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

Cedars-Sinai Medical Center
Year Ended June 30, 2017
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Cedars-Sinai Medical Center

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

Year Ended June 30, 2017

Contents

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Report of Independent Auditors

Management and the Board of Directors
Cedars-Sinai Medical Center

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Cedars-Sinai Medical Center (the Medical Center), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cedars-Sinai Medical Center at June 30, 2017 and 2016, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated October 20, 2017, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

Ernst + Young LLP

October 20, 2017

Cedars-Sinai Medical Center

Consolidated Balance Sheets

(Dollar Amounts Expressed in Thousands)

	June 30 2017	June 30 2016
Assets		
Current assets:		
Cash and cash equivalents	**$ 278,761**	$ 694,571
Short-term investments	**998,208**	547,122
Board-designated assets	**774,558**	662,573
Current portion of assets limited as to use:		
Funds held by trustee	**1,026**	19,953
Pledge receivable	**29,277**	38,656
Patient accounts receivable, less allowance for uncollectible accounts of $160,116 and $172,054, in 2017 and 2016, respectively	**589,961**	581,527
Due from third-party payers	**13,324**	11,140
Due from parent	**1,000**	–
Inventory	**33,233**	32,692
Prepaid expenses and other assets	**116,502**	125,400
Total current assets	**2,835,850**	2,713,634
Assets limited as to use:		
Investments	**516,350**	473,412
Pledge receivable, less current portion	**90,862**	93,122
Funds held by trustee	**120,754**	–
Other	**–**	6,800
	727,966	573,334
Property and equipment, net	**2,263,735**	1,901,551
Other assets	**406,489**	353,632
Total assets	**$ 6,234,040**	$ 5,542,151

Cedars-Sinai Medical Center

Consolidated Balance Sheets (continued)

(Dollar Amounts Expressed in Thousands)

	June 30	
	2017	**2016**
Liabilities and net assets		
Current liabilities:		
Accounts payable and other accrued liabilities	**$ 304,057**	$ 334,559
Accrued payroll and related liabilities	**292,963**	308,157
Current maturities of long-term debt	**43,581**	30,643
Total current liabilities	**640,601**	673,359
Long-term debt, less current maturities	**1,263,799**	952,128
Accrued workers’ compensation and malpractice insurance claims, less current portion	**137,956**	135,138
Other liabilities	**73,507**	124,499
Net assets:		
Unrestricted:		
Controlling interests	**3,411,361**	2,981,506
Non-controlling interests	**54,020**	53,039
Temporarily restricted	**343,476**	327,057
Permanently restricted	**309,320**	295,425
Total net assets	**4,118,177**	3,657,027
Total liabilities and net assets	**$ 6,234,040**	$ 5,542,151

See accompanying notes.

Cedars-Sinai Medical Center

Consolidated Statements of Operations and Changes in Net Assets

(Dollar Amounts Expressed in Thousands)

	Year Ended June 30	
	2017	**2016**
Unrestricted net assets activity		
Unrestricted revenues, gains, and other support:		
Net patient service revenue	**$ 3,455,139**	$ 3,353,365
Provision for bad debts	**(49,924)**	(33,892)
Net patient service revenue less provision for bad debts	**3,405,215**	3,319,473
Premium revenues	**99,540**	90,002
Other operating revenues	**108,253**	114,656
Net assets released from restrictions	**175,240**	158,015
Total unrestricted revenues, gains, and other support	**3,788,248**	3,682,146
Expenses:		
Salaries and related costs	**1,838,293**	1,719,042
Professional fees	**238,027**	215,466
Materials, supplies, and other	**1,259,685**	1,209,358
Interest	**33,014**	36,221
Depreciation and amortization	**170,017**	167,603
Total expenses	**3,539,036**	3,347,690
Income from operations before extinguishment of debt	**249,212**	334,456
(Loss) gain on extinguishment of debt	**(42,143)**	6,144
Income from operations	**207,069**	340,600
Investment gain (loss)	**172,339**	(84,060)
Gain (loss) from investment in joint ventures	**726**	(3,411)
Excess of revenues over expenses	**380,134**	253,129
Less excess of revenues over expenses attributable to non-controlling interests	**(2,385)**	(2,412)
Excess of revenues over expenses attributable to the Corporation	**$ 377,749**	$ 250,717

Cedars-Sinai Medical Center

Consolidated Statements of Operations and Changes in Net Assets (continued)

(Dollar Amounts Expressed in Thousands)

	Year Ended June 30 2017	Year Ended June 30 2016
Unrestricted net assets activity (continued)		
Unrestricted controlling net assets activity:		
Excess of revenues over expenses attributable to the Corporation	**$ 377,749**	$ 250,717
Net assets released from restriction related to property and equipment	**2,637**	1,564
Change in pension liability	**49,469**	(65,899)
Increase in unrestricted net assets attributable to the Corporation	**429,855**	186,382
Unrestricted non-controlling net assets activity:		
Non-controlling interests from acquisitions	**1,062**	16,311
Excess of revenues over expenses attributable to non-controlling interests	**2,385**	2,412
Distributions to non-controlling interests	**(2,466)**	(1,301)
Increase in unrestricted net assets attributable to non-controlling interests	**981**	17,422
Increase in unrestricted net assets	**430,836**	203,804
Temporarily restricted net assets activity		
Contributions and grants	**182,741**	160,136
Investment income	**11,555**	13,778
Net assets released from restrictions	**(177,877)**	(159,579)
Increase in temporarily restricted net assets	**16,419**	14,335
Permanently restricted net assets activity		
Contributions	**13,895**	12,777
Increase in permanently restricted net assets	**13,895**	12,777
Increase in net assets	**461,150**	230,916
Net assets at beginning of year	**3,657,027**	3,426,111
Net assets at end of year	**$ 4,118,177**	$ 3,657,027

See accompanying notes.

Cedars-Sinai Medical Center

Consolidated Statements of Cash Flows

(Dollar Amounts Expressed in Thousands)

	Year Ended June 30	
	2017	**2016**
Operating activities		
Increase in net assets	**$ 461,150**	$ 230,916
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	**170,017**	167,603
Loss (gain) on extinguishment of debt	**42,143**	(6,144)
Amortization of deferred financing costs and bond premiums	**(10,422)**	(7,319)
Provision for bad debts	**49,924**	33,892
Restricted contributions	**(19,832)**	(16,455)
Non-controlling interests from acquisitions	**(1,062)**	(16,311)
Unrealized (gains) losses on investments	**(102,549)**	112,392
Changes in operating assets and liabilities:		
Patient accounts receivable	**(58,358)**	(63,648)
Due from third-party payers	**(2,184)**	(21,540)
Due from parent	**(1,000)**	–
Inventory, prepaid expenses, and other current assets	**8,357**	7,997
Assets limited as to use	**37,366**	2,066
Accounts payable and other accrued liabilities	**(42,780)**	12,175
Accrued payroll and related liabilities	**(15,194)**	98,603
Other long-term liabilities	**(48,174)**	23,113
Net cash provided by operating activities before net purchases of trading investments	**467,402**	557,340
Net (purchases) sales of trading investments	**(525,183)**	156,819
Net cash (used in) provided by operating activities	**(57,781)**	714,159
Investing activities		
Expenditures for property and equipment	**(517,553)**	(178,498)
Acquisition of property held for future use	**(41,832)**	(3,922)
Purchase consideration for acquisitions	**(1,393)**	(112,900)
Increase in assets held by trustee	**(120,754)**	–
Increase in other assets	**(9,783)**	(28,693)
Sales of alternative investments	**86,723**	79,148
Purchases of alternative investments	**(65,000)**	(96,784)
Net cash used in investing activities	**(669,592)**	(341,648)

Cedars-Sinai Medical Center

Consolidated Statements of Cash Flows (continued)

(Dollar Amounts Expressed in Thousands)

	Year Ended June 30	
	2017	**2016**
Financing activities		
Principal payments on long-term debt	**$ (24,300)**	$ (67,614)
Proceeds from issuance of long term debt, net cost of issuance	**751,181**	436,040
Repayment of debt upon extinguishment	**(435,150)**	(436,635)
Debt issued for the purchase of property interest	**–**	3,667
Restricted contributions	**19,832**	16,455
Net cash provided by (used in) in financing activities	**311,563**	(48,087)
(Decrease) increase in cash and cash equivalents	**(415,810)**	324,424
Cash and cash equivalents – beginning of year	**694,571**	370,147
Cash and cash equivalents – end of year	**$ 278,761**	$ 694,571
Supplemental cash flow information		
Interest paid	**$ 47,245**	$ 50,704

The Corporation capitalized property and equipment of approximately $39,993 and $28,050 at June 30, 2017 and 2016, respectively, that had not been paid. The offsetting amount due was recorded on the consolidated balance sheets under accounts payable and other accrued liabilities.

See accompanying notes.

1. Summary of Significant Accounting Policies

Cedars-Sinai Medical Center, a California nonprofit, public benefit corporation (the Medical Center), is tax-exempt under the provisions of the Internal Revenue Code (the Code) and applicable provisions of the Franchise Tax Code of the state of California. The Medical Center owns and operates a hospital with 886 licensed beds in Los Angeles, California, and provides patient care, medical research, health education, and community service.

Cedars-Sinai Medical Care Foundation (the Foundation), a California nonprofit, public benefit corporation that operates, manages, and maintains a multi-specialty clinic, holds payer contracts and the assets of acquired physician and physician group practices and independent practice associations; and contracts for physician services pursuant to professional services agreements. The Foundation is tax-exempt under the provisions of the Code and applicable provisions of the Franchise Tax Code of the state of California. The Medical Center is the sole corporate member of the Foundation.

On September 1, 2015, the Medical Center acquired 100% of the stock of CFHS Holdings, Inc. (dba Marina Del Rey Hospital) and Centinela Freeman Holdings, Inc. CFHS Holdings, Inc., is a California nonprofit public benefit corporation, which owns and operates Marina Del Rey Hospital, a community hospital with 145 licensed beds. Centinela Freeman Holdings, Inc., a for-profit California corporation, owns the medical office building adjacent to Marina Del Rey Hospital, as well as the land underlying the hospital and the medical office building.

The accompanying consolidated financial statements include the accounts of the Medical Center and its affiliate or subsidiary organizations; (collectively, the Corporation). Where the Corporation has a majority voting interest, it consolidates the subsidiary's results and reflects the non-controlling interests in the performance indicator. All significant intercompany transactions and balances have been eliminated in consolidation.

In May 2017, Cedars-Sinai Medical Center announced plans for a formal affiliation with Torrance Memorial Medical Center, a general acute care, non-for-profit hospital with 649 licensed beds in Torrance, California. A new parent organization named Cedars-Sinai Health System was created as a result of the proposed affiliation. During 2017, the Corporation advanced $1,000 to Cedars-Sinai Health System, which is recorded as due from parent, to be used for organizational costs.

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Net Patient Service Revenues

The Corporation has agreements with third-party payers that provide for payments to the Corporation at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers.

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

(Dollar Amounts Expressed in Thousands)

1. Summary of Significant Accounting Policies (continued)

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

	Year Ended June 30	
	2017	**2016**
Medicare	**$ 859,980**	$ 801,938
Medi-Cal	**167,254**	173,465
HMO/PPO	**2,223,241**	2,206,459
Self-pay and other	**204,664**	171,503
Patient service revenue, net of contractual allowances and discounts	**3,455,139**	3,353,365
Provision for bad debts	**(49,924)**	(33,892)
Patient service revenue, net	**$ 3,405,215**	$ 3,319,473

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

During 2017 and 2016, the Corporation received information requiring changes in its estimates of the settlements due for certain open cost report years. Based on this information, adjustments to the prior cost report years increased net patient service revenues and operating income by $4,603 and $23,270 for the years ended June 30, 2017 and 2016, respectively.

1. Summary of Significant Accounting Policies (continued)

Medi-Cal Fee Program

As part of the American Recovery and Reinvestment Act economic stimulus package passed in 2009, Congress temporarily increased the Federal Medical Assistance Percentage (FMAP) for all states, allowing states to draw down increased federal dollars for hospitals that provide medical care for Medicaid patients. California hospitals organized to pursue this stimulus funding through the California Hospital Fee Program (the Program). Passed into law by the California state government and approved by the Centers for Medicare and Medicaid Services in fiscal 2012, the Program provided enhanced revenues related to provision of services to Medicaid patients, offset to a degree by the requirement to pay a fee (known as the Quality Assurance (QA) Fee) based on established rates applied to each hospital's historical patient days. In September 2012, the California state government passed into law a measure that extended this program for 30 months, from July 1, 2011 through December 31, 2013. Under these measures, the QA Fee in aggregate for the state served as the amount that was put up to draw on amounts under the FMAP program. The distribution of the amounts took the form of two components for the Corporation: an expense related to the QA Fee and revenues related to Medi-Cal business.

A new 36-month program (the New Program), from January 1, 2014 through December 31, 2016, was created and became effective on October 13, 2013. The QA Fees and supplemental payments of the New Program include fee-for-service and managed care components. The fee-for-service component of the QA Fees and supplemental payments was approved in December 2014 for all three years, while only a certain portion of the managed care component was approved as of June 30, 2017. Total QA Fees (recorded as materials, supplies, and other) incurred by the Corporation were $66,760 and $77,939 during fiscal 2017 and 2016, respectively, while revenue from the New Program (recorded as net patient service revenue) totaled $62,359 and $78,262 during fiscal 2017 and 2016, respectively. In connection with the program, the Corporation applied for a grant from the California Health Foundation & Trust related to future shortfalls from the New Program. The Corporation recorded $1,815 and $3,025 for this grant during fiscal 2017 and 2016, respectively.

Premium Revenues and Related Costs

The Foundation has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Foundation receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Foundation. Such payments are recorded as premium revenues.

1. Summary of Significant Accounting Policies (continued)

The costs of health services provided by other health care providers to the participants, including administrative costs and out-of-area or emergency services, are included in professional fees, and totaled approximately $39,951 and $37,442 for the years ended June 30, 2017 and 2016, respectively. Such costs are accrued in the period in which the services are provided based in part on estimates, including an accrual for services provided by others, but not reported to the Foundation.

Provision for Uncollectible Accounts

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

Charity Care

The Corporation provides charity care to patients who meet certain criteria under its financial assistance policy. This policy defines charity care as uncompensated services provided to patients who are deemed indigent and to patients who are uninsured. During the year ended June 30, 2017 and 2016, the Corporation incurred $38,265 and $16,252 in costs to provide charity care, respectively, which is calculated based on a ratio of cost to gross charges.

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include the excess of revenues over expenses, which is considered the performance indicator. Changes in unrestricted net assets, which are excluded from the excess of revenues over expenses, include contributions of long-lived assets (including assets acquired using contributions which, by donor restrictions, were to be used for the purposes of acquiring such assets) and changes in benefit plan liabilities.

1. Summary of Significant Accounting Policies (continued)

Inventory

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

Assets Held for Future Use

The Corporation has investments in real estate which is held for future use of $63,987 and $22,457 at June 30, 2017 and 2016, respectively, which is included in other assets.

Acquisitions

The accounting for acquisitions requires extensive use of estimates and judgments to measure the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed. Additionally, the Corporation determines whether an acquired entity is considered to be a business or a set of net assets, because the excess of the purchase price over the fair value of net assets acquired can only be recognized as goodwill in a business combination.

The Corporation routinely enters into purchase agreements with various health care providers and entities.

During the year ended June 30, 2017, the Medical Center recorded tangible assets (including working capital) of $653, intangible assets of $100, goodwill of $1,902, and noncontrolling interests of $1,062 as a result of an acquisition.

During the year ended June 30, 2016, the Medical Center acquired certain entities including a 100% voting interest in a business that owns and operates Marina Del Rey Hospital, a business that owns land and parking structures, and a business that owns a medical office building and its associated land for parking on September 1, 2015 and a controlling financial interest of 85% in an entity that through its subsidiaries owns and operates certain ambulatory surgery centers on May 2, 2016. The Medical Center has made a fair value determination of the acquired assets and assumed liabilities and approximately $31,960 in current assets, $105,352 in fixed assets, $16,670 in current liabilities, $30,006 in other liabilities including debt and capital leases, $16,311 in noncontrolling interests and $52,080 in goodwill were recorded with respect to these acquisitions.

At June 30, 2017 and 2015, goodwill, which is included in other assets, totaled $214,835 and $212,933, respectively.

(Dollar Amounts Expressed in Thousands)

1. Summary of Significant Accounting Policies (continued)

Care of the Poor and Community Benefit (Unaudited)

The Corporation's mission is to improve the health status of its community, regardless of the patient's ability to pay, including charity patients. The Corporation provides programs and activities that contribute to charity care, care of the poor, and community benefit. These programs and activities serve a majority of persons who are beneficiaries of Medi-Cal, and county, state, and federal programs for which the costs of providing the services are not fully reimbursed. Also included are activities that improve the community's health status, and educate or provide social services to the elderly and children. The Corporation's unreimbursed costs for care of the poor and community benefits were approximately 23.8% and 21.2% of total operating expenses for the years ended June 30, 2017 and 2016, respectively. The costs associated with these programs and activities are as follows:

	Year Ended June 30	
	2017	**2016**
Traditional charity care and uninsured patients (Category 1)	**$ 38,265**	$ 16,252
Unpaid cost of state programs (Category 2)	**89,647**	83,606
Unpaid cost of specialty government programs (Category 3)	**1,148**	1,628
Unpaid cost of federal programs (Category 4)	**403,809**	322,311
Research (Category 5)	**197,500**	178,105
Community benefit (Category 6)	**112,888**	110,454
Total community benefit	**843,257**	712,356
A portion of the above cost was supported by the help of:		
Federal, state, and local grants	**(71,856)**	(63,754)
Charitable giving	**(53,576)**	(38,249)
Community benefit, net of support by others	**$ 717,825**	$ 610,353

1. Summary of Significant Accounting Policies (continued)

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

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

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

Category 3: Unpaid Costs of Specialty Government Programs – also provides community benefit under such programs as the Veterans Administration, Los Angeles Police Department, Short Doyle, Proposition 99, and other programs to benefit the poor. This amount represents the unpaid cost of services provided to patients in these various programs.

If this community benefit was not provided, federal, state, or local governments would need to furnish these services.

Category 4: Unpaid Cost of Federal Programs – primarily benefits the elderly. This amount represents the unpaid cost of services provided to patients in the Medicare program and enrolled in HMO and PPO plans under contract with the Medicare program. Included in these amounts are $30,889 and $32,542 for the years ended June 30, 2017 and 2016, respectively, of unpaid cost of services provided to patients in the Medicare program who are also in the Medi-Cal program.

Category 5: Research – cost of providing translational and clinical research and studies on health care delivery. During the years ended June 30, 2017 and 2016, the Corporation received outside support for its research efforts totaling $125,432 and $102,003, respectively. Thus, for the years ended June 30, 2017 and 2016, the net cost incurred by the Corporation was $72,068 and $76,102, respectively.

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

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

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

Gifts of long-lived assets such as land, buildings, or equipment that do not contain explicit donor stipulations, which specify how the donated assets must be used, are reported as unrestricted support, and are excluded from excess of revenue over expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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

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

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

The Corporation accounts for the impairment and disposition of long-lived assets in accordance with ASC 360, *Property, Plant and Equipment Impairment or Disposal of Long-Lived Assets*. In accordance with ASC 360, long-lived assets to be held are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Corporation determined that no assets are impaired at June 30, 2017.

1. Summary of Significant Accounting Policies (continued)

Board-Designated Assets

Board-designated assets include investments designated by the Corporation's Board of Directors (the Board) for future capital expenditures, physician programs, academic programs, and fund raising. However, the Board retains control of these assets and will, at its discretion, and if necessary, use these assets for operating purposes. As a result, Board-designated assets are included in current assets.

Assets Limited as to Use

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

Investments

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

Investment income or loss on temporarily restricted net assets (including realized and unrealized gains and losses on investments, interest, and dividends) is reported as unrestricted net assets activity unless the income or loss is restricted by donor or law.

All of the Corporation's investments are invested in accordance with Board-approved policies, which include, among other matters, targeted investment returns balanced by diversification of the investment portfolio, establishment of credit risk parameters, and limitation in the amount of investment in any single instrument. As part of its investment policies and strategies, the Corporation's Investment Committee (the Investment Committee) meets periodically to review performance. At least annually, the Investment Committee reviews and formulates a specific investment and allocation plan. Any adjustments that are deemed necessary are based on specific criteria, i.e., the Corporation's necessary funding, obligations, expenses, and liquidity needs.

1. Summary of Significant Accounting Policies (continued)

Alternative Investments

Certain of the Corporation's investments are made through alternative investments, which include investments in limited partnerships and limited liability companies. The Corporation generally contracts with fund managers, who have full discretionary authority over investment decisions. The Corporation accounts for its ownership interests in the partnerships using the net asset value as a practical expedient for fair value. These investments provide the Corporation with a proportionate share of the entities' gains and losses, which are included in investment income on the accompanying consolidated statements of operations and changes in net assets. As of June 30, 2017 and 2016, these alternative investments comprised approximately 21% and 22%, respectively, of the Corporation's total cash, cash equivalents, and investments.

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

Medical Malpractice Insurance

The Corporation is self-insured for the first $3,000 in professional malpractice and general liability losses per occurrence effective October 1, 2005, and was self-insured for the first $2,000 effective October 1, 2004, and $1,000 for prior periods. The Corporation purchases excess insurance coverage resulting in total coverage of $200,000 per occurrence, insuring all employees, volunteers, and members of the medical faculty. Effective for the year beginning October 1, 2005, the insurance purchased was excess over an attachment point of $1,000 for each and every claim and another $2,000 per claim with a $10,000 annual aggregate. Effective October 1, 2013, the aggregate was raised to $15,000. Effective October 1, 2015, the aggregate was raised again to $17,000. The Corporation had no aggregate limit for the three years beginning October 1, 2002. Accruals for insured, uninsured claims, and claims incurred but not reported are estimated by an actuary based on the Corporation's claims experience. Such accruals, which totaled $64,513 and $61,081 at June 30, 2017 and 2016, respectively, are recorded using a 2.0% and 1.0% discount

1. Summary of Significant Accounting Policies (continued)

factor at June 30, 2017 and 2016, respectively. The basis for the rate is the risk-free rate of return at the end of each year and the estimated period over which claims will be settled. The accruals represent the total actuarially determined loss without reduction for the portion that is expected to be recoverable through insurance ($8,240 and $7,812 at June 30, 2017 and 2016, respectively). The expected amounts to be recovered through insurance are included in other assets on the accompanying consolidated balance sheets.

Workers' Compensation Insurance

The Corporation carries workers' compensation insurance insuring employees with a self-insured primary limit of $1,000 effective February 1, 2005, and decreasing amounts in earlier years. Accruals for insured, uninsured claims and claims incurred but not reported are estimated by an actuary based upon the Corporation's claims experience. Such accruals, which totaled $110,050 and $106,337 at June 30, 2017 and 2016, respectively, are recorded using a 2.0% and 1.3% discount factor at June 30, 2017 and 2016, respectively. The basis of the rate is the risk-free rate of return at the end of each year and the estimated period over which claims will be settled. The accruals represent the total actuarially determined loss without reduction for the portion that is expected to be recoverable through insurance ($20,720 and $21,607 at June 30, 2017 and 2016, respectively). The expected amounts to be recovered through insurance are included in other assets on the accompanying consolidated balance sheets.

Cash Equivalents

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

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give cash and indications of intentions to give are not recognized until the conditions are satisfied or removed. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported on the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The Corporation's consolidated balance sheets include the following financial instruments: cash and cash equivalents, investments, patient accounts receivable, accounts payable and other accrued liabilities, pension liabilities, and long-term obligations. The Corporation considers the carrying amounts of current assets and liabilities on the consolidated balance sheets to approximate the fair value of these financial instruments because of the relatively short period of time between origination of the instruments and their expected realization. Pledges receivable, accrued workers' compensation, malpractice insurance claims, and pension liabilities are recorded at their estimated present value using appropriate discount rates. Marketable securities are recorded at fair value based on quoted prices from recognized security exchanges and other methods, as further described in Note 5. Alternative investments are recorded at net asset value, which represents a practical expedient of fair value. Tax-exempt financings are carried at amortized cost. The fair value of tax-exempt financings is estimated based on current market rates, as further described in Note 3.

Income Taxes

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

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

The Corporation completed an analysis of its tax positions, in accordance with ASC 740, *Income Taxes*, and determined that there are no uncertain tax positions taken or expected to be taken. The Corporation has recognized no interest or penalties related to uncertain tax positions. The Corporation is subject to routine audits by the taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Corporation believes it is no longer subject to income tax examinations for years prior to 2013.

(Dollar Amounts Expressed in Thousands)

1. Summary of Significant Accounting Policies (continued)

Concentrations of Credit Risk

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

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

	June 30	
	2017	**2016**
Medicare	**16%**	14%
Medi-Cal	**2**	3
HMO/PPO	**82**	82
Self-pay and other	**–**	1
	100%	100%

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result of the ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective prospectively for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Corporation is currently evaluating the impact of this new standard on the consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

In January 2017, the FASB issued ASU 2017-02, *Not-for-Profit Entities – Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity,* which amends the consolidation guidance for not for profits (NFPs) in ASC 958-810 *Not-for-Profit Entities – Consolidation*. The standard addresses when an NFP limited partner should consolidate a for-profit limited partnership. ASU 2017-02 is effective for NFPs for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The Corporation does not believe this standard will have an impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, to clarify the definition of a business in ASC 805 *Business Combinations*. The amendments narrow the definition of a business and provide a framework that gives entities a basis for making reasonable judgments about whether a transaction involves an asset or a business. ASU 2017-01 is effective for annual periods beginning after December 15, 2017, including interim periods therein. The ASU must be applied prospectively on or after the effective date, and no disclosures for a change in accounting principle are required at transition. Early adoption is permitted for transactions (i.e., acquisitions or dispositions) that occurred before the issuance date or effective date of the standard if the transactions were not reported in financial statements that have been issued or made available for issuance. The Corporation is currently evaluating the impact of this new standard on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash,* which amends ASC 230 *Statement of Cash Flows* to add or clarify guidance on the classification and presentation of restricted cash on the statement of cash flows. The standard will require an entity to include in its cash and cash-equivalent balances on the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents as well as to disclose a reconciliation between the statement of financial position and the statement of cash flows when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, including interim periods therein. Early adoption is permitted. The Corporation is currently evaluating the impact of this new standard on the consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which amends the guidance in ASC 230 on the classification of certain cash receipts and payments on the statement of cash flows. The amendments will add or clarify guidance on various cash flow issues, including debt prepayment or debt extinguishment costs as well as distributions received from equity method investees. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Corporation is currently evaluating the impact of this new standard on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-For-Profit Entities*, which will require not-for-profit entities to revise financial presentation to include net asset classifications, provide quantitative and qualitative information as to available resources and management of liquidity and liquidity risk, information on investment expenses and returns, and the presentation of operating cash flows. The standard aims to help the reader of the financial statements to better understand the financial position of the organization and enhance consistency among similar organizations. ASU 2016-14 is effective for annual periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The Corporation is currently evaluating the impact of this new standard on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, *(Topic 842): Amendments to the FASB Accounting Standards Codification*. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The amendments in this update are effective for fiscal years (and interim reporting periods within fiscal years) beginning after December 15, 2018. Early adoption of the amendments is permitted for all entities. The Corporation is currently evaluating the impact of this new standard on the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, a new accounting standard that amends the accounting and disclosures of financial instruments, including a provision that requires equity investments (except for investments accounted for under the equity method of accounting) to be measured at fair value, with changes in fair value recognized in current earnings. The new standard is effective for interim and annual periods beginning after December 15, 2018. The Corporation is currently evaluating the impact of this new standard on the consolidated financial statements.

(Dollar Amounts Expressed in Thousands)

1. Summary of Significant Accounting Policies (continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* and in August 2015 the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 requires the entity to recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services, effective for periods beginning after December 15, 2017. In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606*, *Revenue from Contracts with Customers*, which clarifies rather than changes the FASB's new revenue standard, ASU 2014-09. The effective date and transition requirements in ASU 2016-20 are the same as those in the new revenue standard. The Corporation is currently evaluating the impact of this new standard on the consolidated financial statements.

2. Property and Equipment

Property and equipment consist of the following:

	June 30	
	2017	**2016**
Land	**$ 179,082**	$ 122,082
Buildings and land improvements	**2,310,021**	2,020,410
Equipment	**453,095**	398,899
Software and software implementation costs	**573,630**	504,831
	3,515,828	3,046,222
Less accumulated depreciation and amortization	**1,574,147**	1,400,244
	1,941,681	1,645,978
Construction-in-progress	**322,054**	255,573
	$ 2,263,735	$ 1,901,551

Depreciation and amortization expense on property and equipment was $169,582 and $166,807 for the years ended June 30, 2017 and 2016, respectively.

(Dollar Amounts Expressed in Thousands)

2. Property and Equipment (continued)

Construction-in-progress consists of the following:

	June 30	
	2017	**2016**
Buildings and land improvements	**$ 225,068**	$ 139,567
Equipment	**4,994**	7,382
Software and software implementation costs	**79,660**	97,964
Capitalized interest	**12,332**	10,660
	$ 322,054	$ 255,573

If each project included in construction-in-progress were placed in service at June 30, 2017, at the costs capitalized at that date, the Corporation's annual depreciation would increase by approximately $22,964 (unaudited). This estimate of incremental annual depreciation is subject to change as additional costs are incurred to complete these projects. The Corporation estimates that it will cost approximately $420,630 (unaudited) to complete the projects currently under construction.

Software and software implementation costs include the following:

	2017	**2016**
Cost including CIP	**$ 656,824**	$ 606,361
Less accumulated amortization	**409,689**	351,416
	$ 247,135	$ 254,945
Amortization expense during the year	**$ 59,508**	$ 63,523
Weighted average life in years	**6.6**	6.7

(Dollar Amounts Expressed in Thousands)

2. Property and Equipment (continued)

Estimated future amortization expense:		
2018	$	63,356
2019		53,553
2020		40,691
2021		33,854
2022		26,604
Thereafter		29,077
	$	247,135

Software and software implementation costs include the cost of completed projects and the cost and capitalized interest related to projects in the process of implementation. Estimated future amortization includes the amortization of projects in the process of implementation, assuming the cost at June 30, 2017, is the cost of the completed project.

(Dollar Amounts Expressed in Thousands)

3. Long-Term Debt

Long-term debt issued and outstanding as of the following:

	June 30 2017	June 30 2016
$535,000 Revenue Bond, Series 2009; principal payments of $1,045 to $68,860 are due annually through 2039; interest is payable semiannually at 3.5% to 5.0%; the amount reported includes unamortized premiums of $4,331 and unamortized deferred financing costs of $3,921 at June 30, 2016; paid down callable bonds in fiscal year 2017	**$ 25,300**	$ 426,270
$148,400 Revenue Bond, Series 2011; principal payments of $9,845 to $18,900 are due annually through 2021; interest is payable semiannually at 3.0% to 5.0%; the amount reported includes unamortized premium of $3,562 and $5,146 and unamortized deferred financing costs of $349 and $505 at June 30, 2017 and 2016, respectively	**89,963**	104,746
$370,220 Revenue Bond, Series 2015; principal payments of $480 to $39,680 are due annually through 2035; interest is payable semiannually at 2.0% to 5.0%; the amount reported includes unamortized premium of $58,964 and $64,765 and unamortized deferred financing costs of $2,176 and $2,400 at June 30, 2017 and 2016, respectively	**426,528**	432,585
$267,420 Revenue Bond, Series 2016A; principal payments of $5,040 to $38,905 are due annually through 2036; interest is payable semiannually at 4.0% to 5.0%; the amount reported includes unamortized premiums of $50,064 and unamortized deferred financing costs of $1,455 at June 30, 2017	**316,029**	–
$402,305 Revenue Bond, Series 2016B; principal payments of $1,625 to $66,900 are due annually beginning in 2020 through 2039; interest is payable semiannually at 3.0% to 5.0%; the amount reported includes unamortized premiums of $31,750 and unamortized deferred financing costs of $2,312 at June 30, 2017	**431,743**	–
Other notes payable, secured by deeds of trust	**15,922**	17,174
Capital leases	**1,895**	1,996
	1,307,380	982,771
Less current maturities	**43,581**	30,643
	$ 1,263,799	$ 952,128

3. Long-Term Debt (continued)

In November 2016, the Corporation issued $669,725 of California Health Facilities Financing Authority Revenue Bonds, composed of the 2016A Series Revenue Bonds totaling $267,420 and the 2016B Series Revenue Bonds totaling $402,305. The proceeds totaled $755,157, including a premium on the 2016A Series Revenue Bonds of $52,585 and a premium on the 2016B Series Revenue Bonds of $32,847, both of which will be amortized as a reduction of interest expense over the life of the bonds. Total issuance costs of $3,975 were incurred in connection with the offerings. The proceeds from the 2016A Series Revenue Bonds were used to finance the costs of future capital expenditures, including the purchase of an administrative office building (including the land) that was previously leased by the Corporation. The proceeds from the 2016B Series Revenue Bonds were used to advance refund the majority of the 2009 Series Revenue Bonds that were callable totaling $392,605. The remaining, unrefunded portion of the 2009 Series Revenue Bonds totaled $25,300 as of June 30, 2017. A loss on extinguishment of debt of $42,143 was recognized, which represents the difference between the amount paid and the net carrying value of the retired bonds. The fair value of the tax-exempt financings, determined using Level 2 inputs (refer to Note 4 for description) primarily related to comparable market prices, was estimated to be $1,308,537 and $1,053,698 at June 30, 2017 and 2016, respectively.

In November 2015, the Corporation issued $370,220 of California Health Facilities Financing Authority Revenue Bonds. The proceeds totaled $438,580, including a premium of $68,360 which will be amortized as a reduction of interest expense over the life of the bonds. Issuance costs of $2,540 were incurred in connection with the offering. The proceeds were used to fully pay down the 2005 Series Revenue Bonds. A gain on extinguishment of debt of $6,144 was recognized, which represents the difference between the amount paid and the net carrying value of the retired bonds.

Revenue of the Corporation (excluding its affiliated or subsidiary organizations) is pledged to secure the payment of the principal and interest on all bonds and certificates under a Master Trust Indenture (Indenture). The Indenture contains covenants restricting additional debt and providing for the maintenance of certain financial ratios. The Corporation was in compliance with these covenants at June 30, 2017.

In December 2012, the Corporation entered into a $50,000 credit agreement (the Agreement) with a bank that will expire in February 2018. The Corporation may borrow under the Agreement with interest charged at either the London Interbank Offered Rate (LIBOR) plus an applicable margin of 0.5% based on the Corporation’s Moody’s rating (currently Aa3), or at the greater of the bank’s fluctuating prime rate minus 1.5%, or 1.0%. At June 30, 2017, the three-month LIBOR was 1.30% and the bank’s prime rate was 4.25%. The Corporation also pays a 0.125% annual commitment

(Dollar Amounts Expressed in Thousands)

3. Long-Term Debt (continued)

fee on the unused credit line. The Agreement is secured on a parity basis under the Bond Indenture with the tax-exempt financings of the Corporation. No amounts have been borrowed under the Agreement.

In November 2013, the Corporation entered into a second $50,000 credit agreement with another bank that will expire in November 2018. The terms are substantially similar to the Agreement described above except the commitment fee on the unused credit line is as of June 30, 2017, 0.075% and the applicable margin is 0.6% based on the Corporation's maintaining its Moody's rating. No amounts have been borrowed under this agreement.

The combined aggregate amount of maturities and sinking fund requirements (excluding the unamortized premium of $144,340 and unamortized deferred financing costs of $6,292 at June 30, 2017) for the five fiscal years succeeding June 30, 2017, and thereafter, is as follows:

2018	$ 31,462
2019	31,148
2020	31,970
2021	33,540
2022	35,185
Thereafter	1,006,027
	$ 1,169,332

For the years ended June 30, 2017 and 2016, interest costs incurred totaled $40,784 and $42,749, respectively, of which $7,770 and $6,528, respectively, were capitalized as part of the cost of construction-in-progress.

4. Retirement Plans

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

During 1991, the Corporation implemented a defined contribution plan (the Defined Contribution Plan) covering substantially all employees covered under the Suspended Employee Plan. Contributions under the Defined Contribution Plan are calculated based on each employee's salary and totaled $70,159 and $63,090 for the years ended June 30, 2017 and 2016, respectively. Employees have the choice of participation in either the Defined Benefit Plan or the Defined Contribution Plan and can change the selection once during their employment.

In addition, certain key employees of the Corporation are covered by separate defined contribution and defined benefit retirement plans, which are not governed by the Employee Retirement Income Security Act of 1974. Contributions under these plans are calculated based on each key employee's salary and totaled $22,543 and $19,411 for the years ended June 30, 2017 and 2016, respectively.

The following tables present information related to changes in projected benefit obligations, plan assets and their composition, funded status, the accumulated benefit obligation, and net periodic pension cost for all defined benefit plans at June 30, 2017 and 2016, and for the years then ended. The Corporation contributed $52,253 to fully fund its Defined Benefit Plan in September 2017.

(Dollar Amounts Expressed in Thousands)

4. Retirement Plans (continued)

	Year Ended June 30	
	2017	**2016**
Change in projected benefit obligations:		
Projected benefit obligation at beginning of year	**$ 529,292**	$ 438,949
Service cost	**36,733**	29,784
Interest cost	**19,652**	19,494
Actuarial (gains) losses	**(16,566)**	54,057
Benefits paid	**(11,913)**	(10,380)
Settlement	**(2,866)**	(2,612)
Projected benefit obligation at end of year	**554,332**	529,292
Change in plan assets:		
Fair value of plan assets at beginning of year	**412,777**	386,399
Actual gain (loss) on plan assets	**37,403**	(3,855)
Employer contributions	**55,000**	43,719
Benefits paid	**(11,913)**	(10,380)
Expenses paid	**(1,582)**	(494)
Settlement	**(2,866)**	(2,612)
Fair value of plan assets at end of year	**488,819**	412,777
Funded status	**$ (65,513)**	$ (116,515)

	June 30	
	2017	**2016**
Composition of plan assets:		
Short-term money market funds	**5%**	19%
Government and corporate debt	**4**	6
Equity securities	**4**	4
Mutual funds	**87**	71
	100%	100%

(Dollar Amounts Expressed in Thousands)

4. Retirement Plans (continued)

	June 30	
	2017	**2016**
Amounts recognized as other liabilities on the consolidated balance sheets	**$ 65,513**	$ 116,515
Accumulated benefit obligation	**$ 518,828**	$ 429,449

	Year Ended June 30	
	2017	**2016**
Net periodic benefit cost recognized:		
Service cost	**$ 36,733**	$ 29,784
Interest cost	**19,652**	19,494
Expected return on plan assets	**(27,410)**	(24,708)
Amortization of net loss	**23,671**	16,944
Amortization of prior service costs	**270**	269
Net periodic benefit cost	**$ 52,916**	$ 41,783

	June 30	
	2017	**2016**
Weighted average assumptions used to determine benefit obligations consist of the following:		
Discount rate used to determine service cost	**3.85%**	4.60%
Discount rate used to determine projected benefit obligation	**4.00**	3.85
Expected long-term rate of return on plan assets	**5.75**	6.10
Rate of increase in future compensation levels	**4.00**	4.00

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

(Dollar Amounts Expressed in Thousands)

4. Retirement Plans (continued)

Amounts included in unrestricted net assets that have not been recognized in net periodic pension cost:

	June 30	
	2017	**2016**
Unrecognized prior service costs	**$ 1,417**	$ 1,687
Unrecognized prior loss	**176,705**	225,904
	$ 178,122	$ 227,591

The unrecognized prior losses and unamortized prior service costs expected to be recognized over the fiscal year ending June 30, 2018 is $14,674.

Plan Assets

Approximately 89% of plan assets relate to long-term investment activities covering the Corporation's general employee population. The other 11% of the assets relates to a special plan for highly compensated employees closer to retirement age. The combined target allocation is approximately 50% equities, 40% fixed income, and 10% short-term instruments, with no allocation to alternative investments. All investments are highly liquid.

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

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

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

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

(Dollar Amounts Expressed in Thousands)

4. Retirement Plans (continued)

Fair values are based on one or more of three valuation techniques. The valuation techniques are as follows:

a) Market approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

b) Cost approach. Amount that would be required to replace the service capacity of an asset (replacement cost).

c) Income approach. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option pricing, and excess earnings models).

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table presents the financial instruments in the Corporation's defined benefit plans carried at fair value as of June 30, 2017, by valuation hierarchy.

	Level 1	Level 2	Total	Valuation Technique (a, b, c)
Cash	$ 23,721	$ –	$ 23,721	a
Equities	20,510	–	20,510	a
U.S. Treasury securities	18,228	–	18,228	a
Mortgage-backed securities	–	3,342	3,342	a
Mutual funds	423,018	–	423,018	a
	$ 485,477	$ 3,342	$ 488,819	

(Dollar Amounts Expressed in Thousands)

4. Retirement Plans (continued)

The following table presents the financial instruments in the Corporation's defined benefit plans, carried at fair value as of June 30, 2016, by valuation hierarchy.

	Level 1	Level 2	Total	Valuation Technique (a, b, c)
Cash	$ 79,065	$ –	$ 79,065	a
Equities	17,712	–	17,712	a
U.S. Treasury securities	18,873	–	18,873	a
Mortgage-backed securities	–	3,292	3,292	a
Mutual funds	293,835	–	293,835	a
	$ 409,485	$ 3,292	$ 412,777	

Plan Investment Strategy

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

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

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

(Dollar Amounts Expressed in Thousands)

4. Retirement Plans (continued)

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

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

Plan Cash Flows

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

2018	$ 22,327
2019	22,462
2020	25,355
2021	26,860
2022	29,086
2023 through 2026	174,913

5. Investments

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

	Year Ended June 30	
	2017	**2016**
Interest and dividend income	**$ 54,372**	$ 15,899
Realized gains	**26,973**	26,211
Unrealized gain (loss), net	**102,549**	(112,392)
Investment gain (loss) included on the consolidated statements of operations and changes in net assets	**$ 183,894**	$ (70,282)

(Dollar Amounts Expressed in Thousands)

5. Investments (continued)

The following tables present the financial instruments carried at fair value as of June 30, 2017 and 2016, by valuation hierarchy as defined in Note 4. Alternative investments are recorded at net asset value, which is not a fair value measurement. The alternative investments are redeemable monthly, quarterly, semiannually, annually, or at the end of the term.

There were no significant transfers between Levels 1, 2, or 3 during the years ended June 30, 2017 and 2016. See Note 4 for a description of the valuation techniques.

	Level 1	Level 2	Fair Value	Valuation Technique (a, b, c)
June 30, 2017:				
Cash and cash equivalents in assets limited to use	**$ 147,373**	**$ –**	**$ 147,373**	**a**
Equities	**320,221**	**–**	**320,221**	**a**
U.S. government debt	**21,897**	**–**	**21,897**	**a**
Corporate debt (domestic)	**–**	**768,443**	**768,443**	**a**
Foreign government debt	**–**	**49,580**	**49,580**	**a**
Mutual funds and other	**569,012**	**–**	**569,012**	**a**
	$ 1,058,503	**$ 818,023**	**$ 1,876,526**	
Alternative investments measured at net asset value			**534,370**	
			$ 2,410,896	

	Level 1	Level 2	Fair Value	Valuation Technique (a, b, c)
June 30, 2016:				
Cash and cash equivalents in assets limited to use	$ 68,047	$ –	$ 68,047	a
Equities	168,751	–	168,751	a
U.S. government debt	37,287	–	37,287	a
Corporate debt (domestic)	–	389,545	389,545	a
Foreign government debt	–	17,805	17,805	a
Mutual funds and other	482,432	–	482,432	a
	$ 756,517	$ 407,350	$ 1,163,867	
Alternative investments measured at net asset value			539,193	
			$ 1,703,060	

(Dollar Amounts Expressed in Thousands)

5. Investments (continued)

The Corporation received restricted and unrestricted pledges and contributions amounting to $63,563 and $57,823 for the years ended June 30, 2017 and 2016, respectively, that were subject to fair value measurement. Contributions were measured based on the actual cash received or, for pledge receivables, using discounted cash flow projections.

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	June 30	
	2017	**2016**
Health care services	**$ 214,099**	$ 206,990
Purchase of capital assets	**5,356**	5,799
Health education and research	**124,021**	114,268
	$ 343,476	$ 327,057

During the years ended June 30, 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of health care services and health education totaling $175,240 and $158,015, respectively, and capital expenditures and contributions totaling $2,637 and $1,564, respectively.

Permanently restricted assets and net assets at June 30, 2017 and 2016, are restricted to investments that are to be held in perpetuity to provide a permanent source of income.

(Dollar Amounts Expressed in Thousands)

6. Temporarily and Permanently Restricted Net Assets (continued)

Pledges are recognized as contributions at the present value of expected future payments. The discount rate used is the estimated risk-free discount rate at the time of the donation (ranging from 1.08% to 7.18%). Pledges receivable in temporarily and permanently restricted net assets are scheduled to be received as follows:

	June 30 2017	2015
Due in one year or less	**$ 29,277**	$ 38,656
Due after one year through five years	**66,452**	68,640
Due after five years	**39,548**	40,108
Total balance, less allowance of $27,265 and $27,977 in 2017 in 2016, respectively	**135,277**	147,404
Less discount to present value	**15,138**	15,626
Pledges receivable, net	**$ 120,139**	$ 131,778

During the years ended June 30, 2017 and 2016, the Corporation had the following endowment-related activities:

	Permanently Restricted	Unrestricted	Total
Year ended June 30, 2017:			
Endowment net assets, beginning of year	**$ 295,425**	**$ 390,722**	**$ 686,147**
Contributions	**13,895**	**3,332**	**17,227**
Investment income	**1,717**	**52,079**	**53,796**
Transfers of investment income to unrestricted funds	**(1,717)**	**(1,703)**	**(3,420)**
Endowment net assets, end of year	**$ 309,320**	**$ 444,430**	**$ 753,750**

	Permanently Restricted	Unrestricted	Total
Year ended June 30, 2016:			
Endowment net assets, beginning of year	$ 282,648	$ 378,760	$ 661,408
Contributions	12,777	32,826	45,603
Investment income (loss)	1,878	(18,731)	(16,853)
Transfers of investment income to unrestricted funds	(1,878)	(2,133)	(4,011)
Endowment net assets, end of year	$ 295,425	$ 390,722	$ 686,147

6. Temporarily and Permanently Restricted Net Assets (continued)

The Corporation's endowment consists of 220 individual funds for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

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

7. Commitments and Contingencies

Pending claims and legal proceedings at June 30, 2017, are set forth below. For all matters where a loss is probable and reasonably estimable, an estimate of the loss or a range of loss is provided. Where no estimate is provided, a loss is not probable or an amount of loss is not reasonably estimable at this time.

7. Commitments and Contingencies (continued)

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

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

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

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

(Dollar Amounts Expressed in Thousands)

7. Commitments and Contingencies (continued)

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

2018	$ 56,471
2019	51,970
2020	47,000
2021	40,346
2022	33,238
Thereafter	78,324
	$ 307,349

Rental expense was $61,078 and $78,044 during the years ended June 30, 2017 and 2016, respectively.

8. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	Year Ended June 30	
	2017	**2016**
Health care services	**$ 2,912,251**	$ 2,751,910
General and administrative	**615,543**	582,360
Fundraising	**11,242**	13,420
	$ 3,539,036	$ 3,347,690

9. Subsequent Events

The Corporation evaluated subsequent events through October 20, 2017, which is the date these consolidated financial statements were issued.

Reports Required by the Uniform Guidance

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

Management and the Board of Directors
Cedars-Sinai Medical Center

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Cedars-Sinai Medical Center (the Medical Center), which comprise the consolidated balance sheet as of June 30, 2017, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 20, 2017.

Internal Control Over Financial Reporting

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

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

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

Building a better working world

Compliance and Other Matters

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

Purpose of This Report

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

Ernst & Young LLP

October 20, 2017

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

Management and the Board of Directors
Cedars-Sinai Medical Center

Report on Compliance for Each Major Federal Program

We have audited Cedars-Sinai Medical Center's (the Medical Center's) compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Medical Center's major federal program for the year ended June 30, 2017. The Medical Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Cedars-Sinai Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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

Ernst & Young LLP

December 28, 2017

Supplementary Information

Cedars-Sinai Medical Center

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Federal Grantor/Program or Cluster Title/Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Federal Expenditures	Expenditures to Subrecipients
Research and Development Cluster				
Department of Commerce National Institute of Standards and Technology (NIST)				
Arrangements for Interdisciplinary Research Infrastructure	11.619	70NANB16H252	$ 302,374	$ –
Total Department of Commerce National Institute of Standards and Technology (NIST)			**302,374**	**–**
Department of Defense				
Military Medical Research and Development	12.420		4,993,128	41,556
Pass Through-Duke University	12.420	W81XWH-12-1-0447	611,013	–
Pass Through-Duke University	12.420	W81XWH-14-1-0111	115,526	–
Pass Through-University of California Los Angeles	12.420	W81XWH-14-1-0602	55,987	–
Pass Through-University of California Los Angeles	12.420	W81XWH-16-1-0092	1,214	–
Pass Through-Vanderbilt University Medical Center	12.420	W81XWH-15-1-0259	99,710	–
Total Pass Through-Military Medical Research and Development			883,450	–
Total Department of Defense			**5,876,578**	**41,556**
National Science Foundation				
Mathematical and Physical Sciences	47.049	DMS-1343506	67,295	–
Social, Behavioral, and Economic Sciences	47.075	1554105	157,152	–
Total National Science Foundation			**224,447**	**–**
Department of Health and Human Services				
Family Smoking Prevention and Tobacco Control Act Regulatory	93.077		5,990	
Food and Drug Administration Research				
Pass Through-Seattle Children's Research Institute	93.103	R01 FD004099	19,470	–
Pass Through-University of Pennsylvania	93.103	R01 FD003516	17,324	–
Total Pass Through-Food and Drug Administration Research			36,794	–
Total Food and Drug Administration Research			36,794	–
Maternal and Child Health Federal Consolidated Programs	93.110	H30MC24050	10,275	
Oral Diseases and Disorders Research	93.121		185,368	71,602
Pass Through-University of Rochester	93.121	R01 DE019902	289,970	–
Total Oral Diseases and Disorders Research			475,338	71,602
Research and Training in Complementary and Integrative Health	93.213		342,338	84,856
Research on Healthcare Costs, Quality and Outcomes	93.226		535,688	262,718
Special Diabetes Program for Indians_Prevention and Treatment Projects				
Pass thrrough-Icahn School of Medicine at Mt. Sinai	93.237	P50HL112324	74,636	–
Mental Health Research Grants	93.242		314,851	–
Pass Thrrough-Johns Hopkins University School of Medicine	93.242	R25MH080661	(2,872)	–
Pass Through-University of North Carolina	93.242	5R21MH104330	94,578	–
Pass Through-University of North Carolina	93.242	U01MH070890	17,501	–
Pass Through-University of North Carolina	93.242	R21MH106939	6,611	–
Pass Through-University of Washington	93.242	3UH3MH106338	8,427	–
Total Pass Through-Mental Health Research Grants			124,245	–
Total Mental Health Research Grants			439,096	–

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Medical Center

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2017

Federal Grantor/Program or Cluster Title/Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Federal Expenditures	Expenditures to Subrecipients
Alcohol Research Programs	93.273		$ 707,207	$ –
Pass Through-University of Southern California	93.273	P50 AA011999	82,684	–
Total Alcohol Research Programs			789,891	–
Drug Abuse and Addiction Research Programs	93.279		39,393	8,125
Pass Through-California Institute of Technology	93.279	R01DA040011	38,926	–
Pass Through-Indiana University	93.279	R42DA043391	114,354	–
Total Pass Through-Drug Abuse and Addiction Research Programs			153,280	
Total Drug Abuse and Addiction Research Programs			192,673	8,125
Centers for Disease Control and Prevention: Investigations and Technical Assistance	93.283		594,974	448,204
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		443,629	195,423
Minority Health and Health Disparities Research				
Pass Through-Ohio State University	93.307	R01MD007867	2,403	–
Trans-NIH Research Support				
Pass Through-Broad Institute	93.310	U54 DE023789	(776)	–
National Center for Advancing Translational Sciences				
Pass Through-University of California Los Angeles	93.350	KL2 TR000122	(740)	–
Pass Through-University of California Los Angeles	93.350	UL1 TR000124	(8,780)	–
Pass Through-University of California Los Angeles	93.350	UL1 TR001881	2,170,461	–
Total Pass Through-National Center for Advancing Translational Sciences			2,160,941	–
Total National Center for Advancing Translational Sciences			2,160,941	–
Research Infrastructure Programs	93.351		519,600	–
Pass Through-Jackson Laboratory	93.351	U54OD020351	19,827	–
Total Research Infrastructure Programs			539,427	–
Advance Education Nursing Traineeships				
Pass Through-University of California Los Angeles	93.358	KL2TR001882	87,624	–
Pass Through-University of California Los Angeles	93.358	UL1TR001881	19,504	–
Total Pass Through-Advance Education Nursing Traineeships			107,128	–
Total Advance Education Nursing Traineeships			107,128	–
National Center for Research Resources				
Pass Through-University of California Los Angeles	93.389	UL1RR033176	(3,042)	–

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Medical Center

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2017

Federal Grantor/Program or Cluster Title/Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Federal Expenditures	Expenditures to Subrecipients
Cancer Cause and Prevention Research	93.393		$ 1,431,945	$ 324,938
Pass Through-Fred Hutchinson Cancer Research Center	93.393	R01 CA201407	17,969	–
Pass Through-University of Texas, MD Anderson Cancer Center	93.393	R01CA188943	48,174	–
Pass Through-Dana Farber Cancer institute	93.393	R21 CA191725	121,483	–
Pass Through-Dana Farber Cancer institute	93.393	R01CA204954	200,850	–
Pass Through-Memorial Sloan-Kettering Cancer Center	93.393	R01CA179115	39,219	–
Pass Through-University of California Los Angeles	93.393	P01CA163200	207,728	–
Pass Through-Van Andel Research Institute	93.393	R01CA190182	24,559	–
Pass Through-Washington University in St. Louis	93.393	N/A	33,583	–
Pass Through-University of Utah	93.393	10039363-02	195,061	–
Pass Through-University of South Wales	93.393	R01CA172404	122,241	–
Pass Through-Stanford University	93.393	UM1CA167551	2,076	–
Pass Through-Northwestern University	93.393	HHSN261201200035I	12,983	–
Pass Through-Moffitt Cancer & Research Institute	93.393	1R01CA207456	123,071	–
Total Pass Through-Cancer Cause and Prevention Research			1,148,997	–
Total Cancer Cause and Prevention Research			2,580,942	324,938
Cancer Detection and Diagnosis Research	93.394		2,049,855	118,811
Pass Through-Van Andel Research Institute	93.394	U24CA210969	148,125	–
Pass Through-University of California Los Angeles	93.394	U01CA198900	92,252	–
Pass Through-New York School of Medicine	93.394	16-A0-00-006712-01	18,368	–
Total Pass Through-Cancer Detection and Diagnosis Research			258,745	–
Total Cancer Detection and Diagnosis Research			2,308,600	118,811
Cancer Treatment Research	93.395		1,486,060	–
Pass Through-Mayo Foundation for Medical Education	93.395	UG1CA189823	10,893	–
Pass Through-University of California Los Angeles	93.395	R01 CA160427	16,388	–
Pass Through-Brigham and Women Hospital	93.395	U10 CA076001	101,933	–
Pass Through-Children's Hospital Philadelphia	93.395	U10 CA098543	2,533	–
Pass Through-Oregon Health Science University	93.395	U10 CA032102	62,378	–
Pass Through-NRG Oncology Foundation	93.395	U10 CA180868	14,442	–
Pass Through-Cancer and Leukemia Group B	93.395	U10 CA31946	987	–
Total Pass Through-Cancer Treatment Research			209,554	–
Total Cancer Treatment Research			1,695,614	–
Cancer Biology Research	93.396		3,151,435	643,630
Pass Through-Indiana University	93.396	R01CA143057	92,463	–
Pass Through-Albert Einstein College of Medicine	93.396	U01CA158431	24,885	–
Total Pass Through-Cancer Biology Research			117,348	–
Total Cancer Biology Research			3,268,783	643,630
Cancer Centers Support Grants				
Pass Through-University of California Los Angeles	93.397	P50CA092131	40,000	–
Cancer Research Man Power	93.398		503,646	–
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities				
Pass Through-California Department of Public Health	93.817	U3REP160550-01-00	970,560	–

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Medical Center

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2017

Federal Grantor/Program or Cluster Title/Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Federal Expenditures	Expenditures to Subrecipients
Cardiovascular Diseases Research	93.837		$ 13,375,305	$ 442,421
Pass Through-Emory University	93.837	R01HL111646	8,618	–
Pass Through-Emory University	93.837	U01HL105561	373,162	–
Pass Through-University of California Los Angeles	93.837	P01 HL028481	170	–
Pass Through-New York School of Medicine	93.837	RO1HL105907	3,002	–
Pass Through-University of Michigan	93.837	3003601333	70,618	–
Pass Through-Rhode Island Hospital	93.837	R01HL106592	(5,370)	–
Pass Through-Wake Forest University	93.837	R01HL111362	122,177	–
Pass Through-Vanderbuilt University Medical Center	93.837	1P01HL129941	449,352	–
Pass Through-New England Research Institute	93.837	U01HL107407	3,500	–
Pass Through-New England Research Institute	93.837	U10HL068270	2,096	–
Pass Through-Allina Health	93.837	UM1 HL087394	226,316	–
Pass Through-RTI International	93.837	U01 HL11991	28,489	–
Pass Through-Weill Cornell Medical College	93.837	R01HL118019	31,538	–
Pass Through-Weill Cornell Medical College	93.837	R01HL111141	38,669	–
Pass Through-Weill Cornell Medical College	93.837	R01HL115150	25,454	–
Pass Through-Johns Hopkins University School of Medicine	93.837	HHSN26801000032C	(34,788)	–
Pass Through-Johns Hopkins University School of Medicine	93.837	P01 HL0107153	152,630	–
Pass Through-Johns Hopkins University School of Medicine	93.837	R01HL119012	17,513	–
Pass Through-Johns Hopkins University School of Medicine	93.837	UO1DK085689	33,017	–
Pass Through-Johns Hopkins University School of Medicine	93.837	R35HL135827	12,315	–
Pass Through-Columbia University Medical Center	93.837	RO1HL130500	30,433	–
Pass Through-University of Miami	93.837	1R01HL137355	6,944	–
Total Pass Through-Cardiovascular Diseases Research			1,595,855	–
Total Cardiovascular Diseases Research			14,971,160	442,421
Lung Diseases Research	93.838		3,553,239	717,033
Pass Through-Duke University	93.838	U01 HL11018	76,198	–
Pass Through-Duke University	93.838	U01 HL110967	10,000	–
Pass Through-Johns Hopkins University School of Medicine	93.838	P01HL077180	(48,823)	–
Pass Through-Cincinnati Children's Hospital Medical Center	93.838	U01 HL122642	41,894	–
Total Pass Through-Lung Diseases Research			79,269	–
Total Lung Diseases Research			3,632,508	717,033
Blood Diseases and Resources research				
Pass Through-Johns Hopkins University School of Medicine	93.839	U01HL107446	54,888	–
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		383,763	91,159
Pass Through-University of Alabama at Birmingham	93.846	R01AR060240	21,374	–
Pass Through-University of Texas-Houston	93.846	P01AR052915	206,603	–
Pass Through-University of Pennsylvania	93.846	AR057319	(143)	–
Pass Through-Oklahoma Medical Research Foundation	93.846	P50 AR060804	(38)	–
Pass Through-Pennsylvania State University	93.846	U34AR067392	64,341	–
Pass Through-University of Colorado	93.846	UH2AR067681	201,661	–
Pass Through-University of Iowa	93.846	2R01AR059703	8,297	–
Total Pass Through-Arthritis, Musculoskeletal and Skin Diseases Research			502,095	–
Total Arthritis, Musculoskeletal and Skin Diseases Research			885,858	91,159

See notes to Schedule of Expenditures of Federal Awards

Federal Grantor/Program or Cluster Title/Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Federal Expenditures	Expenditures to Subrecipients
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		$ 6,203,842	$ 505,794
Pass Through-University of California San Diego	93.847	P30 DK063491	103,622	–
Pass Through-University of California Los Angeles	93.847	P01DK098108	367,613	–
Pass Through-University of Alabama at Birmingham	93.847	P01 DK071176	3,332	–
Pass Through-Johns Hopkins University School of Medicine	93.847	U01 DK085689	(14,170)	–
Pass Through-Duke University	93.847	R01 DK098382	49,761	–
Pass Through-University of Washington St. Louis	93.847	R56DK095820	135,490	–
Pass Through-Childrens Hospital Boston	93.847	R01DK104641	45,205	–
Total Pass Through-Diabetes, Digestive, and Kidney Diseases Extramural Research			690,853	–
Total Diabetes, Digestive, and Kidney Diseases Extramural Research			6,894,695	505,794
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		4,022,180	2,227,258
Pass Through-University of Southern California	93.853	U01NS056256	4,395	–
Pass Through-Johns Hopkins University School of Medicine	93.853	U01NS062851	(26)	–
Pass Through-University of California Los Angeles	93.853	U01NS098961	162,992	–
Pass Through-University of California Irvine	93.853	U54NS091046	607,078	–
Pass Through-Yale University	93.853	R01 NA086329	6,221	–
Pass Through-Partners Healthcare	93.853	U01NS088312	48,875	–
Pass Through-Children's Hospital Philadelphia	93.853	R01NS096746	37,330	–
Pass Through-EMMES	93.853	U01NS026835	35,838	–
Pass Through-Mayo Clinic Rochester	93.853	P5001NS080168	524	–
Total Pass Through-Extramural Research Programs in the Neurosciences and Neurological Disorders			903,227	–
Total Extramural Research Programs in the Neurosciences and Neurological Disorders			4,925,407	2,227,258
Allergy and Infectious Diseases Research	93.855		3,608,164	–
Pass Through-University California San Francisco	93.855	5UM1AI110498	4,820	–
Pass Through-Duke University	93.855	U19AI1056363	(8,875)	–
Pass Through-Brigham and Womens Hospital	93.855	U01 AI063623	31,807	–
Pass Through-University California San Francisco	93.855	U01AI113362	185,832	–
Pass Through-Massachusetts General Hospital	93.855	R34AI125058	13,676	–
Total Pass Through-Allergy, Immunology and Transplantation Research			227,260	–
Total Allergy, Immunology and Transplantation Research			3,835,424	–
Biomedical Research and Research Training	93.859		228,912	–
Pass Through-Thomas Jefferson University	93.859	R01 GM106047	19,180	–
Total Biomedical Research and Research Training			248,092	–
Child Health and Human Development Extramural Research	93.865		1,235,474	479,164
Pass Through-Columbia University Medical Center	93.865	U01 HD055651	(3,815)	–
Pass Through-University of California Los Angeles	93.865	R21HD084204	48,594	–
Pass Through-University of Colorado Springs	93.865	R01 HD073491	176,067	–
Pass Through-University of Texas Medical Branch	93.865	P2CHD065702	(13,823)	–
Total Pass Through-Child Health and Human Development Extramural Research			207,023	–
Total Child Health and Human Development Extramural Research			1,442,497	479,164
Aging Research	93.866		144,068	–

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Medical Center

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2017

Federal Grantor/Program or Cluster Title/Pass Through Grantor	CFDA No.	Pass Through Grantor Identifying No.	Federal Expenditures	Expenditures to Subrecipients
Vision Research	93.867		$ 2,829,341	$ 257,316
Pass Through-Oregon Health Sciences University	93.867	R01EY019474	23,375	–
Total Vision Research			2,852,716	257,316
National Cancer Institute				
Pass Through-Johns Hopkins University	93.RD	HHSN26800736197	18,043	–
Pass Through-Northwestern University	93.RD	SP001604060042302T07	196,341	–
Pass Through-Northwestern University	93.RD	SP001604060045298	83,605	–
Pass Through-Northwestern University	93.RD	SP001604060045323	63,717	–
Pass Through-University of Massachusetts Medical School	93.RD	HHSN261201500029C	25,427	–
Pass Through-Suburban Hospital	93.RD	HHSN268201300001C	80,547	–
Pass Through-University of Arizona	93.RD	HHSN2612012000311	25,105	–
Total Pass Through-National Cancer Institute			492,785	–
Total National Cancer Institute			492,785	–
Agency for International Development				
Usaid Foreign Assistance For Programs Overseas	98.001		50,511	–
Total Agency for International Development			50,511	–
Total Research and Development Cluster			**64,949,556**	**6,920,008**
National Bioterrorism Hospital Preparedness Program				
Pass Through-County of Los Angeles	93.889	H-705557	252,250	–
Total Department of Health and Human Services			**58,747,896**	**6,878,452**
Total Expenditures of Federal Awards			**$ 65,201,806**	**$ 6,920,008**

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Medical Center

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

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

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

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

2. Federal Expenditures of $65,201,806 are reported in Cedars-Sinai Medical Center's consolidated financial statements for the fiscal year ended June 30, 2017, as net assets released from restrictions. Negative amounts shown on the Schedule of Expenditures of Federal Awards represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Schedule Required by the Uniform Guidance

Cedars-Sinai Medical Center

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

Section I—Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP (unmodified, qualified, adverse or disclaimer):	**Unmodified**			
Internal control over financial reporting:				
Material weakness(es) identified?	______	**yes**	X	**no**
Significant deficiency(ies) identified?	______	**yes**	X	**none reported**
Noncompliance material to financial statements noted?	______	**yes**	X	**no**

Federal Awards

Internal control over major federal programs:				
Material weakness(es) identified?	______	**yes**	X	**no**
Significant deficiency(ies) identified?	______	**yes**	X	**none reported**
Type of auditor's report issued on compliance for major federal programs (unmodified, qualified, adverse or disclaimer):	**Unmodified**			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	______	**yes**	X	**no**

Cedars-Sinai Medical Center

Schedule of Findings and Questioned Costs (continued)

For the Year Ended June 30, 2017

Section I—Summary of Auditor's Results (continued)

Identification of major federal programs:

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

Dollar threshold used to distinguish between Type A and Type B programs: $ 1,956,054

Auditee qualified as low-risk auditee? __X__ **yes** ______ **no**

Section II—Financial Statement Findings

This section should identify the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* requires reporting.

No such items were identified.

Section III—Federal Award Findings and Questioned Costs

This section should identify the audit findings required to be reported by the 2 CFR 200.516(a) (for example, significant deficiencies, material weaknesses, material instances of noncompliance, including questioned costs, and material abuse).

No such items were identified.

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