

CONSOLIDATED FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION, AUDIT
REPORTS AND SCHEDULES RELATED TO THE
UNIFORM GUIDANCE

Northwell Health, Inc.
Year Ended December 31, 2020
With Reports of Independent Auditors

Ernst & Young LLP



Northwell Health, Inc.

Consolidated Financial Statements, Supplementary Information,
Audit Reports and Schedules Related to the Uniform Guidance

Year Ended December 31, 2020

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Report of Independent Auditors

Management and the Board of Trustees
Northwell Health, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Northwell Health, Inc. and its member corporations and other affiliated entities (collectively, Northwell), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of operations, 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 consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 consolidated 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 Northwell Health, Inc. and its member corporations and other affiliated entities at December 31, 2020 and 2019, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to April 28, 2021. The accompanying Schedule of Expenditures of Federal Awards for the year ended December 31, 2020, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated April 28, 2021 on our consideration of Northwell'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 Northwell'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 Northwell's internal control over financial reporting and compliance.

Ernst + Young LLP

April 28, 2021, except for our report on the schedule of expenditures of federal awards for which the date is March 29, 2022.

Northwell Health, Inc.

Consolidated Statements of Financial Position
(In Thousands)

	December 31	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 830,955	\$ 535,619
Short-term investments	3,619,297	2,931,431
Accounts receivable for services to patients, net	1,276,235	1,285,542
Accounts receivable for physician activities, net	271,784	255,893
Current portion of pledges receivable	51,076	47,316
Current portion of insurance claims receivable	45,232	44,256
Other current assets	498,422	349,832
Total current assets	<u>6,593,001</u>	<u>5,449,889</u>
Long-term investments	3,970,226	2,532,060
Pledges receivable, net of current portion	100,339	99,971
Property, plant and equipment, net	5,858,662	5,548,317
Right-of-use assets – operating leases	942,817	959,622
Insurance claims receivable, net of current portion	136,067	151,214
Other assets	466,603	415,610
Total assets	<u>\$ 18,067,715</u>	<u>\$ 15,156,683</u>
Liabilities and net assets		
Current liabilities:		
Short-term borrowings	\$ 95,000	\$ 95,000
Accounts payable and accrued expenses	1,082,632	989,611
Accrued salaries and related benefits	1,327,075	984,572
Current portion of operating lease obligations	132,289	118,163
Current portion of finance lease obligations	7,995	7,263
Current portion of long-term debt	58,924	56,950
Current portion of insurance claims liability	45,232	44,256
Current portion of malpractice and other insurance liabilities	187,777	184,506
Current portion of Medicare advances	374,408	–
Current portion of estimated payables to third-party payers	306,581	338,251
Total current liabilities	<u>3,617,913</u>	<u>2,818,572</u>
Accrued retirement benefits, net of current portion	755,697	646,738
Operating lease obligations, net of current portion	845,642	869,879
Finance lease obligations, net of current portion	250,069	227,819
Long-term debt, net of current portion	3,650,825	3,715,934
Insurance claims liability, net of current portion	136,067	151,214
Malpractice and other insurance liabilities, net of current portion	1,601,430	1,336,641
Medicare advances, net of current portion	655,821	–
Other long-term liabilities	908,630	634,490
Total liabilities	<u>12,422,094</u>	<u>10,401,287</u>
Commitments and contingencies		
Net assets:		
Without donor restrictions	4,861,852	4,063,674
With donor restrictions	783,769	691,722
Total net assets	<u>5,645,621</u>	<u>4,755,396</u>
Total liabilities and net assets	<u>\$ 18,067,715</u>	<u>\$ 15,156,683</u>

See accompanying notes.

Northwell Health, Inc.

Consolidated Statements of Operations (In Thousands)

	Year Ended December 31	
	2020	2019
Operating revenue:		
Net patient service revenue	\$ 9,081,218	\$ 9,500,259
Physician practice revenue	2,055,320	2,093,076
Total patient revenue	11,136,538	11,593,335
CARES Act Provider Relief Fund revenue	1,209,679	–
Other operating revenue	1,020,400	833,653
Net assets released from restrictions used for operations	63,846	60,279
	13,430,463	12,487,267
Operating expenses:		
Salaries	7,021,865	6,410,803
Employee benefits	1,592,007	1,446,365
Supplies and expenses	4,167,383	3,788,695
Depreciation and amortization	540,960	510,653
Interest	160,948	152,444
	13,483,163	12,308,960
(Deficiency) excess of operating revenue over operating expenses, excluding Health Insurance Companies	(52,700)	178,307
Health Insurance Companies excess of operating revenue over operating expenses	26,285	10,067
Total (deficiency) excess of operating revenue over operating expenses	(26,415)	188,374
Non-operating gains and losses:		
Investment income	186,311	171,744
Change in net unrealized gains and losses and change in value of equity method investments	526,009	401,110
Change in fair value of interest rate swap agreements designated as derivative instruments	(283)	(464)
Non-operating net periodic benefit credit (cost)	895	(57,579)
Loss on refunding of long-term debt	–	(519)
Other non-operating gains and losses	123,364	(30,906)
Total non-operating gains and losses	836,296	483,386
Excess of revenue and gains and losses over expenses	809,881	671,760
Net assets released from restrictions for capital asset acquisitions	44,881	47,052
Change in fair value of interest rate swap agreements designated as cash flow hedges	(751)	(733)
Pension and other postretirement liability adjustments	(52,261)	9,105
Other changes in net assets	(3,572)	(8,336)
Increase in net assets without donor restrictions	\$ 798,178	\$ 718,848

See accompanying notes.

Northwell Health, Inc.

Consolidated Statements of Changes in Net Assets
(In Thousands)

Years Ended December 31, 2020 and 2019

	Net Assets		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, January 1, 2019	\$ 3,344,826	\$ 638,709	\$ 3,983,535
Contributions and grants	–	127,262	127,262
Investment income	–	10,257	10,257
Change in net unrealized gains and losses and change in value of equity method investments	–	29,714	29,714
Excess of revenue and gains and losses over expenses	671,760	–	671,760
Net assets released from restrictions for:			
Capital asset acquisitions	47,052	(47,052)	–
Operations	–	(60,279)	(60,279)
Non-operating activities	–	(14,088)	(14,088)
Change in fair value of interest rate swap agreements designated as cash flow hedges	(733)	–	(733)
Pension and other postretirement liability adjustments	9,105	–	9,105
Other changes in net assets	(8,336)	7,199	(1,137)
Increase in net assets	718,848	53,013	771,861
Net assets, December 31, 2019	\$ 4,063,674	\$ 691,722	\$ 4,755,396
	Net Assets		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, January 1, 2020	\$ 4,063,674	\$ 691,722	\$ 4,755,396
Contributions and grants	–	161,440	161,440
Investment income	–	12,519	12,519
Change in net unrealized gains and losses and change in value of equity method investments	–	28,419	28,419
Excess of revenue and gains and losses over expenses	809,881	–	809,881
Net assets released from restrictions for:			
Capital asset acquisitions	44,881	(44,881)	–
Operations	–	(63,846)	(63,846)
Non-operating activities	–	(10,959)	(10,959)
Change in fair value of interest rate swap agreements designated as cash flow hedges	(751)	–	(751)
Pension and other postretirement liability adjustments	(52,261)	–	(52,261)
Other changes in net assets	(3,572)	9,355	5,783
Increase in net assets	798,178	92,047	890,225
Net assets, December 31, 2020	\$ 4,861,852	\$ 783,769	\$ 5,645,621

See accompanying notes.

Northwell Health, Inc.

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended December 31	
	2020	2019
Operating activities		
Increase in net assets	\$ 890,225	\$ 771,861
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Permanent endowment donor contributions	(13,914)	(18,398)
Depreciation and amortization	540,960	510,894
Amortization of bond premiums, discounts and financing costs	(5,959)	(2,699)
Net realized gains and losses, change in net unrealized gains and losses and change in value of equity method investments	(690,437)	(553,035)
Change in fair value of interest rate swap agreements	1,034	1,197
Loss on refunding of long-term debt	-	519
Changes in operating assets and liabilities:		
Accounts receivable for services to patients, net	9,307	(155,217)
Accounts receivable for physician activities, net	(15,891)	(50,471)
Pledges receivable	(10,108)	4,503
Medicare advances	1,030,229	-
Current portion of estimated payables to third-party payers	(31,670)	67,673
Accrued retirement benefits, net of current portion	108,959	(395,198)
Malpractice and other insurance liabilities	268,060	124,857
Net change in all other operating assets and liabilities	579,832	516,630
Net cash provided by operating activities	2,660,627	823,116
Investing activities		
Capital expenditures	(841,839)	(747,978)
Net cash invested in short-term and long-term investments	(1,445,219)	(607,504)
Payments for acquisitions and clinical joint venture investments, net	(39,501)	(32,110)
Net cash used in investing activities	(2,326,559)	(1,387,592)
Financing activities		
Principal payments on long-term debt and finance lease obligations	(64,269)	(61,943)
Payments on refunded long-term debt	-	(49,910)
Payments on short-term borrowings	(465,000)	(198,500)
Proceeds from short-term borrowings	465,000	190,000
Proceeds from long-term debt	-	675,164
Payments for financing costs	-	(6,072)
Proceeds from permanent endowment donor contributions	19,894	33,344
Net cash (used in) provided by financing activities	(44,375)	582,083
Net increase in cash and cash equivalents (unrestricted and restricted)	289,693	17,607
Cash and cash equivalents (unrestricted and restricted), beginning of year	979,253	961,646
Cash and cash equivalents (unrestricted and restricted), end of year	\$ 1,268,946	\$ 979,253
Supplemental disclosure of cash flow information		
Cash paid during the year for interest (exclusive of amounts capitalized)	\$ 165,907	\$ 150,254

See accompanying notes.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (In Thousands)

December 31, 2020

1. Organization and Principles of Consolidation

Northwell Health, Inc. and its member corporations and other affiliated entities (collectively, Northwell) is an integrated health care delivery system in the New York metropolitan area. Most entities within Northwell are exempt from Federal income taxes on related income under the provisions of Section 501(a) of the Internal Revenue Code (the Code) as organizations described in Section 501(c)(3), while certain entities are not exempt from such income taxes. The exempt organizations also are exempt from New York State and local income taxes.

The accompanying consolidated financial statements include the accounts of the following principal operating organizations. All interorganization accounts and activities have been eliminated in consolidation.

Hospitals

- North Shore University Hospital (NSUH), including Syosset Hospital
- Long Island Jewish Medical Center (LIJMC), including Long Island Jewish Hospital, Long Island Jewish Forest Hills, Long Island Jewish Valley Stream, Steven and Alexandra Cohen Children's Medical Center of New York, Zucker Hillside Hospital and Orzac Center for Rehabilitation
- Staten Island University Hospital (Staten Island), including both North and South campuses
- Lenox Hill Hospital (Lenox)
- South Shore University Hospital (SSUH, formerly Southside Hospital)
- Glen Cove Hospital (Glen Cove)
- Huntington Hospital Association (Huntington)
- Plainview Hospital (Plainview)
- The Long Island Home (South Oaks Hospital)
- Phelps Memorial Hospital Association (Phelps, collectively with its subsidiaries)
- Northern Westchester Hospital Association (Northern Westchester, collectively with its subsidiaries)
- Peconic Bay Medical Center (Peconic, collectively with its subsidiaries)
- John T. Mather Memorial Hospital (Mather, collectively with its subsidiary)

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Organization and Principles of Consolidation (continued)

Other Entities

- Northwell Health, Inc. and Northwell Healthcare, Inc. (HCI) – parent holding companies
- Northwell Health Stern Family Center for Rehabilitation (Stern) – skilled nursing facility and rehabilitation center
- Northwell Health Laboratories – laboratory services
- North Shore Health System Enterprises, Inc., North Shore Health Enterprises, Inc. and True North Health Services Company, LLC – holding companies for certain related entities
- RegionCare, Inc. – infusion therapy and licensed home health agency services
- North Shore Community Services, Inc. – real estate holdings and related services
- North Shore University Hospital Housing, Inc., North Shore University Hospital at Glen Cove Housing, Inc. and Hillside Hospital Houses, Inc. – housing and auxiliary facilities for staff members, students and employees
- Visiting Nurse Association of Hudson Valley, Inc. and subsidiaries – home care and hospice services
- True North Health Pharmacy, Inc. – retail pharmacy
- Staten Island Performing Provider System, LLC – population health organization
- North Shore-LIJ and Yale New Haven Medical Air Transport, LLC – medical air transport company 90% owned by Northwell
- Greenwich Village Surgery Center – outpatient ambulatory surgery center currently 100% owned by Northwell
- The Feinstein Institutes for Medical Research – medical research
- Northwell Health Foundation – fundraising
- Hospice Care Network – hospice services
- Regional Insurance Company Ltd. (Regional Insurance) – captive insurance company providing excess professional liability insurance
- Montauk Risk Retention Group, Inc. – captive insurance company providing professional liability insurance
- Huntington Hospital Dolan Family Health Center – community health center
- Endoscopy Center of Long Island, LLC – outpatient endoscopy center 70% owned by Northwell
- North Shore Medical Accelerator, P.C. – outpatient radiation oncology center
- Endo Group, LLC – outpatient ambulatory surgery center 54% owned by Northwell
- DHCH, LLC (Digestive Health Center of Huntington) – outpatient endoscopy center 51% owned by Northwell
- South Shore Surgery Center, LLC – outpatient ambulatory surgery center 68% owned by Northwell
- Suffolk Surgery Center, LLC – outpatient ambulatory surgery center 68% owned by Northwell
- Melville SC, LLC – outpatient ambulatory surgery center 54% owned by Northwell
- Other affiliated professional corporations

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Principles of Consolidation (continued)

Certain members of Northwell (the Obligated Group) are jointly and severally liable for obligations under bond indentures (see Note 8). The Obligated Group consists of HCI, NSUH, LIJMC, Staten Island, Lenox, SSUH, Huntington, Glen Cove, Plainview and Stern.

Northwell maintains a controlling ownership in various entities, whose results of operations are included in the accompanying consolidated financial statements. Northwell's non-controlling interest in these entities at December 31, 2020 and 2019 is immaterial, both individually and in the aggregate, to Northwell's net assets and excess of revenue and gains and losses over expenses, as reported in the accompanying consolidated financial statements.

At December 31, 2020 and 2019, Northwell had an 8% ownership interest in Optum360, LLC (Optum360) which was accounted for using the equity method of accounting. Under the agreement, Optum360 provides revenue cycle services for most of Northwell's hospitals. At December 31, 2020 and 2019, \$154,265 and \$144,661, respectively, is reported within long-term investments in the accompanying consolidated statements of financial position for this investment. Northwell incurred fees of \$80,144 and \$175,752 to Optum360 for revenue cycle services for the years ended December 31, 2020 and 2019, respectively. In March 2021, Northwell sold its ownership interest in Optum360.

COVID-19 Impact

The global outbreak of Coronavirus Disease 2019 (COVID-19) caused numerous and varied medical, economic and social impacts. There have been adverse effects on Northwell's operations and financial condition, beginning in March 2020. These impacts have included widespread business and school closures and event cancellations, high unemployment and other economic and societal effects resulting from the national response to the COVID-19 crisis. The Centers for Disease Control and Prevention confirmed the spread of the disease to the United States (US) in February 2020. In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. In New York State (NYS), and especially in the New York metropolitan area, the highest prevalence of COVID-19 began to be observed in March 2020 and peaked in mid-April 2020. In response, the NYS government issued a series of executive orders that directly and indirectly affected Northwell's operations by prohibiting elective surgeries and non-emergent surgical and interventional procedures, requiring hospitals to expand bed capacity and by mandating stay-at-home restrictions for all residents throughout Northwell's service area, which have resulted in the disruption of hospital and other medical services and physician office visits. These restrictions began to be lifted in phases in the Northwell service area starting in late May 2020.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Principles of Consolidation (continued)

In preparation for the surge of COVID-19 patients, effective March 16, 2020, all non-emergent and elective surgeries and interventional procedures were discontinued at Northwell's hospitals (ahead of NYS executive orders), and at its ambulatory centers shortly thereafter. A number of ambulatory centers and physician offices were closed or started operating on a reduced schedule in March 2020 as a result of the pandemic. To the extent practicable, clinical employees at these sites were redeployed to hospital inpatient units or emergency departments to assist in treating the surge of COVID-19 patients. In addition, clinical staff was brought in from outside staffing agencies and leased from health systems in other parts of the country that were not as severely impacted as NYS. Outpatient visits for private referred ambulatory services, including imaging and rehabilitation, as well as physician office visits, declined significantly at the start of the crisis. Outpatient chemotherapy and radiation oncology services were also negatively affected by the coronavirus pandemic. Patient service volumes started to recover in late May 2020 and continue to improve; however, for certain inpatient, outpatient and physician services, through April 2021 they are still at levels lower than pre-COVID-19, including the impact of the second surge of COVID-19 which affected Northwell's service area starting in November 2020. However, the second COVID-19 surge did not result in any NYS executive orders prohibiting any elective or non-emergent medical services.

The negative financial impact of the coronavirus pandemic on Northwell's consolidated operating results for the year ended December 31, 2020 (before the impact of federal relief funding and reimbursement relief), is estimated to be approximately \$1,600,000, primarily attributable to the reductions in patient service volume and incremental costs resulting from the changes in operations in response to this crisis. A negative financial impact beyond 2020 is expected; however, the amount will ultimately be dependent on the level, duration and severity of the COVID-19 resurgence, the pace of economic activity and continued recovery in providing non-COVID-19 related services to patients, and the ultimate amount of federal and other relief received.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Principles of Consolidation (continued)

Individual Northwell entities received grants from the Coronavirus Aid, Relief and Economic Security (CARES) Act Provider Relief Fund based on various criteria, and under current guidelines issued by the US Department of Health and Human Services (HHS), these funds can be used to cover certain COVID-19 related costs and revenue loss, as measured by comparing patient revenue in 2020 to the amounts budgeted for these entities in 2020. Additionally, on December 27, 2020, the Consolidated Appropriations Act, 2021 (CAA) was signed into law. The CAA appropriated additional funding for COVID-19 response and relief through the Provider Relief Fund and provided several changes to the administration of the Provider Relief Fund. The consolidated statement of operations for the year ended December 31, 2020 reflects approximately \$1,210,000 of Provider Relief Fund grant revenue. Management will continue to monitor communications from HHS applicable to the Provider Relief Fund reporting and data submission requirements.

In addition to the amounts from the Provider Relief Fund, there were certain temporary enhancements made to Medicare payment rates. Medicare advances were also made available under the CARES Act to provide liquidity to healthcare providers (separate and apart from the CARES Act Provider Relief Fund grants described in the paragraph above). Northwell received approximately \$1,030,000 in Medicare advances, which are anticipated to be repaid without interest beginning in April 2021 and continuing through February 2023. Amounts expected to be repaid in 2021 totaling approximately \$374,000 are reflected within current liabilities in the consolidated statement of financial position at December 31, 2020. In addition, Northwell is participating in the FICA tax deferral program under the CARES Act for the employer portion of social security taxes and, as of December 31, 2020, has deferred approximately \$229,000. The employer FICA amounts deferred under this program are payable without interest with half due by December 2021 and the remaining balance due by December 2022. The amounts expected to be paid in 2021 are recorded in accrued salaries and related benefits and the remaining balance is included in other long-term liabilities in the accompanying consolidated statement of financial position at December 31, 2020.

Management has designated funds in assets limited as to use for the Medicare advances and FICA deferral amounts, along with the unrecognized amount of Provider Relief Funds, and excluded such amounts from Northwell's total unrestricted cash, cash equivalents and investments as of December 31, 2020.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

1. Organization and Principles of Consolidation (continued)

Management is pursuing opportunities for additional federal funding including funding from the Federal Emergency Management Agency (FEMA) and any other funding that is or will become available. Approximately \$28,500 in FEMA grant revenue for certain COVID-19 related expenses was obligated through approval by Federal and NYS authorities during 2020, and is reported in other operating revenue in the consolidated statement of operations for the year ended December 31, 2020. Such amounts were received in January 2021.

Management continues to closely monitor the operational and financial impact of COVID-19. While the estimated financial impact noted above has been made using the best available information at the time, the ultimate net impact of the pandemic on Northwell's financial condition remains uncertain.

Health Insurance Companies

In July 2017, North Shore-LIJ Health Plan Inc. (Health Plan) filed a termination plan which was approved by the New York State Department of Health (NYSDOH) in September 2017. Health Plan ceased new enrollment in its Medicaid Managed Long-Term Care Plan and, by January 2018, had transitioned its existing members to other plans.

In August 2017, Northwell announced that it would wind down CareConnect Insurance Company, Inc. (CareConnect) and withdraw from New York State's insurance markets. The New York State Department of Financial Services approved CareConnect's plan which allowed CareConnect to stop writing and renewing annual large and small group policies effective December 1, 2017 and individual policies effective January 1, 2018.

As a result of Northwell's decision to exit the health insurance business, the net operating results of CareConnect and Health Plan (collectively, the Health Insurance Companies) are separately reported within the accompanying consolidated statements of operations for the years ended December 31, 2020 and 2019. For the year ended December 31, 2020, the Health Insurance Companies excess of operating revenue over operating expenses includes \$25,303 for CareConnect resulting from the Supreme Court of the United States' rulings on class action lawsuits related to the Affordable Care Act's risk corridor program.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies

Consolidated Statements of Operations

The accompanying consolidated statements of operations include the excess of revenue and gains and losses over expenses as the performance indicator. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and operating expenses; peripheral or incidental transactions and unusual, nonrecurring items are reported as non-operating gains and losses.

Net assets released from restrictions for capital asset acquisitions, the change in fair value of interest rate swap agreements designated as cash flow hedges, pension and other postretirement liability adjustments and other changes in net assets are excluded from Northwell's performance indicator.

Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the standard. ASU 2018-15 requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. ASU 2018-15 also requires the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, amongst other provisions. The amendments in ASU 2018-15 are effective for annual reporting periods beginning after December 15, 2020, and interim periods thereafter. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Northwell has not completed the process of evaluating the impact of ASU 2018-15 on its consolidated financial statements.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The main objective of ASU 2016-13 and related ASU updates is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this ASU are effective for Northwell for fiscal years beginning after December 15, 2022. Northwell has not completed the process of evaluating the impact of ASU 2016-13 on its consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, including accounts receivable for services to patients, and liabilities, including accounts payable and accrued expenses, estimated payables to third-party payers, accrued retirement benefits and malpractice and other insurance liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Northwell classifies all highly liquid financial instruments purchased with a maturity of three months or less as cash equivalents. Northwell maintains cash on deposit with major banks and invests in money market securities with financial institutions which exceed federally-insured limits. Management believes the credit risk related to these deposits is minimal. Northwell does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents (unrestricted and restricted), as reported in the accompanying consolidated statements of cash flows, are reported within the following categories in the accompanying consolidated statements of financial position as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 830,955	\$ 535,619
Short and long-term investments	437,991	443,634
	<u>\$ 1,268,946</u>	<u>\$ 979,253</u>

Pledges Receivable

Pledges (promises to give), less an allowance for uncollectible amounts, are recorded as receivables in the year made at net present value and are recorded as additions to net assets with donor restrictions. Pledges receivable that are due more than one year from the consolidated statement of financial position date are discounted to reflect the present value of future cash flows.

Investments

Short-term and long-term investments include marketable securities and other investments. Marketable securities are classified as trading securities. Investments in debt securities, equity securities and mutual funds with readily determinable fair values are reported at fair value, based on quoted market prices.

Northwell has also invested in alternative investments, including funds of hedge funds, hedge funds, private equity funds, private credit funds and private real estate funds. These other investments are not readily marketable and are reported under the equity method of accounting. The equity method reflects Northwell's share of the net asset value of the respective funds.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Individual investment holdings of the funds of hedge funds, hedge funds, private equity funds, private credit funds and private real estate funds may include investments in both nonmarketable and market-traded securities. Valuations of these investments, and therefore Northwell's holdings, may be determined by the investment managers or general partners. Values may be based on estimates that require varying degrees of judgment. Recorded estimates may change by a material amount in the near term. The investments may indirectly expose Northwell to securities lending, short sales of securities and trading in futures and forwards contracts, options and other derivative products. However, Northwell's risk is limited to its amounts invested. At December 31, 2020, Northwell has future commitments of \$163,939 and \$33,024 to invest in private equity, private credit and private real estate funds for pension and restricted assets, respectively.

Other investments also include non-controlling interests in non-clinical joint ventures held by Northwell for investment purposes. Such investments are accounted for under the equity method or at cost less any impairment, adjusted for observable price changes for an identical or similar investment of the same issuer (Adjusted Cost).

Northwell is also invested in commingled fixed income and equity funds. The underlying investment holdings of the commingled funds are predominantly marketable securities. These investments are reported either at fair value based on quoted market prices, if their fair values are readily determinable, or under the equity method of accounting, which approximates fair value. The equity method reflects Northwell's share of the net asset value of these investments.

The financial statements of the alternative investments and commingled fixed income and equity funds noted above are audited annually by independent auditors, although the timing for reporting the results of such audits for certain investments does not coincide with Northwell's annual financial statement reporting.

Included in short-term and long-term investments are assets limited as to use, which include funds held pursuant to debt financing arrangements, management designated funds (including malpractice and other self-insurance assets and funds set aside to repay Medicare advances), deferred employee compensation plan assets and donor restricted assets. Amounts required to meet current liabilities are reported as short-term investments. Northwell has future commitments of approximately \$153,000 at December 31, 2020 to purchase additional investments included in assets limited as to use.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Investment income (including realized gains and losses on investments, interest and dividends) and the change in net unrealized gains and losses and change in value of equity method investments are included in the performance indicator, unless the income or loss is restricted by donor or law. Interest and dividend income earned on Northwell's internally designated malpractice and other self-insurance assets and internally designated taxable debt sinking funds is recorded in other operating revenue.

Inventory of Supplies

Inventory, included in other current assets, is stated at the lower of cost or net realizable value.

Insurance Claims Receivable and Liability

For medical malpractice and similar contingent liabilities, Northwell determines such claims liabilities without consideration of insurance recoveries. Accordingly, Northwell recognizes insurance receivables at the same time that it recognizes the liabilities, measured on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible amounts in the accompanying consolidated statements of financial position. Such amounts represent the actuarially determined present value of medical malpractice and other claims that are anticipated to be covered by insurance, discounted at a risk-free rate of 0.5% and 2.0% at December 31, 2020 and 2019, respectively.

Property, Plant and Equipment

Property, plant and equipment is stated at cost or, in the case of gifts, at fair value at the date of the gift, less accumulated depreciation and amortization. Property, plant and equipment from acquired entities that existed at their respective acquisition dates was recorded at fair value based upon an independent valuation. Depreciation and amortization of land improvements, buildings, fixed equipment and major movable equipment is computed by the straight-line method based upon the estimated useful lives of the assets, ranging from three to forty years.

Buildings and equipment under finance lease obligations and leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful life of the asset or the lease term. Such amortization is included in depreciation and amortization in the accompanying consolidated financial statements.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

During the period of construction of capital assets, interest costs are capitalized as a component of the cost of assets. When assets are disposed of, the carrying amounts of the assets and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss on disposal is included in the performance indicator. When assets become fully depreciated, the carrying amounts of such assets and the related accumulated depreciation are removed from the accounts (see Note 6).

Long-Lived Assets

Gifts of long-lived assets are reported at fair value established at the date of contribution as changes in net assets without donor restrictions, excluded from the performance indicator, unless explicit donor stipulations specify how the donated asset must be used.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If long-lived assets are deemed to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less costs to sell.

Other Assets

Other assets included in the accompanying consolidated statements of financial position primarily consist of goodwill, other intangible assets and investments in clinical joint ventures.

In connection with various acquisitions, Northwell has recognized certain indefinite-lived intangible assets totaling approximately \$264,000 and \$243,000 at December 31, 2020 and 2019, respectively. The intangible assets are subject to impairment testing on an annual basis. At December 31, 2020 and 2019, Northwell determined that there has been no impairment of these intangible assets.

Deferred Financing Costs

Deferred financing costs, included in long-term debt and finance lease obligations, represent costs incurred to obtain financing for various Northwell projects and initiatives. Amortization of these costs is provided over the term of the applicable indebtedness.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Interest Rate Swap Agreements

Interest rate swap agreements are reported at fair value. Fair value is estimated using discounted cash flow analyses based on current and projected interest rates with consideration of the risk of non-performance. Changes in fair value of interest rate swap agreements designated as derivative instruments are recognized in Northwell's performance indicator. Changes in fair value of interest rate swap agreements designated as cash flow hedges are excluded from the performance indicator.

Other Long-Term Liabilities

Other long-term liabilities included in the accompanying consolidated statements of financial position primarily consist of the long-term portion of estimated payables to third-party payers, the long-term portion of expected payment obligations, the long-term portion of FICA employer tax payments deferred under the CARES Act, deferred revenue and the fair value of the interest rate swap agreements.

Classification of Net Assets

Northwell separately accounts for and reports net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions include resources that the governing board may use for any designated purpose and resources whose use is limited by an agreement between Northwell and an outside party other than the donor or grantor. Net assets with donor restrictions are those whose use by Northwell has been limited by donors to a specific time period or purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, these net assets are reclassified to net assets without donor restrictions and reported as net assets released from restrictions.

Certain net assets with donor restrictions have been restricted by donors to be maintained in perpetuity. Income from these net assets is available to support certain teaching, research and training programs.

Northwell also recognizes governmental grants where commensurate value is not exchanged as contributions when conditions and restrictions are satisfied and reports such amounts within other operating revenue or as net assets released from restrictions for capital asset acquisitions in the consolidated statements of operations.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Donor Gifts

Gifts of cash and other assets, including unconditional promises to give cash and other assets (pledges), are reported at fair value when the gift is received (or promise is made). Northwell receives conditional pledges, which are not reflected in the accompanying consolidated financial statements. The conditional pledges primarily relate to the establishment of certain programs. As the conditions of the pledges are met, the pledges are recognized. At December 31, 2020 and 2019, \$66,910 and \$70,120, respectively, of conditional pledges have not been recognized in the consolidated statements of financial position.

Contributions and pledges raised through fundraising efforts for the years ended December 31, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Without donor restrictions	\$ 3,343	\$ 5,130
With donor restrictions	<u>114,783</u>	<u>87,680</u>
	<u>\$ 118,126</u>	<u>\$ 92,810</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Functional Expenses

Northwell provides health care services to residents primarily within its geographic areas. Expenses related to providing these services pertain to the following functional and natural categories for the years ended December 31, 2020 and 2019:

	2020			
	Health Care Services	Research	General and Administrative	Total
Salaries	\$ 6,123,887	\$ 80,828	\$ 817,150	\$ 7,021,865
Employee benefits	1,381,210	21,512	189,285	1,592,007
Supplies and expenses	3,642,250	50,498	474,635	4,167,383
Depreciation and amortization	327,031	6,316	207,613	540,960
Interest	141,679	–	19,269	160,948
	\$ 11,616,057	\$ 159,154	\$ 1,707,952	\$ 13,483,163

	2019			
	Health Care Services	Research	General and Administrative	Total
Salaries	\$ 5,629,582	\$ 75,551	\$ 705,670	\$ 6,410,803
Employee benefits	1,262,267	21,095	163,003	1,446,365
Supplies and expenses	3,305,122	50,227	433,346	3,788,695
Depreciation and amortization	316,997	6,413	187,243	510,653
Interest	134,754	–	17,690	152,444
	\$ 10,648,722	\$ 153,286	\$ 1,506,952	\$ 12,308,960

The accompanying consolidated financial statements report expense categories that are attributable to more than one health care service or support function. Costs not directly attributable to a function are allocated on a functional basis using internal records and estimates.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Tax Status

Certain entities included in Northwell's consolidated financial statements are taxable entities under Federal or state laws. U.S. generally accepted accounting principles require that the asset and liability method of accounting for income taxes be utilized by these organizations and for unrelated business activities of the tax-exempt entities included in Northwell's consolidated financial statements. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

At December 31, 2020, Northwell has a deferred tax asset of approximately \$175,000, which has been partially offset by a related valuation allowance of approximately \$141,000 and is recorded within other current assets in the accompanying consolidated statement of financial position at December 31, 2020. At December 31, 2019, Northwell had a deferred tax asset of approximately \$112,000, which was fully offset by a related valuation allowance. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax asset will not be realized. Significant components of the deferred tax asset relate to net operating loss (NOL) carryforwards. Certain entities have NOL carryforwards aggregating approximately \$514,000 at December 31, 2020. NOL carryforwards generated prior to 2018 will expire in varying amounts through 2037 and are available to offset future taxable income of the respective entity. NOLs generated after 2017 can be carried forward indefinitely, but with limitations.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

3. Accounts Receivable and Patient Revenue

Net patient service revenue and physician practice revenue (collectively, Patient Revenue) are reported at the amount that reflects the consideration to which Northwell expects to be entitled in exchange for providing patient care. These amounts are due from patients and third-party payers (including health insurers and government programs) and include various elements of variable consideration in determining a transaction price.

Northwell uses a portfolio approach to account for categories of patient contracts as a collective group, rather than recognizing revenue on an individual contract basis. The portfolios consist of major payer classes for Patient Revenue. Based on historical collection trends and other analyses, Northwell believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

Northwell's initial estimate of the transaction price for services provided to patients subject to revenue recognition is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions and other reductions to Northwell's standard charges. Northwell determines the transaction price associated with services provided to patients who have third-party payer coverage on the basis of contractual rates, governmental rates or established charges for the services rendered. The estimates for contractual allowances and discounts are based on contractual agreements, Northwell's discount policies and historical experience. For uninsured patients who are ineligible for any government assistance program, Northwell provides services without charge or at amounts less than its established rates for patients who meet the criteria of its charity care policy. Because Northwell does not pursue collection of amounts determined to qualify as charity care, such services are not reported as Patient Revenue. For uninsured and under-insured patients who do not qualify for charity care, Northwell determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on Northwell's historical collection experience for applicable patient portfolios.

Generally, Northwell bills patients and third-party payers several days after the services are performed and/or the patient is discharged. Patient Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by Northwell. Patient Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. Northwell believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally,

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

3. Accounts Receivable and Patient Revenue (continued)

performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in Northwell’s outpatient and ambulatory care centers. Northwell measures the performance obligation from admission into the hospital or the commencement of an outpatient or physician service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or the completion of the outpatient or physician visit.

Substantially all of Northwell’s performance obligations relate to contracts with a duration of less than one year; the unsatisfied or partially unsatisfied performance obligations referred to below are primarily related to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients). As such, accounts receivable related to in-house patients are considered contract assets as the performance obligation is not completed until the patients are discharged, which for the majority of the in-house patients occur within days or weeks after the end of the reporting period and at which point Northwell has the right to bill.

At December 31, 2020 and 2019, accounts receivable for services to patients, net is comprised of the following components:

	<u>2020</u>	<u>2019</u>
Receivables for services to patients	\$ 1,194,549	\$ 1,203,722
Contract assets (for in-house patients)	81,686	81,820
	<u>\$ 1,276,235</u>	<u>\$ 1,285,542</u>

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to Patient Revenue in the period of the change. For the years ended December 31, 2020 and 2019, changes in Northwell’s estimates of implicit price concessions, discounts, contractual adjustments or other reductions to expected payments for performance obligations satisfied in prior years were not significant. Portfolio collection estimates are updated periodically based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient’s ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense in supplies and expenses in the accompanying consolidated statements of operations. Bad debt expense and the related allowance for uncollectible accounts for the years ended and as of December 31, 2020 and 2019 were not significant.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

3. Accounts Receivable and Patient Revenue (continued)

Northwell has determined that the nature, amount, timing and uncertainty of revenue and cash flows are primarily affected by its mix of payers and services.

Patient Revenue for the years ended December 31, 2020 and 2019, by payer, is approximately as follows:

	<u>2020</u>	<u>2019</u>
Medicare and Medicare managed care	\$ 3,580,000	\$ 3,785,000
Medicaid and Medicaid managed care	1,556,000	1,615,000
Self-pay	68,000	80,000
Other third-party payers	5,933,000	6,113,000
	<u>\$ 11,137,000</u>	<u>\$ 11,593,000</u>

Deductibles, copayments and coinsurance under third-party payment programs which are the patient's responsibility are included within the appropriate payer category above.

Patient Revenue for the years ended December 31, 2020 and 2019, disaggregated by lines of service, is as follows:

	<u>2020</u>	<u>2019</u>
Net patient service revenue:		
Hospitals	\$ 8,837,462	\$ 9,241,342
Joint venture ambulatory surgery centers	65,345	69,430
Stern (skilled nursing facility and rehabilitation center)	47,649	58,161
Hospice Care Network	50,497	50,211
RegionCare, Inc.	52,888	51,802
Other	27,377	29,313
Net patient service revenue	<u>9,081,218</u>	<u>9,500,259</u>
Physician practice revenue	2,055,320	2,093,076
Total Patient Revenue	<u>\$ 11,136,538</u>	<u>\$ 11,593,335</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

3. Accounts Receivable and Patient Revenue (continued)

Third-Party Payment Programs

Northwell has agreements with third-party payers that provide for payment for services rendered at amounts different from its established charges. A summary of the payment arrangements with major third-party payers follows:

Non-Medicare

In New York State, hospitals and all non-Medicare payers (including Medicare and Medicaid managed care plans), except Medicaid, workers' compensation and no-fault insurance programs, negotiate payment rates. If negotiated rates are not established, payers are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the NYSDOH. Payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive and/or prospective adjustments for certain rate components paid concurrently with the settlement of the final rate. Outpatient services also are paid based on a statewide prospective system. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services (CMS), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until Northwell is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payers will continue to be made in future years.

Medicare

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

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

3. Accounts Receivable and Patient Revenue (continued)

Northwell has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payers for adjustments to current and prior years' payment rates, based on industry-wide and Northwell-specific data. The current Medicaid, Medicare and other third-party payer programs are based upon extremely complex laws and regulations that are subject to interpretation. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. Northwell is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance with all applicable laws and regulations. Medicare cost reports, which are filed individually by the applicable Northwell entities and serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through years ranging from 2000 to 2018. Other years remain open for audit and settlement, as do certain issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained.

Settlements with third-party payers for cost report filings and retroactive adjustments due to ongoing and future audits, reviews or investigations are considered variable consideration and are included in the determination of Patient Revenue. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and Northwell's historical settlement activity (for example, cost report final settlements or repayments related to recovery audits), including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations. Changes in estimates relating to prior year settlements were not significant for the years ended December 31, 2020 and 2019.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

3. Accounts Receivable and Patient Revenue (continued)

There are various proposals at the Federal and State levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of revisions to health care regulations that may be enacted by the Federal and State governments, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on Northwell. Additionally, certain payers' payment rates for various years have been appealed by certain members of Northwell. If the appeals are successful, additional income applicable to those years could be realized.

Northwell grants credit without collateral to its patients, most of whom are insured under various third-party agreements. The significant concentrations of accounts receivable for services to patients at December 31, 2020 and 2019 were as follows:

	December 31	
	2020	2019
Medicare and Medicare managed care	31%	32%
Medicaid and Medicaid managed care	19	20
Self-pay	4	5
Other third-party payers	46	43
	100%	100%

Charity Care

Together, charity care, implicit price concessions and bad debt expense represent uncompensated care. The estimated cost of total uncompensated care was approximately \$352,000 and \$357,000 for the years ended December 31, 2020 and 2019, respectively. The estimated cost of charity care provided was approximately \$253,000 and \$260,000 for the years ended December 31, 2020 and 2019, respectively. The estimated cost of uncompensated care and charity care is based on the ratio of cost to charges, as determined using Northwell-specific data.

The NYSDOH Hospital Indigent Care Pool (the Pool) was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. For the years ended December 31, 2020 and 2019, Northwell received \$57,040 and \$66,476, respectively. Northwell made payments into the Pool of \$60,846 and \$60,132 for the years ended December 31, 2020 and 2019, respectively, for the 1% assessment.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

4. Cash, Investments and Liquidity

Northwell's cash, cash equivalents and investments are reported in the consolidated statements of financial position as presented below at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 830,955	\$ 535,619
Short-term investments	3,619,297	2,931,431
Long-term investments	3,970,226	2,532,060
Total cash, cash equivalents and investments	<u>8,420,478</u>	<u>5,999,110</u>
Less assets limited as to use:		
Management designated malpractice and other self-insurance assets	1,022,791	720,251
Management designated assets to repay Medicare advances	1,030,229	–
Other management designated assets*	1,927,682	1,283,324
Donor restricted assets	359,650	308,948
Deferred employee compensation plan assets	304,188	243,250
Assets under bond indentures and other	98,067	121,515
Total assets limited as to use	<u>4,742,607</u>	<u>2,677,288</u>
Total unrestricted cash, cash equivalents and investments	<u>\$ 3,677,871</u>	<u>\$ 3,321,822</u>

*Other management designated assets include sinking funds established to repay Northwell's taxable debt, proceeds from taxable bond issues and other amounts designated to fund future capital expenditures and investments, and at December 31, 2020, the unrecognized amount of CARES Act Provider Relief Funds and amounts deferred under the CARES Act FICA employer tax deferral program.

The total unrestricted cash, cash equivalents and investments is used in Northwell's days cash on hand calculation, a required financial ratio for certain debt compliance covenants (see Note 8).

Short-term investments include \$859,140 and \$225,030 of assets limited as to use at December 31, 2020 and 2019, respectively. Long-term investments include \$3,883,467 and \$2,452,258 of assets limited as to use at December 31, 2020 and 2019, respectively.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

4. Cash, Investments and Liquidity (continued)

Cash and cash equivalents, short-term investments and long term-investments, stated on the applicable measurement basis as described in Note 2, consist of the following at December 31, 2020:

	Total	Unrestricted Cash and Investments	Assets Limited as to Use
Cash and cash equivalents (including amounts in the investment portfolio)	\$ 1,268,946	\$ 1,015,178	\$ 253,768
U.S. Government obligations	509,496	335,619	173,877
Corporate and other bonds	760,113	506,263	253,850
Fixed income mutual funds	704,141	468,910	235,231
Commingled fixed income funds	901,918	–	901,918
Equity securities	1,481,716	854,724	626,992
Equity mutual funds	1,072,221	489,735	582,486
Commingled equity funds	390,269	–	390,269
Target-age mutual funds	99,042	–	99,042
Funds of hedge funds	839,500	–	839,500
Hedge funds	487	–	487
Private equity funds	20,801	–	20,801
Private real estate funds	5,888	–	5,888
Private credit funds	16,301	–	16,301
Non-clinical joint venture investments	198,972	–	198,972
Accrued interest and other	150,667	7,442	143,225
	<u>\$ 8,420,478</u>	<u>\$ 3,677,871</u>	<u>\$ 4,742,607</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

4. Cash, Investments and Liquidity (continued)

Cash and cash equivalents, short-term investments and long term-investments, stated on the applicable measurement basis as described in Note 2, consist of the following at December 31, 2019:

	Total	Unrestricted Cash and Investments	Assets Limited as to Use
Cash and cash equivalents (including amounts in the investment portfolio)	\$ 979,253	\$ 816,862	\$ 162,391
U.S. Government obligations	410,326	337,616	72,710
Corporate and other bonds	518,725	464,643	54,082
Fixed income mutual funds	450,547	371,217	79,330
Commingled fixed income funds	612,479	100,565	511,914
Equity securities	1,015,540	771,283	244,257
Equity mutual funds	785,480	451,022	334,458
Commingled equity funds	281,166	–	281,166
Target-age mutual funds	73,727	–	73,727
Funds of hedge funds	552,945	–	552,945
Hedge funds	480	–	480
Private equity funds	20,941	–	20,941
Private real estate funds	5,301	–	5,301
Private credit funds	3,523	–	3,523
Non-clinical joint venture investments	187,340	–	187,340
Accrued interest and other	101,337	8,614	92,723
	<u>\$ 5,999,110</u>	<u>\$ 3,321,822</u>	<u>\$ 2,677,288</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

4. Cash, Investments and Liquidity (continued)

Investment income and the change in net unrealized gains and losses and change in value of equity method investments are comprised of the following for the years ended December 31, 2020 and 2019:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Investment income:			
Interest and dividend income, net of fees	\$ 74,906	\$ 3,274	\$ 78,180
Net realized gains and losses	126,764	9,245	136,009
Less interest and dividend income included in other operating revenue	(15,359)	–	(15,359)
	<u>\$ 186,311</u>	<u>\$ 12,519</u>	<u>\$ 198,830</u>
Change in net unrealized gains and losses and change in value of equity method investments:			
Change in net unrealized gains and losses	\$ 436,176	\$ 24,823	\$ 460,999
Equity method investment gains	89,833	3,596	93,429
	<u>\$ 526,009</u>	<u>\$ 28,419</u>	<u>\$ 554,428</u>
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Investment income:			
Interest and dividend income, net of fees	\$ 73,082	\$ 3,306	\$ 76,388
Net realized gains and losses	115,260	6,951	122,211
Less interest and dividend income included in other operating revenue	(16,598)	–	(16,598)
	<u>\$ 171,744</u>	<u>\$ 10,257</u>	<u>\$ 182,001</u>
Change in net unrealized gains and losses and change in value of equity method investments:			
Change in net unrealized gains and losses	\$ 333,809	\$ 22,951	\$ 356,760
Equity method investment gains	67,301	6,763	74,064
	<u>\$ 401,110</u>	<u>\$ 29,714</u>	<u>\$ 430,824</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

4. Cash, Investments and Liquidity (continued)

Liquidity

Financial assets available for general expenditure within one year of the consolidated statement of financial position date consist of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 830,955	\$ 535,619
Short-term investments	2,760,157	2,706,401
Accounts receivable for services to patients, net	1,276,235	1,285,542
Accounts receivable for physician activities, net	271,784	255,893
	<u>\$ 5,139,131</u>	<u>\$ 4,783,455</u>

In addition to the assets above, Northwell also has assets limited as to use of \$859,140 and \$225,030 included within short-term investments on the accompanying consolidated statements of financial position at December 31, 2020 and 2019, respectively, which are designated to be used within the next year for specified purposes. Also, included within long-term investments on the accompanying consolidated statements of financial position at December 31, 2020 and 2019 are certain management designated assets limited as to use not currently available for general expenditure within the next year, but which could be made available if necessary. Refer to Note 2 for further discussion of assets limited as to use.

As part of Northwell's liquidity management plan, cash in excess of daily requirements is invested in marketable securities and other investments.

Additionally, Northwell has entered into various unsecured revolving credit facilities with commercial banks, as discussed in more detail in Note 8. As of December 31, 2020 and 2019, \$511,460 and \$197,000, respectively, remain available on such arrangements.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

5. Pledges Receivable

Pledges receivable at December 31, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Amounts expected to be collected in:		
Less than one year	\$ 70,264	\$ 63,901
One to five years	103,418	103,806
More than five years	25,743	29,881
	<u>199,425</u>	<u>197,588</u>
Less:		
Discount to present value future cash flows (discount rates ranging from 0.4% to 4.4%)	12,296	15,174
Allowance for uncollectible amounts	35,714	35,127
Current portion of pledges receivable	51,076	47,316
Pledges receivable, net of current portion	<u>\$ 100,339</u>	<u>\$ 99,971</u>

6. Property, Plant and Equipment

Property, plant and equipment and accumulated depreciation and amortization at December 31, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 777,245	\$ 776,957
Land improvements	27,453	27,639
Buildings and fixed equipment	4,744,321	4,484,488
Movable equipment	2,418,564	2,147,277
Leasehold improvements	35,754	36,587
	<u>8,003,337</u>	<u>7,472,948</u>
Less accumulated depreciation and amortization	2,791,601	2,566,555
	<u>5,211,736</u>	<u>4,906,393</u>
Construction-in-progress	646,926	641,924
	<u>\$ 5,858,662</u>	<u>\$ 5,548,317</u>

Northwell wrote off approximately \$316,000 and \$282,000 of fully depreciated assets in 2020 and 2019, respectively.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

6. Property, Plant and Equipment (continued)

Net interest capitalized for the years ended December 31, 2020 and 2019 was approximately \$13,000 and \$9,000, respectively.

7. Leases

Northwell leases certain medical offices, administrative offices and equipment under finance and operating leases. At the inception of a contract, a determination is made if the arrangement is or contains a lease. Leases are classified as either finance or operating leases, based on the underlying terms of the agreement and certain criteria, such as the term of the lease relative to the useful life of the asset and the total lease payments to be made as compared to the fair value of the asset, among other criteria.

As of December 31, 2020 and 2019, assets acquired under finance leases of \$217,662 and \$187,587, respectively, and accumulated amortization associated with finance leases of \$28,429 and \$20,635, respectively, are recorded in property, plant and equipment, net in the consolidated statements of financial position.

Northwell's right-of-use assets pertaining to operating leases represent the right to use the agreement's underlying assets for the lease term, and the corresponding lease liabilities represent the obligation to make lease payments arising from the lease. Such right-of-use assets and lease liabilities are recognized at the lease's commencement date at the present value of lease payments over the lease term for leases with initial terms greater than one year. The present value of lease payments is calculated by utilizing the discount rate implicit in the lease, when readily determinable. For leases for which this rate is not readily determinable, Northwell uses its incremental borrowing rate for financing over a comparable period as the discount rate. A right-of-use asset and lease liability are not recognized for leases with an initial term of 12 months or less. Northwell recognizes lease expense for operating leases over the lease term within supplies and expenses on the consolidated statements of operations. The deferred rent liability resulting from recording operating lease expense using the straight-line method is reported as a reduction to the right-of-use assets – operating leases line of the accompanying consolidated statements of financial position.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

7. Leases (continued)

Northwell's operating and finance leases have remaining lease terms, ranging from less than one year to sixty-four years, some of which may include options to extend. Lease payments related to periods subject to renewal options are excluded from the amounts used to determine the right-of-use leased assets and liabilities, unless Northwell is reasonably certain to exercise the option to extend the lease. Northwell's leases may also include variable lease payments. Variable lease payments are excluded from the amounts used to determine the right-of-use leased assets and liabilities, unless the variable lease payments depend on an index or rate or are in substance fixed payments.

Northwell does not separate lease components from non-lease components in contracts in the accounting for its lease payments. As such, Northwell accounts for the applicable non-lease components (e.g., fixed common area maintenance costs), together with the related lease components when determining the right-of-use assets and lease liabilities.

The components of lease cost included in the accompanying consolidated statements of operations for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Finance lease cost:		
Amortization of assets acquired under finance leases	\$ 7,794	\$ 6,508
Interest on finance lease obligations	15,880	15,587
Operating lease cost:		
Lease cost – leases with terms greater than one year	173,727	170,292
Short-term lease cost	5,423	3,309
Variable lease cost	30,210	26,654
Total lease cost	\$ 233,034	\$ 222,350

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

7. Leases (continued)

Other information related to leases and supplemental cash flows as of and for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Operating cash flows for interest on finance leases	\$ 15,880	\$ 15,587
Operating cash flows from operating leases*	166,727	154,544
Financing cash flows from finance leases	7,192	6,918
Assets acquired under new finance lease obligations	30,075	14,230
Right-of-use leased assets obtained in exchange for new operating lease obligations	112,116	164,481
Weighted-average remaining lease term:		
Finance leases	26 years	26 years
Operating leases	11 years	11 years
Weighted-average discount rate on finance leases	7.6%	7.9%
Weighted-average discount rate on operating leases	4.0%	4.1%

* Cash flows relating to operating lease costs for leases with terms greater than one year. Excludes variable lease costs.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

7. Leases (continued)

The following table reconciles the undiscounted future lease payments to the lease obligations recorded on the accompanying consolidated statement of financial position at December 31, 2020:

	<u>Operating</u>	<u>Finance</u>
2021	\$ 168,470	\$ 23,616
2022	150,346	22,480
2023	134,606	22,130
2024	119,658	21,697
2025	103,971	21,264
Thereafter	554,273	452,688
Total minimum future payments	1,231,324	563,875
Less: Interest	253,393	303,868
Less: Net unamortized issuance costs	—	1,943
Total liabilities	977,931	258,064
Less: Current portion	132,289	7,995
Long-term liabilities	<u>\$ 845,642</u>	<u>\$ 250,069</u>

8. Debt

Long-Term Debt

Long-term debt at December 31, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Bonds payable at varying dates through November 2049, at fixed and variable interest rates ranging from 3.00% to 6.15%	<u>\$ 3,188,776</u>	<u>\$ 3,228,562</u>
Other long-term debt payable at varying dates through September 2045 at variable and fixed interest rates ranging from 1.65% to 4.46%	<u>501,726</u>	<u>519,017</u>
Total long-term debt	<u>3,690,502</u>	<u>3,747,579</u>
Less current portion of bonds payable	<u>30,149</u>	<u>39,696</u>
Less current portion of other long-term debt	<u>28,775</u>	<u>17,254</u>
Less net unamortized debt issuance costs	<u>24,587</u>	<u>26,399</u>
Add net unamortized bond premium	<u>43,834</u>	<u>51,704</u>
	<u>\$ 3,650,825</u>	<u>\$ 3,715,934</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

8. Debt (continued)

Annual aggregate principal payments applicable to long-term debt for years subsequent to December 31, 2020 are as follows:

	Bonds Payable	Other Long-Term Debt	Total
Year ended December 31:			
2021	\$ 30,149	\$ 28,775	\$ 58,924
2022 ^(a)	31,222	30,744	61,966
2023	30,105	29,102	59,207
2024 ^(b)	26,603	30,628	57,231
2025	26,061	34,671	60,732
Thereafter	3,044,636	347,806	3,392,442
	<u>\$ 3,188,776</u>	<u>\$ 501,726</u>	<u>\$ 3,690,502</u>

(a) \$53,730 of Series 2019B-1 bonds subject to mandatory tender for purchase on May 1, 2022 are excluded from the 2022 principal payments noted above. Northwell has an option to refinance these bonds at that date.

(b) \$53,725 of Series 2019B-2 bonds subject to mandatory tender for purchase on May 1, 2024 are excluded from the 2024 principal payments noted above. Northwell has an option to refinance these bonds at that date.

Most of Northwell's debt arrangements include security agreements of various types. The agreements include, among other provisions, the pledging as collateral certain assets and revenues, and limitations on the use of assets, including restrictions on the transfer of assets to entities outside Northwell. At December 31, 2020 and 2019, the majority of Northwell's assets were pledged as collateral under the terms of various debt agreements. In addition, certain debt agreements contain covenants related to the maintenance of financial ratios, including debt service coverage ratios and days cash on hand, and the maintenance of certain debt service and other reserve funds included in assets limited as to use. At December 31, 2020 and 2019, Northwell was in compliance with the financial covenants.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

8. Debt (continued)

Bonds Payable

Bonds payable by Northwell consist of the following at December 31, 2020:

	Interest Structure	Final Maturity	Outstanding Principal
Obligated Group			
Series 2019A (taxable)	Fixed	2049	\$ 447,675
Series 2019A	Fixed	2033	29,870
Series 2019B	Fixed	2048 ^(f)	161,180
Series 2017A (taxable)	Fixed	2047	956,919
Series 2016A (taxable)	Fixed	2046	500,000
Series 2015A	Fixed	2043	464,500
Series 2013A (taxable)	Fixed	2043	250,000
Series 2012A	Fixed	2023	4,755
Series 2012B (taxable)	Fixed	2042	135,000
Series 2009B	Fixed	2039	50,000
Series 2009C	Fixed	2039	37,500
Series 2009D	Fixed	2039	37,500
Other			
Phelps Series 2013 ^(a)	Fixed	2038	10,080
Phelps Series 2005 A and B ^(a)	Fixed	2030	14,720
Northern Westchester Series 2014 A and B ^(b)	Fixed	2039	28,422
Northern Westchester Series 2009 ^(b)	Variable	2032	8,610
Northern Westchester Series 2004 ^(b)	Variable ^(e)	2024	4,525
Peconic Series 2006 A and B ^(c)	Variable ^(e)	2031	14,635
Peconic Series 2007 D ^(c)	Variable ^(e)	2032	8,215
Mather Series 2013 ^(d)	Variable ^(e)	2043	20,250
Mather Series 2012 ^(d)	Variable ^(e)	2022	4,420
			\$ 3,188,776

^(a) Phelps is party to direct purchase agreements with a commercial bank expiring in 2025 and 2030 for its Series 2013 and Series 2005 A and B bonds, respectively.

^(b) Northern Westchester is party to direct purchase agreements with two commercial banks expiring in 2024 for its Series 2014 Series bonds. Northern Westchester's Series 2009 and 2004 bonds are backed by commercial bank direct pay letters of credit expiring in 2025 and 2023, respectively.

^(c) Peconic is party to an agented direct purchase agreement with three commercial bank parties expiring in 2022 for its three outstanding bond issues.

^(d) Mather is party to direct purchase agreements with a commercial bank expiring in 2023 and 2022 for its Series 2013 and 2012 bonds, respectively.

^(e) Variable rate debt is swapped to a fixed rate via interest rate swap agreements.

^(f) \$53,730, \$53,725 and \$53,725 subject to mandatory tender for purchase on May 1, 2022, May 1, 2024 and May 1, 2026, respectively.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

8. Debt (continued)

The Series 2019A, 2017A, 2016A, 2013A and 2012B taxable bonds were issued by HCI as a joint and several obligation of the Obligated Group. The bonds of Phelps, Northern Westchester, Peconic and Mather are tax-exempt and are not obligations of the Obligated Group. All other bonds are tax-exempt and were issued through the Dormitory Authority of the State of New York (DASNY) on behalf of the Obligated Group.

In September 2019, HCI issued \$447,675 of taxable Northwell Health Series 2019A bonds. The Series 2019A taxable bonds were issued by HCI as a joint and several general obligation of the Obligated Group. The Series 2019A taxable bonds bear interest at a fixed rate, payable semi-annually, with a maturity date of November 1, 2049. The proceeds from the Series 2019A taxable bonds will primarily be used for capital investments.

In September 2019, the Obligated Group issued \$41,145 of tax-exempt revenue bonds through the DASNY Series 2019A bonds. The DASNY Series 2019A bonds were sold at a premium of \$4,276 and bear interest at a fixed rate, payable semi-annually, with a final maturity date of May 1, 2033. The proceeds from the DASNY Series 2019A bonds, along with existing trustee-held Series 2009E debt service funds, were used to refund \$49,910 in Series 2009E bonds of the Obligated Group. A loss on refunding of long-term debt of \$519 resulted from the refunding.

In September 2019, the Obligated Group also issued \$161,180 of tax-exempt revenue bonds through the DASNY Series 2019B bonds. The DASNY Series 2019B bonds were sold at a premium of \$20,888 and bear interest at a fixed rate, payable semi-annually through May 1, 2048, with mandatory purchase dates ranging from May 1, 2022 through May 1, 2026. The proceeds from the DASNY Series 2019B bonds were and will be used to finance capital projects for certain members of the Obligated Group.

For certain Obligated Group bonds that were included in a prior year refunding transaction, funds were placed in escrow with a trustee to pay bondholders at future redemption dates. These funds and the liability for the corresponding bonds are excluded from Northwell's consolidated statements of financial position at December 31, 2020 and 2019. At December 31, 2020, outstanding principal amounts to be paid from escrow to bondholders are \$316,215 and have a final redemption date of May 1, 2021.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

8. Debt (continued)

Other Long-Term Debt

Other long-term debt consists of the following at December 31, 2020:

	Interest Structure	Final Maturity	Outstanding Principal
Obligated Group			
2014 Private Placement Notes Payable	Fixed	2030	\$ 240,805
Other			
LIJMC's Center for Advanced Medicine			
Mortgage	Fixed	2045	192,904
Real Estate Financing	Fixed	2045	25,959
Staten Island Term Loan	Fixed	2023	10,000
Lenox Mortgage	Variable	2029	16,527
Phelps Mortgage	Fixed	2031	2,725
Northern Westchester Term Loan	Variable	2022	2,000
Peconic Loans	Variable	2027	5,746
Other Loans	Fixed	2026	5,060
			<u>\$ 501,726</u>

Short-Term Borrowings

Certain members of Northwell have entered into several unsecured revolving credit facilities with commercial banks with commitment availability through dates currently ranging from August 31, 2021 to May 31, 2024. Borrowings under these credit facilities are short-term and are primarily used to provide interim financing for capital improvement projects, with repayment to be provided from bond proceeds and/or the receipt of fundraising proceeds from capital campaigns. Additionally, amounts can be used to provide backup financing for the support of the certificate of need process as required by the NYSDOH and short-term working capital to support the monthly operating cash conversion cycle. In March 2020, amounts were drawn to address the potential effect of the COVID-19 pandemic on Northwell's liquidity. All outstanding balances were paid down in April 2020, upon Northwell's receipt of the Medicare advances. Total credit available under such arrangements is \$606,460 at December 31, 2020. Balances outstanding from these borrowings are \$95,000 at both December 31, 2020 and 2019.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Fair Values of Financial Instruments

For assets and liabilities required to be measured at fair value, Northwell measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from Northwell's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

Northwell follows a valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

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

Level 3: Unobservable inputs are used when little or no market data is available.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, Northwell uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

A financial instrument's categorization within the three levels of the valuation hierarchy is not indicative of the investment risk associated with the underlying assets.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

9. Fair Values of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of December 31, 2020 are classified in the following table in one of the three categories described previously:

	2020			Total
	Level 1	Level 2	Level 3	
Assets				
Cash and cash equivalents (including amounts in the investment portfolio)	\$ 1,268,946	\$ —	\$ —	\$ 1,268,946
Fixed income obligations:				
U.S. Government obligations	181,818	327,678	—	509,496
Corporate and other bonds	—	760,113	—	760,113
Fixed income mutual funds	704,141	—	—	704,141
Commingled fixed income funds*	—	406,937	—	406,937
Equity securities:				
Value	674,612	—	—	674,612
Small cap	235,490	—	—	235,490
Global	374,896	—	—	374,896
Growth	196,718	—	—	196,718
Equity mutual funds	1,072,221	—	—	1,072,221
Commingled equity funds*	—	305,049	—	305,049
Target-age mutual funds	99,042	—	—	99,042
Accrued interest and other	22,232	—	—	22,232
Liabilities				
Interest rate swap agreements	—	(7,164)	—	(7,164)
	<u>\$ 4,830,116</u>	<u>\$ 1,792,613</u>	<u>\$ —</u>	<u>\$ 6,622,729</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

9. Fair Values of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of December 31, 2019 are classified in the following table in one of the three categories described previously:

	2019			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents (including amounts in the investment portfolio)	\$ 979,253	\$ —	\$ —	\$ 979,253
Fixed income obligations:				
U.S. Government obligations	152,491	257,835	—	410,326
Corporate and other bonds	—	518,725	—	518,725
Fixed income mutual funds	450,547	—	—	450,547
Commingled fixed income funds*	—	267,342	—	267,342
Equity securities:				
Value	444,598	—	—	444,598
Small cap	162,855	—	—	162,855
Global	273,653	—	—	273,653
Growth	134,434	—	—	134,434
Equity mutual funds	785,480	—	—	785,480
Commingled equity funds*	—	216,308	—	216,308
Target-age mutual funds	73,727	—	—	73,727
Accrued interest and other	27,027	—	—	27,027
Liabilities				
Interest rate swap agreements	—	(6,130)	—	(6,130)
	<u>\$ 3,484,065</u>	<u>\$ 1,254,080</u>	<u>\$ —</u>	<u>\$ 4,738,145</u>

* Certain of Northwell's commingled fixed income and commingled equity fund investments are valued based on inputs not quoted in active markets, but corroborated by market data, while other commingled fixed income and commingled equity fund investments are recorded on the equity method of accounting and excluded from the fair value tables above.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

9. Fair Values of Financial Instruments (continued)

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment.

The amounts reported in the previous tables exclude certain amounts reported as investments, including investments under the equity method or at Adjusted Cost in the amounts of \$1,790,585 and \$1,254,835 at December 31, 2020 and 2019, respectively (see Notes 2 and 4), and assets invested in Northwell's pension plans (see Note 10).

10. Pension Plans and Other Postretirement Benefits

Pension Plans

Northwell maintains several pension plans for its employees. The following are descriptions of such plans and the respective pension expense for the years ended December 31, 2020 and 2019.

Certain members of Northwell provide pension and similar benefits to its employees through defined contribution plans. Contributions to the defined contribution plans are based on percentages of annual salaries. It is the policy of these members to fund accrued costs under these plans on a current basis. Pension expense for 2020 and 2019 related to the defined contribution plans amounted to \$226,032 and \$200,016, respectively.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

10. Pension Plans and Other Postretirement Benefits (continued)

Certain members of Northwell contribute to various multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

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

Northwell's significant participation in certain multiemployer plans for the annual period ended December 31, 2020 is outlined in the following table. The following information for the 1199SEIU Health Care Employees Pension Fund (the 1199 Plan) and the New York State Nurses Association Pension Plan (the NYSNA Plan) is included within the table:

- a. The "EIN/Pension Plan Number" column provides the plans' Employee Identification Number (EIN) and the three-digit plan number.
- b. The most recent "Pension Protection Act Zone Status" available in 2020 and 2019 is for a plan's year-end at December 31, 2019 and 2018, respectively, and is based on information that Northwell received from the plans and is certified by the plans' actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded and plans in the green zone are at least 80% funded.
- c. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
- d. The last column lists the expiration dates of the collective bargaining agreements to which the plans are subject.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

10. Pension Plans and Other Postretirement Benefits (continued)

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	Contributions of Northwell		Surcharge Imposed	Expiration Date of Collective-Bargaining Agreements
		2020	2019		2020	2019		
1199 Plan ^(a)	13-3604862/001	Green as of 1/1/20	Green as of 1/1/19	N/A	\$ 101,594	\$ 96,325	No	9/30/2021 to 3/31/2022
NYSNA Plan ^(a)	13-6604799/001	Green as of 1/1/20	Green as of 1/1/19	N/A	\$ 16,037	\$ 15,332	No	3/31/2021 to 12/31/2023

^(a)Northwell was listed in the 1199 and NYSNA plans' Forms 5500 as providing more than 5% of the total contributions during each of the plans' 2019 and 2018 plan years. Forms 5500 are not yet available for the plan year ended in 2020.

In addition to the plans noted in the table above, Northwell also participates in several other multiemployer plans. Contributions for these other plans totaled \$1,079 and \$1,083 for the years ended December 31, 2020 and 2019, respectively.

Northwell maintains various deferred compensation plans pursuant to Section 457(b) of the Code (the 457(b) Plans). Eligible employees may defer compensation under a salary reduction agreement, subject to certain dollar limitations. Non-elective employer contributions may also be made for some of the 457(b) Plans. Payments upon retirement or termination of employment are based on amounts credited to the individual accounts. The assets and corresponding liability for the 457(b) Plans and other deferred compensation plans, included in long-term investments and accrued retirement benefits in the accompanying consolidated statements of financial position, totaled \$304,188 and \$243,250 at December 31, 2020 and 2019, respectively.

Defined Benefit Pension Plans

Certain employees are covered by noncontributory defined benefit pension plans (the Plans), with the Cash Balance Plan being the primary plan. Northwell recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the Plans in its consolidated statements of financial position.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

10. Pension Plans and Other Postretirement Benefits (continued)

The following tables provide a reconciliation of the changes in the Plans' aggregated projected benefit obligation and fair value of plan assets for the years ended December 31, 2020 and 2019 and the funded status and accumulated benefit obligation of the Plans as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Reconciliation of the projected benefit obligation		
Obligation at January 1	\$ 2,937,788	\$ 2,705,092
Service cost	105,108	98,340
Interest cost	102,882	120,223
Plan amendments	870	–
Actuarial loss	237,761	233,398
Benefit payments	(92,466)	(208,907)
Settlements	(178,397)	(10,358)
Obligation at December 31	<u>\$ 3,113,546</u>	<u>\$ 2,937,788</u>
Reconciliation of fair value of plan assets		
Fair value of plan assets at January 1	\$ 2,573,088	\$ 1,874,898
Actual return on plan assets	298,176	312,331
Employer contributions	107,152	605,085
Benefit payments	(92,466)	(208,907)
Settlements	(178,397)	(10,319)
Fair value of plan assets at December 31	<u>\$ 2,707,553</u>	<u>\$ 2,573,088</u>
Funded status		
Funded status at December 31	<u>\$ (405,993)</u>	<u>\$ (364,700)</u>
Accumulated benefit obligation at December 31	<u>\$ 2,899,323</u>	<u>\$ 2,749,325</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

10. Pension Plans and Other Postretirement Benefits (continued)

The current portion of accrued retirement benefits related to the Plans, included in accrued salaries and related benefits in the accompanying consolidated statements of financial position, is \$853 and \$2,040 at December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, certain plans were funded with plan assets at a level exceeding their respective projected benefit obligation. As a result, their funded status of \$5,793 and \$6,007 are included in other assets in the accompanying consolidated statements of financial position as of December 31, 2020 and 2019, respectively.

The actuarial loss in 2020 and 2019 is primarily due to the decrease in the discount rate used in the measurement of the Plans' benefit obligation.

Included in net assets without donor restrictions at December 31, 2020 and 2019 are the following amounts related to the Plans that have not yet been recognized in net periodic benefit cost:

	<u>2020</u>	<u>2019</u>
Unrecognized actuarial loss	\$ (727,404)	\$ (671,755)
Unrecognized prior service cost	(12,151)	(23,474)
	<u>\$ (739,555)</u>	<u>\$ (695,229)</u>

The Plans' actuarial loss and prior service cost included in net assets without donor restrictions expected to be recognized in net periodic benefit cost during the year ended December 31, 2021 are as follows:

Actuarial loss	\$ 44,442
Prior service cost	3,657
Increase to net periodic benefit cost	<u>\$ 48,099</u>

The increase in settlements in 2020 compared to 2019 is primarily due to the purchase of annuities for in-payment participants that had a monthly benefit payment of \$0.5 or less.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

10. Pension Plans and Other Postretirement Benefits (continued)

The following table provides the components of the net periodic benefit cost for the Plans for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Service cost (included in employee benefits)	<u>\$ 105,108</u>	<u>\$ 98,340</u>
Interest cost on projected benefit obligation	102,882	120,223
Expected return on plan assets	(161,350)	(122,897)
Amortization of actuarial loss	42,173	46,675
Amortization of prior service cost	9,739	14,120
Settlement loss	5,701	1,908
Total included in non-operating net periodic benefit (credit) cost	<u>(855)</u>	<u>60,029</u>
Net periodic benefit cost	<u>\$ 104,253</u>	<u>\$ 158,369</u>

Prior service costs are amortized over the average remaining service period of active participants. Actuarial gains and losses in excess of 10% of the greater of the projected benefit obligations and the market-related value of assets are amortized over the average remaining service period of active participants.

The assumptions used in the measurement of the Cash Balance Plan's benefit obligations at December 31, 2020 and 2019 are shown in the following table:

	<u>2020</u>	<u>2019</u>
Discount rate	2.75%	3.50%
Rate of compensation increase	4.00%	4.00%

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

10. Pension Plans and Other Postretirement Benefits (continued)

The assumptions used in the measurement of the Cash Balance Plan's net periodic benefit cost for the years ended December 31, 2020 and 2019 are shown in the following table:

	<u>2020</u>	<u>2019</u>
Discount rate	3.50%	4.35%
Expected long-term rate of return on plan assets	6.50%	6.50%
Rate of compensation increase	4.00%	4.00%

The Cash Balance Plan comprises 86.5% and 81.6% of the Plans' total projected benefit obligation as of December 31, 2020 and 2019, respectively, and 83.8% and 84.2% of the net periodic benefit cost for the years ended December 31, 2020 and 2019, respectively.

Benefit payments for the Plans, which reflect expected future service, as appropriate, are expected to be paid as follows:

2021	\$ 132,925
2022	138,356
2023	146,347
2024	154,004
2025	157,082
2026 to 2030	845,192

Northwell expects to make contributions of approximately \$111,000 to the Plans in 2021.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

10. Pension Plans and Other Postretirement Benefits (continued)

Defined Benefit Pension Plan Assets

The fair values of the Plans' assets at December 31, 2020, by asset category, are as follows:

Asset Category	Level 1	Level 2	Level 3	Total
Cash and short-term investments	\$ 81,884	\$ –	\$ –	\$ 81,884
Fixed income obligations:				
U.S. Government obligations	17,894	75,909	–	93,803
Corporate and other bonds	–	131,598	–	131,598
Fixed income mutual funds	142,927	–	–	142,927
Commingled fixed income funds	–	297,708	–	297,708
Equity securities:				
Value	129,720	–	–	129,720
Small cap	78,477	–	–	78,477
Global	317,034	–	–	317,034
Growth	63,644	–	–	63,644
Equity mutual funds	313,746	–	–	313,746
Commingled equity funds	–	106,284	–	106,284
Accrued interest and other	7,011	–	–	7,011
	\$ 1,152,337	\$ 611,499	\$ –	1,763,836
Assets measured at net asset value:				
Commingled fixed income funds				174,690
Commingled equity funds				66,617
Funds of hedge funds				406,697
Hedge funds				16
Private equity funds				162,560
Private credit funds				75,608
Private real estate funds				57,529
Total assets at fair value				\$ 2,707,553

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

10. Pension Plans and Other Postretirement Benefits (continued)

The fair values of the Plans' assets at December 31, 2019, by asset category, are as follows:

Asset Category	Level 1	Level 2	Level 3	Total
Cash and short-term investments	\$ 85,709	\$ –	\$ –	\$ 85,709
Fixed income obligations:				
U.S. Government obligations	14,339	76,264	–	90,603
Corporate and other bonds	–	187,273	–	187,273
Fixed income mutual funds	124,346	–	–	124,346
Commingled fixed income funds	–	267,852	–	267,852
Equity securities:				
Value	113,320	–	–	113,320
Small cap	71,728	–	–	71,728
Global	294,418	–	–	294,418
Growth	59,893	–	–	59,893
Equity mutual funds	294,334	–	–	294,334
Commingled equity funds	–	99,022	–	99,022
Accrued interest and other	4,357	–	–	4,357
	\$ 1,062,444	\$ 630,411	\$ –	1,692,855
Assets measured at net asset value:				
Commingled fixed income funds				159,370
Commingled equity funds				88,269
Funds of hedge funds				388,854
Hedge funds				22
Private equity funds				153,359
Private credit funds				35,435
Private real estate funds				54,924
Total assets at fair value				\$ 2,573,088

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

10. Pension Plans and Other Postretirement Benefits (continued)

Assets invested in the Plans are carried at fair value. Debt and equity securities and certain commingled funds with readily determinable values are carried at fair value, as determined based on independent published sources. Other commingled funds and alternative investments are stated at fair value, determined by using net asset value as a practical expedient, as permitted by generally accepted accounting principles, rather than using another valuation method to independently estimate fair value (see Note 2).

The following is a summary of assets in the Plans at December 31, 2020 (by asset category) with redemption restrictions:

	<u>Asset Value</u>	<u>Redemption Period (Including Notice Period)</u>
Commingled fixed income funds	\$ 472,398	1 day to 60 days
Commingled equity funds	172,901	2 days to 45 days
Funds of hedge funds	406,697	61 days to 29 months

Private equity, private credit and private real estate funds have long lifecycles with distributions not expected for several years. In the instance of certain redemptions, some investments noted above may require an extended waiting period to receive a remainder portion of the redemption.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

10. Pension Plans and Other Postretirement Benefits (continued)

Basis Used to Determine the Expected Long-Term Rate of Return on Assets

The overall expected long-term rate of return on assets assumption is based upon a long-term building-block approach adjusted for current market conditions. First, return expectations for each asset class are developed with economic and fundamental drivers such as inflation, dividends and real earnings growth for stocks and real yields, defaults and recoveries for bonds. These expectations assume that market levels at the beginning of the forecast period are in a state of equilibrium. With the understanding that markets are more often than not in some state of disequilibrium, the “next ten year” return forecasts are adjusted to reflect the starting point for inflation expectations, interest rate levels and market risk premiums relative to historically normal market levels. The fundamental building blocks used to develop the long-term equilibrium return expectations are based on a combination of consensus forecasts and long-term historical averages. The historical data is adjusted to reflect any fundamental changes that have occurred in the relative markets.

Once long-term equilibrium forecasts are developed, returns are adjusted for the next ten years to reflect the current environment as it relates to the key economic variables that influence returns across the capital markets. In doing so, the expected path for breakeven inflation, real interest rates and investment grade corporate bond spreads are modeled for the next ten years. In this framework, the investment grade corporate spreads are used as a proxy for the risk premium priced broadly into a number of asset classes within the capital markets.

While the precise expected return derived using the above approach will fluctuate somewhat from year to year, the Plans’ policy is to hold this long-term assumption constant as long as it remains within a reasonable tolerance from the derived rate.

Description of Investment Policies and Strategies

The Plans’ overall investment strategy is to achieve wide diversification of asset types, fund strategies and fund managers. Equity securities include investments in domestic, international, global and emerging markets equities. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, emerging markets debt and U.S. Treasuries. Other types of investments include investments in commingled funds and alternative investments that follow several different strategies.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

10. Pension Plans and Other Postretirement Benefits (continued)

There are specific guidelines and diversification standards for each investment manager. Eligible investments are specifically outlined. Each manager must disclose its strategies and report that it abides by the Employee Retirement Income Security Act of 1974 rules, where applicable.

The Cash Balance Plan's asset allocation at December 31, 2020 and 2019, by asset category, is as follows:

	2020	2019	Target Allocation
Cash and short-term investments	3.7%	3.7%	1.0%
Fixed income obligations, including commingled fixed income funds	30.0	32.0	29.5
Equity securities, including commingled equity funds	37.5	36.8	24.5
Alternative investments	28.8	27.5	45.0
	100.0%	100.0%	100.0%

The target allocation percentages are set as long-term diversification objectives to be met over time, as the portfolio increases the allocation to alternative investments.

The Cash Balance Plan comprises 90.2% and 85.0% of the Plans' total fair value of plan assets as of December 31, 2020 and 2019, respectively.

Other Postretirement Benefits

Certain employees are covered by the Northwell Health Retiree Medical and Life Insurance Plan and other postretirement benefit plans other than pensions. As of December 31, 2020 and 2019, the total funded status of the plans was a liability of \$43,191 and \$36,413, respectively. The current portion of accrued retirement benefits related to the plans, included in accrued salaries and related benefits in the accompanying consolidated statements of financial position, is \$2,615 and \$1,592 at December 31, 2020 and 2019, respectively.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

10. Pension Plans and Other Postretirement Benefits (continued)

For the years ended December 31, 2020 and 2019, there was a net periodic benefit cost (credit) related to these plans of \$1,210 and (\$1,573), respectively, of which (\$40) and (\$2,450), respectively, was recorded within non-operating net periodic benefit credit (cost) in the accompanying consolidated statements of operations.

11. Malpractice and Other Insurance Liabilities

Malpractice

Northwell provides for potential medical malpractice losses through a combination of a self-insurance program and purchased primary and excess insurance, on both a claims-made and occurrence basis, as follows:

Primary Insurance Program

From January 2003 through December 2016, Northwell purchased primary malpractice insurance on an occurrence basis, covering most hospitals. The policies provided coverage with limits of \$1,000 per claim and a \$50,000 annual policy aggregate through 2009. Effective January 2010, the program retained \$750 of the primary coverage per indemnity claim, while aggregate limits increased to \$60,000. Effective January 2013, the retention level increased to \$900 per claim. Effective January 2017, Northwell decided to fully self-insure the primary layer covering most hospitals up to \$1,000 per claim.

In December 2002, Northwell purchased a tail insurance policy to cover unreported occurrences from its prior claims-made primary insurance program.

The estimated undiscounted liability for the retained primary coverage and losses in excess of the insured primary aggregate at December 31, 2020 and 2019 was \$883,576 and \$779,826, respectively. At December 31, 2020 and 2019, the liability was recorded at the actuarially determined present value of \$868,540 and \$728,383, respectively, based on a discount rate of 0.5% and 2.0%, respectively. Malpractice and other insurance liabilities are discounted based on the expected timing of the actuarially estimated future claim payments under the programs, using a risk-free rate. Such estimates are reviewed and updated on an annual basis.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

11. Malpractice and Other Insurance Liabilities (continued)

Excess Insurance Coverage

Regional Insurance covers certain excess malpractice losses above the primary per claim limit, on a claims-made basis. Additional commercial excess malpractice insurance is purchased on a claims-made basis for excess coverage layers above the Regional Insurance per claim limit.

Regional Insurance's estimated undiscounted reserves for losses and loss expenses outstanding at December 31, 2020 and 2019 were \$85,813 and \$107,214, respectively, and were recorded at the actuarially determined present value of \$85,193 and \$103,502, respectively, based on a discount rate of 0.5% and 2.0%, respectively.

Effective January 1, 2015, the annual aggregate excess coverage provided by Regional Insurance was significantly reduced to \$6,500, and was subsequently increased to \$7,750 effective January 1, 2018, \$8,375 effective January 1, 2019 and \$9,000 effective January 1, 2020. The undiscounted liability for the Northwell hospitals for estimated losses in excess of Regional Insurance's aggregate excess coverage at December 31, 2020 and 2019 totaled \$384,204 and \$323,056, respectively, and is recorded at the actuarially determined present value of \$377,122 and \$299,580, respectively, based on a discount rate of 0.5% and 2.0%, respectively.

The estimated undiscounted incurred but not reported liability for claims in excess of primary insurance layers at December 31, 2020 and 2019 was \$146,856 and \$138,105, respectively, and was recorded at the actuarially determined present value of \$141,792 and \$120,432, respectively, based on a discount rate of 0.5% and 2.0%, respectively.

Other Self-Insurance Coverage

For certain years, certain Northwell hospitals and physicians were covered for malpractice claims under various other insured and self-insured arrangements. For self-insured claims and incidents, Northwell has reserved \$37,085 and \$41,770 at December 31, 2020 and 2019, respectively, based on actuarial determinations and a discount rate of 0.5% and 2.0%, respectively, as its best estimates of the ultimate cost of such losses.

Malpractice claims have been asserted against Northwell by various claimants. These claims are in various stages of processing, and some may ultimately be brought to trial. There are known incidents that have occurred through December 31, 2020 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. It is the opinion of Northwell's management that adequate insurance, including self-insurance, and malpractice reserves are being maintained to cover potential malpractice losses.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

11. Malpractice and Other Insurance Liabilities (continued)

Workers' Compensation

In June 2013, Northwell changed its workers' compensation insurance program from a guaranteed cost program to a high deductible program with a \$1,000 per claim retention level. At December 31, 2020 and 2019, the liability for retained losses under this program was recorded at the actuarially determined present value of \$239,038 and \$188,810, respectively, based on a discount rate of 0.5% and 2.0%, respectively. The estimated undiscounted liability was \$246,607 and \$212,176 at December 31, 2020 and 2019, respectively.

Prior to joining Northwell's high deductible program, certain hospitals had various self-insured programs for workers' compensation claims. At December 31, 2020 and 2019, the liability for these self-insured losses was recorded at the actuarially determined present value of \$16,011 and \$19,278, respectively, based on a discount rate of 0.5% and 2.0%, respectively.

Other Insurance

Some of Northwell's other insurance programs, including general liability, have a component of self-insurance or high deductibles. Liabilities for these other insurance programs were not significant at December 31, 2020 and 2019.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

12. Other Operating Revenue

Other operating revenue consists of the following for the years ended December 31, 2020 and 2019:

	2020	2019
Laboratory services	\$ 371,391	\$ 284,685
Pharmacy sales	206,105	156,523
Grants and contracts	177,076	143,088
Group purchasing revenue	46,432	21,818
Health plan risk pool distributions	39,686	37,019
Rental income	34,670	32,829
Clinical joint venture income	22,395	13,462
Investment income <i>(see Note 4)</i>	15,359	16,598
Cafeteria and gift shop sales	14,325	18,497
Health plan care coordination revenue	11,674	9,987
Parking income	4,106	7,217
All other	77,181	91,930
	<u>\$ 1,020,400</u>	<u>\$ 833,653</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

13. Net Assets

Donor restricted net assets at December 31, 2020 and 2019 are available for the following:

	<u>2020</u>	<u>2019</u>
Teaching, research, training and other	\$ 387,786	\$ 321,875
Capital projects and purchases of equipment	148,006	131,663
Permanent endowments	247,977	238,184
	<u>\$ 783,769</u>	<u>\$ 691,722</u>

Northwell's endowments consist of donor restricted funds, the income from which is available for a variety of purposes.

Northwell follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as they relate to its permanent endowments. Northwell has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift, as of the gift date, of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Northwell classifies as net assets with donor restrictions to be maintained in perpetuity (a) the original value of gifts donated to the permanent endowment, (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 remaining income from the permanent endowments is classified as net assets with donor restrictions to be used for described purposes or over specified periods of time until those amounts are appropriated for expenditure. Northwell considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of the donor restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) the investment policies of Northwell.

Northwell's investment and spending policies for endowment assets seek to provide a predictable stream of funding to programs supported by its endowments, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Northwell must hold in perpetuity or for a donor-specified term. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that expects to generate an average annual return over time in excess of 5.0%. Actual returns in any given year may vary from this amount.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)
(In Thousands)

13. Net Assets (continued)

To satisfy its long-term rate-of-return objectives, Northwell 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). Northwell targets a diversified asset allocation that consists of equities, fixed income and alternative investments.

Northwell has a policy of appropriating for distribution each year, amounts determined using historical returns on its endowment funds' corpus, not to exceed 7.0%. In establishing this policy, Northwell considered the long-term expected return on its endowments.

For the years ended December 31, 2020 and 2019, Northwell had the following activity related to its endowment assets, including amounts to be held in perpetuity and earnings which may be expended:

	<u>2020</u>	<u>2019</u>
Endowment balance, beginning of year	\$ 309,625	\$ 262,512
Investment return:		
Investment income	12,519	10,257
Net appreciation	28,419	29,714
Total investment return	<u>40,938</u>	39,971
Contributions and other*	9,793	18,869
Amounts appropriated for expenditure	<u>(10,787)</u>	(11,727)
Net change in endowment funds	<u>39,944</u>	47,113
Endowment balance, end of year	<u>\$ 349,569</u>	<u>\$ 309,625</u>

*Contributions include pledges receivable for permanently restricted purposes.

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 Northwell to retain as a fund of perpetual duration. There was no such deficiency as of December 31, 2020 and 2019.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued) (In Thousands)

14. Commitments and Contingencies

Litigation and Claims

Northwell is involved in litigation and claims which are not considered unusual to its business. While the ultimate outcome of these lawsuits cannot be determined at this time, it is the opinion of management that the ultimate resolution of these claims will not have a material adverse effect on the accompanying consolidated financial statements.

Collective Bargaining Agreements

At December 31, 2020, approximately 28% of Northwell's employees are union employees who are covered under the terms of various collective bargaining agreements. Certain collective bargaining agreements which represent approximately 4% of union employees (1% of total employees) have expired at December 31, 2020 and are currently being renegotiated. Agreements representing approximately 84% of union employees (24% of total employees) will expire within the next year and are currently being renegotiated.

Letters of Credit and Surety Bonds

At December 31, 2020, \$13,301 in direct-pay letters of credit were maintained with a commercial bank to secure certain Northern Westchester bond issues.

At December 31, 2020, four commercial banks are providing a total of \$366,842 in commitments, solely to support letters of credit required for Northwell's high deductible workers' compensation and vehicle insurance programs. At December 31, 2020, \$150,473 in secured direct-pay letters of credit were maintained with the banks, and \$216,369 of the commitments remain available for future letters of credit. At December 31, 2020, there was also a \$60,000 surety bond supporting these programs.

In addition, at December 31, 2020, \$16,798 in direct-pay letters of credit or surety bonds was maintained to support other workers' compensation insurance programs at certain Northwell hospitals.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

14. Commitments and Contingencies (continued)

Other Commitments and Contingencies

In 2008, Hofstra University (the University) and Northwell entered into a joint academic agreement to establish what is now known as the Donald and Barbara Zucker School of Medicine at Hofstra/Northwell (the Medical School), at the University, while remaining as separate corporations with separate governance. Under the agreement, Northwell will reimburse the University a minimum of \$5,000 each academic year for a portion of the Medical School's annual costs, with amounts indexed to the Medical School tuition. Such reimbursement is contingent upon annual approval by the boards of Northwell and the University. Northwell shall not advance funds to the University that have not yet been spent in connection with the Medical School. Northwell also provides a minimum of \$4,000 annually for funding of Medical School scholarships and student loans, with amounts indexed to the Medical School tuition.

In April 2015, Northwell entered into a strategic affiliation with Cold Spring Harbor Laboratory (CSHL). Under the terms of this affiliation, Northwell and CSHL will continue as independent organizations governed by their respective boards of trustees. The goals of the affiliation include advancing cancer diagnostic and therapeutic research, developing a new clinical cancer research unit at Northwell to support early-phase clinical studies of new cancer therapies, and recruiting and training more clinician-scientists in oncology. Pursuant to the agreement, Northwell is committed to pay CSHL \$15,000 annually throughout the remaining term of the affiliation.

In August 2015, Northwell entered into a clinical affiliation and collaboration agreement with Maimonides Medical Center (Maimonides), a not-for-profit acute care hospital located in Brooklyn, New York. The purpose of the affiliation is to pursue collaborative activities, such as clinical integration initiatives and ambulatory services joint ventures, as well as service agreements that may generate operational efficiencies. Under the terms of the affiliation agreement, Northwell and Maimonides will remain independent organizations governed by their respective boards of trustees. Pursuant to the affiliation agreement, the parties have also entered into an unsecured loan agreement, whereby through August 2017, Northwell loaned a total of \$125,000 to Maimonides. Payments on the loan and accrued interest thereon would not commence until the termination of the affiliation agreement. However, if Northwell becomes the sole member and corporate parent of Maimonides, outstanding amounts borrowed under the loan agreement, including accrued interest, will be forgiven.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

14. Commitments and Contingencies (continued)

In August 2018, Northwell entered into an option agreement with a third party that recently acquired property on the Upper East Side of Manhattan. Under the agreement, Northwell is required to make minimum monthly payments of approximately \$806 to the property owner and is given the option to purchase the property at a defined price at certain future dates. The option agreement is for a three-year period, with the ability to extend for up to two additional years.

In the normal course of business, Northwell enters into multi-year contracts with vendors, suppliers and service providers for goods or services to be provided to Northwell. Under the terms of such agreements, Northwell may be contingently liable for termination or other fees in the event of contract termination or default. Northwell does not believe that such contingent liabilities, should they become due, would have a material impact on its consolidated financial statements.

15. Subsequent Events

Management has evaluated the impact of subsequent events through April 28, 2021, representing the date at which the consolidated financial statements were issued.

Except for those disclosed in Note 1, no events have occurred that require disclosure in or adjustment to the accompanying consolidated financial statements.

Supplementary Information, Audit Reports and
Schedules Related to the Uniform Guidance

Northwell Health, Inc.

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2020

Federal Grantor/Program Title/Project Title	Federal Assistance Listing Number	Pass-through Grantor	Pass-through ID Number/Contract Number	Research and Development Cluster	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Health and Human Services						
Direct grants and contracts:						
National Institutes of Health	93.213, 93.226, 93.242, 93.273, 93.310, 93.361, 93.396, 93.393, 93.395, 93.837, 93.838, 93.839, 93.846, 93.847, 93.853, 93.855, 93.859, 93.865, 93.866			\$ 23,848,990	\$ 23,848,990 (a)	\$ 3,367,453
Office of the Assistant Secretary for Health: Research on Research Integrity	93.085			–	2,416	–
Health Resources and Services Administration: Maternal and Child Health Federal Consolidated Programs	93.110			–	48,341 (b)	–
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153			–	639,078 (c)	–
COVID-19 Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153			–	46,085 (c)	–
Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants	93.924			–	261,085	–
Primary Care Medicine and Dentistry Clinician Educator Career Development Awards	93.976			–	101,126	–
COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured	93.461			–	10,822,138	–
				–	11,917,853	–
Substance Abuse and Mental Health Services: Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243			594,624	594,624	–
Centers for Disease Control and Prevention: Occupational Safety and Health Program	93.262			420,030	420,030	–
HIV Prevention Activities Non-Governmental Organization Based	93.939			–	650,582	105,859
				420,030	1,070,612	105,859
Subtotal direct grants and contracts				24,863,644	37,434,495	3,473,312

Northwell Health, Inc.

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2020

Federal Grantor/Program Title/Project Title	Federal Assistance Listing Number	Pass-through Grantor	Pass-through ID Number/Contract Number	Research and Development Cluster	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Health and Human Services						
Pass-through programs:						
Blood Disorder Program: Prevention, Surveillance, and Research	93.080	Icahn School of Medicine at Mount Sinai	5 NU27DD001155-05-00 / NU27DD000020-01-00	\$ 25,502	\$ 25,502	\$ -
Maternal and Child Health Federal Consolidated Programs	93.110	Icahn School of Medicine at Mount Sinai	5 H30MC240480800 / 5 H30MC24048-09-00	-	23,883 (b)	-
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	New York University School of Medicine	H12HA24879	-	23,768 (c)	-
Research Related to Deafness and Communication Disorders	93.173	The Trustees of Columbia University in the City of New York	R01DC014279	37,288	37,288	-
Research on Healthcare Costs, Quality and Outcomes	93.226	The Trustees of Columbia University in the City of New York	5 R01HS025198-03 / 5 R01HS025198-04	5,792	5,792	-
Research on Healthcare Costs, Quality and Outcomes	93.226	University of Pittsburgh	5 R01HS023708-05	12,204	12,204	-
	Total 93.226			17,996	17,996	-
Mental Health Research Grants	93.242	Research Foundation for Mental Hygiene	5 R01MH111439-04/05 / 5 R01 MH120597-02	114,801	114,801	-
Mental Health Research Grants	93.242	The Trustees of Columbia University in the City of New York	5 P50MH109429-03 / 5 P50MH109429-04 / 1R01MH122513-01	178,085	178,085	-
Mental Health Research Grants	93.242	The Board of Regents of the University System of Georgia by and on behalf of Georgia Institute of Technology	R01MH117172	187,511	187,511	-
Mental Health Research Grants	93.242	The University of Texas Health Science Center at San Antonio	164342 / 164330 1R01MH121542-01 /	229,727	229,727	-
Mental Health Research Grants	93.242	The Johns Hopkins University	5R01MH121542-02	89,405	89,405	-
Mental Health Research Grants	93.242	Center for Addiction & Mental Health	1R61MH120188-01A1	56,226	56,226	-
Mental Health Research Grants	93.242	Rhode Island Hospital	1R01MH118269-01A1/02	287,331	287,331	-
Mental Health Research Grants	93.242	The Regents of the University of California	1R01MH123575-01	26,096	26,096	-
Mental Health Research Grants	93.242	Yale University	1 U01 MH 124639-01	165,888	165,888	-
	Total 93.242			1,335,070	1,335,070	-
Immunization Cooperative Agreements	93.268	New York City Department of Health and Mental Hygiene	Not available	-	148,448	-

Northwell Health, Inc.

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2020

Federal Grantor/Program Title/Project Title	Federal Assistance Listing Number	Pass-through Grantor	Pass-through ID Number/Contract Number	Research and Development Cluster	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Health and Human Services						
Pass-through programs (continued):						
Alcohol Research Programs	93.273	Partnership for a Drug-Free America, Inc. d/b/a Partnership for Drug-Free Kids	4R01AA025058	\$ 78,692	\$ 78,692	\$ -
Alcohol Research Programs	93.273	The Trustees of Columbia University in the City of New York	5R01A023653-03 / 1R21AA027392-01A1	207,324	207,324	-
	Total 93.273			286,016	286,016	-
Drug Abuse and Addiction Research Programs	93.279	The National Center for Addiction and Substance Abuse	R01DA038193	3,954	3,954	-
Drug Abuse and Addiction Research Programs	93.279	New York University School of Medicine	1R61DA049265-01 / R33DA049265-02	159,682	159,682	-
	Total 93.279			163,636	163,636	-
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	New York University School of Medicine	1R01EB024539	9,120	9,120	-
Nursing Research	93.361	The Trustees of Columbia University in the City of New York	1R01NR017206-03 / 1R01NR017206-04	62,034	62,034	-
Cancer Cause and Prevention Research	93.393	Icahn School of Medicine at Mount Sinai	5 R01 CA190866-04	165,212	165,212	-
Cancer Treatment Research	93.395	Children's Hospital of Philadelphia	2U10CA180886	92,663	92,663	-
Medicaid Cluster – Medical Assistance Program	93.778	New York State Department of Health	DOH01-C32117GG-3450000 / DOH01-C32137GG-3450000	-	355,620	-
Opioid STR	93.788	Research Foundation for Mental Hygiene, Inc.	5H79TI081718-02	-	424,094	-

Northwell Health, Inc.

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2020

Federal Grantor/Program Title/Project Title	Federal Assistance Listing Number	Pass-through Grantor	Pass-through ID Number/Contract Number	Research and Development Cluster	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Health and Human Services						
Pass-through programs (continued):						
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	Public Health Solutions	15-NSLIJ-01	\$ -	\$ 65,000	\$ -
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	Health Research, Inc.	4 U3REP150520-01-11	-	301,506	-
Total 93.817				-	366,506	-
Cardiovascular Diseases Research	93.837	Icahn School of Medicine at Mount Sinai	5U01 HL 125506-03	30,060	30,060	-
Cardiovascular Diseases Research	93.837	University of Rochester	1R34HL133526-02 / 1R01HL141609-02 / 1R01HL141609-03 / 1R01HL150044-01 / 5U01HL125478-02 /	335	335	-
Cardiovascular Diseases Research	93.837	The Trustees of Columbia University in the City of New York	5U01HL134679-02	9,011	9,011	-
Cardiovascular Diseases Research	93.837	Duke University	5U01HL131003-05	7,875	7,875	-
Cardiovascular Diseases Research	93.837	Cincinnati Children's Hospital Medical Center	5U01HL131003-05	22,491	22,491	-
Cardiovascular Diseases Research	93.837	University of Maryland d/b/a University of Maryland Baltimore Campus	5U24HL134763	83,750	83,750	-
Total 93.837				153,522	153,522	-
Blood Diseases and Resources Research	93.839	The Washington University	5UH3HL138325-03 / 4UH3HL38325-02 / 5U01HL133883-03 / 5U01HL133883-04 /	2,000	2,000	-
Blood Diseases and Resources Research	93.839	Cincinnati Children's Hospital Medical Center	1R01HL152099-01 / 5R01HL134043-04 / 5R01HL134043-03	156,820	156,820	-
Blood Diseases and Resources Research	93.839	The Jackson Laboratory	5U01HL134812-05 / 5U01HL134812-03	13,893	13,893	-
Blood Diseases and Resources Research	93.839	The Children's Hospital Corporation d/b/a Boston Children's Hospital	5U01HL133817-04	276,173	276,173	-
Blood Diseases and Resources Research	93.839	Rutgers, The State University of New Jersey		10,000	10,000	-
Total 93.839				458,886	458,886	-

Northwell Health, Inc.

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2020

Federal Grantor/Program Title/Project Title	Federal Assistance Listing Number	Pass-through Grantor	Pass-through ID Number/Contract Number	Research and Development Cluster	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Health and Human Services						
Pass-through programs (continued):						
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	The Trustees of Columbia University in the City of New York	5R01AR069668-04/05	\$ 19,986	\$ 19,986	\$ -
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	The Brigham & Women's Hospital, Inc.	1U01AR068043 / 1U01AR06804	3,989	3,989	-
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	The Pennsylvania State University	5 U01 AR071077-03 Rev	17,479	17,479	-
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	The Johns Hopkins University	5R34AR073505-02	13,375	13,375	-
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	Benaroya Research Institute at Virginia Mason	1R01AR076242-01 / 5R01AR076242-02	264,038	264,038	-
Total 93.846				318,867	318,867	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Regents of the University of Michigan	2U54DK083912-11	2,430	2,430	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Trustees of the University of Pennsylvania	2-U01-DK-100846-07 / 5U01 DK 100846-08	12,985	12,985	-
Total 93.847				15,415	15,415	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	The Trustees of Columbia University in the City of New York	5U01NS098976-03	122,399	122,399	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	The Board of Trustees of the Leland Stanford Junior University	5U01NS038455-17 / 5U01NS038455-18	66,738	66,738	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Regents of University of Minnesota	UG3NS107688	409,100	409,100	211,500
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	University of Cincinnati	1U01NS100699-01A1 Revised / 1U01NS099043-01A1 Revised / 5U01NS095869-02 Revised / 1U01NS110772-01	39,518	39,518	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Regents of the University of Michigan	1U24NS100659-01	15,000	15,000	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Medical University of South Carolina	1R01NS110347-01A1 / 5R01NS110347-02	130,707	130,707	-
Total 93.853				783,462	783,462	211,500

Northwell Health, Inc.

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2020

Federal Grantor/Program Title/Project Title	Federal Assistance Listing Number	Pass-through Grantor	Pass-through ID Number/Contract Number	Research and Development Cluster	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Health and Human Services						
Pass-through programs (continued):						
Allergy and Infectious Diseases Research	93.855	Duke University	2UM1AI104681-08	\$ 3,239	\$ 3,239	\$ -
Allergy and Infectious Diseases Research	93.855	Emory University	A253061 / A318333 / A294463 /	485,750	485,750	-
Allergy and Infectious Diseases Research	93.855	New York University School of Medicine	A318741 / A319071 / A283234	95,226	95,226	-
		The Board of Trustees of the University of Alabama for the University of Alabama at Birmingham	2R01AI108680-07A1			
Allergy and Infectious Diseases Research	93.855		1U54AI150225-01	13,500	13,500	-
Allergy and Infectious Diseases Research	93.855	Benaroya Research Institute at Virginia Mason	5UM1AI109565-06 /	46,807	46,807	-
			5UM1AI109565-07			
	Total 93.855			644,522	644,522	-
Biomedical Research and Research Training	93.859	Beth Israel Deaconess Medical Center, Inc.	K23GM128005-01 /	3,500	3,500	-
			5K23GM128005-03			
Child Health and Human Development Extramural Research	93.865	Regents of the University of Michigan	5R01HD093450-02 /	48,892	48,892	-
Child Health and Human Development Extramural Research	93.865	Regents of the University of California	5R01HD093450-03			
Child Health and Human Development Extramural Research	93.865	Ann & Robert H Lurie Children's Hospital of Chicago	R21HD099239	20,260	20,260	-
			1R21HD096402-01A1 /			
			5R21HD096402-02	28,207	28,207	-
	Total 93.865			97,359	97,359	-
Aging Research	93.866	Research Foundation for Mental Hygiene, Inc.	5R01AG051346-02 /	201,878	201,878	-
			5R01AG051346-03			
Aging Research	93.866	Dana-Farber Cancer Institute, Inc.	4UH3AG060626-02 /	352,082	352,082	-
		The McLean Hospital Corp d/b/a McLean Hospital	5UH3AG060626-03 /			
			3UH3AG060626-03S1	289,745	289,745	-
Aging Research	93.866	Board of Regents of the University of Wisconsin System on behalf of University of Wisconsin-Milwaukee	5R01AG061100-02 /	3,000	3,000	-
		The Trustees of Columbia University in the City of New York	5R01AG061100-03			
Aging Research	93.866		1R21AG061307-01	168,440	168,440	-
			5U24AG052175-05			
	Total 93.866			1,015,145	1,015,145	-
Vision Research	93.867	New York University School of Medicine	1U10EY026869-01	2,500	2,500	-

Northwell Health, Inc.

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2020

Federal Grantor/Program Title/Project Title	Federal Assistance Listing Number	Pass-through Grantor	Pass-through ID Number/Contract Number	Research and Development Cluster	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Health and Human Services						
Pass-through programs (continued):						
Grants for Primary Care Training and Enhancement	93.884	Hofstra University	4 T0BHP28558-05-01 / T0BHP28558	\$ -	\$ 199,217	\$ 7,327
Grants for Primary Care Training and Enhancement	93.884	Trustees of the University of Pennsylvania	6 UH1HP29964-04-03	-	20,000	-
	Total 93.884			-	219,217	7,327
National Bioterrorism Hospital Preparedness Program	93.889	Public Health Solutions	1 U3REP190597-01-00 1885-15 / 1885-16 / 1872-15 / 1872-16 / 1986-14 / 1986-15 / 2004-14 / 2004-15 / 2008-14 / 2008-15 / 2005-15 / 2005-16 / 1994-15 / 1994-16 / 1999-14 / 1999-15 / 2000-15 / 2000-16 / 1871-15 / 1871-16 / 1867-14 / 1867-15	-	337,000	-
National Bioterrorism Hospital Preparedness Program	93.889	Health Research, Inc.	6U3REP1906080101	-	485,000	-
COVID-19 National Bioterrorism Hospital Preparedness Program	93.889	Health Research, Inc.	U3REP200662-01-00	-	339,588	-
COVID-19 National Bioterrorism Hospital Preparedness Program	93.889	Greater New York Hospital Foundation	EP-U3R-20-001	-	381,419	-
COVID-19 National Bioterrorism Hospital Preparedness Program	93.889	Healthcare Association of New York State	19437 / 20437 / 19 MAI 11 / 20 MAI 11 / 19650 / 20650 / 19802 / 20802 / 19104 / 20104	-	424,914	-
	Total 93.889			-	1,967,921	-
HIV Emergency Relief Project Grants	93.914	United Way	20COV9	-	568,750	-
COVID-19 HIV Emergency Relief Project Grants	93.914	United Way		-	11,875	-
	Total 93.914			-	580,625	-

Northwell Health, Inc.

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2020

Federal Grantor/Program Title/Project Title	Federal Assistance Listing Number	Pass-through Grantor	Pass-through ID Number/Contract Number	Research and Development Cluster	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Health and Human Services						
Pass-through programs (continued):						
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	New York University School of Medicine	H76HA00043-29-02	\$ -	\$ 60,407	\$ -
Block Grants for Community Mental Health Services	93.958	New York State Office of Mental Health	OMH01-C21180GG-3650000 / OMH01-C21190GG-3650000 / OMH01-C21194GG-3650000 / OMH01-C21184GG-3650000	-	242,835	-
Maternal and Child Health Services Block Grant to the States	93.994	New York State Department of Health	C35225GG / DOH01-C32398GG-3450000 / C32137GG / DOH01-C32418GG-3450000 / DOH01-C35204GG-3450000 / C028943 / C028944	-	355,565	-
Subtotal pass-through programs				5,687,715	10,456,604	218,827
Total – U.S. Department of Health and Human Services				30,551,359	47,891,099	3,692,139
U.S. Department of Agriculture						
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	New York State Department of Health	DOH01-C30461GG-3450000 / DOH01-C35504GG-3450000 / DOH01-C30422GG-3450000 / DOH01-C35510GG-3450000	-	6,769,109	-
Total – U.S. Department of Agriculture				-	6,769,109	-

Northwell Health, Inc.

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2020

Federal Grantor/Program Title/Project Title	Federal Assistance Listing Number	Pass-through Grantor	Pass-through ID Number/Contract Number	Research and Development Cluster	Federal Expenditures	Expenditures to Subrecipients
U. S. Department of Defense						
Direct programs:						
Military Medical Research and Development	12.420			\$ 1,924,422	\$ 1,924,422	\$ 93,137
Pass-through programs:						
Basic and Applied Scientific Research	12.300	University of Utah	N66001-15-C-4017	5,760	5,760	–
Military Medical Research and Development	12.420	Dignity Health d/b/a St. Joseph’s Hospital & Medical Center	W81XWH-17-1-0429	371,168	371,168	–
Subtotal pass-through programs				<u>376,928</u>	<u>376,928</u>	<u>–</u>
Total – U. S. Department of Defense				<u>2,301,350</u>	<u>2,301,350</u>	<u>93,137</u>
U.S. Department of Housing and Urban Development						
CDBG – Disaster Recovery Grants – Pub. L. No. 113-2 Cluster: Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	14.269	NYC Office of Management & Budget & Office of Recovery & Resiliency	B-13-MS-36-0001	–	13,763,248	–
Total – U.S. Department of Housing and Urban Development				<u>–</u>	<u>13,763,248</u>	<u>–</u>
U.S. Department of Labor						
WIOA Cluster: WIOA Dislocated Worker Formula Grants	17.278	New York State Department of Labor	DOL01-T18448GG-3550000	–	11,200	–
Total – U.S. Department of Labor				<u>–</u>	<u>11,200</u>	<u>–</u>
U.S. Department of Transportation						
Transit Services Programs Cluster: Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	New York State Department of Transportation	C003997	–	32,129	–
Highway Safety Cluster: National Priority Safety Programs	20.616	NYS Governor’s Traffic Safety Committee	CPS-2020-LIJ Medical Ctr-00194-(030) / HS1-2020-LIJ Medical Ctr-00175-(030) / HS1-2021-LIJ Medical Ctr-00112-(041) / CPS-2021-LIJ Medical Ctr-00137-(041)	–	52,864	–
Total – U.S. Department of Transportation				<u>–</u>	<u>84,993</u>	<u>–</u>

Northwell Health, Inc.

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2020

Federal Grantor/Program Title/Project Title	Federal Assistance Listing Number	Pass-through Grantor	Pass-through ID Number/Contract Number	Research and Development Cluster	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Treasury						
COVID-19 Coronavirus Relief Fund	21.019	Town of Hempstead	Not available	\$ -	\$ 1,642,237	\$ -
Total – U.S. Department of Treasury				<u>-</u>	<u>1,642,237</u>	<u>-</u>
U.S. Department of Homeland Security						
COVID-19 Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	New York State Division of Homeland Security and Emergency Services	FEMA-4480-DR	-	28,491,377	-
Hazard Mitigation Grant	97.039	New York State Division of Homeland Security and Emergency Services	C000775 / C000736 / C000759	-	15,874,637	-
Total – U.S. Department of Homeland Security				<u>-</u>	<u>44,366,014</u>	<u>-</u>
Total Expenditures of Federal Awards				<u>\$ 32,852,709</u>	<u>\$ 116,829,250</u>	<u>\$ 3,785,276</u>

See accompanying notes.

- (a) Included within this balance are \$37,371 of expenditures for Assistance Listing Number 93.855 which were funded with COVID-19 funding.
- (b) Expenditures for Assistance Listing Number 93.110 total \$72,224.
- (c) Expenditures for Assistance Listing Number 93.153 total \$708,931.

Northwell Health, Inc.

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2020

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activities of Northwell Health, Inc. and its member corporations and other affiliated entities (collectively, Northwell) and is presented on the accrual basis of accounting. The information on the 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.

For purposes of the Schedule, federal awards include assistance provided by a federal agency directly or indirectly in the form of grants, contracts, cooperative agreements, loans 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 74 Appendix E for awards not subject to the Uniform Guidance and 45 CFR Part 75 Appendix IX for awards subject to the Uniform Guidance. 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, Northwell did not make this election and uses a negotiated indirect cost rate.

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

Northwell Health, Inc.

Notes to Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2020

2. Food and Nutrition Awards

During the year ended December 31, 2020, Northwell participated in the New York State Department of Health, WIC Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) through the provision of nutritional counseling and the distribution of food vouchers. The United States Department of Agriculture, the federal agency that sponsors the WIC program under Federal Assistance Listing Number 10.557, has determined that WIC food instruments are considered “property in lieu of money” and, therefore, should be reported as federal awards received by Northwell.

The total amount reported as federal awards on the Schedule represents the value of food vouchers redeemed in the amount of \$5,031,482 plus administrative costs of \$1,737,627 for the year ended December 31, 2020. In addition to the federal funds received for the WIC program, in 2020, 3.1% of the WIC program’s total administrative and nutritional counseling costs and none of the food voucher costs were funded by the State of New York Department of Health. Such amounts are excluded from the Schedule.

3. Vaccines for Children Program

During the year ended December 31, 2020, Northwell participated in the New York City Department of Health and Mental Hygiene Vaccines for Children Program (Federal Assistance Listing Number 93.268) through the provision of vaccinations. The United States Department of Health and Human Services, the federal agency that sponsors this program, has determined that the vaccines administered are considered “property in lieu of money” and, therefore, should be reported as federal awards received by Northwell.

Northwell Health, Inc.

Notes to Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2020

4. Federal Emergency Management Agency: Disaster Grants

Northwell has applied for reimbursement for qualifying expenses under the Federal Emergency Management Agency (FEMA) COVID-19 Disaster Grants – Public Assistance (Presidentially Declared Disasters) program (Federal Assistance Listing Number 97.036). In 2020, Northwell submitted project worksheets totaling approximately \$76.0 million under FEMA’s expedited claim submission process. These project worksheets were approved for reimbursement under FEMA’s expedited approval process. For expedited submissions, FEMA approves 50% of the total project worksheet value. Additionally, at the time of such approvals in 2020, the federal cost share payment percentage was 75% and, accordingly, approximately \$28.5 million is included for this award on the accompanying Schedule.

Under an Executive Order issued in February 2021, FEMA will pay 100% federal funding for the costs of activities that have previously been determined eligible from the beginning of the pandemic in January 2020. FEMA has indicated that for projects that have already been approved, FEMA will amend the existing awards to adjust the federal funding amounts. Northwell will include the resulting additional 25% federal share of funding in the schedule of expenditures of federal awards for the year ending December 31, 2021.

5. Hazard Mitigation Grant (Federal Assistance Listing Number 97.039)

Northwell incurred costs from 2016 to 2018 for certain projects that were part of the FEMA: Hazard Mitigation Grant. A portion of the costs incurred are federally funded. During 2020, the grant contract was amended and the federal portion to be paid by FEMA for all costs incurred as part of the program since its inception in 2016 was increased from approximately 43% to 75%. As a result, costs totaling approximately \$4.0 million incurred from 2016 to 2018 are included on the accompanying Schedule for the year ended December 31, 2020 under Federal Assistance Listing Number 97.039, along with other costs which were approved in 2020 for expenditures incurred in 2020.



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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 Trustees
Northwell Health, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America 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 Northwell Health, Inc. and its member corporations and other affiliated entities (collectively, Northwell), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of operations, 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 April 28, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northwell'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 Northwell's internal control. Accordingly, we do not express an opinion on the effectiveness of Northwell'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwell’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

April 28, 2021



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

Management and the Board of Trustees
Northwell Health, Inc.

Report on Compliance for Each Major Federal Program

We have audited Northwell Health, Inc. and its member corporations and other affiliated entities' (collectively, Northwell) 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 each of Northwell's major federal programs for the year ended December 31, 2020. Northwell's major federal programs are 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 each of Northwell's major federal programs 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 of America; 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 Northwell'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 each major federal program. However, our audit does not provide a legal determination of Northwell's compliance.

Opinion on Each Major Federal Program

In our opinion, Northwell complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 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 item 2020-001 related to Federal Assistance Listing Number 93.461 COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured for the activities allowed or unallowed and eligibility compliance requirements. Our opinion on each major federal program is not modified with respect to this matter.

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

Our audit of the major federal program identified as Federal Assistance Listing Number 93.461 included certain audit procedures for the compliance requirement associated with activities allowed or unallowed that were limited to tests of compliance that reimbursements received, or expected to be received, related to health services allowed under this federal program. Our audit of compliance was not designed to test or provide assurance on the determination of whether a service was medically necessary, obtained through a legally appropriate referral, properly performed, rendered in a quality manner from a clinical perspective, adequately supervised, accurately documented and classified (i.e., that the correct medical bill code assigned represents the health service performed), or rendered and billed by non-sanctioned individuals. Performing procedures related to these matters is not within our professional expertise. Additional information on the nature of our procedures is available in the AICPA Audit and Accounting Guide, *Health Care Entities*. Our audit procedures for the compliance requirement associated with eligibility were limited to tests of compliance that services reimbursed, or expected to be reimbursed, were for individuals who received a temporary member identification number from the third-party service provider used by the U.S. Department of Health and Human Services – Health Resources and Services Administration to identify a lack of active health care coverage.

Report on Internal Control Over Compliance

Management of Northwell 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 Northwell's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 Northwell'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.

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 item 2020-001 related to Federal Assistance Listing Number 93.461 COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured for the activities allowed or unallowed and eligibility compliance requirements, that we consider to be significant deficiencies.

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



Northwell is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. Northwell's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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

March 29, 2022

Northwell Health, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 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 programs:

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 programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 X **yes** **no**

Northwell Health, Inc.

Schedule of Findings and Questioned Costs (continued)

Section I – Summary of Auditor’s Results (continued)

Identification of major federal programs:

<u>Federal Assistance Listing Numbers</u>	<u>Name of Federal Program or Cluster</u>
97.039	Hazard Mitigation Grant
93.461	COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured
97.036	COVID-19 Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs:

\$3,000,000

Auditee qualified as low-risk auditee?

 yes X **no**

Section II—Financial Statement Findings

There are no matters that are required to be reported.

Northwell Health, Inc.

Schedule of Findings and Questioned Costs (continued)

Section III—Federal Award Findings and Questioned Costs

Finding 2020-001

Information on the federal program

Grantor: Department of Health and Human Services, Health Resources and Services Administration

Program Name: COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured

Award period: February 4, 2020 through December 31, 2020

Federal Assistance Listing Number: 93.461

Criteria or specific requirement (including statutory, regulatory or other citation)

A. Activities Allowed or Unallowed – Activities allowed include required primary health services as described in the terms and conditions of the award for uninsured individuals, including:

- Reimbursement for COVID-19 testing and testing-related items for individuals who do not have coverage through an individual or employer-sponsored plan, a federal healthcare program, or the Federal Employees Health Benefits Program at the time the services were rendered.
- Reimbursement for treatment of uninsured individuals when COVID-19 is the primary reason for treatment.

E. Eligibility – Services must be for individuals who at the time the services were provided were uninsured as described in the terms and conditions of the award.

Title 2 U.S. Code of Federal Regulations, Part 200.303 states the following regarding internal control: “The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal

Northwell Health, Inc.

Schedule of Findings and Questioned Costs (continued)

Finding 2020-001 (continued)

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).”

Health and Human Services (HHS) – Health Resources and Services and Administrative (HRSA) issued Terms and Conditions for Participation in the HRSA COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured Program outlining requirements that recipients of funding from the HRSA COVID-19 Uninsured Program must comply with including the following sections: Testing Services, Treatment Services and Vaccine Administration, and General Provisions in FY2020 Consolidated Appropriations.

Condition

Certain claims submitted to the Health Resources and Services Administration (HRSA) for reimbursement were not in compliance with the program’s terms and conditions for participation. Certain claims were submitted for an insured individual or for services rendered that were unrelated to COVID-19.

Cause

Management’s review control to verify whether claims submitted to HRSA were in accordance with the terms and conditions of the award was not consistently performed. As a result, management’s control did not

Northwell Health, Inc.

Schedule of Findings and Questioned Costs (continued)

Finding 2020-001 (continued)

	<p>detect the errors identified above and the claims were submitted to HRSA.</p>
Effect or potential effect	<p>The inconsistent application of management's control over these compliance requirements resulted in noncompliance including questioned costs.</p>
Questioned costs	<p>Questioned costs of \$639 were identified, representing payments received from HRSA on claims for which Northwell did not comply with the terms and conditions of the program. The total sample value tested was \$9,600 and total program expenditures in 2020 were approximately \$10.8 million.</p>
Context	<p>In a sample of 60 claims, four claims were found to be noncompliant with the program's terms and conditions:</p> <ul style="list-style-type: none">- Three COVID-19 testing claims were identified as having active insurance coverage.- One claim for physician services was submitted to HRSA that did not have a positive COVID-19 diagnosis. <p>All claims described above were submitted to, and reimbursed by, HRSA.</p>
Identification as a repeat finding, if applicable	<p>N/A</p>
Recommendation	<p>Prior to claim submission, management should review the services rendered to ensure claims for reimbursement to HRSA are submitted for services rendered related to COVID-19 and in line with the terms and conditions of the program. Management should also refine its control to ensure that claims are being fully assessed for insurance coverage, utilizing</p>

Northwell Health, Inc.

Schedule of Findings and Questioned Costs (continued)

Finding 2020-001 (continued)

insurance records on hand, prior to submitting claims to HRSA.

Views of responsible officials

Since the inception of the HRSA COVID-19 Uninsured Program in 2020, management has improved its processes and internal controls through additional staff training and enhanced claim reviews to help ensure only eligible claims are submitted for services to uninsured patients related to the treatment of COVID-19 at Northwell's hospitals or by its employed physicians, or for COVID-19 lab testing or vaccine administration. Such processes include an insurance verification process to help ensure that claims are for patients without insurance coverage and other eligibility requirements checks. In addition, it is management's understanding that the vendor administering the program on behalf of HRSA also runs submitted claims through its own insurance verification process and may also be checking to ensure claims are for COVID-19 treatment, testing or vaccine administration before paying. Northwell refunded the four claims mentioned above in the findings and to the extent Northwell has become aware of any other erroneous payments received under the program, it has returned the funds to HRSA.

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Summary Schedule of Prior Audit Findings

Year Ended December 31, 2020

Finding Reference Number: 2018-001

Federal Program Information: Research and Development Cluster

Condition: Under the new procurement standards, there are five methods of procurement based on dollar thresholds and the nature of the expenditures with prescribed documentation requirements for each. One of the procurement methods is “small purchases” which are purchases greater than \$10,000 (the Micro Purchase Threshold) but less than \$250,000 (the Simplified Acquisition Threshold). In accordance with 2 CFR section 200.320(b) “If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources.” Northwell Health, Inc. (Northwell) did not have evidence of obtaining price or rate quotations in accordance with the small purchase requirements at the time of purchase.

Status: Northwell’s updated procurement policy for federally sponsored programs was formally approved by Northwell’s Policy and Procedure Committee and implemented in September 2019. The Grants Management Office (GMO) has advised faculty and grant administrators of the revised policy and has incorporated a process whereby the GMO will reject any purchase requisitions forwarded to its attention prior to the generation of purchase orders, that do not meet the requirements of the revised procurement policy which conforms with the requirements of 2 CFR 200 317 – 326.



Finding Reference Number: 2018-002

Federal Program Information: Research and Development Cluster

Condition: The time and effort reports are not consistently completed accurately. In certain instances, the necessary adjustments are not being recorded to reflect the actual time worked on the program. In addition, the review being performed over the payroll amounts allocated to the program is not sufficient to detect incorrect amounts in accordance with Northwell's policies. These errors also affect the calculated fringe benefits and indirect cost amounts.

Status: Northwell Health has completed the process of implementing an electronic time and effort certification system which will help minimize clerical errors due to the current manual nature of the collection of time and effort certifications. In addition, the Grants Management Office (GMO) has enhanced its practice of requiring and reviewing that all time and effort worksheets are reconciled to both the awarded budget and the general ledger. The GMO also offers annual training on time and effort certification. As a result of the audit recommendation, additional classes and one-on-one training was conducted. In addition, there was no similar finding identified during the 2019 audit of this program related to this matter.



Finding Reference Number: 2018-003

Federal Program Information: 93.914 HIV Emergency Relief Project Grants

Condition: During the testing of the requests for reimbursement, it was observed that the requests were based on budgeted payroll amounts from the contract rather than the actual expenditures incurred. In addition, the requests were not submitted timely.

Status: The Grants Management Office (GMO) revised the format of worksheets used to generate fiscal reports and sponsor invoices. Directors review and ensure all worksheets reconcile to the general ledger and that there is appropriate documentation to support adjustments. No reports are approved if incomplete, do not reconcile, or do not have appropriate support for final invoices.



Finding Reference Number: 2019-001

Federal Program Information: Research and Development Cluster

Condition: During our testing of procurement controls and compliance, it was noted that Northwell did not have evidence of obtaining price or rate quotations in accordance with the small purchase requirements or evidence that the item was only available from a single source at the time of purchase.

Status: Northwell's updated procurement policy for federally sponsored programs was formally approved by Northwell's Policy and Procedure Committee and implemented in September 2019. The Grants Management Office (GMO) has advised faculty and grant administrators of the revised policy and has incorporated a process whereby the GMO will reject any purchase requisitions forwarded to its attention prior to the generation of purchase orders, that do not meet the requirements of the revised procurement policy which conforms to the requirements of 2 CFR 200 317 – 326.

*No audit assurance has been provided on this schedule. This schedule is not subject to the auditor's report on compliance for each major program and report on internal control over compliance required by the Uniform Guidance.



Corrective Action Plan

Year Ended December 31, 2020

Finding Reference Number: 2020-001

Federal Program Information: Grantor: Department of Health and Human Services
Program Name: COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured
Federal Assistance Listing Number: 93.461

Views of Responsible Officials and Planned Corrective Actions: Since the inception of the HRSA COVID-19 Uninsured Program in 2020, management has improved its processes and internal controls through additional staff training and enhanced claim reviews to help ensure only eligible claims are submitted for services to uninsured patients related to the treatment of COVID-19 at Northwell's hospitals or by its employed physicians, or for COVID-19 lab testing or vaccine administration. Such processes include an insurance verification process to help ensure that claims are for patients without insurance coverage and other eligibility requirements checks. In addition, it is management's understanding that the vendor administering the program on behalf of HRSA also runs submitted claims through its own insurance verification process and may also be checking to ensure claims are for COVID-19 treatment, testing or vaccine administration before paying. Northwell refunded the four claims mentioned above in the findings and to the extent Northwell has become aware of any other erroneous payments received under the program, it has returned the funds to HRSA.

Responsible Parties: Joseph Accurso, VP Revenue Cycle
Stephen Rosalia, AVP Revenue Cycle

Projected Completion Date: April 2022