CONSOLIDATED FINANCIAL STATEMENTS

Icahn School of Medicine at Mount Sinai Years Ended December 31, 2016 and 2015 With Report of Independent Auditors

Ernst & Young LLP





Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

Contents

Report of Independent Auditors	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position.	
Consolidated Statement of Activities – Year Ended December 31, 2016	
Consolidated Statement of Activities – Year Ended December 31, 2015	
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7



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Report of Independent Auditors

The Board of Trustees Mount Sinai Health System, Inc.

We have audited the accompanying consolidated financial statements of the Icahn School of Medicine at Mount Sinai, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities 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. 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.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Icahn School of Medicine at Mount Sinai at December 31, 2016 and 2015, and the consolidated results of its operations and changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

March 30, 2017

Consolidated Statements of Financial Position (In Thousands)

	December 31			31
		2016		2015
Assets				
Cash and cash equivalents	\$	43,396	\$	42,913
Short-term investments		46,956		46,979
Total cash and cash equivalents and short-term investments		90,352		89,892
Patient accounts receivable, less allowance for doubtful accounts				
of \$72,885 and \$47,050 in 2016 and 2015, respectively		125,079		100,682
Loans receivable:				
Employees		80,919		75,866
Students		15,542		16,692
Pledges receivable, net		80,650		104,826
Other assets		48,100		42,287
Assets limited as to use under debt financing arrangements		86,801		92,043
Professional liabilities insurance recoveries receivable		164,813		152,418
Pooled investments, including permanently restricted investments of				
\$380,291 in 2016 and \$371,979 in 2015		675,121		659,261
Other investments		53,210		43,868
Property, plant, and equipment, net		941,792		957,656
Total assets	\$	2,362,379	\$	2,335,491
Liabilities and net assets				
Accounts payable and accrued expenses	\$	54,594	\$	47,875
Accrued construction liabilities	Φ	1,155	Φ	303
Accrued salaries, wages, and related liabilities		90,017		78,223
Accrued interest payable		14,356		11,405
Deferred revenue, refundable advances and other		92,345		68,558
Due to related organizations, net		201,540		200,467
Due to New York City Health and Hospitals Corporation		4,078		2,064
Federal loan capital advances		4,747		4,747
Employee relocation loan program		68,463		63,916
Postretirement health benefit obligations		11,942		12,260
Professional liabilities		164,813		152,418
Long-term debt		652,409		678,932
Total liabilities		1,360,459		1,321,168
		1,000,409		1,521,100
Commitments and contingencies				
Net assets:				
Unrestricted		278,671		287,497
Temporarily restricted		319,081		325,203
Permanently restricted		404,168		401,623
Total net assets		1,001,920		1,014,323
Total liabilities and net assets	\$	2,362,379	\$	2,335,491
				<u> </u>

Consolidated Statement of Activities

Year Ended December 31, 2016 (In Thousands)

			Те	emporarily	Permane	ntly	
	U	nrestricted	R	Restricted	Restrict	ed	Total
Revenue, gains, support and reclassifications:							
Net patient care services	\$	1,167,418	\$	_	\$	_	\$ 1,167,418
Federal grants and contracts		347,344		_		_	347,344
Private gifts, grants, and contracts		158,316		30,631	2,5	45	191,492
New York City Health and Hospitals		,		,	,		,
Corporation		214,676		_		_	214,676
CARTS transfers:		,					,
The Mount Sinai Hospital		222,069		1,400		_	223,469
Other related hospitals		219,457				_	219,457
Investment income allocated to operations		32,520		4,390		_	36,910
Royalty revenue		31,240		ý <u>–</u>		_	31,240
Tuition and fees		32,497		_		_	32,497
Other support		95,856		_		_	95,856
11		2,521,393		36,421	2,5	45	2,560,359
Net assets released from restrictions		48,455		(48,455))-	_	_
Total revenue, gains, support, and reclassifications		2,569,848		(12,034)	2,5	45	2,560,359
Expenses:							
Program services:		1 = 11 < 40					1 = 11 < 40
Patient care services		1,511,640		—		-	1,511,640
Sponsored research		329,243		_		_	329,243
Basic and clinical sciences		393,225		_		_	393,225
Scholarships		5,529		_		-	5,529
Total program services		2,239,637		_		_	2,239,637
Support services (management and general):							
General administration and support services		344,273		_		_	344,273
Total expenses		2,583,910		_		_	2,583,910
· · ···· · · · · · · · · · · · · · · ·							
(Decrease) increase in net assets before investment return earned greater than amounts allocated to							
operations		(14,062)		(12,034)	2,5	45	(23,551)
Investment return earned greater than amounts		())		())	,		
allocated to operations		5,236		5,912		_	11,148
(Decrease) increase in net assets		(8,826)		(6,122)	2,5	45	(12,403)
Net assets at beginning of year		287,497		325,203	401,6		1,014,323
Net assets at end of year	\$	278,671	\$	319,081	\$ 404,1		\$ 1,001,920
5	<u> </u>			,	-)-		, , ,

Consolidated Statement of Activities

Year Ended December 31, 2015 (In Thousands)

Revenue, gains, support and reclassifications: \$ 878,411 \$ - \$ - \$ - \$ 878,411 Net patient care services \$ 878,411 \$ - \$ - \$ - \$ 878,411 Federal grants and contracts 136,942 53,901 7,490 198,333 New York City Health and Hospitals 214,032 - - 214,032 CARTS transfers: 214,032 - - 214,032 The Mount Sinai Hospital 210,209 750 - 210,959 Other related hospitals 52,913 - - 52,824 Tuition and fees 29,911 - - 29,911 Other support 59,780 - - 59,780 Net assets released from restrictions 54,660 (54,660) - - Total revenue, gains, support, and reclassifications 20,53,406 4,752 7,490 2,065,648 Expenses: Program services: - - 1,146,869 - - 1,146,869 Patient care services 1,146,869 - - 1,146,821 - - 1,146,821 Support services (management and general): General administration and support services 2,0		U	nrestricted	emporarily Restricted	rmanently estricted	Total
Federal grants and contracts $329,532$ - $329,532$ Private gifts, grants, and contracts $136,942$ $53,901$ $7,490$ $198,333$ New York City Health and Hospitals $214,032$ - - $214,032$ CARTS transfers: - - $214,032$ - - $214,032$ The Mount Sinai Hospital $210,209$ 750 - $210,959$ Other related hospitals $52,913$ - - $52,913$ Investment income allocated to operations $34,192$ $4,761$ - $38,953$ Royalty revenue $52,824$ - - $52,824$ Tuition and fees $29,911$ - - $29,910$ Other support $59,780$ - - $59,780$ Net assets released from restrictions $54,660$ $54,460$ - - $1,146,869$ Sponsored research $304,157$ - - $291,577$ - $291,577$ Scholarships $4,218$ - - $4,218$ - $ 1,746,821$ <t< td=""><td>Revenue, gains, support and reclassifications:</td><td></td><td></td><td></td><td></td><td></td></t<>	Revenue, gains, support and reclassifications:					
Private gifts, grants, and contracts 136,942 53,901 7,490 198,333 New York City Health and Hospitals Corporation 214,032 - - 214,032 CARTS transfers: 1 210,209 750 - 210,959 Other related hospitals 52,913 - - 52,913 Investment income allocated to operations 34,192 4,761 - 38,953 Royalty revenue 52,824 - - 52,824 Tuition and fees 29,911 - - 29,911 Other support 59,780 - - 59,780 Net assets released from restrictions 54,660 (54,660) - - Total revenue, gains, support, and reclassifications 2,053,406 4,752 7,490 2,065,648 Expenses: Program services: - - 1,146,869 - - 1,146,861 Patient care services 1,146,869 - - 1,146,821 - - 2,065,782 <t< td=""><td>Net patient care services</td><td>\$</td><td>878,411</td><td>\$ _</td><td>\$ _</td><td>\$ 878,411</td></t<>	Net patient care services	\$	878,411	\$ _	\$ _	\$ 878,411
New York City Health and Hospitals Corporation $214,032$ $ 214,032$ CARTS transfers: The Mount Sinai Hospital $210,209$ 750 $ 210,959$ Other related hospitals $52,913$ $ 52,913$ Investment income allocated to operations $34,192$ $4,761$ $ 52,824$ Tuition and fees $29,911$ $ 52,824$ Tuition and fees $29,911$ $ 52,824$ Tuition and fees $29,911$ $ 59,780$ Net assets released from restrictions $54,660$ $(54,660)$ $ -$ Total revenue, gains, support, and reclassifications $2,053,406$ $4,752$ $7,490$ $2,065,648$ Expenses: Program services: $291,577$ $ 1,146,869$ $ 1,146,869$ Sponsored research $304,157$ $ 291,577$ $ 291,577$ Basic and clinical sciences $291,577$ $ 1,746,821$ $ -$	Federal grants and contracts		329,532	_		329,532
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	Private gifts, grants, and contracts		136,942	53,901	7,490	198,333
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	New York City Health and Hospitals					
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	Corporation		214,032	_	_	214,032
Other related hospitals $52,913$ - - $52,913$ Investment income allocated to operations $34,192$ $4,761$ - $38,953$ Royalty revenue $52,824$ - - $52,824$ Tuition and fees $29,911$ - - $29,911$ Other support $59,780$ - - $59,780$ Net assets released from restrictions $1,998,746$ $59,412$ $7,490$ $2,065,648$ Expenses: Total revenue, gains, support, and reclassifications $2,053,406$ $4,752$ $7,490$ $2,065,648$ Expenses: Program services: $2,053,406$ $4,752$ $7,490$ $2,065,648$ Expenses: Program services: $291,577$ $ 4,218$ Patient care services $1,146,869$ $ 4,218$ Total program services $1,746,821$ $ 1,746,821$ Support services (management and general): General administration and support services $318,961$ $ -$ <td< td=""><td>CARTS transfers:</td><td></td><td></td><td></td><td></td><td></td></td<>	CARTS transfers:					
Investment income allocated to operations $34,192$ $4,761$ $ 38,953$ Royalty revenue $52,824$ $ 52,824$ Tuition and fees $29,911$ $ 29,911$ Other support $59,780$ $ 59,780$ Net assets released from restrictions $54,660$ $(54,660)$ $ -$ Total revenue, gains, support, and reclassifications $54,660$ $(54,660)$ $ -$ Total revenue, gains, support, and reclassifications $2,053,406$ $4,752$ $7,490$ $2,065,648$ Expenses:Program services: $2,053,406$ $4,752$ $7,490$ $2,065,648$ Patient care services $1,146,869$ $ 1,146,869$ Sponsored research $304,157$ $ 304,157$ Basic and clinical sciences $291,577$ $ 291,577$ Scholarships $4,218$ $ 4,218$ Total program services $1,746,821$ $ 1,746,821$ Support services (management and general): $General administration and support services318,961 -Total expenses2,065,782 2,065,782(Decrease) increase in net assets before investmentreturn earned less than amountsallocated to operations(23,900)(15,940)-Investment return earned less than amountsallocated to operations(23,900)(15,940) (70,666)Loss on refunding of long-term debt$	The Mount Sinai Hospital		210,209	750	_	210,959
Royalty revenue $52,824$ $ 52,824$ Tuition and fees $29,911$ $ 29,911$ Other support $59,780$ $ 29,911$ Net assets released from restrictions $54,660$ $54,660$ $ -$ Total revenue, gains, support, and reclassifications $2,053,406$ $4,752$ $7,490$ $2,065,648$ Expenses: Program services: $2,053,406$ $4,752$ $7,490$ $2,065,648$ Expenses: Patient care services $1,146,869$ $ 1,146,869$ Sponsored research $304,157$ $ 291,577$ $ 291,577$ Basic and clinical sciences $291,577$ $ 1,746,821$ $ 1,746,821$ Support services (management and general): General administration and support services $318,961$ $ 2,065,782$ (Decrease) increase in net assets before investment return earned less than amounts allocated to operations and loss on refunding of long-term debt $(12,376)$ <	Other related hospitals		52,913	_	_	52,913
Tuition and fees $29,911$ $29,911$ Other support $59,780$ $59,780$ Net assets released from restrictions $1,998,746$ $59,412$ $7,490$ $2,065,648$ Total revenue, gains, support, and reclassifications $2,053,406$ $4,752$ $7,490$ $2,065,648$ Expenses:Program services: $2,053,406$ $4,752$ $7,490$ $2,065,648$ Patient care services $1,146,869$ $-$ Patient care services $1,146,869$ $304,157$ Basic and clinical sciences $291,577$ $291,577$ Scholarships $4,218$ $4,218$ Total program services $1,746,821$ $1,746,821$ Support services (management and general):General administration and support services $318,961$ $2,065,782$ Total expenses(12,376) $4,752$ $7,490$ (134)Investment return earned less than amounts(23,900) $(15,940)$ - $(39,840)$ Loss on refunding of long-term debt $(23,900)$ $(15,940)$ - $(39,840)$ Loss on refunding of long-term debt $(106,642)$ $(11,188)$ $7,490$ $(110,640)$ Net assets at beginning of year $394,439$ $336,391$ $394,133$ $1,124,963$	Investment income allocated to operations		34,192	4,761	_	38,953
Other support $59,780$ - - $59,780$ Net assets released from restrictions $1,998,746$ $59,412$ $7,490$ $2,065,648$ Net assets released from restrictions $2,053,406$ $4,752$ $7,490$ $2,065,648$ Expenses: Program services: $2,053,406$ $4,752$ $7,490$ $2,065,648$ Expenses: Patient care services $1,146,869$ - - $1,146,869$ Sponsored research $304,157$ - - $304,157$ - 201,577 Basic and clinical sciences $291,577$ - - $21,577$ - - $21,577$ Scholarships $4,218$ - - $4,218$ - - $4,218$ Total program services $1,746,821$ - - $2,065,782$ - - $2,065,782$ Support services (management and general): General administration and support services $318,961$ - - $318,961$ Investment return earned less than amounts allocated to operations and loss on refu	Royalty revenue		52,824	_	_	52,824
Image: Net assets released from restrictions1,998,746 $59,412$ $7,490$ $2,065,648$ Net assets released from restrictions $54,660$ $(54,660)$ $ -$ Total revenue, gains, support, and reclassifications $2,053,406$ $4,752$ $7,490$ $2,065,648$ Expenses:Program services: $2,053,406$ $4,752$ $7,490$ $2,065,648$ Patient care services: $1,146,869$ $ 1,146,869$ Sponsored research $304,157$ $ 304,157$ Basic and clinical sciences $291,577$ $ 291,577$ Scholarships $4,218$ $ 4,218$ Total program services $1,746,821$ $ 1,746,821$ Support services (management and general): $318,961$ $ 2,065,782$ General administration and support services $318,961$ $ 2,065,782$ Total expenses $(12,376)$ $4,752$ $7,490$ (134) Investment return earned less than amounts allocated to operations and loss on refunding of long-term debt $(12,376)$ $4,752$ $7,490$ (134) Investment return earned less than amounts allocated to operations $(23,900)$ $(15,940)$ $ (39,840)$ Loss on refunding of long-term debt $(70,666)$ $ (70,666)$ $ -$ (Decrease) increase in net assets $(106,942)$ $(11,188)$ $7,490$ $(110,640)$ Net assets at beginning of year $394,439$ $336,391$	Tuition and fees		29,911	_	-	29,911
Net assets released from restrictions $54,660$ $(54,660)$ $ -$ Total revenue, gains, support, and reclassifications $2,053,406$ $4,752$ $7,490$ $2,065,648$ Expenses:Program services: $7,490$ $2,065,648$ Patient care services $1,146,869$ $ 1,146,869$ Sponsored research $304,157$ $ 304,157$ Basic and clinical sciences $291,577$ $ 291,577$ Scholarships $4,218$ $ 4,218$ Total program services $1,746,821$ $ 1,746,821$ Support services (management and general): $318,961$ $ 2,065,782$ General administration and support services $318,961$ $ 2,065,782$ (Decrease) increase in net assets before investment return earned less than amounts allocated to operations and loss on refunding of long-term debt $(12,376)$ $4,752$ $7,490$ (134) Investment return earned less than amounts allocated to operations $(23,900)$ $(15,940)$ $ (39,840)$ Loss on refunding of long-term debt (Decrease) increase in net assets $(106,942)$ $(11,188)$ $7,490$ $(110,640)$ Net assets at beginning of year $394,439$ $336,391$ $394,133$ $1,124,963$	Other support		59,780	_	_	59,780
Total revenue, gains, support, and reclassifications $2,053,406$ $4,752$ $7,490$ $2,065,648$ Expenses: Program services: Patient care services Sponsored research Basic and clinical sciences Scholarships $1,146,869$ $304,157$ $ 1,146,869$ $304,157$ $ 1,146,869$ $304,157$ $ 1,146,869$ $304,157$ $ 1,146,869$ $304,157$ $ 1,146,869$ $304,157$ $ 2,01,177$ $304,157$ Basic and clinical sciences Scholarships Total program services $2,18$ $1,746,821$ $ 2,218$ $1,746,821$ $ 1,746,821$ Support services (management and general): General administration and support services Total expenses $318,961$ $2,065,782$ $ 2,065,782$ (Decrease) increase in net assets before investment return earned less than amounts allocated to operations and loss on refunding of long-term debt $(12,376)$ $4,752$ $7,490$ (134) Investment return earned less than amounts allocated to operations (23,900) $(15,940)$ $ (39,840)$ $(70,666)$ $ (70,666)$ $ (70,666)$ $ (70,666)$ $ (70,666)$ $ (70,666)$ $ (70,666)$ $ (70,666)$ $ (70,666)$ $ (70,666)$ Net assets at beginning of year $394,439$ $336,391$ $394,133$ $1,124,963$ <td></td> <td></td> <td>1,998,746</td> <td>59,412</td> <td>7,490</td> <td>2,065,648</td>			1,998,746	59,412	7,490	2,065,648
Total revenue, gains, support, and reclassifications $2,053,406$ $4,752$ $7,490$ $2,065,648$ Expenses: Program services: Patient care services Sponsored research Basic and clinical sciences Scholarships $1,146,869$ $304,157$ $ 1,146,869$ $304,157$ $ 1,146,869$ $304,157$ $ 1,146,869$ $304,157$ $ 1,146,869$ $304,157$ $ 1,146,869$ $304,157$ $ 2,01,1277$ $304,157$ $ 2,01,12777$ $304,1577 2,01,12777777777777777777777777777777777$	Net assets released from restrictions		54,660	(54,660)	,	-
Program services: Patient care services1,146,8691,146,869Sponsored research $304,157$ $304,157$ Basic and clinical sciences $291,577$ $291,577$ Scholarships $4,218$ $4,218$ Total program services $1,746,821$ $1,746,821$ Support services (management and general): General administration and support services $318,961$ $318,961$ Total expenses $2,065,782$ $2,065,782$ (Decrease) increase in net assets before investment return earned less than amounts allocated to operations and loss on refunding of long-term debt(12,376) $4,752$ $7,490$ (134)Investment return earned less than amounts allocated to operations(23,900)(15,940)-(39,840)Loss on refunding of long-term debt $(70,666)$ $(70,666)$ (Decrease) increase in net assets(106,942)(11,188) $7,490$ (110,640)Net assets at beginning of year $394,439$ $336,391$ $394,133$ $1,124,963$	Total revenue, gains, support, and reclassifications		2,053,406		7,490	2,065,648
Patient care services $1,146,869$ $1,146,869$ Sponsored research $304,157$ $304,157$ Basic and clinical sciences $291,577$ $291,577$ Scholarships $4,218$ $4,218$ Total program services $1,746,821$ $1,746,821$ Support services (management and general): General administration and support services $318,961$ $318,961$ Total expenses $2,065,782$ $2,065,782$ (Decrease) increase in net assets before investment return earned less than amounts allocated to operations and loss on refunding of long-term debt $(12,376)$ $4,752$ $7,490$ (134) Investment return earned less than amounts allocated to operations $(23,900)$ $(15,940)$ - $(39,840)$ Loss on refunding of long-term debt $(70,666)$ $(70,666)$ (Decrease) increase in net assets $(106,942)$ $(11,188)$ $7,490$ $(110,640)$ Net assets at beginning of year $394,439$ $336,391$ $394,133$ $1,124,963$						
Sponsored research $304,157$ $304,157$ Basic and clinical sciences $291,577$ $291,577$ Scholarships $4,218$ $4,218$ Total program services $1,746,821$ $1,746,821$ Support services (management and general): General administration and support services $318,961$ $318,961$ Total expenses $2,065,782$ $2,065,782$ $2,065,782$ (Decrease) increase in net assets before investment return earned less than amounts allocated to operations and loss on refunding of long-term debt $(12,376)$ $4,752$ $7,490$ (134) Investment return earned less than amounts allocated to operations $(23,900)$ $(15,940)$ - $(39,840)$ Loss on refunding of long-term debt $(70,666)$ $(70,666)$ -(Decrease) increase in net assets $(106,942)$ $(11,188)$ $7,490$ $(110,640)$ Net assets at beginning of year $394,439$ $336,391$ $394,133$ $1,124,963$			1,146,869	_	_	1,146,869
Basic and clinical sciences $291,577$ $ 291,577$ Scholarships $4,218$ $ 4,218$ Total program services $1,746,821$ $ 1,746,821$ Support services (management and general): General administration and support services $318,961$ $ 318,961$ Total expenses $2,065,782$ $ 2,065,782$ (Decrease) increase in net assets before investment return earned less than amounts allocated to operations and loss on refunding of long-term debt $(12,376)$ $4,752$ $7,490$ (134) Investment return earned less than amounts allocated to operations $(23,900)$ $(15,940)$ $ (39,840)$ Loss on refunding of long-term debt $(70,666)$ $ (70,666)$ (Decrease) increase in net assets $(106,942)$ $(11,188)$ $7,490$ $(110,640)$ Net assets at beginning of year $394,439$ $336,391$ $394,133$ $1,124,963$	Sponsored research			_	_	· · ·
Scholarships $4,218$ $ 4,218$ Total program services $1,746,821$ $ 1,746,821$ Support services (management and general): General administration and support services $318,961$ $ 318,961$ Total expenses $2,065,782$ $ 2,065,782$ (Decrease) increase in net assets before investment return earned less than amounts allocated to operations and loss on refunding of long-term debt $(12,376)$ $4,752$ $7,490$ (134) Investment return earned less than amounts allocated to operations $(23,900)$ $(15,940)$ $ (39,840)$ Loss on refunding of long-term debt $(70,666)$ $ (70,666)$ (Decrease) increase in net assets $(106,942)$ $(11,188)$ $7,490$ $(110,640)$ Net assets at beginning of year $394,439$ $336,391$ $394,133$ $1,124,963$	Basic and clinical sciences			_	_	
Total program services $1,746,821$ $ 1,746,821$ Support services (management and general): General administration and support services $318,961$ $ 318,961$ Total expenses $2,065,782$ $ 2,065,782$ (Decrease) increase in net assets before investment return earned less than amounts allocated to operations and loss on refunding of long-term debt $(12,376)$ $4,752$ $7,490$ (134) Investment return earned less than amounts allocated to operations $(23,900)$ $(15,940)$ $ (39,840)$ Loss on refunding of long-term debt $(70,666)$ $ (70,666)$ (Decrease) increase in net assets $(106,942)$ $(11,188)$ $7,490$ $(110,640)$ Net assets at beginning of year $394,439$ $336,391$ $394,133$ $1,124,963$	Scholarships			_	_	
General administration and support services $318,961$ $318,961$ Total expenses $2,065,782$ $2,065,782$ (Decrease) increase in net assets before investment return earned less than amounts allocated to operations and loss on refunding of long-term debt $(12,376)$ $4,752$ $7,490$ (134) Investment return earned less than amounts allocated to operations $(23,900)$ $(15,940)$ - $(39,840)$ Loss on refunding of long-term debt $(70,666)$ $(70,666)$ (Decrease) increase in net assets $(106,942)$ $(11,188)$ $7,490$ $(110,640)$ Net assets at beginning of year $394,439$ $336,391$ $394,133$ $1,124,963$				_	_	
Total expenses $2,065,782$ $ 2,065,782$ (Decrease) increase in net assets before investment return earned less than amounts allocated to operations and loss on refunding of long-term debt $(12,376)$ $4,752$ $7,490$ (134) Investment return earned less than amounts allocated to operations $(23,900)$ $(15,940)$ $ (39,840)$ Loss on refunding of long-term debt $(70,666)$ $ (70,666)$ (Decrease) increase in net assets $(106,942)$ $(11,188)$ $7,490$ $(110,640)$ Net assets at beginning of year $394,439$ $336,391$ $394,133$ $1,124,963$	Support services (management and general):					
Image: constraint of the constra	General administration and support services		318,961	_	—	318,961
return earned less than amounts allocated to operations and loss on refunding of long-term debt (12,376) 4,752 7,490 (134) Investment return earned less than amounts allocated to operations (23,900) (15,940) – (39,840) Loss on refunding of long-term debt (70,666) – – (70,666) (Decrease) increase in net assets (106,942) (11,188) 7,490 (110,640) Net assets at beginning of year 394,439 336,391 394,133 1,124,963	Total expenses		2,065,782	_	_	2,065,782
Investment return earned less than amounts allocated to operations $(23,900)$ $(15,940)$ $ (39,840)$ Loss on refunding of long-term debt $(70,666)$ $ (70,666)$ (Decrease) increase in net assets $(106,942)$ $(11,188)$ $7,490$ $(110,640)$ Net assets at beginning of year $394,439$ $336,391$ $394,133$ $1,124,963$	return earned less than amounts allocated to operations and loss on refunding of long-term					
allocated to operations $(23,900)$ $(15,940)$ $ (39,840)$ Loss on refunding of long-term debt $(70,666)$ $ (70,666)$ (Decrease) increase in net assets $(106,942)$ $(11,188)$ $7,490$ $(110,640)$ Net assets at beginning of year $394,439$ $336,391$ $394,133$ $1,124,963$			(12,376)	4,752	7,490	(134)
Loss on refunding of long-term debt (70,666) - - (70,666) (Decrease) increase in net assets (106,942) (11,188) 7,490 (110,640) Net assets at beginning of year 394,439 336,391 394,133 1,124,963						
(Decrease) increase in net assets(106,942)(11,188)7,490(110,640)Net assets at beginning of year394,439336,391394,1331,124,963	allocated to operations		(23,900)	(15,940)	-	(39,840)
Net assets at beginning of year 394,439 336,391 394,133 1,124,963	Loss on refunding of long-term debt		(70,666)	—	-	(70,666)
	(Decrease) increase in net assets		(106,942)	(11, 188)	 7,490	(110,640)
Nat assets at and of year § 287.407 § 225.202 § 401.622 § 1.014.222	Net assets at beginning of year		394,439	 336,391	 394,133	 1,124,963
	Net assets at end of year	\$	287,497	\$ 325,203	\$ 401,623	\$ 1,014,323

Consolidated Statements of Cash Flows (In Thousands)

	Ŋ	ember 31 2015	
Operating activities			
Decrease in net assets	\$	(12,403) \$	(110,640)
Adjustments to reconcile decrease in net assets to net			
cash provided by operating activities:			
Depreciation and amortization		86,363	83,612
Loss on refunding of long-term debt		_	70,666
Amortization of bond discount and premium, net		(4,216)	(2,242)
Contributions to permanently restricted net assets		(2,545)	(7,490)
Change in net unrealized gains and losses on investments		(13,941)	31,769
Changes in operating assets and liabilities:			
Pledges receivable		24,176	23,468
Patient accounts receivable, net		(24,397)	(23,165)
Due to related organizations, net		1,073	50,673
Accounts payable, accrued expenses, and accrued			
construction liabilities		7,571	549
Accrued salaries, wages, and related liabilities		11,794	14,479
Employee relocation loan program		4,547	9,100
Net change in other operating assets and liabilities		22,621	(20,432)
Net cash provided by operating activities		100,643	120,347
Investing activities Net increase in loans receivable Investments in fixed assets and projects in process Net increase in investments (Increase) decrease in assets limited as to use under debt financing arrangements		(3,903) (70,499) (11,238) 5,242	$(9,275) \\ (87,332) \\ (8,876) \\ (6,601) \\ (112,084)$
Net cash used in investing activities		(80,398)	(112,084)
Financing activities Contributions to permanently restricted net assets		2,545	7,490
Proceeds from issuance of long-term debt		5,000	560,836
Refunding of long-term debt		5,000	(546,960)
Principal payments on long-term debt and capital lease obligations		(27,307)	(23,757)
Payment of deferred financing costs		(27,507)	(3,523)
Net cash used in financing activities		(19,762)	(5,914)
Net increase in cash and cash equivalents		483	2,349
Cash and cash equivalents at beginning of year		42,913	40,564
Cash and cash equivalents at end of year	\$	43,396 \$	42,913
Supplemental disclosure of cash flow information			
Cash paid during the year for interest	\$	29,635 \$	31,359
Purchased equipment with capital lease financing	\$	627 \$	5,796
	*	5=. ↓	-,,,,,

Notes to Consolidated Financial Statements

December 31, 2016

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The Icahn School of Medicine at Mount Sinai (the School) is a teaching and research institution that educates physicians, biomedical scientists and medical students for careers in the practice of medicine, the delivery of health care and the pursuit of medical research. It grants both MD and PhD degrees. The School is closely affiliated with The Mount Sinai Hospital (the Hospital) and its affiliates, although the School is managed separately and is a separate legal entity. The School and the Hospital share a four-block area campus on the Upper East Side of Manhattan. The accompanying consolidated financial statements include the accounts of the School and Mount Sinai Children's Center Foundation, Inc. (CCF), a not-for-profit organization formed in 1989, of which the School is the sole member, Mount Sinai Care, LLC (the ACO), organized for the purpose of and operated as an accountable care organization, of which the School is the sole member, the Mitral Foundation, a not-for-profit organization formed in 2009, and Valentin Fuster Mount Sinai Foundation for Science, Health, and Empowerment (the Foundation), a not-for-profit organization formed in 2013.

On September 30, 2013, the School, the Hospital and The Mount Sinai Medical Center, Inc. (the Medical Center, and together with the School and the Hospital, the Mount Sinai Entities) consummated a transaction pursuant to which the Mount Sinai Entities and Beth Israel Medical Center (BIMC), The St. Luke's-Roosevelt Hospital Center (SLR), and the New York Eye and Ear Infirmary (NYEEI) came together to create the Mount Sinai Health System, an integrated health care system and academic medical center (the Transaction). Pursuant to the Transaction, two new not-for-profit entities were formed: Mount Sinai Health System, Inc. (MSHS) and Mount Sinai Hospitals Group, Inc. (MSHG). MSHG was formed to be the sole member of the Hospital, BIMC, SLR, and NYEEI. MSHS was formed to be the sole member of MSHG, the School and Medical Center.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

In the accompanying consolidated financial statements, estimates principally relate to the valuation of net accounts receivable, estimated professional liabilities and related insurance recoveries receivable and the carrying value of alternative investments. Management believes that the amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual should not have a material effect on the School's consolidated financial position.

Related Organizations

Transactions between the School and its related organizations, relating principally to the sharing of certain facilities, equipment and personnel are accounted for on the basis of allocated cost. Amounts due to or from related organizations are currently receivable or payable and do not bear interest. All intercompany transactions and balances with CCF, the ACO, the Foundation and the Mitral Foundation have been eliminated in consolidation.

Summarized financial information for CCF is as follows (in thousands):

	December 31			
		2016	2015	
Total assets	\$	1,369 \$	1,572	
Net assets	\$	1,369 \$	1,572	
	Yes	ar Ended Do 2016	ecember 31 2015	
Total revenue	\$	851 \$		
Total expenses		1,054	388	
(Decrease) increase in net assets	¢	(203) \$	414	

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The School considers highly liquid financial instruments purchased with a maturity of three months or less, excluding those held in its long-term investment portfolio and assets limited as to use under debt financing arrangements, to be cash equivalents. The School has balances in financial institutions that exceed Federal depositing insurance limits. Management does not believe the credit risk related to these deposits to be significant. The School does not hold any money market funds with significant liquidity restrictions that would require the funds to be excluded from cash equivalents.

Patient Accounts Receivable/Allowance for Doubtful Accounts

Patient accounts receivable result from the health care services provided by the School's faculty practices. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

The amount of allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

The School grants credit without collateral to its patients, most of whom are insured under third-party agreements. The significant concentrations of accounts receivable for services to patients include:

	December 31			
	2016	2015		
Medicare	16%	17%		
Medicaid	16	16		
Managed care and commercial	61	59		
Other	7	8		
	100%	100%		

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Approximately 48% and 41% of the School's net patient care services revenue was from Medicare and Medicaid programs in 2016 and 2015, respectively.

Assets Limited As to Use Under Debt Financing Arrangements

Assets limited as to use under debt financing arrangements are invested in fixed income securities and are carried at fair value. Income from assets limited as to use is recognized in the accompanying consolidated statements of activities with return on long-term investments.

Investments

The majority of the School's investments, with the exception of short term investments, deferred compensation plan assets and certain investments recorded at cost of approximately \$53.2 million and \$43.9 million at December 31, 2016 and 2015, respectively, all of which are recorded in other investments on the accompanying consolidated statements of financial position, are in a pooled investment portfolio maintained for the benefit of the Hospital, the Medical Center, BIMC, SLR, NYEEI and the School.

The Medical Center has custody of investments held in the investment pool and records all of the pooled investments in its financial statements, with a corresponding liability due to each of the participants in the investment pool for their respective share of the pooled investments; the pool participants report their respective share of the investment pool as "pooled investments". Investment earnings on the pooled investments are recorded by the pool participants, based on their pro rata share of the pool's investment returns.

Investments consist of cash and cash equivalents, U.S. government and corporate bonds, money market funds, equity securities and interests in alternative investments. Debt securities and equity securities with readily determinable values are carried at fair value based on independent published sources (quoted market prices).

Alternative investments (nontraditional, not readily marketable securities) may consist of equity, debt and derivatives both within and outside the U.S. in multi-strategy hedge funds, event-driven strategies, global investment mandates, distressed securities and private funds. Alternative investment interests generally are structured such that the investment pool holds a limited partnership interest or an interest in an investment management company. The investment pool ownership structure does not provide for control over the related investees and the investment pool's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment.

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Future funding commitments by members of the investment pool for alternative investments aggregated approximately \$204.2 million at December 31, 2016. The School owned 44.1% and 44.9% of the investment pool at December 31, 2016 and 2015, respectively.

Individual investment holdings within the alternative investments include nonmarketable and market-traded debt and equity securities and interests in other alternative investments. The School may be exposed indirectly to securities lending, short sales of securities and trading in futures and forward contracts, options and other derivative products. Alternative investments often have liquidity restrictions under which the pooled investment capital may be divested only at specified times. The liquidity restrictions range from several months to ten years for certain private equity investments. Liquidity restrictions may apply to all or portions of a particular invested amount.

Alternative investments in the pool are stated based upon net asset values derived from a practical expedient. Fair value is determined by management for each investment based upon net asset values derived from the application of the equity method of accounting, as a practical expedient. Financial information used to evaluate alternative investments is provided by the respective investment manager or general partner and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the School's annual financial statement reporting.

There is uncertainty in determining fair values of alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, time lags associated with reporting by the investee companies and the subjective evaluation of liquidity restrictions. As a result, the estimated fair values might differ from the values that would have been used had a ready market for the alternative investment interests existed and there is at least a reasonable possibility that estimates will change.

Investment Income

Investment income is allocated to investment pool participants using the market value unit method. The annual spending rate for pooled funds is approved by the Board of Trustees annually and is based on total return. Realized gains and losses from the sale of securities are computed using the average cost method.

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

The School also recognizes investment income (realized and unrealized) pertaining to permanently restricted investments held by the Medical Center on its behalf.

The total investment return (investment income and realized and unrealized gains and losses) is reflected in the accompanying consolidated statements of activities in two portions. The investment return allocated to operating revenues (revenue, gains, support and reclassifications) is determined by application of a 4.5% and 5% normal return in 2016 and 2015, respectively, to a three-year average market value of investments, excluding certain permanently restricted assets and certain other funds (the annual endowment spending rate). In addition, actual investment earnings on short-term funds, principally trustee-held assets for construction projects, are included in operating revenues. The investment return classified outside of operating revenues represents the favorable or unfavorable difference between the actual total investment return and the amount allocated to operating revenues.

Property, Plant, and Equipment

Property, plant, and equipment, including leasehold improvements, are stated at cost; those acquired through contributions are stated at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operating results. Annual provisions for depreciation and amortization are made based upon the straight-line method over the estimated useful life of the assets ranging from 5 to 50 years. Fixed assets are written off when they are fully depreciated and no longer in use. Depreciation expense for the years ended December 31, 2016 and 2015 was approximately \$86.4 million and \$83.6 million, respectively.

The School has entered into long-term leases with the Hospital relating to the portion of the Hospital-owned Annenberg and Guggenheim buildings used by the School. Under the leases, the School makes payments for its share of the buildings' operating expenses.

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of these costs is provided using the effective interest method. The School adopted ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, retrospectively, as required.

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

As a result, unamortized deferred financing costs of approximately \$3.9 million and \$4.5 million at December 31, 2016 and 2015, respectively, have been reported as a direct deduction from long-term debt. See Note 8 for additional information relative to debt-related matters.

Revenue Recognition

The School records grants and earned revenues on an accrual basis. In addition, the School records as revenue the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give (pledges) and other assets. Conditional contributions, including grants for sponsored research, are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are recorded net of estimated uncollectible amounts and promises to give that are due in future years are discounted to present value.

Contributions are reported as either temporarily or permanently restricted if they are received with donor-imposed 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions. Donor-restricted contributions, including grants for sponsored research, whose restrictions and conditions are met within the same year as the contributions are received, are reflected in the activities of the unrestricted net asset class.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the School has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the School in perpetuity. Income earned therefrom is unrestricted or temporarily restricted based upon donors' stipulations.

Tax Status

The School, CCF, the Foundation and the Mitral Foundation are Section 501(c)(3) organizations exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. The School, CCF, and the Mitral Foundation are also exempt from New York State and City income taxes.

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

The ACO is a single member limited liability company that is not recognized as a separate legal entity for tax purposes. The ACO is considered to be a disregarded entity for tax purposes. As a disregarded entity, the School is subject to unrelated business income taxation should the ACO's income be derived from activities unrelated to the School's exempt purpose.

Professional Liabilities

The undiscounted estimate of professional liabilities and the estimate for incidents that have been incurred but not reported is included in the accompanying consolidated statements of financial position at the actuarially determined present value of approximately \$164.8 million based on a discount rate of 3% at December 31, 2016 (\$152.4 million at December 31, 2015, 3% discount rate). The School has recorded related insurance recoveries receivable of the same amounts in consideration of expected insurance recoveries.

The School's estimate of professional liabilities is based upon complex actuarial calculations which utilize factors such as historical claims experience for the School and related industry factors, trending models, estimates for the payment patterns of future claims and present value discount factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions of estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition*, and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 are effective for the School for annual reporting periods beginning after December 15, 2017. The School has not completed the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern*, that requires management of public and nonpublic companies to evaluate and disclose where there is substantial doubt about an entity's ability to continue as a going concern. The standard is effective for annual periods ending after December 15, 2016, and for annual periods thereafter. Management adopted ASU 2014-15 for the year ended December 31, 2016. There was no effect on the accompanying consolidated financial statements or disclosures.

In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If certain criteria are met, an entity may account for such an arrangement under the internal use software guidance included in Accounting Standards Codification ("ASC") 350-40, *Internal Use Software*, whereby amounts are capitalized. If such criteria are not met, the cloud computing arrangement is considered a service contract and the related costs are expensed as incurred. ASU 2015-05 is effective for public business entities for fiscal years beginning after December 15, 2015 with the option to apply the guidance prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. The School adopted ASU 2015-05 prospectively as of January 1, 2016 with no effect on the 2016 consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require lessees to report most leases on their statement of financial position and recognize expenses on their income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. Lessors in operating leases continue to recognize the underlying asset and recognize lease income on either a straight line or another systematic and rational basis. The provisions of ASU 2016-02 are effective for the School for annual periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. The School has not completed the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statement Presentation*, which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs will be required to classify net assets as net assets with donor restrictions or without donor restrictions. Among other things, the guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs will also be required to report all expenses by both functional and natural classification in one location.

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

The provisions of ASU 2016-14 are effective for the School for annual periods beginning after December 15, 2017 and interim periods thereafter. Early adoption is permitted. The School has not completed the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the School for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The School does not expect ASU 2016-15 to have a significant effect on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for the School for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The School does not expect ASU 2016-18 to have a significant effect on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period.

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside an intermediate measure of operations, if one is presented. The standard is effective for the School for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The adoption of ASU 2017-07 will not have a significant effect on the accompanying consolidated financial statements.

Reclassifications

Certain reclassifications have been made to 2015 balances previously reported in order to conform with the 2016 presentation.

2. Net Patient Care Services Revenue

Full-time faculty members may participate in the School's faculty practice plan, the activities of which are included in the accompanying consolidated statements of activities in net patient care services revenue. Over the course of 2016 and 2015, certain physicians of BIMC and SLR became full-time faculty members of the School. As a result, the financial activities related to these faculty members are included in the accompanying consolidated statements of activities in net patient care services revenue for the years ended December 31, 2016 and 2015 of approximately \$330.2 million and \$151.5 million, respectively. The practices also received CARTS support of \$219.5 million and \$52.9 million in 2016 and 2015, respectively. Their costs of practice for the years ended December 31, 2016 and 2015, respectively. Their costs of practice for the years ended December 31, 2016 and 2015, respectively. Their costs of practice for the years ended December 31, 2016 and 2015, respectively. Their costs of practice for the years ended December 31, 2016 and 2015, respectively. Their costs of practice for the years ended December 31, 2016 and 2015, respectively. Their costs of practice for the years ended December 31, 2016 and 2015 are included in the accompanying consolidated statements of activities of approximately \$549.7 million and \$204.4 million, respectively. Plan participants are authorized to conduct a private practice and engage in professional consultation in accordance with established institutional guidelines. Professional service fee receipts are recorded and deposited in private practice funds established by the School for each individual participant or group practice when received by the School. Portions of these receipts are used to support School activities and to reimburse the School for indirect costs incurred in supporting plan activities.

The remaining amounts, after direct plan expenses, provide participant salary supplements and support School departmental activities. The School participates in the Hospital's professional and general liability insurance programs.

Notes to Consolidated Financial Statements (continued)

2. Net Patient Care Services Revenue (continued)

A similar arrangement exists for School physicians at Elmhurst Hospital Center (Elmhurst) and Queens Hospital Center (Queens). These receipts are used to support certain services previously funded under agreements with New York City Health and Hospitals Corporation (HHC), provide salary supplements for physicians and support the School's departmental activities at Elmhurst and Queens.

The School's faculty practice plan has agreements with third-party payors that provide for payments to the plan. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges and fee-for-service. Net patient care service revenue and related accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors and other for services rendered.

The current Medicaid, Medicare and other third-party payor programs in which the School and its faculty participate are based upon extremely complex laws and regulations that are subject to interpretation. Noncompliance with such laws and regulations could result in fines, penalties and exclusions from such programs. The School is not aware of any allegations of noncompliance that could have a material adverse effect on the consolidated financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations.

3. Pledges Receivable

Pledges receivable, representing unconditional promises to give to the School, recorded net of a present value discount (based on a range of interest rates of 0.62% to 1.69%) and valuation allowance, consist of the following (in thousands):

	December 31				
		2016	2015		
Temporarily restricted	\$	70,117 \$	89,228		
Permanently restricted		17,208	22,103		
Unconditional promises to give before discount to					
present value and valuation allowance		87,325	111,331		
Less present value discount and valuation allowance		6,675	6,505		
Net pledges receivable	\$	80,650 \$	104,826		

Notes to Consolidated Financial Statements (continued)

3. Pledges Receivable (continued)

Pledges receivable are due to be collected over the following periods (in thousands):

		December 31					
	2016			2015			
Within one year	\$	38,589	\$	44,399			
One to five years		34,475		47,587			
More than five years		14,261		19,345			
Total pledges receivable	\$	87,325	\$	111,331			

The School is party to a pledge agreement of \$150 million among the School, the Hospital, Carl C. Icahn (the Donor) and The Icahn Medical Research Foundation (the Icahn Foundation). The pledge will paid by the Donor to the Icahn Foundation solely for use by the Icahn Institute of Medical Research at Mount Sinai LLC (the MRO), a single member limited liability company of which the Icahn Foundation is the sole member, to conduct research in conjunction with the School and Hospital pursuant to terms of a collaboration agreement. The purpose of the collaboration agreement and the establishment of the MRO is to enable the School, the Hospital, the Icahn Foundation and the MRO to closely cooperate in a joint effort to conduct research in the fields of genomics, multi-scale biology and related matters. The pledge is not recorded in the accompanying consolidated financial statements. The outstanding pledge receivable balance is approximately \$134.0 million as of December 31, 2016.

4. Agreements With the New York City Health and Hospitals Corporation

Pursuant to various agreements with HHC, the School provides professional, medical and other services for the operations of Elmhurst and Queens. For services provided under the agreements, the School is reimbursed for costs incurred, plus overhead, but not in excess of amounts specified in the agreements. Certain costs are funded by the operations of faculty practice group arrangements at Elmhurst and Queens, which are independent of other School programs, under a letter of understanding with HHC.

The agreements with HHC do not permit the accrual of vacation and retirement benefits. The School would be liable for such benefits only upon termination of the agreements; however, the School's liability would be limited upon termination of the agreements to amounts due based on benefits policies in effect at that time. No liability for such benefits has been recorded by the School.

Notes to Consolidated Financial Statements (continued)

4. Agreements With the New York City Health and Hospitals Corporation (continued)

The School's arrangements with HHC are subject to final settlements based on future audits; however, the School anticipates that the effects of future final settlements will not be material.

5. Related Organizations

Amounts due (to) from the School's related organizations consisted of the following (in thousands):

	December 31				
		2016	2015		
The Mount Sinai Medical Center, Inc.	\$	1,250 \$	1,283		
MSMC Realty Corporation		(20,299)	(20,299)		
The Mount Sinai Hospital		(233,153)	(193,817)		
8 East 102 nd Street LLC		(27)	(40)		
Beth Israel Medical Center		42,229	11,932		
The St. Luke's-Roosevelt Hospital Center		7,462	(320)		
New York Eye and Ear Infirmary		998	794		
Due to related organizations, net	\$	(201,540) \$	(200,467)		

Transactions charged (at cost) by the Hospital to the School totaled approximately \$1.6 billion and \$1.3 billion during the years ended December 31, 2016 and 2015, respectively. These transactions include payroll and benefits charges, approximately 93% in 2016 and 2015, of the respective totals, and approximately 7% in 2016 and 2015, related to various other shared services. Included in the benefits charges are certain employee health plan claims and premiums which are paid by the Hospital and, subsequently, charged to the School. Accordingly, the Hospital recognizes an actuarially determined liability for unreported health claims on behalf of the School. These claims are recorded as expenses in the School's consolidated statements of activities.

Additionally, the Hospital purchases professional services from the School for the clinical care of its patients, teaching and supervision of its residents, the performance of certain administrative functions, and various strategic initiatives (CARTS transfers). The Hospital paid approximately \$223.5 million and \$211.0 million in 2016 and 2015, respectively, for these and related services.

Notes to Consolidated Financial Statements (continued)

5. Related Organizations (continued)

The School reflects in its consolidated financial statements transfers from the Hospital to fund the School's community practice plan deficits (approximately \$26.2 million in and \$36.2 million in 2016 and 2015, respectively). The Hospital funded approximately \$0.2 million in 2015 to the ACO. The Hospital did not fund the ACO in 2016.

At December 31, 2016 and 2015, the School owed approximately \$29.2 million to the Hospital in relation to capital building projects that are under construction.

Transactions charged (at cost) by the School to BIMC, SLR and NYEEI totaled approximately \$50.3 million, \$33.6 million and \$0.2 million, respectively, during the year ended December 31, 2016, and \$17.1 million, \$12.9 million and \$0.5 million, respectively, during the year ended December 31, 2015. These transactions include payroll and benefits charges and various other shared services.

During 2003, as part of a financing transaction with the Hospital and MSMC Realty Corporation (Realty Corp.), a related entity, the School contributed to MSMC Residential Realty LLC (MSMCRRC), at net book value, property totaling approximately \$55.8 million. MSMCRRC was incorporated in 2003 under the New York State Not-for-Profit Corporation Law for the sole purpose of supporting its member corporations by managing, maintaining, holding, developing, acquiring or disposing of real property for their benefit. MSMCRRC's members are the Hospital, the School, Realty Corp. and MSMC Residential Realty Manager, Inc.

Property and equipment contributed by the Hospital, the School and Realty Corp. were used by MSMCRRC to secure \$125.0 million in financing from a bank which was subsequently increased to \$145.0 million as part of a refinancing in 2005. The total amount received by the School of approximately \$34.4 million (comprised of \$18.2 million used to repay the School's commercial paper program and a \$16.2 million receivable after the initial financing), was based on the relative fair value of the property contributed, as compared to properties contributed by the Hospital and Realty Corp. that were part of the \$125.0 million financing.

During 2006, the School received the remaining balance of the \$16.2 million initially recorded as receivable and received additional amounts totaling \$7.6 million through December 31, 2007. At December 31, 2008, these additional amounts were settled with the School through funding provided by Realty Corp. As a result of the funding provided by Realty Corp., the School has \$20.3 million due to Realty Corp. at December 31, 2016 and 2015.

Notes to Consolidated Financial Statements (continued)

5. Related Organizations (continued)

At December 31, 2008, the School had an interest in the fair value of the net assets of MSMCRRC of approximately \$21.4 million, representing the excess of the carrying value of the property contributed over the amounts received. During 2009, MSMCRRC sold certain property and the School received approximately \$42.0 million, including amounts distributed to the School by the Hospital and Realty Corp. \$21.4 million of the amount received in 2009 reduced the carried interest in the fair value of MSMCRRC net assets. During 2015, the School received approximately \$0.6 million in distributions from MSMCRRC, the Hospital and Realty Corp. (none in 2016).

Total assets and liabilities, at book value, of MSMCRRC are as follows (in thousands):

	December	r 31
	 2016	2015
Total assets	\$ 109,030 \$	106,216
Total liabilities	 (148,367)	(148,597)
Net deficit	\$ (39,337) \$	(42,381)

Summarized financial information for Realty Corp., in which the Hospital, the School and the Medical Center are members, at December 31 is as follows (in thousands):

	Decen	nbei	· 31
	 2016 2015		2015
Total assets	\$ 25,867		25,874
Total liabilities	(20,869))	(20,876)
Net assets	\$ 4,998	\$	4,998

During 2010, 8 East 102nd Street LLC (the Company) was formed for the sole purpose of supporting its member corporation by managing, maintaining, holding, developing, acquiring or disposing of real property for its benefit. The Company's sole member is 8 East 102nd Street Manager LLC (the Manager). The members of the Manager are the Hospital, the School and the Medical Center. Through December 31, 2013, the School transferred approximately \$138.0 million in capital expenditures for a residential tower project to the Company, which financed and owns a portion of the project (none subsequently).

Notes to Consolidated Financial Statements (continued)

5. Related Organizations (continued)

On November 1, 2013, the members of the Manager, together with certain other persons, amended and restated the operating agreement of the Manager and elected for the Manager to be taxed as a real estate investment trust (the REIT) for U.S. Federal income tax purposes, effective January 1, 2014. As a result, the members own 99% of the partnership units of the REIT; 125 investors each purchased preferred shares of the Manager for \$1,000 each.

The School, the Hospital and the Medical Center, as members of the Manager, have agreed to distribute the net activities of the Manager (which, as the sole member of the Company, reflects the net activities of the Company) solely to the School. This agreement includes equity in income or loss of the Manager, as well as cash distributions. Accordingly, in the accompanying consolidated financial statements, the School has recognized equity in income of related party of approximately \$1.9 million in 2016 (\$3.4 million in 2015) which is included as a component of other support in the accompanying consolidated statements of activities. In 2016, the Manager distributed to the School approximately \$9.2 million of cash derived from the net activities of the Company (\$8.5 million in 2015).

Summarized financial information for the Manager at December 31, 2016 is as follows (in thousands):

	December 31			
		2016	2015	
Total assets Total liabilities	\$	115,124 \$ (141,828)	120,925 (141,401)	
Members' capital (deficit) (including noncontrolling interest of \$3,722 in 2016 and \$2,690 in 2015)	\$	(26,704) \$	(20,476)	

Notes to Consolidated Financial Statements (continued)

5. Related Organizations (continued)

In August 2014, the Hospital entered into a transaction pursuant to which the Hospital obtained approximately 450,000 square feet of space located at 150 East 42nd Street to be used to consolidate corporate services of MSHS. The space replaced existing leased and owned office space to provide additional capacity for clinical and research activities. A leasehold condominium interest was purchased by the Hospital and, shortly thereafter, transferred to a special-purpose, limited liability company formed by the Hospital. The Hospital financed the purchase through the issuance of a promissory note payable with a principal amount of approximately \$110.1 million, interest at a rate of 8%, and payments beginning June 2015 and ending in March 2046. Payment of interest was deferred from August 2014 until May 2015. The Hospital and the School guaranteed, on a joint and several basis, all of the obligations of the Hospital which include note payments, operating expenses, taxes and other carrying costs and charges, some of which escalate annually. The property is collateral for the related financing.

6. Investments

Total investments for the School are maintained as follows (in thousands):

	December 31			
	 2016		2015	
Short-term investments	\$ 46,956	\$	46,979	
Pooled investments	675,121		659,261	
Other investments (marketable and				
nonmarketable, net)	 53,210		43,868	
	\$ 775,287	\$	750,108	

Notes to Consolidated Financial Statements (continued)

6. Investments (continued)

The following table summarizes the composition of the investment pool at December 31, 2016 and 2015 (in thousands); the School's interests in the pooled investment components are proportionate based on the ratio of its pooled investment balance to the total of the pool.

	December 31			
		2016		2015
Cash and cash equivalents	\$	14,396	\$	22,604
Fixed income:				
Mutual funds		12,900		46,750
Equities:				
U.S. equities		110,389		102,417
Global equities		42,924		42,026
Non-U.S. equities		100,850		105,819
Alternative investments:				
Hedge funds:				
Long-only equity		178,263		174,087
Hedged equity ^(a)		305,098		230,276
Long/short credit ^(b)		47,058		46,276
Open mandate ^(c)		402,281		418,652
Macro ^(d)		62,968		93,582
Private investments:				
Equity ^(e)		46,759		35,382
Credit/distressed ^(f)		74,755		93,842
Real assets ^(g)		130,858		56,895
	\$	1,529,499	\$	1,468,608

^(a) Investments, consisting primarily of publicly traded equity holdings with both long and short positions.

^(b) Investments, consisting primarily of publicly traded credit holdings with both long and short positions.

Notes to Consolidated Financial Statements (continued)

6. Investments (continued)

- ^(c) Investments with a balanced mix of asset exposures and strategies. Underlying exposures primarily include publicly traded equity and credit positions in fundamental value, relative value, and various arbitrage strategies. Investments may reflect a tilt towards equity or credit with hedging and hold large cash positions if value opportunities are not found.
- ^(d) Investments focused on global macro dislocations rather than micro-driven opportunities. Holdings are both long and short in equity, fixed income, currency, and futures markets.
- ^(e) Investments targeting buyout, growth equity and venture opportunities that require time to reach realization.
- ^(f) Investments in structured credit, claims, distressed positions of either a minority or controlling interest that require time to reach realization.
- ^(g) Real estate and natural resources, and asset backed royalty investments that require time to reach realization.

The total return on the total pooled investments comprises the following for the years ended December 31 (in thousands):

	Year Ended Decembe 2016 2015			
Interest and dividend income	\$	5,814	\$	6,071
Net realized gains on sales of securities		61,296		51,555
Change in net unrealized gains and losses and change				
in value of alternative investments		29,984		(66,126)
Fees and other expenses		(5,564)		(4,695)
Total	\$	91,530	\$	(13,195)

The School was allocated a total investment return from the pool based on agreements among the pool participants and donor stipulations of approximately \$46.7 million and (\$1.5) million in 2016 and 2015, respectively.

Notes to Consolidated Financial Statements (continued)

6. Investments (continued)

Total investment return recognized by the School include amounts allocated by the Hospital and comprises the following (in thousands):

	Ye	ar Ended 2016	Dec	ember 31 2015
Interest and dividend income	\$	3,451	\$	3,381
Net realized gains on sales of securities		29,393		25,427
Change in net unrealized gains and losses		13,941		(31,769)
Total return allocated by the Hospital		3,980		4,409
Fees and other expenses		(2,707)		(2,335)
Total	\$	48,058	\$	(887)

7. Property, Plant, and Equipment

A summary of property, plant, and equipment is as follows (in thousands):

	December 31			
		2016		2015
Land	\$	11,022	\$	11,012
Buildings and improvements		1,127,006		1,088,706
Furniture, fixtures, and equipment		403,492		380,075
Leasehold interest and improvements		171,991		171,991
		1,713,511		1,651,784
Less accumulated depreciation and amortization		(837,996)		(751,965)
		875,515		899,819
Capital projects in progress		66,277		57,837
	\$	941,792	\$	957,656

Notes to Consolidated Financial Statements (continued)

7. Property, Plant, and Equipment (continued)

The School has entered into lease agreements with the Hospital relating to portions of the Schoolowned Icahn Medical Institute and the Center for Advanced Medicine (CAM) which are used by the Hospital. The School has reflected the amount paid by the Hospital related to its leasehold interests (\$11.8 million and \$4.7 million for each building, respectively) as a reduction of its cost. Additionally, the Hospital pays the School for its share of operating expenses under the terms of the lease agreements as follows (in thousands):

	Year Ended December 31				
		2016			
Icahn Medical Institute	\$	4,176	\$	4,393	
Center for Advanced Medicine		2,842		2,843	
	\$	7,018	\$	7,236	

Future minimum rental payments due from the Hospital under the leases are approximately \$6.8 million in 2017, \$6.6 million in 2018, \$6.3 million in 2019, \$6.0 million in 2020, \$5.8 million in 2021 and \$48.4 million thereafter.

Assets under capital leases approximate \$25.6 million and \$24.9 million at December 31, 2016 and 2015, respectively, and are included in furniture, fixtures and equipment (\$8.9 million and \$10.5 million for 2016 and 2015 respectively, net of accumulated amortization).

The School capitalizes costs incurred in connection with the development of internal-use software or purchased software modified for internal use. The costs are amortized over estimated useful lives ranging from five to seven years. At December 31, 2016 and 2015, total capitalized costs of approximately \$17.4 million and \$11.3 million, respectively, net of accumulated amortization, are included in furniture, fixtures, and equipment.

8. Long-Term Debt and Related Assets

At December 31, 2016 and 2015, the School had outstanding long-term debt used to finance a variety of projects, including a modernization and capital improvement program, the construction of The Leon and Norma Hess Center for Science and Medicine (CSM), the Icahn Medical Institute and the CAM.

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt and Related Assets (continued)

Outstanding long-term debt comprised the following (in thousands):

	December 31		
	 2016		2015
 Dormitory Authority of the State of New York (the Authority) debt consisting of: Bonds payable (including unamortized original issue premium of \$43,729 and \$47,163 at December 31, 2016 and 2015, respectively); maturing through 2045 with interest rates varying from 2.50% to 5.00% per annum. (Series 2015A bonds) 	\$ 543,519	\$	559,572
• Bonds payable (including unamortized original issue premium of \$1,929 and \$2,736 at December 31, 2016 and 2015, respectively); maturing through 2021 with interest rates varying from 4.00% to 5.00% per annum. (Series 2010A bonds)	52,769		62.336
• Bonds payable (net of unamortized original issue discount of \$152 and \$176 at December 31, 2016 and 2015, respectively); maturing through 2024 with interest rates varying from 5.00% to 5.15% per annum. (Series	,		,
1994A bonds)Authority tax-exempt leasing program loans due in monthly installments	39,423		39,399
of \$392, with interest rate of 1.135% through December 2018	9,413		14,040
Loan payable to DECD	5,000		_
Capital leases, monthly installments of \$104 through 2021	 6,230		8,039
	656,354		683,386
Less deferred financing costs, net	 (3,945)		(4,454)
	\$ 652,409	\$	678,932

In April 2016, the School received \$5.0 million in funding from the Connecticut Department of Economic and Community Development (DECD) to support the Genetic Sequencing Laboratory Project ("the Project") in Branford, Connecticut. The DECD is prepared to offer a total \$9.5 million in funding for leasehold improvements, construction, equipment, research and development, and administration expenses over a ten year period at an annual interest rate of 2.0%. The School is required to make interest only payments for the first five years with principal and interest payments commencing in the sixth year. Additional funding from DECD is anticipated in 2017 and 2019 and will be disbursed to the School upon satisfying subsequent phases of the Project. Contingent upon achieving job creation and retention milestones for a period of 24 consecutive months, principal loan forgiveness of \$4.5 million, \$1.5 million, and \$1.25 million will be granted for each rounding of funding, respectively.

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt and Related Assets (continued)

In August 2015, the School refunded and refinanced its outstanding Series 2007 and Series 2009 bonds, and concurrently issued, through the Authority, approximately \$512.4 million of tax-exempt Series 2015A bonds. The total amount refunded and refinanced was approximately \$484.2 million. As a result, the School incurred a loss on refunding of long-term debt of approximately \$70.7 million, primarily related to the write-off of certain deferred financing charges and costs related to the defeasance and redemption of the Series 2007 and Series 2009 bonds. In conjunction with the Series 2015A bonds, the School recorded an original issue premium of approximately \$48.4 million. In connection with the Series 2007 and 2009 bonds, approximately \$547 million was invested in cash and U.S. Government securities and is legally isolated to fund the defeasance of the bonds on July 1, 2017 and July 1, 2019, respectively.

During 2012, the School entered into a tax-exempt leasing program with the Authority as the lessee and Bank of America Public Capital Corp. as the lessor for approximately \$27.6 million, with the intention for the proceeds to be used to finance research and clinical equipment. Proceeds from the leasing program were deposited into an escrow account which will be reimbursed to the School as approved capital expenditures are incurred. The amount on deposit of \$1.4 million at December 31, 2016 is included in assets limited as to use under debt financing arrangements in the accompanying statements of financial position (\$2.2 million at December 31, 2015).

Long-term debt due to the Authority is collateralized by a pledge and assignment of certain gross revenues, as defined by the loan agreements, generated by the School's faculty practice associates plan, all funds and accounts authorized under the loan agreements, and the amounts deposited in the debt service reserve funds.

At December 31, 2016, the School has commitments of approximately \$36.2 million related to capital projects.

In connection with its long-term debt, the School has agreed to maintain certain financial ratios, including a debt service coverage ratio. At December 31, 2016 and 2015, the School was in compliance with the required financial ratios.

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt and Related Assets (continued)

As of December 31, 2016, principal payments under long-term indebtedness and future minimum payments under capitalized leases for the next five fiscal years and thereafter are as follows (in thousands):

	Lo	Long-Term Debt		pitalized Leases
2017	\$	23,840	\$	2,312
2018		24,643		1,792
2019		20,910		1,410
2020		21,955		897
2021		22,830		130
Thereafter		490,440		—
		604,618		6,541
Interest		_		(311)
	\$	604,618	\$	6,230

Interest expense for all debt aggregated approximately \$24.4 million and \$28.5 million for the years ended December 31, 2016 and 2015, respectively. Interest paid aggregated approximately \$29.6 million and \$31.3 million for the years ended December 31, 2016 and 2015, respectively. Capitalized interest of approximately \$1.5 million and \$1.4 million was recorded for the years ended December 31, 2016 and 2015, respectively.

Assets limited as to use under debt financing arrangements (primarily U.S. Government obligations) consisted of (in thousands):

	December 31			
		2016	2015	
Construction proceeds funds	\$	47,814 \$	56,367	
Debt service reserve funds		14,731	14,710	
Debt service funds		24,256	20,966	
	\$	86,801 \$	92,043	

Notes to Consolidated Financial Statements (continued)

9. Perkins Loan Program

The School participates in the Perkins Loan Program (the Program) sponsored by the United States Department of Education (the DOE). The Program advances funds to the School which the School loans to students. The School is required to match a percentage of the advanced funds. The School selects student participants in the Program based on financial need and other eligibility requirements set by the Program. Principal and interest collected by the School are used to fund additional loans. Interest earned and expenses incurred by the School in conducting the Program are allocated between government advances and the School's operations based on the proportion of contributions made by the School and the DOE since the inception of the Program at the School. The aggregate amount of the DOE's net participation in the Program (net advances to the School) is reflected as a liability within federal loan capital advances in the accompanying consolidated statements of financial position.

10. Employee Relocation Loan Program

The School maintains an employee relocation loan program whereby the School participates in a portion of the financing of the primary residence mortgage of eligible faculty members. All taxes, insurance and repair and maintenance costs of the residence are the responsibility of the faculty members. If the faculty member's employment is terminated before the mortgage is repaid, the faculty member may purchase the School's share of the equity and assume the remainder of the School's mortgage obligation on the property, or the residence will be sold in accordance with the employee relocation loan program agreement and the School will be entitled to a portion of the proceeds. The School's participation in this program aggregated approximately \$68.5 million and \$63.9 million at December 31, 2016 and 2015, respectively.

11. Other Postretirement Benefits

In addition to the School's pension plans (see Note 14), the School provides health care and life insurance benefits to its retired employees if they reach normal retirement age while still working for the School. The School accrues the obligation to provide postretirement health care and other welfare benefits during the years in which employees provide service. The School-sponsored defined benefit plan provides postretirement medical and life insurance benefits to full-time employees who have worked ten years and attained the age of 62 while in service with the School. The plan contains cost-sharing features such as deductibles and coinsurance.

Notes to Consolidated Financial Statements (continued)

11. Other Postretirement Benefits (continued)

In fiscal 2004, management curtailed the benefits available under the School's postretirement health benefit plan. Employees who would be eligible for postretirement health benefits are only those persons who were 50 years of age or older with 10 years of service as of January 1, 2004, or employees with 20 years of service as of January 1, 2005.

The School recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its retiree benefits, with a corresponding adjustment to unrestricted net assets for the portion of the unfunded liability that has not been recognized as cost. The adjustment to unrestricted net assets represents the net unrecognized actuarial losses and unrecognized prior service cost, which will be recognized subsequently as a component of net periodic benefit cost through amortization.

The following tables provide a reconciliation of the changes in the plan's benefit obligation and a statement of the funded status of the plan (in thousands):

	December 31			
		2016	2015	
Reconciliation of the benefit obligation				
Obligation at January 1	\$	12,260 \$	13,492	
Service cost		12	23	
Interest cost		523	549	
Actuarial gain		(21)	(969)	
Benefit payments		(832)	(835)	
Obligation at December 31	\$	11,942 \$	12,260	
Funded status				
Funded status at December 31	\$	(11,942) \$	(12,260)	
Net amount recognized	\$	(11,942) \$	(12,260)	

Notes to Consolidated Financial Statements (continued)

11. Other Postretirement Benefits (continued)

The following table provides the components of the net periodic benefit cost for the plan (in thousands):

	Year Ended December 31			
	2	.016	2015	
Service cost	\$	12 \$	23	
Interest cost on projected benefit obligation		523	549	
Amortization		(9)	217	
Net periodic benefit cost	\$	526 \$	789	

The weighted-average discount rate used in the measurement of the School's benefit obligation was 4.27% and 4.41% at December 31, 2016 and 2015, respectively. The weighted-average discount rate used in the measurement of net periodic benefit cost was 4.41% and 4.22% for the years ended December 31, 2016 and 2015, respectively.

For measurement purposes relative to 2016, an annual rate of increase in the per capita cost of covered health care benefits was assumed to be 7.3%, grading down to an ultimate rate of 5.0% in 2022. A 5.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2016. The measurement date is December 31.

Assumed health care cost trend rates have a significant effect on the amounts reported. A 1% change in assumed health care cost trend rates would have the following effects (in thousands):

	2016				2015			
	1% Increase		1% Decrease		1% Increase		1% Decrease	
Effect on total of service and interest cost components of net periodic								
benefit cost	\$	4	\$	(4)	\$	8	\$	(7)
Effect on the health care component of the accumulated benefit obligation		92		(85)		139		(128)

Notes to Consolidated Financial Statements (continued)

11. Other Postretirement Benefits (continued)

Cash Flows

Contributions: The School expects to contribute approximately \$1.1 million for the postretirement medical and life insurance plan in 2017.

Estimated future benefit payments: The School expects to pay the following postretirement benefit payments, which reflect future service, as appropriate (in thousands):

2017	\$ 1,073
2018	1,089
2019	1,077
2020	1,052
2021	1,006
2022 to 2026	4,237

12. Temporarily Restricted and Permanently Restricted Net Assets

Permanently restricted net assets represent endowments that have been restricted by donors to be maintained in perpetuity by the School. The School follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as they relate to its permanently restricted contributions and net assets, effective upon New York State's enactment of the legislation in September 2010.

The School has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Accumulations to the permanent endowment are used in accordance with the direction of the applicable donor gift. The remaining portion of the donor-restricted net assets is classified as temporarily restricted net assets until the amounts are appropriated for expenditure in accordance with a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the School and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) where appropriate and

Notes to Consolidated Financial Statements (continued)

12. Temporarily Restricted and Permanently Restricted Net Assets (continued)

circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the institution; (6) the expected total return from income and the appreciation of investments; (7) other resources of the School; and (8) the investment and spending policies of the School. The School's policies provide the guidelines for setting the annual spend rate (4.5% in 2016 and 5% in 2015) and the treatment of any investment returns in excess (or less than) of the annual spend rate. The endowment spend rate is calculated on the average three-year rolling market value of each endowed fund. Any excess investment returns beyond the spending rate, to the extent available, are added to the endowed fund and classified as temporarily restricted net assets, unless also appropriated for expenditure.

The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets are invested in a manner to provide that sufficient assets are available as a source of liquidity for the intended use of the funds, achieve the optimal return possible within the specified risk parameters, prudently invest assets in a high-quality diversified manner and adhere to the established guidelines.

To satisfy its long-term rate-of-return objectives, the School 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 School appropriately diversifies its assets to provide for capital preservation and inflation risk protection while maintaining market exposure.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level of the original principal donation. These deficiencies could result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs deemed prudent by the Board of Trustees. There were no deficiencies of this nature that are reported in unrestricted net assets as of December 31, 2016 and 2015.

Notes to Consolidated Financial Statements (continued)

12. Temporarily Restricted and Permanently Restricted Net Assets (continued)

Temporarily restricted net assets are available to support program activities as stipulated by donors. Permanently restricted net assets are restricted to investment in perpetuity with the income expendable to support program activities as stipulated by donors. The School's temporarily and permanently restricted net assets support the following activities (in thousands):

	mporarily estricted 19,273 14,915 6,083 50,839 3,866 224,105 319,081		rmanently Restricted 152,191 21,055 7,957 43,957 63,866 115,142 404,168	
	14,915 6,083 50,839 3,866 224,105	-	21,055 7,957 43,957 63,866 115,142	
\$	50,839 3,866 224,105	\$	43,957 63,866 115,142	
\$		\$		
	Decembe	r 31,	, 2015	
Temporarily Per			Permanently Restricted	
\$	17,667 14,326 5,870 51,385 3,244 232,711	\$	150,564 19,800 7,858 40,789 62,066 <u>120,546</u> 401,623	
	<u>R</u> \$	Temporarily Restricted \$ 17,667 14,326 5,870 51,385 3,244	Temporarily Restricted Pe F \$ 17,667 \$ 14,326 5,870 \$ 51,385 3,244 232,711	

Notes to Consolidated Financial Statements (continued)

12. Temporarily Restricted and Permanently Restricted Net Assets (continued)

Changes in endowment assets (permanent endowment and funds functioning similarly) for the years ended December 31, 2016 and 2015 were as follows (in thousands):

	mporarily Restricted	ermanently Restricted	Total		
Net assets at January 1, 2016 Total investment return Contributions Appropriation of endowment	\$ 84,335 18,634 -	\$ 380,711 	\$	465,046 18,634 8,517	
assets for expenditure	(14,975)	_		(14,975)	
Net assets at December 31, 2016	\$ 87,994	\$ 389,228	\$	477,222	
	mporarily Restricted	ermanently Restricted		Total	
Net assets at January 1, 2015 Total investment return Contributions Appropriation of endowment assets for expenditure	1 V	·	\$	Total 471,351 (2,448) 9,529 (13,386)	

Net assets were released from restrictions in satisfaction of the following restrictions (in thousands):

	Ye	Year Ended December 31						
		2016						
Instruction	\$	5,529	\$	4,218				
Research		42,926		50,442				
	\$	48,455	\$	54,660				

Notes to Consolidated Financial Statements (continued)

13. Sponsored Research

Research grants and contracts generally provide for the recovery of direct and indirect costs. The School recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is recorded using facilities and administrative rates negotiated with the federal government and other sponsors. Certain School clinical research programs are conducted in Hospital facilities. Direct expenditures under federal research projects totaled approximately \$243.7 million and \$234.3 million for the years ended December 31, 2016 and 2015, respectively. The School's principal source of federal research funds is the U.S. Department of Health and Human Services. Research grants and contracts awarded but not yet recorded approximated \$296.0 million and \$256.2 million as of December 31, 2016 and 2015, respectively.

14. Pension and Similar Plans

Through participation in the Hospital's pension plan, the School provides pension and similar benefits to administrative service employees through several defined benefit multiemployer union plans and immediate vesting tax-sheltered annuity plans. Contributions to the defined benefit multiemployer union plans are made in accordance with contractual agreements under which contributions are generally based on salaries. Payments to the tax-sheltered annuity plans are generally based on percentages of annual salaries. It is the School's policy to fund accrued costs under these plans on a current basis. The School's pension expense under all existing plans for the years ended December 31, 2016 and 2015 aggregated approximately \$48.9 million and \$40.4 million, respectively.

Additionally, the Hospital and the School jointly offer a 457(b) plan to certain of their respective employees. Contributions are made solely by the employees through their payroll deductions. The contributions are maintained in individual participant accounts held by a custodian and remain an asset of the employer until the participant retires. A corresponding liability is also recorded for these amounts to be reduced upon the participant's retirement. At December 31, 2016 and 2015, the School has included approximately \$51.4 million and \$42.1 million in investments and accrued salaries, wages and related liabilities in its consolidated statements of financial position related to the 457(b) plan.

Notes to Consolidated Financial Statements (continued)

15. Commitments and Contingencies

In 2010, the School entered into a \$1.0 million letter of credit and reimbursement agreement with a commercial bank pursuant to which the bank agreed to issue a direct-pay letter of credit to ensure the performance and completion guarantee in connection with the CSM building construction project. In 2014, the letter of credit was reduced to approximately \$0.1 million. No advances were made on the letter of credit as of December 31, 2016 or 2015.

Litigation

The School is a defendant in various legal actions arising out of the normal course of its operations, the final outcome of which cannot presently be determined. School management is of the opinion that the ultimate liability, if any, with respect to all of these matters will not have a material adverse effect on the School's consolidated financial position.

Operating Leases

The School leases various equipment and facilities under operating leases expiring at various dates through 2020 and thereafter. Total rental expense charged to operations during the years ended December 31, 2016 and 2015 was approximately \$45.0 million and \$21.6 million, respectively.

Future minimum payments required under noncancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2016 (in thousands):

2017	\$ 12,863
2018	8,926
2019	8,513
2020	8,059
2021	6,293
2022 and thereafter	 71,616
	\$ 116,270

Notes to Consolidated Financial Statements (continued)

16. Fair Value Measurements

For assets and liabilities requiring fair value measurement, the School measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The School follows a fair value hierarchy 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: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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. In determining fair value, the School uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers nonperformance risk in its assessment of fair value. Any investments valued based upon the net asset value (NAV) are not subject to the valuation hierarchy.

Notes to Consolidated Financial Statements (continued)

16. Fair Value Measurements (continued)

Financial assets carried at fair value by the School as of December 31, 2016 are classified in the table below in one of the three categories described above (in thousands):

	Level 1		Level 2]	Level 3	Total		
Cash and cash equivalents Short-term investments Assets limited as to use – U.S.	\$	43,396 46,956	\$		\$		\$	43,396 46,956	
government obligations Other investments		_ 41,479		86,801 -		_ 10,186		86,801 51,665	
	\$	131,831	\$	86,801	\$	10,186	_	228,818	
Investments measured at NAV as a practical expedient: Pooled investments							=	675,121	
I obled investments							\$	903,939	

Financial assets carried at fair value by the School as of December 31, 2015 are classified in the table below in one of the three categories described above (in thousands):

	Level 1		Level 2		Level 3		Total	
Cash and cash equivalents Short-term investments Assets limited as to use – U.S.	\$	42,913 46,979	\$		\$	_	\$	42,913 46,979
government obligations		_		92,043		_		92,043
Other investments		34,149		_		8,623		42,772
	\$	124,041	\$	92,043	\$	8,623		224,707
Investments measured at NAV as a practical expedient:							=	
Pooled investments								659,261
							\$	883,968

Amounts not included in the tables above represent certain investments recorded at cost of approximately \$1.5 million and \$1.4 million at December 31, 2016 and 2015, respectively.

Notes to Consolidated Financial Statements (continued)

16. Fair Value Measurements (continued)

The following is a summary of investments (by major category) with restrictions on the investment pool's ability to redeem its investments at the measurement date, any unfunded capital commitments and investments strategies of the investees as of December 31, 2016 (in thousands):

Description of Investment						Redemption Notice Period	Funds Availability		
Hedge funds:									
Long-only equity	\$	178,263	\$	_	Monthly/5 Years	30 to 90 days	3 to 30 days		
Hedged equity	•	305,098	•	_	Monthly/rolling 3 years	30 to 90 days	30 to 45 days		
Long/short credit		47,058		_	Annually	90 days	30 days		
Open mandate		402,281		_	Quarterly/rolling 2 years	60 to 90 days	15 to 30 days		
Macro		62,968		_	Monthly/quarterly	30 to 45 days	30 days		
Private investments:		-				2	2		
Equity		46,759		61,461	N/A	N/A	N/A		
Credit/distressed		74,755		49,460	Monthly	30 days and N/A	180 days and N/A		
Real assets		130,858		93,239	N/A	N/A	N/A		
	\$	1,248,040	\$	204,160					

The following is a description of the School's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers and brokers. Level 3 assets consist primarily of certain guaranteed investment contracts, the valuation for which is described in Note 1. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Notes to Consolidated Financial Statements (continued)

16. Fair Value Measurements (continued)

The following table is a rollforward of the consolidated statement of financial position amounts for financial instruments classified by the School in Level 3 of the valuation hierarchy defined above (in thousands):

	Other vestments
Fair value at January 1, 2015 Total realized and unrealized gains and losses	\$ 7,777 846
Purchases, sales, issuances and settlements, net	- 040
Fair value at December 31, 2015	\$ 8,623
Change in unrealized gains and losses related to financial instruments held at December 31, 2015	\$ 846
Fair value at January 1, 2016 Total realized and unrealized gains and losses Purchases, sales, issuances and settlements, net	\$ 8,623 1,563 -
Fair value at December 31, 2016	\$ 10,186
Change in unrealized gains and losses related to financial instruments held at December 31, 2016	\$ 1,563

The fair values and carrying values of the School's financial instruments that are not required to be carried at fair value at December 31, 2016 and 2015 are as follows (in thousands):

		2016			2015		
	Fair Value		Carrying Value		Fair Value		Carrying Value
Loans receivable	\$	96,461 \$	96,461	\$	92,558	\$	92,558
Employee relocation loan program		68,463	68,463		63,916		63,916
Long-term debt, excluding capital leases		655,562	646,179		704,345		675,347

The fair value of loans receivable and employee relocation loans approximate carrying value as the loans generally bear interest at market rates. They are classified as Level 2 in the fair value hierarchy. The fair value of long-term debt is based on quoted market prices and is classified as Level 1 in the fair value hierarchy.

Notes to Consolidated Financial Statements (continued)

17. Multiemployer Pension Plan

The School contributes to one multiemployer defined benefit pension plan under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in the multiemployer plan are different from single-employer plans in the following aspects:

- ^(a) Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- ^(b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- ^(c) If an employer chooses to stop participating in some of its multiemployer plans, the employer may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The School's participation in the plan for the year ended December 31, 2016, is outlined in the table below. The "EIN Number" column provides the Employer Identification Number (EIN). Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2016 and 2015 is for a plan's year end at December 31, 2015 and 2014, respectively. The zone status is based on information that the School received from the plan and is certified by the plan's actuaries. Among other factors, a plan in the red zone is generally less than 65% funded, a plan in the yellow zone is less than 80% funded, and a plan in the green zone is at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates the plan for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is pending or has been implemented. The last column lists the expiration date of the collective bargaining agreement to which the plan is subject. There have been no significant changes that affect the comparability of 2016 and 2015 contributions.

	EIN	Plan		FIP/ RP Protection Act Status Contributions by the one Status Pending/ School S				Surcharge	Expiration Date of Collective- Bargaining
Pension Fund	Number	Number	2016	2015	Implemented	2016	2015	Imposed	Agreement
1199 SEIU Health Care						(In The	ousands)		
Employees Pension Fund	13-3604862	001	Green as of 1/01/2016	Green as of 1/01/2015	No	\$ 2,430	\$ 2,446	No	09/30/2018

Notes to Consolidated Financial Statements (continued)

17. Multiemployer Pension Plan (continued)

In 2017, the School was informed by 1199 SEIU that the Pension Protection Act Zone Status for the funding of 1199 SEIU's multiemployer plan may no longer be in the green zone based on preliminary estimates of the January 1, 2017 funding level. The School is evaluating the funded status with 1199 SEIU. The School's contribution requirements in future periods may be impacted if additional funding or assessments are required to be paid by the employers participating in the multiemployer plan.

18. Subsequent Events

For purposes of the accompanying consolidated financial statements, the School has considered for accounting and disclosure events that occurred through March 30, 2017, the date the consolidated financial statements were issued. There were no subsequent events or transactions which either resulted in recognition in the accompanying consolidated financial statements or required additional disclosure.

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