

F.M. KIRBY FOUNDATION SOLICITATION EVALUATION FORM

DATE: June 8, 2020

REQUEST DATE: May 19, 2020

Last grant acknowledgement: Yes

Program Area: Health

APPLICANT:

Hospital For Special Surgery
535 East 70th Street
New York, NY 10021

CONTACT: Ms. Reesa Kaufman, Executive Director, Foundation Relations

PHONE: 212-774-7120

PAYEE OTHER THAN ADDRESSEE:

AMOUNT REQUESTED: \$100,000 **NATURE OF REQUEST:** Toward biomechanics research being conducted by Dr. Timothy Wright, F.M. Kirby Chair in Orthopaedic Biomechanics

GRANT HISTORY

LAST GRANT DATE: 9/16/2019

LAST GRANT AMOUNT: \$80,000

FYE DATE: 12/31/2019

AFS DATE: 4/6/2020

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|------|-----------|------------|--|
| 2014 | \$100,000 | 12/15/2014 | For: Support of research directed toward better treatment and prevention of osteoarthritis |
| 2015 | \$100,000 | 12/11/2015 | For: Support of additional pilot projects aimed at better treatment and prevention of osteoarthritis |
| 2017 | \$80,000 | 9/15/2017 | For: Support of research directed toward better treatment and prevention of osteoarthritis |
| 2018 | \$80,000 | 9/17/2018 | For: Support of research directed toward better treatment and prevention of osteoarthritis |
| 2019 | \$80,000 | 9/16/2019 | For: Support of research directed toward better treatment and prevention of osteoarthritis |

See 6/27/19 Site Visit Report attached. No request received in 2016 – FMKF skip year.

DLK COMMENTS: HSS always does a great job of submitting a concise, easy to understand request. Their work on developing hydrogels to assist with adherence of devices implanted for cartilage defects is exciting given the potential for a wide variety of applications, including spinal fibrocartilaginous disc repair. Recognition and honors continue for the HSS investigators, with Dr. Suzanne Maher being awarded both the Excellence in Mentoring award from the Orthopaedic Research Society and a Silver Medal from the Royal Academy of Medicine in Ireland. In addition, Dr. Carl Imhauser was granted membership in the ACL Study Group, a prestigious worldwide group which includes only a handful of biomechanical engineers.

The F.M. Kirby Chair in Orthopaedic Biomechanics endowment was valued at \$2.65 million as of April 30, 2020. The income from the endowment is anticipated to be approximately \$139K for 2020. The combined monies of the endowment income and the budgeted \$80K would cover approximately 15% of the Hospital's budget for Restoring Mobility: Novel Solutions for Joint Restoration. One key item to note: as of December 31, 2019, the Hospital had not drawn any monies from its \$25M line of credit. However, in March 2020, the Hospital increased its line of

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credit to \$100M and drew down the entire line. In April, it attained an additional \$100M line of credit and anticipated drawing down the full amount as well. This really highlights the challenges that hospitals and research labs face due to the halting of research activities (and thus research \$) and shifts in workloads to address the pandemic.

Financial analysis attached.

JJK COMMENTS: The June 2019 site visit report from HSS informed me, to my surprise, that joint repair is the second most expensive Medicare service, costing an estimated \$22.6B annually. As I also learned, one factor in this sky-high number is that patients often have to return to the operating room when previous surgeries fail to ameliorate the degraded joint. What seems to tie these three researchers together is an interest in making a joint surgery a one-time, less invasive occurrence. One can see that in the promise of hydrogels to avoid the need to drill into bone. One can also see this ambition in Dr. Maher's use of MRI exams to create patient-specific computational models of knee joints. Furthermore, Dr. Imhauser is trying to reduce the "unacceptably high rates of early ACL graft failure," which is connected to early onset of osteoarthritis. Through FMKF support, HSS was able to develop a device that measures "rotational laxity" for patient who have has ACL reconstruction in an effort to "establish a more holistic rationale to identify who will benefit most from lateral extraarticular augmentation."

One can see several positive characteristics here that mark some of our other Tier I and Tier II medical grantees, namely, innovation, personalization, collaboration, and leveraging. For starters, the researchers in their program are fueling *innovations* that could have broader application, here illustrated by the hydrogels that can may show promise for a number of joints, the spine included. Given that no one knee is similar, Dr. Imhauser's research also provides an example of *personalized* medicine, using computational models to personalize ACL surgery for the individual knee, especially given the preponderance of young female athletes. We also see the hallmarks here of *collaboration*, as Dr. Imhauser participates in a prestigious ACL study group with 100 other surgeons and researchers from across the world. Finally, we see evidence of how private philanthropic giving is effectively *leveraged* to receive NIH funding, including, as the site visit report offers, a \$275K NIH grant to study subject specific mechanisms of knee laxity and \$2M NIH grant to reproducing knee mechanic simulations.

Finally, I really like how HSS explains what percentage of the researchers' efforts would be supported by the FMKF grant and further breaks down other expenses as well (pages 6 – 8).

Plenty of reasons here to recommend the budgeted \$80K for HSS. I also concur with the recommendation for a skip in 2021.

Too continued for me.
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SDK COMMENTS: Please see site visit report from last July that ECC and I had. Surprised that HSS does not highlight in the request the aggressive efforts they took to convert approx. 90% of the beds for COVID-19 patients, bring in the medical staff to handle, and convert back to some degree of "normalcy" all within about an 8-week period. I am all for support as targeted.

FM KIRBY FOUNDATION
Financial Statement Analysis

| | | | |
|---------------------------|------------------------------|---|------------|
| Grantee Name: | Hospital for Special Surgery | Date: | 6/1/2020 |
| Prepared By: | DLK | | |
| Grant Request Amt. | \$ 100,000 | Type of Financial Report Submitted | Audit |
| Budgeted Amt. | \$ 80,000 | Period Covered in Financial Report | 12/31/2019 |
| Audit Firm | Ernst & Young, LLP | Date of Report Issuance | 4/6/2020 |
| Opinion | Present Fairly | | |
| Basis of Acctg. | GAAP | | |

| | | | |
|--|------|--|----------------|
| Current Ratio (Liquidity Ratio/Working Capital Ratio) | 3.75 | Amount of Unrestricted Net Assets (Operating Reserve) | \$ 777,468,000 |
|--|------|--|----------------|

Note: A current ratio measures an organization's ability to pay short-term and long-term obligations. The higher the ratio, the more capable the organization is of paying its obligations. A ratio under 1 indicates that the organization's liabilities are greater than its assets.

| Allocation of Functional Expenses (broken out in audit notes) | 12/31/2019 (thousands) | % | Must Read Financial Statement Notes |
|---|----------------------------------|----------|--|
| A. Operating Expenses | \$ 980,802 | 75% | Ideally program expenses should be at least 70% of total budget. |
| B. Research Operations | \$ 48,659 | 4% | |
| C. Fundraising | \$ 9,054 | 1% | |
| D. Management/Admin | \$ 269,110 | 21% | |
| E. Total Expenses | \$ 1,307,625 | 100% | |

Comments/ Notes:

Budget: The Restoring Mobility: Novel Solutions for Joint Restoration project is budgeted at \$1.4M, with the Kirby request totaling 7% of the total project budget. HSS's operating budget is projecting a \$30.1M surplus and 7% increase in expenses from prior year actuals. The F.M. Kirby Chair endowment will provide approximately \$139K in income to be used at the direction of Dr. Wright.

Audit: HSS had a \$68.4M operating surplus as of December 31, 2019 vs a \$53.8M surplus in 2018. Total revenues exceeded expenses by \$117M. Operating revenues grew by \$114M (9%) while operating expenses grew by \$98M (8%). The Hospital has debt to equity ratio grew from 0.64 (2018) to 1.01 (2019) but this was due largely to the adoption of ASU FASB 2016-02 (Leases) which requires obligations from lease contracts to be reflected as assets/liabilities on the statements of financial position. HSS adopted this effective January 1, 2019 and did not adjust the prior period financials. HSS provided \$197M of community benefit activities, of which \$13.8M was charity care. The Hospital's eligibility threshold for financial assistance is 700% of the Federal Poverty Guidelines (NY State minimum is 300%). Approximately 19% of the Hospital's net patient service revenue was derived from the Medicare and Medicaid programs. HSS had investments of \$703M, of which \$237M were endowment related. In 2019, the Hospital had an unsecured line of credit for \$25M and drew no monies from the loc. **HOWEVER, subsequently due to the global viral outbreak of COVID-19, the Hospital's line of credit was increased to \$100M and was fully drawn with a maturity date of March 31, 2021. In addition, on April 6, 2020 the Hospital obtained an additional line of credit for \$100M with a maturity date of April 30, 2021. The line is expected to be fully drawn during April 2020.**

Overall, there were no red flags as a result of my review.

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DISPOSITION:

- Declination
- Hold for review on/about:
- Approval for: **\$80,000**
- Hold for Board Review
- Insert Information: **For: Support of research directed toward better treatment and prevention of osteoarthritis**
- Other: **JJK's 6/30/20 skip-year letter to accompany grant check**

Initials: JJK

Date: 6/11/20

Check #: 116860

Date: 6/30/20