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

Cedars-Sinai Health System
Year Ended June 30, 2020
With Report of Independent Auditors

Ernst & Young LLP

Cedars-Sinai Health System

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

Year Ended June 30, 2020

Contents

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Building a better working world

Report of Independent Auditors

Management and the Board of Directors
Cedars-Sinai Health System

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Cedars-Sinai Health System, which comprise the consolidated balance sheets as of June 30, 2020 and 2019, 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 Health System at June 30, 2020 and 2019, and the consolidated results of its operations and changes in net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Building a better working world

Adoption of Accounting Standards Update No. 2016-02, Leases (Topic 842)

As discussed in Note 2 to the consolidated financial statements, Cedars-Sinai Health System changed their method for accounting for leases as a result of the adoption of the amendments to the Financial Accounting Standards Board Accounting Standards Codification resulting from Accounting Standards Update No. 2016-02, Leases (Topic 842), effective July 1, 2019. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to October 26, 2020. 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 26, 2020 on our consideration of Cedars-Sinai Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Cedars-Sinai Health System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cedars-Sinai Health System's internal control over financial reporting and compliance.

Ernst & Young LLP

October 26, 2020 except for our report on the
Schedule of Expenditures of Federal awards, for
which the date is September 30, 2021

Cedars-Sinai Health System

Consolidated Balance Sheets

(Dollar Amounts Expressed in Thousands)

	June 30	
	2020	**2019**
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,297,325**	$ 662,468
Short-term investments	**660,140**	1,221,940
Board-designated assets	**1,284,604**	1,167,285
Current portion of assets limited as to use:		
Funds held by trustee	**1,864**	1,775
Pledges receivable	**36,273**	37,755
Managed care reserve fund	**89,208**	92,117
Patient accounts receivable	**579,465**	664,573
Due from third-party payers	**–**	6,583
Inventory	**60,817**	53,401
Prepaid expenses and other assets	**264,045**	218,866
Total current assets	**4,273,741**	4,126,763
Assets limited as to use:		
Investments	**630,631**	564,700
Pledges receivable, less current portion	**197,854**	190,535
	828,485	755,235
Property and equipment, net	**3,409,600**	3,238,479
Other assets	**566,905**	494,370
Operating lease right-of-use asset	**404,546**	–
Finance lease right-of-use asset	**6,614**	–
Total assets	**$ 9,489,891**	$ 8,614,847

	June 30	
	2020	**2019**
Liabilities and net assets		
Current liabilities:		
Accounts payable and other accrued liabilities	**$ 507,597**	$ 505,357
Due to third-party payers	**91,937**	–
Accrued payroll and related liabilities	**395,676**	364,537
Risk pool liabilities	**113,441**	117,707
Current maturities of long-term debt	**62,088**	51,919
Current operating lease liabilities	**79,477**	–
Current financing lease liabilities	**2,144**	–
Total current liabilities	**1,252,360**	1,039,520
Long-term debt, less current maturities	**1,402,397**	1,455,014
Long-term operating lease liabilities	**388,020**	–
Long-term financing lease liabilities	**4,331**	–
Accrued workers' compensation and malpractice insurance claims, less current portion	**176,654**	167,271
Pension liability	**243,405**	183,411
Other liabilities	**88,649**	97,552
Net assets:		
Without donor restrictions:		
Controlling interests	**4,981,843**	4,786,704
Non-controlling interests	**51,085**	53,123
With donor restrictions	**901,147**	832,252
Total net assets	**5,934,075**	5,672,079
Total liabilities and net assets	**$ 9,489,891**	$ 8,614,847

See accompanying notes.

Cedars-Sinai Health System

Consolidated Statements of Operations and Changes in Net Assets

(Dollar Amounts Expressed in Thousands)

	Year Ended June 30	
	2020	**2019**
Net assets without donor restrictions		
Net patient service revenues before Medi-Cal Fee Program	**$ 4,233,421**	$ 4,354,791
Medi-Cal Fee Program revenue	**113,755**	132,625
Net patient service revenues	**4,347,176**	4,487,416
Premium revenues	**283,811**	263,941
Other operating revenues	**278,751**	134,295
Net assets released from restrictions	**232,215**	225,407
Total revenues, gains, and other support	**5,141,953**	5,111,059
Expenses:		
Salaries and related costs	**2,523,297**	2,367,078
Professional fees	**369,876**	349,357
Materials, supplies, and other	**1,613,886**	1,583,067
Medi-Cal Fee Program expense	**127,658**	129,849
Interest	**37,974**	45,165
Depreciation and amortization	**231,307**	239,881
Total expenses	**4,903,998**	4,714,397
Income from operations	**237,955**	396,662
Investment income	**111,599**	144,973
(Loss) gain on equity method investments	**(31,548)**	5,264
Other components of net periodic benefit credit	**12,149**	7,082
Excess of revenues over expenses	**330,155**	553,981
(Excess) deficit of revenues over expenses attributable to non-controlling interests	**(947)**	2,687
Excess of revenues over expenses attributable to the Health System	**$ 329,208**	$ 556,668

Cedars-Sinai Health System

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

	Year Ended June 30 2020	2019
Net assets without donor restrictions (continued)		
Controlling interests activity:		
Excess of revenues over expenses attributable to the Health System	**$ 329,208**	$ 556,668
Net assets released from restrictions related to property and equipment	**3,118**	951
Change in pension liability	**(174,977)**	(90,917)
Curtailment gain	**37,790**	–
Increase in net assets without donor restrictions attributable to the Health System	**195,139**	466,702
Non-controlling interests activity:		
Sale of non-controlling interest	–	(132)
Excess (deficit) of revenues over expenses attributable to non-controlling interests	**947**	(2,687)
Distributions to non-controlling interests	**(2,985)**	(2,849)
Decrease in net assets without donor restrictions attributable to non-controlling interests	**(2,038)**	(5,668)
Increase in net assets without donor restrictions	**193,101**	461,034
Net assets with donor restrictions		
Contributions, grants and other	**290,329**	239,204
Investment income	**13,899**	12,809
Net assets released from restrictions	**(235,333)**	(226,358)
Increase in net assets with donor restrictions	**68,895**	25,655
Increase in net assets	**261,996**	486,689
Net assets at beginning of year	**5,672,079**	5,185,390
Net assets at end of year	**$ 5,934,075**	$ 5,672,079

See accompanying notes.

Cedars-Sinai Health System

Consolidated Statements of Cash Flows

(Dollar Amounts Expressed in Thousands)

	Year Ended June 30	
	2020	**2019**
Operating activities		
Increase in net assets	**$ 261,996**	$ 486,689
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Loss on disposal of property, plant, and equipment	**4,589**	–
Depreciation expense	**207,787**	216,650
Amortization of goodwill and other intangibles	**23,520**	23,231
Amortization of deferred financing costs and bond premiums	**(11,435)**	(11,835)
Amortization of operating lease right-of-use assets	**78,541**	–
Restricted contributions	**(25,400)**	(15,008)
Sale of non-controlling interests	**–**	132
Unrealized (gains) losses on investments	**(46,635)**	62,376
Losses (gains) on equity method investments	**31,548**	(5,264)
Distributions to non-controlling interests	**2,985**	2,849
Changes in operating assets and liabilities:		
Patient accounts receivable	**85,108**	(38,065)
Due from third-party payers	**98,520**	(1,514)
Inventory, prepaid expenses, and other current assets	**(50,454)**	7,643
Assets limited as to use, net of assets held by bond trustee	**(3,017)**	(17,122)
Accounts payable and other accrued liabilities	**100,138**	5,347
Accrued payroll and related liabilities	**31,139**	7,090
Risk pool liabilities	**(4,266)**	2,957
Operating lease liabilities	**(79,614)**	–
Other long-term liabilities	**64,656**	146,473
Net cash provided by operating activities before net purchases of trading investments	**769,706**	872,629
Net sales (purchases) of trading investments	**389,705**	(164,975)
Net cash provided by operating activities	**1,159,411**	707,654
Investing activities		
Expenditures for property and equipment	**(419,047)**	(384,820)
Acquisition of property held for future use	**(36,787)**	–
Purchase consideration for acquisitions	**–**	(9,508)
Decrease in assets held by bond trustee	**–**	382
Contributions to investments in unconsolidated entities	**(73,612)**	(71,012)
Sales of alternative investments	**44,030**	125,054
Purchases of alternative investments	**(29,110)**	(86,000)
Net change in cash equivalents reported in long term investments	**52,219**	57,714
Net cash used in investing activities	**(462,307)**	(368,190)

Cedars-Sinai Health System

Consolidated Statements of Cash Flows (continued)

(Dollar Amounts Expressed in Thousands)

	Year Ended June 30	
	2020	**2019**
Financing activities		
Principal payments on long-term debt	**$ (39,868)**	$ (42,763)
Proceeds received from short-term note	**9,500**	–
Principal payments on finance lease liabilities	**(2,075)**	–
Distributions to non-controlling interests	**(2,985)**	(2,849)
Restricted contributions	**25,400**	15,008
Net cash used in financing activities	**(10,028)**	(30,604)
Increase in cash, cash equivalents, and restricted cash	**687,076**	308,860
Cash, cash equivalents, and restricted cash – beginning of year	**741,978**	433,118
Cash, cash equivalents, and restricted cash – end of year	**$ 1,429,054**	$ 741,978
Supplemental disclosure of cash flow information		
Interest paid	**$ 63,565**	$ 65,826

The Health System capitalized property and equipment of $39,344 and $77,685 at June 30, 2020 and 2019, respectively, that had not been paid and is included in the consolidated balance sheets under accounts payable and other accrued liabilities.

See accompanying notes.

1. Organization

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

Cedars-Sinai – The accompanying consolidated financial statements include the accounts of Cedars-Sinai Medical Center and its affiliates, collectively referred to as Cedars-Sinai, as of and for the years ended June 30, 2020 and 2019. The following entities are included in the accompanying consolidated financial statements:

Cedars-Sinai Medical Center (CSMC) is a California nonprofit, public benefit corporation that owns and operates a hospital with 889 licensed beds in Los Angeles, California, and provides patient care, medical research, health education, and community service. Cedars- Sinai Medical Center is the sole corporate member of Cedars-Sinai Medical Care Foundation and Marina Del Rey Hospital.

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

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

1. Organization (continued)

Torrance Memorial – The accompanying consolidated financial statements include the accounts of Torrance Health Association, Inc. and its affiliates, collectively referred to as Torrance Memorial, as of and for the years ended June 30, 2020 and 2019. The following entities are included in the accompanying consolidated financial statements:

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

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

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

On September 22, 2019, CSMC and TMMC formed El Segundo MOB, LLC (El Segundo), with each member possessing a 50% ownership interest in the LLC in order to jointly construct a Medical Office Building that will provide various outpatient services to the community. A purchase and sale agreement for the acquisition of real estate property was entered into by TMMC on behalf of El Segundo and, on February 6, 2020, the purchase and sale agreement was assigned to El Segundo. As of June 30, 2020, CSMC and TMMC each had a total contribution amount of approximately $15,000 in El Segundo. These investments are recorded under the equity method of accounting in other assets for both CSMC and TMMC, but are eliminated within the Health System's consolidated financial statements.

On March 12, 2019, Providence St. Joseph Health (Providence) and CSMC formed Tarzana Medical Center, LLC (Tarzana), in which CSMC owns a 49% membership interest, to own and operate Providence Tarzana Medical Center (PTMC). Providence and CSMC will jointly continue the build-out and redevelopment of the PTMC campus, including a new patient-care tower with all private rooms, an expanded Emergency Department, new diagnostic and treatment services, and enhanced outpatient and ambulatory services. Upon completion of the replacement facility

1. Organization (continued)

construction, Providence will contribute to Tarzana all tangible and intangible assets pertaining to the existing PTMC business. The joint venture will expand primary and specialty care services on the PTMC campus, as well as enhance other programs, including heart, cancer and women's services. As of June 30, 2020 and 2019, CSMC's capital contributions in Tarzana totaled $82,195 and $60,495, respectively. This investment is recorded under the equity method of accounting in other assets.

2. Summary of Significant Accounting Policies

Use of Estimates

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

Operating Revenues

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

2. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenues

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

Performance obligations are determined based on the nature of the services provided by the Health System. Generally, performance obligations satisfied over time apply to patients in the hospital receiving inpatient acute care services only. The Health System measures the performance obligation from admission into the hospital to the point when the medical condition upon admission has been resolved and it is no longer required to provide services to that patient, usually at the time of discharge. These services are considered to be a single performance obligation. Revenue for performance obligations satisfied over time is recognized pro-rata based on actual charges incurred in relation to total expected (or actual) charges upon discharge. The Health System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the services provided needed to satisfy the obligation. Outpatient services are performance obligations satisfied at a point in time and revenue is recognized when services are provided, and the Health System does not believe it is required to provide additional services to the patient.

The Health System has elected the practical expedient allowed under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-32-18, *Revenue from Contracts with Customers*, and does not adjust the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to the Health System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payer pays for that service will be one year or less. However, the Health System does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

2. Summary of Significant Accounting Policies (continued)

Because all of its performance obligations relate to contracts with a duration of less than one year, the Health System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged.

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

The Health System has agreements with third-party payers that provide for payments to the Health System at amounts different from established rates. For uninsured patients who do not qualify for charity care, the Health System recognizes revenue based on established rates, subject to certain discounts and implicit price concessions as determined by the Health System. The Health System determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third party payers, discounts provided to uninsured patients in accordance with the Health System's policy, and implicit price concessions provided to uninsured patients. Explicit price concessions are based on contractual agreements, discount policies, and historical experience. Implicit price concessions represent differences between amounts billed and the estimated consideration the Health System expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors. Credit impairments occurring after the date of revenue recognition are recorded in materials, supplies, and other expenses on the consolidated statements of operations and changes in net assets; the amount recognized in materials, supplies, and other expenses related to impairment losses during the years ended June 30, 2020 and 2019 was $4,243 and $1,366, respectively.

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

Generally, patients who are covered by third-party payers are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The Health System estimates transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of change. There were no significant adjustments arising from a change in the transaction price in either 2020 or 2019.

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 due from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers.

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

Net patient service revenues by major payer source, net of price concessions, is as follows:

	Year Ended June 30	
	2020	**2019**
Medicare	**$ 991,726**	$ 1,013,208
Medi-Cal	**198,423**	236,439
Commercial and Managed Care	**3,005,730**	2,991,563
Self-pay and other	**151,297**	246,206
Net patient service revenues	**$ 4,347,176**	$ 4,487,416

2. Summary of Significant Accounting Policies (continued)

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 revenues. During the year ended June 30, 2020, the Medi-Cal program implemented its outlier reconciliation policy in accordance with State Plan Amendment 13-004. As a result of the new policy, the Health System recorded an adjustment of $25,984 for change in estimate related to anticipated repayments for prior years cost reports. In the opinion of management, adequate provision has been made for adjustments, if any, that might result from subsequent review.

The Health System provides charity care to patients who meet certain criteria under its financial assistance policy. This policy defines charity care as uncompensated services provided to patients who cannot afford health care because of inadequate resources and/or who are uninsured. The Health System does not report charity care as net patient service revenues. During the years ended June 30, 2020 and 2019, the Health System incurred $43,915 and $35,572, respectively, in costs to provide charity care which is calculated based on a ratio of cost to gross charges and then multiplying that ratio by gross uncompensated charges associated with providing care to charity patients.

Medi-Cal Fee Program

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

2. Summary of Significant Accounting Policies (continued)

revenue and related quality assurance fees recognized as expense in the consolidated statements of operations and changes in net assets pertaining to the 30-month Program covering the period from January 1, 2017 through June 30, 2019, and a 30-month Program coving the period from July 1, 2019 through December 31, 2021.

Specifically, total QA Fees incurred by the Health System were $127,658 and $129,849 for the years ended June 30, 2020 and 2019, respectively, while revenue from the Program totaled $113,755 and $132,625 for the years ended June 30, 2020 and 2019, respectively. In connection with the Program, the Health System applied for a grant from the California Health Foundation & Trust related to future shortfalls from the Programs. The Health System recorded $13,903 and $7,957 for this grant in other operating revenues for the years ended June 30, 2020 and 2019, respectively.

Premium Revenues

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

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 $77,788 and $81,875 for the years ended June 30, 2020 and 2019, 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 Health System.

2. Summary of Significant Accounting Policies (continued)

Other Operating Revenues

The Health System has additional revenue streams from tuition, health professionals, rental properties and parking. Revenue is recognized when obligations under the terms of the contract are satisfied. Revenues from these services are measured as the amount of consideration the Health System expects to receive for those services. For the year ended June 30, 2020, the Health System received approximately $142,000 in COVID-19 Relief Funds from the Coronavirus Aid, Relief and Economic Securities Act (CARES Act), which has been recorded in other operating revenues as further described in Note 12.

Net Assets Released from Restrictions

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

Excess of Revenues Over Expenses

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

Inventory

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

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

Other Assets

Other non-current assets consist of the following:

	June 30 2020	2019
Goodwill and other intangible assets	**$ 186,637**	$ 209,767
Investments in unconsolidated entities	**224,790**	165,975
Property held for future use	**99,192**	62,953
Other	**56,286**	55,675
	$ 566,905	$ 494,370

The Health System has investments in unconsolidated entities that are accounted for under the equity method or at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer, as fair value for these investments is not readily determinable. The Health System evaluates these investments for impairment whenever indicators of impairment exist. No indicators of impairment existed as of June 30, 2020 or 2019.

Goodwill

Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired, including identifiable intangible assets. The Health System elected to apply the goodwill accounting alternative in ASC 350, *Intangible – Goodwill and Other*, effective July 1, 2018 which allows not-for-profit entities to amortize goodwill on a straight-line basis over ten years and perform a one-step impairment test at the entity level only when an impairment indicator exists.

The Health System concluded no indicators of impairment existed as of June 30, 2020 and 2019. The guidance of the goodwill accounting alternative is applied to existing goodwill as of the beginning of the annual period of adoption and will be applied prospectively for goodwill recognized in the future. For the years ended June 30, 2020 and 2019, the Health System recorded additional goodwill of $0 and $9,118, respectively, and recorded amortization of goodwill totaling $23,053 and $22,521, respectively. At June 30, 2020 and 2019, goodwill, which is included in other assets, totaled $184,958 and $208,011, respectively.

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

Care of the Poor and Community Benefit (Unaudited)

The Health System's mission is to improve the health status of its community, regardless of the patient's ability to pay, including charity patients. The Health System provides programs and activities that contribute to charity care, care of the poor, and community benefit. These programs and activities serve a majority of persons who are beneficiaries of Medi-Cal, and county, state, and federal programs for which the costs of providing the services are not fully reimbursed. Also included are activities that improve the community's health status and educate or provide social services to the elderly and children. The Health System's unreimbursed costs for care of the poor and community benefits were approximately 20.2% and 20.8% of total operating expenses for the years ended June 30, 2020 and 2019, respectively. The costs associated with these programs and activities are as follows:

	Year Ended June 30	
	2020	**2019**
Traditional charity care and uninsured patients (Category 1)	**$ 43,915**	$ 35,572
Unpaid cost of state programs (Category 2)	**103,994**	105,601
Unpaid cost of specialty government programs (Category 3)	**2,363**	1,893
Unpaid cost of federal programs (Category 4)	**461,989**	473,378
Research (Category 5)	**239,768**	227,281
Community benefit (Category 6)	**139,174**	138,492
Total community benefit	**991,203**	982,217
A portion of the above cost was supported by the help of:		
Federal, state, and local grants	**100,282**	90,281
Charitable giving	**49,211**	50,155
Community benefit, net of support by others	**$ 841,710**	$ 841,781

2. Summary of Significant Accounting Policies (continued)

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

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 $49,481 and $19,349 for the years ended June 30, 2020 and 2019, respectively, of unpaid cost of services provided to patients in the Medicare program who are also in the Medi-Cal program.

Category 5: Research – is the cost of providing translational and clinical research and studies on health care delivery. During the years ended June 30, 2020 and 2019, the Health System received outside support for its research efforts totaling $149,493 and $140,436, respectively. Thus, for the years ended June 30, 2020 and 2019, the net cost incurred by the Health System was $90,275 and $86,845, respectively.

2. Summary of Significant Accounting Policies (continued)

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

Property and Equipment

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

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

The Health System accounts for the impairment and disposition of long-lived assets in accordance with ASC 360, *Property, Plant, and Equipment Impairment or Disposal of Long-Lived Assets*. In accordance with ASC 360, long-lived assets to be held are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Health System determined that no assets are impaired at June 30, 2020 and 2019.

Assets Limited as to Use

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

Investments

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

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

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

2. Summary of Significant Accounting Policies (continued)

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

Alternative Investments

Certain of the Health System's investments are made through alternative investments, which include investments in limited partnerships and limited liability companies. The Health System generally contracts with fund managers, who have full discretionary authority over investment decisions. The Health System accounts for its ownership interests in the partnerships using the net asset value as a practical expedient for fair value. These investments provide the Health System with a proportionate share of the entities' gains and losses, which are included in investment income on the accompanying consolidated statements of operations and changes in net assets. As of June 30, 2020, and 2019, these alternative investments comprised approximately 12% and 14%, respectively, of the Health System's total cash, cash equivalents, and investments.

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

Risk Pool Liabilities

Risk pool liabilities include amounts that THA estimates as payable under risk-sharing agreements through analysis of historical claims information using lag schedules and claims turnaround time. The liability also includes amounts payable to medical groups, as well as premiums received that are held in reserve for health plan agreements whose beneficiaries are primarily outside THA's service area. The funding, held in a managed care reserve and included in current portion of assets limited as to use in the accompanying consolidated balance sheets, totaled $89,208 and $92,117 at June 30, 2020 and 2019, respectively.

2. Summary of Significant Accounting Policies (continued)

Medical Malpractice Insurance

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

Similarly, Torrance Memorial is self-insured for professional malpractice liability claims up to $500 per occurrence on a claims-made basis. Torrance Memorial is covered by hospital malpractice insurance for claims in excess of this amount up to a maximum of $25,000 per occurrence, with an annual aggregate limit of $35,000.

Combined accruals for insured and uninsured claims, and claims incurred but not reported are estimated by an actuary based on the Health System's claims experience. Such accruals, which totaled $81,243 and $79,243 at June 30, 2020 and 2019, are recorded using a 0.25% and 2.0% discount factor at June 30, 2020 and 2019, respectively. The current portion of the accruals of $16,459 and $12,996 at June 30, 2020 and 2019 is included in accounts payable and other accrued liabilities. The basis for the discount 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 ($18,300 and $15,017 at June 30, 2020 and 2019, respectively). The expected amounts to be recovered through insurance are included in other assets on the accompanying consolidated balance sheets.

2. Summary of Significant Accounting Policies (continued)

Workers' Compensation Insurance

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

Torrance Memorial maintains insurance to cover claims in excess of these amounts with an annual aggregate limit of $1,000.

Combined accruals for insured, uninsured claims and claims incurred but not reported are estimated by an actuary based upon the Health System's claims experience. Such accruals, which totaled $135,250 and $123,363 at June 30, 2020 and 2019, respectively, are recorded using a 0.25% and 2.0% discount factor at June 30, 2020 and 2019, respectively. The current portion of the accruals of $23,380 and $22,339 at June 30, 2020 and 2019, respectively, is included in accounts payable and other accrued liabilities. The basis of the discount 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 ($19,867 and $21,508 at June 30, 2020 and 2019, respectively). The expected amounts to be recovered through insurance are included in other assets in the accompanying consolidated balance sheets.

Cash and Cash Equivalents

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

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

The reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets that comprise the amount reported on the consolidated statements of cash flows at June 30, 2020 and 2019 is as follows:

	2020	2019
Cash and cash equivalents	**$ 1,297,325**	$ 662,468
Restricted cash in investments	**131,729**	79,510
Total cash, cash equivalents and restricted cash	**$ 1,429,054**	$ 741,978

Fair Value of Financial Instruments

The Health System's consolidated balance sheets include the following financial instruments: cash and cash equivalents, investments, patient accounts receivable, accounts payable and other accrued liabilities, pension liabilities, and long-term obligations. The Health System considers the carrying amounts of current assets and liabilities in the consolidated balance sheets to approximate the fair value of these financial instruments, because of the relatively short period of time between origination of the instruments and their expected realization. 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 4.

Income Taxes

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

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

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

The Health System completed an analysis of its tax positions, in accordance with ASC 740, *Income Taxes*, and determined that there are no uncertain tax positions taken or expected to be taken. The Health System has recognized no interest or penalties related to uncertain tax positions. The Health System is subject to routine audits by the taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Health System believes it is no longer subject to income tax examinations for years prior to 2016.

Concentrations of Credit Risk

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

The Health System grants credit without collateral to its patients, most of whom are area residents and are insured under third-party agreements. The mix of net receivables from patients and third-party payers as of June 30 is as follows:

	June 30	
	2020	**2019**
Medicare	**18%**	18%
Medi-Cal	**2**	2
Commercial and managed care	**73**	73
Self-pay and other	**7**	7
	100%	100%

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

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

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which improves the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for fair value measurements. The ASU is effective for annual and interim reporting periods beginning after December 15, 2019, with early adoption permitted. The Health System is currently evaluating the impact of this new standard on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*, which improves the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for employers that sponsor defined benefit pension or other postretirement benefit plans. The ASU is effective for annual reporting periods beginning after December 15, 2021, with early adoption permitted. The Health System is currently evaluating the impact of this new standard on the consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which enhances ASU 2016-02, *Leases (Topic 842)*, which requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet and allows for an option to apply the transition provisions of the new ASU at its adoption date instead of at the earliest comparative period presented in its consolidated financial statements. Lease assets represents the Health System's right to use an

2. Summary of Significant Accounting Policies (continued)

underlying asset for the lease term and lease liabilities represent the Health System's obligation to make lease payments arising from the lease. The Health System adopted this standard using the modified retrospective method of application as of July 1, 2019, allowing for a cumulative effect adjustment in the period of adoption without restating prior periods. The Health System elected the package of practical expedients permitted under the transition guidance within the new standard which, among other things, allowed the Health System to not reassess prior conclusions related to contracts that contain leases, lease classification, and initial direct costs. The adoption of this new standard resulted in the recognition of operating lease right-of-use assets and operating lease liabilities of approximately $433,262 and $494,683, respectively, as of July 1, 2019, while the accounting for finance leases remained substantially unchanged. The adoption of the lease standard did not result in a cumulative catch-up adjustment to beginning net assets and did not materially impact the Health System's consolidated statement of operations and changes in net assets or cash flows for the year ended June 20, 2020. Additional information including required disclosures can be found within Note 9.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 745): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires entities to: (1) disaggregate the current-service-cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. In addition, entities are required to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines. The Health System adopted the new ASU for the year ended June 30, 2020, using a retrospective approach and elected to apply the practical expedient for disaggregating the service cost components and other components for the year ended June 30, 2019. This resulted in pension credit of $12,149 and $7,082 being reclassified from salaries and related costs to other components of net periodic benefit credit in the consolidated statements of operations for the years ended June 30, 2020 and 2019, respectively.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which amends ASC 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. Therefore, restricted cash should be included with cash and cash equivalents when reconciling the total amounts shown on the consolidated statement of cash flows at the beginning and at the end of each year. The Health System adopted the standard effective on June 30, 2020 and applied the provisions retrospectively

(Dollar Amounts Expressed in Thousands)

2. Summary of Significant Accounting Policies (continued)

to all periods presented in the consolidated financial statements. The adoption changed the presentation and classification of cash and cash equivalents included in assets limited as to use in the consolidated statements of cash flows for the years ended June 30, 2020 and 2019. For the years ended June 30, 2020 and 2019, the Health System added $131,729 and $79,510, respectively, of restricted cash included in assets limited as to use to the total cash, cash equivalents, and restricted cash in the consolidated statements of cash flows.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which 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 Health System adopted the new ASU for the year ended June 30, 2020. Investments that were accounted for under the cost method prior to the adoption are measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer, as fair value for these investments is not readily determinable. The Health System recorded an increase in investments in unconsolidated entities recorded under other assets of $22,133 as the result of an observable price change during the year ended June 30, 2020.

3. Property and Equipment

Property and equipment consist of the following:

	June 30	
	2020	**2019**
Land	**$ 258,962**	$ 258,962
Buildings and land improvements	**3,203,068**	3,139,992
Equipment	**654,453**	613,044
Software and software implementation costs	**708,573**	696,576
	4,825,056	4,708,574
Less accumulated depreciation and amortization	**2,204,346**	2,009,940
	2,620,710	2,698,634
Construction-in-progress	**788,890**	539,845
	$ 3,409,600	$ 3,238,479

(Dollar Amounts Expressed in Thousands)

3. Property and Equipment (continued)

Depreciation and amortization expense on property and equipment was $207,787 and $216,650 for the years ended June 30, 2020 and 2019, respectively.

Construction-in-progress consists of the following:

	June 30	
	2020	**2019**
Buildings and land improvements	**$ 646,554**	$ 441,100
Equipment	**19,925**	18,559
Software and software implementation costs	**99,560**	69,597
Capitalized interest	**22,851**	10,589
	$ 788,890	$ 539,845

If each project included in construction-in-progress were placed in service at June 30, 2020 and 2019, at the costs capitalized at that date, the Health System's annual depreciation would increase by approximately $38,880 and $28,446, respectively. This estimate of incremental annual depreciation is subject to change as additional costs are incurred to complete these projects.

4. Long-Term Debt

Cedars-Sinai and Torrance Memorial have public bonds. The entities do not assume any financial obligations related to payment of debt issued by each other. Revenue of each entity (excluding its affiliated or subsidiary organizations) is pledged to secure the payment of the principal and interest on all bonds and certificates under its separate Master Trust Indentures (Indentures). The Indentures contain covenants restricting additional debt and providing for the maintenance of certain financial ratios. Both entities were in compliance with these covenants at June 30, 2020 and 2019. Long-term debt issued and outstanding at June 30 is as follows:

(Dollar Amounts Expressed in Thousands)

4. Long-Term Debt (continued)

	June 30 2020	2019
Cedars-Sinai		
$535,000 Revenue Bonds, Series 2009; initial principal payments of $1,045 to $68,860 are due annually through 2039; interest is payable semiannually at 3.5% to 5.0%; the amount reported includes a face value of $0 and $8,685 at June 30, 2020 and 2019, respectively.	**$ –**	$ 8,685
$148,400 Revenue Bonds, Series 2011; principal payments of $9,845 to $19,845 are due annually through 2021; interest is payable semiannually at 3.0% to 5.0%; the amount reported includes a face value of $38,745 and $56,730, unamortized premiums of $434 and $1,167, and unamortized deferred financing costs of $43 and $116 at June 30, 2020 and 2019, respectively.	**39,136**	57,781
$370,220 Revenue Bonds, Series 2015; principal payments of $480 to $39,680 are due annually through 2035; interest is payable semiannually at 2.0% to 5.0%; the amount reported includes a face value of $368,120 and $368,120, unamortized premiums of $41,606 and $47,390, and unamortized deferred financing costs of $1,502 and $1,727 at June 30, 2020 and 2019, respectively.	**408,224**	413,783
$267,420 Revenue Bonds, Series 2016A; principal payments of $5,040 to $38,905 are due annually through 2036; interest is payable semiannually at 4.0% to 5.0%; the amount reported includes a face value of $250,915 and $256,215, unamortized premiums of $38,695 and $42,408, and unamortized deferred financing costs of $1,124 and $1,232 at June 30, 2020 and 2019, respectively.	**288,486**	297,391
$402,305 Revenue Bonds, Series 2016B; principal payments of $1,625 to $66,900 are due annually through 2039; interest is payable semiannually at 3.0% to 5.0%; the amount reported includes a face value of $402,305 and $402,305, unamortized premiums of $26,617 and $28,327, and unamortized deferred financing costs of $1,931 and $2,057 at June 30, 2020 and 2019, respectively.	**426,991**	428,575
Other notes payable, secured by deeds of trust	**24,242**	14,667
Capital leases	**–**	806
Cedars-Sinai total	**$ 1,187,079**	$ 1,221,688

(Dollar Amounts Expressed in Thousands)

4. Long-Term Debt (continued)

	June 30 2020	2019
Torrance Memorial		
$135,000 Revenue Bonds, Series 2010A; principal payments of $1,910 to $12,290 are due annually through 2040; interest is payable semiannually at 3.0% to 5.0%; the amount reported includes a face value of $126,905 and $129,070, unamortized premiums of $6,313 and $6,626, and unamortized deferred financing costs of $1,415 and $1,486 at June 30, 2020 and 2019, respectively.	**$ 131,803**	$ 134,210
$64,860 Revenue Bonds, Series 2010B; principal payments are due semiannually through 2045; interest is payable based on a variable rate ranging from 2.88% to 3.06%; the amount reported includes a face value of $63,020 and $63,510, unamortized discounts of $0 and $0, and unamortized deferred financing costs of $949 and $987 at June 30, 2020 and 2019, respectively.	**62,071**	62,523
$35,140 Revenue Bonds, Series 2010C; principal payments are due semiannually through 2045; interest is payable semiannually based on a variable rate ranging from 2.88% to 3.06%; the amount reported includes a face value of $34,135 and $34,395, unamortized discounts of $0 and $0, and unamortized deferred financing costs of $420 and $437 at June 30, 2020 and 2019, respectively.	**33,715**	33,958
$34,795 Revenue Notes, Series 2016A; principal payments of $2,020 to $2,700 are due annually through 2026; interest is payable semiannually at 2.4%; the amount reported includes a face value of $28,695 and $30,755, unamortized discounts of $395 and $456, and unamortized deferred financing costs of $142 and $165 at June 30, 2020 and 2019, respectively.	**28,158**	30,134
$30,000 Revenue Notes, Series 2016B; principal payments of $2,770 to $3,285 are due annually through 2026; interest is payable semiannually at 2.3%; the amount reported includes a face value of $21,645 and $24,480, unamortized discounts of $351 and $405, and unamortized deferred financing costs of $138 and $160 at June 30, 2020 and 2019, respectively.	**21,156**	23,915
Other notes payable	**503**	505
Torrance Memorial total	**277,406**	285,245
Cedars-Sinai and Torrance Memorial total	**1,464,485**	1,506,933
Less current maturities for Cedars-Sinai and Torrance Memorial	**62,088**	51,919
	$ 1,402,397	$ 1,455,014

4. Long-Term Debt (continued)

In November 2016, CSMC issued $669,725 of California Health Facilities Financing Authority Revenue Bonds, composed of the 2016A Series Revenue Bonds totaling $267,420 and the 2016B Series Revenue Bonds totaling $402,305. The proceeds totaled $755,157, including a premium on the 2016A Series Revenue Bonds of $52,585 and a premium on the 2016B Series Revenue Bonds of $32,847, both of which will be amortized as a reduction of interest expense over the life of the bonds based on the effective interest rate. Total issuance costs of $3,975 were incurred in connection with the offerings. The proceeds from the 2016A Series Revenue Bonds were used to finance the costs of future capital expenditures, including the purchase of an administrative office building (including the land) that was previously leased by CSMC. 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 $0 and $8,685 as of June 30, 2020 and 2019, respectively.

In November 2015, CSMC 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.

The weighted-average interest rate for CSMC's bonds was 3.58% at June 30, 2020 and 2019.

In December 2012, CSMC entered into a $50,000 credit agreement (the Agreement) with a bank that will expire in February 2023. CSMC may borrow under the Agreement with interest charged at either the London Interbank Offered Rate (LIBOR) plus an applicable margin of 0.375% based on CSMC’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, 2020, the three-month LIBOR was 0.3% and the bank’s prime rate was 3.3%. Cedars- Sinai Medical Center also pays a 0.125% annual commitment fee on the unused credit line. The Agreement is secured on a parity basis under the Bond Indenture with the tax-exempt financings of CSMC. No amounts have been borrowed under the Agreement.

In February 2019, CSMC entered into a new $50,000 credit agreement with another bank that will expire in February 2024. The terms are substantially similar to the Agreement described above, except the commitment fee on the unused credit line is 10% as of June 30, 2020, and the applicable margin is 0.6% based on CSMC’s maintaining its Moody’s rating. No amounts have been borrowed under this agreement.

4. Long-Term Debt (continued)

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

In September 2010, the City of Torrance issued Series 2010 A, 2010 B, and 2010 C Bonds for an aggregate principal amount of $235,000. The 2010 Series A and Series B Bonds were issued to assist in financing the construction of the new patient tower. The 2010 Series C Bonds were issued to refund the 1992 Bonds. As of June 30, 2020 and 2019, the weighted-average interest rate on the 2010 Series A Bonds was 4.90% and 4.61%, respectively. The interest rate for the 2010 Series B and 2010 Series C Bonds at June 30, 2020 and 2019 was 1.31% and 3.06%, respectively. Series 2010 A were redeemed on September 1, 2020 as further described in Note 13.

In June 2015, TMMC entered into a direct purchase agreement with JP Morgan for the 2010 Series B and 2010 Series C bonds. Under terms of this agreement, JP Morgan purchased the entire amount of the two issuances at face value. The interest rate mode was changed from variable rate demand bonds that priced weekly to a semi-variable interest rate formula that is a function of the one-month LIBOR and reprices monthly. The term of the direct purchase is for a four-year period, after which JP Morgan has the option to continue or to exit the direct purchase relationship. The agreement was renewed in July 2018 to extend the term till July 2, 2023. The underlying line of credit backing the issuances was canceled. Other significant terms and covenants of the debt remain substantially the same.

(Dollar Amounts Expressed in Thousands)

4. Long-Term Debt (continued)

The combined aggregate amount of maturities and sinking fund requirements (excluding the unamortized net premium of $112,919 and unamortized deferred financing costs of $7,664 at June 30, 2020) for the five fiscal years succeeding June 30, 2020 and thereafter is as follows:

2021	$ 51,135
2022	43,958
2023	45,445
2024	47,580
2025	49,760
Thereafter	1,121,352
	$ 1,359,230

For the years ended June 30, 2020 and 2019, interest costs incurred totaled $51,397 and $52,930, respectively, of which $13,423 and $7,765, respectively, was capitalized as part of the cost of construction-in-progress.

5. Retirement Plans

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

In 1991, Cedars-Sinai implemented a defined contribution plan (the Cedars-Sinai Defined Contribution Plan), covering substantially all employees covered under the Suspended Employee Plan. Contributions under the Cedars-Sinai Defined Contribution Plan are calculated based on each employee's salary and totaled $79,534 and $76,040 for the years ended June 30, 2020 and 2019, respectively. Employees have the choice of participation in either the Cedars-Sinai Defined Benefit Plan or the Cedars-Sinai Defined Contribution Plan and can change the selection once during their employment.

5. Retirement Plans (continued)

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

In addition, certain key employees of Cedars-Sinai are covered by separate defined contribution and defined benefit retirement plans, which are not governed by the Employee Retirement Income Security Act of 1974. Contributions under these plans are calculated based on each key employee's salary and totaled $25,480 and $23,521 for the years ended June 30, 2020 and 2019, respectively.

Torrance Memorial has a noncontributory defined benefit retirement plan (the THA Defined Benefit Plan) under which employees, upon retirement, are provided a monthly pension if conditions related to age and length of service have been met. During 2009, Torrance Memorial adopted an amendment, effective January 1, 2010, that reduces benefits accrued under plan provisions and freezes participation in the THA Defined Benefit Plan to those individuals employed by Torrance Memorial on or before December 31, 2009. Individuals employed subsequent to this date become eligible for participation in a defined contribution plan, to be funded 100% by Torrance Memorial. On February 26, 2020, Torrance Memorial amended the THA Defined Benefit Plan to cease benefit accruals and freeze plan participation effective June 27, 2020. The plan amendment reduced the benefit obligation by $37,790 as of February 26, 2020, which was recorded as a curtailment gain in the consolidated statements of operations and changes in net assets. In addition, with the plan freeze, the amortization of outstanding gains and losses has been changed from expected future service to expected future lifetime of the plan population.

On January 1, 2010, Torrance Memorial began a new 401(a) defined contribution plan (THA 401(a) Plan). Torrance Memorial employees hired on or after January 1, 2010, and who are at least 21 years of age, are eligible to participate in the THA 401(a) Plan. Under the provisions of the THA 401(a) Plan, employees become members on January 1 or July 1, whichever is sooner, following the completion of one year of employment in which the employee was credited with at least 1,000 hours of service. Contributions to the THA 401(a) Plan are made entirely by Torrance Memorial and range from 3% to 6% of annual compensation, based on years of service. Contributions to employee accounts vest based upon years of service, with accounts becoming

5. Retirement Plans (continued)

fully vested upon completion of five years of service with Torrance Memorial. Following the freeze of the THA Defined Benefit Plan effective June 27, 2020, all eligible employees previously participating in the THA Defined Benefit Plan were transferred to the THA 401(a) Plan and the contributions to the THA 401(a) Plan by Torrance Memorial now range from 3% to 11% of annual compensation, based on years of service, with no changes to the vesting conditions. Torrance Memorial's contributions to the THA 401(a) Plan amounted to approximately $5,160 and $4,377 for the years ended June 30, 2020 and 2019 respectively.

Torrance Memorial's employees participate in a 403(b) plan sponsored by THA. Under the provisions of the plan, participating employees may make voluntary contributions through salary deductions. Torrance Memorial matches eligible employee contributions at rates between 20% to 100% with a maximum limit of eight hundred dollars per year based upon years of service with Torrance Memorial. Torrance Memorial's contributions related to the 403(b) plan amounted to approximately $1,296 and $1,135 for the years ended June 30, 2020 and 2019 respectively.

In addition, Torrance Memorial has recorded liabilities for pension benefits of $6,928 and $6,530 as of June 30, 2020 and 2019, respectively, relating to Torrance Memorial's other retirement plans.

The following tables present information related to changes in projected benefit obligations, plan assets and their composition, funded status, the accumulated benefit obligation, and net periodic pension cost for all Cedars-Sinai and THA defined benefit plans (the Plans) at June 30, 2020 and 2019, and for the years then ended. Cedars-Sinai contributed $40,000 to fund the Cedars-Sinai Defined Benefit Plan in September 2020.

(Dollar Amounts Expressed in Thousands)

5. Retirement Plans (continued)

	Year Ended June 30, 2020		
	Cedars- Sinai	**THA**	**Total**
Change in projected benefit obligations:			
Projected benefit obligation at beginning of year	**$ 652,646**	**$ 459,358**	**$ 1,112,004**
Service cost	**42,866**	**16,663**	**59,529**
Interest cost	**20,976**	**15,169**	**36,145**
Actuarial losses	**64,770**	**70,121**	**134,891**
Benefits paid	**(18,806)**	**(13,404)**	**(32,210)**
Settlements	**(3,847)**	**–**	**(3,847)**
Curtailments	**–**	**(37,790)**	**(37,790)**
Projected benefit obligation at end of year	**758,605**	**510,117**	**1,268,722**
Change in plan assets:			
Fair value of plan assets at beginning of year	**562,046**	**373,077**	**935,123**
Actual gain (loss) on plan assets	**20,281**	**(11,575)**	**8,706**
Employer contributions	**77,851**	**40,932**	**118,783**
Benefits paid	**(18,806)**	**(13,404)**	**(32,210)**
Expenses paid	**(1,238)**	**–**	**(1,238)**
Settlements	**(3,847)**	**–**	**(3,847)**
Fair value of plan assets at end of year	**636,287**	**389,030**	**1,025,317**
Funded status	**$ 122,318**	**$ 121,087**	**$ 243,405**

	June 30, 2020	
	Cedars-Sinai	**THA**
Composition of plan assets:		
Short-term money market funds	**14%**	**10%**
Government and corporate debt	**8**	**25**
U.S. government agencies and asset backed securities	**–**	**6**
Equity securities	**10**	**25**
Mutual funds	**64**	**10**
Common/collective trusts	**4**	**24**
	100%	**100%**

(Dollar Amounts Expressed in Thousands)

5. Retirement Plans (continued)

	June 30, 2020		
	Cedars-Sinai	**THA**	**Total**
Amounts recognized as pension liability in the consolidated balance sheet	**$ 122,318**	**$ 121,087**	**$ 243,405**
Accumulated benefit obligation	**$ 715,650**	**$ 510,117**	**$ 1,225,767**

	Year Ended June 30, 2020		
	Cedars-Sinai	**THA**	**Total**
Net periodic benefit cost recognized:			
Service cost	**$ 42,866**	**$ 16,663**	**$ 59,529**
Interest cost	**20,976**	**15,169**	**36,145**
Expected return on plan assets	**(34,565)**	**(24,626)**	**(59,191)**
Amortization of net loss	**10,627**	**–**	**10,627**
Amortization of prior service costs	**270**	**–**	**270**
Net periodic benefit cost	**$ 40,174**	**$ 7,206**	**$ 47,380**

	June 30, 2020	
	Cedars-Sinai	**THA**
Weighted-average assumptions used to determine benefit obligations consist of the following:		
Discount rate used to determine service cost	**3.85%**	**3.83%**
Discount rate used to determine projected benefit obligation	**2.87**	**2.90**
Expected long-term rate of return on plan assets	**5.75**	**6.25**
Rate of increase in future compensation levels	**4.00**	**4.00**

(Dollar Amounts Expressed in Thousands)

5. Retirement Plans (continued)

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

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

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

(Dollar Amounts Expressed in Thousands)

5. Retirement Plans (continued)

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

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

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

Amounts included in net assets without donor restrictions that have not been recognized in net periodic pension cost as of June 30, 2020, are as follows:

	Cedars-Sinai	**THA**	**Total**
Unrecognized prior service costs	**$ 607**	**$ –**	**$ 607**
Unrecognized prior loss	**241,616**	**112,601**	**354,217**
	$ 242,223	**$ 112,601**	**$ 354,824**

(Dollar Amounts Expressed in Thousands)

5. Retirement Plans (continued)

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

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

The unrecognized prior losses and unamortized prior service costs expected to be recognized over the fiscal year ending June 30, 2021 are $18,404 and $270, respectively, for the Cedars-Sinai Defined Benefit Plan and $2,182 and $0, respectively, for the THA Defined Benefit Plan.

Plans Assets

Approximately 96% of plan assets relate to long-term investment activities covering the Health System's general employee population. The other 4% of the assets relate to a special plan for highly compensated employees closer to retirement age. The combined target allocation is 40% – 80% equities, 0% – 30% fixed income, and 10% – 50% short-term instruments. All investments are highly liquid.

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

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

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

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

(Dollar Amounts Expressed in Thousands)

5. Retirement Plans (continued)

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table presents the financial instruments in the Cedars-Sinai Defined Benefit Plan and THA Defined Benefit Plan carried at fair value as of June 30, 2020 and 2019, by level in the valuation hierarchy.

	Level 1	Level 2	Fair Value
June 30, 2020			
Cash and cash equivalents	**$ 129,510**	**$ –**	**$ 129,510**
Equities	**160,871**	**–**	**160,871**
U.S. government issues	**27,106**	**–**	**27,106**
U.S. government agencies and asset backed securities	**–**	**25,153**	**25,153**
Corporate bonds	**–**	**119,418**	**119,418**
Mutual funds	**445,726**	**–**	**445,726**
	$ 763,213	**$ 144,571**	**907,784**
Common/collective trusts measured at net asset value			**117,533**
			$ 1,025,317

(Dollar Amounts Expressed in Thousands)

5. Retirement Plans (continued)

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

Plans' Investment Strategy

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

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

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

(Dollar Amounts Expressed in Thousands)

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

Plans' Cash Flows

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

	Cedars-Sinai	THA	Total
2021	$ 30,054	$ 17,497	$ 47,551
2022	30,647	17,357	48,004
2023	32,831	18,634	51,465
2024	34,516	19,752	54,268
2025	36,188	20,722	56,910
2026 through 2030	205,033	114,359	319,392

6. Investments

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

	Year Ended June 30	
	2020	**2019**
Interest and dividend income	**$ 64,850**	$ 73,656
Realized gains	**14,013**	146,502
Net change in unrealized gains (losses)	**46,635**	(62,376)
Investment gain included in the consolidated statements of operations and changes in net assets	**$ 125,498**	$ 157,782

(Dollar Amounts Expressed in Thousands)

6. Investments (continued)

The following table presents the financial instruments carried at fair value as of June 30, 2020 and 2019, by valuation hierarchy, as defined in Note 5. Alternative investments are recorded at net asset value, which is a practical expedient for fair value. The alternative investments are redeemable monthly, quarterly, semiannually, annually, or at the end of the term.

There were no significant transfers between Levels 1, 2, or 3 during the years ended June 30, 2020 and 2019. Fair values are based on the market approach valuation technique as defined in Note 5. There are no capital commitments associated with alternative investments.

	Level 1	Level 2	Fair Value
June 30, 2020			
Cash and cash equivalents in assets limited to use	**$ 131,729**	**$ –**	**$ 131,729**
Equities	**527,622**	**–**	**527,622**
U.S. government debt	**255,527**	**–**	**255,527**
U.S. government agencies and asset backed securities	**–**	**46,175**	**46,175**
Corporate debt (domestic)	**–**	**369,355**	**369,355**
Foreign government debt	**–**	**83,807**	**83,807**
Mutual funds and other	**796,144**	**–**	**796,144**
	$ 1,711,022	**$ 499,337**	**2,210,359**
Alternative investments measured at net asset value			**456,088**
			$ 2,666,447

(Dollar Amounts Expressed in Thousands)

6. Investments (continued)

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

7. Availability of Financial Assets

The following reflects the Health System's financial assets at June 30, 2020 and 2019, reduced by amounts not available for general use within one year of the consolidated balance sheet date because of contractual or donor-imposed restrictions or internal designations.

	2020	2019
Cash and cash equivalents	**$ 1,297,325**	$ 662,468
Short-term investments	**660,140**	1,221,940
Board-designated assets	**1,284,604**	1,167,285
Patient accounts receivable	**579,465**	664,573
	$ 3,821,534	$ 3,716,266

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

(Dollar Amounts Expressed in Thousands)

7. Availability of Financial Assets (continued)

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

The Health System has two $50,000 credit agreements as discussed in Note 4. As of June 30, 2020, $50,000 was available at each bank.

8. Net Assets with Donor Restrictions

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

	2020	2019
Health care services	**$ 366,240**	$ 331,136
Purchase of capital assets	**10,390**	14,564
Health education and research	**150,925**	138,556
Endowment funds	**373,592**	347,996
	$ 901,147	$ 832,252

During the years ended June 30, 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of health care services and health education totaling $232,215 and $225,407, respectively, and capital expenditures and contributions totaling $3,118 and $951, respectively.

Endowment funds at June 30, 2020 and 2019 are restricted to investments that are to be held in perpetuity to provide a permanent source of income.

(Dollar Amounts Expressed in Thousands)

8. Net Assets with Donor Restrictions (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 0.49% to 13.82%). Pledges receivable in donor restricted net assets are scheduled to be received as follows:

	2020	2019
Due in one year or less	**$ 36,273**	$ 37,755
Due after one year through five years	**92,855**	89,415
Due after five years	**141,003**	140,944
Total balance, less allowance of $17,281 and $13,645 in 2020 and 2019, respectively	**270,131**	268,114
Less discount to present value	**36,004**	39,824
Pledges receivable, net	**$ 234,127**	$ 228,290

During the years ended June 30, 2020 and 2019, the Health System had the following endowment-related activities:

	With Donor Restrictions	Without Donor Restrictions	Total
Endowment net assets, beginning of year July 1, 2018	$ 328,448	$ 484,583	$ 813,031
Contributions	19,548	11,098	30,646
Investment income	10,290	28,728	39,018
Transfers of investment income	(10,290)	(1,643)	(11,933)
Endowment net assets, end of year June 30, 2019	347,996	522,766	870,762
Contributions	**25,596**	**10,795**	**36,391**
Investment income	**11,006**	**21,158**	**32,164**
Transfers of investment income	**(11,006)**	**(1,779)**	**(12,785)**
Endowment net assets, end of year June 30, 2020	**$ 373,592**	**$ 552,940**	**$ 926,532**

8. Net Assets with Donor Restrictions (continued)

The Health System's endowment consists of 242 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.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Health System to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2020 or 2019.

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

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

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

9. Leases

The Health System leases property and equipment under operating and finance 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 landlord. Rents under the Health System's lease amounts generally increase from 2% to 5% on an annual basis. The Health System determines if an arrangement is a lease at contract inception. Lease assets and lease liabilities are recorded at the present value of lease payments over the lease term at the commencement date. As the Health System is not a public business entity, the Health System has made an accounting policy election as afforded to it as a non public business entity for all leases to use the risk-free rate based on the daily treasury yield curve at lease commencement in determining the present value of lease payments. Most leases include rental escalation clauses, renewal options and/or termination options that are factored into the determination of lease payments. Variable lease payments are non-lease services related to the lease including maintenance, repairs, property taxes, and insurance costs which are excluded from the right-of-use assets and lease liabilities and are recognized in the period in which the obligation of those payments is incurred. As it is not reasonably certain that renewal options will be exercised, the Health System does not include renewal options in the lease term for calculating the lease liability. Upon adoption of the new lease standard, discount rates for existing leases were established at July 1, 2019.

The Health System elected the package of practical expedients permitted under the transition guidance within the new standard which, among other things, allowed the historical lease classification not to be reassessed. The Health System made an accounting policy election to not apply the recognition requirements of the guidance to short-term leases with a term of 12 months or less. The Health System also made an accounting policy election not to separate non-lease components from lease components for all classes of assets. The Health System did not elect the hindsight practical expedient, which permits entities to use hindsight in determining the lease term and assessing impairment.

In 2013, THA financed $39,600 of the Torrance Memorial Specialty Center through a sale leaseback transaction with Continental Development Corp. (CDC). THA received $23,100 in cash and $16,500 in five-year notes receivable from CDC for the sale of the property. In 2012, THA financed $24,900 of certain properties through sale leaseback transactions with CDC. THA received $14,900 in cash and $10,000 in five-year notes receivable from CDC for the sale of the properties. THA recorded the sale of these properties based on the relative fair value on the date

(Dollar Amounts Expressed in Thousands)

9. Leases (continued)

of the transaction. As a result, no gains or losses were recorded in THA's statement of operations. The amount in finance lease right-of-use asset under these leases as of June 30, 2020 is $40,001 after accumulated depreciation.

Lease term and discount rate as of June 30, 2020 are as follows:

Weighted-average operating leases remaining lease term	7.3 years
Weighted-average finance leases remaining lease term	3.9 years
Weighted-average operating lease discount rate	2.0%
Weighted-average finance lease discount rate	1.8%

Lease expense for lease payments is recognized on a straight-line basis over the lease term. The components of lease expense for the year ended June 30, 2020 are as follows:

Operating lease expense	$ 87,734
Variable lease expense	38,123
Short term lease expense	1,569
Sublease income	(4,653)
Finance lease expense:	
Amortization of leased assets	1,730
Interest on lease liabilities	103
Total lease expense	$ 124,606

Supplemental cash flow information related to leases for the year ended June 30, 2020 are as follows:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	$ 88,827
Operating cash flows from finance leases	99
Financing cash flows from finance leases	2,075
Lease assets obtained in exchange for new operating lease liabilities	$ 479,145
Lease assets obtained in exchange for new finance lease liabilities	7,652

(Dollar Amounts Expressed in Thousands)

9. Leases (continued)

The following table summarizes the maturity of lease liabilities under operating and finance leases for the next five years and the years thereafter, as of June 30, 2020:

	Operating Leases	Finance Leases	Total
2021	$ 88,946	$ 2,220	$ 91,166
2022	84,012	1,529	85,541
2023	65,387	1,403	66,790
2024	60,367	1,102	61,469
2025	53,193	338	53,531
Thereafter	172,200	86	172,286
Total lease payments	$ 524,105	$ 6,678	$ 530,783
Less: Interest	(56,608)	(203)	
Total lease liabilities	$ 467,497	$ 6,475	

As of June 30, 2019, leases were reported in accordance with the Health System's historical accounting policy and were classified as either capital leases or operating leases, which were not recognized as assets and liabilities in the consolidated balance sheets.

Future minimum lease commitments under non-cancelable operating leases as of June 30, 2019 were as follows:

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

(Dollar Amounts Expressed in Thousands)

9. Leases (continued)

Future minimum lease commitments under capital leases as of June 30, 2019 were as follows:

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

10. Commitments and Contingencies

Pending claims and legal proceedings at June 30, 2020 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.

Litigation – Employment Practices (Class Action)

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

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

(Dollar Amounts Expressed in Thousands)

10. Commitments and Contingencies (continued)

Other

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

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

11. Functional Expenses

The Health System provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended June 30, 2020 and 2019 are as follows:

	Healthcare Services	General and Administrative	Fundraising	Total
June 30, 2020				
Salaries and related costs	**$ 2,225,837**	**$ 288,665**	**$ 8,795**	**$ 2,523,297**
Professional fees	**369,876**	**–**	**–**	**369,876**
Materials, supplies, and other	**1,388,217**	**221,818**	**3,851**	**1,613,886**
Medi-Cal Fee Program expense	**127,658**	**–**	**–**	**127,658**
Interest	**31,650**	**6,324**	**–**	**37,974**
Depreciation and amortization	**203,694**	**27,122**	**491**	**231,307**
	$ 4,346,932	**$ 543,929**	**$ 13,137**	**$ 4,903,998**

(Dollar Amounts Expressed in Thousands)

11. Functional Expenses (continued)

	Healthcare Services	General and Administrative	Fundraising	Total
June 30, 2019				
Salaries and related costs	$ 2,088,241	$ 270,101	$ 8,736	$ 2,367,078
Professional fees	349,357	–	–	349,357
Materials, supplies, and other	1,345,853	235,392	1,822	1,583,067
Medi-Cal Fee Program expense	129,849	–	–	129,849
Interest	37,657	7,508	–	45,165
Depreciation and amortization	210,723	28,668	490	239,881
	$ 4,161,680	$ 541,669	$ 11,048	$ 4,714,397

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

12. COVID-19

In March 2020, the World Health Organization (WHO) declared the novel coronavirus disease (COVID-19) a pandemic. The Center for Disease Control (CDC) confirmed its spread to the United States and it was declared a national public health emergency, followed by several state emergency declarations, and the Centers for Medicare and Medicaid Services (CMS) issuing guidance regarding elective procedures. California Governor Gavin Newsom issued a community shelter in place order on March 19, 2020. Following the guidelines from federal, state and local governments, the Health System decided to postpone non-essential or elective surgical procedures starting the third week of March, which led to a reduction to the Health System's overall patient volume and patient service revenue. The Health System implemented a Pay Protection Program which allowed those employees whose work was affected due to low volume or cancellations to be reassigned to other areas in need and to be paid in full while waiting for reassignment.

The Health System began experiencing gradual and continued improvement in patient volumes in May and June as the State eased stay-at-home restrictions and announced plans to resume delayed health care services that were deferred as hospitals prepared for a COVID-19 surge. However, COVID-19 could still negatively affect the operations and financial results of the Health System as the duration of the pandemic is unknown.

12. COVID-19 (continued)

From April 2020 through June 2020, the Health System received approximately $142,000 from various provisions in the CARES Act Provider Relief Fund. These payments are not subject to repayment, provided the Health System is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. Based on an analysis of the compliance and reporting requirement of the Provider Relief Fund and the impact of the pandemic on the Health System's operating results through June 30, 2020, the Health System believes there is reasonable assurance the applicable terms and conditions required to retain the funds are met as of June 30, 2020, and therefore, the payments are recorded in other operating revenues in the consolidated statements of operations and changes in net assets. The Health System will continue to monitor the terms and conditions of the CARES Act funding and the impact of the pandemic on revenues and expenses. If the Health System is unable to attest or comply with future terms and conditions, the ability to retain some or all of the distributions received may be impacted. Additionally, the Health System received approximately $59,000 of Medicare advance payments in April 2020 as part of the Accelerated and Advance Payment Program from the CMS, which has been recorded in due to third-party payers in the consolidated balance sheet. The repayment does not begin for one year starting from the date the advance payments were issued.

13. Subsequent Events

On July 15, 2020, the Health System entered into an affiliation agreement with Pasadena Hospital Association Ltd., a California nonprofit public benefit corporation doing business as Huntington Hospital, for the purpose of Huntington Hospital joining the Health System's integrated health care delivery system. Huntington Hospital is a 619-bed nonprofit hospital in Pasadena, California. The proposed affiliation includes commitments to continue investment in Huntington Hospital in enterprise information technology, growth of ambulatory services and physician development. It will also enable collaborations with the other entities in the Health System to ensure access to high-quality, accessible and affordable care throughout the region. The affiliation agreement is pending review and approval from the appropriate government regulators as of October 26, 2020. Upon approval, the Health System will become the sole corporate member of Huntington Hospital.

13. Subsequent Events (continued)

In August 2020, TMMC issued Torrance Memorial Medical Center Taxable Refunding Bonds, Series 2020 A (Series 2020 A Bonds) in the aggregate principal amount of $124,655. The proceeds of the Series 2020 A were used to refund the outstanding balance of City of Torrance Revenue Bonds, Series 2010 A. Effective August 25, 2020, TMMC entered into a direct purchase agreement with Barclays Capital Inc. (Barclays), where Barclays agreed to lend to TMMC an amount equal to the aggregate principal amount of the Series 2020 A Bonds. Under terms and conditions of this agreement, the interest rate is a variable rate that is a function of the one-month LIBOR based on the credit rating of Series 2020 A Bonds. The final maturity date is up to 20 years with a mandatory tender date of November 30, 2022.

Reports Required by the Uniform Guidance

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

Management and the Board of Directors
Cedars-Sinai Health System

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cedars-Sinai Health System, which comprise the consolidated balance sheet as of June 30, 2020, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2020.

Internal Control Over Financial Reporting

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

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

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

Building a better working world

Compliance and Other Matters

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

Purpose of this Report

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

Ernst & Young LLP

October 26, 2020

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

Management and the Board of Directors
Cedars-Sinai Health System

Report on Compliance the Major Federal Program

We have audited Cedars-Sinai Health System's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on Cedars-Sinai Health System's major federal program for the year ended June 30, 2020. Cedars-Sinai Health System's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, Cedars-Sinai Health System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 (Research and Development Cluster, I. Procurement and Suspension and Debarment). Our opinion on the major federal program is not modified with respect to these matters.

Cedars-Sinai Health System's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Cedars-Sinai Health System's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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.

Building a better working world

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 (Research and Development Cluster, I. Procurement and Suspension and Debarment), that we consider to be significant deficiencies.

Cedars-Sinai Health System's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Cedars-Sinai Health System's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

September 30, 2021

Supplementary Information

Cedars-Sinai Health System

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

Federal Grantor/Program or Cluster Title/ Pass Through Grantor – Consolidated	Federal Assistance Listing No.	Pass Through Grantor Identifying No.	Research and Development Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
U.S. Department of Commerce:						
Economic Adjustment Assistance	11.307		$ 1,320,997	$ –	$ 1,320,997	$ –
Arrangements for Interdisciplinary Research Infrastructure	11.619		191,061	–	191,061	(70,000)
Total U.S. Department of Commerce			**1,512,058**	**–**	**1,512,058**	**(70,000)**
U.S. Department of Defense:						
Military Medical Research and Development	12.420		9,653,273	–	9,653,273	828,565
Pass Through – The University of Tennessee on behalf of its Health Science Center	12.420	W81XWH-18-1-0266	35,745	–	35,745	–
Pass Through – Duke University	12.420	W81XWH-14-1-0111	129,086	–	129,086	–
Pass Through – Johns Hopkins University School of Medicine	12.420	W81XWH-12-1-0588	17,144	–	17,144	–
Pass Through – University of Alabama at Birmingham	12.420	W81XWH-19-1-0558	21,937	–	21,937	–
Pass Through – University of Cambridge	12.420	W81XWH-14-1-0110	347,540	–	347,540	–
Pass Through – University of California – Davis	12.420	W81XWH-15-2-0063	8,014	–	8,014	–
Pass Through – University of California – Los Angeles	12.420	W81XWH-16-1-0092	33,800	–	33,800	–
Pass Through – University of Florida	12.420	W81XWH-17-2-0030	428,478	–	428,478	16,606
Pass Through – University of Pittsburgh	12.420	W81XWH-18-1-0070	961	–	961	–
Pass Through – University of Southern California	12.420	W81XWH-17-1-0612	84,399	–	84,399	74,639
Pass Through – Vanderbilt University Medical Center	12.420	W81XWH-15-1-0259	(7,745)	–	(7,745)	–
Total U.S. Department of Defense			**10,752,632**	**–**	**10,752,632**	**919,810**
National Science Foundation:						
Social, Behavioral, and Economic Sciences	47.075		17,422	–	17,422	–
Total National Science Foundation			**17,422**	**–**	**17,422**	**–**
U.S. Department of Veterans Affairs:						
Veterans Medical Care Benefits	64.009		–	13,256	13,256	–
Total U.S. Department of Veterans Affairs			**–**	**13,256**	**13,256**	**–**
U.S. Department of Health and Human Services:						
National Cancer Institute:	93.RD		1,405	–	1,405	–
Pass Through – University of Arizona	93.RD	HHSN2612012000311	6,375	–	6,375	–
Pass Through – Northwestern University	93.RD	HHSN2612012000351	63,407	–	63,407	–
Pass Through – Northwestern University	93.RD	SP001604060045298	88,889	–	88,889	–
Pass Through – Northwestern University	93.RD	SP001604060045323	112,349	–	112,349	–
			272,425	**–**	**272,425**	**–**
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077		13,324	–	13,324	–
Food and Drug Administration Research	93.103		460,755	–	460,755	147,609
Pass Through – Yale University	93.103	5U01FD005938	5,060	–	5,060	–
			465,815	**–**	**465,815**	**147,609**
Environmental Health	93.113		94,031	–	94,031	–
Oral Diseases and Disorders Research						
Pass Through – University of Rochester	93.121	R01 DE019902	10,217	–	10,217	–
Pass Through – University of Colorado	93.121	5U01DE024440	123,545	–	123,545	–
			133,762	**–**	**133,762**	**–**

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2020

Federal Grantor/Program or Cluster Title/ Pass Through Grantor – Consolidated	Federal Assistance Listing No.	Pass Through Grantor Identifying No.	Research and Development Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
Research and Training in Complementary and Integrative Health	93.213		$ 267,789	$ –	$ 267,789	$ 7,520
Research on Healthcare Costs, Quality and Outcomes	93.226		–	–	–	(35)
Pass Through – RAND Corporation	93.226	1R18HS026168-01A1	10,503	–	10,503	–
Pass Through – University of California – Los Angeles	93.226	1R01HS025394-01	5,334	–	5,334	–
Pass Through – University of South Carolina	93.226	1R01HS026491-01	256,488	–	256,488	–
			272,325	**–**	**272,325**	**(35)**
Mental Health Research Grants	93.242		535,127	–	535,127	–
Pass Through – University of North Carolina	93.242	4R33MH104330	3,118	–	3,118	–
Pass Through – University of North Carolina	93.242	U01MH070890	13,520		13,520	–
Pass Through – University of North Carolina	93.242	1R01MH111944-01A1	32,498	–	32,498	–
Pass Through – University of Washington, Seattle	93.242	3UH3MH106338	11,441	–	11,441	–
Pass Through – California Institute of Technology	93.242	23A-1097962	185,107	–	185,107	–
Pass Through – University of Minnesota	93.242	R01MH115046	56,989	–	56,989	–
			837,800	**–**	**837,800**	**–**
Alcohol Research Programs	93.273		1,225,935	–	1,225,935	55,676
Pass Through – University of Southern California	93.273	P50 AA011999	74,674	–	74,674	–
			1,300,609	**–**	**1,300,609**	**55,676**
Drug Abuse and Addiction Research Programs	93.279		214,796	–	214,796	64,382
Pass Through – California Institute of Technology	93.279	R01DA040011	33,568	–	33,568	–
Pass Through – University of North Carolina	93.279	1R01DA042988-01A1	156,404	–	156,404	–
Pass Through – University of North Carolina	93.279	1R01DA043678-01A1	322,857	–	322,857	–
Pass Through – RAND Corporation	93.279	1R34DA047492-01	59,947	–	59,947	–
COVID-19 Drug Abuse and Addiction Research Programs	93.279		3,070	–	3,070	–
			790,642	**–**	**790,642**	**64,382**
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283		831,192	–	831,192	669,281
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		1,106,563	–	1,106,563	149,806
Pass Through – Emory University	93.286	1U01EB028145-01	388,669	–	388,669	–
Pass Through – University of California – Los Angeles	93.286	1U01EB026421-01A1	98,165	–	98,165	–
Pass Through – University of Pittsburgh	93.286	1R21EB023507-01A1	27,950	–	27,950	–
			1,621,347	**–**	**1,621,347**	**149,806**
Minority Health and Health Disparities Research						
Pass Through – University of Alabama at Birmingham	93.307	5U54MD000502-16	40,508	–	40,508	–
TRANS-NIH Research Support						
Pass Through – University of California – San Diego	93.310	1OT2OD026552-01	1,155,654	–	1,155,654	–
National Center for Advancing Translational Sciences						
Pass Through – University of California – Los Angeles	93.350	UL1 TR001881	1,710,460	–	1,710,460	–
Pass Through – University of California – Los Angeles	93.350	1UG3TR003148-01	35,011	–	35,011	–
			1,745,471	**–**	**1,745,471**	**–**

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2020

Federal Grantor/Program or Cluster Title/ Pass Through Grantor – Consolidated	Federal Assistance Listing No.	Pass Through Grantor Identifying No.	Research and Development Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
Research Infrastructure Programs						
Pass Through – Jackson Laboratory	93.351	U54OD020351	$ 19,508	$ –	$ 19,508	$ –
Advance Education Nursing Traineeships						
Pass Through – University of California – Los Angeles	93.358	UL1TR001881	2,957	–	2,957	–
Nursing Research	93.361		16,182	–	16,182	–
Cancer Cause and Prevention Research	93.393		1,693,897	–	1,693,897	609,908
Pass Through – Fred Hutchinson Cancer Research Center	93.393	R01 CA201407	37,902	–	37,902	–
Pass Through – University of Texas, MD Anderson Cancer CT	93.393	R01CA188943	169,566	–	169,566	–
Pass Through – Dana Farber Cancer Institute	93.393	R01CA204954	145,108	–	145,108	–
Pass Through – Memorial Sloan-Kettering Cancer Center	93.393	R01CA179115	46,165	–	46,165	–
Pass Through – University of California – Los Angeles	93.393	P01CA163200	(993)	–	(993)	–
Pass Through – Van Andel Research Institute	93.393	R01CA190182	23,022	–	23,022	–
Pass Through – Washington University in St. Louis	93.393	unknown	21,343	–	21,343	–
Pass Through – University of Utah	93.393	1U01CA206110-01	171,607	–	171,607	17,415
Pass Through – Moffitt Cancer & Research Institute	93.393	1R01CA238087-01	236,857	–	236,857	–
Pass Through – Moffitt Cancer & Research Institute	93.393	1R01CA207456	253,422	–	253,422	–
Pass Through – University of Southern California	93.393	1R01CA209798-01A1	7,007	–	7,007	–
Pass Through – University of Virginia	93.393	1R01CA211574-01A1	188,426	–	188,426	–
Pass Through – University of Melbourne	93.393	2U01CA167551-07	166,533	–	166,533	24,749
			3,159,862	**–**	**3,159,862**	**652,072**
Cancer Detection and Diagnosis Research	93.394		4,064,003	–	4,064,003	844,722
Pass Through – Kaiser Permanente	93.394	1R01CA230442-01A1	71,552	–	71,552	–
Pass Through – Van Andel Research Institute	93.394	U24CA210969	187,614	–	187,614	–
Pass Through – University of California – Los Angeles	93.394	U01CA198900	57,656	–	57,656	–
Pass Through – University of Southern California	93.394	1R21CA234637-01A1	30,340	–	30,340	–
Pass Through – New York School of Medicine	93.394	U01CA214195	30,946	–	30,946	–
Pass Through – Tulane University	93.394	1R01CA222831-01A1	40,387	–	40,387	–
			4,482,498	**–**	**4,482,498**	**844,722**
Cancer Treatment Research	93.395		4,129,813	–	4,129,813	499,308
Pass Through – Mayo Foundation for Medical Education	93.395	UG1CA189823	56,781	–	56,781	41,525
Pass Through – Brigham and Women's Hospital	93.395	U10 CA076001	91,074	–	91,074	–
Pass Through – Childrens Hospital Philadelphia	93.395	U10 CA098543	983	–	983	–
Pass Through – Childrens Hospital Boston	93.395	1R21CA198722-01A1	(8,542)	–	(8,542)	–
Pass Through – Icahn School of Medicine at Mount Sinai	93.395	7R01CA232574-02	6,350	–	6,350	–
Pass Through – Oregon Health Science University	93.395	U10 CA032102	18,116	–	18,116	–
Pass Through – John Wayne Cancer Institute	93.395	5R01CA189163-03	278,409	–	278,409	–
Pass Through – University of Kentucky	93.395	1R01CA232574-01A1	(351)	–	(351)	–
			4,572,633	**–**	**4,572,633**	**540,833**
Cancer Biology Research	93.396		4,792,050	–	4,792,050	841,144
Cancer Centers Support Grants						
Pass Through – MD Anderson Cancer Center	93.397	5U54CA163191-06	1,339	–	1,339	–
Pass Through – University of Los Angeles	93.397	P50CA092131	54,610	–	54,610	–
			55,949	**–**	**55,949**	**–**

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2020

Federal Grantor/Program or Cluster Title/ Pass Through Grantor – Consolidated	Federal Assistance Listing No.	Pass Through Grantor Identifying No.	Research and Development Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
Cancer Research Man Power	93.398		$ 688,802	$ –	$ 688,802	$ –
COVID-19 Cliams Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured	93.461		–	101,481	101,481	–
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities						
Pass Through – California Department of Public Health	93.817	U3REP160550-01-00	869,104	–	869,104	–
COVID-19 Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities						
Pass Through – California Department of Public Health	93.817	unknown	1,619	–	1,619	–
			870,723	**–**	**870,723**	**–**
National Ebola Training and Education Center						
Pass Through – Emory University	93.825	1U3REP170552-01-00	28,257	–	28,257	–
Cardiovascular Diseases Research	93.837		17,371,519	–	17,371,519	2,086,657
Pass Through – University of North Carolina	93.837	R01HL147853	5,440	–	5,440	–
Pass Through – University of Michigan	93.837	1R21HL140274-01	25,089	–	25,089	–
Pass Through – University of Michigan	93.837	HHSN268201100026C	(216)	–	(216)	–
Pass Through – Wake Forest University	93.837	R01HL111362	1,073,452	–	1,073,452	–
Pass Through – Vanderbuilt University Medical Center	93.837	1P01HL129941	572,827	–	572,827	–
Pass Through – New England Research Institute	93.837	U24HL135691	6,234	–	6,234	–
Pass Through – Allina Health	93.837	UM1 HL087394	(7)	–	(7)	–
Pass Through – RTI International	93.837	U01 HL11991	(672)	–	(672)	–
Pass Through – Johns Hopkins University School of Medicine	93.837	P01 HL0107153	(105)	–	(105)	–
Pass Through – Columbia University Medical Center	93.837	RO1HL130500	50,173	–	50,173	–
Pass Through – Duke University	93.837	U10HL084904	36,881	–	36,881	–
Pass Through – Icahn School of Medicine at Mount Sinai	93.837	5U01HL125506-02	1,330	–	1,330	–
Pass Through – University of Miami	93.837	1R01HL137355	58,601	–	58,601	–
Pass Through – Beth Israel Deaconess Medical Center	93.837	1R01HL136463-01	114	–	114	–
Pass Through – Boston University	93.837	5R01HL142983-03	111,059	–	111,059	–
Pass Through – Brigham and Women's Hospital	93.837	5R01HL091069-08	88,346	–	88,346	–
Pass Through – Brigham and Women's Hospital	93.837	5R01HL116690-06	46,871	–	46,871	–
Pass Through – Brigham and Women's Hospital	93.837	5R01HL134811	12,542	–	12,542	–
Pass Through – Massachusetts General Hospital	93.837	5R01HL140224-02	37,058	–	37,058	–
Pass Through – Ohio State University	93.837	5R01HL128857-03	67,815	–	67,815	–
Pass Through – University of Texas Medical Branch	93.837	1UG3HL140131-01	6,823	–	6,823	–
Pass Through – Weill Cornell Medical College	93.837	7U01HL105561-08	(718)	–	(718)	–
Pass Through – University of Southern California	93.837	U01HL146333-01	19,422	–	19,422	–
Pass Through – Stanford University	93.837	5R01HL141371-02	12,726	–	12,726	–
			19,602,604	**–**	**19,602,604**	**2,086,657**
Lung Diseases Research	93.838		5,472,898	–	5,472,898	1,057,205
Pass Through – Cincinnati Children's Hospital Medical Center	93.838	5U01HL148856-02	9,899	–	9,899	–
Pass Through – University of Washington, Seattle	93.838	5U01HL123009-04	13,127	–	13,127	–
Pass Through – Yale University	93.838	1R01HL138540-01	113,790	–	113,790	–
			5,609,714	**–**	**5,609,714**	**1,057,205**

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2020

Federal Grantor/Program or Cluster Title/ Pass Through Grantor – Consolidated	Federal Assistance Listing No.	Pass Through Grantor Identifying No.	Research and Development Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
Blood Diseases and Resources Research	93.839		$ 274,121	$ –	$ 274,121	$ –
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		621,466	–	621,466	12,855
Pass Through – Columbia University Medical Center	93.846	R01AR050026	128,148	–	128,148	–
Pass Through – Penn State	93.846	1U01AR071077-01	101,298	–	101,298	–
Pass Through – University of Colorado	93.846	UH2AR067681	35,477	–	35,477	–
Pass Through – University of Iowa	93.846	2R01AR059703	13,974	–	13,974	–
Pass Through – University of Pennsylvania	93.846	U54AR057319	1,808	–	1,808	–
Pass Through – University of Pittsburgh	93.846	1R01AR071659-01A1	11,305	–	11,305	–
			913,476	**–**	**913,476**	**12,855**
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		8,010,798	–	8,010,798	1,214,123
Pass Through – University of California – San Diego	93.847	P30 DK063491	146,296	–	146,296	–
Pass Through – University of California – Los Angeles	93.847	P01DK098108	16,397	–	16,397	–
Pass Through – Childrens Hospital Boston	93.847	R01DK104641	4,856	–	4,856	–
Pass Through – California Institute of Technology	93.847	5R01MH100556	47,738	–	47,738	–
Pass Through – Indiana University	93.847	1R01DK116963-01A1	49,019	–	49,019	–
Pass Through – Oklahoma Medical Research Foundation	93.847	5R01DK085691-08	56,405	–	56,405	–
Pass Through – MD Anderson Cancer Center	93.847	U01DK108328-02S1	21,143	–	21,143	–
Pass Through – University of Washington, Seattle	93.847	R01DK088762	14,796	–	14,796	–
Pass Through – Brigham and Women's Hospital	93.847	1R01DK112940-01	15,944	–	15,944	–
Pass Through – University of Pennsylvania	93.847	4UH3DK102384-05	8,220	–	8,220	–
			8,391,612	**–**	**8,391,612**	**1,214,123**
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		4,651,967	–	4,651,967	667,521
Pass Through – University of California – Los Angeles	93.853	U01NS098961	51,669	–	51,669	–
Pass Through – University of California – Irvine	93.853	U54NS091046	283,271	–	283,271	–
Pass Through – Partners Healthcare	93.853	U01NS088312	(774)	–	(774)	–
Pass Through – Childrens Hospital Philadelphia	93.853	R01NS096746	(1,266)	–	(1,266)	–
Pass Through – Mayo Clinic Rochester	93.853	P5001NS080168	4,456	–	4,456	–
Pass Through – University of Cincinnati	93.853	1U01NS099043-01A1	33,997	–	33,997	–
Pass Through – University of Cincinnati	93.853	012043-133926	3,832	–	3,832	–
Pass Through – University of Cincinnati	93.853	1U01NS100699-01A1	13,007	–	13,007	–
			5,040,159	**–**	**5,040,159**	**667,521**
Allergy and Infectious Diseases Research	93.855		8,279,273	–	8,279,273	572,220
Pass Through – Emory University	93.855	2U19 110483-06	5,241	–	5,241	–
Pass Through – Mass General Hospital	93.855	1U01AI136816-01	97,293	–	97,293	–
Pass Through – Mayo Clinic Jacksonville	93.855	1R21AI145356-01	159,004	–	159,004	–
Pass Through – Partners Healthcare	93.855	1U01AI136816-01	45,149	–	45,149	–
Pass Through – University of California – Los Angeles	93.855	5U01AI035040-26	(662)	–	(662)	–
Pass Through – University California – San Diego	93.855	7R21AI138053-02	25,967	–	25,967	–
Pass Through – University California – San Diego	93.855	1R01AI144694-01A1	1,819	–	1,819	–
Pass Through – University California – San Francisco	93.855	5UM1AI110498	10,771	–	10,771	–
Pass Through – Washington University in St. Louis	93.855	WU-20-345	3,316	–	3,316	–
			8,627,171	**–**	**8,627,171**	**572,220**

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2020

Federal Grantor/Program or Cluster Title/ Pass Through Grantor – Consolidated	Federal Assistance Listing No.	Pass Through Grantor Identifying No.	Research and Development Cluster	Other Expenditures	Total Expenditures	Expenditures to Subrecipients
Biomedical Research and Research Training	93.859		$ 511,650	$ –	$ 511,650	$ –
Pass Through – Thomas Jefferson University	93.859	R01 GM106047	(41)	–	(41)	–
			511,609	**–**	**511,609**	**–**
Child Health and Human Development Extramural Research	93.865		151,550	–	151,550	(746)
Pass Through – Arkansas Children's Research Institute	93.865	1R01HD099099-01	13,622	–	13,622	–
Pass Through – University of Colorado Springs	93.865	R01 HD073491	1,728	–	1,728	–
Pass Through – Harvard Pilgrim Health Care	93.865	1R01HD094150-01	22,834	–	22,834	–
Pass Through – University of Southern California	93.865	5R01HD092483-02	226,964	–	226,964	–
			416,698	**–**	**416,698**	**(746)**
Aging Research	93.866		1,497,203	–	1,497,203	408,225
Pass Through – University California – San Francisco	93.866	5R01AG053332-02	14,924	–	14,924	–
			1,512,127	**–**	**1,512,127**	**408,225**
Vision Research	93.867		3,897,781	–	3,897,781	227,711
National Bioterrorism Hospital Preparedness Program						
Pass Through – Los Angeles County	93.889	H-707432	–	191,783	191,783	–
Pass Through – Los Angeles County	93.889	H-708597	–	34,972	34,972	–
Pass Through – Los Angeles County	93.889	H-708214	–	37,700	37,700	–
			–	**264,455**	**264,455**	**–**
Total U.S. Department of Health and Human Services			**83,329,187**	**365,936**	**83,695,123**	**10,218,781**
U.S. Department of Homeland Security						
Hazard Mitigation Grant						
Pass Through – California Office of Emergency Services	97.039	FEMA-4308-DR-CA	–	(7,582)	(7,582)	–
Total U.S. Department of Homeland Security			**–**	**(7,582)**	**(7,582)**	**–**
Agency for International Development						
USAID Foreign Assistance for Programs Overseas	98.001		(1,068)	–	(1,068)	–
Total Agency for International Development			**(1,068)**	**–**	**(1,068)**	**–**
Total Expenditures of Federal Awards			**$ 95,610,231**	**$ 371,610**	**$ 95,981,841**	**$ 11,068,591**

See notes to Schedule of Expenditures of Federal Awards

Cedars-Sinai Health System

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

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

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

2. Federal Expenditures of $95,981,841 are reported in Cedars-Sinai Health System's consolidated financial statements for the fiscal year ended June 30, 2020, as net assets released from restrictions. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Schedule Required by the Uniform Guidance

Cedars-Sinai Health System

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

Section I – Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major federal programs:

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

Dollar threshold used to distinguish between Type A and Type B programs:	$ 2,879,455
Auditee qualified as low-risk auditee?	X **Yes** ____ **No**

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

Finding 2020-001

Internal control deficiency and noncompliance over suspension and debarment.

Information on the federal program:	11.619, Arrangements for Interdisciplinary Research Infrastructure, 70NANB16H252, 10/01/2019–09/30/2020. 11.420, Military Medical Research and Development, W81XWH-16-1-0190, 08/01/2018–07/31/2019. 11.420, Military Medical Research and Development, W81XWH-18-1-0593, 09/15/2019–09/14/2020. 93.286, Discovery and Applied Research for Technological Innovations to Improve Human Health, 1R01EB026094-01, 02/01/2019–01/31/2020. 93.394, Cancer Detection and Diagnosis Research, 7R01CA198887-04,05/01/2019–04/30/2020. 93.817, Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities, U3REP160550-01-00, 06/15/2019–06/14/2020, California Department of Public Health. 93.837, Cardiovascular Diseases Research, 5R01HL128857-03, 05/01/2019–04/30/2020, Ohio State University.

Section III – Federal Award Findings and Questioned Costs (continued)

Information on the federal program (continued):	93.853, Extramural Research Programs in the Neurosciences and Neurological Disorders, 1U01NS103792-01, 09/01/2019–08/31/2020. 93.853, Extramural Research Programs in the Neurosciences and Neurological Disorders, 1UG3NS105703-01, 09/01/2018–08/31/2019. 93.853, Extramural Research Programs in the Neurosciences and Neurological Disorders, 1UG3NS105703-01, 09/01/2019–08/31/2020.
Criteria or specific requirement (including statutory, regulatory or other citation):	Title 2, Subtitle A Chapter II Part 200 Subpart D 200.303 Internal controls. The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Title 2, Subtitle A Chapter I Part 180 Subpart C – Responsibilities of Participants Regarding Transactions Doing Business With Other Persons, 180.300: What must I do before I enter into a covered transaction with another person at the next lower tier?

Section III – Federal Award Findings and Questioned Costs (continued)

Criteria or specific requirement (including statutory, regulatory or other citation) (continued):	When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by: (a) Checking SAM Exclusions; or (b) Collecting a certification from that person; or (c) Adding a clause or condition to the covered transaction with that person.
Condition:	During our testing over suspension and debarment, management communicated to us that no suspension and debarment checks were done for vendors during July 2019 through January 2020, and March and May 2020.
Cause:	Due to changes in key personnel, and a lack of transition of knowledge and training for new personnel, suspension/debarment checks were not performed during the months mentioned above.
Effect or potential effect:	Transactions with vendors could have been entered into with suspended/debarred entities during the time-frame mentioned above.
Questioned costs:	None noted as no vendors were suspended or debarred.

Section III – Federal Award Findings and Questioned Costs (continued)

Context:	As management noted that this control was not in place and operating for certain months of the year, an analysis was performed to see what the population of vendor transactions in excess of $25,000 was for the months of July 2019 through January 2020, and March and May 2020. We observed that the total vendors that did not have a suspension and debarment check performed during these months was $811,345. We tested a sample of vendors during the other months, when the control was operational, noting no exceptions.
Identification as a repeat finding, if applicable:	No.
Recommendation:	We recommend that management ensure all policies, procedures, and internal controls over federal grants, including over suspension and debarment, are in place and followed throughout the year.
Views of responsible officials:	We agree with this finding and will ensure monthly sanction checks for vendor suspension and debarment will be properly executed by providing training and instructions to the individual performing the check.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2020-002

Internal control deficiency and noncompliance over procurement.

Information on the federal program:	11.307, Economic Adjustment Assistance, 07-79-07449; URI; 11, 07/01/2019-06/30/2020. 93.853, Extramural Research Programs in the Neurosciences and Neurological Disorders, U01 NS088312, 07/01/2018-06/30/2019. 93.286, Discovery and Applied Research for Technological Innovations to Improve Human Health, 1R01EB028146-01, 04/01/2019-12/31/2019. 93.866, Aging Research, 1R01AG056478-01, 06/01/2019-05/30/2020. 93.394, Cancer Detection and Diagnosis Research, 1U24CA210969-01, 9/1/2018-08/31/2019, Van Andel Research Institute.
Criteria or specific requirement (including statutory, regulatory or other citation):	Title 2, Subtitle A Chapter II Part 200 Subpart D 200.303 Internal controls. The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Section III – Federal Award Findings and Questioned Costs (continued)

Criteria or specific requirement (including statutory, regulatory or other citation) (continued):	2 CFR 200.317-327 contains the procurement standards required by Uniform Guidance. Non-federal entities must have written procedures for procurement transactions which include the requirements of the Uniform Guidance and must follow those procedures.
Condition:	During our testing over procurement, we noted that the Cedars-Sinai Health System procurement policy included information allowing for sole-source purchases that are not in accordance with procurement standards. Certain procurements did not maintain sufficient documentation in the procurement files to comply with the procurement standards.
Cause:	The procurement policy contains conflicting information not in accordance with procurement standards. Employees in charge of procuring goods/services did not follow all procurement documentation requirements for certain transactions.
Effect or potential effect:	The procurement policy is not in compliance with procurement standards. Certain transactions were awarded without allowing for sufficient competition or without documenting the appropriate rationale in the procurement files for sole-source procurements.
Questioned costs:	None noted.

Section III – Federal Award Findings and Questioned Costs (continued)

Context:	We tested 24 procurements (totaling $1,017,334) out of a population of 119 (totaling $3,750,966). We noted that for 8 ($662,102) out of our 24 procurements, there was insufficient procurement documentation to support the method of procurement or a justifiable reason for using the sole-source procurement method.
Identification as a repeat finding, if applicable:	No.
Recommendation:	We recommend that management ensure the procurement policy is updated to comply with the procurement standards. In addition, we recommend that procedures and internal controls are in place and followed to include all required documentation in the procurement files.
Views of responsible officials:	We agree with this finding and will ensure that policies and work procedures are updated to include the new procurement standards. We will also ensure that proper documentation is maintained to support methods of procurement for purchases made with federal funds.

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09/30/2021

Corrective Action Plan

Finding No. 2020-001

Individual Responsible: Motz Feinberg, Vice President Supply Chain

As a result of a lapse in performing monthly sanction checks for vendor suspension and debarment due to the departure of key personnel, lack of training, and transition of knowledge, Cedars-Sinai Health System is in violation of certain clauses of Title 2, Subtitle A, Chapter 11 Part 200 Subpart D 200.303 Internal Controls primarily relating to demonstrating reasonable assurance that our entity is managing the Federal award in compliance with Federal statues, regulations and the terms and conditions of the Federal award.

Effective by October 15, 2021, management will ensure monthly sanction checks for vendor suspension/debarment will be properly executed by providing training and instructions to the individuals performing the check.

Finding No. 2020-002

Individual Responsible: Motz Feinberg, Vice President Supply Chain

As a result of the incomplete supporting documentation incorporating the new procurement standard, Cedars-Sinai Health System is in violation of Part 200 Subpart D 200.318 and 200.320 relating to the acceptable method of procurement and maintenance of records sufficient to detail the history of procurement.

Management will ensure that policies and work procedures are updated to include the new procurement standards. We will also ensure that proper documentation is maintained to support methods of procurement for purchases made with federal funds.