



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

Financial Statements

December 31, 2019 and 2018

(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, 2019 and 2018, 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 balance sheets of The Rockefeller University Hospital as of December 31, 2019 and 2018, 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

June 2, 2020

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

Balance Sheets

December 31, 2019 and 2018

Assets	2019	2018
Due from The Rockefeller University	\$ 8,965,169	8,445,160
Land, buildings, and equipment, net (note 4)	<u>5,440,265</u>	<u>5,823,011</u>
Total assets	<u>\$ 14,405,434</u>	<u>14,268,171</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ <u>676,795</u>	<u>552,082</u>
Total liabilities	<u>676,795</u>	<u>552,082</u>
Net assets without donor restrictions:		
Expended for land, buildings, and equipment	5,440,265	5,823,011
Designated for plant replacement and expansion	<u>8,288,374</u>	<u>7,893,078</u>
Total net assets	<u>13,728,639</u>	<u>13,716,089</u>
Total liabilities and net assets	<u>\$ 14,405,434</u>	<u>14,268,171</u>

See accompanying notes to financial statements.

THE ROCKEFELLER UNIVERSITY HOSPITAL
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Statements of Activities

Years ended December 31, 2019 and 2018

	2019	2018
Revenues:		
Government grants (note 3)	\$ 5,093,823	6,039,743
Other revenue	29,822	62,238
Contributions	50,000	125,000
Total revenues	5,173,645	6,226,981
Expenses:		
Patient care	7,830,650	6,714,103
Research	3,907,905	4,260,000
Administrative and general	4,249,751	4,067,244
Total expenses	15,988,306	15,041,347
Deficiency of revenues over expenses	(10,814,661)	(8,814,366)
Other changes in net assets:		
Operating subsidy grant from The Rockefeller University (note 1)	10,814,661	8,814,366
Capital subsidy grant from The Rockefeller University	12,550	79,673
Increase in net assets	12,550	79,673
Net assets at beginning of year	13,716,089	13,636,416
Net assets at end of year	\$ 13,728,639	13,716,089

See accompanying notes to financial statements.

THE ROCKEFELLER UNIVERSITY HOSPITAL
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Statements of Cash Flows

Years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase in net assets	\$ 12,550	79,673
Adjustments to reconcile the increase in net assets to net cash used in operating activities:		
Depreciation	395,296	392,120
Operating subsidy grant from The Rockefeller University classified as financing activities	(10,814,661)	(8,814,366)
Capital subsidy grant from The Rockefeller University classified as financing activities	(12,550)	(79,673)
Increase (decrease) in accounts payable and accrued expenses	124,713	(186,891)
Net cash used in operating activities	(10,294,652)	(8,609,137)
Cash flows from investing activity:		
Purchases of land, buildings, and equipment	(12,550)	(79,673)
Net cash used in investing activity	(12,550)	(79,673)
Cash flows from financing activities:		
Operating subsidy grant from The Rockefeller University classified as financing activities	10,814,661	8,814,366
Capital subsidy grant from The Rockefeller University classified as financing activities	12,550	79,673
Increase in due from The Rockefeller University	(520,009)	(205,229)
Net cash provided by financing activities	10,307,202	8,688,810
Net change in cash	—	—
Cash at beginning of year	—	—
Cash at end of year	\$ —	—

See accompanying notes to financial statements.

THE ROCKEFELLER UNIVERSITY HOSPITAL

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Notes to Financial Statements

December 31, 2019 and 2018

(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 32% and 40% of the Hospital's operations were funded by this grant in 2019 and 2018, 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 (FASB) 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 net assets without donor restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as support without donor restrictions. The Hospital has designated a portion of the net assets without donor restrictions 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 net assets without donor restrictions 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, 2019 and 2018.

(d) Government Grants

Revenue from grants is recognized as earned 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 derecognition of tax positions taken or expected to be taken in a tax return. There were no uncertain tax positions as of December 31, 2019 and 2018.

(h) New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires the Hospital to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration revenue is recognized in an amount to which the Hospital expects to be entitled in exchange for the transfer of goods or services. The Hospital adopted ASU No. 2014-09 for the year ended December 31, 2019 on a retrospective basis, which did not have a significant impact on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies how entities determine whether to account for a transfer of assets (or a reduction, settlement, or cancellation of a liability) as an exchange transaction or a contribution based on whether commensurate value has been received or transferred. The new guidance also clarifies that a contribution is conditional if the agreement includes both a barrier that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The clarified guidance applies to all entities that receive or make contributions (grants). The Hospital adopted ASU No. 2018-08 for the year ended December 31, 2019 on a retrospective basis, which did not have a significant impact on the financial statements.

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(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 (Center). 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, 2019, awards totaling \$4,496,880 had been granted for the period from June 1, 2019 to May 31, 2020, of which \$1,974,881 was unexpended as of December 31, 2019. As of December 31, 2018, awards totaling \$5,724,733 had been granted for the period from June 1, 2018 to May 31, 2019, of which \$2,571,824 was expended as of December 31, 2019.

(4) Land, Buildings, and Equipment

Land, buildings, and equipment, all of which are funded by the University, are stated at cost at December 31, 2019 and 2018 and consist of the following:

	2019	2018
Land	\$ 1,191,709	1,191,709
Buildings and equipment	15,857,794	15,845,244
Total	17,049,503	17,036,953
Less accumulated depreciation	(11,609,238)	(11,213,942)
	\$ 5,440,265	5,823,011

(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 \$609,000 and \$604,000 for the years ended December 31, 2019 and 2018, 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 \$302,000 and \$329,000 for the years ended December 31, 2019 and 2018, respectively. Information as to vested and nonvested earned benefits, as well as plan assets, as they relate to the Hospital, is not readily available.

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(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, 2019.

As of December 31, 2019 and 2018, there were no medical malpractice claims filed against the Hospital. The cost of providing medical malpractice insurance coverage amounted to approximately \$370,200 and \$326,000 for the years ended December 31, 2019 and 2018, 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.

During 2018, the University retained external legal counsel to investigate a report by a former patient of inappropriate conduct by a former physician at the Rockefeller University Hospital. The University made publicly available the external counsels report on its investigation. The University also established the Rockefeller Hospital Therapy Fund to provide financial assistance for therapy costs.

The New York Child Victims Act (CVA), which was passed in February 2019, modifies the statute of limitations for civil claims relating to certain childhood abuse claims through December 31, 2019, for persons to initiate civil lawsuits. As of June 30, 2019, the University recorded in its financial statements amounts for CVA settlements, legal fees, investigation costs, and other expenses through October 25, 2019. Future costs and other expenses relating to this matter cannot be reasonably estimated at this time. The University expects that a number of these claims will be covered by existing insurance coverage and has filed a lawsuit against its insurers to recover proceeds in connection with these claims.

(8) Liquidity and Availability of Resources

The Hospital regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The primary source of liquidity at the Hospital's disposal is amounts due from the University. The University is committed to funding the Hospital's activities indefinitely.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Hospital considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities to be general expenditures.

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There are \$8,965,169 and \$8,445,160 in 2019 and 2018, respectively representing due from the University, which could readily be made available within one year of the balance sheet date to meet general expenditures.

(9) Functional Expenses

The Hospital's primary program services are patient care and research. Expenses reported as administrative and general are incurred in support of these primary program activities. Accordingly, total program services expenses approximated \$11,749,000 and \$10,974,000 in 2019 and 2018, respectively. Operations and maintenance of plant and depreciation are allocated to program and supporting services using a variety of cost allocation techniques, such as square footage and time and effort.

Expenses are reported in the statement of activities in functional categories. Natural expenses were categorized as follows:

	2019			
	Patient care	Research	Administrative and general	Total
Salaries and benefits	\$ 6,547,421	2,828,032	2,860,347	12,235,800
Consultants and professional services	—	—	141,489	141,489
Supplies, materials, and other	1,062,847	904,959	1,247,915	3,215,721
Depreciation	220,382	174,914	—	395,296
	\$ 7,830,650	3,907,905	4,249,751	15,988,306

	2018			
	Patient care	Research	Administrative and general	Total
Salaries and benefits	\$ 5,989,187	3,220,087	2,709,469	11,918,743
Consultants and professional services	—	—	147,099	147,099
Supplies, materials, and other	507,352	865,357	1,210,676	2,583,385
Depreciation	217,564	174,556	—	392,120
	\$ 6,714,103	4,260,000	4,067,244	15,041,347

(10) Subsequent Events

The Hospital evaluated events subsequent to December 31, 2019 through June 2, 2020, the date which the financial statements were issued and concluded that no additional disclosures are required.

The spread of coronavirus (COVID-19) around the world in the first two quarters of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Hospital is unable to determine if it will have a material impact to its operations.