Audited Consolidated Financial Statements, Reports, Supplementary Information, and Schedule Required by the Uniform Guidance

Cedars-Sinai Health System
Year Ended June 30, 2019
With Report of Independent Auditors

Ernst & Young LLP

Cedars-Sinai Health System

Audited Consolidated Financial Statements, Reports, Supplementary Information, and Schedule Required by the Uniform Guidance

Year Ended June 30, 2019

Contents

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Report of Independent Auditors

Management and the Board of Directors
Cedars-Sinai Health System

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Cedars-Sinai Health System, which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity 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 of material misstatement, whether due to fraud or error.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 entity'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 entity'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.

Building a better working world

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cedars-Sinai Health System at June 30, 2019 and 2018, and the consolidated results of its operations and changes in net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated October 25, 2019, on our consideration of Cedars-Sinai Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Cedars-Sinai Health System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cedars-Sinai Health System's internal control over financial reporting and compliance.

Ernst & Young LLP

October 25, 2019, except for our report on the
Schedule of Expenditures of Federal Awards,
for which the date is February 11, 2020

Cedars-Sinai Health System

Consolidated Balance Sheets
(Dollar Amounts Expressed in Thousands)

	June 30	
	2019	**2018**
Assets		
Current assets:		
Cash and cash equivalents	**$ 662,468**	$ 411,322
Short-term investments	**1,221,940**	1,255,144
Board-designated assets	**1,167,285**	1,087,653
Current portion of assets limited as to use:		
Funds held by trustee	**1,775**	397
Pledge receivable	**37,755**	33,015
Managed care reserve fund	**92,117**	78,867
Patient accounts receivable, less allowance for uncollectible accounts of $134,028 in 2018	**664,573**	626,508
Due from third-party payers	**6,583**	5,069
Inventory	**53,401**	46,754
Prepaid expenses and other assets	**218,866**	233,156
Total current assets	**4,126,763**	3,777,885
Assets limited as to use:		
Investments	**564,700**	547,585
Pledge receivable, less current portion	**190,535**	192,781
Funds held by trustee	**–**	382
	755,235	740,748
Property and equipment, net	**3,238,479**	3,036,489
Other assets	**494,370**	432,755
Total assets	**$ 8,614,847**	$ 7,987,877

Cedars-Sinai Health System

Consolidated Balance Sheets (continued)
(Dollar Amounts Expressed in Thousands)

	June 30	
	2019	**2018**
Liabilities and net assets		
Current liabilities:		
Accounts payable and other accrued liabilities	**$ 505,357**	$ 467,218
Accrued payroll and related liabilities	**364,537**	357,447
Risk pool liabilities	**117,707**	114,750
Current maturities of long-term debt	**51,919**	50,783
Total current liabilities	**1,039,520**	990,198
Long-term debt, less current maturities	**1,455,014**	1,507,146
Accrued workers' compensation and malpractice insurance claims, less current portion	**167,271**	150,962
Pension liability	**183,411**	59,170
Other liabilities	**97,552**	95,011
Net assets:		
Without donor restrictions:		
Controlling interests	**4,786,704**	4,320,002
Non-controlling interests	**53,123**	58,791
With donor restrictions	**832,252**	806,597
Total net assets	**5,672,079**	5,185,390
Total liabilities and net assets	**$ 8,614,847**	$ 7,987,877

See accompanying notes.

Cedars-Sinai Health System

Consolidated Statements of Operations and Changes in Net Assets
(Dollar Amounts Expressed in Thousands)

	Year Ended June 30	
	2019	**2018**
Net assets without donor restrictions		
Revenues, gains, and other support:		
Patient service revenue (net of contractual allowances and discounts)		$ 3,739,817
Provision for bad debts		(37,352)
Net patient service revenue before Medi-Cal Fee Program	**$ 4,354,791**	3,702,465
Medi-Cal Fee Program revenue	**132,625**	183,228
Net patient service revenue	**4,487,416**	3,885,693
Premium revenues	**263,941**	168,236
Other operating revenues	**134,295**	113,499
Net assets released from restrictions	**225,407**	198,434
Total revenues, gains, and other support	**5,111,059**	4,365,862
Expenses:		
Salaries and related costs	**2,359,996**	2,073,133
Professional fees	**349,357**	286,387
Materials, supplies, and other	**1,583,067**	1,333,224
Medi-Cal Fee Program expense	**129,849**	191,273
Interest	**45,165**	40,643
Depreciation and amortization	**239,881**	212,064
Total expenses	**4,707,315**	4,136,724
Income from operations	**403,744**	229,138
Investment income	**144,973**	110,620
Gain on equity method investments	**5,264**	8,001
Excess of revenues over expenses before inherent contribution from affiliation	**553,981**	347,759
Inherent contribution from affiliation	**–**	508,088
Excess of revenues over expenses	**553,981**	855,847
Deficit (excess) of revenues over expenses attributable to non-controlling interests	**2,687**	(2,938)
Excess of revenues over expenses attributable to the Health System	**$ 556,668**	$ 852,909

Cedars-Sinai Health System

Consolidated Statements of Operations and Changes in Net Assets (continued)
(Dollar Amounts Expressed in Thousands)

	Year Ended June 30 2019	2018
Net assets without donor restrictions (continued)		
Controlling interests activity:		
Excess of revenues over expenses attributable to the Health System	**$ 556,668**	$ 852,909
Net assets released from restrictions related to property and equipment	**951**	4,452
Change in pension liability	**(90,917)**	51,405
Increase in net assets without donor restrictions attributable to the Health System	**466,702**	908,766
Non-controlling interests activity:		
(Sale) purchase of non-controlling interest	**(132)**	4,122
(Deficit) excess of revenues over expenses attributable to non-controlling interests	**(2,687)**	2,938
Distributions to non-controlling interests	**(2,849)**	(2,289)
(Decrease) increase in net assets without donor restrictions attributable to non-controlling interests	**(5,668)**	4,771
Increase in net assets without donor restrictions	**461,034**	913,537
Net assets with donor restrictions		
Inherent contribution from affiliation	**–**	117,420
Contributions, grants and other	**239,204**	227,061
Investment income	**12,809**	12,206
Net assets released from restrictions	**(226,358)**	(202,886)
Increase in net assets with donor restrictions	**25,655**	153,801
Increase in net assets	**486,689**	1,067,338
Net assets at beginning of year	**5,185,390**	4,118,052
Net assets at end of year	**$ 5,672,079**	$ 5,185,390

See accompanying notes.

Cedars-Sinai Health System

Consolidated Statements of Cash Flows
(Dollar Amounts Expressed in Thousands)

	Year Ended June 30	
	2019	**2018**
Operating activities		
Increase in net assets	**$ 486,689**	$ 1,067,338
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Inherent contribution from affiliation	**–**	(571,658)
Depreciation	**216,650**	211,630
Amortization of goodwill and other intangibles	**23,231**	434
Amortization of deferred financing costs and bond premiums	**(11,835)**	(12,061)
Provision for bad debts	**–**	37,352
Restricted contributions	**(15,008)**	(20,687)
Sale (purchase) of non-controlling interests	**132**	(4,122)
Unrealized losses on investments	**62,376**	18,736
Gains on equity method investments	**(5,264)**	–
Distributions to non-controlling interests	**2,849**	–
Changes in operating assets and liabilities:		
Patient accounts receivable	**(38,065)**	14,269
Due from third-party payers	**(1,514)**	5,302
Inventory, prepaid expenses, and other current assets	**7,643**	(70,091)
Assets limited as to use, net of assets held by bond trustee	**(17,122)**	(4,773)
Accounts payable and other accrued liabilities	**5,347**	68,527
Accrued payroll and related liabilities	**7,090**	14,603
Risk pool liabilities	**2,957**	(2,113)
Other long-term liabilities	**146,473**	(62,826)
Net cash provided by operating activities before net purchases of trading investments	**872,629**	689,860
Net purchases of trading investments	**(164,975)**	(390,174)
Net cash provided by operating activities	**707,654**	299,686
Investing activities		
Expenditures for property and equipment	**(384,820)**	(285,313)
Purchase consideration for acquisitions	**(9,508)**	(4,693)
Decrease in assets held by bond trustee	**382**	120,372
Increase in other assets	**(71,012)**	(9,871)
Sales of alternative investments	**125,054**	51,289
Purchases of alternative investments	**(86,000)**	(29,947)
Net cash used in investing activities	**(425,904)**	(158,163)

Cedars-Sinai Health System

Consolidated Statements of Cash Flows (continued)

(Dollar Amounts Expressed in Thousands)

	Year Ended June 30	
	2019	**2018**
Financing activities		
Principal payments on long-term debt	**$ (42,763)**	$ (30,523)
Distributions to non-controlling interests	**(2,849)**	–
Restricted contributions	**15,008**	20,687
Net cash used in financing activities	**(30,604)**	(9,836)
Increase in cash and cash equivalents	**251,146**	131,687
Cash and cash equivalents – beginning of year	**411,322**	279,635
Cash and cash equivalents – end of year	**$ 662,468**	$ 411,322
Supplemental disclosure of cash flow information		
Interest paid	**$ 65,826**	$ 60,185

The Health System capitalized property and equipment of $77,685 and $42,839 at June 30, 2019 and 2018, respectively, that had not been paid and is included in the consolidated balance sheets under accounts payable and other accrued liabilities.

See accompanying notes.

1. Organization

Cedars-Sinai Health System, a California nonprofit, public benefit corporation (the Health System), is tax-exempt under the provisions of the Internal Revenue Code (the Code) and applicable provisions of the Franchise Tax Code of the state of California. Cedars-Sinai Health System was created and incorporated in May 2017 as the parent organization to facilitate an affiliation between Cedars-Sinai Medical Center and Torrance Health Association, Inc. Effective May 1, 2017, the Health System is the sole corporate member of Cedars-Sinai Medical Center and its affiliates. Effective February 1, 2018, the Health System became the sole corporate member of Torrance Health Association, Inc. and its affiliates. The accompanying consolidated financial statements include the accounts of the Health System and its affiliate or subsidiary organizations as detailed below:

Cedars-Sinai – The accompanying consolidated financial statements include the accounts of Cedars-Sinai Medical Center and its affiliates, collectively referred to as Cedars-Sinai, as of and for the years ended June 30, 2019 and 2018. The following entities are included in the accompanying consolidated financial statements:

Cedars-Sinai Medical Center (CSMC) is a California nonprofit, public benefit corporation that owns and operates a hospital with 886 licensed beds in Los Angeles, California, and provides patient care, medical research, health education, and community service. Cedars- Sinai Medical Center is the sole corporate member of Cedars-Sinai Medical Care Foundation and Marina Del Rey Hospital.

Cedars-Sinai Medical Care Foundation (CSMCF) is a California nonprofit, public benefit corporation that operates, manages, and maintains a multi-specialty clinic, holds payer contracts and the assets of acquired physician and physician group practices and independent practice associations; and contracts for physician services pursuant to professional services agreements.

CFHS Holdings, Inc. (dba Marina Del Rey Hospital) is a California nonprofit public benefit corporation, which owns and operates Marina Del Rey Hospital, a community hospital with 133 licensed beds.

1. Organization (continued)

Torrance Memorial – The accompanying consolidated financial statements include the accounts of Torrance Health Association, Inc. and its affiliates, collectively referred to as Torrance Memorial, as of and for the year ended June 30, 2019, and as of and for the five-month period ended June 30, 2018. The following entities are included in the accompanying consolidated financial statements:

Torrance Health Association, Inc. (THA) is a California nonprofit, public benefit corporation and is the parent organization for the entities listed below. THA was formed to engage in various health care related activities. THA is the sole corporate member of Torrance Memorial Medical Center and Torrance Memorial Medical Center Health Care Foundation.

Torrance Memorial Medical Center (TMMC) is a California nonprofit corporation and is licensed as a 610-bed general acute care hospital that provides inpatient, outpatient, and emergency care services for residents in the surrounding South Bay community.

Torrance Memorial Medical Center Health Care Foundation (TMMCF) is a California nonprofit corporation organized to raise funds for the support of TMMC.

On March 12, 2019, Providence St. Joseph Health (Providence) and Cedars-Sinai Medical Center formed Tarzana Medical Center, LLC (Tarzana), which CSMC owns a 49% membership interest, to own and operate Providence Tarzana Medical Center (PTMC). Providence and CSMC will jointly continue the build-out and redevelopment of the PTMC campus, including a new patient-care tower with all private rooms, an expanded Emergency Department, new diagnostic and treatment services, and enhanced outpatient and ambulatory services. Upon completion of the replacement facility construction, Providence will contribute to Tarzana all tangible and intangible assets pertaining to the existing PTMC business. The joint venture will expand primary and specialty care services on the PTMC campus, as well as enhance other programs, including heart, cancer and women's services. As of June 30, 2019, Cedars-Sinai Medical Center made an initial $60,495 capital contribution in Tarzana. This investment is recorded under the equity method of accounting in other assets.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates include the carrying amounts for goodwill and property and equipment, valuation of deferred gifts, purchase accounting for acquisitions, valuation allowances for receivables, liabilities for medical claims incurred but not reported, third-party payables and receivables, risk pool liabilities, pension, and self-insured programs. Actual results could differ from those estimates.

Operating Revenues

The Health System records revenue in several financial statement categories: net patient service revenues (including Medi-Cal Fee Program revenue), premium revenues, other revenues, and net assets released from restrictions. Performance obligations are identified based on the nature of the services provided.

Net Patient Service Revenues

Net patient service revenue is reported at the amount that reflects the consideration to which the Health System expects to be entitled in exchange for providing patient care. These amounts, representing transaction price, are due from third-party payors (including health insurers and government programs), patients and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Health System bills the third-party payers and patients several days after the services are performed and/or the patient is discharged. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Health System. Generally, performance obligations satisfied over time apply to patients in the hospital receiving inpatient acute care services only. The Health System measures the performance obligation from admission into the hospital to the point when the medical condition upon admission has been resolved and it is no longer required to provide services to that patient, usually

2. Summary of Significant Accounting Policies (continued)

at the time of discharge. Revenue for performance obligations satisfied over time is recognized pro-rata based on actual charges incurred in relation to total expected (or actual) charges upon discharge. The Health System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the services provided needed to satisfy the obligation. Outpatient services are performance obligations satisfied at a point in time and revenue is recognized when goods or services are provided, and the Health System does not believe it is required to provide additional goods or services.

The Health System has elected the practical expedient allowed under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-32-18, *Revenue from Contracts with Customers,* and does not adjust the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to the Health System'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 payer pays for that service will be one year or less. However, the Health System 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.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Health System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) 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 performance obligations for these contracts are generally completed when the patients are discharged.

The Health System is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to patient service revenue. The Health System accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. As a result, the Health System has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

The Health System is reimbursed for services provided to patients under certain programs administered by governmental agencies. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future governmental review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medi-Cal programs. The Health System believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that may have a material impact on the accompanying consolidated financial statements.

Net patient service revenue by major payer source is as follows:

	Year Ended June 30	
	2019	**2018**
Medicare	**$ 1,013,208**	$ 907,748
Medi-Cal	**236,439**	252,096
Commercial and Managed Care	**2,991,563**	2,553,707
Self-pay and other	**246,206**	209,494
Patient service revenue, net of contractual allowances and discounts	**4,487,416**	3,923,045
Provision for bad debts	**–**	(37,352)
Net patient service revenues	**$ 4,487,416**	$ 3,885,693

The administrative procedures related to the cost reimbursement programs in effect generally preclude final determination of amounts due until cost reports are audited or otherwise reviewed and settled upon with the applicable administrative agencies. Estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's net patient service revenue. In the opinion of management, adequate provision has been made for adjustments, if any, that might result from subsequent review.

2. Summary of Significant Accounting Policies (continued)

Prior to the adoption of ASC 606, patient service revenue, net of contractual allowances and discounts, is reduced by the provision for bad debts, and accounts receivable is reduced by an allowance for uncollectible accounts. The Health System establishes an allowance for uncollectible accounts based on many factors, including payer mix, age of receivables, historical cash collection experience, and other relevant information. A significant portion of the Health System's uninsured patients will be unable or unwilling to pay for services provided, and a significant portion of the Health System's insured patients will be unable or unwilling to pay for co-payments and deductibles. Thus, the Health System records a provision for bad debts related to these insured and uninsured patients in the period the services are provided. The Health System writes down the expected reimbursement after reasonable collection efforts have been exhausted.

The Health System applied the modified retrospective approach to all contracts when adopting ASC 606. As a result of the adoption of ASC 606 the majority of what was previously classified as the provision for bad debts in the consolidated statement of operations and changes in net assets is now reflected as implicit price concessions as defined in ASC 606 and, therefore, included as a reduction to net patient service revenues during fiscal year 2019. For changes in credit issues not assessed at the date of service, the Health System recognizes those amounts in materials, supplies, and other expenses on the statement of operations; the amount recognized in materials, supplies, and other related to impairment losses during the year ended June 30, 2019 was $1,366. For periods prior to the adoption of ASC 606, the provision for bad debts has been presented consistent with the previous revenue recognition standards that required it to be presented separately as a component of net patient service revenues. The adoption of ASC 606 did not have a material impact on the consolidated financial statements.

The Health System provides charity care to patients who meet certain criteria under its financial assistance policy. This policy defines charity care as uncompensated services provided to patients who are deemed indigent and to patients who are uninsured. During the years ended June 30, 2019 and 2018, the Health System incurred $35,572 and 27,231, respectively, in costs to provide charity care which is calculated based on a ratio of cost to gross charges.

2. Summary of Significant Accounting Policies (continued)

Medi-Cal Fee Program

As part of the American Recovery and Reinvestment Act economic stimulus package passed in 2009, Congress temporarily increased the Federal Medical Assistance Percentage (FMAP) for all states, allowing states to draw down increased federal dollars for hospitals that provide medical care for Medicaid patients. California hospitals organized to pursue this stimulus funding through the California Hospital Fee Programs (the Programs). Passed into law by the California state government and approved by the Centers for Medicare and Medicaid Services (CMS) in fiscal 2012, the Programs provide enhanced revenues related to provision of services to Medicaid patients, offset to a degree by the requirement to pay a fee (known as the Quality Assurance (QA) Fee) based on established rates applied to each hospital's historical patient days. Supplemental payments received met all criteria related to revenue recognition, and the related QA fees are both probable and estimable. Accordingly, all related supplemental payments have been recognized as revenue and related quality assurance fees recognized as expense in the consolidated statement of operations and changes in net assets pertaining to the 30-month Program covering the period from January 1, 2017, through June 30, 2019.

Specifically, total QA Fees incurred by the Health System were $129,849 and $191,273 for the years ended June 30, 2019 and 2018, respectively, while revenue from the Program totaled $132,625 and $183,228 for the years ended June 30, 2019 and 2018, respectively. In connection with the Program, the Health System applied for a grant from the California Health Foundation & Trust related to future shortfalls from the Program. The Health System recorded $7,957 and $4,883 for this grant for the years ended June 30, 2019 and 2018, respectively.

Premium Revenues

The Health System has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, monthly capitation payments are received based on the number of each HMO's participants, regardless of services actually performed. These agreements also contain risk-sharing provisions with medical groups whereby additional amounts may be due or paid. In addition, the HMOs make fee-for-service payments for non-capitated services based upon discounted fee schedules. Such payments received are recorded as premium revenues.

2. Summary of Significant Accounting Policies (continued)

The costs of health services provided by other health care providers to the participants, including administrative costs and out-of-area or emergency services, are included in professional fees, and totaled approximately $81,875 and $61,835 for the years ended June 30, 2019 and 2018, respectively. Such costs are accrued in the period in which the services are provided based in part on estimates, including an accrual for services provided by others, but not reported to Cedars-Sinai Medical Care Foundation and Torrance Health Association, Inc.

Other Operating Revenues

The Health System has additional revenue streams from tuition, health professionals, rental properties and parking. Revenue is recognized when obligations under the terms of the contract are satisfied. Revenues from these services are measured as the amount of consideration the Health System expects to receive for those services.

Net Assets Released from Restrictions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give cash and indications of intentions to give are not recognized until the conditions are satisfied or removed. The gifts are reported as donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported on the consolidated statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as without donor restrictions contributions in the accompanying consolidated financial statements as other operating revenues.

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include the excess of revenues over expenses, which is considered the performance indicator. Changes in net assets without donor restrictions, which are excluded from the excess of revenues over expenses, include contributions of long-lived assets (including assets acquired using contributions which, by donor restrictions, were to be used for the purposes of acquiring such assets) and changes in pension plan liabilities.

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

Inventory

Inventory is stated at cost (using the first-in, first-out method), which is not in excess of net realizable value.

Other Assets

Other non-current assets consist of the following:

	June 30	
	2019	**2018**
Goodwill and other intangible assets	**$ 209,767**	$ 223,880
Investments in unconsolidated entities	**165,975**	97,357
Property held for future use	**62,953**	63,501
Other	**55,675**	48,017
	$ 494,370	$ 432,755

Acquisitions and Affiliations

The accounting for acquisitions requires extensive use of estimates and judgments to measure the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed. The fair value of acquired tangible and identifiable intangible assets and liabilities assumed are based on their estimated fair values at the acquisition date and are measured using an income and market approach with significant unobservable inputs.

On February 1, 2018, the Health System affiliated with Torrance Memorial with a goal of creating an integrated healthcare delivery system to improve the quality of healthcare within their communities and to further their mission of advancing the quality of care and furthering charitable services. The affiliation did not involve consideration and resulted in an excess of assets acquired over liabilities assumed under the business combination accounting guidance, which has been recorded as an inherent contribution from affiliation of $625,508 in the consolidated statement of operations and changes in net assets. The Health System recognized fair value estimates of assets acquired and liabilities assumed, and recorded cash and unrestricted investments of $62,986, working capital of $(8,777), property and equipment of $694,706, other assets of $332,462, long-term debt of $385,301, and other liabilities of $70,568.

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

The following pro forma (unaudited) consolidated financial information presents the Health System's results for the year ended June 30, 2018, assuming the affiliation occurred on July 1, 2017:

	Actual	Pro Forma (Unaudited)
Total revenues	$ 4,365,862	$ 4,870,788
Income from operations	229,138	232,659
Excess of revenues over expenses attributable to the Health System	852,909	876,755
Change in net assets without donor restrictions	913,537	934,633
Change in net assets with donor restrictions	153,801	169,630

Pro forma results include historical Torrance Health Association, Inc., results (unaudited) for the seven-month period ended January 31, 2018, prior to the affiliation. Purchase accounting adjustments are included within pro forma results. A nonrecurring contribution of $625,508 is included within pro forma results.

Goodwill

Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired, including identifiable intangible assets. The Health System elected to apply the goodwill accounting alternative in ASC 350, *Intangible – Goodwill and Other*, effective July 1, 2018 which allows non-for-profit entities to amortize goodwill on a straight-line basis over ten years and perform a one-step impairment test at the entity level only when an impairment indicator exists. The Health System concluded no indicators of impairment existed as of June 30, 2019. The guidance of the goodwill accounting alternative is applied to existing goodwill as of the beginning of the annual period of adoption and will be applied prospectively for goodwill recognized in the future. For the year ended June 30, 2019, the Health System recorded additional goodwill of $9,118 from an acquisition and recorded amortization of goodwill totaling $22,521. At June 30, 2019 and 2018, goodwill, which is included in other assets, totaled $208,011 and $221,415, respectively.

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

Care of the Poor and Community Benefit (Unaudited)

The Health System's mission is to improve the health status of its community, regardless of the patient's ability to pay, including charity patients. The Health System provides programs and activities that contribute to charity care, care of the poor, and community benefit. These programs and activities serve a majority of persons who are beneficiaries of Medi-Cal, and county, state, and federal programs for which the costs of providing the services are not fully reimbursed. Also included are activities that improve the community's health status and educate or provide social services to the elderly and children. The Health System's unreimbursed costs for care of the poor and community benefits were approximately 20.9% and 22.4% of total operating expenses for the years ended June 30, 2019 and 2018, respectively. The costs associated with these programs and activities are as follows:

	For the Years Ended	
	2019	**2018**
Traditional charity care and uninsured patients (Category 1)	**$ 35,572**	$ 27,231
Unpaid cost of state programs (Category 2)	**105,601**	95,402
Unpaid cost of specialty government programs (Category 3)	**1,893**	2,148
Unpaid cost of federal programs (Category 4)	**473,378**	468,740
Research (Category 5)	**227,281**	213,662
Community benefit (Category 6)	**138,492**	118,541
Total community benefit	**982,217**	925,724
A portion of the above cost was supported by the help of:		
Federal, state, and local grants	**90,281**	82,594
Charitable giving	**50,155**	54,461
Community benefit, net of support by others	**$ 841,781**	$ 788,669

2. Summary of Significant Accounting Policies (continued)

The Health System uses the following six categories to classify care of the poor and community benefit:

Category 1: Traditional Charity Care and Uninsured Patients (care of the poor) – includes the cost of services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured. If there is any subsidy donated for these services, that amount is deducted from the gross amount.

Category 2: Unpaid Cost of State Programs – also benefits the poor, but is listed separately. This amount represents the unpaid cost of services provided to patients in the Medi-Cal program or enrolled in HMO and Preferred Provider Option (PPO) plans under contract with the Medi-Cal program.

Category 3: Unpaid Costs of Specialty Government Programs – also provides community benefit under such programs as the Veterans Administration, Los Angeles Police Department, Short Doyle, Proposition 99, and other programs to benefit the poor. This amount represents the unpaid cost of services provided to patients in these various programs. If this community benefit was not provided, federal, state, or local governments would need to furnish these services.

Category 4: Unpaid Cost of Federal Programs – primarily benefits the elderly. This amount represents the unpaid cost of services provided to patients in the Medicare program and enrolled in HMO and PPO plans under contract with the Medicare program. Included in these amounts are $19,349 and $24,692 for the years ended June 30, 2019 and 2018, respectively, of unpaid cost of services provided to patients in the Medicare program who are also in the Medi-Cal program.

Category 5: Research – cost of providing translational and clinical research and studies on health care delivery. During the years ended June 30, 2019 and 2018, the Health System received outside support for its research efforts totaling $140,436 and $137,055, respectively. Thus, for the years ended June 30, 2019 and 2018, the net cost incurred by the Health System was $86,845 and $76,607, respectively.

2. Summary of Significant Accounting Policies (continued)

Category 6: Community Benefit – cost of services that are beneficial to the broader community, i.e., other needy populations that may not qualify as poor, but that need special services and support. Examples include the elderly, substance abusers, the homeless, victims of child abuse, and persons with AIDS. They also include the cost of health promotion and education and health clinics and screenings.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment that do not contain explicit donor stipulations, which specify how the donated assets must be used, are reported as support without donor restrictions, and are excluded from excess of revenue over expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The Health System accounts for software development costs in accordance with Accounting Standards Updated (ASU 2018-15), *Intangible – Goodwill and Other – Internal-use Software (Subtopic 350-40)*: All costs incurred in the planning stage of developing the software are expensed as incurred, as are internal and external training costs and maintenance costs. External and internal costs, excluding general and administrative costs and overhead costs, incurred during the applicable development stage of internally used software are capitalized. Such costs include external direct costs of materials and services consumed in development or obtaining the software, payroll, and payroll-related costs for employees who are directly associated with and who devote time to developing the software. Development changes that result in appropriate functionality of the software, which enable it to perform tasks that it was previously incapable of performing, are also capitalized.

Capitalized internal-use software development costs are amortized on a straight-line basis over their estimated useful life of three to seven years. Amortization begins when all substantial testing of the software is completed and the software is ready for its intended use.

2. Summary of Significant Accounting Policies (continued)

Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of

The Health System accounts for the impairment and disposition of long-lived assets in accordance with ASC 360, *Property, Plant and Equipment Impairment or Disposal of Long-Lived Assets*. In accordance with ASC 360, long-lived assets to be held are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Health System determined that no assets are impaired at June 30, 2019 and 2018, respectively.

Assets Limited as to Use

Assets limited as to use include assets held by trustees that are for the payment of self-insurance liabilities, assets with donor restrictions, assets held by trustees under indenture agreement for future capital expenditures, and managed care capitation reserves. The current portion of assets limited as to use includes amounts that will be used to pay self-insurance classified as current liabilities.

Investments

The Health System has designated its investments in equity securities with readily determinable fair values and all investments in debt securities as trading, in accordance with ASC 954, *Health Care Entities*. Those securities are measured at fair value in the accompanying consolidated balance sheets. Fair value is determined using a market approach based on quoted prices for similar securities in active markets or quoted prices for identical securities in inactive markets. Management determines the appropriate classification of all investments at the date of purchase and re-evaluates such designations at each consolidated balance sheet date.

Investment income or loss on net assets with donor restrictions (including realized and unrealized gains and losses on investments, interest, and dividends) is reported as net assets without donor restrictions activity unless the income or loss is restricted by donor or law.

Cedars-Sinai's and Torrance Memorial's investments are invested in accordance with policies approved by its separate Board of Directors, which include, among other matters, targeted investment returns balanced by diversification of the investment portfolio, establishment of credit risk parameters, and limitation in the amount of investment in any single instrument. As part of its

2. Summary of Significant Accounting Policies (continued)

investment policies and strategies, each entity's Investment Committee meets periodically to review performance. At least annually, the Investment Committee reviews and formulates a specific investment and allocation plan. Any adjustments that are deemed necessary are based on specific criteria, i.e., the entity's necessary funding, obligations, expenses, and liquidity needs.

Alternative Investments

Certain of the Health System's investments are made through alternative investments, which include investments in limited partnerships and limited liability companies. The Health System generally contracts with fund managers, who have full discretionary authority over investment decisions. The Health System accounts for its ownership interests in the partnerships using the net asset value as a practical expedient for fair value. These investments provide the Health System with a proportionate share of the entities' gains and losses, which are included in investment income on the accompanying consolidated statements of operations and changes in net assets. As of June 30, 2019 and 2018, these alternative investments comprised approximately 14% and 17% of the Health System's total cash, cash equivalents, and investments.

Alternative investments include certain other risks that may not exist with other investments that are more widely traded. These risks include reliance on the skill of the fund managers, who often employ complex strategies with various financial instruments, including futures contracts, foreign currency contracts, structured notes, and other investment vehicles. Additionally, alternative investments may have limited information on a fund's underlying assets and valuation, and limited redemption or redemption-penalty provisions. Management believes that the Health System, in consultation with its Investment Committees, has the capacity to analyze and interpret the risks associated with alternative investments and, with this understanding, has determined that investing in these investments creates a balanced approach to its portfolio management.

Risk Pool Liabilities

Risk pool liabilities include amounts that THA estimates as payable under risk-sharing agreements through analysis of historical claims information using lag schedules and claims turnaround time. The liability also includes amounts payable to medical groups, as well as premiums received that are held in reserve for health plan agreements whose beneficiaries are primarily outside THA's service area. The funding, held in a managed care reserve and included in current portion of assets limited as to use in the accompanying consolidated balance sheets, totaled $92,117 and $78,867 at June 30, 2019 and 2018, respectively.

2. Summary of Significant Accounting Policies (continued)

Medical Malpractice Insurance

Cedars-Sinai is self-insured for the first $3,000 in professional malpractice and general liability losses per occurrence on a claims made basis effective October 1, 2005, and was self-insured for the first $2,000 effective October 1, 2004, and $1,000 for prior periods. Cedars-Sinai purchases excess insurance coverage resulting in total coverage of $200,000 per occurrence, insuring all employees, volunteers, and members of the medical faculty. Effective for the year beginning October 1, 2005, the insurance purchased was excess over an attachment point of $1,000 for each and every claim and another $2,000 per claim with a $10,000 annual aggregate. Effective October 1, 2013, the aggregate was raised to $15,000. Effective October 1, 2015, the aggregate was raised again to $17,000. Cedars-Sinai had no aggregate limit for the three years beginning October 1, 2002.

Similarly, Torrance Memorial is self-insured for professional liability (malpractice) claims up to $500 per occurrence on a claims-made basis. Torrance Memorial is covered by hospital malpractice insurance for claims in excess of this amount up to a maximum of $25,000 per occurrence, with an annual aggregate limit of $35,000. Combined accruals for insured and uninsured claims, and claims incurred but not reported are estimated by an actuary based on the Health System's claims experience. Such accruals, which totaled $79,243 and $70,635 at June 30, 2019 and 2018, are recorded using a 2.0% and 3.0% discount factor at June 30, 2019 and 2018, respectively. The current portion of the accruals of $12,996 and $11,023 at June 30, 2019 and 2018, is included in accounts payable and other accrued liabilities. The basis for the rate is the risk-free rate of return at the end of each year and the estimated period over which claims will be settled. The accruals represent the total actuarially determined loss without reduction for the portion that is expected to be recoverable through insurance ($15,017 and $11,313 at June 30, 2019 and 2018). The expected amounts to be recovered through insurance are included in other assets on the accompanying consolidated balance sheets.

Workers' Compensation Insurance

Cedars-Sinai carries workers' compensation insurance insuring employees with a self-insured primary limit of $1,000 effective February 1, 2005, and decreasing amounts in earlier years. Cedars-Sinai purchases excess insurance coverage on an occurrence basis to cover claims in excess of these amounts with an annual aggregate limit of $1,000. THA is also self-insured for workers' compensation claims up to $1,000 through August 31, 2013, and $350 thereafter. THA maintains

2. Summary of Significant Accounting Policies (continued)

insurance to cover claims in excess of these amounts with an annual aggregate limit of $1,000. Combined accruals for insured, uninsured claims and claims incurred but not reported are estimated by an actuary based upon the Health System's claims experience. Such accruals, which totaled $123,363 and $116,052 at June 30, 2019 and 2018, respectively, are recorded using a 2.0% and 3.0% discount factor at June 30, 2019 and 2018, respectively. The current portion of the accruals of $22,339 and $24,702 at June 30, 2019 and 2018, is included in accounts payable and other accrued liabilities. The basis of the rate is the risk-free rate of return at the end of each year and the estimated period over which claims will be settled. The accruals represent the total actuarially determined loss without reduction for the portion that is expected to be recoverable through insurance ($21,508 and $20,109 at June 30, 2019 and 2018). The expected amounts to be recovered through insurance are included in other assets in the accompanying consolidated balance sheets.

Cash and Cash Equivalents

The Health System considers all highly liquid debt instruments with original maturity dates at the time of purchase of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The Health System's consolidated balance sheets include the following financial instruments: cash and cash equivalents, investments, patient accounts receivable, accounts payable and other accrued liabilities, pension liabilities, and long-term obligations. The Health System considers the carrying amounts of current assets and liabilities in the consolidated balance sheets to approximate the fair value of these financial instruments because of the relatively short period of time between origination of the instruments and their expected realization. Pledge receivable, accrued workers' compensation, malpractice insurance claims, and pension liabilities are recorded at their estimated present value using appropriate discount rates. Marketable securities are recorded at fair value based on quoted prices from recognized security exchanges and other methods, as further described in Note 5. Alternative investments are recorded at net asset value, which represents a practical expedient of fair value. Tax-exempt financings are carried at amortized cost. The fair value of tax-exempt financings is estimated based on current market rates, as further described in Note 4.

2. Summary of Significant Accounting Policies (continued)

Income Taxes

The Health System and its related affiliates have been determined to qualify as exempt from federal and state income taxes under Section 501(a) as organizations described in Section 501(c)(3) of the Code.

Most of the income received by the Health System is exempt from taxation, as income related to the mission of the organization. Accordingly, there is no material provision for income taxes for these entities. However, some of the income received by the exempt entities is subject to taxation as unrelated business income. The Health System and its subsidiaries file federal and state income tax returns.

The Health System completed an analysis of its tax positions, in accordance with ASC 740, *Income Taxes*, and determined that there are no uncertain tax positions taken or expected to be taken. The Health System has recognized no interest or penalties related to uncertain tax positions. The Health System is subject to routine audits by the taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Health System believes it is no longer subject to income tax examinations for years prior to 2015.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The provisions of the Act did not have a material tax effect on the Health System's consolidated financial statements. Certain regulatory guidance provides for a measurement period of up to one year during which accounting for the tax effects of the Act may be completed. The Health System will continue to evaluate the impact of the Act and may record adjustments as additional information and guidance is released by the Internal Revenue Service.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Health System to concentrations of credit risk, consist primarily of investments and accounts receivable. Investments are made in a variety of financial instruments with prudent diversification requirements. The Health System seeks diversification among its investments by limiting the amount of investments that can be made with any one obligor. The investment portfolio is managed by professional investment managers within the guidelines established by the Boards, which, as a matter of policy, limit the amounts that may be invested in any one issuer.

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

The Health System grants credit without collateral to its patients, most of whom are area residents and are insured under third-party agreements. The mix of net receivables from patients and third-party payers as of is as follows:

	June 30	
	2019	**2018**
Medicare	**18%**	18%
Medi-Cal	**2**	2
Commercial and managed care	**73**	73
Self-pay and other	**7**	7
	100%	100%

Recent Accounting Pronouncements

In May 2019, the FASB issued ASU 2019-06, *Intangible – Goodwill and Other (Topic 350), Business Combination (Topic 805), and Not-for-Profit Entities (Topic 958) Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*, which allows not-for-profit entities to forgo testing goodwill for impairment annually at the reporting level and to instead use an accounting alternative in which goodwill is amortized over 10 years or less on a straight-line basis and to test for impairment upon a triggering event with the option to test for impairment at the entity level. ASU 2019-06 became effective upon issuance, and the Health System elected to apply the goodwill accounting alternative effective July 1, 2018 to the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Topic 350): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for deferring implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for annual periods beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Health System is currently evaluating the impact of this new standard on the consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which enhances ASU 2016-02, *Leases (Topic 842)*, which requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet and allows for an option to apply the transition provisions of the new ASU at its adoption date instead of at the earliest comparative period presented in its consolidated financial statements. The ASU is effective for fiscal years (and interim reporting periods within fiscal years) beginning after December 15, 2018, with early adoption permitted for all entities, and the Health System has elected the practical expedient to initially apply the new leasing standard at the adoption date. The Health System is finalizing its analysis of certain key assumptions that will be utilized at the transition date, including the incremental borrowing rate. The primary effect of the new ASU will be to record right-of-use assets and obligations for current operating leases which will have a material impact on the consolidated balance sheets and significant incremental disclosures in the notes to the consolidated 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 and improves the scope and the accounting guidance for contributions received and made with the objective of reducing the existing diversity in practice. The Health System adopted the new ASU for the year ended June 30, 2019, using a modified prospective basis. The adoption of ASU 2018-08 did not have a significant impact to the Health System's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which amends ASC 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. For Public Business Entities (PBEs), the guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, it is effective for fiscal years beginning after December 15, 2018, and interim periods thereafter. The Health System is currently evaluating the impact of this new ASU on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash

2. Summary of Significant Accounting Policies (continued)

flows. For PBEs, the guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, it is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Health System is currently evaluating the impact of this new ASU on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-For-Profit Entities*, which requires not-for-profit entities to revise financial presentation to include net asset classifications, provide quantitative and qualitative information as to available resources and management of liquidity and liquidity risk, information on investment expenses and returns, and the presentation of operating cash flows. The standard aims to help the reader of the financial statements to better understand the financial position of the organization and enhance consistency among similar organizations. The Health System has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. Adopting ASU 2016-14 had no impact to total revenues, excess of revenues over expenses, or total net assets but modified the classification of net assets on the consolidated balance sheets and consolidated statements of operations and changes in net assets from three classes of net assets to two classes of net assets. Furthermore, the Health System added disclosure (Note 7) for the liquidity and availability of financial assets at the balance sheet date to meet cash needs for general expenditures within one year and disaggregated functional expense classifications by their natural expense classification of the consolidated financial statements (Note 10).

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 provides a single, comprehensive revenue recognition model for entities to use in accounting for revenue arising from contracts with customers. The standard requires the entity to recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The Health System adopted this guidance as of July 1, 2018, using the modified retrospective method of transition. As a result, at the adoption of ASC 606 the majority of what was previously classified as the provision for bad debts in the statement of operations is now reflected as implicit price concessions in ASC 606 and therefore included as a reduction to net patient service revenues during fiscal year 2019. For changes in credit issues not assessed at the date of service, the Health System recognized those amounts in materials, supplies, and other expenses on the statement of operations. For periods prior to the

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

adoption of ASC 606, the provision for bad debts has been presented consistent with the previous revenue recognition standards that required it to be presented separately as a component of net patient service revenues. The adoption of ASC 606 did not have a material impact on the consolidated financial statements.

3. Property and Equipment

Property and equipment consist of the following:

	June 30	
	2019	**2018**
Land	**$ 258,962**	$ 258,962
Buildings and land improvements	**3,139,992**	3,026,224
Equipment	**613,044**	560,269
Software and software implementation costs	**696,576**	647,866
	4,708,574	4,493,321
Less accumulated depreciation and amortization	**2,009,940**	1,786,540
	2,698,634	2,706,781
Construction-in-progress	**539,845**	329,708
	$ 3,238,479	$ 3,036,489

Depreciation and amortization expense on property and equipment was $216,650 and $211,630 for the years ended June 30, 2019 and 2018, respectively.

Construction-in-progress consists of the following:

	June 30	
	2019	**2018**
Buildings and land improvements	**$ 441,100**	$ 245,659
Equipment	**18,559**	9,567
Software and software implementation costs	**69,597**	67,651
Capitalized interest	**10,589**	6,831
	$ 539,845	$ 329,708

3. Property and Equipment (continued)

If each project included in construction-in-progress were placed in service at June 30, 2019 and 2018, at the costs capitalized at that date, the Health System's annual depreciation would increase by approximately $28,446 and $20,956 (unaudited). This estimate of incremental annual depreciation is subject to change as additional costs are incurred to complete these projects. The Health System estimates that it will cost approximately $1,161,063 and $527,562 (unaudited) to complete the projects currently under construction.

4. Long-Term Debt

Cedars-Sinai and Torrance Memorial have public bonds. The entities do not assume any financial obligations related to payment of debt issued by each other. Revenue of each entity (excluding its affiliated or subsidiary organizations) is pledged to secure the payment of the principal and interest on all bonds and certificates under its separate Master Trust Indentures (Indentures). The Indentures contain covenants restricting additional debt and providing for the maintenance of certain financial ratios. Both entities were in compliance with these covenants at June 30, 2019 and 2018.

(Dollar Amounts Expressed in Thousands)

4. Long-Term Debt (continued)

Long-term debt issued and outstanding at as follows:

	June 30 2019	2018
Cedars-Sinai		
$535,000 Revenue Bonds, Series 2009; principal payments of $1,045 to $68,860 are due annually through 2039; interest is payable semiannually at 3.5% to 5.0%; the amount reported includes a face value of $8,685 and $16,960 at June 30, 2019 and 2018, respectively.	**$ 8,685**	$ 16,960
$148,400 Revenue Bonds, Series 2011; principal payments of $9,845 to $18,900 are due annually through 2021; interest is payable semiannually at 3.0% to 5.0%; the amount reported includes a face value of $56,730 and $73,860, unamortized premiums of $1,167 and $2,213, and unamortized deferred financing costs of $116 and $217 at June 30, 2019 and 2018, respectively;	**57,781**	75,856
$370,220 Revenue Bonds, Series 2015; principal payments of $480 to $39,680 are due annually through 2035; interest is payable semiannually at 2.0% to 5.0%; the amount reported includes a face value of $368,120 and $368,120, unamortized premiums of $47,390 and $53,174, and unamortized deferred financing costs of $1,727 and $1,951 at June 30, 2019 and 2018, respectively;	**413,783**	419,343
$267,420 Revenue Bonds, Series 2016A; principal payments of $5,040 to $38,905 are due annually through 2036; interest is payable semiannually at 4.0% to 5.0%; the amount reported includes a face value of $256,215 and $261,255, unamortized premiums of $42,408 and $46,199, and unamortized deferred financing costs of $1,232 and $1,343 at June 30, 2019 and 2018, respectively;	**297,391**	306,111
$402,305 Revenue Bonds, Series 2016B; principal payments of $1,625 to $66,900 are due annually beginning in 2020 through 2039; interest is payable semiannually at 3.0% to 5.0%; the amount reported includes a face value of $402,305 and $402,305, unamortized premiums of $28,327 and $30,038, and unamortized deferred financing costs of $2,057 and $2,184 at June 30, 2019 and 2018, respectively;	**428,575**	430,159
Other notes payable, secured by deeds of trust	**14,667**	15,507
Capital leases	**806**	930
Cedars-Sinai total	**$ 1,221,688**	$ 1,264,866

(Dollar Amounts Expressed in Thousands)

4. Long-Term Debt (continued)

	June 30 2019	2018
Torrance Memorial		
$135,000 Revenue Bonds, Series 2010A; principal payments of $1,910 to $12,290 are due annually through 2040; interest is payable semiannually at 3.0% to 5.0%; the amount reported includes a face value of $129,070 and $131,119, unamortized premiums of $6,626 and $6,939, and unamortized deferred financing costs of $1,486 and $1,553 at June 30, 2019 and 2018, respectively;	**$ 134,210**	$ 136,505
$64,860 Revenue Bonds, Series 2010B; principal payments are due semiannually through 2045; interest is payable based on a variable rate ranging from 2.88% to 3.06%; the amount reported includes a face value of $63,510 and $63,985, unamortized discounts of $0 and $0, and unamortized deferred financing costs of $987 and $825 at June 30, 2019 and 2018, respectively;	**62,523**	63,160
$35,140 Revenue Bonds, Series 2010C; principal payments are due semiannually through 2045; interest is payable semiannually based on a variable rate ranging from 2.88% to 3.06%; the amount reported includes a face value of $34,395 and $34,655, unamortized discounts of $0 and $0, and unamortized deferred financing costs of $437 and $448 at June 30, 2019 and 2018, respectively;	**33,958**	34,207
$34,795 Revenue Notes, Series 2016A; principal payments of $2,020 to $2,700 are due annually through 2026; interest is payable semiannually at 2.4%; the amount reported includes a face value of $30,755 and $32,775, unamortized discounts of $456 and $518, and unamortized deferred financing costs of $165 and $186 at June 30, 2019 and 2018, respectively;	**30,134**	32,071
$30,000 Revenue Notes, Series 2016B; principal payments of $2,770 to $3,285 are due annually through 2026; interest is payable semiannually at 2.3%; the amount reported includes a face value of $24,480 and $27,250, unamortized discounts of $405 and $460, and unamortized deferred financing costs of $160 and $175 at June 30, 2019 and 2018, respectively;	**23,915**	26,615
Other notes payable	**505**	505
Torrance Memorial total	**285,245**	293,063
Cedars-Sinai and Torrance Memorial total	**1,506,933**	1,557,929
Less current maturities for Cedars-Sinai and Torrance Memorial	**51,919**	50,783
	$ 1,455,014	$ 1,507,146

4. Long-Term Debt (continued)

In November 2016, Cedars-Sinai Medical Center issued $669,725 of California Health Facilities Financing Authority Revenue Bonds, composed of the 2016A Series Revenue Bonds totaling $267,420 and the 2016B Series Revenue Bonds totaling $402,305. The proceeds totaled $755,157, including a premium on the 2016A Series Revenue Bonds of $52,585 and a premium on the 2016B Series Revenue Bonds of $32,847, both of which will be amortized as a reduction of interest expense over the life of the bonds based on the effective interest rate. Total issuance costs of $3,975 were incurred in connection with the offerings. The proceeds from the 2016A Series Revenue Bonds were used to finance the costs of future capital expenditures, including the purchase of an administrative office building (including the land) that was previously leased by Cedars-Sinai Medical Center. The proceeds from the 2016B Series Revenue Bonds were used to advance refund the majority of the 2009 Series Revenue Bonds that were callable totaling $392,605. The remaining, unrefunded portion of the 2009 Series Revenue Bonds totaled $8,685 and $16,960 as of June 30, 2019 and 2018, respectively.

In November 2015, Cedars-Sinai Medical Center issued $370,220 of California Health Facilities Financing Authority Revenue Bonds. The proceeds totaled $438,580, including a premium of $68,360 which will be amortized as a reduction of interest expense over the life of the bonds. Issuance costs of $2,540 were incurred in connection with the offering. The proceeds were used to fully pay down the 2005 Series Revenue Bonds.

In December 2012, Cedars-Sinai Medical Center entered into a $50,000 credit agreement (the Agreement) with a bank that will expire in February 2023. Cedars-Sinai Medical Center may borrow under the Agreement with interest charged at either the London Interbank Offered Rate (LIBOR) plus an applicable margin of 0.375% based on Cedars-Sinai Medical Center's Moody's rating (currently Aa3), or at the greater of the bank's fluctuating prime rate minus 1.5%, or 1.0%. At June 30, 2019, the three-month LIBOR was 2.3% and the bank's prime rate was 5.5%. Cedars-Sinai Medical Center also pays a 0.125% annual commitment fee on the unused credit line. The Agreement is secured on a parity basis under the Bond Indenture with the tax-exempt financings of Cedars-Sinai Medical Center. No amounts have been borrowed under the Agreement.

4. Long-Term Debt (continued)

In November 2013, Cedars-Sinai Medical Center entered into a second $50,000 credit agreement with another bank that expired in November 2018 and was not renewed. In February 2019, Cedars-Sinai Medical Center entered into a new $50,000 credit agreement with a different bank that will expire in February 2024. The terms are substantially similar to the Agreement described above, except the commitment fee on the unused credit line is .10% as of June 30, 2019, and the applicable margin is 0.6% based on Cedars-Sinai Medical Center's maintaining its Moody's rating. No amounts have been borrowed under this agreement.

In December 2016, TMMC refunded the City of Torrance 2001 Series A Bonds with an aggregate principal amount of $44,865. The City of Torrance also issued Series 2016 A and 2016 B Revenue Notes for an aggregate principal amount of $64,795. The 2016 Series A and Series B Notes were issued to refund the 2001 Series A Bonds and to finance a portion of the costs of constructing and equipping certain additions and improvements to the facilities operated by TMMC. The 2016 Series A and Series B Notes mature on December 1, 2026.

In September 2010, the City of Torrance issued Series 2010 A, 2010 B, and 2010 C Bonds for an aggregate principal amount of $235,000. The 2010 Series A and Series B Bonds were issued to assist in financing the construction of the new patient tower. The 2010 Series C Bonds were issued to refund the 1992 Bonds. As of June 30, 2019 and 2018, the weighted-average interest rate on the 2010 Series A Bonds was 4.61% and 4.86%. The interest rate for the 2010 Series B and 2010 Series C Bonds at June 30, 2019 and 2018, was 3.06% and 3.13%.

In June 2015, TMMC entered into a direct purchase agreement with JP Morgan for the 2010 Series B and 2010 Series C bonds. Under terms of this agreement, JP Morgan purchased the entire amount of the two issuances at face value. The interest rate mode was changed from variable rate demand bonds that priced weekly to a semi-variable interest rate formula that is a function of the one-month LIBOR and reprices monthly. The term of the direct purchase is for a four-year period, after which JP Morgan has the option to continue or to exit the direct purchase relationship. The agreement was renewed in July 2018. The underlying line of credit backing the issuances was canceled. Other significant terms and covenants of the debt remain substantially the same.

The fair value of the tax-exempt financings for the Health System, determined using Level 2 inputs (refer to Note 5 for description) primarily related to comparable market prices, was estimated to be $1,543,090 and $1,551,219 at June 30, 2019 and 2018, respectively.

(Dollar Amounts Expressed in Thousands)

4. Long-Term Debt (continued)

The combined aggregate amount of maturities and sinking fund requirements (excluding the unamortized premium of $125,057 and unamortized deferred financing costs of $8,367 at June 30, 2019) for the five fiscal years succeeding June 30, 2019, and thereafter is as follows:

2020	$ 40,510
2021	42,140
2022	43,455
2023	45,445
2024	47,580
Thereafter	1,171,113
	$ 1,390,243

For the years ended June 30, 2019 and 2018, interest costs incurred totaled $52,930 and $47,474, of which $7,765 and $6,831, respectively, was capitalized as part of the cost of construction-in-progress.

5. Retirement Plans

In 1990, the Board of Directors of Cedars-Sinai authorized the suspension of Cedars-Sinai's non-contributory, defined benefit plan, which covered substantially all eligible employees (the Suspended Employee Plan). Benefit accruals under the Suspended Employee Plan were suspended effective December 31, 1990. Effective July 1, 2003, Cedars-Sinai began offering a defined benefit plan to its employees. Rather than design a new plan, Cedars-Sinai amended the Suspended Employee Plan (the Cedars-Sinai Defined Benefit Plan) to capture the new defined benefit activity.

In 1991, Cedars-Sinai implemented a defined contribution plan (the Cedars-Sinai Defined Contribution Plan), covering substantially all employees covered under the Suspended Employee Plan. Contributions under the Cedars-Sinai Defined Contribution Plan are calculated based on each employee's salary and totaled $76,040 and $72,732 for the years ended June 30, 2019 and 2018, respectively. Employees have the choice of participation in either the Cedars-Sinai Defined Benefit Plan or the Cedars-Sinai Defined Contribution Plan and can change the selection once during their employment.

5. Retirement Plans (continued)

Cedars-Sinai employees participate in a 403(b) plan sponsored by Cedars-Sinai. Under the provisions of the plan, participating employees may make voluntary contributions up to 100% of pretax annual compensation, subject to statutory limitations. Cedars-Sinai contributes 50% of the first 6% of compensation that a participant contributes to the plan.

In addition, certain key employees of Cedars-Sinai are covered by separate defined contribution and defined benefit retirement plans, which are not governed by the Employee Retirement Income Security Act of 1974. Contributions under these plans are calculated based on each key employee's salary and totaled $23,521 and $21,873 for the years ended June 30, 2019 and 2018, respectively.

Torrance Memorial has a noncontributory defined benefit retirement plan (the THA Defined Benefit Plan) under which employees, upon retirement, are provided a monthly pension if conditions related to age and length of service have been met. During 2009, Torrance Memorial adopted an amendment, effective January 1, 2010, that reduces benefits accrued under plan provisions and freezes participation in the THA Defined Benefit Plan to those individuals employed by Torrance Memorial on or before December 31, 2009. Individuals employed subsequent to this date become eligible for participation in a defined contribution plan, to be funded 100% by Torrance Memorial.

On January 1, 2010, Torrance Memorial began a new 401(a) defined contribution plan (THA 401(a) Plan). Torrance Memorial employees hired on or after January 1, 2010, and who are at least 21 years of age, are eligible to participate in the THA 401(a) Plan. Under the provisions of the plan, employees become members on January 1 or July 1, whichever is sooner, following the completion of one year of employment in which the employee was credited with at least 1,000 hours of service. Contributions to the plan are made entirely by Torrance Memorial and range from 3% to 6% of annual compensation, based on years of service. Contributions to employee accounts vest based upon years of service, with accounts becoming fully vested upon completion of five years of service with Torrance Memorial. Torrance Memorial's contributions to the plan amounted to approximately $4,377 for the year ended June 30, 2019, and $1,243 for the five months ended June 30, 2018.

Torrance Memorial's employees participate in a 403(b) plan sponsored by THA. Under the provisions of the plan, participating employees may make voluntary contributions through salary deductions. Torrance Memorial matches eligible employee contributions at rates between 20% to

(Dollar Amounts Expressed in Thousands)

5. Retirement Plans (continued)

100% with a maximum limit of eight hundred dollars per year based upon years of service with Torrance Memorial. Torrance Memorial's contributions related to the 403(b) plan amounted to approximately $1,135 for the year ended June 30, 2019, and $490 for the five months ended June 30, 2018.

The following tables present information related to changes in projected benefit obligations, plan assets and their composition, funded status, the accumulated benefit obligation, and net periodic pension cost for all Cedars-Sinai and THA defined benefit plans (the Plans) at June 30, 2019 and 2018, and for the years then ended. Cedars-Sinai contributed $77,851 to fully fund the Cedars-Sinai Defined Benefit Plan in September 2019. Torrance Memorial contributed $31,845 in September 2019 to fund the THA Defined Benefit Plan.

In addition, Torrance Memorial has recorded liabilities for pension benefits of $6,530 and $4,795 as of June 30, 2019 and 2018, respectively, relating to Torrance Memorial's other retirement plans.

	Year Ended June 30, 2019		
	Cedars- Sinai	**THA**	**Total**
Change in projected benefit obligations:			
Projected benefit obligation at beginning of year	**$ 555,769**	**$ 400,521**	**$ 956,290**
Service cost	**37,179**	**15,855**	**53,034**
Interest cost	**22,076**	**16,180**	**38,256**
Actuarial losses	**54,667**	**39,073**	**93,740**
Benefits paid	**(17,045)**	**(12,271)**	**(29,316)**
Projected benefit obligation at end of year	**652,646**	**459,358**	**1,112,004**
Change in plan assets:			
Fair value of plan assets at beginning of year	**542,246**	**359,669**	**901,915**
Actual gain on plan assets	**35,961**	**13,340**	**49,301**
Employer contributions	**2,024**	**12,339**	**14,363**
Benefits paid	**(17,045)**	**(12,271)**	**(29,316)**
Expenses paid	**(1,140)**	–	**(1,140)**
Fair value of plan assets at end of year	**562,046**	**373,077**	**935,123**
Funded status	**$ (90,600)**	**$ (86,281)**	**$ (176,881)**

(Dollar Amounts Expressed in Thousands)

5. Retirement Plans (continued)

	June 30, 2019	
	Cedars-Sinai	**THA**
Composition of plan assets:		
Short-term money market funds	**16%**	**7%**
Government and corporate debt	**5**	**18**
U.S. government agencies and asset backed securities	**1**	**13**
Equity securities	**9**	**27**
Mutual funds	**65**	**32**
Common/collective trusts	**4**	**3**
	100%	**100%**

	June 30, 2019		
	Cedars-Sinai	**THA**	**Total**
Amounts recognized as pension liability in the consolidated balance sheet	**$ 90,600**	**$ 86,281**	**$ 176,881**
Accumulated benefit obligation	**$ 614,160**	**$ 430,925**	**$ 1,045,085**

	Year Ended June 30, 2019		
	Cedars-Sinai	**THA**	**Total**
Net periodic benefit cost recognized:			
Service cost	**$ 37,179**	**$ 15,855**	**$ 53,034**
Interest cost	**22,076**	**16,180**	**38,256**
Expected return on plan assets	**(30,356)**	**(23,296)**	**(53,652)**
Amortization of net loss	**8,044**	**–**	**8,044**
Amortization of prior service costs	**270**	**–**	**270**
Net periodic benefit cost	**$ 37,213**	**$ 8,739**	**$ 45,952**

(Dollar Amounts Expressed in Thousands)

5. Retirement Plans (continued)

	June 30, 2019	
	Cedars-Sinai	**THA**
Weighted-average assumptions used to determine benefit obligations consist of the following:		
Discount rate used to determine service cost	**4.37%**	**4.37%**
Discount rate used to determine projected benefit obligation	**3.68**	**3.72**
Expected long-term rate of return on plan assets	**5.75**	**6.50**
Rate of increase in future compensation levels	**4.00**	**4.00**

	Year Ended June 30, 2018		
	Cedars- Sinai	**THA**	**Total**
Change in projected benefit obligations:			
Projected benefit obligation at beginning of year	$ 554,332	$ 415,022	$ 969,354
Service cost	38,277	6,848	45,125
Interest cost	21,502	6,258	27,760
Actuarial gains	(31,149)	(22,608)	(53,757)
Benefits paid	(14,045)	(4,999)	(19,044)
Settlement	(13,148)	–	(13,148)
Projected benefit obligation at end of year	555,769	400,521	956,290
Change in plan assets:			
Fair value of plan assets at beginning of year	488,819	363,775	852,594
Actual gain (loss) on plan assets	29,491	(7,757)	21,734
Employer contributions	52,253	8,650	60,903
Benefits paid	(14,045)	(4,999)	(19,044)
Expenses paid	(1,124)	–	(1,124)
Settlement	(13,148)	–	(13,148)
Fair value of plan assets at end of year	542,246	359,669	901,915
Funded status	$ (13,523)	$ (40,852)	$ (54,375)

(Dollar Amounts Expressed in Thousands)

5. Retirement Plans (continued)

	June 30, 2018	
	Cedars-Sinai	**THA**
Composition of plan assets:		
Short-term money market funds	21%	8%
Government and corporate debt	–	29
Equity securities	4	27
Mutual funds	75	33
Common/collective trusts	–	3
	100%	100%

	June 30, 2018		
	Cedars-Sinai	**THA**	**Total**
Amounts recognized as pension liability in the consolidated balance sheet	$ 13,523	$ 40,852	$ 54,375
Accumulated benefit obligation	$ 525,133	$ 377,653	$ 902,786

	Year Ended June 30, 2018		
	Cedars-Sinai	**THA**	**Total**
Net periodic benefit cost recognized:			
Service cost	$ 38,277	$ 6,848	$ 45,125
Interest cost	21,502	6,258	27,760
Expected return on plan assets	(29,716)	(9,890)	(39,606)
Amortization of net loss	14,674	–	14,674
Amortization of prior service costs	270	–	270
Net periodic benefit cost	$ 45,007	$ 3,216	$ 48,223

	June 30, 2018	
	Cedars-Sinai	**THA**
Weighted-average assumptions used to determine benefit obligations consist of the following:		
Discount rate used to determine service cost	4.00%	4.02%
Discount rate used to determine projected benefit obligation	4.31	4.33
Expected long-term rate of return on plan assets	5.75	6.50
Rate of increase in future compensation levels	4.00	4.00

(Dollar Amounts Expressed in Thousands)

5. Retirement Plans (continued)

The expected rate of return on plan assets is updated annually, taking into consideration the Plans' asset allocation, historical returns on the types of assets held in the trusts, and the current economic environment.

Amounts included in net assets without donor restrictions that have not been recognized in net periodic pension cost as of June 30, 2019:

	Cedars-Sinai	**THA**	**Total**
Unrecognized prior service costs	**$ 877**	**$ –**	**$ 877**
Unrecognized prior loss	**172,689**	**44,068**	**216,757**
	$ 173,566	**$ 44,068**	**$ 217,634**

Amounts included in net assets without donor restrictions that have not been recognized in net periodic pension cost as of June 30, 2018:

	Cedars-Sinai	**THA**	**Total**
Unrecognized prior service costs	$ 1,147	$ –	$ 1,147
Unrecognized prior loss (gain)	130,531	(4,961)	125,570
	$ 131,678	$ (4,961)	$ 126,717

The unrecognized prior losses and unamortized prior service costs expected to be recognized over the fiscal year ending June 30, 2020, are $10,627 and $270, respectively, for the Cedars-Sinai Defined Benefit Plan and $0 and $0, respectively, for the THA Defined Benefit Plan.

Plans Assets

Approximately 96% of plan assets relate to long-term investment activities covering the Health System's general employee population. The other 4% of the assets relate to a special plan for highly compensated employees closer to retirement age. The combined target allocation is approximately 65% equities, 25% fixed income, and 10% short-term instruments, with no allocation to alternative investments. All investments are highly liquid.

5. Retirement Plans (continued)

The Health System uses a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments. This includes model-derived valuations whose significant inputs are observable.

- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Fair values are based on the market approach valuation technique which is based on prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

(Dollar Amounts Expressed in Thousands)

5. Retirement Plans (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table presents the financial instruments in the Cedars-Sinai Defined Benefit Plan and THA Defined Benefit Plan carried at fair value as of June 30, 2019 and 2018, by valuation hierarchy.

	Level 1	**Level 2**	**Fair Value**
June 30, 2019			
Cash and cash equivalents	**$ 116,545**	**$ –**	**$ 116,545**
Equities	**149,746**	**–**	**149,746**
U.S. government issues	**29,303**	**–**	**29,303**
U.S. government agencies and asset backed securities	**–**	**52,295**	**52,295**
Corporate bonds	**–**	**67,167**	**67,167**
Mutual funds	**486,819**	**–**	**486,819**
	$ 782,413	**$ 119,462**	**901,875**
Common/collective trusts measured at net asset value			**33,248**
			$ 935,123

	Level 1	**Level 2**	**Fair Value**
June 30, 2018			
Cash and cash equivalents	$ 141,000	$ –	$ 141,000
Equities	121,306	–	121,306
U.S. government issues	43,765	–	43,765
Corporate bonds	–	61,903	61,903
Mutual funds	521,497	–	521,497
	$ 827,568	$ 61,903	889,471
Common/collective trusts measured at net asset value			12,444
			$ 901,915

5. Retirement Plans (continued)

Plans' Investment Strategy

The Health System's investment policy generally reflects the long-term nature of the pension plans' funding obligations. Assets are invested to achieve a rate of return consistent with policy allocation targets, which significantly contributes to meeting the current and future obligations of the plans, and strives to help ensure solvency of the plans over time. This objective is to be achieved through a well-diversified asset portfolio and emphasis on long-term capital appreciation as a primary source of return. The plans utilize a multi-manager structure of complementary investment styles and classes. Manager qualitative performance is continually evaluated, while a manager's investment performance is judged over an investment market cycle of at least three years.

Plans assets are exposed to risk and fluctuations in market value from year to year. To minimize risk, each manager maintains a diversification of their portfolio to insulate the portfolio from substantial losses in any single security or sector of the market. The asset allocation is reviewed for deviations in the allowable range for each asset class, and rebalancing is implemented as necessary.

The long-term rate of return of the plans' investment allocation is designed to be commensurate with a conservatively managed balance allocation. Fixed-income securities consist ofinvestment-grade bonds.

Each investment type is managed by an asset manager specializing in various security types. The investment objective of the plans over a three- to five-year period is to produce a rate of return that equals or exceeds the appropriate bond index, S&P 500 stock index, or other appropriate international equity index.

As part of investment policies and strategies, the plans' Investment and Pension Committees meet periodically to review performance. At least annually, the Investment and Pension Committees review and formulate the specific investment and allocation plan. Any adjustments that are deemed necessary are based on specific criteria, i.e., necessary plan funding, plan obligations, plan expenses, and plan liquidity needs.

(Dollar Amounts Expressed in Thousands)

5. Retirement Plans (continued)

Plans' Cash Flows

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	Cedars-Sinai	THA	Total
2020	$ 27,604	$ 16,199	$ 43,803
2021	26,658	16,123	42,781
2022	29,839	17,641	47,480
2023	32,082	19,078	51,160
2024	34,012	20,440	54,452
2025 through 2029	198,501	120,524	319,025

6. Investments

Investment loss or income on cash and cash equivalents, investments, board-designated assets, and assets limited as to use consists of the following:

	Year Ended June 30	
	2019	**2018**
Interest and dividend income	**$ 73,656**	$ 53,689
Realized gains	**146,502**	87,873
Unrealized losses	**(62,376)**	(18,736)
Investment gain included in the consolidated statement of operations and changes in net assets	**$ 157,782**	$ 122,826

The following table presents the financial instruments carried at fair value as of June 30, 2019 and 2018, by valuation hierarchy as defined in Note 5. Alternative investments are recorded at net asset value, which is a practical expedient for fair value. The alternative investments are redeemable monthly, quarterly, semiannually, annually, or at the end of the term.

There were no significant transfers between Levels 1, 2, or 3 during the years ended June 30, 2019 and 2018. Fair values are based on the market approach valuation technique as defined in Note 5. There are no capital commitments associated alternative investments.

(Dollar Amounts Expressed in Thousands)

6. Investments (continued)

	Level 1	Level 2	Fair Value
June 30, 2019			
Cash and cash equivalents in assets limited to use	**$ 79,510**	**$ –**	**$ 79,510**
Equities	**443,972**	**–**	**443,972**
U.S. government debt	**160,595**	**–**	**160,595**
U.S. government agencies and asset backed securities	**–**	**618,044**	**618,044**
Corporate debt (domestic)	**–**	**428,215**	**428,215**
Foreign government debt	**–**	**79,121**	**79,121**
Mutual funds and other	**719,978**	**–**	**719,978**
	$ 1,404,055	**$ 1,125,380**	**2,529,435**
Alternative investments measured at net asset value			**518,382**
			$ 3,047,817

	Level 1	Level 2	Fair Value
June 30, 2018			
Cash and cash equivalents in assets limited to use	$ 21,796	$ –	$ 21,796
Equities	439,528	–	439,528
U.S. government debt	255,899	–	255,899
U.S. government agencies and asset backed securities	–	657,470	657,470
Corporate debt (domestic)	–	291,345	291,345
Foreign government debt	–	41,239	41,239
Mutual funds and other	701,846	–	701,846
	$ 1,419,069	$ 990,054	2,409,123
Alternative investments measured at net asset value			560,905
			$ 2,970,028

(Dollar Amounts Expressed in Thousands)

7. Availability of Financial Assets

The following reflects the Health System's financial assets at June 30, 2019, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions or internal designations.

Cash and cash equivalents	$ 662,468
Short-term investments	1,221,940
Board-designated assets	1,167,285
Patient accounts receivable	664,573
	$ 3,716,266

Board-designated assets include investments designated by the Health System's Board of Directors (the Board) for future capital expenditures, physician programs, academic programs, and fundraising. However, the Board retains control of these assets and will, at its discretion, and if necessary, use these assets for operating purposes. Therefore, Board-designated assets are included in the amounts above.

The Health System has assets limited to use as described in Note 2 which are not reflected in the amounts above. As part of the Health System's liquidity management plan, cash in excess of daily requirements for general expenditures is invested in short-term investments that can be drawn upon, if necessary, to meet the liquidity needs of the Health System.

The Health System has two $50,000 credit agreements as discussed in Note 4. As of June 30, 2019, $50,000 was available at each bank.

8. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

	2019	2018
Health care services	**$ 331,136**	$ 322,445
Purchase of capital assets	**14,564**	15,072
Health education and research	**138,556**	140,632
Endowment funds	**347,996**	328,448
	$ 832,252	$ 806,597

(Dollar Amounts Expressed in Thousands)

8. Net Assets with Donor Restrictions (continued)

During the years ended June 30, 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of health care services and health education totaling $225,407 and $198,434, respectively, and capital expenditures and contributions totaling $951 and $4,452, respectively.

Endowment funds at June 30, 2019 and 2018 are restricted to investments that are to be held in perpetuity to provide a permanent source of income.

Pledges are recognized as contributions at the present value of expected future payments. The discount rate used is the estimated risk-free discount rate at the time of the donation (ranging from 1.08% to 13.82%). Pledges receivable in donor restricted net assets are scheduled to be received as follows:

	2019	2018
Due in one year or less	**$ 37,755**	$ 33,015
Due after one year through five years	**89,415**	99,820
Due after five years	**140,944**	145,485
Total balance, less allowance of $13,645 and $18,071 in 2019 and 2018, respectively	**268,114**	278,320
Less discount to present value	**39,824**	52,524
Pledges receivable, net	**$ 228,290**	$ 225,796

(Dollar Amounts Expressed in Thousands)

8. Net Assets with Donor Restrictions (continued)

During the years ended June 30, 2019 and 2018, the Health System had the following endowment-related activities:

	With Donor Restrictions	Without Donor Restrictions	Total
Endowment net assets, beginning of year July 1, 2017	$ 309,320	$ 444,430	$ 753,750
Contributions	15,815	8,283	24,098
Inherent contribution from affiliation	3,313	–	3,313
Investment income	2,039	33,538	35,577
Transfers of investment income	(2,039)	(1,668)	(3,707)
Endowment net assets, end of year June 30, 2018	328,448	484,583	813,031
Contributions	**19,548**	**11,098**	**30,646**
Investment income	**2,168**	**28,728**	**30,896**
Transfers of investment income	**(2,168)**	**(1,643)**	**(3,811)**
Endowment net assets, end of year June 30, 2019	**$ 347,996**	**$ 522,766**	**$ 870,762**

The Health System's endowment consists of 231 individual funds for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

8. Net Assets with Donor Restrictions (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Health System to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2019 or 2018.

The Health System's Board has interpreted the Uniform Prudent Management of Institutional Funds Act as requiring the preservation of the corpus of the various donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Health System classifies as donor restricted net assets: (a) the original value of gifts donated, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The Health System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity, as well as Board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield of market benchmarks. Actual returns in any given year may vary from this goal.

To satisfy the long-term rate of return objectives, the Health System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Health System targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent constraints.

9. Commitments and Contingencies

Pending claims and legal proceedings at June 30, 2019, are set forth below. For all matters where a loss is probable and reasonably estimable, an estimate of the loss or a range of loss is provided. Where no estimate is provided, a loss is not probable or an amount of loss is not reasonably estimable at this time.

9. Commitments and Contingencies (continued)

Litigation – Employment Practices (Class Action). Wage and hour complaints have multiplied in the hospital field in the last few years. The Health System is now defending a series of separate cases which in various forms contend that there has been a failure to pay overtime wages; failure to pay minimum wages; failure to provide meal periods or compensation in lieu thereof; failure to provide rest periods or compensation in lieu thereof; failure to pay wages in a timely manner at separation; failure to provide accurate itemized wage statements; and/or unfair business practices.

These cases have been assigned to the "complex" division of the Superior Court. Outside counsel has been retained to defend these cases and the Health System will vigorously defend the class action function and other allegations. The cost and outcome of these cases cannot be ascertained at this time.

Other. In addition to the above, the Health System is a defendant in various other legal actions arising from the normal conduct of business. Management believes that the ultimate resolution of all proceedings will not have a material adverse effect upon the consolidated financial position, results of operations, or cash flows of the Health System. Further, new claims or inquiries may be initiated against the Health System and its affiliates from time to time. These matters could (1) require the Health System to pay substantial damages or amounts in judgments or settlements, which individually or in the aggregate could exceed amounts, if any, that may be recovered under the insurance policies where coverage applies and is available; (2) cause the Health System to incur substantial expenses; and (3) require significant time and attention from management.

The Health System cannot predict the results of current or future claims and lawsuits. The Health System recognizes that, where appropriate, the Health System's interests may be best served by resolving certain matters without litigation. If a non-litigated resolution is not appropriate or possible with respect to a particular matter, the Health System will defend itself vigorously. The ultimate resolution of claims against the Health System, individually or in the aggregate, could have a material adverse effect on the Health System's business (both in the near and long term), consolidated financial position, results of operations, or cash flows.

Finance Method Leases

In 2013, THA financed $39,600 of the Torrance Memorial Specialty Center through a sale leaseback transaction with Continental Development Corp. (CDC). THA received $23,100 in cash and $16,500 in five year notes receivable from CDC for the sale of the property. In 2012, THA

(Dollar Amounts Expressed in Thousands)

9. Commitments and Contingencies (continued)

financed $24,900 of certain properties through sale leaseback transactions with CDC. THA received $14,900 in cash and $10,000 in five-year notes receivable from CDC for the sale of the properties. THA recorded the sale of these properties based on the relative fair value on the date of the transaction. As a result, no gains or losses were recorded in THA's statement of operations. The amount in property and equipment under these leases as of June 30, 2019, is $41,358 after accumulated depreciation. Future finance method lease payments as of June 30, 2019, are as follows:

2020	$ 4,135
2021	4,238
2022	4,344
2023	4,452
2024	4,564
Thereafter	75,947
	$ 97,680

Operating Leases

The Health System leases certain office space under the terms of non-cancelable operating leases, whose terms vary in length from month to month to 15 years, with renewal options upon prior written notice, typically for 5 years depending upon the agreed-upon terms with the local landlord. Rents under the Health System's lease amounts generally increase from 2% to 5% on an annual basis. Future minimum lease commitments under non-cancelable operating leases are as follows:

2020	$ 83,105
2021	70,390
2022	63,621
2023	47,132
2024	43,331
Thereafter	173,269
	$ 480,848

Rental expense was $118,693 and $92,002 during the years ended June 30, 2019 and 2018, respectively.

(Dollar Amounts Expressed in Thousands)

10. Functional Expenses

The Health System provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended June 30, 2019 and 2018 are as follows:

	Healthcare Services	General and Administrative	Fundraising	Total
June 30, 2019				
Salaries and related costs	**$ 2,082,028**	**$ 269,232**	**$ 8,736**	**$ 2,359,996**
Professional fees	**349,357**	**–**	**–**	**349,357**
Materials, supplies, and other	**1,345,853**	**235,392**	**1,822**	**1,583,067**
Medi-Cal Fee Program expense	**129,849**	**–**	**–**	**129,849**
Interest	**37,657**	**7,508**	**–**	**45,165**
Depreciation and amortization	**210,723**	**28,668**	**490**	**239,881**
	$ 4,155,467	**$ 540,800**	**$ 11,048**	**$ 4,707,315**

	Healthcare Services	General and Administrative	Fundraising	Total
June 30, 2018				
Salaries and related costs	$ 1,826,366	$ 238,365	$ 8,402	$ 2,073,133
Professional fees	286,387	–	–	286,387
Materials, supplies, and other	1,092,881	237,364	2,979	1,333,224
Medi-Cal Fee Program expense	191,273	–	–	191,273
Interest	34,568	6,075	–	40,643
Depreciation and amortization	188,888	22,615	561	212,064
	$ 3,620,363	$ 504,419	$ 11,942	$ 4,136,724

The consolidated financial statements report certain expense categories that are attributable to more than one function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including interest, depreciation, amortization, and other occupancy costs, are allocated to a function based on total functional cost before allocation.

11. Subsequent Events

The Health System evaluated subsequent events through October 25, 2019, which is the date these consolidated financial statements were issued.

Reports Required by the Uniform Guidance

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and the Board of Directors
Cedars-Sinai Health System

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Cedars-Sinai Health System, which comprise the consolidated balance sheet as of June 30, 2019, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cedars-Sinai Health System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cedars-Sinai Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of Cedars-Sinai Health System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cedars-Sinai Health System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

October 25, 2019

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Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Management and the Board of Directors
Cedars-Sinai Health System

Report on Compliance for the Major Federal Program

We have audited Cedars-Sinai Health System's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on Cedars-Sinai Health System's major federal program for the year ended June 30, 2019. Cedars-Sinai Health System's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Cedars-Sinai Health System's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cedars-Sinai Health System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Cedars-Sinai Health System's compliance.

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Opinion on the Major Federal Program

In our opinion, Cedars-Sinai Health System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of Cedars-Sinai Health System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cedars-Sinai Health System's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cedars-Sinai Health System's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Ernst & Young LLP

February 11, 2020

Supplementary Information

Cedars-Sinai Health System

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Federal Grantor/Program or Cluster Title/ Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Research and Development Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
Department of Commerce National Institute of Standards and Technology (NIST)						
Arrangements for Interdisciplinary Research Infrastructure	11.619		$ 303,204	$ –	$ 303,204	$ 70,000
Total Department of Commerce National Institute of Standards and Technology (NIST)			**303,204**	**–**	**303,204**	**70,000**
U.S. Department of Defense						
Military Medical Research and Development	12.420		8,234,610	–	8,234,610	808,249
Pass Through-The University of Tennessee on Behalf of its Health Science Center	12.420	W81XWH-18-1-0266	56,320	–	56,320	–
Pass Through-Pittsburgh University	12.420	W81XWH-18-1-0070	15,846	–	15,846	–
Pass Through-Duke University	12.420	W81XWH-12-1-0447	(279)	–	(279)	–
Pass Through-Duke University	12.420	W81XWH-14-1-0111	275,782	–	275,782	–
Pass Through-Johns Hopkins University School of Medicine	12.420	W81XWH-12-1-0588	88	–	88	–
Pass Through-University of California Los Angeles	12.420	W81XWH-16-1-0092	6,709	–	6,709	–
Pass Through-University of Florida	12.420	W81XWH-17-2-0030	431,439	–	431,439	24,743
Pass Through-University of Southern California	12.420	W81XWH-17-1-0612	101,075	–	101,075	–
Pass Through-Vanderbilt University Medical Center	12.420	W81XWH-15-1-0259	7,413	–	7,413	–
Total Pass Through-Military Medical Research and Development			894,393	–	894,393	24,743
Total Military Medical Research and Development			9,129,003	–	9,129,003	832,992
Total U.S. Department of Defense			**9,129,003**	**–**	**9,129,003**	**832,992**
National Science Foundation						
Social, Behavioral, and Economic Sciences	47.075		66,776	–	66,776	–
Total National Science Foundation			**66,776**	**–**	**66,776**	**–**
Department of Veterans Affairs						
Veterans Medical Care Benefits	64.009		68,948	–	68,948	–
Total Department of Veterans Affairs						
Department of Health and Human Services						
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077		197,538	–	197,538	22,126
Food and Drug Administration Research	93.103		112,539	–	112,539	8,218
Oral Diseases and Disorders Research						
Pass Through-University of Colorado	93.121	5U01DE024440	23,692	–	23,692	–
Pass Through-University of Rochester	93.121	R01 DE019902	255,610	–	255,610	–
Total Pass Through-Oral Diseases and Disorders Research			279,302	–	279,302	–
Total Oral Diseases and Disorders Research			279,302	–	279,302	–
Research and Training in Complementary and Integrative Health	93.213		232,133	–	232,133	90,023

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2019

Federal Grantor/Program or Cluster Title/ Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Research and Development Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
Research on Healthcare Costs, Quality and Outcomes	93.226		$ 106,668	$ –	$ 106,668	$ 103,202
Pass Through-Trustees of Dartmouth College	93.226	R01 HS021747	2,059	–	2,059	–
Pass Through-University of South Carolina	93.226	1R01HS026491-01	82,382	–	82,382	–
Pass Through-University of California Los Angeles	93.226	1R01HS025394-01	82,583	–	82,583	–
Total Pass Through-Research on Healthcare Costs, Quality and Outcomes			167,024	–	167,024	–
Total Research on Healthcare Costs, Quality and Outcomes			273,692	–	273,692	103,202
Mental Health Research Grants	93.242		397,877	–	397,877	–
Pass Through-University of North Carolina	93.242	4R33MH104330	100,234	–	100,234	–
Pass Through-University of North Carolina	93.242	U01MH070890	21,965	–	21,965	–
Pass Through-University of North Carolina	93.242	1R01MH111944-01A1	35,835	–	35,835	–
Pass Through-University of Washington	93.242	3UH3MH106338	(150)	–	(150)	–
Pass Through-California Institute of Technology	93.242	23A-1097962	149,009	–	149,009	–
Total Pass Through-Mental Health Research Grants			306,893	–	306,893	–
Total Mental Health Research Grants			704,770	–	704,770	–
Alcohol Research Programs	93.273		1,145,005	–	1,145,005	21,917
Pass Through-University of Southern California	93.273	P50 AA011999	80,691	–	80,691	–
Total Alcohol Research Programs			1,225,696	–	1,225,696	21,917
Drug Abuse and Addiction Research Programs	93.279		178,988	–	178,988	50,908
Pass Through-California Institute of Technology	93.279	R01DA040011	46,322	–	46,322	–
Pass Through-Indiana University	93.279	R42DA043391	30,538	–	30,538	–
Pass Through-University of North Carolina	93.279	1R01DA043678-01A1	73,423	–	73,423	–
Pass Through-Rand Corporation	93.279	1R34DA047492-01	28,435	–	28,435	–
Pass Through-University of North Carolina	93.279	1R01DA042988-01A1	213,362	–	213,362	–
Total Pass Through-Drug Abuse and Addiction Research Programs			392,080	–	392,080	–
Total Drug Abuse and Addiction Research Programs			571,068	–	571,068	50,908
Centers for Disease Control and Prevention: Investigations and Technical Assistance	93.283		626,822	–	626,822	432,667
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		924,722	–	924,722	434,086
Pass Through-Emory University	93.286	1U01EB028145-01	222,361	–	222,361	–
Pass Through-University of Pittsburgh	93.286	1R21EB023507-01A1	3,394	–	3,394	–
Total Pass Through-Discovery and Applied Research for Technological Innovations to Improve Human Health			225,755	–	225,755	–
Total Discovery and Applied Research for Technological Innovations to Improve Human Health			1,150,477	–	1,150,477	434,086
Minority Health and Health Disparities Research						
Pass Through-Ohio State University	93.307	R01MD007867	20,511	–	20,511	–
Pass Through-University of Alabama at Birmingham	93.307	5U54MD000502-16	37,154	–	37,154	–
Total Pass Through-Minority Health and Health Disparities Research			57,665	–	57,665	–
Total Minority Health and Health Disparities Research			57,665	–	57,665	–

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2019

Federal Grantor/Program or Cluster Title/ Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Research and Development Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
Trans-NIH Research Support						
Pass Through-University of California San Diego	93.310	1OT2OD024611-01	$ (12,817)	$ –	$ (12,817)	$ –
Pass Through-University of California San Diego	93.310	1OT2OD026552-01	1,235,123	–	1,235,123	–
Total Pass Through-Trans-NIH Research Support			1,222,306	–	1,222,306	–
Total Trans-NIH Research Support			1,222,306	–	1,222,306	–
National Center for Advancing Translational Sciences						
Pass Through-University of California Los Angeles	93.350	UL1 TR001881	1,687,229	–	1,687,229	–
Pass Through-Massachusetts Institute of Technology	93.350	U24TR001951-02	31,298	–	31,298	–
Total Pass Through-National Center for Advancing Translational Sciences			1,718,527	–	1,718,527	–
Total National Center for Advancing Translational Sciences			1,718,527	–	1,718,527	–
Research Infrastructure Programs						
Pass Through-Jackson Laboratory	93.351	U54OD020351	21,272	–	21,272	–
Advance Education Nursing Traineeships						
Pass Through-University of California Los Angeles	93.358	KL2TR001882	5,492	–	5,492	–
Pass Through-University of California Los Angeles	93.358	UL1TR001881	(326)	–	(326)	–
Total Pass Through-Advance Education Nursing Traineeships			5,166	–	5,166	–
Total Advance Education Nursing Traineeships			5,166	–	5,166	–
National Center for Research Resources						
Pass Through-University of California Los Angeles	93.389	UL1RR033176	(26)	–	(26)	–
Cancer Cause and Prevention Research	93.393		2,898,949	–	2,898,949	1,122,957
Pass Through-Fred Hutchinson Cancer Research Center	93.393	R01 CA201407	28,970	–	28,970	–
Pass Through-University of Texas, MD Anderson Cancer Center	93.393	R01CA188943	137,700	–	137,700	–
Pass Through-Dana Farber Cancer Institute	93.393	R01CA204954	160,620	–	160,620	–
Pass Through-Memorial Sloan-Kettering Cancer Center	93.393	R01CA179115	9,254	–	9,254	–
Pass Through-University of California Los Angeles	93.393	P01CA163200	4,686	–	4,686	–
Pass Through-Van Andel Research Institute	93.393	R01CA190182	28,431	–	28,431	–
Pass Through-Washington University in St. Louis	93.393	N/A	22,483	–	22,483	–
Pass Through-University of Utah	93.393	1U01CA206110-01	586,320	–	586,320	7,950
Pass Through-University of South Wales	93.393	R01CA172404	8,071	–	8,071	–
Pass Through-Stanford University	93.393	UM1CA167551	(2,076)	–	(2,076)	–
Pass Through-Moffitt Cancer and Research Institute	93.393	1R01CA207456	213,930	–	213,930	–
Pass Through-University of Southern California	93.393	1R01CA209798-01A1	8,800	–	8,800	–
Pass Through-University of Melbourne	93.393	2U01CA167551-07	240,131	–	240,131	30,668
Pass Through-University of Virginia	93.393	1R01CA211574-01A1	286,023	–	286,023	–
Total Pass Through-Cancer Cause and Prevention Research			1,733,343	–	1,733,343	38,618
Total Cancer Cause and Prevention Research			4,632,292	–	4,632,292	1,161,575
Cancer Detection and Diagnosis Research	93.394		4,114,590	–	4,114,590	508,155
Pass Through-Van Andel Research Institute	93.394	U24CA210969	179,794	–	179,794	–
Pass Through-Tulane University	93.394	1R01CA222831-01A1	22,018	–	22,018	–
Pass Through-University of California Los Angeles	93.394	U01CA198900	65,962	–	65,962	–
Pass Through-New York School of Medicine	93.394	U01CA214195	37,383	–	37,383	–
Total Pass Through-Cancer Detection and Diagnosis Research			305,157	–	305,157	–
Total Cancer Detection and Diagnosis Research			4,419,747	–	4,419,747	508,155

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2019

Federal Grantor/Program or Cluster Title/ Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Research and Development Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
Cancer Treatment Research	93.395		$ 3,406,290	$ –	$ 3,406,290	$ 102,370
Pass Through-Mayo Foundation for Medical Education	93.395	UG1CA189823	1,131	–	1,131	1,131
Pass Through-Brigham and Women Hospital	93.395	U10 CA076001	58,680	–	58,680	–
Pass Through-Children's Hospital Philadelphia	93.395	U10 CA098543	7,572	–	7,572	–
Pass Through-Children's Hospital Boston	93.395	1R21CA198722-01A1	3,231	–	3,231	–
Pass Through-Oregon Health Science University	93.395	U10 CA032102	18,240	–	18,240	–
Pass Through-NRG Oncology Foundation	93.395	U10 CA180868	1,128	–	1,128	–
Pass Through-John Wayne Cancer Institute	93.395	5R01CA189163-03	214,998	–	214,998	–
Pass Through-University of Kentucky	93.395	1R01CA232574-01A1	351	–	351	–
Total Pass Through-Cancer Treatment Research			305,331	–	305,331	1,131
Total Cancer Treatment Research			3,711,621	–	3,711,621	103,501
Cancer Biology Research	93.396		2,912,059	–	2,912,059	453,822
Pass Through-Duke University	93.396	7R21CA216052-02	26,733	–	26,733	–
Total Cancer Biology Research			2,938,792	–	2,938,792	453,822
Cancer Research Man Power	93.398		386,646	–	386,646	–
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities						
Pass Through-California Department of Public Health	93.817	U3REP160550-01-00	503,856	–	503,856	–
National Ebola Training and Education Center						
Pass Through-Emory University	93.825	1U3REP170552-01-00	12,629	–	12,629	–
Cardiovascular Diseases Research	93.837		14,734,631	–	14,734,631	543,589
Pass Through-Emory University	93.837	U01HL105561	(22)	–	(22)	–
Pass Through-New York School of Medicine	93.837	RO1HL105907	118	–	118	–
Pass Through-University of Michigan	93.837	1R21HL140274-01	48,439	–	48,439	–
Pass Through-University of Michigan	93.837	HHSN268201100026C	340	–	340	–
Pass Through-Wake Forest University	93.837	R01HL111362	949,599	–	949,599	–
Pass Through-Vanderbilt University Medical Center	93.837	1P01HL129941	833,113	–	833,113	–
Pass Through-New England Research Institute	93.837	U24HL135691	33,457	–	33,457	–
Pass Through-Allina Health	93.837	UM1 HL087394	37,673	–	37,673	–
Pass Through-RTI International	93.837	U01 HL11991	39,195	–	39,195	–
Pass Through-Weill Cornell Medical College	93.837	R01HL118019	9,238	–	9,238	–
Pass Through-Johns Hopkins University School of Medicine	93.837	P01 HL0107153	4,484	–	4,484	–
Pass Through-Johns Hopkins University School of Medicine	93.837	UO1DK085689	(31)	–	(31)	–
Pass Through-Beth Israel Deaconess Medical Center	93.837	1R01HL136463-01	87,235	–	87,235	–
Pass Through-Brigham and Women Hospital	93.837	5R01HL134811	9,773	–	9,773	–
Pass Through-Massachusetts General Hospital	93.837	5R01HL140224-02	4,393	–	4,393	–
Pass Through- Ohio State University	93.837	5R01HL128857-03	85,395	–	85,395	–
Pass Through-University of Texas Medical Branch	93.837	1UG3HL140131-01	9,181	–	9,181	–
Pass Through-Weill Cornell Medical College	93.837	7U01HL105561-08	48,060	–	48,060	–
Pass Through-Columbia University Medical Center	93.837	RO1HL130500	81,568	–	81,568	–
Pass Through-University of Texas, Arlington	93.837	1R01HL136601-01A1	(3,067)	–	(3,067)	–
Pass Through- Duke University	93.837	U10HL084904	4,005	–	4,005	–
Pass Through-University of Miami	93.837	1R01HL137355	88,942	–	88,942	–
Total Pass Through-Cardiovascular Diseases Research			2,371,088	–	2,371,088	543,589
Total Cardiovascular Diseases Research			17,105,719	–	17,105,719	543,589

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2019

Federal Grantor/Program or Cluster Title/ Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Research and Development Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
Lung Diseases Research	93.838		$ 4,345,720	$ –	$ 4,345,720	$ 317,711
Pass Through-Yale University	93.838	1R01HL138540-01	111,644	–	111,644	–
Pass Through-Cincinnati Children's Hospital Medical Center	93.838	U01 HL122642	49,077	–	49,077	–
Total Pass Through-Lung Diseases Research			160,721	–	160,721	–
Total Lung Diseases Research			4,506,441	–	4,506,441	317,711
Blood Diseases and Resources Research	93.839		141,771	–	141,771	–
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		235,186	–	235,186	47,792
Pass Through-Columbia University Medical Center	93.846	R01AR050026	115,739	–	115,739	–
Pass Through-University of Texas-Houston	93.846	P01AR052915	(18,455)	–	(18,455)	–
Pass Through-University of Pennsylvania	93.846	U54AR057319	2,460	–	2,460	–
Pass Through-Pennsylvania State University	93.846	1U01AR071077-01	121,338	–	121,338	–
Pass Through-University of Colorado	93.846	UH2AR067681	160,928	–	160,928	–
Pass Through-University of Iowa	93.846	2R01AR059703	12,335	–	12,335	–
Total Pass Through-Arthritis, Musculoskeletal and Skin Diseases Research			394,345	–	394,345	–
Total Arthritis, Musculoskeletal and Skin Diseases Research			629,531	–	629,531	47,792
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		7,483,616	–	7,483,616	1,096,330
Pass Through-University of California San Diego	93.847	P30 DK063491	86,571	–	86,571	–
Pass Through-University of California Los Angeles	93.847	P01DK098108	319,101	–	319,101	–
Pass Through-Brigham and Women Hospital	93.847	1R01DK112940-01	1,987	–	1,987	–
Pass Through-University of Southern California	93.847	5P30DK048522-23	25,000	–	25,000	–
Pass Through-University of Pennsylvania	93.847	4UH3DK102384-05	23,241	–	23,241	–
Pass Through-Children's Hospital Boston	93.847	R01DK104641	33,561	–	33,561	–
Pass Through-California Institute of Technology	93.847	5R01MH100556	47,793	–	47,793	–
Pass Through-MD Anderson Cancer Center	93.847	U01DK108328-02S1	20,966	–	20,966	–
Pass Through-University of Washington, Seattle	93.847	R01DK088762	29,785	–	29,785	–
Pass Through-University of Minnesota	93.847	5U01DK106786-03	18,393	–	18,393	–
Total Pass Through-Diabetes, Digestive, and Kidney Diseases Extramural Research			606,398	–	606,398	–
Total Diabetes, Digestive, and Kidney Diseases Extramural Research			8,090,014	–	8,090,014	1,096,330
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		5,255,320	–	5,255,320	701,110
Pass Through-University of California Los Angeles	93.853	U01NS098961	178,445	–	178,445	–
Pass Through-University of California Irvine	93.853	U54NS091046	862,696	–	862,696	–
Pass Through-Partners Healthcare	93.853	U01NS088312	(4,523)	–	(4,523)	–
Pass Through-University of Cincinnati	93.853	1U01NS099043-01A1	144	–	144	–
Pass Through-EMMES	93.853	U01NS026835	1,672	–	1,672	–
Pass Through-Mayo Clinic Rochester	93.853	P5001NS080168	9,065	–	9,065	–
Total Pass Through-Extramural Research Programs in the Neurosciences and Neurological Disorders			1,047,499	–	1,047,499	–
Total Extramural Research Programs in the Neurosciences and Neurological Disorders			6,302,819	–	6,302,819	701,110

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2019

Federal Grantor/Program or Cluster Title/ Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Research and Development Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
Allergy and Infectious Diseases Research	93.855		$ 6,081,629	$ –	$ 6,081,629	$ 98,939
Pass Through-Mount Sinai School of Medicine	93.855	U01 AI063594	6,077	–	6,077	–
Pass Through-University of California San Francisco	93.855	UM1AI110498-03	19,602	–	19,602	–
Pass Through-Massachusetts General Hospital	93.855	1U01AI136816-01	75,181	–	75,181	–
Pass Through-Mayo Clinic Jacksonville	93.855	1R21AI145356-01	6,329	–	6,329	–
Pass Through-Partners Healthcare	93.855	1U01AI136816-01	2,805	–	2,805	–
Pass Through-University of California Los Angeles	93.855	5U01AI035040-26	20,660	–	20,660	–
Pass Through-University of California San Diego	93.855	7R21AI138053-02	1,747	–	1,747	–
Pass Through-Massachusetts General Hospital	93.855	R34AI125058	(973)	–	(973)	–
Total Pass Through-Allergy and Infectious Diseases Research			131,428	–	131,428	–
Total Allergy and Infectious Diseases Research			6,213,057	–	6,213,057	98,939
Biomedical Research and Research Training	93.859		591,326	–	591,326	–
Pass Through-Thomas Jefferson University	93.859	R01 GM106047	103	–	103	–
Total Biomedical Research and Research Training			591,429	–	591,429	–
Child Health and Human Development Extramural Research	93.865		869,134	–	869,134	79,464
Pass Through - Harvard Pilgrim Health Care	93.865	1R01HD094150-01	17,553	–	17,553	–
Pass Through - University of Southern California	93.865	5R01HD092483-02	187,789	–	187,789	–
Pass Through-University of California Los Angeles	93.865	R21HD084204	9,261	–	9,261	–
Pass Through-University of Colorado Springs	93.865	R01 HD073491	48,411	–	48,411	–
Total Pass Through-Child Health and Human Development Extramural Research			263,014	–	263,014	–
Total Child Health and Human Development Extramural Research			1,132,148	–	1,132,148	79,464
Aging Research	93.866		1,267,604	–	1,267,604	30,797
Pass Through-University of California San Francisco	93.866	5R01AG053332-02	2,157	–	2,157	–
Total Aging Research			1,269,761	–	1,269,761	30,797
Vision Research	93.867		4,162,393	–	4,162,393	295,990
National Cancer Institute	93.RD		(47,597)	–	(47,597)	–
Pass Through-Northwestern University	93.RD	HHSN2612012000351	48,861	–	48,861	–
Pass Through-Northwestern University	93.RD	SP001604060045298	66,526	–	66,526	–
Pass Through-Northwestern University	93.RD	SP001604060045323	108,635	–	108,635	–
Pass Through-University of Arizona	93.RD	HHSN2612012000311	13,233	–	13,233	–
Pass Through-University of Massachusetts Medical School	93.RD	HHSN261201500029C	18,014	–	18,014	–
Total Pass Through-National Cancer Institute			255,269	–	255,269	–
Total National Cancer Institute			207,672	–	207,672	–
National Bioterrorism Hospital Preparedness Program						
Pass Through-County of Los Angeles	93.889	H-707432	–	372,452	372,452	–
Total National Bioterrorism Hospital Preparedness Program			–	372,452	372,452	–
Total Department of Health and Human Services			**75,426,233**	**372,452**	**75,798,685**	**6,601,922**
Department of Homeland Security						
Hazard Mitigation Grant						
Pass Through-California Office of Emergency Services	97.039	FEMA-4308-DR-CA	–	127,582	127,582	–
Total Department of Homeland Security			**–**	**127,582**	**127,582**	**–**
Agency for International Development						
USAID Foreign Assistance for Programs Overseas	98.001		68,149	–	68,149	–
Total Agency for International Development			**68,149**	**–**	**68,149**	**–**
Total Expenditures of Federal Awards			**$ 84,993,365**	**$ 500,034**	**$ 85,493,399**	**$ 7,504,914**

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Health System

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Cedars-Sinai Health System and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements of Cedars-Sinai Health System. For purposes of the Schedule, federal awards include any assistance provided by a federal agency directly or indirectly in the form of grants, contracts, cooperative agreements, loan and loan guarantees, or other non-cash assistance.

   Direct and indirect costs are charged to awards in accordance with cost principles contained in the United States Department of Health and Human Services Cost Principles for Hospitals at 45 CFR Part 75 Appendix IX for Federal awards subject to the requirements of the Uniform Guidance, and at 45 CFR Part 74 Appendix E for Federal awards funded prior to the Uniform guidance effective date. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. The Uniform Guidance provides for a 10% de minimis indirect cost rate election; however, Cedars-Sinai Health System did not make this election and uses a negotiated indirect cost rate.

   The Schedule includes Federal awards subject to the requirements of the Uniform Guidance, as well as Federal awards that were funded prior to the Uniform Guidance effective date of December 26, 2014.

2. Federal Expenditures of $85,493,399 are reported in Cedars-Sinai Health System's consolidated financial statements for the fiscal year ended June 30, 2019, as net assets released from restrictions. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Schedule Required by the Uniform Guidance

Cedars-Sinai Health System

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2019

Section I—Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	____ **Yes**	X **No**
Significant deficiency(ies) identified?	____ **Yes**	X **None reported**
Noncompliance material to financial statements noted?	____ **Yes**	X **No**

Federal Awards

Internal control over major federal program:		
Material weakness(es) identified?	____ **Yes**	X **No**
Significant deficiency(ies) identified?	____ **Yes**	X **None reported**
Type of auditor's report issued on compliance for major federal program:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ **Yes**	X **No**

Identification of major federal programs:

CFDA number(s)	**Name of federal program or cluster**
Various CFDA numbers, as reported in Schedule of Expenditures of Federal Awards	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $ 2,564,802

Auditee qualified as low-risk auditee? X **Yes** ____ **No**

Cedars-Sinai Health System

Schedule of Findings and Questioned Costs (continued)

For the Year Ended June 30, 2019

Section II—Financial Statement Findings

None noted.

Section III—Federal Award Findings and Questioned Costs

None noted.

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