Wyckoff Heights Medical Center

Consolidated Financial Statements and Supplementary Information

Year Ended December 31, 2016

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO
International Limited, a UK company limited by guarantee.

Wyckoff Heights Medical Center

Consolidated Financial Statements and Supplementary Information

Year Ended December 31, 2016

Wyckoff Heights Medical Center

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Independent Auditor's Report

The Board of Trustees
Wyckoff Heights Medical Center
Brooklyn, New York

We have audited the accompanying consolidated financial statements of Wyckoff Heights Medical Center (the "Medical Center"), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of operations and net asset deficit, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wyckoff Heights Medical Center as of December 31, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Medical Center will continue as a going concern. As described in Note 2 to the consolidated financial statements, the Medical Center has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating schedule of financial position and consolidating schedule of operations and net asset deficit are presented for purposes of additional analysis and are not a required part of the basic 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 audit 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.

Audit of the 2015 Consolidated Financial Statements

The 2015 consolidated financial statements and supplementary information of the Medical Center were audited by other auditors, whose report dated June 30, 2016 expressed an unmodified opinion on those statements and supplementary information.

BDO USA, LLP

May 30, 2017

Wyckoff Heights Medical Center

Consolidated Statement of Financial Position
(with comparative totals for 2015)
(in thousands)

December 31,	**2016**	2015
Assets		
Current:		
Cash and cash equivalents (Note 3)	**$ 5,397**	$ 5,708
Patient accounts receivable, net of uncollectible accounts of $42,565 in 2016 and $45,264 in 2015 (Notes 3 and 4)	**24,784**	24,833
Other receivables, net	**2,218**	5,607
Due from third-party payors	**6,861**	11,742
Inventories and other current assets (Note 3)	**7,227**	7,404
Assets limited as to use - current portion (Notes 3, 5 and 9)	**18,814**	8,915
Total Current Assets	**65,301**	64,209
Property, Buildings and Equipment, Net (Notes 3 and 6)	**63,451**	62,053
Asset Limited as to Use, Net of Current Portion (Notes 3, 5 and 9)	**-**	9,710
Board Designated – Self-Insured Malpractice Fund (Note 9)	**134**	134
Due From Third-Party Payors	**926**	309
Insurance Claims Receivable (Note 9)	**34,000**	37,100
Total Assets	**$ 163,812**	$173,515
Liabilities and Net Asset Deficit		
Current Liabilities:		
Accounts payable and accrued expenses	**$ 55,776**	$ 50,813
Accrued salaries and related liabilities	**16,236**	14,816
Due to third-party payors	**3,573**	5,314
HCRA loan payable	**13,658**	2,035
Accrued interest payable	**891**	994
Current portion of long-term debt, net of long-term portion and deferred financing fees (Note 7)	**72,339**	8,456
Current portion of estimated self-insured professional liabilities (Note 9)	**1,660**	725
Current portion of Caritas settlement (Note 3)	**1,873**	1,788
Due to related organizations (Note 10)	**828**	810
Deferred revenue	**1,147**	721
Other current liabilities	**593**	-
Total Current Liabilities	**168,574**	86,472
Due to Third-Party Payors, Less Current Portion (Note 9)	**36,130**	34,700
Long-Term Debt, Less Current Portion (Note 7)	**516**	72,260
Estimated Self-Insured Professional Liabilities, Less Current Portion (Note 9)	**36,402**	32,859
Estimated Insured Professional Liabilities (Note 9)	**34,000**	37,100
Caritas Settlement, Less Current Portion (Note 3)	**-**	1,746
Other Noncurrent Liabilities	**2,025**	2,618
Total Liabilities	**277,647**	267,755
Commitments and Contingencies (Notes 7, 8, 9, 11, 12 and 13)		
Net Asset Deficit – Unrestricted (Note 3)	**(113,835)**	(94,240)
Total Liabilities and Net Asset Deficit	**$ 163,812**	$173,515

See accompanying notes to consolidated financial statements.

Wyckoff Heights Medical Center

Consolidated Statement of Operations and Net Asset Deficit
(with comparative totals for 2015)
(in thousands)

Year ended December 31,	**2016**	2015
Operating Revenue:		
Unrestricted revenue, gains and other support:		
Net patient service revenue (Notes 3, 4 and 13)	**$ 251,113**	$247,202
Provision for bad debts, net	**(19,220)**	(18,202)
Total Net Patient Service Revenue	**231,893**	229,000
Physician service revenue	**27,144**	23,719
Grants (Note 14)	**47,916**	38,417
Medical training program	**2,609**	2,878
Other revenue	**4,769**	3,897
Total Operating Revenue	**314,331**	297,911
Operating Expenses:		
Salaries and wages	**164,438**	152,038
Employee benefits	**45,561**	42,339
Supplies and other	**114,418**	91,908
Interest and amortization of financing fees	**2,218**	2,834
Depreciation and leasehold improvement amortization	**7,291**	6,904
Total Operating Expenses	**333,926**	296,023
(Deficiency) Excess of Total Revenues Over Total Expenses	**(19,595)**	1,888
Net Asset Deficit, Beginning of Year	**(94,240)**	(96,128)
Net Asset Deficit, End of Year	**$(113,835)**	$ (94,240)

See accompanying notes to consolidated financial statements.

Wyckoff Heights Medical Center

Consolidated Statement of Cash Flows
(with comparative totals for 2015)
(in thousands)

Year ended December 31,	**2016**	2015
Cash Flows From Operating Activities:		
Change in net asset deficit	**$(19,595)**	$ 1,888
Adjustments to reconcile change in net asset deficit		
to net cash provided by operating activities:		
Depreciation and leasehold improvement amortization	**7,291**	6,904
Interest expense related to deferred financing fees	**363**	409
Loss on debt extinguishment	**-**	178
Amortization of bond premium	**-**	(1,747)
Provision for bad debts	**19,220**	18,202
Settlement with employee union	**-**	970
Changes in assets and liabilities:		
Patient accounts receivable	**(19,171)**	(17,838)
Other receivables, net	**3,389**	(2,550)
Due to/from third-party payors	**3,953**	3,656
Inventories and other current assets	**(177)**	(1,503)
Accounts payable and accrued expenses	**4,963**	1,745
Accrued salaries and related liabilities	**1,420**	(288)
Accrued interest payable	**(103)**	(788)
Due to/from related organizations	**18**	(196)
Deferred revenue	**426**	(170)
Other current liabilities	**593**	-
Estimated self-insured professional liabilities	**4,478**	375
Caritas settlement	**(1,661)**	(1,580)
Other noncurrent liabilities	**(593)**	-
Net Cash Provided By Operating Activities	**4,814**	7,667
Cash Flows From Investing Activities:		
Change in assets limited as to use	**189**	1,190
Purchase of property, buildings and equipment, net	**(8,713)**	(12,259)
Board-designated – self-insured malpractice fund	**-**	2,000
Net Cash Used In Investing Activities	**(8,524)**	(9,069)
Cash Flows From Financing Activities:		
Proceeds from HCRA loan	**11,623**	2,035
Proceeds from debt issuance	**-**	65,677
Extinguishment of long-term debt	**-**	(66,700)
Deferred financial costs paid	**-**	(1,592)
Principal payments of long-term debt	**(8,224)**	(682)
Net Cash Provided By (Used In) Financing Activities	**3,399**	(1,262)
Net Decrease in Cash and Cash Equivalents	**(311)**	(2,664)
Cash and Cash Equivalents, Beginning of Year	**5,708**	8,372
Cash and Cash Equivalents, End of Year	**$ 5,397**	$ 5,708
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest and financing fees	**$ 3,347**	$ 3,903
Assets acquired under capital leases	**632**	105
Accounts payable incurred for capital expenditures	**4,069**	2,632

See accompanying notes to consolidated financial statements.

1. Nature of Organization and Principles of Consolidation

(a) Operating Activity

Wyckoff Heights Medical Center ("Wyckoff" or the "Medical Center") is a tax-exempt organization, which was incorporated under New York State not-for-profit corporation law for the purpose of providing healthcare services primarily to residents of the Brooklyn and Queens, New York areas. Effective December 21, 2006, Brooklyn-Queens Health Care, Inc. ("BQHC"), formerly known as Wyckoff Heights Medical Center Properties, became the sole member of the Medical Center and of Caritas Health Care, Inc. ("Caritas"). Caritas filed a voluntary petition of relief under Chapter 11 of the Federal bankruptcy laws in February 2009 and ceased operations on March 6, 2009 (see Note 3(p)).

(b) Principles of Consolidation

The Medical Center consolidates the operations of its tax-exempt and taxable subsidiaries, which are as follows:

Tax-Exempt

- Stockholm Obstetrics and Gynecological Services, P.C. (Stockholm)
- Wyckoff Medical Services, P.C. (Wyckoff Medical)
- Wyckoff Heights Dental Services, P.C. (Wyckoff Dental)
- Wyckoff Professional Medical Services, P.C.
- Wyckoff Anesthesia and Medical Services, P.C. (Wyckoff Anesthesia)
- Wyckoff Heights Medical Center Foundation (Wyckoff Foundation)
- Wyckoff Imaging Services, P.C. (Wyckoff Imaging)

Taxable

- Wyckoff Practice Management Corporation (Wyckoff Practice Management)
- Wyckoff Emergency Medicine Services, P.C. (Wyckoff Emergency Medicine)
- Stephen Carryl, P.C.
- Preferred Health Ventures Pharmacy (inactive)
- Preferred Health Ventures Placement (inactive)
- Preferred Health Ventures Properties (inactive)

The consolidated financial statements include the accounts of the Medical Center and its subsidiaries and are reported using the full consolidation method, whereby the consolidated financial statements include 100% of the assets and liabilities of the subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

2. Going Concern

At December 31, 2016 and 2015, the Medical Center had a working capital deficiency of approximately $103.3 million and $22.3 million, respectively, and a net asset deficit of approximately $113.8 million and $94.2 million, respectively. The Medical Center has also incurred recurring losses from operating and nonoperating activities in recent years. For 2015, there were significant changes in estimates related to amounts due to third party. If not for those change in estimates, 2015 would have also incurred significant losses. These conditions raise substantial doubt about the Medical Center's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

At the request of the Dormitory Authority of the State of New York ("DASNY") and consistent with the debt covenant agreement, the Medical Center has contracted outside consultants to review the Medical Center's operations to identify cost and revenue opportunities to improve its operating margin. As a result, the Medical Center has identified $35 million in initiatives to reduce the deficit which includes, amongst other improvements, a reduction in the work force. The Medical Center continues to receive support from the New York State Department of Health ("NYS DOH") with respect to receiving Value Based Payment Quality Improvement Program (the "VBP QIP") monies to support the Medical Center's operations and cash needs. The Medical Center anticipates to receive a 2017-2018 award in excess of its 2016-2017 award of $50 million. The Medical Center has been identified as a safety net hospital under the NYS DOH Interim Access Assurance Fund ("IAAF") program and has received funding from IAAF and Vital Access Provider Assurance Program ("VAPAP") (and related programs) of approximately $42.8 million and $33.2 million for the years 2016 and 2015, respectively. The Medical Center's VAPAP Application, which requested funding for the state fiscal year ending March 31, 2016 to sustain operations through the Medical Center's fiscal year and allow for development and execution of a multi-year transformation plan (the "Transformation Plan") that is aligned with Delivery System Reform Incentive Payment ("DSRIP") program goals and objectives, and demonstrates a path to long-term sustainability and improved patient care, was approved by the NYS DOH in September 2015.

3. Summary of Significant Accounting Policies

(a) Basis of Financial Statement Presentation

The consolidated financial statements of the Medical Center have been prepared on the accrual basis and conform to accounting principles generally accepted in the United States of America ("GAAP"). In the consolidated statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

(b) Financial Statement Presentation

The Medical Center's net asset deficit and its revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net asset deficit of the Medical Center and changes therein are classified and reported as follows:

(i) **Permanently Restricted** – Net assets resulting from contributions and other inflows of assets whose use by the Medical Center is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Medical Center.

(ii) **Temporarily Restricted** - Net assets resulting from contributions and other inflows of assets whose use by the Medical Center is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Medical Center pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

(iii) **Unrestricted** - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

As of December 31, 2016, the Medical Center had no temporarily and permanently restricted net assets.

(c) Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(d) Fair Value Measurements

Professional standards establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as the Medical Center would use in pricing the Medical Center's asset or liability based on independently derived and objectively determinable market data. Unobservable inputs are inputs that cannot be sourced from a broad active market in which assets or liabilities identical or similar to those of the Medical Center are traded. The Medical Center estimates the price of any assets for which there are only unobservable inputs by using assumptions that market participants that have investments in the same or similar assets would use as determined by the money managers administering each investment based on the best information available in the circumstances. The input hierarchy is broken down into three levels based on the degree to which the exit price is independently observable or determinable as follows:

Level 1 - Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuation based on quoted market prices of investments that are not actively traded or for which certain significant inputs are not observable, either directly or indirectly.

Level 3 - Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value.

(e) Cash and Cash Equivalents

The Medical Center considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents with the exceptions of amounts limited as to use under internal designation, debt indentures or other agreements.

(f) Patient Accounts Receivable, Net

Patient accounts receivable are recorded at the reimbursable or contracted amount and do not bear interest. The allowance for doubtful accounts is the Medical Center's best estimate of the amount of probable credit losses in the Medical Center's existing accounts receivable. The Medical Center determines the allowance based on historical write-off experience. The Medical Center reviews its allowance for doubtful accounts monthly. Past due balances are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

(g) Inventories

Inventories consist of medical supplies valued at the lower of cost or market with cost determined using the first-in, first-out method and with market defined as the lower of replacement cost or realizable value.

(h) Assets Limited or Restricted as to Use

Assets limited or restricted as to use represent assets whose use is restricted for specific purposes under internal designation or terms of debt indentures or other agreements. Amounts required to meet current liabilities are reported as current assets.

(i) Deferred Financing Fees

Deferred financing fees represent costs incurred to obtain financing. These costs are amortized using the effective-interest method over the term that the related debt is outstanding.

Deferred financing fees are presented as a direct reduction from the carrying amount of the related debt liability.

(j) Property, Buildings, and Equipment

Property, buildings, and equipment purchased are recorded at cost and those acquired by gifts and bequests are recorded at appraised or market value established at the date of the contribution. Assets acquired under capitalized leases are recorded at the present value of the future minimum lease payments at the inception of the lease. Depreciation is computed using the straight-line method over the estimated useful life for each class of depreciable assets. Equipment acquired through capital lease obligations is amortized using the straight-line method over the lesser of the estimated useful life of the asset or lease term. The carrying amounts of the assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of, and any resulting gain or loss is included in operations. The estimated useful lives of the assets are as follows:

Leasehold improvements, buildings and improvements	8 to 40 years
Movable equipment	5 to 20 years
Fixed equipment	5 to 15 years

(k) Impairment of Long-Lived Assets to be Disposed Of

Professional standards provide a single accounting model for long-lived assets to be disposed of. The standard also changes the criteria for classifying an asset as held for sale, and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. In accordance with the standard, long-lived assets, such as property, building and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated statement of financial position. For the years ended December 31, 2016 and 2015, there were no impairments recorded in the consolidated financial statements.

(l) Estimated Malpractice Liabilities – Self Insured

The provision for estimated self-insured malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The Medical Center, when evaluating probable losses relating to malpractice claims, reviews the latest information available. When the latest information indicates the probable loss is within a range of amounts, the most likely amount of the loss in the range is accrued.

(m) Deferred Revenue

Deferred revenue consists of advance payments related to government grant funded programs.

(n) Revenue Recognition

The Medical Center has agreements with its third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounts from charges, and per diem payments. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, or investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are provided and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, or investigations.

(o) Functional Expenses

The Medical Center's program services consist of providing healthcare and related services to residents within its geographic location. Operating expenses related to providing these services are as follows (in thousands):

December 31,	**2016**	2015
Healthcare and related services	**$233,548**	$199,069
Program support and general services	**100,378**	96,954
	$333,926	$296,023

(p) Caritas Settlement

During 2013, the Medical Center entered into a settlement agreement with certain creditors of Caritas who had made claims against the Medical Center in connection with the Caritas bankruptcy, principally related to claims by medical schools that had claims against Caritas. The agreement calls for two down payments of $750,000, the first was made in the fourth quarter of 2013 and the second was made in the first quarter of 2014, as well as fixed monthly installments thereafter through December 31, 2018, with total payments approximating $8.7 million. As of December 31, 2016 and 2015, the Medical Center recorded the present value of the settlement at $1.9 million and $3.5 million, of which $1.9 million and $1.8 million, respectively, represents the current portion and is included in current portion of Caritas settlement in the consolidated statements of financial position.

(q) Charity Care

The Medical Center provides care to all patients regardless of the patient's ability to pay. For those patients that require financial assistance, the Medical Center has a charity care policy as well as a sliding scale fee schedule for those patients that meet specific requirements. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

(r) Uncompensated Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since the Medical Center does not anticipate collection of amounts determined to qualify as charity care, they are not reported as revenue. For the years ended December 31, 2016 and 2015, the estimated cost of charity care was approximately $5.1 million and $5.0 million, respectively. The estimated cost of charity care includes the direct and indirect costs of providing charity care services and is estimated utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care.

For patients who were determined by the Medical Center to have the ability to pay but did not, the uncollected amounts are recorded as bad debt expense. Distinguishing between bad debt and charity care is difficult, in part because services are often rendered prior to full evaluation of a patient's ability to pay. For the years ended December 31, 2016 and 2015, the provision for bad debt was approximately $19.2 million and $18.2 million, respectively.

(s) Performance Indicator

The consolidated statement of operations and net asset deficit includes a (deficiency) excess of total revenue over total expenses as the performance indicator.

(t) Tax Status

The Medical Center is exempt from Federal, state and local income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and, therefore, has made no provision for income taxes in the accompanying consolidated financial statements. In addition, the Medical Center has been determined by the Internal Revenue Service ("IRS") not to be a "private foundation" within the meaning of Section 509(a) of the IRC. There was no unrelated business income for the year ended December 31, 2016 or 2015.

Under GAAP an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will not be sustained upon examination by a taxing authority. The Medical Center does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. The Medical Center is subject to routine audits by a taxing authority. As of December 31, 2016, the Medical Center was not subject to any examination by a taxing authority.

(u) Recently Adopted Authoritative Guidance

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, "Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs," which resulted in the reclassification of debt issuance costs from other assets to inclusion as a reportable long-term debt balance on the consolidated statement of financial position. The standard also calls for the amortization of debt issuance costs to now be reported as interest expense in the consolidated financial statements. The standard is effective for all non-public business entities for fiscal years beginning after December 15, 2015 and must be applied retrospectively. The Medical Center has adopted and applied the standard for the years ended December 31, 2016 and 2015.

In May 2015, the FASB issued ASU 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," which seeks to eliminate diversity in practice surrounding how investments measured at net asset value under the practical expedient with future redemption dates have been categorized in the fair value hierarchy. The standard is effective for annual periods after December 15, 2015. The Medical Center has adopted the standard for the year ended December 31, 2016.

(v) Recent Accounting Pronouncements Issued But Not Yet Adopted

(i) In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements – Going Concern: Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Specifically, this ASU provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the consolidated financial statements are issued (or available to be issued). It also requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The new standard will be effective for reporting periods beginning after December 5, 2016, with early adoption permitted. The Medical Center will apply the provisions of this standard upon adoption.

(ii) Presentation of Financial Statements of Not-for-Profit Entities

In August 2016, the FASB issued ASU 2016-14 to improve the presentation of financial statements of not-for-profit entities. ASU 2016-14 impacts all not-for-profit entities in the scope of Topic 958, as well as health care entities subject to the nonprofit guidance in Topic 954. This is the first major change to the nonprofit financial statement model in over 20 years, which is intended to provide more useful information to donors, grantors and other users. The ASU becomes effective for fiscal years beginning after December 15, 2017. The Medical Center is currently evaluating the impact of the adoption of ASU 2016-14.

(iii) Revenue From Contracts With Customers

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 which deferred the effective date for the Medical Center until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. The Medical Center is currently evaluating the impact of the pending adoption of ASU 2014-09.

(iv) Accounting for Leases

On February 25, 2016, the FASB issued ASU 2016-02, "Leases," which will require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The standard is effective for nonpublic business entities for fiscal years beginning after December 15, 2019 and the Medical Center is currently evaluating the impact of the pending adoption of ASU 2016-02.

(w) Reclassifications

Certain reclassifications have been made to the 2015 consolidated financial statements in order to conform to the 2016 presentation.

4. Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients, most of who are local residents and are insured under various third-party payor arrangements. Significant concentrations of net patient accounts receivable from patients and third-party payors are as follows:

December 31,	**2016**	2015
Medicare (including Medicare managed care)	**35%**	34%
Medicaid (including Medicaid managed care)	**41**	40
Commercial and other payors	**22**	24
Self-pay	**2**	2
	100%	100%

For patient accounts receivable associated with self-pay patients, which includes those patients without insurance coverage and patients with deductibles and copayment balances for which third-party coverage exists for a portion of the bill, the Medical Center records a significant provision for bad debts for patients that are unable or unwilling to pay for the portion of the bill representing their financial responsibility. The Medical Center wrote off approximately $17.1 million and $16.4 million for the years ended December 31, 2016 and 2015, respectively, of which a significant portion relates to uninsured patients.

Net patient service revenue (after contractual allowances and discounts) recognized during the years ended December 31, 2016 and 2015 from the Medical Center's major payor sources is as follows:

December 31, 2016

	Medicare	Medicaid	Commercial and Managed Care	Self-Pay and Other Fee for Service	Total all Payors
Net patient service revenue (after contractual allowances and discounts)	**$57,253**	**$115,511**	**$75,333**	**$3,016**	**$251,113**

December 31, 2015

	Medicare	Medicaid	Commercial and Managed Care	Self-Pay and Other Fee for Service	Total all Payors
Net patient service revenue (after contractual allowances and discounts)	$56,394	$114,788	$74,995	$1,025	$247,202

5. Assets Limited as to Use

Assets limited as to use consist of the following (in thousands):

December 31,	**2016**	2015
Cash and cash equivalents	**$ -**	$ 9
U.S. Treasury bills and notes	**18,814**	18,616
	18,814	18,625
Less: Current portion	**18,814**	8,915
Assets limited as to use, net of current portion	**$ -**	$ 9,710

At December 31, 2016 and 2015, the entire balance of the assets limited as to use is valued at Level 1 in accordance with the fair value hierarchy table.

At December 31, 2016 and 2015, the assets limited as to use are held by a trustee under the bond indenture for the following purposes under the Medical Center's Secured Hospital Revenue Refunding Bonds Series 2015 indenture agreement (in thousands):

December 31,	**2016**	2015
Capital reserve fund	**$ 6,609**	$ 6,583
Debt service and rebate funds	**9,034**	7,178
Construction and renewal, replacement and depreciation funds	**3,171**	4,864
	18,814	18,625
Less: Current portion	**18,814**	8,915
Assets limited as to use, net of current portion	**$ -**	$ 9,710

6. Property, Buildings and Equipment, Net

Property, buildings and equipment, net consist of the following (in thousands):

December 31,	**2016**	2015
Land	**$ 6,075**	$ 6,075
Land improvements	**1,566**	1,423
Leasehold improvements	**1,306**	314
Buildings and improvements	**109,037**	109,161
Movable equipment	**119,749**	111,319
Fixed equipment	**69,181**	66,192
	306,914	294,484
Less: Accumulated depreciation and amortization	**248,967**	241,676
	57,947	52,808
Construction-in-progress	**5,504**	9,245
	$ 63,451	$ 62,053

Depreciation and amortization amounted to approximately $7.3 million and $6.9 million for the years ended December 31, 2016 and 2015, respectively. Movable equipment includes gross capitalized leases aggregating approximately $7.4 million and $6.8 million, with $6.5 million and $5.9 million of accumulated amortization at December 31, 2016 and 2015, respectively.

Substantially all property, buildings, and equipment have been pledged as collateral under various debt agreements.

Costs incurred to date on projects included in construction-in-progress as of December 31, 2016 represent approximately 7.6% of the project construction costs.

7. Long-Term Debt

Long-term debt consists of the following (in thousands):

December 31,	**2016**	2015
Series 1998H bonds *(a)*	**$ -**	$ -
Series 2015 bonds *(b)*	**52,280**	58,875
Forbearance agreement *(c)*	**15,740**	15,740
Premiums on bonds issued	**3,579**	5,055
Cost of bond issuance	**(821)**	(1,183)
Total bonds payable	**70,778**	78,487
Note payable *(e)*	**869**	911
Capitalized lease obligation *(f)*	**1,208**	1,318
	72,855	80,716
Less: Current portion	**72,339**	8,456
	$ 516	$72,260

The Medical Center is currently in violation of certain debt covenants, which constitutes a default under certain of its debt agreements. As a result of the defaults, in the absence of waivers, the lender may declare the debt immediately payable. Therefore, the Medical Center's debt in default (see (b) below) has been classified as currently due. The Medical Center's various debt agreements are as follows:

(a) Series 1998H Bonds

In 1998, the Medical Center, through the DASNY issued tax-exempt Secured Hospital Revenue Refunding Bonds, Series 1998H (the "Series 1998H Bonds"). The Series 1998H Bonds have maturity dates ranging from February 2011 to August 2021 and interest rates ranging from 5.0% to 5.3% and are secured by a first mortgage lien on the Medical Center's property, buildings, and equipment and substantially all other assets. Additional security was provided through the Secured Hospital Program, a special bond financing program, which effectively implemented a service agreement between New York State (the "State") and DASNY that calls for the State to make payments, if required, at amounts equal to the principal and interest, subject to annual appropriations made by the State Legislature. These bonds were refunded in connection with the issuance of the Series 2015 Bonds. In connection with the extinguishment of the 1998H bonds, the Medical Center recognized an expense of $0.2 million in 2015.

(b) Series 2015 Bonds

In January 2015, the Medical Center, through DASNY, refunded its Series 1998H bonds and issued tax-exempt Secured Hospital Revenue Refunding Bonds, Series 2015 (the "Series 2015 Bonds"). The Series 2015 Bonds have maturity dates ranging from February 2016 to August 2021 and interest rates ranging from 2.0% to 5.0% and are secured by a first mortgage lien on the Medical Center's property, buildings, and equipment and substantially all other assets. Additional security is provided through the Secured Hospital Program, a special bond financing program, which effectively implements a service agreement between the State and DASNY that calls for the State to make payments, if required, at amounts equal to the principal and interest, subject to annual appropriations made by the State Legislature.

The Series 2015 Bonds were issued for the purposes of providing funds which, together with other available monies, which were used to (1) refund and defease the outstanding Series 1998H Bonds, (2) fund a capital reserve fund in an amount equal to the capital reserve fund requirement, (3) fund a special debt service reserve fund in an amount equal to the special debt reserve fund requirement, (4) fund certain capital projects and acquire certain equipment approved by the New York State Department of Health and (5) pay the costs of issuance of the Series 2015 Bonds.

The Series 2015 Bonds were issued at premium to the face value resulting in additional proceeds to the Medical Center. This premium will be amortized as an offset to interest expense over the life of the bonds.

Pursuant to the bond documents and related mortgage agreement, the Medical Center is required to maintain a capital reserve fund, a debt service fund, and other funds whose use is limited to debt payments, capital asset acquisitions, and related items. As of December 31, 2016, the funds consist principally of U.S. Treasury securities.

As of December 31, 2016 and 2015, approximately $52.3 million and $58.9 million, respectively, was due on the Series 2015 Bonds.

As of December 31, 2016 and 2015, the Medical Center did not meet certain financial covenants. As a result, the Medical Center is required, in accordance with bond documents, to retain a consultant which it has. The result of the consultant's review is unknown as of the date of the audit opinion.

(c) Forbearance Agreement

On May 4, 2011, the Medical Center entered into a forbearance agreement with DASNY, whereby DASNY forbore its rights and remedies under the existing loan documents and the arrearage of approximately $15.7 million, including approximately $0.2 million in financing fees. This amount has been added to the end of the existing bond maturities and has extended the maturity an additional 18 months. The amount due on the first interest payment date equals accrued interest, of one percent, from the date of the forbearance agreement through January 31, 2012. Payments on the arrearage, including monthly principal and interest at a rate of 1.0%, are estimated to begin in September 2021, after the original maturity of the Series 2015 Bonds.

Pursuant to the Series 2015 Bond documents and the May 2011 forbearance agreement, between the Medical Center and DASNY, the current portion of the Series 2015 Bonds at December 31, 2016 and 2015 is approximately $6.6 million and $6.6 million, respectively.

In connection with the Series 2015 Bond refinancing, the New York State Department of Health agreed that mortgage fees payable that were due under the Series 1998H Bonds would not be payable until January 1, 2017, at which time they would be paid on a monthly basis over 5 years. For the year ended December 31, 2016, $0.6 million is reflected as other current liabilities in the consolidated statement of financial position. Additionally, the remaining liability of $2.1 million and $2.6 million is reflected as other noncurrent liabilities in the accompanying consolidated statements of financial position as of December 31, 2016 and 2015, respectively.

(d) Restructuring Pool Loans

During 2016 and 2015, the Medical Center received a total of $12.0 million and $12.6 million of restructuring pool loans, of which $13.7 million and $2 million remains outstanding as a current liability as of December 31, 2016 and 2015, respectively.

The loans are secured loans with a loan agreement with DASNY as part of DASNY's restructured pool loan program. The loans have a stated interest rate of 1%. The loans are secured by the gross receipts of the Medical Center and payments received under the VBP QIP (see Note 2). The Medical Center is in default of these loans and they will become due upon DASNY calling them. The Medical

Center has made payments of $.4 million from October to December 2016 and no payments have been made subsequent to that date.

(e) Note Payable

During 2016 and 2015, the Medical Center settled a pension matter related to the Teamsters Local 819 regarding the membership breaking away from the union. Consequently, the Medical Center is responsible for a break away charge of $.9 million for 2015 (including interest), of which it signed a note payable to the Teamsters Local 819. The note is payable over ten years with quarterly payments of $29,477, which includes principal and interest. The implicit interest rate is 6.7%.

(f) Capitalized Lease Obligations

The Medical Center capital leases, which are secured by the underlying equipment, require monthly payments of principal and interest with interest rates ranging from approximately 0.6% to 11.9%. The following is a schedule of future minimum lease payments, including interest under the term of the leases, together with the present value of the net minimum lease payments as of December 31, 2016 (in thousands):

Year ending December 31, 2016	
2017	$ 696
2018	422
2019	109
2020	5
Total minimum lease payments	1,232
Less: Amount representing interest	24
Present value of net minimum lease payments	1,208
Less: Current portion	692
	$ 516

(g) The original required principal payments on the Series 2015 Bonds and forbearance obligation as well as the revised schedule due to the default for the next five years and thereafter consist of the following (in thousands):

Year ending December 31,	Original Scheduled Payments	Reclassification of Debt in Default	Total
2017	$ 8,795	$ 63,544	$72,339
2018	9,060	(8,650)	410
2019	9,420	(9,314)	106
2020	9,795	(9,795)	-
2021	15,210	(15,210)	-
Thereafter	20,575	(20,575)	-
Total long-term debt	$72,855	$ -	$72,855

8. Pension Plans

(a) Money Purchase Plan

On June 28, 2007, the Executive Committee of the Medical Center and the Board of Trustees of Caritas passed resolutions, effective January 1, 2007, permitting Caritas nonunion employees who met certain minimum age and service requirements to participate in the Money Purchase Plan for Employees of Wyckoff Heights Medical Center. For the 2007 Plan Year, the terms of the Money Purchase Plan required that mandatory employer contributions be made.

The total required contribution for all employees entitled to a 2007 Plan Year contribution was approximately $6.1 million ("2007 Contribution"). Under IRS rules, the 2007 Contribution was required to be paid in full to the Money Purchase Plan by September 15, 2008. The Medical Center and Caritas were each responsible for approximately one-half of the 2007 Contribution. Under IRS rules, however, the Medical Center can be held jointly and severally liable for the total 2007 Contribution with the result that the Medical Center was responsible for the entire 2007 Contribution to the extent not paid by Caritas.

On March 14, 2008, the Medical Center submitted a request for waiver of the 2007 Contribution to the IRS, which would allow the Medical Center to pay the 2007 Contribution in installments over a fixed period as determined by the IRS. During the time the IRS was reviewing the request, based on advice from legal counsel, the Medical Center began making monthly payments of $100,000 to the Plan commencing in May 2009, with a final $705,000 payment in August 2013.

Effective January 1, 2008, the Money Purchase Plan was renamed the Savings Plan for Employees of Wyckoff Heights Medical Center ("Plan") and amended to eliminate mandatory employer contributions. The Medical Center may make discretionary contributions into the Plan each year, which shall be determined annually by the Board of Trustees, with separate contribution determinations made for each employment classification as specified in the Plan, subject to IRC limitations. There were no contributions to the Plan attributable to the 2016 and 2015 Plan Years.

On December 30, 2014, the IRS provided the Medical Center with a conditional approval of the funding waiver provided the Medical Center meets several conditions, including that the Medical Center contribute lost earnings to affected Plan participants. The calculated amount to be funded by the Medical Center for lost earnings was $2.2 million and the Medical Center funded that amount in December 2015.

Union employees are generally included in the pension, health, and welfare plans of their collective bargaining units. Under these plans, the Medical Center is required to make payments based on contractual amounts. Expenses incurred under these plans were approximately $26.2 million and $27.0 million for the years ended December 31, 2016 and 2015, respectively.

(b) Multiemployer Plans

The Medical Center participates in two major multiemployer union pension plans, covering substantially all employees not eligible for the Medical Center's plan.

(i) Local 1199 Multiemployer Plan

The Employee Identification Number/Three-Digit Pension Plan Number is 13-3604862/001. The most recent Pension Protection Act ("PPA") zone status is green at December 31, 2016, which is for the plan year ended December 31, 2015. The zone status is based on information that the Medical Center received from the plan sponsor and, as required by the PPA, is certified by the plan's actuary. 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.

The financial improvement plan ("FIP") or a rehabilitation plan ("RP"), as required by the PPA, has been implemented by the Medical Center. The expiration date of the collective-bargaining agreement requiring contributions to the plan is September 30, 2018. The contributions by the Medical Center to the union pension fund were $3.8 million and $4.8 million for the years ended December 31, 2016 and 2015, respectively. There have been no significant changes that affect the comparability of 2016 and 2015 contributions.

(ii) NYSNA Multiemployer Plan

The Employee Identification Number/Three-Digit Pension Plan Number is 13-3604862/001. The most recent PPA zone status is green at December 31, 2016, which is for the plan year ended December 31, 2015. The zone status is based on information that the Medical Center received from the plan sponsor and, as required by the PPA, is certified by the plan's actuary.

The FIP or RP, as required by the PPA, has been implemented by the Medical Center. The expiration date of the collective-bargaining agreement requiring contributions to the plan is December 31, 2016. The Medical Center is currently engaging in renewal negotiations and is continuing to make payments to the NYSNA pension fund under the terms of the expired contract. The contributions by the Medical Center to the union pension fund were $3.1 million and $3.2 million for the years ended December 31, 2016 and 2015, respectively. There have been no significant changes that affect the comparability of 2016 and 2015 contributions.

If the Medical Center were to withdraw from the plan or should the plan be terminated, the Medical Center could be liable for a proportionate share of the unfunded actuarial present value of plan benefits at the date of withdrawal or termination.

9. Professional Liability Insurance

The Medical Center was self-insured for its primary professional liabilities for the period April 1, 1979 through May 31, 1997.

For the period from June 1, 1997 to May 31, 1998, the Medical Center purchased primary and excess professional liability insurance from a commercial carrier.

Effective June 1, 1998 through September 17, 2004, the Medical Center purchased occurrence-based primary and multiple layers of excess professional and general liability insurance from commercial insurance carriers and the Network Insurance Company Ltd. ("NICL"), an offshore captive insurance company that was affiliated with the New York-Presbyterian Healthcare System. Effective September 18, 2004, the Medical Center began a self-insurance program for its primary layer of professional liability. In 2005, the Medical Center retroactively discontinued its initial layer of excess professional liability coverage, provided by NICL, effective September 18, 2004, and assumed this exposure through its self-insurance program through the present.

Professional liability and other claims have been asserted against the Medical Center by various claimants. The claims are in various stages of processing and some have been or may ultimately be brought to trial. There are also known incidents that have occurred 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 the Medical Center's management, based on prior experience and the advice of legal counsel, that the ultimate resolution of professional liability claims will not significantly impact the Medical Center's consolidated financial position.

The Medical Center records estimated liabilities related to professional liability claims occurring during self-insured periods for asserted and unasserted claims and for claims incurred but not reported. Such estimates are based upon valuations prepared by consulting actuaries and the advice of legal counsel. Actuarial valuations are based upon complex calculations, which utilize factors such as historical claim experience and related industry factors, trending models, estimates for the payment patterns of future claims, and present value discounting factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known. Estimated undiscounted professional liabilities at December 31, 2016 and 2015 aggregating approximately $38.1 and $33.6, respectively, have been recorded in the accompanying consolidated statement of financial position.

The Medical Center utilizes a revocable self-insurance trust fund for purposes of funding its self-insurance program. At December 31, 2016 and 2015, the Board of Directors had designated $0.1 million and $0.1 million, respectively, for estimated self-insured professional liabilities as assets limited or restricted as to use.

The Medical Center and the related subsidiaries procure commercial physician malpractice insurance. The Medical Center records its estimate of insured malpractice claims associated with its employed physicians and the related amount of insurance recoverable, which totaled $34.0 million and $37.1 million as of December 31, 2016 and 2015, respectively.

10. Related Organization and Affiliates

The following balances are due to the Medical Center's related organization and affiliates (in thousands):

December 31,	**2016**	2015
Preferred Health Network, Inc. ("PHN") *(a)*	**$466**	$466
Network Recovery Services, Inc. ("NRS") *(b)*	**344**	344
Due to related organization and affiliates	**$810**	$810

(a) At December 31, 2016 and 2015, the amount due to PHN represents the unpaid balance of a number of transactions relating to 1997 and prior years, including rent of office space, shared services, and severance obligations.

(b) NRS was incorporated for the purpose of serving as a collection agency. Amounts due to NRS represent fees for collection services.

11. Commitments

The Medical Center leases office space and equipment under noncancelable operating leases requiring aggregate future minimum rental payments as follows (in thousands):

2017	$ 2,747
2018	2,538
2019	2,459
2020	1,530
2021	1,160
Thereafter	4,251
	$14,685

Rent expense for the years ended December 31, 2016 and 2015 amounted to approximately $3.5 million and $3.3 million, respectively.

12. Contingencies

At December 31, 2016 and 2015, 75% and 77%, respectively, of the Medical Center's employees were union employees covered by collective bargaining agreements.

The Medical Center is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Medical Center's consolidated financial statements.

The Medical Center is a defendant in seven civil legal actions where the President/Chief Executive Officer and the Chairman of the Board of Trustees have also been named as defendants. To that end, the Medical Center is indemnifying and holding both individuals harmless as they were acting in their capacity as officers of the Medical Center. The final outcome of the seven civil legal actions cannot presently be determined. Management and legal counsel are of the opinion that the ultimate liability, if any, with respect to all of these matters will not have a material adverse effect on the Medical Center's consolidated financial statements. See Note 15 for information on the favorable verdict after December 31, 2016.

Additionally, the Medical Center has two government investigations ongoing. In 2011 and 2012, the Medical Center received subpoenas from the Brooklyn District Attorney office and U.S. Attorney Office of the Eastern District of New York in connection with certain criminal investigations relating to the Medical Center and certain former officers of the Medical Center. The Medical Center has been fully cooperating with such investigations and to date, no claims have been asserted against the Medical Center arising out of the investigations. The Board of Trustees is monitoring these matters with the assistance of independent counsel. If either of these investigations results in a legal proceeding, it could have a material adverse effect on the Medical Center's business and results of operations.

13. Net Patient Service Revenue

(a) Non-Medicare Reimbursement

The New York Health Care Reform Act of 1996 (the "Act"), as periodically updated, governs nonpayments to hospitals in New York State. Under the Act, Medicaid, workers' compensation, and no-fault payors pay rates are promulgated by the New York State Department of Health. Fixed payment amounts per inpatient discharge are established based on the patient's assigned case mix intensity, similar to a Medicare diagnosis-related group ("DRG"). Effective December 1, 2009, the New York State prospective payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide rate, with retroactive 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 that was effective December 1, 2008. Medicaid rate methodologies are subject to approval at the Federal level by Center for Medicare and Medicaid Services ("CMS"), which may routinely request information about such methodologies prior to approval. All other third-party payors, principally Blue Cross, other private insurance companies, Health Maintenance Organizations ("HMOs"), Preferred Provider Organizations ("PPOs"), and other managed care plans, negotiate payment rates directly with the Medical Center. Such arrangements include DRG-based payment systems, per diems, case rates, and percentage of billed charges. If such rates are not negotiated, then the payors are billed at the Medical Center's established charges.

(b) Indigent Care Pool

New York State regulations provide for the distribution of funds from an indigent care pool, which is intended to partially offset the cost of services provided to the uninsured. The funds are distributed to the Medical Center based on industry-wide and hospital-specific data.

(c) Medicare and Medicaid Reimbursement

Under the Medicare program, the Medical Center receives reimbursement under a prospective payment system ("PPS") for inpatient and outpatient services. Under the Medical Center inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned DRG. When the estimated cost of treatment for certain patients is higher than the average, providers typically will receive additional "outlier" payments. Under the outpatient PPS, services are paid based on service groups called ambulatory payment classifications.

Both Federal and New York State regulations provide for certain adjustments to current and prior years' payment rates and indigent care pool distributions based on industry-wide and hospital-specific data. The Medical Center has established estimates based on information presently available of the amounts due to or from Medicare, Medicaid, workers' compensation, and no-fault payors, and amounts due from the indigent care pool for such adjustments.

There are various proposals at the Federal and New York State levels that could, among other things, reduce reimbursement rates, modify reimbursement methods, and increase managed care penetration, including Medicare and Medicaid. The ultimate outcome of these proposals and other market changes cannot presently be determined.

For both of the years ended December 31, 2016 and 2015, revenue from the Medicare and Medicaid programs (including managed care related revenue) accounted for approximately 85% of the Medical Center's net patient service revenue. The federal government and many states have aggressively increased enforcement under Medicare and Medicaid antifraud and abuse legislation. Recent Federal initiatives have prompted a national review of Federally-funded healthcare programs. The Medical Center has a compliance program to monitor conformance with applicable laws and regulations, but the possibility of future government review and interpretation exists. The Medical Center believes that it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties, and exclusion from the Medicare and Medicaid programs.

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the “Health Reform Law”), which was signed into law on March 23, 2010, changed how healthcare services are covered, delivered, and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, reductions in Medicare and Medicaid Disproportionate Share Hospital (“DSH”) payments, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, the Health Reform Law reformed certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement.

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (“HITECH”). These provisions were designed to increase the use of electronic health records (“EHR”) technology and establish the requirements for a Medicare and Medicaid incentive payments program beginning in 2012 for eligible hospitals and providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology; but providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional incentive payments.

During the year ended December 31, 2014, the Medical Center recognized approximately $2.6 million of revenue for HITECH incentives from the Medicare and Medicaid programs that is related to the Medical Center meeting the requirement of the Meaningful Use Incentive program. The Medical Center elected to recognize the revenue associated with the EHR incentive payment under the cliff recognition model. The amount of the EHR incentive payment was based on the Medical Center discharges, which are subject to audit by the CMS or its intermediaries and amounts recognized are the Medical Center’s best estimate and are subject to change. No such revenue was recognized for the years ended December 31, 2016 and 2015.

(d) Budget Control Act

The Budget Control Act of 2011 (the “Budget Control Act”) mandated significant reductions and spending caps on the Federal budget for fiscal years 2014 through 2021. The Budget Control Act also created a Joint Select Committee on Deficit Reduction (the “Super Committee”) to develop a plan to further reduce the Federal deficit by $1.5 trillion on or before November 23, 2011. Since the Super Committee failed to act before the mandated deadline, a 2% reduction in Medicare spending, among other reductions, took effect for nonphysician Medicare payments effective April 1, 2013 in a process known as Sequestration. During 2015, the Sequestration period was extended by legislation until 2024.

(e) Delivery System Reform Incentive Payment

In April 2014, a Medicaid waiver was finalized that will reinvest $8 billion in Federal savings to support changes to critical issues in New York State’s healthcare system. The comprehensive reform will be implemented through the Delivery System Reform Incentive Payment (“DSRIP”) Program and will promote community-level collaborations and focus on system reform, specifically a goal to achieve a 25% reduction in avoidable hospital use over five years.

DSRIP lead participants qualify as eligible providers by passing at least one of the three tests below: (1) must be either a public hospital, critical access hospital, or sole community hospital; (2) must have outpatient Medicaid patient volumes exceeding 35% of all inpatient volumes in business lines associated with Medicaid, uninsured and dual eligible Individuals and at least 30% of inpatient treatment volumes in business lines associated with Medicaid, uninsured and dual eligible individuals; and (3) must serve at least 30% of all Medicaid, uninsured and dual eligible members in the proposed county or multicounty community. Nonhospital-based providers, not participating as part of a state-designated health home, must have at least 35% of all patient volumes in their primary lines of business and must be associated with Medicaid, uninsured, and dual eligible individuals.

DSRIP is intended to produce a substantial restructuring of the health care delivery system for the medically indigent in New York; therefore, as a participant, the Medical Center may experience a decrease in inpatient admissions and/or a shift from inpatient and emergency-based services to outpatient and community-based services.

The Medical Center is a partner in the DSRIP Performing Provider System in formation led by Maimonides Medical Center along with several other providers. The Medical Center is unable to assess the potential outcome of DSRIP at this time.

14. Grants

The Medical Center recorded grant revenue of approximately $42.1 million and $33.2 million for the years ended December 31, 2016 and 2015, respectively. The revenue is related to awards from the VBP QIP program. The award amounts are based on monthly financial performances and the projected cash needs of the Medical Center to sustain operations. The awards are designed to ensure that the Medical Center can participate in the DSRIP transformation process (see Note 2).

15. Subsequent Events

The Medical Center has evaluated subsequent events through May 30, 2017, the date which the consolidated financial statements were available to be issued. No events arose during the period which would require adjustments or additional disclosure, except the following:

As noted in Note 12, the Medical Center, President/Chief Executive Officer and the Chairman of the Board of Trustees were named as defendants in seven civil legal actions and two government investigations.

In relation to the seven civil legal actions, one of the seven civil legal actions against the Medical Center, President/Chief Executive Officer and the Chairman of the Board of Trustees proceeded to trial and, on May 11, 2017, a jury verdict was reached in favor of the Medical Center, President/Chief Executive Officer and the Chairman of the Board of Trustees. The remaining six civil legal actions remain open as of the date of the Medical Center's consolidated financial statements.

With respect to the two government investigations, the Medical Center has been informed that the investigations have been closed with no findings.

Supplementary Information

Wyckoff Heights Medical Center

Consolidating Schedule of Financial Position
(with comparative totals for 2015)
(in thousands)

December 31,

	Wyckoff	Wyckoff Dental	Wyckoff Medical	Wyckoff Emergency Medicine	Wyckoff Anesthesia	Wyckoff Practice Management	Wyckoff Professional Medical Service	Stockholm	Wyckoff Imaging	Stephen Carryl	Preferred Health Ventures Pharmacy	Preferred Health Ventures Placement	Preferred Health Ventures Properties	Wyckoff Foundation	Subtotal	Elimination Entries	Consolidated 2016	2015
Assets																		
Current:																		
Cash and cash equivalents	$ 4,215	$ 27	$ 18	$ 106	$ 146	$ 1	$ 348	$ 105	$ 74	$ 65	$ 28	$ 4	$ 3	$ 257	$ 5,397	$ -	**$ 5,397**	$ 5,708
Patient accounts receivable, net	24,784	-	-	-	-	-	-	-	-	-	-	-	-	-	24,784	-	**24,784**	24,833
Other receivables, net	2,191	-	-	-	-	-	-	-	-	-	-	-	-	27	2,218	-	**2,218**	5,607
Due from third-party payors	6,861	-	-	-	-	-	-	-	-	-	-	-	-	-	6,861	-	**6,861**	11,742
Inventories and other current assets	7,203	-	-	-	-	-	-	-	-	-	24	-	-	-	7,227	-	**7,227**	7,404
Due from related organizations	9,199	11	6,087	200	396	5	2,136	90	93	194	61	161	-	3,758	22,391	(22,391)	**-**	-
Assets limited as to use - current portion	18,814	-	-	-	-	-	-	-	-	-	-	-	-	-	18,814	-	**18,814**	8,915
Total Current Assets	73,267	38	6,105	306	542	6	2,484	195	167	259	113	165	3	4,042	87,692	(22,391)	**65,301**	64,209
Property, Buildings and Equipment, Net	63,451	-	-	-	-	-	-	-	-	-	-	-	-	-	63,451	-	**63,451**	62,053
Asset Limited as to Use, Net of Current Portion	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	9,710
Board Designated - Self-Insured Malpractice Fund	134	-	-	-	-	-	-	-	-	-	-	-	-	-	134	-	**134**	134
Due From Third-Party Payors	926	-	-	-	-	-	-	-	-	-	-	-	-	-	926	-	**926**	309
Insurance Claims Receivable	34,000	-	-	-	-	-	-	-	-	-	-	-	-	-	34,000	-	**34,000**	37,100
Total Assets	**$ 171,778**	**$ 38**	**$6,105**	**$ 306**	**$ 542**	**$ 6**	**$2,484**	**$ 195**	**$ 167**	**$259**	**$ 113**	**$165**	**$ 3**	**$4,042**	**$ 186,203**	**$(22,391)**	**$ 163,812**	$173,515
Liabilities and Net Asset Deficit																		
Current Liabilities:																		
Accounts payable and accrued expenses	$ 55,737	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 39	$ -	$ -	$ -	$ 55,776	$ -	**$ 55,776**	$ 50,813
Accrued salaries and related liabilities	16,236	-	-	-	-	-	-	-	-	-	-	-	-	-	16,236	-	**16,236**	14,816
Current portion of due to third-party payors	3,573	-	-	-	-	-	-	-	-	-	-	-	-	-	3,573	-	**3,573**	
Due to third-party payors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	5,314
HCRA loan payable	13,658	-	-	-	-	-	-	-	-	-	-	-	-	-	13,658	-	**13,658**	2,035
Accrued interest payable	891	-	-	-	-	-	-	-	-	-	-	-	-	-	891	-	**891**	994
Current portion of long-term debt, net of long-term portion and deferred financing fees	72,339	-	-	-	-	-	-	-	-	-	-	-	-	-	72,339	-	**72,339**	8,456
Current portion of estimated self-insured professional liabilities	1,660	-	-	-	-	-	-	-	-	-	-	-	-	-	1,660	-	**1,660**	725
Current portion of Caritas settlement	1,873	-	-	-	-	-	-	-	-	-	-	-	-	-	1,873	-	**1,873**	1,788
Due to related organizations	4,729	1,146	522	4,425	3,411	2,145	1,197	2,260	2,307	227	216	-	634	-	23,219	(22,391)	**828**	810
Deferred revenue	1,147	-	-	-	-	-	-	-	-	-	-	-	-	-	1,147	-	**1,147**	721
Other current liabilities	593	-	-	-	-	-	-	-	-	-	-	-	-	-	593	-	**593**	-
Total Current Liabilities	172,436	1,146	522	4,425	3,411	2,145	1,197	2,260	2,307	227	255	-	634	-	190,965	(22,391)	**168,574**	86,472
Due to Third-Party Payors, Less Current Portion	36,130	-	-	-	-	-	-	-	-	-	-	-	-	-	36,130	-	**36,130**	34,700
Long-Term Debt, Less Current Portion	516	-	-	-	-	-	-	-	-	-	-	-	-	-	516	-	**516**	72,260
Estimated Self-Insured Professional Liabilities, Less Current Portion	36,402	-	-	-	-	-	-	-	-	-	-	-	-	-	36,402	-	**36,402**	32,859
Estimated Insured Professional Liabilities	34,000	-	-	-	-	-	-	-	-	-	-	-	-	-	34,000	-	**34,000**	37,100
Caritas Settlement, Less Current Portion	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	1,746
Other Noncurrent Liabilities	2,025	-	-	-	-	-	-	-	-	-	-	-	-	-	2,025	-	**2,025**	2,618
Total Liabilities	281,509	1,146	522	4,425	3,411	2,145	1,197	2,260	2,307	227	255	-	634	-	300,038	(22,391)	**277,647**	267,755
Net Asset Deficit - Unrestricted	(109,731)	(1,108)	5,583	(4,119)	(2,869)	(2,139)	1,287	(2,065)	(2,140)	32	(142)	165	(631)	4,042	(113,835)	-	**(113,835)**	(94,240)
Total Liabilities and Net Asset Deficit	**$ 171,778**	**$ 38**	**$6,105**	**$ 306**	**$ 542**	**$ 6**	**$2,484**	**$ 195**	**$ 167**	**$259**	**$ 113**	**$165**	**$ 3**	**$4,042**	**$ 186,203**	**$(22,391)**	**$ 163,812**	$173,515

Wyckoff Heights Medical Center

Consolidating Schedule of Operations and Net Asset Deficit
(with comparative totals for 2015)
(in thousands)

Year ended December 31,

	Wyckoff	Wyckoff Dental	Wyckoff Medical	Wyckoff Emergency Medicine	Wyckoff Anesthesia	Wyckoff Practice Management	Wyckoff Professional Medical Service	Stockholm	Wyckoff Imaging	Stephen Carryl	Preferred Health Ventures Pharmacy	Preferred Health Ventures Placement	Preferred Health Ventures Properties	Wyckoff Foundation	Subtotal	Elimination Entries	Consolidated 2016	Consolidated 2015
Operating Revenue:																		
Unrestricted revenue, gains and other support:																		
Net patient service revenue	$ 251,113	$ 855	$ 115	$ 4,869	$ 5,666	$ -	$8,780	$ 3,462	$ 2,217	$373	$ -	$ -	$ -	$ -	$ 277,450	$(26,337)	**$ 251,113**	$247,202
Provision for bad debts, net	(19,220)	-	-	-	-	-	-	-	-	-	-	-	-	-	(19,220)	-	**(19,220)**	(18,202)
Net Patient Service Revenue	231,893	855	115	4,869	5,666	-	8,780	3,462	2,217	373	-	-	-	-	258,230	(26,337)	**231,893**	229,000
Physician service revenue	27,144	-	-	-	-	-	-	-	-	-	-	-	-	-	27,144	-	**27,144**	23,719
Grants	47,916	-	-	-	-	-	-	-	-	-	-	-	-	-	47,916	-	**47,916**	38,417
Medical training program	2,609	690	1	4,310	1,963	431	677	3,540	675	22	-	-	-	-	14,918	(12,309)	**2,609**	2,878
Other revenue	4,357	-	-	-	-	-	-	-	-	-	-	-	-	412	4,769	-	**4,769**	3,897
Total Operating Revenue	313,919	1,545	116	9,179	7,629	431	9,457	7,002	2,892	395	-	-	-	412	352,977	(38,646)	**314,331**	297,911
Operating Expenses:																		
Salaries and wages	136,589	1,574	-	6,964	5,661	419	6,333	4,750	2,148	-	-	-	-	-	164,438	-	**164,438**	152,038
Employee benefits	45,561	-	-	-	-	-	-	-	-	-	-	-	-	-	45,561	-	**45,561**	42,339
Supplies and expenses	141,144	271	17	3,416	2,327	124	1,556	2,717	948	395	-	-	-	149	153,064	(38,646)	**114,418**	91,908
Interest and amortization of financing fees	2,218	-	-	-	-	-	-	-	-	-	-	-	-	-	2,218	-	**2,218**	2,834
Depreciation and leasehold improvement amortization	7,291	-	-	-	-	-	-	-	-	-	-	-	-	-	7,291	-	**7,291**	6,904
Total Operating Expenses	332,803	1,845	17	10,380	7,988	543	7,889	7,467	3,096	395	-	-	-	149	372,572	(38,646)	**333,926**	296,023
Change in Net Assets	(18,884)	(300)	99	(1,201)	(359)	(112)	1,568	(465)	(204)	-	-	-	-	263	(19,595)	-	**(19,595)**	1,888
Net Asset Deficit, Beginning of Year	(90,847)	(808)	5,484	(2,918)	(2,510)	(2,027)	(281)	(1,600)	(1,936)	32	(142)	165	(631)	3,779	(94,240)	-	**(94,240)**	(96,128)
Net Asset Deficit, End of Year	**$(109,731)**	**$(1,108)**	**$5,583**	**$(4,119)**	**$(2,869)**	**$(2,139)**	**$1,287**	**$(2,065)**	**$(2,140)**	**$ 32**	**$(142)**	**$165**	**$(631)**	**$4,042**	**$(113,835)**	**$ -**	**$(113,835)**	$ (94,240)