



Memorial Sloan Kettering
Cancer Center™

MEMORIAL SLOAN KETTERING CANCER CENTER

QUARTERLY DISCLOSURE REPORT

UNAUDITED COMBINED FINANCIAL STATEMENTS FOR
THE YEAR ENDED DECEMBER 31, 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	10
Key Patient Statistics and Other Data.....	11
Certificate of Compliance.....	13

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

THIS DOCUMENT IS DATED AS OF APRIL 5, 2019

MSK has prepared and released this Quarterly Disclosure Report in order to provide certain information regarding its financial and operating performance for December 31, 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 Years Ended December 31, 2018 and 2017

For the year ended December 31, 2018, MSK generated operating income of \$219.1 million compared to \$239.7 million for the same period in 2017. Additionally, MSK recorded Board Designated income of \$227 million vs. \$17.1 million in the prior period. MSK's net assets without donor restrictions increased \$398.7 million in 2018 compared to \$284.7 million in 2017.

Operating revenues increased by \$500.5 million or 11.4% in 2018. Patient revenues increased by 12.3%. The growth in Patient Care Revenues reflects the growth of our regional ambulatory care network and normal rate and volume increases. Grants and contracts revenue increased by 12.8% which was led by increased supported research activity. Philanthropy remains a strong and consistent source of revenue in support of MSKCC's mission.

Operating expenses increased by \$521.2 million or 12.5%. 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 \$3.6 billion has a year-to-date return of (1.0)%, which is exclusive of cash and short-term investment returns. The rate of return is reflective of a portfolio that includes 12.7% domestic and 15.6% global equity, 12.8% fixed income and cash, 30.6% hedge funds, 5.3% inflation hedging, and 23.0% private equity and venture capital.

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Combined Balance Sheets

	December 31	
	2018	2017
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 677,079	\$ 900,411
Short-term investments – at fair value	89,184	239,472
Accounts receivable, net	615,885	497,547
Pledges, trusts and estates receivable	170,148	170,567
Other current assets	121,078	129,786
Total current assets	<u>1,673,374</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	149,799	212,581
Captive insurance funds	59,572	54,770
Employee benefit funds	80,068	83,846
Total investments in marketable securities whose use is limited	<u>289,439</u>	<u>351,197</u>
Investments – at fair value	3,343,092	3,149,107
Investments internally designated for major capital projects	609,377	867,658
Investments in nonmarketable securities	—	11,900
Property and equipment – net	4,284,338	3,855,532
Pledges, trusts and estates receivable	321,621	361,550
Other noncurrent assets	102,326	101,285
Total noncurrent assets	<u>8,950,193</u>	<u>8,698,229</u>
Total assets	<u>\$ 10,623,567</u>	<u>\$ 10,636,012</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 580,598	\$ 489,603
Accrued expenses	414,405	387,955
Current portion of long-term debt	52,771	73,344
Total current liabilities	<u>1,047,774</u>	<u>950,902</u>
Noncurrent liabilities:		
Long-term debt, less current portion	2,348,600	2,715,704
Other noncurrent liabilities	799,780	864,303
Total liabilities	<u>4,196,154</u>	<u>4,530,909</u>
Net assets:		
Without donor restrictions:		
Undesignated	4,608,791	4,437,167
Board-designated	420,860	193,807
Total without donor restrictions	<u>5,029,651</u>	<u>4,630,974</u>
With donor restrictions	1,397,762	1,474,129
Total net assets	<u>6,427,413</u>	<u>6,105,103</u>
Total liabilities and net assets	<u>\$ 10,623,567</u>	<u>\$ 10,636,012</u>

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Combined Statements of Activities without Donor Restrictions

	Year Ended December 31	
	2018	2017
	<i>(In Thousands)</i>	
Undesignated operating revenues		
Hospital care and services	\$ 3,973,778	\$ 3,536,976
Grants and contracts	334,536	296,493
Contributions	168,226	191,843
Net assets released from restrictions	122,701	86,800
Royalty and other income	159,140	159,458
Investment returns allocated to operations	151,473	137,750
Total operating revenues	<u>4,909,854</u>	<u>4,409,320</u>
Operating expenses		
Compensation and fringe benefits	2,587,336	2,335,132
Purchased supplies and services	1,756,174	1,501,935
Depreciation and amortization	300,239	287,145
Interest	47,045	45,343
Total operating expenses	<u>4,690,794</u>	<u>4,169,555</u>
Income from operations	<u>219,060</u>	<u>239,765</u>
Nonoperating income and expenses, net		
Net assets released from restrictions for capital purposes	25,000	15,000
Investment returns, net of expenses, allocation to operations and amounts recorded in net assets with donor restrictions	(112,061)	219,440
Pension settlement cost	(40,414)	(33,480)
Other nonoperating income and expenses, net	(34,927)	(53,581)
Total nonoperating income and expenses, net	<u>(162,402)</u>	<u>147,379</u>
Change in postretirement benefit obligation to be recognized in future periods	114,966	(120,481)
Increase in undesignated net assets	<u>171,624</u>	<u>266,663</u>
Board-designated		
Board-designated philanthropy	114,132	—
Board-designated investment return	30,626	3,004
Board-designated other additions	82,295	15,000
Increase in Board-designated net assets	<u>227,053</u>	<u>18,004</u>
Increase in net assets without donor restrictions	<u>\$ 398,677</u>	<u>\$ 284,667</u>

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Combined Statements of Cash Flows

	Year Ended December 31	
	2018	2017
	<i>(In Thousands)</i>	
Operating activities		
Change in net assets	\$ 322,310	\$ 374,126
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	300,239	287,145
Equity in earnings of investments, net	707	545
Unrealized net losses (gains)	189,477	(251,283)
Realized net gains	(172,297)	(165,244)
(Amortization) accretion of bond premium and issuance costs	(5,799)	37,132
Donor restricted contributions, pledges and bequests transferred to investing activities	(100,983)	(126,541)
Pension settlement cost	40,414	33,480
Change in postretirement benefit obligation to be recognized in future periods	(114,966)	120,481
Changes in assets:		
Accounts receivable, net	(118,338)	1,737
Pledges, trusts and estates receivable	40,348	18,571
Other current assets	8,708	(17,700)
Other noncurrent assets	(1,748)	(18,842)
Changes in liabilities:		
Accounts payable and accrued expenses	89,475	103,083
Other noncurrent liabilities	9,781	(105,106)
Net cash provided by operating activities	<u>487,328</u>	<u>291,584</u>
Investing activities		
Net acquisitions of property and equipment	(700,827)	(737,965)
Decrease in investments, net	271,062	385,419
Donor restricted contributions, pledges and bequests transferred from operating activities	100,983	126,541
Net cash used in investing activities	<u>(328,782)</u>	<u>(226,005)</u>
Financing activities		
Proceeds from financing	—	294,420
Repayment of debt	(381,878)	(158,460)
Net cash (used in) provided by financing activities	<u>(381,878)</u>	<u>135,960</u>
Net change in cash and cash equivalents	(223,332)	201,539
Cash and cash equivalents at beginning of year	900,411	698,872
Cash and cash equivalents at end of year	<u>\$ 677,079</u>	<u>\$ 900,411</u>

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Notes to Interim Combined Financial Statements

For the Year Ended December 31, 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 2018 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, 2018 and 2017 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.

MEMORIAL SLOAN KETTERING CANCER CENTER
DEBT COMPLIANCE ANALYSIS
December 31, 2018
\$000

	<u>12/31/2018</u>	<u>12/31/2017</u>
DEBT RATIO ANALYSIS		
<u>Debt Ratio</u>		
Cash & Equivalents	677,079	900,411
Short Term Investments	89,184	239,472
Assets Whose Use is Limited	289,439	351,197
Investments	3,952,469	4,016,765
Total Cash & Investments	<u>5,008,171</u>	<u>5,507,845</u>
Endowments	702,307	675,249
Less: Current Endowment Pledges	12,245	8,941
Less: Non-Current Endowment Pledges	15,586	24,668
Endowments net of Endowment Pledges	<u>674,476</u>	<u>641,640</u>
Unrestricted Cash & Investments	4,333,695	4,866,205
Long Term Debt	2,401,371	2,789,048
	<u>1.80</u>	<u>1.74</u>
Minimum Debt Ratio Required	<u>0.60</u>	<u>0.60</u>
	Pass	Pass
<u>Loss Allowed</u>		
Income (Loss) From Operations	219,060	239,765
Less: Investment Income Supporting Operations	(151,473)	(137,750)
Add: Board-Designated Income	227,053	18,004
Add: Net Assets Released from Restrictions -Capital	25,000	15,000
Add: 8% of Unrestricted Investments (3 yr avg)	346,738	355,514
Adjusted Operating Income (Loss)	<u>666,378</u>	<u>490,533</u>
Maximum Loss Allowed	<u>(50,000)</u>	<u>(50,000)</u>
	Pass	Pass
<u>Calculation of 8% of Unrestricted Investments</u>		
Total Cash and Investments	5,008,171	5,507,845
Less: Endowments, net of Endowment Pledges	674,476	641,640
Less: Assets Whose Use is Limited	289,439	351,197
Unrestricted Investments	4,044,256	4,515,008
3 yr average	4,334,230	4,443,923
X 8%	346,738	355,514
	<u>346,738</u>	<u>355,514</u>
<u>LT Debt to Net Assets Without Donor Restrictions</u>		
Net Assets Without Donor Restrictions	5,029,651	4,630,974
Long-term debt	2,401,371	2,789,048
	<u>0.48</u>	<u>0.60</u>
LT Debt to Net Assets Without Donor Restrictions not to exceed	<u>2.00</u>	<u>2.00</u>
	Pass	Pass
<u>LT Debt to Unrestricted Cash & Investments Ratio</u>		
Unrestricted cash and investments	4,333,695	4,866,205
Long-term debt	2,401,371	2,789,048
	<u>0.55</u>	<u>0.57</u>
LT Debt to Unrestricted Cash Ratio not to exceed	<u>2.00</u>	<u>2.00</u>
	Pass	Pass

Memorial Sloan Kettering Cancer Center
Key Patient Statistics and Other Data

	Year Ended December 31, 2018	Year Ended December 31, 2017
Licensed Beds	514	514
Beds in Service	498	473
Admissions	24,243	23,506
Discharges	24,143	23,561
Average Length of Stay	7.1	6.9
Occupancy Rate (1)	95.2%	94.3%
Patient Days	171,798	161,661
Surgical Cases	27,919	25,330
Inpatient	10,016	9,786
Outpatient	17,903	15,544
Total Outpatient Visits:	776,546	722,329
Manhattan	541,146	526,006
Regional Network	235,400	196,323
Chemotherapy treatments	266,503	247,496
Manhattan	140,343	137,515
Regional Network	126,160	109,981
Radiology	493,595	468,125
Manhattan	317,140	322,472
Regional Network	176,455	145,653
Radiation Oncology	146,293	137,579
Manhattan	59,436	60,187
Regional Network	86,857	77,392
Full Time Equivalents	17,893	16,434

(1) Based on adjusted bed count

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

	Year Ended December 31, 2018	Year Ended December 31, 2017
<u>Case Mix Index (1)</u>	2.07	2.02
<u>Medicare Only CMI</u>	2.03	1.97
<u>Revenue Distribution (2)</u>		
Medicare	27.1%	25.6%
Medicaid	1.7%	3.1%
Commercial, Self Pay & Managed Care non-contracted	6.1%	7.8%
Managed Care Contracted	65.1%	63.5%
	100%	100%

(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



Memorial Sloan Kettering
Cancer Center


CERTIFICATE OF COMPLIANCE
For The Period Ended December 31, 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.

 3/4/2019
Signature Date

Mark Svenningson
Print Name

Senior Vice President Finance
Title