,372
Total	<u>\$ 2,533,406</u>	<u>\$ 363,286</u>	<u>\$ 2,896,692</u>	<u>\$ 2,338,097</u>	<u>\$ 348,013</u>	<u>\$ 2,686,110</u>

The financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, interest and other occupancy costs are allocated to a function based on square footage or units of service basis. Allocated healthcare services costs not allocated on a units of service basis are otherwise allocated based on revenue.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

11. Related Organizations

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

	2019	2018
	<i>(In Thousands)</i>	
The School, net ^(a)	\$ 361,862	\$ 269,727
MSMC Realty Corporation (Realty Corp.) ^(b)	96,215	91,872
MSMC Residential Realty LLC (MSMCRRC) ^(c)	982	(69)
The Medical Center	791	738
BIMC ^(d)	103,971	59,143
BIMC Loan ^(d)	105,776	105,776
SLR ^(e)	142,509	73,538
SLR Loan ^(e)	167,027	103,518
NYEEI ^(f)	2,315	1,708
MSSN ^(g)	1,101	1,002
Other	3	438
Total due from related organizations	982,552	707,391
Less current portion	137,850	200,797
Due from related organizations, less current portion	\$ 844,702	\$ 506,594

^(a) Transactions charged (at cost) by the Hospital to the School totaling approximately \$2.0 billion in 2019 (\$1.8 billion in 2018), include payroll and benefits charges (93%) and various other shared services (7%).

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

Additionally, the Hospital purchases professional services from the School for the clinical care of its patients, teaching and supervision of its residents, the performance of certain administrative functions, and various strategic initiatives. The Hospital paid approximately \$317.0 million and \$293.1 million in 2019 and 2018, respectively, for these services.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

11. Related Organizations (continued)

At December 31, 2019 and 2018, the Hospital was owed approximately \$29.2 million by the School in relation to capital building projects.

- (b) The payable to Realty Corp. primarily relates to property, equipment and office space rental transactions, as well as other administrative transactions. In 2015 all of Realty Corp.'s income collected, net of expenses and reasonable estimates of anticipated liabilities, of approximately \$1.1 million was distributed to the Hospital, in accordance with an agreement among Realty Corp.'s members (included in investment income). In 2019 and 2018, the Hospital transferred approximately \$0.2 million to Realty Corp. No amounts were distributed by Realty Corp. to the Hospital in 2018 or 2019. In 2018 Realty Corp. acquired a building for approximately \$79 million. The purchase was funded by the Hospital and is included in the balance of amounts due from Realty Corp. The Hospital has entered into a lease agreement for the rental of certain property and equipment from Realty Corp. for a term of 30 years. Rental expense in 2019 and 2018, relative to the lease agreement with Realty Corp., was approximately \$2.4 million in 2019 and \$1.6 million in 2018. Future minimum rental commitments under the lease are approximately \$2.3 million in 2020; \$2.1 million in 2021; \$2.0 million in 2022; \$1.4 million in 2023; \$0.5 million in 2024.

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

	2019	2018
	<i>(In Thousands)</i>	
Total assets	\$ 102,530	\$ 97,627
Total liabilities	97,532	92,629
Net assets	<u>\$ 4,998</u>	<u>\$ 4,998</u>

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

11. Related Organizations (continued)

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

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

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

	2019	2018
	<i>(In Thousands)</i>	
Total assets	\$ 105,395	\$ 109,836
Total liabilities	143,891	145,552
Net deficit	\$ (38,496)	\$ (35,716)

- ^(d) Transactions charged (at cost) by the Hospital to BIMC, totaling approximately \$18.4 million in 2019 (\$22.9 million in 2018), include various shared services (100%) and excludes certain intercompany transactions such as other revenue transfers. Included in the benefits charges are certain employee health plan claims and premiums, which are paid by the Hospital and, subsequently, charged to BIMC.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

11. Related Organizations (continued)

The Hospital used part of the Series 2017 Bond issuance to payoff BIMC long term debt and setup a corresponding loan receivable of \$105.8 million from BIMC which is included in the amount due from BIMC. The loan bears interest at 4%.

- (e) Transactions charged (at cost) by the Hospital to SLR, totaling approximately \$91.0 million in 2019 (\$78.3 million in 2018), include payroll and benefits charges (56%) and various other shared services (44%) and excludes certain transactions such as revenue transfers. Included in the benefits charges are certain employee health plan claims and premiums, which are paid by the Hospital and, subsequently, charged to SLR.

The Hospital entered into a promissory note agreement with SLR for up to \$200 million to fund various capital projects, with monthly interest-only payments until July 1, 2030. The loan balance of \$167.0 million and \$103.5 million in 2019 and 2018 respectively, is included in the amount due from SLR. The loan bears interest at 4%.

- (f) Net transactions charged (at cost) by the Hospital to NYEEI, totaling approximately \$8.7 million in 2019 (\$8.8 million in 2018), include payroll and benefits charges (69%) and various other shared services (31%). Included in the benefits charges are certain employee health plan claims and premiums, which are paid by the Hospital and, subsequently, charged to NYEEI.
- (g) Transactions charged (at cost) by the Hospital to MSSN, totaling approximately \$5.4 million in 2019, include payroll and benefits charges (59%) and various other shared services (41%). Included in the benefits charges are certain employee health plan claims and premiums, which are paid by the Hospital and, subsequently, charged to MSSN.

During 2010, 8 East 102nd Street LLC was formed under the New York State Limited Liability Company Law for the sole purpose of supporting its member corporation by managing, maintaining, holding, developing, acquiring, or disposing of real property for its benefit. The School, the Medical Center, and the Hospital are the members of 8 East 102nd Street Manager LLC (the Manager), which is the sole member of 8 East 102nd Street LLC. The Hospital guarantees a letter of credit which supports bonds issued by 8 East 102nd Street LLC; the debt had an outstanding balance of approximately \$143.7 million at December 31, 2019 and 2018.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

11. Related Organizations (continued)

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

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

This agreement includes equity in income or loss of the Manager, as well as cash distributions. Accordingly, the Hospital transferred equity in income of related party of approximately \$123 million and \$2,000 to the School in 2019 and 2018, respectively. The Manager distributed approximately \$1.4 million and \$5.3 million in 2019 and 2018, respectively, to the School derived from its net activities.

Summarized financial information for 8 East 102nd Street Manager LLC at December 31, 2019 and 2018, is as follows:

	2019	2018
	<i>(In Thousands)</i>	
Total assets	\$ 97,766	\$ 103,292
Total liabilities	(142,116)	(142,052)
Members' deficit (including non-controlling interest of \$966 in 2019 and \$1,887 in 2018)	\$ (44,350)	\$ (38,760)

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

11. Related Organizations (continued)

Transfers to Affiliates

Transfers to affiliates consists of \$58.4 million in 2019 (\$46.3 million in 2018) for the Hospital's funding of the School's community practice plan deficits, \$4.7 million in 2018 to BIMC for Medicaid enhanced rates (see Note 2), \$25.0 million in 2018 to SLR for EPIC funding, \$20.0 million in 2019 and 2018, respectively for the Hospital's funding of capital projects at MSSN (see Note 1), \$0.1 million transferred from the School for equity income and \$0.6 million in 2019 to BIMC for the Hospital's funding of the IPA .

12. Commitments and Contingencies

Litigation

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

Collective Bargaining Agreements

Approximately 63% of the Hospital's employees are union employees who are covered under the terms of various collective bargaining agreements. The Hospital's contract with 1199SEIU expires on September 30, 2021. The Hospital's contract with NYSNA expires on December 31, 2022.

Other

The Hospital is self-insured, based on individual employees' elections, for medical, dental, and pharmaceutical benefits. The Hospital also is self-insured for unemployment benefits. Liabilities have been accrued at December 31, 2019 and 2018, based on expected future payments pertaining to such years (included in accrued salaries and related liabilities).

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

13. Fair Values of Financial Instruments

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

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

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

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

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

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

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

13. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value by the Hospital as of December 31, 2019 and 2018, are classified in the tables below in one of the three categories described above:

December 31, 2019				
	Level 1	Level 2	Level 3	Total
<i>(In Thousands)</i>				
Cash and cash equivalents	\$ 523,943	\$ –	\$ –	\$ 523,943
U.S. government obligations	–	184,389	–	184,389
Corporate bonds	–	78,286	–	78,286
	\$ 523,943	\$ 262,675	\$ –	786,618
Investments measured at NAV as a practical expedient:				
Pooled investments				1,049,383
				\$ 1,836,001
December 31, 2018				
	Level 1	Level 2	Level 3	Total
<i>(In Thousands)</i>				
Cash and cash equivalents	\$ 144,150	\$ –	\$ –	\$ 144,150
U.S. government obligations	–	334,177	–	334,177
Corporate bonds	–	136,186	–	136,186
	\$ 144,150	\$ 470,363	\$ –	614,513
Investments measured at NAV as a practical expedient:				
Pooled investments				900,539
				\$ 1,515,052

The table does not include other investments that are not carried at fair value (approximately \$90.3 million and \$229.7 million at December 31, 2019 and 2018, respectively) and investments held with the Self-Insurance Trust (see Note 7).

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

13. Fair Values of Financial Instruments (continued)

The following is a summary of total investments (by major category) in the investment pool with restrictions to redeem the investments at the measurement date, any unfunded capital commitments, and investment strategies of the investees as of December 31, 2019:

Description of Investment	Carrying Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Funds Availability
Hedge funds:					
Long-only equity	\$ 315,111	\$ –	Monthly/5 Years	30 to 90 days	3 to 30 days
Hedged equity	339,801	–	Monthly/3 Years	30 to 90 days	30 to 45 days
Long/short credit	58,749	–	Monthly	30 days	180 days
Open mandate	296,325	–	Quarterly/Annual	60 to 90 days	30 days
Macro	105,610	–	Quarterly/Semi annually	45 to 90 days	30 days
Private investments:					
Equity	105,763	114,409	N/A	N/A	N/A
Credit/distressed	62,827	28,124	N/A	N/A	N/A
Real assets	233,203	51,514	N/A	N/A	N/A
	<u>\$ 1,517,389</u>	<u>\$ 194,047</u>			

14. Other Revenue

Other revenue includes operating revenues that are not directly related to the Hospital's patient revenues derived from parking, cafeteria, DSRIP, VAP, and the pharmacy 340B program.

15. Liquidity and Available Resources

Financial assets available for general expenditure within one year of the consolidated statement of financial position date, consist of the following for the years ended:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 439,243	\$ 110,221
Short-term investments	269,234	430,484
Patient accounts receivable, net	399,284	370,347
Pooled investments, net of donor-restricted assets	849,205	706,123
Assets limited as to use	–	19,487
	<u>\$ 1,956,966</u>	<u>\$ 1,636,662</u>

As of December 31, 2019, the Hospital was in compliance with bond covenants; see Note 5.

The Mount Sinai Hospital

Notes to Consolidated Financial Statements (continued)

16. Subsequent Events

For purposes of the accompanying consolidated financial statements, the Hospital has considered for accounting and disclosure events that occurred through March 31, 2020, the date the consolidated financial statements were issued. Except for disclosure below, there were no other subsequent events transactions that resulted in recognition in the accompanying consolidated financial statements or required additional disclosure.

Due to the global viral outbreak caused by Coronavirus Disease 2019 (COVID-19) in 2020, there have been resulting effects which could negatively impact the Hospital's financial condition. The ultimate impact of these matters to the Hospital and its financial condition is presently unknown. The accompanying consolidated financial statements do not reflect the effects of these subsequent events.

Supplementary Information, Audit Reports and
Schedules Related to the Uniform Guidance

The Mount Sinai Hospital

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2019

Federal Department Program Title/Pass-Through Entity	CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Total Federal Expenditures	Expenditures to Subrecipients
Department of Defense					
Basic and Applied Scientific Research					
Pass-through National Marrow Donor Program	12.300	590-RITN	\$ 2,247	\$ 2,247	\$ -
Department of Justice					
Crime Victim Assistance					
Pass-through New York State Crime Victims Board	16.575	OVS01-C11000GG-10802/C100232/C100233/ C100234	-	463,473	-
Department of Health and Human Services					
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements					
Pass-through Public Health Solutions	93.074	16-MSH-01/NU90TP000546	-	70,892	-
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		-	507,435	-
Family Planning Services					
Pass-through New York State Department of Health	93.217	C-027031	-	29,558	-
Immunization Cooperative Agreements					
Pass-through New York State Department of Health and Mental Hygiene	93.268		-	1,499,683	-
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities					
Pass-through Public Health Solutions	93.817	15-MSH-01/02/U3REP150506/77701	-	119,367	-
National Bioterrorism Hospital Preparedness Program					
Pass-through Public Health Solutions	93.889	MSH-03 13-15/76606/17-MSH	-	143,820	-
HIV Emergency Relief Project Grants					
Pass-through Public Health Solutions	93.914	09-MCM-602/18-TPT-602/H89HA00015/19-CCR-602	-	1,204,769	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		-	422,816	-
Special Projects of National Significance					
Pass-through Public Health Solutions	93.928	18-SCD-602/2018.05.HRSA	-	9,314	-
HIV Prevention Activities Non-Governmental Organization Based					
Pass-through AIDS Service Center of Lower Manhattan, Inc	93.939	1 U65 PS004743-01/5 NU65 PS004760-03-00	-	215,917	-
HIV Prevention Activities - Health Department Based					
Pass-through Public Health Solutions	93.940	18-NCT-602/1 NU62PS924575-01/13-SBH-602	-	492,293	-
Maternal and Child Health Services Block Grant to the States					
Pass-through New York State Department of Health	93.994	C022478/C32404GG/C-022464/C-027031	-	430,777	-
Total Department of Health and Human Services			-	5,146,641	-
Total Expenditures of Federal Awards			\$ 2,247	\$ 5,612,361	\$ -

See accompanying notes.

The Mount Sinai Hospital

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2019

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of The Mount Sinai Hospital (the Hospital) and is presented on the accrual basis of accounting. The information on the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements of the Hospital. For purposes of the Schedule, federal awards include any assistance provided by a federal agency directly or indirectly in the form of grants, contracts, cooperative agreements, loan and loan guarantees, or other non-cash assistance.

Direct and indirect costs are charged to awards in accordance with cost principles contained in the United States Department of Health and Human Services *Cost Principles for Hospitals* at 45 CFR Part 75 Appendix IX for awards subject to the Uniform Guidance. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. The Uniform Guidance provides for a 10% de minimis indirect cost rate election; however, the Hospital did not make this election and uses a negotiated indirect cost rate.

2. Vaccines for Children Program

During the year ended December 31, 2019, the Hospital participated in the New York City Department of Health and Mental Hygiene Vaccines for Children Program (CFDA 93.268) through the provision of vaccinations. The United States Department of Health and Human Services, the federal agency that sponsors this program, has determined that the vaccines administered are considered “Property in lieu of Money” and, therefore, should be reported as federal awards received by the Hospital for purposes of presentation in the Schedule.



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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and the Board of Trustees
Mount Sinai Health System, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Mount Sinai Hospital (the Hospital), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 31, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

September 30, 2020



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Report of Independent Auditors on Compliance for The Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Management and the Board of Trustees
Mount Sinai Health System, Inc.

Report on Compliance for The Major Federal Program

We have audited The Mount Sinai Hospital's (the Hospital) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the Hospital's major federal programs for the year ended December 31, 2019. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Hospital's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

Opinion on The Major Federal Program

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

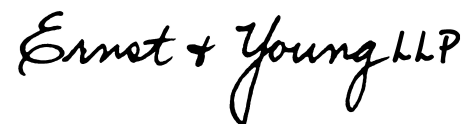
Report on Internal Control Over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



September 30, 2020

The Mount Sinai Hospital

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2019

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified, with emphasis-of-matter paragraph for changes in accounting

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None Reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes X No

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