



Memorial Sloan Kettering
Cancer Center™

MEMORIAL SLOAN KETTERING CANCER CENTER

QUARTERLY DISCLOSURE REPORT

UNAUDITED COMBINED FINANCIAL STATEMENTS FOR
THE PERIOD ENDED SEPTEMBER 30, 2020

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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 NOVEMBER 13, 2020

MSK has prepared and released this Quarterly Disclosure Report in order to provide certain information regarding its financial and operating performance for September 30, 2020 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, 2020 and 2019

For the nine months ended September 30, 2020, MSK generated an operating loss of \$453.3 million compared to an operating income of \$76.9 million for the same period in 2019. MSK's net assets without donor restrictions increased \$85.1 million in 2020 compared to an increase of \$498.3 million in 2019.

Total operating revenues decreased by \$113.4 million or 2.9% in 2020 driven primarily by decreased patient revenues as a result of the Coronavirus Disease 2019 (COVID-19). Key drivers of reduced volume were surgical procedures and clinic visits. Additionally, grants and contracts revenue decreased 4.7% also due to COVID-19's impact on clinical trials and slowed research. Included in other revenues through September 30, 2020 is approximately \$100.5 million the Institution received from relief funds as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Operating expenses increased by \$416.9 million or 10.8%. Operating expense growth was driven by MSK's increased costs related to preparation, care and treatment of patients with COVID-19. Additionally, there were start-up costs associated with the opening of the David H. Koch Center for Cancer Care that opened to patients in January 2020.

The Institution's long-term investable portfolio of \$4.9 billion has a year-to-date return of 7.3%, which is exclusive of cash and cash equivalents. The rate of return is reflective of a portfolio that includes 16.2% domestic and 15.6% global equity, 6.9% fixed income and cash, 29.3% hedge funds, 6.0% real assets, and 26.0% private equity and venture capital.

The Institution received approximately \$421.0 million from the Centers for Medicare & Medicaid Services under its Accelerated Payment Program. Under this program, a recoupment process will begin in 2021.

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Combined Balance Sheets

	September 30, 2020	December 31, 2019
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 743,645	\$ 833,102
Short term investments	578,897	-
Accounts receivable, net	516,114	622,098
Pledges, trusts and estates receivable	104,064	125,902
Other current assets	157,293	235,093
Total current assets	<u>2,100,013</u>	<u>1,816,195</u>
Noncurrent assets:		
Assets whose use is limited:		
Construction and debt service funds	14,962	84,935
Captive insurance funds	65,999	60,900
Employee benefit funds	102,317	93,736
Total investments in marketable securities whose use is limited	<u>183,278</u>	<u>239,571</u>
Investments – at fair value	4,870,911	4,399,849
Property and equipment, net	4,544,527	4,655,681
Pledges, trusts and estates receivable	208,395	213,077
Other noncurrent assets	286,545	297,080
Total noncurrent assets	<u>10,093,656</u>	<u>9,805,258</u>
Total assets	<u><u>\$ 12,193,669</u></u>	<u><u>\$ 11,621,453</u></u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 274,406	\$ 357,544
Accrued expenses	961,434	509,829
Current portion of operating lease liabilities	34,210	35,378
Current portion of long-term debt and finance lease liability	82,755	79,766
Total current liabilities	<u>1,352,805</u>	<u>982,517</u>
Noncurrent liabilities:		
Long-term debt and finance lease liability, less current portion	2,892,091	2,475,905
Operating lease liability, net of current portion	143,664	161,937
Other noncurrent liabilities	734,259	1,025,754
Total liabilities	<u>5,122,819</u>	<u>4,646,113</u>
Net assets:		
Without donor restrictions:		
Undesignated	5,194,069	5,110,809
Board-designated	493,237	491,377
Total without donor restrictions	<u>5,687,306</u>	<u>5,602,186</u>
With donor restrictions	1,383,544	1,373,154
Total net assets	<u>7,070,850</u>	<u>6,975,340</u>
Total liabilities and net assets	<u><u>\$ 12,193,669</u></u>	<u><u>\$ 11,621,453</u></u>

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Combined Statements of Activities without Donor Restrictions

	Period Ended September 30,	
	2020	2019
	<i>(In Thousands)</i>	
Undesignated operating revenues		
Hospital care and services	\$ 3,118,467	\$ 3,320,465
Grants and contracts	259,005	271,664
Contributions	119,837	114,860
Net assets released from restrictions	56,801	66,367
Royalty and other income	252,083	146,192
Total operating revenues	<u>3,806,193</u>	<u>3,919,548</u>
Operating expenses		
Compensation and fringe benefits	2,360,354	2,107,746
Purchased supplies and services	1,517,082	1,466,500
Depreciation and amortization	306,989	239,878
Interest	75,061	28,482
Total operating expenses	<u>4,259,486</u>	<u>3,842,606</u>
(Loss) income from operations	<u>(453,293)</u>	<u>76,942</u>
Nonoperating income and expenses, net		
Net assets released from restrictions for capital purposes	-	75,000
Investment returns, net of expenses, allocation to operations and amounts recorded in net assets with donor restrictions	258,134	309,542
Pension curtailment	277,398	-
Other nonoperating income and expenses, net	(168)	(21,059)
Total nonoperating income and expenses, net	<u>535,364</u>	<u>363,483</u>
Change in postretirement benefit obligation to be recognized in future periods	<u>1,188</u>	<u>(3,188)</u>
(Decrease) Increase in undesignated net assets	<u>83,259</u>	<u>437,237</u>
Board-designated		
Board-designated philanthropy	1,917	4,511
Board-designated other activity	-	38,499
Board-designated investment return	(56)	18,094
Increase in Board-designated net assets	<u>1,861</u>	<u>61,104</u>
(Decrease) Increase in net assets without donor restrictions	<u>\$ 85,120</u>	<u>\$ 498,341</u>

Combined Statements of Changes in Net Assets

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Combined Statements of Cash Flows

	Period Ended September 30	
	2020	2019
	<i>(In Thousands)</i>	
Operating activities		
Change in net assets	\$ 95,509	\$ 469,741
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	306,989	239,878
Equity in earnings of investments, net	456	1,016
Unrealized net gains	(221,216)	(228,340)
Realized net gains	(102,945)	(167,426)
Amortization of bond premium and issuance costs	(8,260)	(16,990)
Donor restricted contributions, pledges and bequests transferred to investing activities	(41,102)	(69,792)
Pension curtailment	(227,398)	-
Change in postretirement benefit obligation to be recognized in future periods	(1,188)	3,188
Changes in assets:		
Accounts receivable, net	105,984	(34,912)
Pledges, trusts and estates receivable	26,520	128,055
Other current assets	77,800	(13,347)
Other noncurrent assets	10,079	(216,538)
Changes in liabilities:		
Accounts payable and accrued expenses	377,283	(90,267)
Other noncurrent liabilities	(81,431)	219,347
Net cash provided by operating activities	<u>317,080</u>	<u>223,613</u>
Investing activities		
Net acquisitions of property and equipment	(205,569)	(462,784)
(Decrease) increase in investments, net	(701,107)	323,461
Donor restricted contributions, pledges and bequests transferred from operating activities	41,102	69,792
Net cash used in investing activities	<u>(865,574)</u>	<u>(69,531)</u>
Financing activities		
Proceeds from financing	600,000	-
Finance lease payments	(3,253)	-
Repayment of debt	(169,312)	(333,426)
Net cash provided by (used in) financing activities	<u>427,435</u>	<u>(333,426)</u>
Net change in cash, cash equivalents, and restricted cash	(121,059)	(179,344)
Cash, cash equivalents, and restricted cash at beginning of year	940,816	843,052
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 819,757</u>	<u>\$ 663,708</u>

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Notes to Unaudited Interim Combined Financial Statements

September 30, 2020

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 (the “Hospital”), Sloan Kettering Institute for Cancer Research, S.K.I. Realty, Inc., MSK Insurance US, Inc., MSK Proton, Inc., Prostate Cancer Clinical Trials Consortium, LLC, Ralph Lauren Center for Cancer Care and Prevention, and the Louis V. Gerstner Jr. Graduate School of Biomedical Sciences. All 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 2019 audited combined financial statements of the Institution. The Institution presumes that users of this unaudited interim combined 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, 2019 and 2018 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 unaudited interim combined 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 of the results have been included in the accompanying unaudited interim combined financial statements.

Patient volumes and net operating revenue and results are subject to variations caused by several 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, fluctuations in financial markets, unusual or infrequent items and other seasonal fluctuations. These same considerations apply to year-to-year comparisons.

Certain amounts in the accompanying unaudited interim combined financial statements are projections based on amounts that are only updated annually and are therefore projected for interim financial reporting purposes. Such amounts and estimates are subject to change and are evaluated by the Institution periodically and on an annual basis.

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Notes to Interim Combined Financial Statements (continued)

Note A - Basis of Presentation (continued)

Reclassifications

Certain reclassifications have been made to the 2019 amounts previously reported in order to conform to updated methodology utilized in the current year presentation. Investment income allocated to operations related to endowment, board designated, and short-term investment income was moved to other income for \$43.9 million and \$50.9 million in 2020 and 2019, respectively. The remaining \$72.6 million and \$65.0 million in 2020 and 2019, respectively, was moved to non-operating income. These reclassifications have no impact on the net assets previously reported.

Note B – Use of Estimates

The preparation of the combined 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 combined 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 - Hospital Care and Services Revenue

Hospital Care and Services Revenue and Accounts Receivable

Hospital care and services revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration (reductions to revenue) in determining a transaction price.

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

The Hospital's initial estimate of the transaction price for services provided to patients subject to revenue recognition is determined by reducing the total standard charges related to the patient

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Notes to Interim Combined Financial Statements (continued)

Note C – Hospital Care and Services Revenue (continued)

services provided by various elements of variable consideration, including contractual allowances, 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 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. Patients who meet the Hospital's criteria for charity care are provided care without charge; such amounts are not reported as revenue.

Generally, the Hospital bills patients and third-party payors several days after the services are performed and/or the patient is discharged. Hospital care and services revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Hospital. Hospital care and services 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 and ambulatory care centers. The Hospital measures the performance obligation from admission into the hospital or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or the completion of the outpatient visit.

As substantially all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in ASU 2014-09 and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related 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.

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Notes to Interim Combined Financial Statements (continued)

Note C – Hospital Care and Services 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 (see third-party payment programs below). Portfolio collection estimates are updated monthly 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 periods ended September 30, 2020 and 2019 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 of these factors are presented below.

The percent of hospital care and services revenue for the periods ended September 30, 2020 and 2019, by payor, is as follows:

	2020	2019
Medicare	30%	25%
Medicaid	3	2
Non-contracted managed care and self-pay	6	6
Contracted managed care	61	67
	100%	100%

Deductibles, copayments and coinsurance under third-party payment programs which are the patient's responsibility are included within the non-contracted managed care and self-pay category above. The Hospital provides pharmaceuticals and related support services to patients through a retail and specialty pharmacy. Revenue is recognized at the point in time of the transaction.

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Notes to Interim Combined Financial Statements (continued)

Note C – Hospital Care and Services Revenue (continued)

Hospital care and services revenue for the periods ended September 30, 2020 and 2019 by line of business is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Hospital	\$ 2,495,861	\$ 2,683,630
Physician services	450,340	508,904
Retail and specialty pharmacy	172,266	127,931
	<u>\$ 3,118,467</u>	<u>\$ 3,320,465</u>

The Hospital has elected the practical expedient allowed under ASU 2014-09 and does not adjust the expected amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Hospital's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Hospital does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Third-Party Payment Programs

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

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Notes to Interim Combined Financial Statements (continued)

Note C – Hospital Care and Services Revenue (continued)

Non-Medicare Reimbursement

In New York State, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid pays hospital rates promulgated by the New York State Department of Health. Payments to the Hospital for Medicaid inpatient services are based on a prospective payment system, with retroactive adjustments. Outpatient services are paid based on a statewide prospective system. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare & 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 are not recognized until the Hospital is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payors will continue to be made in future years.

Medicare Reimbursement

The Hospital is exempt from the national prospective payment system used to reimburse hospitals for inpatient services provided to Medicare beneficiaries and instead is paid using a cost-based methodology. These payments are subject to a limit that is based on average costs from 2003 to 2006 for rate years beginning on or subsequent to January 1, 2007, which are then updated based on annual trend factors calculated by CMS. The Hospital is paid for outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. The outpatient payments are subject to a floor that ensures the Hospital receives a percentage of its Medicare defined allowable outpatient costs. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on hospital-specific data.

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years' payment rates. The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through the year ended December 31, 2013. Other years remain open for audit and subsequent settlement, as a few issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded

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Notes to Interim Combined Financial Statements (continued)

Note C – Hospital Care and Services Revenue (continued)

estimates will change by a material amount when open years are settled, audits are completed and additional information is obtained. Changes in these estimates could also affect the amounts reported as the unpaid cost of government sponsored health care. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Hospital is not aware of any allegations of noncompliance that could have a material adverse effect on the combined financial statements and believes that it is in compliance with all applicable laws and regulations.

There are various Federal and State proposals that could, among other things, reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform by the Federal or State government, cannot presently be determined. Future changes in Medicare and Medicaid programs could have an impact, positive or negative, on the Hospital. Additionally, Medicare payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years might be realized.

Significant concentrations of accounts receivable at September 30, 2020 include 36% from government-related programs, 18% from Empire Health Choice, and 10% from UnitedHealthcare (27%, 22% and 19%, respectively, at December 31, 2019).

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Notes to Interim Combined Financial Statements (continued)

Note D – Royalty and Other Income

Royalty and other income for the periods ended September 30, 2020 and 2019 consists of the following:

	2020	2019
	<i>(In Thousands)</i>	
Royalty income	\$ 37,961	\$ 27,015
Housing and parking	30,502	30,779
Cafeteria and food service	3,838	5,773
Services provided	3,958	2,903
Investment income allocated to operations	43,852	50,905
CARES Act income	100,505	-
Other	31,467	28,817
	<u>\$ 252,083</u>	<u>\$ 146,192</u>

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Notes to Interim Combined Financial Statements (continued)

Note E – Long-Term Debt and Financing Lease

Long-term debt and financing lease consist of the following:

	September 30, 2020	December 31, 2019
	<i>(In Thousands)</i>	
DASNY Series 1998, tax-exempt bonds maturing through 2023 at various fixed interest rates ranging from 5.50% to 5.75%	\$ 76,700	\$ 100,700
DASNY Series 2010, tax-exempt bonds maturing through 2023 at a fixed interest rate of 2.18%	24,000	30,000
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 2021 at a fixed interest rate of 4.00%	2,220	4,355
DASNY 2012 Series 1, tax-exempt bonds maturing through 2021 at various fixed interest rates ranging from 4.00% to 5.00%	25,065	49,045
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%	96,003	98,764
NJEDA Series 2016-2, tax-exempt bonds maturing through 2026 at a fixed rate interest rate of 1.43%	87,000	97,874
DASNY Series 2017-1, tax-exempt bonds maturing through 2047 at various fixed interest rates ranging from 4.00% to 5.00%	285,510	288,025
DASNY Series 2019-1, tax-exempt bonds maturing through 2039 at various fixed interest rates ranging from 2.00% to 5.00%	284,545	284,545
Series 2020 taxable bonds maturing through 2050 at various fixed interest rates ranging from 2.650% to 2.955%	500,000	-
Financing lease liability	172,700	173,000
Unamortized bond premiums, discounts and issuance costs	71,103	79,363
	2,974,846	2,555,671
Less current portion	82,755	79,766
	\$ 2,892,091	\$ 2,475,905

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Notes to Interim Combined Financial Statements (continued)

Note E - Long-Term Debt and Financing Lease (continued)

In June 2020, the Institution issued \$500.0 million of Series 2020 taxable bonds (the 2020 Bonds). The 2020 Bonds will be paid in two bullets maturing in 2045 and 2050 at a fixed interest rate of 2.650% and 2.955%, respectively. The proceeds will be used for general corporate purposes.

In September 2020, the Institution paid back \$100.0 million from its unsecured lines of credit that was drawn in March 2020. At September 30, 2020, there are no amounts drawn of the \$200.0 million in lines of credit available.

Note F— Retiree Pension and Health Plans

The Institution has a retirement annuity plan which provides eligible staff members with retirement income through individual deferred annuity contracts purchased in each participant's name. In addition, the Institution maintains a nonqualified deferred compensation plan which is used for employer contributions in excess of those allowed by the retirement annuity plan. The effective date of this plan was January 1, 1983, and it has been grandfathered from the changes made by the Tax Reform Act of 1986. The plans' assets are included in assets whose use is limited in the combined balance sheets and consist of money market and mutual funds. The Institution contributes a fixed percentage of an individual's compensation to these plans.

Effective January 1, 2013, the Institution amended an existing 403(b) plan (composed of the basic plan and the voluntary plan) to have a new plan design and be renamed as the Memorial Sloan Kettering Cancer Center Retirement Savings Plan (the RSP). Under the RSP, all Institution employees are eligible to make voluntary employee contributions (salary deferrals), subject to IRS limits. Mandatory employee contributions are not required.

The Institution makes base contributions to the RSP for eligible employees, which depend on the employee's age (determined as of the preceding December 31). Additionally, the Institution matches contributions for voluntary employee contributions made by eligible employees. The Institution's cost for these plans was approximately \$86.3 million and \$73.9 million for the nine months ended September 30, 2020 and 2019, respectively.

The Institution also maintains a trustee defined benefit plan (the Plan) for employees not covered by the above retirement annuity plan. The benefits are based on years of service, the employee's average compensation during the highest five of the last ten years of employment and a pension formula. The Plan has been amended and is frozen to new participants hired on or after December 16, 2012.

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Notes to Interim Combined Financial Statements (continued)

Note F– Retiree Pension and Health Plans (continued)

In September 2020, the Institution communicated its intention to freeze the Plan at the end of the year. Participants will continue to accrue a benefit through December 19, 2020. Beginning December 20, 2020 eligible participants will begin receiving MSK contributions under the Retirement Savings Plan. The Plan's assets, liabilities, and 2020 pension expense have been remeasured.

As a result, the projected benefit obligation (PBO) for the Plan decreased \$247.0 million from December 31, 2019. The decrease in PBO is comprised of the year-end Plan freeze, an increase in accruals due to the passage of time, and a change in the discount rate. Because the Plan has a large unrecognized loss, the decrease in the PBO due to the Plan freeze is used to offset this loss, rather than being recognized in expense as a curtailment gain. This resulted in a net adjustment and reduction of liability of \$277.4 million at September 30, 2020.

Overall expense for the year is expected to decrease by approximately \$27.0 million including the curtailment charge. The decrease of \$27.0 million consists of the following components: \$11.0 million decrease in service cost, \$8.0 million decrease in interest cost, \$9.0 million decrease in loss amortization, and a \$1.0 million curtailment charge.

Actuarial assumptions will be remeasured as of December 31, 2020.

During the nine months ended September 30, 2020, the Institution contributed \$96.0 million to the Plan.

Note G – Commitments and Contingencies

The Institution is involved in various litigation and claims that are not considered unusual given the complexity and size of the Institution's business. Management believes that the ultimate resolution of these matters will not have a material impact on the Institution's combined financial statements.

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Notes to Interim Combined Financial Statements (continued)

Note H – COVID-19 Impact

Due to the global viral outbreak caused by COVID-19 in 2020, there have been resulting effects which have, and will continue to negatively impact the Institution's financial condition. These effects include significant stock market exchange volatility, temporary business closures and event cancellations, supply disruptions and decisions to defer procedures and other medical treatments at the Institution. The ultimate impact of these various matters to the Institution and its combined financial condition is presently unknown.

Management continues to closely monitor the operational and financial impact of COVID-19 in many respects and is pursuing opportunities for Federal and any other funding that is or will become available, including from the CARES Act, the Federal Emergency Management Agency or other sources. Additional funding has since become available, for which the Institution has applied for and expects to receive more funding in the future.

Note I – Subsequent Events

In October 2020, the Institution sold a portion of its royalty rights to a third party. Net of direct expenses, the Institution received \$141.9M. This transaction will be recorded as Board Designated income.

MEMORIAL SLOAN KETTERING CANCER CENTER
DEBT COMPLIANCE ANALYSIS
September 30, 2020
\$000

	<u>9/30/2020</u>	<u>12/31/2019</u>
DEBT RATIO ANALYSIS		
Debt Ratio		
Cash & Equivalents	743,645	833,102
Short Term Investments	578,897	0
Assets Whose Use is Limited	183,278	239,571
Investments	4,870,911	4,399,849
Total Cash & Investments	<u>6,376,731</u>	<u>5,472,522</u>
Endowments	725,887	717,516
Less: Current Endowment Pledges	5,617	7,796
Less: Non-Current Endowment Pledges	6,472	8,518
Endowments net of Endowment Pledges	<u>713,798</u>	<u>701,202</u>
Unrestricted Cash & Investments	5,662,933	4,771,320
Long Term Debt & Financing Lease Liability	<u>2,974,846</u>	<u>2,555,671</u>
	<u>1.90</u>	<u>1.87</u>
Minimum Debt Ratio Required	<u>0.60</u>	<u>0.60</u>
	Pass	Pass
Loss Allowed		
Income (Loss) From Operations	(453,293)	194,479
Less: Investment Income Supporting Operations	(43,853)	(162,445)
Add: Board-Designated Income	(56)	70,517
Add: Net Assets Released from Restrictions -Capital	0	75,000
Add: 8% of Unrestricted Investments (3 yr avg)	<u>374,818</u>	<u>349,094</u>
Adjusted Operating Income (Loss)	<u>(122,385)</u>	<u>526,645</u>
Maximum Loss Allowed	<u>(50,000)</u>	<u>(50,000)</u>
	*See Note	Pass
Calculation of 8% of Unrestricted Investments		
Total Cash and Investments	6,376,731	5,472,522
Less: Endowments, net of Endowment Pledges	713,798	701,202
Less: Assets Whose Use is Limited	183,278	239,571
Unrestricted Investments	<u>5,479,655</u>	<u>4,531,749</u>
3 yr average	4,685,220	4,363,671
X 8%	<u>374,818</u>	<u>349,094</u>
	<u>374,818</u>	<u>349,094</u>
LT Debt to Net Assets Without Donor Restrictions		
Net Assets Without Donor Restrictions	5,687,305	5,602,186
Long Term Debt & Financing Lease Liability	2,974,846	2,555,671
	<u>0.52</u>	<u>0.46</u>
LT Debt to Net Assets Without Donor Restrictions not to exceed	<u>2.00</u>	<u>2.00</u>
	Pass	Pass
LT Debt to Unrestricted Cash & Investments Ratio		
Unrestricted Cash & Investments	5,662,933	4,771,320
Long Term Debt & Financing Lease Liability	2,974,846	2,555,671
	<u>0.53</u>	<u>0.54</u>
LT Debt to Unrestricted Cash Ratio not to exceed	<u>2.00</u>	<u>2.00</u>
	Pass	Pass

*The Center is subject to certain financial covenants as a condition of certain debt transactions. If the most recently available audited combined financial statements show a decrease in Unrestricted Net Assets of \$50,000,000 or more or the Debt Ratio is less than 1.2 : 1.0 the Center will promptly calculate the Adjusted Operating Loss as calculated above. If upon measurement the Adjusted Operating Loss is greater than \$50,000,000, certain conditions must be met, as further outlined in each debt transaction. As of September 30, 2020, we have an increase in Unrestricted Net Assets of \$85.1 million.

Memorial Sloan Kettering Cancer Center
Key Patient Statistics and Other Data

	Period Ended September 30, 2020	Period Ended September 30, 2019	Year Ended December 31, 2019
Licensed Beds	514	514	514
Beds in Service	514	498	498
Admissions	16,867	19,367	25,595
Discharges	16,746	19,314	25,617
Average Length of Stay	7.1	6.7	6.8
Occupancy Rate (1)	84.7%	96.3%	95.6%
Patient Days	119,337	129,920	173,729
Surgical Cases	18,986	23,212	30,811
Inpatient	6,816	8,122	10,710
Outpatient	12,170	15,090	20,101
Total Clinic Visits:	326,708	623,720	839,073
Manhattan	204,148	421,165	562,224
Regional Network	122,560	202,555	276,849
Telemedicine Visits	238,288	7,016	8,045
Chemotherapy treatments	200,954	214,222	289,904
Manhattan	82,300	107,841	143,964
Regional Network	118,654	106,381	145,940
Radiology	428,348	397,033	631,174
Manhattan	241,226	235,870	407,159
Regional Network	187,122	161,163	224,015
Radiation Oncology	102,575	119,850	160,421
Manhattan	34,237	45,303	59,600
Regional Network	68,338	74,547	100,821
Full Time Equivalents	20,646	19,126	19,412

(1) Based on adjusted bed count

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

	Period Ended September 30, 2020	Period Ended September 30, 2019	Year Ended December 31, 2019
<u>Case Mix Index (1)</u>	2.19	2.06	2.10
<u>Medicare Only CMI</u>	2.17	2.02	2.05
<u>Revenue Distribution (2)</u>			
Medicare	29.8%	26.7%	27.5%
Medicaid	2.8%	2.1%	1.7%
Non-contracted commercial and self pay	6.7%	4.4%	1.5%
Contracted commercial	60.7%	66.8%	69.3%
	100%	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



CERTIFICATE OF COMPLIANCE
For The Period Ended September 30, 2020

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, 2017 Series 1, and 2019 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.

 11/13/2020
Signature Date

Mark Svenningson
Print Name

Senior Vice President Finance
Title