



Memorial Sloan Kettering  
Cancer Center™

**MEMORIAL SLOAN KETTERING CANCER CENTER**

**QUARTERLY DISCLOSURE REPORT**

**UNAUDITED COMBINED FINANCIAL STATEMENTS FOR**  
**THE PERIOD ENDED SEPTEMBER 30, 2018**

## **Table of Contents**

Disclosures .....	2
Management’s Discussion & Analysis .....	3
Combined Financial Statements .....	4
Notes to Interim Combined Financial Statements .....	8
Debt Compliance Analysis .....	11
Key Patient Statistics and Other Data.....	12
Certificate of Compliance .....	14

**SPECIAL NOTE CONCERNING FORWARD-LOOKING FINANCIAL STATEMENTS:**

Certain statements in this Quarterly Disclosure Report are forward-looking statements that are based on the beliefs of, and assumptions made by, the management of Memorial Sloan Kettering Cancer Center ("MSK" or the "Institution"). Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Institution to be materially different from expected future results or performance.

The audited financial statements, which contain a full set of footnotes, are available on the DacBond website, [www.dacbond.com](http://www.dacbond.com)

**THIS DOCUMENT IS DATED AS OF NOVEMBER 13, 2018**

MSK has prepared and released this Quarterly Disclosure Report in order to provide certain information regarding its financial and operating performance for September 30, 2018 and to meet its continuing disclosure obligations under certain of its financing documents. Except as required by law or by its contractual obligations, MSK undertakes no obligation to update this Quarterly Disclosure Report after its date.

**Memorial Sloan Kettering Cancer Center**  
**Management's Discussion and Analysis of Financial Performance**  
**For the Nine Months Ended September 30, 2018 and 2017**

For the nine months ended September 30, 2018, MSK generated a Net Change in Unrestricted Net Assets of \$484.5 million compared with \$322.5 million for the same period in 2017. Additionally, for the nine-month period in 2018, MSK generated \$211.6 million of Board Designated Unrestricted Income vs. \$17.1 million in the prior period. In prior years this type of non-recurring revenue was generally included in Operating Revenues.

Income from Operations for the nine months ended September 30, 2018 was \$125.7 million compared with \$205.6 million for the same period in 2017. Operating Revenues increased by \$273.7 million or 8.4%. Patient Care Revenues increased by \$280.2 million or 10.7%. The growth in Patient Care Revenues reflects the growth of our regional ambulatory care network and normal rate and volume increases. Operating Expenses increased by \$353.6 million or 11.5%. Operating expense growth has been driven by our expanded regional ambulatory care network, increased staffing in advance of further expansion planned for 2019 and increasing cost of pharmaceuticals.

The Institution's long-term investable portfolio of \$3.8 billion has a year-to-date return of 5.0%, which is exclusive of cash and short-term investment returns. The rate of return is reflective of a portfolio that includes 15.0% domestic and 11.9% global equity, 16.4% fixed income and cash, 30.7% hedge funds, 5.8% inflation hedging, and 20.2% private equity and venture capital.

As of September 30, 2018, MSK had total assets of \$10.7 billion compared with \$10.6 billion at year end 2017. Total net assets have increased from \$6.1 to \$6.6 billion during the same time frame. In July 2018, MSKCC optionally prepaid \$333.7 million of outstanding long-term debt. In June 2018, MSKCC entered into a contract and sold approximately \$181.0 million of its accumulated benefit obligation to an insurance company via an annuity buy-out. As a result of the two annuity buy-outs (including a 2017 transaction) the June 30, 2018 accumulated benefit obligation relates exclusively to non-retirees.

Memorial Sloan Kettering Cancer Center  
and Affiliated Corporations

Combined Balance Sheets

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	(unaudited)	(audited)
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 874,447	\$ 900,411
Short-term investments – at fair value	91,821	239,472
Accounts receivable, less allowance for doubtful accounts	584,984	497,547
Pledges, trusts and estates receivable	139,621	170,567
Other current assets	143,275	129,786
Total current assets	<u>1,834,148</u>	<u>1,937,783</u>
Noncurrent assets:		
Assets whose use is limited:		
Investments in marketable securities – at fair value:		
Construction, debt service and repair reserve funds	111,407	212,581
Captive insurance funds	61,544	54,770
Employee benefit funds	86,733	83,846
Total investments in marketable securities whose use is limited	<u>259,684</u>	<u>351,197</u>
Investments – at fair value	3,380,311	3,149,107
Investments internally designated for major capital projects	699,577	867,658
Investments in nonmarketable securities at cost	-	11,900
Property and equipment – net	4,085,052	3,855,532
Mortgages and other loans receivable	37,748	36,387
Pledges, trusts and estates receivable	390,240	361,550
Other noncurrent assets	66,577	64,898
Total noncurrent assets	<u>8,919,189</u>	<u>8,698,229</u>
Total assets	<u>\$ 10,753,337</u>	<u>\$ 10,636,012</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 510,424	\$ 489,603
Accrued expenses	403,466	387,955
Current portion of long-term debt and capital lease obligations	50,035	73,344
Total current liabilities	<u>963,925</u>	<u>950,902</u>
Noncurrent liabilities:		
Long-term debt and capital lease obligations, less current portion	2,362,354	2,715,704
Other noncurrent liabilities	784,575	864,303
Total liabilities	<u>4,110,854</u>	<u>4,530,909</u>
Net assets:		
Unrestricted:		
Undesignated	4,755,179	4,437,167
Board-designated	360,295	193,807
Total unrestricted	<u>5,115,474</u>	<u>4,630,974</u>
Temporarily restricted	827,788	798,880
Permanently restricted	699,221	675,249
Total net assets	<u>6,642,483</u>	<u>6,105,103</u>
Total liabilities and net assets	<u>\$ 10,753,337</u>	<u>\$ 10,636,012</u>

Memorial Sloan Kettering Cancer Center  
and Affiliated Corporations

Combined Statements of Unrestricted Activities

	<b>Period Ended September 30, 2018</b>	<b>Period Ended September 30, 2017</b>
	<b>(unaudited)</b>	
	<i>(In Thousands)</i>	
<b>Operating revenues</b>		
Hospital care and services	\$ 2,892,836	\$ 2,612,576
Grants and contracts	236,328	219,984
Contributions	109,576	137,589
Net assets released from restrictions – pledge payments	75,141	67,290
Royalty and other income	114,597	127,771
Investment returns allocated to operations	112,951	102,473
Total operating revenues	3,541,429	3,267,683
<b>Operating expenses</b>		
Salaries and wages	1,475,083	1,347,894
Employee fringe benefits	403,808	367,175
Purchased supplies and services	622,683	599,265
Pharmaceuticals	655,392	510,976
Depreciation and amortization	221,527	202,629
Interest	37,185	34,103
Total operating expenses	3,415,678	3,062,042
Income from operations	125,751	205,641
<b>Nonoperating income and expenses, net</b>		
Net assets released from restrictions for capital purposes	10,000	-
Investment returns, net of allocation to operations and transfers to temporarily restricted net assets	52,924	142,431
Pension settlement cost	(39,182)	-
Change in postretirement benefit obligation to be recognized in future periods	143,259	-
Other nonoperating income and expenses, net	(19,880)	(42,780)
Total nonoperating income and expenses, net	147,121	99,651
Increase in unrestricted net assets before Board-designated activities	272,872	305,292
<b>Board-designated</b>		
Board-designated other activity	127,827	17,176
Board-designated philanthropy	83,801	-
Increase in Board-designated	211,628	17,176
Increase in total unrestricted net assets	\$ 484,500	\$ 322,468

Memorial Sloan Kettering Cancer Center  
and Affiliated Corporations

Combined Statements of Changes in Net Assets

Period Ended September 30, 2018 and Year Ended December 31, 2017

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
	<i>(In Thousands)</i>			
Net assets at January 1, 2017	4,346,307	757,725	626,945	5,730,977
Increase in unrestricted net assets	284,667	–	–	284,667
Contributions, pledges and bequests	–	88,741	37,800	126,541
Impairment of investments	–	(23,673)	–	(23,673)
Investment return on endowments	–	77,887	10,504	88,391
Net assets released from restrictions	–	(101,800)	–	(101,800)
Net assets at December 31, 2017	4,630,974	798,880	675,249	6,105,103
Increase in unrestricted net assets	<b>484,500</b>	–	–	<b>484,500</b>
Contributions, pledges and bequests	–	<b>88,028</b>	<b>22,601</b>	<b>110,629</b>
Impairment of investments	–	–	–	–
Investment return on endowments	–	<b>26,021</b>	<b>1,371</b>	<b>27,392</b>
Net assets released from restrictions	–	<b>(85,141)</b>	–	<b>(85,141)</b>
Net assets at September 30, 2018	<b>\$ 5,115,474</b>	<b>\$ 827,788</b>	<b>\$ 699,221</b>	<b>\$ 6,642,483</b>

Memorial Sloan Kettering Cancer Center  
and Affiliated Corporations

Combined Statements of Cash Flows

	<b>Period Ended September 30, 2018</b>	<b>Period Ended September 30, 2017</b>
	<b>(unaudited)</b>	
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Change in net assets	\$ 537,380	\$ 379,314
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	221,527	202,629
Unrealized net gains	(109,888)	(160,459)
Realized net gains	(97,391)	(127,117)
Temporarily and permanently restricted contributions, pledges and bequests transferred to investing activities	(110,629)	(126,541)
Changes in assets:		
Accounts receivable, net	(87,437)	11,909
Pledges, trusts and estates receivable, net	2,256	5,985
Other current assets	(13,489)	(344)
Other noncurrent assets	(1,679)	(1,443)
Changes in liabilities:		
Accounts payable and accrued expenses	48,822	25,872
Other noncurrent liabilities	(79,976)	(28,847)
Net cash provided by operating activities	<b>309,496</b>	180,958
<b>Investing activities</b>		
Net acquisitions of property and equipment	(463,289)	(521,080)
Decrease in investments, net	395,220	527,569
Increase in mortgages and other loans receivable	(1,361)	(3,060)
Temporarily and permanently restricted contributions, pledges and bequests transferred from operating activities	110,629	126,541
Net cash provided by investing activities	<b>41,199</b>	129,970
<b>Financing activities</b>		
Repayment of debt, net	(376,659)	(61,367)
Net cash used in financing activities	<b>(376,659)</b>	(61,367)
Net change in cash and cash equivalents	(25,964)	249,561
Cash and cash equivalents at beginning of year	900,411	698,872
Cash and cash equivalents at end of year	<b>\$ 874,447</b>	\$ 948,433



Memorial Sloan Kettering Cancer Center  
and Affiliated Corporations

Notes to Interim Combined Financial Statements

For the Period Ended September 30, 2018

**Note A - Basis of Presentation**

The accompanying financial statements are presented on a combined basis and include the accounts of the following tax exempt, Section 501(c)(3), incorporated affiliates: Memorial Sloan Kettering Cancer Center, Memorial Hospital for Cancer and Allied Diseases, Sloan Kettering Institute for Cancer Research, S.K.I. Realty, Inc., MSK Insurance US, Inc., MSK Proton, Inc. and the Louis V. Gerstner Jr. Graduate School of Biomedical Sciences. All of these entities are collectively referred to as the “Institution”.

The accompanying unaudited combined financial statements have been prepared in accordance with U.S. generally accepted accounting principles applied on a basis consistent with that of the 2017 audited financial statements of the Institution. The Institution presumes that users of this interim financial information have read or have access to the Institution’s audited combined financial statements and that the adequacy of additional disclosures needed for a fair presentation may be determined in that context. Information contained in the Institution’s audited combined financial statements for the years ended December 31, 2017 and 2016 is incorporated herein. Footnotes and other disclosures that would substantially duplicate the disclosures contained in the Institution’s most recent audited combined financial statements have been omitted. Accordingly, these financial statements do not include all the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all transactions considered necessary for a fair presentation have been included.

Patient volumes and net operating revenue and results are subject to seasonal variations caused by a number of factors. Monthly and periodic operating results are not necessarily representative of operations for a full year for various reasons, including the level of occupancy and other patient volumes, interest rates, unusual or infrequent items and other seasonal fluctuations. These same considerations apply to year-to-year comparisons.

Memorial Sloan Kettering Cancer Center  
and Affiliated Corporations

Notes to Interim Combined Financial Statements (continued)

**Note B – Use of Estimates**

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

**Note C – Retiree Pension and Health Plans**

In June 2018, the Institution entered into a contract and sold approximately \$181 million of its accumulated benefit obligation to an insurance company via an annuity buy-out. The funding of approximately \$217 million was paid from the pension plan assets and only impacted a select group of retirees. These affected participants had no impact to their retirement benefits. This resulted in a reduction of pension liability for \$143.7 million and a \$39.2 million settlement loss for 2018. The pension and postretirement health liabilities will be remeasured again at December 31, 2018.

Memorial Sloan Kettering Cancer Center  
and Affiliated Corporations

Notes to Interim Combined Financial Statements (continued)

**Note D - Long-Term Debt**

On July 1, 2018, the Institution redeemed the remaining balance of the outstanding Dormitory Authority of the State of New York (DASNY) Series 2008 tax-exempt bonds for approximately \$333.7 million.

Long-term debt consists of the following:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	(unaudited)	(audited)
	<i>(In Thousands)</i>	
DASNY Series 1998, tax-exempt bonds maturing through 2023 at various fixed interest rates ranging from 5.25% to 5.75%	\$ 122,900	\$ 135,400
DASNY Series 2008, tax-exempt bonds maturing through 2036 at various fixed interest rates ranging from 4.00% to 5.00%	–	333,730
DASNY Series 2010, tax-exempt bonds maturing through 2023 at a fixed interest rate of 2.18%	40,000	46,000
Series 2011A taxable bonds maturing in 2042 at a fixed interest rate of 5.00%	400,000	400,000
DASNY Series 2012, tax-exempt bonds maturing through 2041 at various fixed interest rates ranging from 3.00% to 5.00%	80,380	82,350
DASNY 2012 Series 1, tax-exempt bonds maturing through 2034 at various fixed interest rates ranging from 4.00% to 5.00%	262,265	262,265
Series 2012A taxable bonds maturing in 2052 at a fixed interest rate of 4.125%	400,000	400,000
Series 2015A taxable bonds maturing in 2055 at a fixed interest rate of 4.20%	550,000	550,000
DASNY Series 2016-1, tax-exempt bonds repaid through 2028 at a fixed interest rate of 1.97%	103,279	105,944
NJEDA Series 2016-2, tax-exempt bonds maturing through 2026 at a fixed rate interest rate of 1.43%	119,626	130,500
DASNY Series 2017-1, tax-exempt bonds maturing between 2018 and 2047 at various fixed interest rates ranging from 4.00% to 5.00%	290,420	294,420
Unamortized bond premiums, discounts and issuance costs	43,519	48,439
	<b>2,412,389</b>	2,789,048
Less current portion	50,035	73,344
	<b>\$ 2,362,354</b>	<b>\$ 2,715,704</b>

**MEMORIAL SLOAN KETTERING CANCER CENTER**  
**DEBT COMPLIANCE ANALYSIS**  
**September 30, 2018**  
*\$000*

<b>DEBT RATIO ANALYSIS</b>	<u>9/30/2018</u>	<u>12/31/2017</u>
<b>Debt Ratio</b>		
Cash & Equivalents	874,447	900,411
Short Term Investments	91,821	239,472
Assets Whose Use is Limited	259,684	351,197
Investments	4,079,888	4,016,765
Total Cash & Investments	<b>5,305,840</b>	<b>5,507,845</b>
Permanently Restricted Net Assets	699,221	675,249
Less: Current Restricted Pledges	6,040	8,941
Less: Non-Current Restricted Pledges	15,721	24,668
PRNA Net of Restricted Pledges	<b>677,460</b>	<b>641,640</b>
Unrestricted Cash & Investments	4,628,380	4,866,205
Long Term Debt	2,412,389	2,789,048
	<b>1.92</b>	<b>1.74</b>
<b>Minimum Debt Ratio Required</b>	<b>0.60</b>	<b>0.60</b>
	<b>Pass</b>	<b>Pass</b>
<b>Loss Allowed</b>		
Income (Loss) From Operations	125,751	239,765
Less: Investment Income Supporting Operations	(112,951)	(137,750)
Add: Net Assets Released from Restrictions -Capital	10,000	15,000
Add: 8% of Unrestricted Investments (3 yr avg)	355,390	355,514
<b>Adjusted Operating Income (Loss)</b>	<b>378,190</b>	<b>472,529</b>
<b>Maximum Loss Allowed</b>	<b>(50,000)</b>	<b>(50,000)</b>
	<b>Pass</b>	<b>Pass</b>
<b>Calculation of 8% of Unrestricted Investments</b>		
Total Cash and Investments	5,305,840	5,507,845
Less: Permanent Net Assets	677,460	641,640
Less: Assets Whose Use is Limited	259,684	351,197
Unrestricted Investments	4,368,696	4,515,008
3 yr average	4,442,377	4,443,923
X 8%	355,390	355,514
	<b>355,390</b>	<b>355,514</b>
<b>LT Debt to Unrestricted Net Asset Ratio</b>		
Unrestricted Net Assets	5,115,474	4,630,974
Long-term debt	2,412,389	2,789,048
	<b>0.47</b>	<b>0.60</b>
<b>LT Debt to Unrestricted Net Assets Ratio not to exceed</b>	<b>2.00</b>	<b>2.00</b>
	<b>Pass</b>	<b>Pass</b>
<b>LT Debt to Unrestricted Cash &amp; Investment Ratio</b>		
Unrestricted Cash & Investments	4,628,380	4,866,205
Long-term debt	2,412,389	2,789,048
	<b>0.52</b>	<b>0.57</b>
<b>LT Debt to Unrestricted Cash Ratio not to exceed</b>	<b>2.00</b>	<b>2.00</b>
	<b>Pass</b>	<b>Pass</b>

**Memorial Sloan Kettering Cancer Center  
Key Patient Statistics and Other Data**

	<b>Period Ended September 30, 2018</b>	<b>Period Ended September 30, 2017</b>	<b>Year Ended December 31, 2017</b>
Licensed Beds	514	514	514
Beds in Service	498	473	473
Admissions	18,214	17,713	23,506
Discharges	18,041	17,610	23,561
Average Length of Stay	7.4	6.9	6.9
Occupancy Rate (1)	95.4%	94.5%	94.3%
Patient Days	128,845	121,266	161,661
Surgical Cases	20,712	18,919	25,330
Inpatient	7,520	7,457	9,786
Outpatient	13,192	11,462	15,544
Total Outpatient Visits:	576,742	536,210	722,329
Manhattan	405,932	393,551	526,006
Regional Network	170,810	142,659	196,323
Chemotherapy treatments	196,592	181,977	247,496
Manhattan	105,228	102,527	137,515
Regional Network	91,364	79,450	109,981
Radiology	269,276	251,445	468,125
Manhattan	185,214	183,613	322,472
Regional Network	84,062	67,832	145,653
Radiation Oncology	108,211	102,038	137,579
Manhattan	44,568	45,144	60,187
Regional Network	63,643	56,894	77,392
Full Time Equivalents	17,594	16,301	16,434

(1) Based on adjusted bed count

**Memorial Sloan Kettering Cancer Center  
Case Mix Index and Patient Revenue Distribution**

	Period Ended September 30, 2018	Period Ended September 30, 2017	Year Ended December 31, 2017
<u>Case Mix Index (1)</u>	2.05	2.01	2.02
<u>Medicare Only CMI</u>	1.99	1.96	1.97
 <u>Revenue Distribution (2)</u>			
Medicare	25.6%	25.1%	25.6%
Medicaid	2.6%	3.2%	3.1%
Commercial, Self Pay & Managed Care non-contracted	6.6%	6.3%	7.8%
Managed Care Contracted	65.2%	65.1%	63.5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

(1) The grouper and weights applicable at the time of discharge were used in the CMI calculation. This CMI is for the total Hospital.

(2) Includes net inpatient, outpatient, and medical practice revenue


**CERTIFICATE OF COMPLIANCE  
For The Period Ended September 30, 2018**

**Re: Memorial Sloan Kettering Cancer Center  
Bond Series 1998, 2010 Series 1, 2012 and 2012 Series-1, 2015 Series 1, 2016 Series 1,  
2016 Series 2, and 2017 Series 1**

The undersigned hereby certifies as follows:

1. I am the Senior Vice President Finance of Memorial Sloan Kettering Cancer Center, herein after referred to as the Institution, and I am authorized to sign this certificate.
2. I have read the Loan Agreements, and Tax Certificates executed on behalf of the Institution in connection with the referenced Bond issues.
3. By virtue of my position at the Institution I would expect to become aware in the ordinary course of business of any breach of the terms, conditions and covenants contained in the Loan Agreements or Tax Certificates.
4. To the best of knowledge, there has not been and is not now existing any breach of any of the terms, conditions or covenants contained in the Loan Agreements or Tax Certificates.
5. The Institution has not received an insurance payment, eminent domain award or property damage award for any part of the Project or Mortgaged Property.
6. Except as permitted by the Loan Agreements or Tax Certificates executed in connection with the issuances of the Bonds or as subsequently consented to by the Authority and any other parties required to consent thereto, (1) the Institution owns, occupies and uses for its tax exempt purposes all of the Project(s) financed with the proceeds of the referenced Bond issue(s); (2) no other party has the right to use or occupy any portion of such Project(s); (3) the Institution receives no payment from any party or parties for occupying all or any part of such Project(s); (4) the Institution has not entered into any contract for the management of any part of the Project(s) by another party or person. (Payment does not include fees from students for occupying dormitory rooms and fees from staff members for occupying staff housing).

7. The Institution has not received any correspondence from the Internal Revenue Service questioning its tax-exempt status and hereby reaffirms its status as a not-for-profit corporation that is exempt from federal income tax pursuant to Section 501 (c)(3) of the Internal Revenue Code or as a tax exempt governmental entity.
8. The Institution has implemented adequate policies and procedures to enable the Institution to comply with any reporting requirements of the Internal Revenue Service applicable to the Bonds, including but not limited to Schedule K (Form 990).
9. To the best of my knowledge, the Institution has not granted or permitted any liens against the Mortgaged Property or leases of any part thereof except those which were filed prior to, or in connection, with the issuance of the Bonds or those which were subsequently consented to by the Authority and any other parties required to consent thereto.

 10/24/2018

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**Signature**

**Date**

**Mark Svenningson**

**Print Name**

**Senior Vice President Finance**

**Title**