

**UNIVERSITY HOSPITAL OF THE
STATE UNIVERSITY OF NEW YORK
UPSTATE MEDICAL UNIVERSITY**

Financial Statements and
Required Supplementary Information

December 31, 2019 and 2018

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Index

	<u>Page</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis (Unaudited)	3 - 16
Balance Sheets	17
Statements of Revenues, Expenses and Changes in Net Position	18
Statements of Cash Flows	19 - 20
Notes to Financial Statements	21 - 52
Required Supplementary Information (Unaudited)	53 - 57

INDEPENDENT AUDITOR'S REPORT

To the Audit Committee
State University of New York:

We have audited the balance sheets of University Hospital (the Hospital), a department of Upstate Medical University Campus (the UMU) of the State University of New York (the University) as of December 31, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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.

The Audit Committee
State University of New York
Page 2 of 2

Auditor's Responsibility, Continued

As discussed in note 1, the financial statements of the Hospital are intended to present the financial position, changes in financial position, and cash flows of only that portion of the financial reporting entity of the UMU attributable to the transactions of the Hospital. They do not purport to, and do not, present fairly the financial position of the UMU as of December 31, 2019 and 2018, the changes in its financial position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As more fully described in note 9 to the financial statements, the Hospital may be materially impacted by the outbreak of a novel coronavirus (COVID-19), which was declared a global pandemic by the World Health Organization in March 2020. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 16 and the required supplementary information on pages 53 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



July 3, 2020

**UNIVERSITY HOSPITAL OF THE
STATE UNIVERSITY OF NEW YORK
UPSTATE MEDICAL UNIVERSITY**

Management's Discussion and Analysis
as of and for the year ended December 31, 2019

(Unaudited)

Our discussion and analysis of University Hospital of the State University of New York Upstate Medical University's (Hospital) financial performance provides an overview of the financial activities as of and for the year ended December 31, 2019 with comparative information as of and for the years ended December 31, 2018 and 2017. This discussion and analysis has been prepared by management and should be read in conjunction with the Hospital's audited financial statements and related notes thereto, which follow this section.

Financial Summary

	Financial Highlights (In millions)					
	2019		2018		2017	
	Amount	Change	Amount	Change	Amount	Change
Current assets	\$ 487.0	\$ 77.9	\$ 409.1	\$ 56.6	\$ 352.5	\$ 39.7
Long-term assets and deferred outflows of resources	\$ 717.1	\$ 60.1	\$ 657.0	\$ (36.3)	\$ 693.3	\$ (101.9)
Current liabilities	\$ 277.3	\$ 33.0	\$ 244.3	\$ 4.1	\$ 240.2	\$ 30.3
Long-term liabilities and deferred inflows of resources	\$ 645.6	\$ 43.3	\$ 602.3	\$ (14.5)	\$ 616.8	\$ (51.8)
Net patient service revenue	\$ 918.4	\$ 52.6	\$ 865.8	\$ 48.5	\$ 817.3	\$ 68.8
DSH revenue	\$ 197.4	\$ 42.4	\$ 155.0	\$ 76.7	\$ 78.3	\$ (73.7)
Other operating revenue	\$ 134.3	\$ 29.3	\$ 105.0	\$ 40.1	\$ 64.9	\$ 18.5
Operating expenses	\$ 1,213.7	\$ 107.4	\$ 1,106.3	\$ 80.9	\$ 1,025.4	\$ 82.4
Non-operating revenue, net	\$ 15.8	\$ (20.9)	\$ 36.7	\$ (4.1)	\$ 40.8	\$ 20.5
Net profit (loss)	\$ 52.2	\$ (4.0)	\$ 56.2	\$ 80.3	\$ (24.1)	\$ 48.4

Statistical Summary

	Statistical Highlights					
	2019		2018		2017	
	Amount	Change	Amount	Change	Amount	Change
Admissions	35,923	1,151	34,772	728	34,044	2,494
Discharges	35,863	1,161	34,702	680	34,022	2,483
Observation cases	5,734	(263)	5,997	935	5,062	(199)
Patient days	192,328	2,386	189,942	(322)	190,264	14,281
Avg length of stay	5.7	(0.1)	5.8	(0.1)	5.9	-
Avg daily census	527	7	520	(1)	521	40
Full-time equivalent employees	6,562	280	6,282	316	5,966	240
FTEs per AOB	7.1	0.1	7.0	0.3	6.7	(0.2)
OR cases	22,118	185	21,933	298	21,635	559
Clinic visits	406,676	23,011	383,665	18,615	365,050	29,615
ER visits	105,687	3,672	102,015	598	101,417	7,175
Referred ambulatory visits	349,100	28,017	321,083	14,526	306,557	32,608

**UNIVERSITY HOSPITAL OF THE
STATE UNIVERSITY OF NEW YORK
UPSTATE MEDICAL UNIVERSITY**

Management's Discussion and Analysis
as of and for the year ended December 31, 2019

(Unaudited)

Overview of Financial Statements

The Hospital is a department of the State University of New York Upstate Medical University (UMU). These financial statements are intended to present the financial position, changes in financial position and cash flows for the Hospital only. They do not purport to present fairly the financial position of UMU as a whole. The Hospital has recorded in the accompanying financial statements those assets, liabilities, deferred outflows and inflows of resources, revenues and expenses which it believes reflect its financial position and results of operations. This annual report consists of a series of financial statements, a Balance Sheet, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The Balance Sheet reports an entity's financial resources (assets and deferred outflows of resources), obligations (liabilities and deferred inflows of resources) and net position (assets and deferred outflows of resources less liabilities and deferred inflows of resources) at a point in time. Increases and decreases in the net position over time would serve as an indicator as to whether an entity's financial position has improved or deteriorated.

The Statement of Revenues, Expenses and Changes in Net Position report an entity's result from operations (revenues less expenses) for a particular time frame, which is generally one year. Increases and decreases in revenues over expenses would serve as an indicator as to whether an entity's financial operation has improved or deteriorated.

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operating, investing and financing activities. It describes sources of cash, uses of cash and the changes in cash balances during the calendar year.

**UNIVERSITY HOSPITAL OF THE
STATE UNIVERSITY OF NEW YORK
UPSTATE MEDICAL UNIVERSITY**

Management's Discussion and Analysis
as of and for the year ended December 31, 2019

(Unaudited)

Table 1 below summarizes the Hospital's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of December 31, 2019, 2018 and 2017:

Table 1: Summary of Balance Sheet (in millions)

	2019		2018		2017	
	Amount	Change	Amount	Change	Amount	Change
Assets and deferred outflows of resources:						
Current assets	\$ 487.0	\$ 77.9	\$ 409.1	\$ 56.6	\$ 352.5	\$ 39.7
Long-term assets	198.3	30.6	167.7	(24.2)	191.9	(27.5)
Capital assets, net	429.0	14.2	414.8	5.2	409.6	2.8
Deferred outflows of resources	89.8	15.3	74.5	(17.2)	91.7	(77.3)
Total assets and deferred outflows of resources	\$ <u>1,204.1</u>	\$ <u>138.0</u>	\$ <u>1,066.1</u>	\$ <u>20.4</u>	\$ <u>1,045.7</u>	\$ <u>(62.3)</u>
Liabilities and deferred inflows of resources:						
Current liabilities	\$ 277.3	\$ 33.0	\$ 244.3	\$ 4.1	\$ 240.2	\$ 30.3
Long-term liabilities	258.3	60.6	197.7	(53.8)	251.5	(54.2)
Long-term debt	329.8	12.4	317.4	(5.4)	322.8	(2.3)
Deferred inflows of resources	57.5	(29.8)	87.3	44.8	42.5	4.7
Total liabilities and deferred inflows of resources	922.9	76.2	846.7	(10.2)	856.9	(21.6)
Total net position	281.2	61.8	219.4	30.6	188.8	(40.7)
Total liabilities and deferred inflows of resources and net position	\$ <u>1,204.1</u>	\$ <u>138.0</u>	\$ <u>1,066.1</u>	\$ <u>20.4</u>	\$ <u>1,045.7</u>	\$ <u>(62.3)</u>

**UNIVERSITY HOSPITAL OF THE
STATE UNIVERSITY OF NEW YORK
UPSTATE MEDICAL UNIVERSITY**

Management's Discussion and Analysis
as of and for the year ended December 31, 2019

(Unaudited)

Table 1: Summary of Balance Sheet (in millions), Continued

Current Assets

In 2019, the Hospital's current assets increased by a net \$77.9 million. Significant changes occurred in the following areas:

- **Cash:** In 2019, the Hospital's cash balance decreased \$8.4 million. The chart below reflects the Hospital's cash flows for the years ended December 31, 2019 and 2018.

	2019	2018	Change
Cash flow summary (in millions):			
Cash flows from operating activities:			
Patient related collections	\$ 1,140.6	\$ 1,097.3	\$ 43.3
Payroll and employee benefits	(581.9)	(535.9)	(46.0)
Expenses	(532.0)	(492.5)	(39.5)
Net cash provided by operating activities	26.7	68.9	(42.2)
Cash flows from noncapital financing activities	7.0	(35.6)	42.6
Cash flows from capital and related financing activities	(46.2)	(11.3)	(34.9)
Cash flows from investing activities	4.1	3.7	0.4
Net increase (decrease) in cash	(8.4)	25.7	(34.1)
Cash at beginning of year	161.5	135.8	25.7
Cash at end of year	\$ 153.1	\$ 161.5	\$ (8.4)

Significant changes in cash occurred in the following areas:

Patient related collections increased by a total of \$43.3 million. This increase is the result of a \$12.7 million increase in direct patient collections and a \$30.6 million increase in other revenue. The increase in direct patient collections includes a \$55.5 million increase related to increases in patient volume and third-party payor payment rates, offset by a \$42.8 million decrease in Medicaid disproportionate share receipts. The increase in other revenue was primarily due to increases of \$26.3 million in 340B contract pharmacy sales, \$17.9 million in retail pharmacy sales (opened May 2018) and \$7.9 million in Care Restructuring Enhancement Program (CREPs) receipts, a \$7.5 million payment from the State to offset retroactive labor contract salary expenses; offset by decreases of \$17.5 million in Medical Service Groups (MSG's) contract and \$10.0 million in DSRIP receipts.

**UNIVERSITY HOSPITAL OF THE
STATE UNIVERSITY OF NEW YORK
UPSTATE MEDICAL UNIVERSITY**

Management's Discussion and Analysis
as of and for the year ended December 31, 2019

(Unaudited)

Table 1: Summary of Balance Sheet (in millions), Continued

Cash disbursements for operating expenses increased by \$85.5 million. Payroll and employee benefits expense disbursements increased by \$46.0 million while other expense disbursements increased by \$39.5 million. The payroll and employee benefits increase can be attributed to a 4.5% increase in FTE employees (\$17.4 million) related to increased patient volumes, collective bargaining cost increases (\$7.6 million), increased health insurance payments (\$15.4 million), which included payment of prior year deferred health insurance premiums of \$6.2 million, and increased retirement plan funding (\$4.0 million). The increase in other operating expense disbursements of \$39.5 million is primarily due to increased spending on pharmaceuticals of \$41.0 million, including \$10.5 million for the 340B Contract Pharmacy program, \$10.2 million for the Retail Pharmacy (opened May 2018) and \$19.7 million for the hospital pharmacy.

Cash flows from noncapital financing activities increased by \$42.6 million due to a reduction in transfers of \$33.8 million and \$7.5 million to SUNY and UMU, respectively.

Cash flows from capital financing activities decreased by \$34.9 million. In 2019, long term debt proceeds increased by \$16.3 million, offset by a \$9.4 million increase in capital purchases. Transfers from restricted use construction accounts to operating cash decreased by \$26.9 million in 2019.

- Patient Accounts Receivable, net - \$22.6 million increase:
In 2019, the Hospital experienced a \$22.6 million increase in patient accounts receivable due to increased patient volumes and a temporary year end coding delay affecting inpatient accounts.
- Estimated Disproportionate Share (DSH) Receivable - \$73.0 million increase:
Current amounts due for uncompensated care costs increased by \$73.0 million due to adjustments to amounts due for current and prior years based on updated uncompensated care costs and deferral of the Hospital's \$62.2 million 2019 base payment to 2020.
- Due from State of New York - \$17.0 million decrease:
In 2019, the Hospital received \$16.9 million due from the State under the Care Restructuring Enhancement Program (CREPs).

**UNIVERSITY HOSPITAL OF THE
STATE UNIVERSITY OF NEW YORK
UPSTATE MEDICAL UNIVERSITY**

Management's Discussion and Analysis
as of and for the year ended December 31, 2019

(Unaudited)

Table 1: Summary of Balance Sheet (in millions), Continued

Long-Term Assets, Excluding Capital Assets

In 2019, the Hospital's long-term assets increased by a net \$30.6 million. Significant changes occurred in the following areas:

- Other Long-Term Receivables - \$12.3 million increase:
Long-term receivables due from the MSG's increased by \$12.3 million in 2019.
- Estimated Disproportionate Share Receivable - \$20.4 million increase:
This increase is due to adjustments to amounts due in years subsequent to 2020 related to uncompensated care costs due from Medicaid for the Hospital's estimated 2018 and 2019 DSH year losses.

Deferred Outflows of Resources

Deferred outflows of resources increased by \$15.3 million. Deferred outflows increased by \$15.3 million from pension obligations, primarily due to an increase in the net difference between projected and actual earnings on pension plan investments of \$11.8 million.

Current Liabilities

In 2019, the Hospital's current liabilities increased by \$33.0 million. Significant changes occurred in the following areas:

- Accounts Payable - \$33.9 million increase:
This increase was related to increases in amounts due to the MSG's for physician and clinic staffing services and vendor payments due for drugs, supplies and agency staffing services associated with increased patient volume and timing of payments.
- Due to Third-Party Payors - \$7.4 million increase:
This increase is due to payments received on outstanding liabilities and adjustments to estimates of amounts due to third-party payors for rate changes and other adjustments, including an increase in a concurrent advance due to Excellus Blue Cross Blue Shield of \$2.9 million.
- Due to State of New York - \$7.1 million decrease:
This decrease is primarily due to payment in 2019 of inter-governmental transfer payments of \$10.2 million due to the New York State Department of Health (DOH) related to the DSRIP program.

**UNIVERSITY HOSPITAL OF THE
STATE UNIVERSITY OF NEW YORK
UPSTATE MEDICAL UNIVERSITY**

Management's Discussion and Analysis
as of and for the year ended December 31, 2019

(Unaudited)

Table 1: Summary of Balance Sheet (in millions), Continued

Long-Term Liabilities

In 2019, the Hospital's long-term liabilities increased by \$60.6 million. Significant changes occurred in the following areas:

- Net Pension Liability - \$54.0 million increase:
This increase reflects changes to the Hospital's actuarially determined long-term liability as of December 31, 2019 for the Hospital's ERS, PFRS, TRS and CGH defined benefit pension plans.

- Due to State of New York - \$10.2 million increase:
In 2019, the long-term portion of loans payable to the New York State Office of General Services (OGS) and the Power Authority of the State of New York (NYPA) for energy conservation improvement projects constructed by NYPA at Hospital facilities increased by \$7.5 million and bond funds advanced by the State increased by \$2.7 million.

Deferred Inflows of Resources

Deferred inflows of resources decreased by \$29.8 million. Deferred inflows from pension obligations decreased by \$30.6 million, primarily due to a decrease in the net difference between projected and actual earnings on pension plan investments of \$28.2 million.

Net Position

In 2019, the Hospital's net position increased by \$61.8 million. This increase is primarily due to the Hospital recording an excess of revenues over expenses of \$52.2 million in 2019 (See Table 2: Summary of Revenues, Expenses and Changes in Net Position for discussion), capital appropriations from the State of \$12.7 million, offset by transfers to SUNY and UMU of \$3.1 million.

**UNIVERSITY HOSPITAL OF THE
STATE UNIVERSITY OF NEW YORK
UPSTATE MEDICAL UNIVERSITY**

Management's Discussion and Analysis
as of and for the year ended December 31, 2019

(Unaudited)

Table 2: Summary of Revenues, Expenses and Changes in Net Position (in millions)

	2019		2018		2017	
	Amount	Change	Amount	Change	Amount	Change
Net patient service revenue	\$ 918.4	\$ 52.6	\$ 865.8	\$ 48.5	\$ 817.3	\$ 68.8
Disproportionate share revenue	197.4	42.4	155.0	76.7	78.3	(73.7)
Other revenue	134.3	29.3	105.0	40.1	64.9	18.5
Total operating revenues	1,250.1	124.3	1,125.8	165.3	960.5	13.6
Operating expenses:						
Salaries	414.8	22.7	392.1	27.4	364.7	18.9
Employee benefits	178.9	15.9	163.0	(6.5)	169.5	4.8
Supplies and other	620.0	68.8	551.2	60.0	491.2	58.7
Total operating expenses	1,213.7	107.4	1,106.3	80.9	1,025.4	82.4
Operating gain (loss)	36.4	16.9	19.5	84.4	(64.9)	(68.8)
Non-operating revenues (expense):						
Appropriations from the State of New York	23.6	(5.0)	28.6	(17.2)	45.8	0.0
Professional and general liability appropriations	2.1	(16.8)	18.9	12.3	6.6	18.4
Other	(9.9)	0.9	(10.8)	0.8	(11.6)	2.0
Total non-operating revenues, net	15.8	(20.9)	36.7	(4.1)	40.8	20.4
Excess (deficiency) of revenues over expenses	52.2	(4.0)	56.2	80.3	(24.1)	(48.4)
Net transfers to State of New York and UMU	(3.1)	39.4	(42.5)	(25.9)	(16.6)	(25.3)
Capital appropriations	12.7	(4.3)	17.0	17.0	0.0	0.0
Increase (decrease) in net position	61.8	31.2	30.6	71.3	(40.7)	(73.7)
Net position at beginning of year	219.4	30.6	188.8	(40.7)	229.5	33.0
Net position at end of year	\$ 281.2	\$ 61.8	\$ 219.4	\$ 30.6	\$ 188.8	\$ (40.7)

**UNIVERSITY HOSPITAL OF THE
STATE UNIVERSITY OF NEW YORK
UPSTATE MEDICAL UNIVERSITY**

Management's Discussion and Analysis
as of and for the year ended December 31, 2019

(Unaudited)

Table 2: Summary of Revenues, Expenses and Changes in Net Position (in millions), Continued

Summary of Net Patient Service Revenue:

	2019		2018		2017	
	Amount	Change	Amount	Change	Amount	Change
Patient service revenue	\$ 989.7	\$ 81.8	\$ 907.9	\$ 22.1	\$ 885.8	\$ 80.5
Less: provision for bad debts	(71.3)	(29.2)	(42.1)	26.4	(68.5)	(11.7)
Net patient service revenue	<u>\$ 918.4</u>	<u>\$ 52.6</u>	<u>\$ 865.8</u>	<u>\$ 48.5</u>	<u>\$ 817.3</u>	<u>\$ 68.8</u>

Patient service revenue before provision for bad debts - \$81.8 million increase:

Significant factors affecting patient service revenue were as follows:

- Admissions increased by 1,151 or 3.0%.
- Clinic visits increased by 23,011 or 6.0%.
- Referred Ambulatory activity increased by 7.0%.

During 2019, third-party payor mix and rate increases were approximately as follows:

Payor:	Inpatient		Outpatient	
	Rate	Mix	Rate	Mix
Medicare	1.5%	39.6%	1.4%	34.6%
Commercial	6.0%	22.8%	5.3%	31.1%
Medicaid	1.7%	30.5%	0.0%	25.1%
Other	0.0%	7.1%	0.0%	9.2%
		<u>100.0%</u>		<u>100.0%</u>

Provision for bad debts - \$29.2 million increase:

The increase in the provision for bad debts in 2019 was primarily due to the effect of a non-recurring reduction in estimated reserves on aged accounts receivable in 2018 and normal aging of accounts receivable during 2019.

**UNIVERSITY HOSPITAL OF THE
STATE UNIVERSITY OF NEW YORK
UPSTATE MEDICAL UNIVERSITY**

Management's Discussion and Analysis
as of and for the year ended December 31, 2019

(Unaudited)

Table 2: Summary of Revenues, Expenses and Changes in Net Position (in millions), Continued

Disproportionate Share Revenue - \$42.4 million increase:

DSH is a Medicaid Disproportionate Share program administered by the New York State Department of Health. This program reimburses the Hospital for uncompensated care provided to its indigent Medicaid and self-pay populations. The \$42.4 million increase in DSH revenue in 2019 was the result of the Hospital's actual 2016 DSH settlement finalized in 2019 and adjustments made to estimated uncompensated care cost reimbursements for the years 2017 through 2019.

Other Revenue - \$29.3 million increase:

In 2019, the Hospital recorded \$29.0 million in increased revenues in the 340B contract pharmacy program, \$20.5 million in the retail pharmacy program (opened May 2018) and \$6.0 million related to MSG contracts. This was offset by a \$26.0 million decrease in CREPs revenue as the program was defunded after 2018.

Salaries - \$22.7 million increase:

Salary expense increased by \$22.7 million or 6.0% in 2019. This increase relates to a 5.0% increase in Hospital FTEs and annual salary increases as required by various collective bargaining agreements.

Employee Benefits - \$15.9 million increase:

The \$15.9 million increase in employee benefits expense in 2019 was the result of the 5.0% increase in Hospital FTEs and an \$11.0 million increase in current year retirement plan expenses.

Supplies and Other Expenses - \$68.8 million increase:

Significant changes occurred in the following areas:

- Pharmaceutical supply costs increased by \$45.2 million or 62.0%.
 - \$12.1 million and \$10.9 million of this increase was related to the Retail Pharmacy and 340B Contract Pharmacy programs, respectively.
- Professional fees increased by \$19.3 million or 26.0%.
 - \$12.8 million of this increase was related to expansion of the Hospital's cardiovascular service line.
- Medical and non-medical supplies increased \$11.9 million or 9.0%.
- Purchased services – contract labor increased by \$7.8 million or 15.0%.
- Professional and general liability expense decreased by \$16.8 million or 89.0%.

**UNIVERSITY HOSPITAL OF THE
STATE UNIVERSITY OF NEW YORK
UPSTATE MEDICAL UNIVERSITY**

Management's Discussion and Analysis
as of and for the year ended December 31, 2019

(Unaudited)

Table 2: Summary of Revenues, Expenses and Changes in Net Position (in millions), Continued

Non-Operating Revenues (Expenses) - \$20.9 million decrease:

In 2019, general operating support and professional and general liability appropriations from the State of New York decreased by \$5.0 million and \$16.8 million, respectively.

Net Transfers - \$39.4 million increase:

Capital transfers included \$1.8 million in capital transfers from decreases to asset values and the percentage change in real property utilized by the Hospital and a decrease in cash transfers to SUNY and UMU of \$33.8 million and \$7.4 million, respectively.

Capital Appropriations - \$4.3 million decrease:

During 2017, the Hospital entered into an agreement with the State, whereby the State authorized a debt free capital appropriation of approximately \$40.8 million for approved capital expenditures of the Hospital through 2019. In 2019, qualifying capital expenditures under this agreement decreased by \$4.3 million.

Capital Assets and Debt Administration

Capital Assets, Net

As of December 31, 2019, the Hospital had \$429.0 million in capital assets, net of accumulated depreciation. This compares with \$414.8 million at the end of 2018. The components of capital assets are as follows:

Summary of Capital Assets (in millions)

	2019		2018		2017	
	Amount	Change	Amount	Change	Amount	Change
Land	\$ 2.3	\$ 0.0	\$ 2.3	\$ 0.0	\$ 2.3	\$ 0.0
Building and improvements	556.7	27.6	529.1	21.8	507.3	15.4
Equipment	357.9	24.5	333.4	15.4	318.0	12.8
Construction-in-progress	33.5	0.8	32.7	5.2	27.5	10.5
	<u>950.4</u>	<u>52.9</u>	<u>897.5</u>	<u>42.4</u>	<u>855.1</u>	<u>38.7</u>
Accumulated depreciation	<u>(521.4)</u>	<u>(38.7)</u>	<u>(482.7)</u>	<u>(37.2)</u>	<u>(445.5)</u>	<u>(35.9)</u>
	<u>\$ 429.0</u>	<u>\$ 14.2</u>	<u>\$ 414.8</u>	<u>\$ 5.2</u>	<u>\$ 409.6</u>	<u>\$ 2.8</u>

**UNIVERSITY HOSPITAL OF THE
STATE UNIVERSITY OF NEW YORK
UPSTATE MEDICAL UNIVERSITY**

Management's Discussion and Analysis
as of and for the year ended December 31, 2019

(Unaudited)

Debt Administration

The primary funding source for additions to land, building and improvements is bonds issued by the Dormitory Authority of the State of New York (DASNY). The primary funding source for equipment additions is a tax-exempt equipment leasing program (TELP), which is a program provided to the Hospital through the State.

The Hospital's long-term debt (in millions) consisted of the following at December 31:

	2019		2018		2017	
	Amount	Change	Amount	Change	Amount	Change
Due to State of New York						
York	\$ 23.9	\$ 3.1	\$ 20.8	\$ 5.2	\$ 15.6	\$ (4.5)
Capital lease obligations	46.5	3.6	42.9	(21.4)	64.3	2.1
General obligation bonds	303.7	7.8	295.9	10.2	285.7	(5.3)
	<u>374.1</u>	<u>14.5</u>	<u>359.6</u>	<u>(6.0)</u>	<u>365.6</u>	<u>(7.7)</u>
Less current portion	<u>(28.5)</u>	<u>8.0</u>	<u>(36.5)</u>	<u>(3.2)</u>	<u>(33.3)</u>	<u>4.7</u>
	<u>\$ 345.6</u>	<u>\$ 22.5</u>	<u>\$ 323.1</u>	<u>\$ (9.2)</u>	<u>\$ 332.3</u>	<u>\$ (3.0)</u>

In 2019, the Hospital's debt increased by a net \$11.8 million. Significant changes occurred in the following areas:

- Amounts due to State of New York under certain agreements increased by \$3.1 million. In 2019, the long-term portion of loans payable to OGS and NYPA increased by \$7.9 million and bond funds advanced by the State increased by \$2.7 million, offset by a \$10.2 million decrease in amounts due to the DOH related to the DSRIP program.
- The Hospital's capital lease obligations increased by \$3.6 million. This net increase resulted from normally scheduled principal payments of \$19.6 million and new equipment TELP financing of \$23.2 million.
- In 2019, the Hospital's net bond liability increased by \$7.8 million. This increase resulted from \$11.2 million in new bond financing, normally scheduled principal payments of \$4.0 million and a \$0.6 million gain on the refinancing of debt.

**UNIVERSITY HOSPITAL OF THE
STATE UNIVERSITY OF NEW YORK
UPSTATE MEDICAL UNIVERSITY**

Management's Discussion and Analysis
as of and for the year ended December 31, 2019

(Unaudited)

Economic Factors that will affect the Future

As a safety net hospital, the Hospital continues to serve a significant number of patients in its community who are uninsured, under-insured or covered by Medicare and Medicaid programs. As a result, the Hospital's continued viability is directly linked to appropriate levels of funding from Medicare, Medicaid and the Medicaid DSH programs. The State Fiscal Year (SFY) 2018 budget reduced the Medicaid program's appropriation for the non-Federal share of DSH losses by approximately \$47.9 million. This reduction was restored by SUNY via a transfer from its operating fund to the DOH to fund the non-Federal share of DSH losses. In SFY 2019, the non-Federal share was fully funded by the State however, the Hospital's 2019 DSH year base payment of \$62.2 million was delayed until 2020. It is unclear at this time if the State Medicaid program will continue to limit its contributions for the Hospital's non-Federal share of DSH losses or to delay DSH payments. What effect, if any, this will have on the Hospital's future level of DSH funding is uncertain.

Due to COVID-19's impact on the economy in general and Hospital operations (discussed below), and on Federal and State budgets, we anticipate that both the Federal and State governments will be under pressure to reduce their overall spending substantially in future years. These spending reductions could result in significant cuts to our Medicare and Medicaid rates, DSH payments and the State's Support for Costs of State Sponsorship, having a negative impact on our overall revenue. As a result, the Hospital's continued viability is directly linked to continued, appropriate levels of funding from Medicare, Medicaid, the Medicaid DSH program and the State.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Patient volumes and the related revenues for most of our services were significantly impacted beginning in the last two weeks of the first quarter of 2020 as various policies were implemented by Federal, State and Local governments in response to the COVID-19 pandemic. These policies caused many people to remain at home and forced the closure of certain businesses, as well as suspended elective surgical and outpatient procedures by health care facilities. We expect patient volumes and revenues to be negatively impacted until the effects of the pandemic begin to subside and the economy begins to stabilize.

**UNIVERSITY HOSPITAL OF THE
STATE UNIVERSITY OF NEW YORK
UPSTATE MEDICAL UNIVERSITY**

Management's Discussion and Analysis
as of and for the year ended December 31, 2019

(Unaudited)

COVID-19 Pandemic, Continued

The extent of the COVID-19 pandemic's adverse impact on our operating results and financial condition will be driven by many factors, most of which are beyond our control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home policies and business closures, continued decreases in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of accelerated rates of unemployment, incremental expenses required for supplies and personal protective equipment and changes to Federal and State funding of the Medicare and Medicaid programs. Because of these and other uncertainties, we cannot estimate the length or severity of the impact of the pandemic on our business.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Balance Sheets

December 31, 2019 and 2018

(in thousands of dollars)

<u>Assets and Deferred Outflows of Resources</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash held by the State	\$ 153,151	\$ 161,514
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$198,300 and \$171,200, respectively	134,483	111,925
Estimated disproportionate share receivable	139,068	66,029
Due from third-party payors	7,572	5,502
Other receivables, net	33,646	24,272
Due from State of New York	387	17,420
Due from State of New York - professional liability	3,650	4,450
Inventories	10,245	13,097
Prepaid expenses and other	4,755	4,932
Total current assets	<u>486,957</u>	<u>409,141</u>
Assets whose use is limited:		
Internally designated	777	4,209
Limited use assets	7	994
Estimated disproportionate share receivable, net of current portion	43,677	23,296
Other long-term receivables and other assets, net	22,579	10,268
Due from State of New York - professional liability, net of current portion	131,418	128,941
Capital assets, net	428,989	414,763
Total assets	<u>1,114,404</u>	<u>991,612</u>
Deferred outflows of resources	<u>89,770</u>	<u>74,488</u>
Total assets and deferred outflows of resources	<u>\$ 1,204,174</u>	<u>\$ 1,066,100</u>
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	20,464	21,364
Accounts payable and accrued expenses	117,595	83,733
Accrued salaries and wages	30,139	30,201
Accrued employee benefits	44,004	43,111
Accrued interest	4,532	4,855
Due to State of New York - professional liability	3,650	4,450
Due to third-party payors	48,827	41,464
Due to State of New York	8,053	15,165
Total current liabilities	<u>277,264</u>	<u>244,343</u>
Long-term obligations, net of current maturities:		
Due to State of New York - professional liability	131,418	128,941
Net pension liability	87,884	33,934
Due to State of New York	15,854	5,616
Accrued employee benefits	23,185	29,054
Capital lease obligations	30,767	25,500
Long-term debt	298,987	291,914
Total liabilities	<u>865,359</u>	<u>759,302</u>
Deferred inflows of resources	<u>57,542</u>	<u>87,339</u>
Total liabilities and deferred inflows of resources	<u>922,901</u>	<u>846,641</u>
Net position:		
Net investment in capital assets	71,868	82,735
Unrestricted	209,405	136,724
Total net position	<u>281,273</u>	<u>219,459</u>
Commitments, contingencies and uncertainties (notes 3, 5, 6 and 9)		
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,204,174</u>	<u>\$ 1,066,100</u>

See accompanying notes to financial statements.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Statements of Revenues, Expenses and Changes in Net Position

Years ended December 31, 2019 and 2018

(in thousands of dollars)

	2019	2018
Operating revenues:		
Net patient service revenue (net of provision for bad debts of approximately \$71,000 and \$42,000, respectively)	\$ 918,336	\$ 865,848
Disproportionate share revenue	197,440	154,991
Other operating revenues	134,323	105,011
Total operating revenues	1,250,099	1,125,850
Operating expenses:		
Salaries and wages	414,835	392,153
Employee benefits	178,898	162,972
Supplies and other expenses	571,826	486,244
Professional liability	2,112	18,925
Depreciation and amortization	46,058	46,061
Total operating expenses	1,213,729	1,106,355
Operating gain	36,370	19,495
Non-operating revenues (expenses):		
State of New York appropriations, net	23,609	28,609
State of New York professional liability appropriation	2,112	18,925
Interest expense on capital-related debt	(14,004)	(14,557)
Interest income	4,114	3,747
Total non-operating revenues, net	15,831	36,724
Excess of revenues over expenses	52,201	56,219
Transfers to Upstate Medical University	(454)	(7,943)
Net transfers to the State University of New York	(2,668)	(34,674)
Capital appropriations	12,735	17,030
Increase in net position	61,814	30,632
Net position, beginning of year	219,459	188,827
Net position, end of year	\$ 281,273	\$ 219,459

See accompanying notes to financial statements.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Statements of Cash Flows

Years ended December 31, 2019 and 2018

(in thousands of dollars)

	2019	2018
Cash flows from operating activities:		
Services to patients	\$ 886,634	\$ 833,281
Disproportionate share and pool payments, net	104,020	146,815
Pass-through payments	18,468	16,335
Other	131,530	100,884
Salaries and wages	(411,589)	(386,550)
Employee benefits	(170,307)	(149,331)
Contract labor	(50,039)	(48,388)
Supplies and other expenses	(481,965)	(444,131)
	26,752	68,915
Cash flows from noncapital financing activities:		
Transfers from State of New York (the "State")	7,480	6,158
Transfers to Upstate Medical University	(454)	(7,943)
Transfers to the State University of New York	-	(33,807)
	7,026	(35,592)
Cash flows from capital and related financing activities:		
Purchases of capital assets	(60,208)	(50,855)
Proceeds from issuance of long-term debt	32,971	16,631
Change in assets whose use is limited	4,419	50,888
Repayment of long-term debt and capital lease obligations	(23,557)	(27,181)
Capital appropriations	12,735	17,030
Capital advances from (repayments to) the State, net	1,585	(4,143)
Cash paid for interest	(14,200)	(13,698)
	(46,255)	(11,328)
Cash flows from investing activities:		
Interest income	4,114	3,747
	4,114	3,747
Net cash provided by investing activities	4,114	3,747
Net increase (decrease) in cash and cash held by the State	(8,363)	25,742
Cash and cash held by the State:		
Beginning of year	161,514	135,772
End of year	\$ 153,151	\$ 161,514

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Statements of Cash Flows, Continued

(in thousands of dollars)

	2019	2018
Reconciliation of operating gain to net cash provided by operating activities:		
Operating gain	36,370	19,495
Adjustments to reconcile operating gain to net cash provided by operating activities:		
Depreciation and amortization	46,058	46,061
Provision for bad debts	71,256	42,086
Professional liability	2,112	18,925
Other noncash transactions	16,234	14,882
Changes in operating assets and liabilities:		
Patient and other accounts receivable	(115,393)	(57,254)
Estimated disproportionate share receivable	(93,420)	(8,176)
Inventories	2,852	(3,236)
Prepaid expenses and other	177	(622)
Accounts payable and other accrued liabilities	40,400	1,330
Due from/to State of New York, net	19,851	(7,135)
Accrued wages and employee benefits	(5,038)	10,243
Due to/from third-party payors, net	5,293	(7,684)
	\$ 26,752	\$ 68,915

See accompanying notes to financial statements.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

December 31, 2019 and 2018

(in thousands of dollars)

(1) Summary of Significant Accounting Policies

(a) Organization

University Hospital (Hospital) is operated as a department of the Upstate Medical University (UMU), a medical campus of the State University of New York (SUNY). SUNY is a corporation within the Education Department of the State of New York (State). These financial statements are intended to present the financial position, changes in financial position and cash flows of only that portion of the financial reporting entity of SUNY attributable to the transactions of the Hospital. They do not purport to present the financial position of SUNY or UMU, the changes in their financial position or their cash flows. Cash received by the Hospital from collection of accounts receivable or other sources is remitted to the State. Expenditures of the Hospital are paid by the State. In addition, expenditures related to certain general, professional and administrative services are shared by UMU, a unit of SUNY, and the Hospital based on various statistics and other data reflective of the Hospital's use of such services. The Hospital has recorded in the accompanying financial statements those assets, liabilities, deferred outflows and inflows of resources, revenues and expenses which it believes reflect its financial position and changes in financial position.

The Hospital is the only major public hospital in the Central New York region and provides a wide range of primary and specialized medical services, including a Children's Hospital, a Trauma Center, AIDS Care Center, Burn Unit, Pediatric Oncology, Kidney Transplant Center and Cancer Center.

As a department of SUNY, which is part of the State, the Hospital is not subject to federal or state income taxes.

(b) Basis of Presentation

The accompanying financial statements of the Hospital have been prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants' "Audit and Accounting Guide for Health Care Entities," under the economic resources measurement focus. Reported expenses include the direct expenses of the Hospital and an allocation of costs from (and to) other units of UMU for services provided to and shared with the Hospital. Reported revenue includes net transfers from the State representing its support to the Hospital for the costs of state sponsorship (see note 2 for details regarding this support).

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

(c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the allowance for doubtful accounts, contractual allowances, amounts due to or due from third-party payors, including amounts due from the New York State Department of Health Medicaid Disproportionate Share Program, allocations from SUNY and the State, estimated employee benefit costs and reserves for professional liabilities. Actual results could differ from those estimates.

(d) Performance Indicator

The statements of revenues, expenses and changes in net position include excess of revenues over expenses as the performance indicator. Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. All other activities are reported as non-operating activities.

(e) Cash and Cash Held by the State

The Hospital considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Certain cash is pooled with other state funds and is designated for the Hospital. The funds designated by the State in its records for the Hospital are disbursed by the State on behalf of the Hospital, subject to appropriate authorization. The Hospital maintains funds on deposit in excess of amounts insured by the Federal Deposit Insurance Corporation limits. Management believes the credit risk related to these deposits is minimal. Internally designated funds and limited use assets are excluded from cash and cash held by the State.

The balances pooled are limited to legally stipulated investments which include obligations of, or guaranteed by, the United States, obligations of the State and its political subdivisions, and repurchase agreements. These investments are held by the State's agent in its name on behalf of SUNY. The funds designated by SUNY in its records for the Hospital are interest earning to the Hospital and are disbursed by the State on behalf of the Hospital, subject to the appropriate authorization.

The Hospital does not have a formal policy for collateral requirements for cash deposits. The New York State comprehensive annual financial report contains the GASB No. 40 risk disclosures for deposits held in the State Treasury.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

(f) Assets Whose Use is Limited

Assets whose use is limited include assets set aside for specific purposes under internal designation or terms of agreements. Assets whose use is limited totals approximately \$784 and \$5,203 at December 31, 2019 and 2018, respectively. During 2019 and 2018, \$2,670 and \$29,700, respectively, was transferred back to the operating account. The remainder of the funds are held in escrow, maintained by the University Construction Fund (the “Construction Fund”) on behalf of the Hospital for future capital projects, and are included as internally designated in assets whose use is limited. Specific purpose funds also include limited use assets for equipment financing leases.

(g) Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered including estimated adjustments under various reimbursement agreements with third-party payors. Revenue under certain third-party payor arrangements is subject to audit, retroactive adjustments, and significant regulatory actions. Such adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Hospital is not aware of any allegations of noncompliance that could have a material adverse effect on the financial statements and believes that it is in compliance with all applicable laws and regulations.

Non-Medicare Payments

Since January 1, 1997, the New York Health Care Reform Act of 1996 (“NYHCRA”) has governed payments to hospitals in New York State. Under this system, hospitals and all non-Medicare payors, except Medicaid, workers’ compensation and no-fault insurance programs, negotiate hospitals’ payment rates. If negotiated rates are not established, payors are billed at hospitals’ established charges. Medicaid, workers’ compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health on a prospective basis. Adjustments to the current and prior years’ rates for these payors will continue to be made in future years.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

Medicare Payments

Hospitals are paid for most Medicare inpatient services and most outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data.

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior year payment rates, based on industry-wide and hospital-specific data. Additionally, certain payors' payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years will be realized.

Other Provider Payments

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts for established charges and per diem rates.

Approximately 54% of net patient service revenue (excluding provision for bad debts) was generated from services rendered to patients under Medicare and Medicaid programs in 2019 and 2018.

The Hospital's cost reports have been audited and finalized by the Medicare fiscal intermediary through December 31, 2015.

The Hospital recorded an increase to net patient service revenue of approximately \$6,200 and \$10,600 in 2019 and 2018, respectively, as a result of third-party payor reimbursement rate settlements or changes in estimates relating to prior rate years.

An allowance for uncollectible accounts receivable is estimated by management based on periodic reviews of collectability of accounts receivable considering historical experience and prevailing economic conditions.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Significant concentrations of patient accounts receivable by payor at December 31 are as follows:

	2019	2018
<u>Patient Accounts Receivable</u>		
Medicare	\$ 53,073	\$ 39,460
Medicaid	34,288	29,022
Blue Cross/Blue Shield/Excellus	15,969	16,802
Commercial insurance carriers and managed care (including governmental sponsored programs)	50,861	35,667
Self-pay and other	178,616	162,153
Total patient accounts receivable	332,807	283,104
Less allowance for doubtful accounts on active accounts receivable	(198,324)	(171,179)
Patient accounts receivable, net	\$ 134,483	\$ 111,925

Medicaid Disproportionate Share Revenue

Congress created the Medicaid Disproportionate Share (DSH) program to ensure that safety net hospitals would have adequate reimbursement rates to continue to provide services to their patients. New York State (NYS) Medicaid DSH payments are matched in the same fashion as ordinary Medicaid payments. For NYS, the match is split equally between the State and the Federal government. The Federal government caps the amount of dollars that it will contribute to each State's Medicaid DSH program. The State cap is measured on a cash basis. The Hospital's DSH revenue is recorded on an accrual basis.

In order for any payments to be made to NYS hospitals for the Medicaid DSH program, such amounts must be approved in the annual NYS budget. The Medicaid DSH program is part of the NYS Department of Health's (DOH) budget.

The NYS Medicaid DSH program allows the Hospital to claim reimbursement for losses from serving Medicaid and self-pay patients. The Hospital files a cost report annually to claim the reimbursement from Medicaid.

The Hospital estimates its annual DSH losses using actual Medicaid and Self-Pay utilization, billing, payment and cost data for each unfinalized DSH year (currently 2017 - 2019), subject to periodic updating as new information or changes in the DSH reporting methodology become available. In addition, appropriate risk reserves have been applied based on the status and timing of DSH funding relative to open DSH years.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

In 2017, SUNY entered into a Memorandum of Understanding with the DOH and the Division of the Budget (DOB) in which DOB agreed to utilize its general transfer authority to transfer \$165,832 from SUNY non-hospital state special revenue accounts to the State's General Fund. This enabled the three SUNY Hospitals to recover the difference between the SUNY Hospital reimbursable DSH losses and the non-federal share budgeted in the Medicaid General Fund for its fiscal year 2018 (April 2017-March 2018) federal match. The amount of the SUNY match that was used to draw funds related to losses and base year allocations specific to the Hospital was \$47,900 for 2018.

(h) Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. During 2019 and 2018, costs incurred by the Hospital in the provision for charity care were based on a ratio of the Hospital's costs to gross charges and approximated \$2,254 and \$2,204, respectively.

(i) Inventory Valuation

Inventories consist of drugs and other supplies and are valued at the lower of cost or market, on a first-in, first-out basis.

(j) Capital Assets

Capital assets are stated at cost, or fair value for donated assets. Maintenance and repairs are charged to expense and betterments are capitalized. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. Amortization of equipment under capital leases is provided on the straight-line method over the shorter of the lease term or the useful lives of the assets. Such amortization is included in depreciation and amortization in the financial statements.

All capital assets are owned by the State and are remitted back to the State, upon retirement and/or disposal at net book value. The Hospital evaluates its capital assets for impairment whenever events or changes in circumstances indicate the carrying amount of the capital asset may not be recoverable.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

(k) Unrestricted Net Position and Net Investment in Capital Assets

Net position is comprised of assets and deferred outflows of resources less liabilities and deferred inflows of resources. The net investment in capital assets component of net position consists of capital assets including restricted capital assets (if any), less accumulated depreciation and amortization and any outstanding debt related to the acquisition, construction or improvement of those assets. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's practice to use restricted resources before unrestricted resources.

(l) Grants and Contributions

The Hospital receives grants as well as contributions from private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

(m) Compensated Absences

Under terms of personnel policies and union agreements, Hospital employees are permitted to accumulate absences associated with vacation and compensatory time-off up to certain limits. Employees also earn sick leave credits. At eligible retirement, any unused sick leave credits may be used to pay the employees' share of post-retirement health insurance. The Hospital accrues an estimated liability for these anticipated payments.

(n) Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources are defined as a consumption of net assets by the Hospital that is applicable to a future reporting period. Deferred inflows of resources are defined as an acquisition of net assets by the Hospital that is applicable to a future reporting period.

Deferred outflows and deferred inflows of resources include amounts related to changes in the net pension liability of the Hospital's proportionate share in the cost sharing pension plans and the Upstate Medical University Retirement Plan for Former Employees of Community General Hospital (CGH) (CGH Plan). Deferred outflows of resources also include the Hospital's contributions to the pension plans subsequent to the measurement date.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

Deferred inflows of resources also include advances of State appropriations, Delivery System Reform Incentive Payment (DSRIP) Program payments received and gains resulting from refinancing of debt which represents the difference between the reacquisition price and the net carrying amount of the old debt and is amortized over the life of the related debt.

(o) Estimated Professional Liability Costs

The provision for estimated professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

(p) State of New York Appropriations

Support of the Hospital operations is provided by the State in the form of funds transferred to, or expenses incurred on behalf of the Hospital. These fund transfers or expenses are reflected on an accrual basis in the Hospital's statements of revenues, expenses and changes in net position.

During 2017, the Hospital entered into an agreement with the State, whereby the State authorized a debt-free capital appropriation of approximately \$40,800 for approved capital expenditures of the Hospital through 2020. During 2019 and 2018, the Hospital made approximately \$12,207 and \$16,700 in qualifying capital expenditures and has recognized these expenditures as capital appropriations in the statement of revenues, expenses and changes in net position pursuant to this agreement. The remaining amount is expected to be expended during 2020.

(q) Delivery System Reform Incentive Payment (DSRIP) Program

In 2014, the Governor of the State announced federal approval of a Medicaid 1115 waiver amendment that enabled the State to reinvest \$8 billion in federal savings generated by Medicaid Redesign Team (MRT) reforms into the State's health care system. The DSRIP program is designed to promote community-level collaborations, through the Performing Provider Systems (PPS) and focus on systems reform, specifically a goal to achieve a 25 percent reduction in avoidable hospital use over five years.

The Hospital recorded other operating revenue from this program of approximately \$3,676 and \$3,845 for the years ended December 31, 2019 and 2018, respectively. An additional amount of approximately \$3,314 and \$2,390 is included in deferred inflows of resources at December 31, 2019 and 2018, respectively. The Hospital intends to continue its participation in the DSRIP program and may receive additional payments during 2020.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

(r) Capital Restructuring Finance Program (CRFP)

The DOH and the Dormitory Authority of the State of New York have established a Capital Restructuring Financing Program to provide an additional \$1.2 billion in grants to support the goals of DSRIP. In 2017, the Hospital was awarded a \$70,600 capital grant to support ambulatory care integration through the construction of a new multi-story ambulatory care facility on the Hospital's Downtown campus. These funds have been suballocated to the SUNY Construction Fund and as of December 31, 2019, there have been no DOH funds spent or revenue recognized related to the grant. The Hospital expects to begin expending these amounts during 2020.

(s) 340B Program Pharmacy Revenue

The Hospital participates in the 340B Drug Discount Program, which allows the Hospital to purchase certain outpatient drugs at a discount for the purpose of stretching federal resources to reach more eligible patients. The 340B program pharmacy revenue is comprised of 340B revenue from contract pharmacies in the community served and retail pharmacy operated by the Hospital. Amounts paid under the 340B program are subject to audit and compliance requirements. For 2019 and 2018, revenue of approximately \$82,600 and \$33,096, respectively, was recognized under the program and is included within other operating revenues in the statements of revenues, expenses and change in net position.

(t) Behavioral Health - Home and Community Based Services Pilot (BH-HCBS)

In 2018, the Hospital began participating in the Behavioral Health - Home and Community Based Services Pilot (BH-HCBS) Care Restructuring Enhancement Pilots (CREP's) program administered by the DOH. This program is intended to enhance the Hospital workforce's ability to serve the needs of the BH-HCBS eligible population, to connect individuals with available service and to successfully transition the workforce's skills to BH-HCBS employment role during the expected decline in Hospital utilization during and post-DSRIP.

Program funds are to be paid to participating facilities for completion of program metrics and deliverables. During 2019 and 2018, the Hospital recognized other operating revenues of approximately \$4 and \$26,000, respectively, from the CREP's program.

(u) Subsequent Events

Subsequent events have been evaluated through July 3, 2020, the date in which the financial statements were available to be issued.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

(2) Transactions with SUNY and the State of New York

The Hospital is an operating unit of SUNY. The following describes its related-party transactions for the years ended December 31, 2019 and 2018.

Cash and Cash Held by the State

The Hospital's cash collections are electronically transferred daily to the Office of State Comptroller. At December 31, 2019 and 2018, cash held by the State amounted to \$151,014 and \$157,622, respectively.

Upstate Medical University

The Hospital and UMU share related operating costs. These costs are split between the departments based on various statistical methodologies and other data reflective of the Hospital's use of such services. The Hospital's annual share of these costs for the years ended December 31 is as follows:

	2019	2018
Administrative services	\$ 13,535	\$ 12,458
Human resources	4,640	4,174
Utilities	8,463	9,230
Facility operations	41,440	41,152
Information systems	12,007	11,591
Total shared service allocations	\$ 80,085	\$ 78,605

Appropriations from the State of New York

The Hospital is supported, for various operating needs, by the State. The State funds all professional liability expenses of the Hospital through the State self-funded professional liability program. The Hospital recognizes professional liability cost as expense and correspondingly records appropriations from the State. The State also funds payroll and benefits expense for certain employees, including resident supervision. The Hospital reports this support as appropriations from New York State under non-operating revenues in its statements of revenues, expenses and changes in net position.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

The Hospital's appropriations for the years ended December 31 are comprised of the following:

	2019	2018
General operating funds	\$ 7,793	\$ 12,599
State supported payroll and benefits expense	15,816	14,882
Debt service (DOB loan)	-	1,128
	\$ 23,609	\$ 28,609
Professional liability insurance	\$ 2,112	\$ 18,925

Due from/to State of New York

As of December 31 due from/to State of New York consisted of the following:

	2019	2018
Current due from/to State of New York:		
Professional liability claims appropriation	\$ 3,650	\$ 4,450
Long-term due from/to State of New York:		
Professional liability claims appropriation	\$ 131,418	\$ 128,941
Current due from State of New York:		
CREPs program (a)	\$ -	\$ 16,947
Grants (b)	387	473
	\$ 387	\$ 17,420
Current due to State of New York:		
STIP loan (c)	\$ 3,914	\$ 3,914
New York Power Authority (d)	208	-
Office of General Services (OGS) (d)	1,038	934
UMU (e)	2,893	75
DSRIP (f)	-	10,242
	\$ 8,053	\$ 15,165
Long-term due to State of New York:		
Office of General Services (OGS) (d)	\$ 8,467	\$ 4,713
New York Power Authority (d)	3,791	-
State advances (g)	3,596	903
	\$ 15,854	\$ 5,616

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

- (a) At December 31, 2018, the Hospital had net amounts due of approximately \$16,947 from DOH related to the CREP's program, which was received in 2019.
- (b) At December 31, 2019 and 2018, the Hospital had net amounts due from DOH from various grants of approximately \$387 and \$473, respectively.
- (c) At June 30, 2001, SUNY converted the Hospital's outstanding balances due to the State for employee benefits into an informal Short-Term Interest Pool ("STIP") loan. Interest is accrued at the average daily short-term interest rate as provided by the Office of State Comptroller. During 2019 and 2018, interest was accrued at rates ranging from 1.74% to 2.52% and 1.52% to 2.40%, respectively.
- (d) SUNY has entered into an agreement with the Power Authority of the State of New York (NYPA) to develop and implement energy conservation improvements at State facilities and ultimately reduce energy consumption and related expenses. There are several loans payable to Office of General Services and NYPA, all with varying end dates and variable interest rates that are adjusted annually, payable through June 2034.
- (e) At December 31, 2019 and 2018, the Hospital had net amounts due to UMU for clinical faculty and program support of approximately \$2,893 and \$75, respectively.
- (f) At December 31, 2018, the Hospital had net amounts due of approximately \$10,242 to DOH related to the DSRIP program, which the Hospital paid in 2019.
- (g) During 2017, the State advanced the Hospital funds of \$4,133 to finance capital construction, of which the Hospital repaid \$3,230 in 2018 with bond proceeds. During 2019, the Hospital repaid the remaining 2018 State advance of \$903 and the State advanced an additional \$3,596 to finance capital construction.

Net transfers from/(to) the State University of New York

In 2019 and 2018, the Hospital's net capital transfers to SUNY amounted to \$2,668 and \$867, respectively, primarily comprised of decreases and increases to the capital asset values related to the reallocation of physical building space and equipment transfers to other areas within the UMU Campus. In 2019 and 2018, the Hospital also collectively transferred to SUNY and UMU \$454 and \$41,750, respectively, to provide support for certain operating costs, and other teaching, academic, research and related functions. The Hospital reports these transactions as changes in net position, excluded from excess of revenues over expenses.

Medical Oversight

According to an agreement entered into in 1988, the Hospital agreed to transfer funds to the UMU Income Fund Reimbursable (IFR) for the doctor's supervision of medical residents at the Hospital. In 2019 and 2018, the Hospital's annual expense related to these transfers was approximately \$20,300 to cover expenses of this program.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

Physicians from several Medical Service Groups (MSG's) provide supervisory, teaching and direct patient care services in Hospital departments for which the Hospital bills the patients and recognizes the revenues. In 2019 and 2018, the MSG's have been reimbursed annually by the Hospital for the services of these physicians amounting to approximately \$4,100 and \$4,000, respectively.

Medical Service Groups

The MSG's have also contracted with the Hospital to provide its patients with direct patient care. The MSG's bill and collect revenue for these patients and remit these funds to the Hospital. During 2019 and 2018, the Hospital recognized from the MSG's revenues amounting to approximately \$37,760 and \$33,140, respectively, for services provided by the MSG's.

Upstate Community Medical, P.C.

Upstate Community Medical, P.C. (UCM) is a New York professional service corporation that provides a comprehensive source for acute medical care and related services in connection with the Hospital. UCM began operations in 2005. In 2015, UCM converted to a 501(c)(3) organization affiliated with the Hospital through a shareholder agreement. The Hospital contracts with UCM to provide certain medical administrative services and professional medical services to Hospital patients and has expensed approximately \$17,700 and \$15,100 for the years ended December 31, 2019 and 2018, respectively, under the contract. The Hospital also provides certain management, administrative and support services to UCM, and charged UCM approximately \$430 for each of the years ended December 31, 2019 and 2018 under the contract. At December 31, 2019 and 2018, the Hospital had accounts payable due to UCM of approximately \$1,300 and \$2,900, respectively. At December 31, 2019 and 2018, the Hospital had accounts receivable due from UCM of approximately \$4,000 and \$3,400, respectively. The Hospital maintains a reserve for the UCM accounts receivable at December 31, 2019 and 2018.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

(3) Capital Assets

Capital assets recorded at cost, consisted of the following at December 31:

	2018	Additions	Closed projects and disposals, net	2019
Depreciable assets:				
Buildings and improvements	\$ 529,091	\$ 27,601	\$ (6)	\$ 556,686
Movable equipment	333,403	32,831	(8,362)	357,872
	<u>862,494</u>	<u>60,432</u>	<u>(8,368)</u>	<u>914,558</u>
Less accumulated depreciation:				
Buildings and improvements	(236,353)	(17,409)	1	(253,761)
Movable equipment	(246,333)	(29,512)	8,238	(267,607)
	<u>(482,686)</u>	<u>(46,921)</u>	<u>8,239</u>	<u>(521,368)</u>
Non-depreciable assets:				
Land	2,310	(3)	-	2,307
Construction-in-progress	32,645	16,448	(15,601)	33,492
Capital assets, net	<u>\$ 414,763</u>	<u>\$ 29,956</u>	<u>\$ (15,730)</u>	<u>\$ 428,989</u>

The estimated costs to complete construction in progress at December 31, 2019 are approximately \$202,000, of which approximately \$143,000 is for the Ambulatory Care Center. The Hospital expects substantially all of the costs to be funded using the \$70,600 grant awarded and bond funding.

	2017	Additions	Closed projects and disposals, net	2018
Depreciable assets:				
Buildings and improvements	\$ 507,337	\$ 21,760	\$ (6)	\$ 529,091
Movable equipment	318,026	25,513	(10,136)	333,403
	<u>825,363</u>	<u>47,273</u>	<u>(10,142)</u>	<u>862,494</u>
Less accumulated depreciation:				
Buildings and improvements	(220,178)	(16,175)	-	(236,353)
Movable equipment	(225,312)	(30,471)	9,450	(246,333)
	<u>(445,490)</u>	<u>(46,646)</u>	<u>9,450</u>	<u>(482,686)</u>
Non-depreciable assets:				
Land	2,282	28	-	2,310
Construction-in-progress	27,485	27,297	(22,137)	32,645
Capital assets, net	<u>\$ 409,640</u>	<u>\$ 27,952</u>	<u>\$ (22,829)</u>	<u>\$ 414,763</u>

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

(4) Long-Term Obligations

The Hospital was constructed and substantially equipped by the State University Construction Fund as agent for the New York State Housing Finance Agency. The Dormitory Authority of the State of New York (DASNY) issues general obligation bonds, a portion of which is used to finance the construction projects of the Hospital as well as other SUNY institutions and State related projects. Certain amounts of the bonds sold (Series 1993A through Series 2019B) have been assigned to the Hospital from which certain amounts have been expended. General obligation bonds are primarily termed at thirty years, payable in semi-annual installments including interest ranging between 1.3% and 4.5%. Debt covenants on bond obligations are the responsibility of the State and are measured at the State level.

As of December 31, 2019 and 2018, outstanding bond and other bond related long-term debt activity was as follows:

	<u>2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>2019</u>
New York State:				
General obligation bonds	\$ 287,798	\$ 15,028	\$ (8,523)	\$ 294,303
Plus original issue premium	8,099	1,779	(471)	9,407
Less current portion	<u>(3,983)</u>	<u>(4,723)</u>	<u>3,983</u>	<u>(4,723)</u>
	<u>\$ 291,914</u>	<u>\$ 12,084</u>	<u>\$ (5,011)</u>	<u>\$ 298,987</u>
	<u>2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>2018</u>
New York State:				
General obligation bonds	\$ 277,874	\$ 18,963	\$ (9,039)	\$ 287,798
Plus original issue premium	7,857	584	(342)	8,099
Less current portion	<u>(5,767)</u>	<u>-</u>	<u>1,784</u>	<u>(3,983)</u>
	<u>\$ 279,964</u>	<u>\$ 19,547</u>	<u>\$ (7,597)</u>	<u>\$ 291,914</u>

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

The Hospital's principal and interest requirements based on outstanding bonds and long-term debt as of December 31, 2019 are as follows:

Year(s) ending December 31:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 4,723	\$ 14,030	\$ 18,753
2021	12,021	13,775	25,796
2022	16,501	13,076	29,577
2023	9,538	12,169	21,707
2024	13,202	11,353	24,555
2025 - 2029	66,509	40,225	106,734
2030 - 2034	59,777	25,184	84,961
2035 - 2039	62,976	17,427	80,403
2040 - 2045	37,378	8,178	45,556
2046 - 2048	11,678	1,148	12,826
	<u>\$ 294,303</u>	<u>\$ 156,565</u>	<u>\$ 450,868</u>

The Hospital, in conjunction with DASNY and commercial lenders, participates in the DASNY's Tax-Exempt Equipment Leasing Program ("TELP") for financing equipment. Capital leases are issued through a third party, and the Hospital is responsible for payments of principal, and interest, ranging from 1.23% - 2.49%. Capital lease obligations are collateralized by the related equipment.

Capital lease obligations consisted of the following at December 31, 2019 and 2018:

	<u>2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>2019</u>
Capital leases	\$ 42,881	\$ 23,200	\$ (19,573)	\$ 46,508
Less current portion	<u>(17,381)</u>	<u>-</u>	<u>1,640</u>	<u>(15,741)</u>
	<u>\$ 25,500</u>	<u>\$ 23,200</u>	<u>\$ (17,933)</u>	<u>\$ 30,767</u>
	<u>2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>2018</u>
Capital leases	\$ 64,295	\$ -	\$ (21,414)	\$ 42,881
Less current portion	<u>(21,414)</u>	<u>-</u>	<u>4,033</u>	<u>(17,381)</u>
	<u>\$ 42,881</u>	<u>\$ -</u>	<u>\$ (17,381)</u>	<u>\$ 25,500</u>

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

A summary of future minimum lease principal and interest payments under capital leases as of December 31, 2019 is as follows:

Year ending December 31:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 15,741	\$ 830	\$ 16,571
2021	14,014	567	14,581
2022	9,489	329	9,818
2023	4,813	151	4,964
2024	<u>2,451</u>	<u>31</u>	<u>2,482</u>
 Total minimum lease payments	 <u>\$ 46,508</u>	 <u>\$ 1,908</u>	 <u>\$ 48,416</u>

Under terms of the leases, costs associated with the maintenance and operation of the leased equipment are the responsibility of the Hospital.

A schedule of changes in the Hospital's other long-term obligations for 2019 and 2018 is as follows:

	<u>January 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2019</u>	<u>Amounts due within one year</u>
Due to State of New York	\$ 20,781	\$ 15,897	\$ (12,771)	\$ 23,907	\$ 8,053
Due to State of New York – professional liability	133,391	1,677	-	135,068	3,650
Net pension liability	33,934	90,350	(36,400)	87,884	-
Accrued employee benefits	<u>72,165</u>	<u>944</u>	<u>(5,920)</u>	<u>67,189</u>	<u>44,004</u>
	<u>\$ 260,271</u>	<u>\$ 108,868</u>	<u>\$ (55,091)</u>	<u>\$ 314,048</u>	<u>\$ 55,707</u>
	<u>January 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2018</u>	<u>Amounts due within one year</u>
Due to State of New York	\$ 15,744	\$ 11,256	\$ (6,219)	\$ 20,781	\$ 15,165
Due to State of New York - professional liability	122,756	10,635	-	133,391	4,450
Net pension liability	99,968	64,515	(130,549)	33,934	-
Accrued employee benefits	<u>64,354</u>	<u>8,713</u>	<u>(902)</u>	<u>72,165</u>	<u>43,111</u>
	<u>\$ 302,822</u>	<u>\$ 95,119</u>	<u>\$ (137,670)</u>	<u>\$ 260,271</u>	<u>\$ 62,726</u>

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

(5) Commitments

A summary of future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of December 31, 2019 is as follows:

Year(s) ending December 31:		
2020	\$	11,172
2021		10,404
2022		6,760
2023		6,045
2024		5,750
2025 - 2029		7,210
2030 - 2034		237
2035 - 2039		<u>231</u>
Total minimum required lease payments	\$	<u><u>47,809</u></u>

Rental expense for operating leases for office space and equipment amounted to approximately \$10,705 and \$10,296 in 2019 and 2018, respectively.

The Hospital has certain long-term, unconditional purchase obligations and commitments for certain supplies. The aggregate amount of required payments under these various commitments at December 31, 2019 is as follows:

Year ending December 31:		
2020	\$	6,430
2021		5,231
2022		3,125
2023		1,227
2024		<u>287</u>
Total purchase obligations	\$	<u><u>16,300</u></u>

Supplies expense for these purchase commitments amounted to approximately \$6,442 and \$4,230 in 2019 and 2018, respectively.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

(6) Contingencies and Litigation

In the normal course of business, medical professional and other liability claims have been asserted against the Hospital by various claimants, and other claims may be asserted principally arising from services provided to patients in the past.

Records related to medical professional and other liability claims and litigation are maintained centrally by the State. All settlements in excess of insurance coverage and uninsured claims are paid from the adjustment and claims accounts in the State. The State is contingently liable in connection with claims and other legal actions involving the Hospital, including those currently in litigation arising in the normal course of Hospital activities. The Hospital does not carry professional liability insurance and, instead, the State administers these types of cases in the same manner as all other claims against the State involving Hospital activities in that any settlements of judgments and claims are paid by the State from an account established for this purpose.

The Hospital and UMU, at any given time, are involved in a number of legal actions and proceedings. A number of cases are pending against the State in the Court of Claims seeking damages in tort or contract cases involving the Hospital. Any settlements in excess of insurance coverage (for periods covered by insurance), and for claims after July 1, 1987 (where self-insurance is in place), including those relating to asserted and unasserted medical professional liability claims, would be paid directly from the judgment and claims account of the State.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations are subject to government review and interpretation as well as regulatory actions. Recently, government activity has increased with respect to investigations concerning possible violations by health care providers of fraud and abuse statutes and regulations.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

(7) Retirement Plans

The Hospital offers four state administered retirement plans: the New York State Employees' Retirement System ("ERS"); New York State Local Police and Fire Retirement System (PFRS); New York State Teachers' Retirement System ("TRS"); and an Optional Retirement Program (ORP). Obligations of employers and employees to contribute and benefits to employees under these plans are governed by the New York State Retirement and Social Security Law ("NYSRSSL") and Education Law and may only be amended by the Legislature with the Governor's approval. As set forth in the NYSRSSL, the Comptroller of the State of New York ("Comptroller") serves as sole trustee and administrative head of the various plans. The Comptroller shall adopt and may amend rules and regulations for the control of the funds. The Hospital also administers a single-employer defined benefit plan for former employees of CGH (CGH Plan).

New York State Employees' Retirement System (ERS)

ERS is a cost-sharing, multiple-employer, defined benefit public plan administered by the State Comptroller. The Hospital reports the net pension liability for employees of the Hospital that participate in the ERS pension plan.

The plan offers a wide range of programs and benefits. ERS benefits vary based on the date of membership, years of credited service and final average salary, vesting of retirement benefits, death and disability benefits, and optional methods of benefit payments. ERS provides a permanent annual cost-of-living increase to both current and future retired members meeting certain eligibility requirements. Participating employers are required under law to contribute to these plans at an actuarially determined rate. For ERS this rate is determined annually by the State Comptroller. The average contribution rate for the plan fiscal years ended March 31, 2019 and 2018 was approximately 14.9% and 15.3%, respectively, of payroll.

ERS provides retirement benefits as well as death and disability benefits through a range of programs. For those members joining prior to January 1, 2010 benefits generally vest after five years of credited service. For those joining after January 1, 2010, benefits generally vest after 10 years of credited service. The NYSRSSL provides that all participating employers in ERS are jointly and severally liable for any actuarial unfunded amounts. Such amounts are collected through annual billings to all participating employers. Employees who joined ERS after July 27, 1976 and before January 1, 2010 and have less than ten years of service or membership are required to contribute 3.00% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012 are required to contribute 3.50% of their annual salary for their entire working career. Those joining on or after April 1, 2012 are required to contribute between 3.00% and 6.00%, dependent upon their salary, for their entire working career. Employee contributions are deducted from their salaries and remitted on a current basis to ERS.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

For ERS, the long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to the expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class as well as historical investment data and plan performance. In addition, the projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from participating employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. For 2019 and 2018, ERS used a discount rate of 7.0%. The total contributions made to the ERS Plan during 2019 and 2018 was approximately \$34,000 and \$32,000, respectively.

The Hospital recognized a net pension liability of approximately \$74,500 and \$32,300 for its proportionate share of the ERS net pension liability at December 31, 2019 and 2018, respectively. The Hospital's proportionate share of the net pension liability was determined consistent with the manner in which contributions to the pension plan are determined and was based on the ratio of the Hospital's total projected long-term contribution effort to the total ERS projected long-term contribution effort from all employers.

The net pension liability at December 31, 2019 was measured as of March 31, 2019, and was determined by an actuarial valuation as of April 1, 2018, with update procedures used to roll forward the total pension liability to March 31, 2019. The net pension liability at December 31, 2018 was measured as of March 31, 2018, and was determined by an actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018. The proportionate share of the net pension liability for ERS was approximately 1.05% measured at March 31, 2019 compared to approximately 1.00% measured at March 31, 2018.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

For the years ended December 31, 2019 and 2018, the Hospital recognized pension expense related to ERS of approximately \$41,000 and \$33,000, respectively. At December 31, 2019 and 2018, the Hospital reported deferred outflows and deferred inflows of resources related to ERS from the following sources:

	2019		2018	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 14,668	\$ 5,000	\$ 11,535	\$ 9,532
Changes of assumptions	18,723	-	21,444	-
Net difference between projected and actual earnings on pension plan investments	-	19,117	-	45,746
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,607	17,475	3,427	17,255
Hospital contributions subsequent to the measurement date	33,858	-	31,673	-
	\$ 71,856	\$ 41,592	\$ 68,079	\$ 72,533

Amounts reported as deferred outflows of resources and deferred inflows of resources related to ERS pensions will be recognized in pension expense as follows:

2020	\$ 10,097
2021	(18,474)
2022	(3,894)
2023	8,677

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

The actuarial valuation as of April 1, 2018, with update procedures used to roll forward the total pension liability to March 31, 2019, and the actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018, included the following actuarial assumptions.

Assumptions	2019	2018
Actuarial cost method	Entry age normal	Entry age normal
Inflation	2.5%	2.5%
Salary scale	4.2%	3.8%
Investment rate of return, including inflation	7% compounded annually, net of investment expenses	7% compounded annually, net of investment expenses
Cost of living adjustments	1.3% annually	1.3% annually
Decrements	Developed from each Plan's 2015 experience study for the period April 1, 2010 through March 31, 2015	Developed from each Plan's 2015 experience study for the period April 1, 2010 through March 31, 2015
Mortality improvement	Society of Actuaries Scale MP-2014	Society of Actuaries Scale MP-2014
Discount rate	7.0%	7.0%

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

Best estimates of arithmetic real rates of return for each major asset class included in the ERS target asset allocation as of March 31, 2019 and 2018 are as follows:

Asset class	2019		2018	
	Target allocation	Long-term expected real rate of return*	Target allocation	Long-term expected real rate of return*
Domestic equities	36%	4.55%	36%	4.55%
International equities	14	6.35	14	6.35
Private equities	10	7.50	10	7.50
Real estate	10	5.55	10	5.55
Absolute return strategies	2	3.75	2	3.75
Opportunistic portfolio	3	5.68	3	5.68
Real assets	3	5.29	3	5.29
Bonds and mortgages	17	1.31	17	1.31
Cash	1	(0.25)	1	(0.25)
Inflation-indexed bonds	4	1.25	4	1.25
Total	<u>100%</u>		<u>100%</u>	

*Real rates of return are net of a long-term inflation assumption of 2.5%.

Sensitivity of the net pension (liability) asset to changes in the discount rate. The following presents the net pension (liability) asset of the Hospital, calculated using the discount rate of 7.0% as well as what the Hospital's net pension (liability) asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.0%) and 1 percentage point higher (8.0%) than the current year rate:

	1% decrease (6.0%)	Current discount (7.0%)	1% increase (8.0%)
Net pension (liability) asset	\$ (325,664)	\$ (74,486)	\$ 136,522

The ERS retirement system issues a publicly available financial report that includes financial statements and supplementary information and provides detailed information about the pension plan's fiduciary net position. The report may be obtained at http://www.osc.state.ny.us/retire/about_us/financial_statements_index.php.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

Upstate Medical University Retirement Plan for Former Employees of Community General Hospital (CGH Plan)

The Hospital also administers a single-employer defined benefit plan, “The Upstate Medical University Retirement Plan for Former Employees of Community General Hospital (CGH)” (CGH Plan). This plan provides for retirement benefits for former employees of CGH, and can be amended subject to applicable collective bargaining and employment agreements. For those who opted out of this plan, benefit accruals were frozen. No new participants can enter this plan. The Hospital established a Pension Oversight Committee (Committee) which has the primary fiduciary responsibility for oversight of the CGH Plan. The Committee is permitted to invest plan assets pursuant to various provisions of State law, including the State Retirement and Social Security Law (RSSL).

The CGH Plan provides retirement, disability, termination and death benefits to plan participants and their beneficiaries. Pension benefits are generally based on the highest five-year average compensation of the final ten years of employment, and years of credited service as outlined in the plan. Covered employees with five or more years of service are entitled to a pension benefit beginning at normal retirement age (65). Participants with less than five years of service are not vested. Participants become fully vested after five years of service. The funding policy is to contribute enough to the plan to satisfy the annual required contributions (ARC) and the employer contributions. Employees do not contribute to the Plan.

For the CGH Plan, the long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to the expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class as well as historical investment data and plan performance. The projection of cash flows used to determine the discount rate assumed that contributions will be made at statutorily required rates, actuarially determined. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The CGH Plan used a discount rate of 6.50%. The total contributions made to the CGH Plan during 2019 and 2018 were approximately \$2,450 and \$1,130, respectively.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

At December 31, 2019 and 2018, the Hospital recognized a net pension liability of \$13,290 and \$1,455, respectively, based on the net pension liability as reported by the plan as follows:

	2019	2018
Total pension liability	\$ 106,873	\$ 105,136
Plan fiduciary net position	93,583	103,681
Net pension liability	\$ 13,290	\$ 1,455
Ratio of plan fiduciary net position to total pension liability	87.6%	98.6%

The total pension liability was measured as of January 1, 2019 and was determined by using an actuarial valuation as of January 1, 2019. For the years ended December 31, 2019 and 2018, the Hospital recognized pension expense of approximately \$2,969 and \$695 related to the CGH Plan.

At December 31, 2019 and 2018, the Hospital reported deferred outflows and deferred inflows of resources related to the CGH Plan from the following sources:

	2019		2018	
	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ 246	\$ -	\$ 786	\$ -
Changes of assumptions	-	121	-	288
Net difference between projected and actual earnings on pension plan investments	4,425	-	-	5,946
Hospital contributions subsequent to the measurement date	2,450	-	1,130	-
	\$ 7,121	\$ 121	\$ 1,916	\$ 6,234

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

At December 31, 2019 and 2018, approximately \$2,450 and \$1,130 was reported as deferred outflows of resources related to pensions resulting from the Hospital's contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended December 31, 2020 and 2019, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follow:

2020	\$	1,612
2021		122
2022		447
2023		2,369

Membership of the CGH Plan at January 1, 2019 totaled 1,390 members, comprised of 353 active members, 254 inactive vested members, and 783 retirees and beneficiaries currently receiving benefits. Membership of the CGH Plan at January 1, 2018 totaled 1,413 members, comprised of 378 active members, 272 inactive vested members, and 763 retirees and beneficiaries currently receiving benefits. The actuarial assumptions included in the January 1, 2019 and 2018 valuation included an inflation factor of 3.0%, projected salary increases of 3.5% and investment rate of return of 6.5%. Mortality rates were based on the sex-distinct RP- 2014 Mortality Tables for employees and healthy annuitants, adjusted back to 2006 using Scale MP-2014, and then projected with mortality improvements using Scale MP-2018 (Scale MP-2017 for January 1, 2018) on a fully generational basis.

Best estimates of arithmetic real rates of return for each major asset class included in the CGH Plan's target asset allocation as of December 31, 2019 and 2018 were as follows:

<u>Asset Class</u>	2019		2018	
	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
U.S. equities	50%	4.90%	50%	4.60%
Non-U.S. equities	15%	4.75%	15%	4.50%
Fixed income	30%	1.50%	30%	0.75%
Alternative (real assets)	5%	4.00%	5%	3.50%
	100%		100%	

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

Sensitivity of the net pension (liability) asset to changes in the discount rate: The following presents the net pension (liability) asset calculated using the discount rate of 6.5%, as well as what the net pension (liability) asset would be if it were calculated using a discount rate that is 1 percentage point lower (5.5%) or 1 percentage point higher (7.5%) than the current rate:

	1% decrease <u>(5.5%)</u>	Current discount <u>(6.5%)</u>	1% increase <u>(7.5%)</u>
Net pension liability	\$ (24,490)	\$ (13,290)	\$ (3,753)

The CGH Plan issues a stand-alone financial report on a calendar year basis (i.e., December 31) that includes disclosure about the elements of the pension plan’s basic financial statements. These financial statements are prepared on the accrual basis of accounting in accordance with GAAP, with investments reported at fair value and benefits recognized when due and payable in accordance with the terms of the CGH Plan. The pension plan fiduciary net position has been determined on the same basis used by the pension plan. The schedule of changes in the net pension liability for the CGH Plan are reflected in the Required Supplementary Information. The pension plan financial statements may be requested at FOIL@upstate.edu.

New York State Teachers’ Retirement System (TRS)

Hospital employees also participate in the New York State Teachers’ Retirement System (“TRS”). At December 31, 2019 and 2018, the Hospital recognized a net pension asset of approximately \$79 and \$44, respectively, for its proportionate share of the TRS plan. For the years ended December 31, 2019 and 2018, the Hospital recognized pension expense of approximately \$81 and \$24, respectively, related to TRS.

Each retirement system issues a publicly available financial report that includes financial statements and supplementary information. The TRS report may be obtained at <https://www.nystrs.org/Library/Publications/Annual-Reports>.

New York State Police and Fire Retirement System (PFRS)

Hospital employees also participate in the New York State Police and Fire Retirement System (“PFRS”). At December 31, 2019 and 2018, the Hospital recognized a net pension liability of approximately \$187 and \$184, respectively for its proportionate share of the PFRS plan. For the years ended December 31, 2019 and 2018, the Hospital recognized pension expense of approximately \$80 and \$153, related to PFRS.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

The PFRS retirement system issues a publicly available financial report that includes financial statements and supplementary information and provides detailed information about the pension plan's fiduciary net position. The report may be obtained at http://www.osc.state.ny.us/retire/about_us/financial_statements_index.php.

Optional Retirement Program

Hospital employees may also participate in an Optional Retirement Program (ORP) under IRS Section 401(a), which is a multiple-employer, defined contribution plan administered by separate vendors - TIAA-CREF, Fidelity, AIG, and VOYA. ORP employer and employee contributions are dictated by State law. The ORP provides benefits through annuity contracts and provides retirement and death benefits to those employees who elected to participate in an ORP. Benefits are determined by the amount of individual accumulations and the retirement income option selected. All benefits generally vest after the completion of one year of service if the employee is retained thereafter. Employer contributions are not remitted to an ORP plan until an employee is fully vested. As such there are no forfeitures reported by these plans if an employee is terminated prior to vesting. Employees who joined an ORP after July 27, 1976, and have less than ten years of service or membership are required to contribute 3.00% of their salary. Those joining on or after April 1, 2012 are required to contribute between 3.00% and 6.00%, dependent upon their salary, for their entire working career. Employer contributions range from 8.00% to 15.00% depending upon when the employee was hired.

Employee contributions are deducted from their salaries and remitted on a current basis to the respective ORP. Hospital employer contributions of \$9,100 and \$8,600 and employee contributions of \$1,900 and \$1,700 were made for the years ended December 31, 2019 and 2018, respectively. The Hospital recognized ORP pension expense of approximately \$9,200 and \$8,800 in 2019 and 2018, respectively. The ORP financial reports can be obtained by requesting them from their respective corporate offices.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

Other Post-Employment Benefits (OPEB)

The State, on behalf of the Hospital, provides health insurance coverage for eligible retired Hospital employees and their survivors as part of the New York State Health Insurance Program (“NYSHIP”). NYSHIP offers comprehensive benefits through various providers consisting of hospital, medical, mental health, substance abuse and prescription drug programs. The State administers NYSHIP and has the authority under Article XI of Civil Service Law to establish and amend the benefit provisions offered. NYSHIP is considered a single employer defined benefit plan offered by SUNY to its participants, is not a separate trust, and no assets are accumulated to satisfy premiums, and does not issue stand-alone financial statements. SUNY recognizes OPEB expenses on an accrual basis and allocates OPEB costs to the Hospital. OPEB expense amounted to approximately \$15,400, \$14,600 and \$13,100 for 2019, 2018 and 2017, respectively, and is included in employee benefits in the statements of revenues, expenses and changes in net position.

The State’s policy is that the State/SUNY is responsible for recording the actuarially determined liability under GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* and therefore the Hospital has not recorded a liability in the accompanying financial statements.

(8) Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

The carrying amounts reported in the balance sheet of the Hospital for cash and cash held by the State, assets whose use is limited, accounts receivable, amounts due to/from third-party payors, amounts due to/from State of New York, accounts payable and accrued expenses approximate their fair value.

DASNY issues bonds on behalf of the Hospital. DASNY has numerous separate maturities of bonds which would have to be separately valued, and, secondly, the unique circumstances affecting the State make it impractical to estimate the fair value of bonds. Additionally, considering the restrictive nature of the bond issuer, it is management’s opinion that such disclosure would not enhance the usefulness of the financial statements.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

(9) Coronavirus Pandemic

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 pandemic continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Hospital’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global and local situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. The COVID-19 pandemic has resulted in a substantial reduction in the number of inpatient admissions, elective surgeries, physician office visits and outpatient volumes at the Hospital’s facilities due to restrictive measures mandated by New York State such as cancellation of elective surgeries and procedures, quarantines and shelter-in-place orders, as well as general concerns related to the risk of contracting COVID-19 from interacting with the healthcare system. The Hospital believes that certain of these patient volume declines reflect a deferral of healthcare services utilization to a later period, rather than a permanent reduction on demand for its services. On April 29, 2020, New York State lifted the restriction on the performance of elective surgeries and procedures if certain criteria are met within the county the Hospital operates.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted. The CARES Act is an approximate \$2 trillion emergency economic stimulus package passed in response to the COVID-19 pandemic. The CARES Act includes broad sweeping provisions including direct financial assistance to Americans in the form of one-time payments to individuals; aid to small businesses in the form of loans and grants; efforts to stabilize the U.S. economy and keep Americans employed in general; and support for healthcare professionals, patients and hospitals. The CARES Act includes provisions providing flexibility and financial resources to healthcare providers during this public health emergency. The CARES Act provides \$100 billion in funding to support public entities, Medicare or Medicaid enrolled suppliers and providers, and for-profit and not-for-profit entities specified by the U.S. Department of Health and Human Services that provide diagnoses, testing, or care for COVID-19 patients. The funding, to be included in the Public Health and Social Services Emergency Fund (Provider Relief Fund) that is administered by the Assistant Secretary for Preparedness and Response, is intended to reimburse providers for a portion of healthcare related expenses or lost revenues that are attributable to the COVID-19 pandemic. On April 24, 2020, the Paycheck Protection Program and Health Care Enhancement Act was enacted which appropriated an additional \$75 billion to the Provider Relief Fund. During April and May 2020, the Hospital received approximately \$20,405 from the Provider Relief Fund.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Notes to Financial Statements

(in thousands of dollars)

(9) Coronavirus Pandemic, Continued

The CARES Act also expanded the Centers for Medicare & Medicaid Services (CMS) Accelerated and Advance Payment Program to a broader group of Medicare Part A providers and Part B suppliers. In April 2020, the Hospital requested and received an advance of approximately \$79,500 through the Accelerated and Advance Payment Program. CMS will begin recouping the advance over a one year period beginning in August 2020 through the Hospital's Medicare claim payments.

The CARES Act allowed the Hospital to defer the employer's share of social security payroll taxes between March 27, 2020 and December 31, 2020. The social security employer tax deferral for the Hospital is estimated to total approximately \$17,700. The deferred amounts need to be repaid in two installments: (1) 50% due December 31, 2021 and (2) the remaining 50% due December 31, 2022.

Given the general necessity of the healthcare services the Hospital provides, the Hospital anticipates resumption of historically normal activity in the future; however, there is no assurance that this will occur. While the Hospital expects these reductions to be temporary, if they continue, they will negatively impact the Hospital's patient service revenue, its results of operations, financial condition and liquidity in 2020.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Required Supplementary Information - Schedule of the Hospital's
Proportionate Share of the ERS Net Pension Liability

(Unaudited)

(Amounts in millions)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>Proportion of the net pension liability</i>	1.05%	1.00%	0.95%	0.91%	0.89%
<i>Proportionate share of the net pension liability</i>	\$ 74.5	\$ 32.3	\$ 89.1	\$ 146.0	\$ 30.3
<i>Covered-employee payroll</i>	\$ 268.2	\$ 245.1	\$ 230.3	\$ 211.9	\$ 193.7
<i>Proportionate share of the net pension liability as a % of its covered payroll</i>	27.8%	13.2%	38.7%	68.9%	15.6%
<i>Pension plan's fiduciary net position as a % of the total pension liability</i>	96.3%	98.2%	94.7%	90.7%	97.9%

Changes in benefit terms. There were no significant legislative changes in benefits from the April 1, 2018 and 2017 actuarial valuations.

*Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.*

See accompanying independent auditor's report.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Required Supplementary Information - Schedule of Employer Contributions
for the ERS Plan

(Unaudited)

(Amounts in millions)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 33.9	\$ 31.0	\$ 32.6	\$ 31.5	\$ 33.1
Contributions in relation to the contractually required contribution	\$ 33.9	\$ 31.0	\$ 32.6	\$ 31.5	\$ 33.1
Contribution deficiency	-	-	-	-	-
Covered-employee payroll for fiscal year ended June 30	\$ 268.2	\$ 245.1	\$ 230.3	\$ 211.9	\$ 193.7
Contribution as a percentage of covered-employee payroll	12.6%	12.6%	14.2%	15.4%	16.5%

*Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.*

See accompanying independent auditor's report.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Required Supplementary Information - Schedule of Changes in the Net Pension
Liability and Related Ratios for the CGH Plan

(Unaudited)

(Amounts in millions)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability:					
Service cost	\$ 0.6	\$ 0.6	\$ 0.7	\$ 0.8	0.9
Interest	6.7	6.6	6.6	6.5	5.9
Changes of assumptions	(0.3)	(0.7)	(1.4)	-	5.8
Difference between expected and actual experience	0.6	1.8	0.3	1.1	0.4
Benefit payments	<u>(5.8)</u>	<u>(9.2)</u>	<u>(4.9)</u>	<u>(7.0)</u>	<u>(3.8)</u>
Net change in total pension liability	1.8	(0.9)	1.3	1.4	9.2
Total pension liability, beginning	<u>105.0</u>	<u>105.9</u>	<u>104.6</u>	<u>103.2</u>	<u>94.0</u>
Total pension liability, ending (a)	<u>106.8</u>	<u>105.0</u>	<u>105.9</u>	<u>104.6</u>	<u>103.2</u>
Plan fiduciary net position:					
Employer contributions	1.1	2.0	2.8	2.0	3.5
Net investment income	(5.2)	15.6	7.4	(0.7)	5.9
Benefit payments	(5.8)	(9.2)	(4.9)	(7.0)	(3.8)
Administrative expenses	<u>(0.2)</u>	<u>(0.2)</u>	<u>(0.1)</u>	<u>(0.2)</u>	<u>(0.1)</u>
Net change in Plan fiduciary net position	(10.1)	8.2	5.2	(5.9)	5.5
Plan fiduciary net position, beginning	<u>103.6</u>	<u>95.4</u>	<u>90.2</u>	<u>96.1</u>	<u>90.6</u>
Plan fiduciary net position, ending (b)	<u>93.5</u>	<u>103.6</u>	<u>95.4</u>	<u>90.2</u>	<u>96.1</u>
Net pension liability, ending (a) - (b)	<u>\$ 13.3</u>	<u>\$ 1.4</u>	<u>\$ 10.5</u>	<u>\$ 14.4</u>	<u>7.1</u>
Ratio of Plan fiduciary net position to total pension liability	87.6%	98.6%	90.1%	86.3%	93.0%
Covered-employee payroll	\$ 24.3	\$ 25.5	\$ 27.3	\$ 29.9	33.6
Net pension liability as a percentage of covered-employee payroll	54.8%	5.7%	38.4%	48.0%	21.3%

*Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.*

See accompanying independent auditor's report.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Required Supplementary Information - Schedule of Employer Contributions for the CGH Plan

(Unaudited)

(Amounts in millions)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution (1) \$	1.1	\$ 2.0	\$ 2.6	\$ 1.9	\$ 1.5	\$ 2.6	3.0	1.2
Contributions in relation to the actuarial determined contribution (2)	<u>1.1</u>	<u>2.0</u>	<u>2.8</u>	<u>2.0</u>	<u>3.0</u>	<u>2.6</u>	<u>3.0</u>	<u>1.2</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0.2</u>	<u>\$ 0.1</u>	<u>\$ 1.5</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>
Covered-employee payroll (3)	\$ 24.3	\$ 25.5	\$ 27.3	\$ 29.9	\$ 33.6	\$ 36.0	16.0 **	21.9 *
Contribution as a percentage of covered-employee payroll	4.66%	7.92%	10.24%	6.76%	9.02%	7.14%	18.57%	5.44%

* Period from January 1, 2011 through July 6, 2011

** Period from July 7, 2011 through December 31, 2011

- (1) The actuarially determined contribution includes normal costs, adjustments made to record the reconciliation of projected salary to actual salary and miscellaneous accounting adjustments.
- (2) The contributions in relation to the actuarially determined contribution reflects actual payments.
- (3) Covered-employee payroll represents pensionable payroll at the end of each Plan year. It is not practicable to obtain covered employee payroll amounts at the end of each fiscal year.

*Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.*

See accompanying independent auditor's report.

**UNIVERSITY HOSPITAL OF THE STATE UNIVERSITY OF
NEW YORK UPSTATE MEDICAL UNIVERSITY**

Required Supplementary Information - Notes to Required Supplementary Information
for the CGH Plan

(Unaudited)

Changes in benefit terms. There were no significant legislative changes in benefits for the January 1, 2019 actuarial valuation.

Changes in assumptions. The actuarial assumptions for the mortality basis used for the January 1, 2019 actuarial valuation were changed from the RP-2014 Mortality Tables by gender with fully generational improvements using Scale MP-2017 to the RP-2014 Mortality Tables, by gender, with fully generational improvements using Scale MP-2018.

Methods and assumptions used in calculations of actuarially determined contributions. The January 1, 2019 actuarial valuation determines the employer rates for contributions payable in 2019. The following actuarial methods and assumptions were used:

Amortization method	Level dollar, 20 year closed
Remaining amortization period	12.5 years
Asset valuation method	Market value
Inflation	3.0%
Compensation	3.5% increases, limited to a maximum of \$275,000
Investment rate of return	6.5%
Termination	1992 Vaughn Select and Ultimate Table

See accompanying independent auditor's report.