



THE ROCKEFELLER UNIVERSITY HOSPITAL
(A Division of The Rockefeller University)

Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
The Rockefeller University:

We have audited the accompanying financial statements of The Rockefeller University Hospital (a division of The Rockefeller University) (the Hospital), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of The Rockefeller University Hospital as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

May 25, 2016

THE ROCKEFELLER UNIVERSITY HOSPITAL
(A Division of The Rockefeller University)

Balance Sheets

December 31, 2015 and 2014

Assets	2015	2014
Industry-sponsored receivables	\$ —	1,138
Due from The Rockefeller University	7,306,342	6,994,228
Land, buildings, and equipment, net (note 4)	<u>6,759,544</u>	<u>7,168,647</u>
Total assets	<u>\$ 14,065,886</u>	<u>14,164,013</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ <u>612,639</u>	<u>727,053</u>
Total liabilities	<u>612,639</u>	<u>727,053</u>
Net assets – unrestricted:		
Expended for land, buildings, and equipment	6,759,544	7,168,647
Designated for plant replacement and expansion	<u>6,693,703</u>	<u>6,268,313</u>
Total net assets	<u>13,453,247</u>	<u>13,436,960</u>
Total liabilities and net assets	<u>\$ 14,065,886</u>	<u>14,164,013</u>

See accompanying notes to financial statements.

THE ROCKEFELLER UNIVERSITY HOSPITAL
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Statements of Activities

Years ended December 31, 2015 and 2014

	2015	2014
Revenues:		
Government grants (note 3)	\$ 7,493,940	6,430,112
Other revenue	125,390	145,903
Contributions	75,500	50,500
Total revenues	7,694,830	6,626,515
Expenses:		
Patient care	6,525,340	6,064,308
Research	4,591,824	4,062,467
Administrative and general	4,071,369	3,853,422
Total expenses	15,188,533	13,980,197
Deficiency of revenues over expenses	(7,493,703)	(7,353,682)
Other changes in net assets:		
Operating subsidy grant from The Rockefeller University	7,493,703	7,353,682
Capital subsidy grant from The Rockefeller University	16,287	15,779
Increase in net assets	16,287	15,779
Net assets at beginning of year	13,436,960	13,421,181
Net assets at end of year	\$ 13,453,247	13,436,960

See accompanying notes to financial statements.

THE ROCKEFELLER UNIVERSITY HOSPITAL
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Statements of Cash Flows

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Increase in net assets	\$ 16,287	15,779
Adjustments to reconcile the increase in net assets to net cash used in operating activities:		
Depreciation	425,390	475,373
Operating subsidy grant from The Rockefeller University classified as financing activities	(7,493,703)	(7,353,682)
Capital subsidy grant from The Rockefeller University classified as financing activities	(16,287)	(15,779)
Decrease in industry-sponsored receivables	1,138	—
Decrease in accounts payable and accrued expenses	(114,414)	(13,779)
Net cash used in operating activities	(7,181,589)	(6,892,088)
Cash flows from investing activity:		
Purchases of land, buildings, and equipment	(16,287)	(15,779)
Net cash used in investing activity	(16,287)	(15,779)
Cash flows from financing activities:		
Operating subsidy grant from The Rockefeller University classified as financing activities	7,493,703	7,353,682
Capital subsidy grant from The Rockefeller University classified as financing activities	16,287	15,779
Increase in due from The Rockefeller University	(312,114)	(461,594)
Net cash provided by financing activities	7,197,876	6,907,867
Net change in cash	—	—
Cash at beginning of year	—	—
Cash at end of year	\$ —	—

See accompanying notes to financial statements.

THE ROCKEFELLER UNIVERSITY HOSPITAL
(A Division of The Rockefeller University)

Notes to Financial Statements

December 31, 2015 and 2014

(1) Nature of Operations

The Rockefeller University Hospital (the Hospital) operates under the charter of The Rockefeller University (the University) and is not incorporated as a separate legal entity. The Hospital conducts research on volunteer patients. These activities are funded primarily through a grant provided by the U.S. Department of Health and Human Services (DHHS). Approximately 49% and 46% of the Hospital's operations were funded by this grant in 2015 and 2014, respectively. The balance of the operating costs is funded primarily by an operating subsidy grant from the University.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The Hospital prepares its financial statements on the accrual basis of accounting in accordance with standards established by the Financial Accounting Standards Board for external reporting by not-for-profit organizations. The accompanying financial statements include the economic resources and financial activities of the Hospital.

All net assets not restricted by donors are accounted for as unrestricted net assets. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. The Hospital has designated a portion of the unrestricted net assets for plant replacement and expansion.

(b) Deficiency of Revenues over Expenses

The accompanying statements of activities include an intermediate measure of operations entitled deficiency of revenues over expenses. Changes in unrestricted net assets that are excluded from the deficiency of revenues over expenses, consistent with industry practice, include operating and capital subsidy grants received from the University.

(c) Patient Service Revenue

Net patient service revenue represents the estimated net realizable amounts from patients and third-party payors for services rendered, net of contractual and courtesy allowances. Estimated contractual adjustments, including prospective rate adjustments arising under third-party reimbursement programs, are accrued in the period the services are rendered to the patients. Differences between estimated retroactive third-party reimbursement settlements for prior years and subsequent final settlements are recorded in the year of settlement as contractual adjustments. No net patient service revenue has been recognized for the years ended December 31, 2015 and 2014.

(d) Government Grants

Revenue from grants is recognized as earned, that is, as related costs are incurred under the grant agreements.

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(e) 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 disclosures 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. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(f) Land, Buildings, and Equipment

Plant assets are stated at cost, or at fair value at date of donation in the case of gifts. Depreciation of buildings and building improvements is recorded over estimated useful lives ranging from 15 to 50 years. Equipment is depreciated over estimated useful lives ranging from 5 to 20 years.

(g) Income Taxes

The Hospital is a division of the University, which is classified by the Internal Revenue Service as exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. The Hospital follows the guidance of Accounting Standards Codification Subtopic 740-10, *Accounting for Income Taxes – Overall*, which addresses accounting for uncertainties in income taxes recognized in an enterprise's financial statements. The Hospital utilizes a threshold of more likely than not for recognition and de-recognition of tax positions taken or expected to be taken in a tax return.

(3) Grants Revenue

The Hospital's primary funding is the Clinical and Translational Science Awards (CTSA) from DHHS for clinical research projects that are administered through the Hospital's Center for Clinical and Translational Science. The Center is designed to provide an optimal infrastructure to conduct clinical and translational research and to educate the next generation of physician scientists committed to patient-oriented research.

As of December 31, 2015, awards totaling \$7,261,604 had been granted for the period from July 1, 2015 to June 30, 2016, of which \$3,467,764 was unexpended as of December 31, 2015. As of December 31, 2014, awards totaling \$7,346,452 had been granted for the period from July 1, 2014 to June 30, 2015, of which \$158,746 was unexpended as of December 31, 2015 and \$3,700,100 was expended during the year ended December 31, 2015.

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(4) Land, Buildings, and Equipment

Land, buildings, and equipment, all of which are funded by the University, are stated at cost at December 31, 2015 and 2014 and consist of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 1,191,709	1,191,709
Buildings and equipment	15,582,402	15,566,115
Total	16,774,111	16,757,824
Less accumulated depreciation	<u>(10,014,567)</u>	<u>(9,589,177)</u>
	<u>\$ 6,759,544</u>	<u>7,168,647</u>

(5) Retirement Benefits

The Hospital participates with the University in a defined contribution retirement plan covering substantially all personnel. The plan is fully funded by the purchase of annuity contracts. Pension costs attributable to the Hospital amounted to approximately \$505,000 and \$503,000 for the years ended December 31, 2015 and 2014, respectively.

In addition, the Hospital participates with the University in providing certain healthcare and life insurance benefits for retired professional and administrative employees who meet certain age and length-of-service requirements upon retirement. Postretirement benefit costs allocated to the Hospital amounted to approximately \$415,000 and \$374,000 for the years ended December 31, 2015 and 2014, respectively. Information as to vested and nonvested earned benefits, as well as plan assets, as they relate to the Hospital, is not readily available.

(6) Medical Malpractice Insurance

The University, acting on behalf of the Hospital, carries umbrella policies providing \$35,000,000 per annual policy period. The occurrence-based medical malpractice coverage provides coverage for losses in excess of \$1,500,000 per occurrence and \$3,000,000 in aggregate as well as Clinical Trial liability insurance for losses up to \$5,000,000 per occurrence and \$5,000,000 in aggregate. The current policy was renewed on December 1, 2015.

As of December 31, 2015 and 2014, there were no medical malpractice claims filed against the Hospital. The cost of providing medical malpractice insurance coverage amounted to approximately \$384,000 and \$380,000 for the years ended December 31, 2015 and 2014, respectively.

(7) Contingent Liabilities

Amounts expended by the Hospital under the government grants are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the Hospital's financial position.

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(8) Subsequent Events

The Hospital evaluated events subsequent to December 31, 2015 through May 25, 2016, the date which the financial statements were issued and concluded that no additional disclosures are required.