Health Quest Systems, Inc.
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Memo re: 2016 Revised Audited Financials

The 2016 consolidated financial statements of Health Quest Systems, Inc. have been replaced with a revised version to correct a clerical footing error on pages 42 and 43 of the supplementary information. No changes were made to the basic consolidated financial statements or the related notes to the consolidated financial statements.

Health Quest Systems, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2016

Contents

RSM

RSM US LLP

Independent Auditor's Report

To the Board of Trustees of
Health Quest Systems, Inc. and Subsidiaries

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Health Quest Systems, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2016, the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 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 the 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 financial statements are free from 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 financial position of Health Quest Systems, Inc. and Subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
The financial statements of the Company as of and for the year ended December 31, 2015 were audited by other auditors, whose report, dated April 29, 2016, expressed an unmodified opinion on those financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual companies and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The consolidating information as of and for the year ended December 31, 2016, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The consolidating information as of and for the year ended December 31, 2015, was audited by other auditors, whose report, dated April 29, 2016, expressed an unmodified opinion on such information in relation to the financial statements as a whole.

RSM US LLP

New York, New York
April 28, 2017

Health Quest Systems, Inc. and Subsidiaries

Consolidated Balance Sheets
December 31, 2016 and 2015
(in thousands)

		2016		2015
Assets				
Current assets:				
Cash and cash equivalents	$	98,489	$	109,359
Restricted cash		709		722
Investments		254,310		198,240
Assets whose use is limited, required for current liabilities:				
Externally restricted		2,272		2,013
Patient accounts receivable, less allowance for uncollectible accounts of $33,232 and $27,272 in 2016 and 2015, respectively		115,671		92,048
Supplies and prepaid expenses		30,552		27,057
Other current assets		7,765		7,540
Amounts due from third-party payors		5,845		8,664
Total current assets		515,613		445,643
Assets whose use is limited, net of current portion:				
Externally restricted		392,733		21,595
Investments held by captive		31,035		28,076
Long-term investments		9,588		8,853
Property, plant and equipment, net		461,242		412,080
Goodwill		30,585		30,670
Other assets		28,235		35,085
Total assets	$	1,469,031	$	982,002
Liabilities and Net Assets				
Current liabilities:				
Current portion of long-term debt	$	19,926	$	17,648
Accounts payable and accrued expenses		139,920		116,298
Amounts due to third-party payors		8,034		7,673
Captive insurance loss reserve payable		8,530		8,147
Total current liabilities		176,410		149,766
Long-term debt, net of current portion		564,434		188,898
Post-retirement benefit obligations		79,515		75,521
Amounts due to third-party payors and other liabilities		118,065		118,782
Total liabilities		938,424		532,967
Net assets:				
Unrestricted		504,368		419,234
Temporarily restricted		20,853		24,417
Permanently restricted		5,386		5,384
Total net assets		530,607		449,035
Total liabilities and net assets	$	1,469,031	$	982,002

See notes to consolidated financial statements.

Health Quest Systems, Inc. and Subsidiaries

Consolidated Statements of Operations
Years Ended December 31, 2016 and 2015
(in thousands)

	2016	2015
Operating revenue:		
Net patient service revenue	$ 993,130	$ 868,893
Provision for bad debts	(28,360)	(25,591)
Net patient service revenue less provision for bad debts	964,770	843,302
Other revenue	34,632	27,493
Net assets released from restrictions used for operations	440	54
Total operating revenue	999,842	870,849
Operating expenses:		
Salaries and fees	442,029	395,322
Employee benefits	122,335	112,560
Supplies	151,573	131,573
Other expenses	154,233	136,650
Interest	9,313	9,391
Depreciation and amortization	51,113	47,934
Loss on extinguishment of debt	1,119	-
Total operating expenses	931,715	833,430
Operating income	68,127	37,419
Investment income (loss)	13,208	(4,900)
Gain on sale of property plant and equipment	51	252
Excess of revenue over expenses	81,386	32,771
Pension related changes other than net periodic pension cost	(853)	4,271
Grant revenue for capital expenditures	197	203
Net assets released from restrictions for capital expenditures	4,404	2,615
Increase in unrestricted net assets	$ 85,134	$ 39,860

See notes to consolidated financial statements.

Health Quest Systems, Inc. and Subsidiaries

Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2016 and 2015
(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balance, December 31, 2014	$ 379,374	$ 22,145	$ 5,389	$ 406,908
Excess of revenue over expenses	32,771	-	-	32,771
Pension related changes other than net periodic pension cost	4,271	-	-	4,271
Contributions	-	4,941	(5)	4,936
Grant revenue for capital expenditures	203	-	-	203
Net assets released from restrictions used for operations and capital expenditures	2,615	(2,669)	-	(54)
Balance, December 31, 2015	419,234	24,417	5,384	449,035
Excess of revenue over expenses	81,386	-	-	81,386
Pension related changes other than net periodic pension cost	(853)	-	-	(853)
Contributions	-	1,280	2	1,282
Grant revenue for capital expenditures	197	-	-	197
Net assets released from restrictions used for operations and capital expenditures	4,404	(4,844)	-	(440)
Balance, December 31, 2016	**$ 504,368**	**$ 20,853**	**$ 5,386**	**$ 530,607**

See notes to consolidated financial statements.

Health Quest Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015
(in thousands)

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ 81,572	$ 42,127
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	51,113	47,934
Provision for bad debts	28,360	25,591
Loss on extinguishment of debt	1,119	-
Restricted contributions for capital	(4,404)	(2,615)
Pension related changes other than net periodic pension cost	853	(4,271)
Change in realized and unrealized (gain)/loss on investments	(5,495)	9,820
Changes in operating assets and liabilities:		
Patient accounts receivable	(51,983)	(32,635)
Supplies and prepaid expenses	(3,495)	(1,533)
Other current assets	(1,331)	2,514
Other assets	11,120	4,965
Accounts payable and accrued expenses	6,200	11,233
Amounts due to third-party payors and other liabilities	2,463	2,219
Post-retirement benefit obligations	3,141	4,668
Insurance loss reserve payable	383	521
Net cash provided by operating activities	119,616	110,538
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(82,263)	(83,502)
Cash paid for radiology acquisition	-	(6,500)
Purchases of investments and assets whose use is limited	(1,445,976)	(49,778)
Sales of investments and assets whose use is limited	1,020,310	75,602
Net cash used in investing activities	(507,929)	(64,178)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	436,747	-
Payments for bond issuance costs	(4,775)	-
Repayments of long-term debt	(58,933)	(15,074)
Restricted contributions for capital	4,404	2,615
Net cash provided by (used in) financing activities	377,443	(12,459)
Net (decrease) increase in cash and cash equivalents	(10,870)	33,901
Cash and cash equivalents:		
Beginning of year	109,359	75,458
End of year	$ 98,489	$ 109,359
Supplemental information and noncash transactions:		
Cash paid for interest, net of amounts capitalized	$ 8,855	$ 7,815
Acquisitions on property, plant, and equipment within accounts payable	$ 21,221	$ 3,799
Note payable for radiology acquisition	$ -	$ 23,468
Increase in asset retirement obligation	$ -	$ 7,509

See notes to consolidated financial statements.

Note 1. Organization

Health Quest Systems, Inc. (the Company or Health Quest) is a not-for-profit corporation that is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

A summary of subsidiaries, in which the Company is the sole member, is as follows:

Vassar Brothers Medical Center (VBMC) is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. VBMC provides general acute care with a full range of inpatient and outpatient services for residents of the Mid-Hudson Valley. Included within VBMC is One Columbia Street, LLC, a limited liability company, which provides real estate oversight management and holds title to certain real estate interests, and Healthserve, LLC, a limited liability for-profit company providing limited technology services to non-affiliated healthcare organizations. One Columbia Street, LLC and Healthserve, LLC were dissolved in 2016 and the assets were transferred to VBMC.

The Foundation for Vassar Brothers Medical Center (the Foundation for VBMC) is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation for VBMC's principal activity is the solicitation, receipt, holding, investment and administration of contributions on behalf of VBMC and other Section 501(c)(3) entities affiliated with VBMC.

Putnam Hospital Center (PHC) is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. PHC provides general acute care with a full range of inpatient and outpatient services for residents of the Mid-Hudson Valley.

Putnam Hospital Center Foundation, Inc. (PHC Foundation), is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation's principal activity is the solicitation, receipt, holding, investment, and administration of contributions on behalf of PHC. The Foundation actively solicits contributions from the public through direct mailings, fund-raising programs and other activities.

Northern Dutchess Hospital (NDH) is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. NDH provides general acute care with a full range of inpatient and outpatient services for residents of the Mid-Hudson Valley.

NDH Foundation (NDH Foundation) is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. NDH Foundation's principal activity is the solicitation, receipt, holding, investment and administration of contributions on behalf of NDH, Northern Dutchess Residential Health Care Facility, Inc. and other community organizations. NDH Foundation actively solicits contributions from the public through direct mailings, fund-raising programs and other activities.

VBH Insurance Co. Ltd. (the VBH Insurance), is a captive insurer incorporated under the laws of Barbados. The captive insurer, licensed under the Exempt Insurance Act, Cap. 308A of the laws of Barbados, provides various levels of medical malpractice insurance for VBMC, PHC, NDH, Health Quest Medical Practice, Health Quest Urgent Care Practice and Hudson Valley Cardiovascular Practice, PC.

Northern Dutchess Residential Health Care Facility, Inc. (the Nursing Home) is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Nursing Home operates and maintains a residential healthcare facility for the care and treatment of persons who require medical care and related services.

Note 1. Organization (Continued)

Riverside Diversified Services, Inc. (RDSI) is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. RDSI was the beneficial owner of various physician practices that provide emergency and neonatal services for residents of the Mid-Hudson Valley. These practices were transferred to Health Quest Medical Practice upon the dissolution of RDSI in 2016.

Health Quest Medical Practice, P.C. (HQMP) is a not-for-profit corporation, exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. HQMP is the beneficial owner of various physician practices that provide a full range of hospital-based and outpatient services for residents of the Mid-Hudson Valley.

Health Quest Urgent Medical Care Practice, P.C. (HQUMCP) is a not-for-profit corporation, exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. HQUMCP is the beneficial owner of two urgent care centers that provide walk-in urgent care services for the residents of the Mid-Hudson Valley.

Hudson Valley Cardiovascular Practice, P.C. (HVCP) is a not-for-profit corporation, exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. HVCP provides invasive and noninvasive cardiovascular, diagnostic and therapeutic services and is located throughout Dutchess and Orange counties.

Health Quest Home Care, Inc. (Licensed) and Health Quest Home Care, Inc. (Certified) (together, HQHC) are not-for-profit corporations exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. HQHC was formed to operate a home health care services business, serving residents of the Mid-Hudson Valley.

Wells Manor Housing Development Fund Corporation (Wells Manor) is a private foundation incorporated as a 501(c)(3) organization and is exempt from Federal income taxes under Section 509(a) of the Internal Revenue Code. Wells Manor operates an apartment complex of 75 units under Section 202 of the National Housing Act of 1959 and Section 8 of the National Housing Act of 1937, regulated by the U.S. Department of Housing and Urban Development.

Alamo Ambulance Service, Inc. (Alamo) is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Alamo's assets were sold in September 2009, however, it has maintained its license to provide transport and emergency medical services to sick, disabled, or injured persons, generally within Dutchess, Orange, Ulster and Putnam Counties, New York.

HQ Lab Support Services, LLC (HQ Lab) is a limited liability company which provides diagnostic laboratory services to the Health Quest affiliated organizations. HQ Lab was dissolved in 2016 and its assets were transferred to Health Quest.

Riverside Management Services, Inc. (RMSI) was incorporated under Section 402 of the Business Corporation Law of the State of New York and manages Hillside Renovations, Inc., a renovation and construction company, and Riverside Ambulance, which was created in 1992 to maintain a note receivable and payable related to the purchase of Alamo. RMSI was dissolved in 2016.

Obligated Group: During 2007, the Company formed the Health Quest Systems, Inc. Obligated Group (Obligated Group), which consists of Health Quest, VBMC, PHC and NDH.

Note 2. Summary of Significant Accounting Policies

Basis of presentation: The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. The Obligated Group is responsible for the collective liabilities of one another. The consolidation of all other entities is not necessarily indicative of the legal extent of assets available to settle the liabilities of the other consolidating individual entities.

Use of estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of patient revenues and expenses during the reported period. The most significant estimates relate to patient accounts receivable allowances, amounts due from or due to third-party payors, self-insurance reserves and assumptions related to post-retirement benefit obligations. Actual results may differ from those estimates.

Cash and cash equivalents: Cash and cash equivalents include investments in highly liquid financial instruments with original maturities of three months or less from the date of acquisition, excluding amounts whose use is limited and amounts are held for reinvestment.

Restricted cash: In October 2005, PHC terminated its agreement with DaVita, Inc. for renal dialysis services. As part of the termination agreement, PHC agreed to set aside all cash received for renal dialysis services provided prior to the termination of the agreement into a separate cash account. The funds are to be used to pay any costs associated with the program, including Medicare cost report settlements.

Inventories: The Company values its inventories, included in supplies and prepaid expenses, at current cost.

Investments: The Company has determined that all investments reported in the consolidated balance sheets are considered trading securities. Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value in the consolidated balance sheets. Fair value is determined based on the closing price on the primary market or quotes of similar securities. Investments in equity and bond funds are measured at fair value based on the net asset value per share at year-end. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. Investments not traded on national exchanges are measured at net asset value, as provided by investment managers.

Long-term investments: Long-term investments include donor-restricted endowment gifts, other restricted funds and accumulated investment income on those funds.

Assets whose use is limited: Assets whose use is limited includes externally controlled funds under bond indenture agreements and investments held by the Company's insurance captive. Amounts required to meet current liabilities of the Company have been classified as current assets in the consolidated balance sheets at December 31, 2016 and 2015.

(Amounts in Thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

Property, plant and equipment: Property, plant and equipment, including certain revenue producing equipment purchases, are carried at cost and those acquired by gifts and bequests are carried at appraised or fair market value established at date of contribution. Depreciation is provided on the straight-line method over the estimated useful lives of the assets:

Land improvements	20 years
Building and building improvements	40 years
Major movable and equipment	3-15 years

Equipment under capital leases is recorded at present value at the inception of the leases and is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. The amortization of assets recorded under capital leases is included in depreciation and amortization expense in the accompanying consolidated statements of operations. When assets are retired or otherwise disposed of, the cost and the related depreciation are reversed from the accounts, and any gain or loss is reflected in current operations. Repairs and maintenance expenditures are expensed as incurred.

Asset retirement obligations: The Company accounts for asset retirement obligations, including asbestos related removal costs, in accordance with authoritative guidance. The Company accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. In 2015, management updated its asset retirement obligation estimates based on new information. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the Company will recognize a gain or loss for any difference between the settlement amount and liability recorded. As of December 31, 2016 and 2015, $8,886 and $9,444, respectively, of conditional asset retirement obligations are included within amounts due to third-party payors and other liabilities in the consolidated balance sheets.

Capitalized interest: Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. These costs are amortized over the life of the related capital assets constructed.

Deferred financing costs: Deferred financing costs (approximately $6,938 and $3,683 at December 31, 2016 and 2015, respectively, included within long-term debt in the consolidated balance sheets) represent costs incurred to obtain financing for construction and renovation projects at VBMC, PHC and NDH. These costs are amortized over the life of the related debt. Amortization expense was approximately $341 and $468 for the years ended December 31, 2016 and 2015, respectively.

Temporarily and permanently restricted net assets: Temporarily restricted net assets are those whose use by the Company has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Company in perpetuity.

Donor-restricted gifts: Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions.

Note 2. Summary of Significant Accounting Policies (Continued)

Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Income taxes: The Internal Revenue Service has determined that the Company and certain affiliated entities are tax-exempt organizations as defined in Section 501(c)(3) of the Internal Revenue Code. Certain subsidiaries of the Company are taxable entities, the tax expense and liabilities of which are not material to the consolidated financial statements.

The Company and its tax-exempt affiliated entities each file a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the tax-exempt status of each entity, the continued tax-exempt status of bonds, the nature, characterization and taxability of joint venture income, and various positions relating to potential sources of unrelated business taxable income (reported on Form 990T). As of December 31, 2016 and 2015, there are no unrecognized tax benefits resulting from uncertain tax positions.

Forms 990 and 990T filed by the Company and its tax-exempt affiliated entities are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 and 990T filed by the Company and its tax-exempt affiliated entities are no longer subject to examination for the year 2014 and prior.

Charity care: Effective January 1, 2007, the New York State Public Health Law required all hospitals to implement financial aid policies and procedures. The law also requires hospitals to develop a summary of their financial aid policies and procedures that must be made publicly available. All standards set forth in the law are minimum standards.

The Company provides a significant amount of partially or totally uncompensated patient care to patients who are unable to compensate the Company for their treatment either through third-party coverage or their own resources. Patients who meet certain criteria under the Company's charity care policy are provided care without charge or at amounts less than established rates. Because charity care amounts are not expected to be paid, they are not reported as revenue.

Performance indicator: The consolidated statements of operations include excess of revenue over expenses, which is the performance indicator. Changes in unrestricted net assets which are excluded from excess of revenues over expenses include pension related changes other than net periodic pension cost, net assets released from restriction for capital expenditures and contributions of long-lived assets.

The Company differentiates its operating activities through the use of operating income as an intermediate measure of operations. For the purposes of display, investment income and other transactions, which management does not consider to be components of the Company's operating activities, are excluded from operating income and reported as non-operating revenue in the consolidated statements of operations.

Note 2. Summary of Significant Accounting Policies (Continued)

Acquisition: On October 16, 2015, VBMC entered into an asset purchase agreement with DRA Imaging, P.C., to purchase the technical side of their business, in order to enhance the Radiology Department within VBMC. The total purchase price for the acquisition was $31,000 payable to DRA Imaging, P.C. over five years. The first installment of $6,500 was paid at the closing date of the transaction. The fair value of the assets acquired was property, plant, and equipment for $4,000 and inventory for $50. The remainder of the consideration paid was allocated to goodwill as there were no other intangible assets identified. The goodwill arising from the acquisition consists largely of the synergies from including the technical side of radiology within VBMC. A second installment was made in October 2016 and the remaining balance is $18,000.

Goodwill: Intangible assets with indefinite useful lives, including goodwill, are not amortized, but are tested for impairment at least annually and more frequently if events or changes in circumstances indicate that an asset may be impaired. If fair value is less than carrying value, an impairment loss is recorded in the consolidated statements of operations. Management tested goodwill for impairment and concluded that no impairment existed as of December 31, 2016. In 2015, VBMC purchased the assets of a radiology practice, of which $25,916 was recorded as goodwill.

New accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. The Company is evaluating the impact that this will have on the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This standard requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The Company adopted this guidance in the consolidated financial statements beginning in fiscal year 2016. This adoption resulted in prior period reclassification of $3,685.

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 amends disclosure requirements of Accounting Standards Codification Topic 820, Fair Value Measurement, for reporting entities that measure the fair value of an investment using the net asset value per share (or its equivalent) as a practical expedient. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The ASU is effective for fiscal years beginning after December 15, 2016, with early application permitted. The Company is evaluating the impact that this will have on the consolidated financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance supersedes the guidance to classify equity securities with readily determinable fair values into different categories, and requires equity securities to be measured at fair value with changes in the fair value recognized through net income. This guidance, among other things, removes the requirement to disclose the methods used to calculate the fair value of debt and allows equity investments without readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment and requires additional disclosures regarding these investments. This guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is evaluating the impact of adopting this guidance on the consolidated financial statements.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. Under this guidance, lessees will need to recognize virtually all of their leases on the balance sheet by recording a right-of-use asset and lease liability. This new standard is effective for fiscal years beginning after December 15, 2018, with early application permitted. The Company is evaluating the impact that this will have on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements for Not-for-Profit Entitie*s, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions" and expands disclosure about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017, and therefore, is expected to be adopted by the Company for the year ending December 31, 2018. Early adoption is permitted. The Company is currently evaluating the impact that adoption will have on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 is effective for annual periods beginning after December 15, 2018, and therefore, is expected to be adopted by the Company for the year ending December 31, 2019. Early adoption is permitted. The Company is currently evaluating the impact that adoption will have on the consolidated statements of cash flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. These amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. ASU 2016-18 will be effective for the Company for the year ending December 31, 2019. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Company is currently evaluating the impact that adoption will have on the consolidated statements of cash flows.

Note 2. Summary of Significant Accounting Policies (Continued)

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The standard is effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Adoption of ASU 2017-07 will require the Company to include the service cost component of net periodic benefit cost related to its defined benefit plan and other postretirement benefit plan within salaries and wages expense on the consolidated statement of operations and to present all other components in a separate line item excluded from the subtotal for operating income.

Reclassifications: Certain items in the 2015 financial statements have been reclassified to conform to the 2016 presentation, specifically deferred financing costs, as previously described. These reclassifications had no impact on total assets, total liabilities, and increase in net assets or total cash flows as previously reported.

Note 3. Net Patient Service Revenue, Accounts Receivable and Allowance for Uncollectible Accounts

The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates (i.e., gross charges). Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments.

Billings relating to services rendered are recorded as net patient service revenue in the period in which the service is performed, net of contractual and other allowances that represent differences between gross charges and the estimated receipts under such programs. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The consolidated statements of operations for the years ended December 31, 2016 and 2015 reflect estimated changes of decreases of approximately $2,055 and $3,671, respectively. Patient accounts receivable are also reduced for allowances for uncollectible accounts.

Note 3. Net Patient Service Revenue, Accounts Receivable and Allowance for Uncollectible Accounts (Continued)

The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. The Company has implemented a monthly standardized approach to estimate and review the collectability of receivables based on the payor classification and the period from which the receivables have been outstanding. Past due balances over 90 days from the date of billing and over a specified amount are considered delinquent and are reviewed for collectability. Account balances are written off against the allowance when management feels it is probable the receivable will not be recovered. Historical collection and payor reimbursement experience is an integral part of the estimation process related to allowances for uncollectible accounts. In addition, the Company assesses the current state of its billing functions in order to identify any known collection or reimbursement issues and assesses the impact, if any, on allowance estimates. The Company believes that the collectability of its receivables is directly linked to the quality of its billing processes, most notably those related to obtaining the correct information in order to bill effectively for the services it provides.

A summary of the payment arrangements with major third-party payors follows:

- ***Medicare:*** Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

- ***Non-Medicare Payments:*** The New York Health Care Reform Act of 1996, as updated, governs payments to hospitals in New York State. Under this system, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospital payment rates. If negotiated rates are not established, payors are billed at the hospital's established charges. Medicaid, workers' compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health on a prospective basis. Adjustment to current and prior years' rates for these payors will continue to be made in the future.

There are also various other proposals at the Federal and State level that could, among other things, reduce payment rates. The ultimate outcome of these proposals, regulatory changes, and other market conditions cannot presently be determined.

The Company has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. Additionally, certain payors' payment rates for various years have been appealed by the Company. If the appeals are successful, additional revenue applicable to those years will be realized.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Revenue from the Medicare and Medicaid programs accounted for approximately 50% and 13%, respectively, of the Company's net patient service revenue for the year ended December 31, 2016, and 49% and 13%, respectively, of the Company's net patient service revenue for the year ended December 31, 2015.

Note 3. Net Patient Service Revenue, Accounts Receivable and Allowance for Uncollectible Accounts (Continued)

VBMC's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through December 31, 2013, with the exception of fiscal year ended December 31, 2003. PHC's Medicare cost reports have been audited through December 31, 2014 and finalized by the Medicare fiscal intermediary through December 31, 2013. NDH's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through December 31, 2013.

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Company analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data for these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Company analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Company records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

Net patient service revenue is reported at the 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 and investigations. Federal and state regulations provide for certain retrospective adjustments to current and prior years' payment rates based on industry-wide and hospital-specific data. The Company has estimated the potential impact of such retrospective adjustments based on information presently available and adjustments are accrued on an estimated basis in the period the services are rendered and are adjusted in future periods as additional information becomes available or final settlements are determined.

The Company has implemented a discount policy and provides financial assistance discounts to uninsured patients. Under this policy, the discount offered to uninsured patients is reflected as a reduction to net patient service revenue at the time the uninsured billings are recorded.

Federal and state law requires that hospitals provide emergency services regardless of a patient's ability to pay. Uninsured patients seen in the emergency department, including patients subsequently admitted for inpatient services, often do not provide information necessary to allow the Company to qualify such patients for charity care. Uncollectible amounts due from such uninsured patients represent the substantial portion of the provision for bad debts reflected in the accompanying consolidated statements of operations.

The estimated costs of providing charity services for the years ended December 31, 2016 and 2015, are $13,324 and $15,863, respectively. These are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Company's total expenses (less bad debt expense) divided by gross patient service revenue.

(Amounts in Thousands)

Note 3. Net Patient Service Revenue, Accounts Receivable and Allowance for Uncollectible Accounts (Continued)

The Company grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor arrangements. The mix of receivables (net of contractual allowances and advances from certain third-parties) from patients and third-party payors at December 31, 2016 and 2015, is as follows:

	2016	2015
Medicare	21%	25%
Medicaid	4%	5%
Blue Cross	16%	15%
Managed care and other	52%	46%
Patients	7%	9%
	100%	100%

Note 4. Promises to Give

Unconditional promises to give that are expected to be collected in more than one year are discounted to the net present value of their estimated future cash flows. The discount rate on new pledges was 1.93% and 1.76% at December 31, 2016 and 2015, respectively. These amounts are included in other assets in the consolidated balance sheets as of December 31, 2016 and 2015.

The composition of unconditional promises to give, at December 31, 2016 and 2015, is as follows:

	2016	2015
Pledges due in less than one year	$ 2,245	$ 2,433
Pledges due in one to five years	4,236	5,948
Pledges due in more than five years	980	1,231
	7,461	9,612
Unamortized discount	319	390
	7,142	9,222
Allowance for uncollected pledges	882	614
	$ 6,260	$ 8,608

Note 5. Concentration of Credit Risk

The Company routinely invests its surplus operating funds in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations. Investments in money market funds are not insured or guaranteed by the U.S. government.

At December 31, 2016 and 2015, the Company had cash and investment balances in financial institutions that exceeded Federal depository insurance limits. Management believes that the credit risk related to these deposits is minimal. The investment balances are held at primarily one institution.

(Amounts in Thousands)

Note 6. Investments and Assets Whose Use is Limited

Investments, stated at fair value at December 31, 2016 and 2015, consist of the following:

	2016	2015
Cash and cash equivalents	$ 349	$ 479
Equity securities	-	8,600
Mutual funds - equity securities	145,488	133,688
Mutual funds - bonds	118,046	63,042
Short term investments	15	1,284
	263,898	207,093
Less current portion	254,310	198,240
	$ 9,588	$ 8,853

The composition of assets whose use is limited, stated at fair value at December 31, 2016 and 2015, consists of the following:

	2016	2015
Externally restricted by bond indenture agreements:		
Cash and cash equivalents	$ 292	$ 13,063
Mutual funds - equities and other	391,603	481
U.S. treasury obligations	3,110	10,064
	395,005	23,608
Less current portion	2,272	2,013
	$ 392,733	$ 21,595

	2016	2015
Externally restricted by captive insurer:		
Equity securities	$ -	$ 904
Mutual funds - equity securities	12,625	11,392
Mutual funds - bonds	18,410	15,780
	$ 31,035	$ 28,076

Investment income (loss) for the years ended December 31, 2016 and 2015, consists of the following:

	2016	2015
Interest and dividend income	$ 7,931	$ 5,023
Net realized gains on sale of securities	27,570	317
Change in unrealized gains/(losses)	(22,075)	(10,138)
Management fees	(218)	(102)
Investment income (loss)	$ 13,208	$ (4,900)

Note 6. Investments and Assets Whose Use is Limited (Continued)

The Company follows accounting guidance for fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and requires disclosures about fair value measurements. Fair value is defined under this guidance as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement data.

The guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under the guidance must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Company for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the whole term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in the guidance. The three valuation techniques are as follows:

- Market approach - Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

- Cost approach - Amount that would be required to replace the service capacity of an asset (i.e. replacement cost); and

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

Categorization in the hierarchy is based on the lowest level of input that is significant to the determination of fair value.

(Amounts in Thousands)

Note 6. Investments and Assets Whose Use is Limited (Continued)

The categorization of investments and assets whose use is limited within the fair value hierarchy defined by the accounting guidance is as follows at December 31, 2016 and 2015:

	Fair Value at December 31, 2016				Valuation
	Total	Level 1	Level 2	Level 3	Technique
Cash and cash equivalents	$ 641	$ 641	$ -	$ -	Market
Equity securities	-	-	-	-	Market
Mutual funds - equity securities	158,113	158,113	-	-	Market
Mutual funds - bond funds	136,456	136,456	-	-	Market
U.S. Treasury obligations	3,110	3,110	-	-	Market
Mutual funds - equities and other	391,618	391,618	-	-	Market
Total	$ 689,938	$ 689,938	$ -	$ -	

	Fair Value at December 31, 2015				Valuation
	Total	Level 1	Level 2	Level 3	Technique
Cash and cash equivalents	$ 13,541	$ 9,036	$ 4,505	$ -	Market
Equity securities	9,504	9,504	-	-	Market
Mutual funds - equity securities	145,080	-	145,080	-	Market
Mutual funds - bond funds	78,822	-	78,822	-	Market
U.S. Treasury obligations	10,066	10,066	-	-	Market
Short-term investments	1,764	1,764	-	-	Market
Total	$ 258,777	$ 30,370	$ 228,407	$ -	

The Company's assets with a fair value estimated using net asset value per share as a basis at December 31, 2016 and 2015 are as follows:

	Fair Value December 31, 2016	Fair Value December 31, 2015	Unfunded Commitment December 31, 2016	Settlement Terms	Redemption Frequency
Mutual funds - equity securities	$ -	$ 36,969	$ -	Redemptions occur at NAV	T-2 days notification for redemption or contributions

(Amounts in Thousands)

Note 7. Property, Plant and Equipment

Property, plant and equipment, at cost, and accumulated depreciation and amortization at December 31, 2016 and 2015, consisted of the following:

	2016	2015
Land	$ 18,665	$ 7,133
Land improvements	10,563	9,320
Buildings and fixed equipment	489,329	430,990
Major movable equipment	481,734	459,535
	1,000,291	906,978
Less accumulated depreciation and amortization	604,647	554,291
	395,644	352,687
Construction in progress	65,598	59,393
Net property, plant and equipment	$ 461,242	$ 412,080

Depreciation and amortization expense for the years ended December 31, 2016 and 2015, was $51,113 and $47,934, respectively. Interest cost of $6,779 and $5,414 in 2016 and 2015, respectively, was capitalized as part of the cost of construction.

Construction in progress is comprised of certain projects started but not completed at December 31, 2016. The estimated cost to complete these projects is approximately $477,300 at December 31, 2016. Included in construction in progress is a building project for VBMC. VBMC's patient pavilion project is for the construction of a new 696,000 square foot patient bed tower for the adult patient population and will replace its current adult medical surgical beds and its adult critical care units. The project will also include the replacement and expansion of the emergency department and the replacement of the operating rooms and interventional suites. Additionally, an expanded and modernized central plant and appropriate conference rooms and capabilities will provide enhanced physician, visitor and employee amenities within the new building. This project started in September 2016, and is expected to be completed in November 2019. The total estimated cost of the project is $510,000, which will be funded through cash and proceeds from the Series 2016 bonds.

(Amounts in Thousands)

Note 8. Long-term Debt

A summary of long-term debt and capital lease obligations at December 31, 2016 and 2015 is as follows:

	2016	2015
Health Quest Systems, Inc. Obligated Group, Dormitory Authority of the State of New York, Revenue Bonds, Series 2007, varying rates from 4.5% to 6.25% at December 31, 2016, principal payments due in varying annual payments until 2037, collateralized by a lien on a facility mortgage and gross receipts. (Series 2007B bonds were refunded in 2016) (a)	$ 13,404	$ 53,410
Health Quest Systems, Inc. Obligated Group, Dutchess County Local Development Corporation, Revenue Bonds Series 2010, varying rates from 5.0% to 6.82% at December 31, 2016, principal payments due in varying annual payments until 2040, collateralized by a lien facility mortgage and gross receipts. (b)	36,767	40,291
Health Quest Systems, Inc. Obligated Group, Dutchess County Local Development Corporation, Series 2012, a refinancing of the VBH 1997 Series bonds varying rates from 1.97% to 3.8% at December 31, 2016, principal payments due in varying annual payments until 2025, collateralized by a lien facility mortgage and gross receipts. (c)	18,359	20,148
Health Quest Systems, Inc. Obligated Group, Dutchess County Local Development Corporation, Revenue Bonds Series 2014, varying rates from 2.5% to 5.9% at December 31, 2016, principal payments due in varying annual payments until 2044, collateralized by a lien facility mortgage and gross receipts. (d)	53,073	54,853
Health Quest Systems, Inc. Obligated Group, Dutchess County Local Development Corporation, Revenue Bonds Series 2016, varying rates from 3.0% to 5.0% at December 31, 2016, principal payments due in varying annual payments until 2046, collateralized by a lien facility mortgage and gross receipts. (e)	435,720	-
Vassar Brothers Medical Center Civic, Facility Bonds, Series 2011, a refinancing of the 2005 Series bonds, varying rates of 4.25% to 5.5% at December 31, 2016, principal payments due in varying annual payments until 2034, collateralized by a lien on a facility mortgage and gross receipts. (f)	14,695	15,179
Vassar Brothers Medical Center note payable, payable in four installments, until October 2019	17,290	23,468
PHC's 6% mortgage note, monthly installments due until April 2021, collateralized by the Romolan building located on PHC's property	134	156
Wells Manor mortgage note payable in monthly installments through 2027, interest at 9.25%, collateralized by the Wells Manor project and insured by HUD	1,815	1,936
Health Quest Systems, Inc. loan with TD Bank North, interest rate based on one month LIBOR rate, paid in full in 2016	-	651
Capital lease obligation, collateralized by leased equipment	41	139
	591,298	210,231
Less current portion	19,926	17,648
Long-term debt	571,372	192,583
Less unamortized deferred financing costs	6,938	3,685
Long-term debt, net of unamortized deferred financing costs	$ 564,434	$ 188,898

Note 8. Long-term Debt (Continued)

a. During 2007, the Company formed the Health Quest Systems, Inc. Obligated Group (Obligated Group), which consists of Health Quest, VBMC, PHC and NDH. On September 5, 2007, the Obligated Group issued $69,335 in debt through the Dormitory Authority of the State of New York (DASNY) as Revenue Bonds, insured by Assured Guaranty Corp. These bonds were allocated as follows: VBMC - $17,980; PHC - $35,740; NDH - $15,615. The purpose of the bonds was to refund certain existing debt for VBMC and NDH, fund the PHC building project and to purchase certain medical equipment.

b. On December 14, 2010, the Dutchess County Local Development Corporation issued $55,055 Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2010 for the purpose of providing funds to the Obligated Group for construction, furnishing, installation, equipping and improvement of new facilities and to refinance existing VBMC Series 2004 debt. These bonds were allocated 100% to VBMC.

c. On October 1, 1997, Vassar Brothers Hospital Insured Revenue Bonds, Series 1997 (Series 1997), with proceeds of $58,500 were issued to VBMC to refund outstanding debt and to finance a major renovation and construction project. The Dormitory Authority of the State of New York sponsored the issuance of the Series 1997. On December 5, 2012, these bonds were refinanced, Series 2012, for the balance of $27,320 with the Dutchess County Local Development Corporation.

d. On May 14, 2014, the Dutchess County Local Development Corporation issued $54,615 Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2014 for the purpose of providing funds to the Obligated Group for construction, furnishing, installation, equipping and improvement of new facilities and to refinance existing VBMC debt. These bonds were allocated as follows: VBMC - $18,045 and NDH - $36,570.

e. On July 7, 2016, the Dutchess County Local Development Corporation issued $378,080 Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2016, for the purpose of providing funds to the Obligated Group for construction, furnishing, installation and equipping of a new patient pavilion for VBMC, and the refunding of the DASNY Series 2007B bonds.

f. On June 28, 2005, the Dutchess County Industrial Development Agency issued $19,975 Civic Facility Revenue Bonds, Series 2005 bonds to VBMC for the purpose of providing funds for the construction, acquisition, furnishing, installation, equipping and improvement of new and existing facilities. These bonds were refinanced in 2011 with the Dutchess County Local Development Corporation.

In accordance with certain bond agreements, the Obligated Group is required to maintain specified amounts in a debt service reserve fund, a renewal fund and a bond fund. These assets, along with the unspent proceeds from the issuances of other debt issued by VBMC, PHC and NDH, are recorded in assets whose use is limited, and are externally restricted in the accompanying consolidated balance sheets.

These debt agreements also place limits on the incurrence of additional borrowing and requires that the Obligated Group satisfy certain measures of financial requirements (i.e. day's cash on hand, debt to capitalization, debt service coverage) as long as the debt remains outstanding. Under the Obligated Group, there is a cross guaranteed repayment of the outstanding debt in the event any of the members default.

(Amounts in Thousands)

Note 8. Long-term Debt (Continued)

Health Quest has three letter of credits with JP Morgan Chase, $4,800 associated with workers compensation self-insurance, $3,491 associated with workers compensation policy for the years 2009-2011 and $18,000 associated with the purchase of a radiology practice.

Scheduled principal payments on all long-term debt for the next five years and thereafter, are as follows:

Years ending December 31:	
2017	$ 19,926
2018	18,033
2019	17,553
2020	13,954
2021	12,084
Thereafter	502,810
	584,360
Less current portion	19,926
Long-term debt	$ 564,434

The Company estimates the fair value of long-term debt using quoted market prices or estimates using discounted cash flow analyses, based on the Company's incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Company's long-term debt, based on quoted market prices, at December 31, 2016 and 2015 was approximately $560,985 and $223,259, respectively, compared to the carrying value of $584,360 and $210,229, respectively, and is classified as Level 1 in the fair value hierarchy, as defined in Note 6.

The Company recorded a bond issuance premium of $58,893 and deferred financing cost of $4,254 associated with the July 7, 2016 Series 2016 bonds. Bond premiums/discounts and deferred financing costs associated with all bond issuances are included in the applicable short-term and long-term portions of the respective obligations listed above.

Note 9. Benefit Plans

Vassar Brothers Medical Center: VBMC maintains a noncontributory defined benefit plan (the Vassar Brothers Plan) covering employees of VBMC who are part of the collective bargaining unit with New York State Nurses Association (NYSNA) who have completed 5 years of service and attained 21 years of age. Contributions to the Vassar Brothers Plan are based on actuarial valuations. Benefits under the Vassar Brothers Plan are based on years of service and compensation. VBMC's policy is to contribute amounts sufficient to meet funding requirements under the Employee Retirement Income Security Act of 1974.

VBMC sponsors a health care plan that provides post-retirement medical benefits to its nonunion retired employees. Nonunion employees hired prior to January 1, 1993, retiring from VBMC on or after attaining age 60 who have rendered at least 20 years of service, are entitled to post-retirement health care coverage. VBMC funds post-retirement benefit costs on a cash basis. The liability that relates to this plan, included in estimated amounts due to third-party payors and other liabilities, was $373 as of December 31, 2016 and 2015.

(Amounts in Thousands)

Note 9. Benefit Plans (Continued)

The measurement date for the noncontributory defined benefit plan is December 31. The following tables provide a reconciliation of the changes in the plan's benefit obligations and fair value of assets for the years ended December 31, 2016 and 2015, and a statement of the funded status of the plan as of December 31, 2016 and 2015:

	2016	2015
Changes in benefit obligation:		
Benefit obligation, beginning of year	$ (120,226)	$ (118,939)
Service cost	(6,653)	(6,642)
Interest cost	(5,264)	(4,796)
Actuarial gain (loss)	(3,187)	7,179
Benefits paid	4,560	2,972
Benefit obligation, end of year	(130,770)	(120,226)
Changes in plan assets:		
Fair value of plan assets, beginning of year	67,717	67,270
Actual return on plan assets	4,746	(504)
Contributions	6,300	3,941
Benefit payments	(4,527)	(2,990)
Fair value of plan assets, end of year	74,236	67,717
Funded status	$ (56,534)	$ (52,509)

As of December 31, 2016 and 2015, amounts recognized in post-retirement benefit obligations in the consolidated balance sheets consist of:

	2016	2015
Noncurrent liabilities	$ (56,534)	$ (52,509)

As of December 31, 2016 and 2015, amounts recognized in unrestricted net assets consist of:

	2016	2015
Loss	$ (22,192)	$ (20,170)

As of December 31, 2016 and 2015, the accumulated benefit obligation with respect to the defined benefit plan is $109,559 and $100,825, respectively.

(Amounts in Thousands)

Note 9. Benefit Plans (Continued)

The following table provides the components of the net periodic benefit cost for the noncontributory defined benefit plan for the years ended December 31, 2016 and 2015:

	2016	2015
Net periodic benefit cost:		
Service cost	$ 6,653	$ 6,642
Interest cost	5,264	4,796
Expected return on plan assets	(4,471)	(4,408)
Amortization of net loss	857	1,391
Net periodic benefit cost	8,303	8,421
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net loss (gain)	2,879	(2,248)
Less amortization of net loss	857	1,391
Total recognized in unrestricted net assets	2,022	(3,639)
Total recognized in net periodic benefit cost and unrestricted net assets	$ 10,325	$ 4,782

The calculation of the VBMC plan's funded status and amounts recognized in the consolidated balance sheets as of December 31, 2016 and 2015, respectively, were based upon actuarial assumptions as follows:

	2016	2015
Discount rate	4.22%	4.43%
Average rate of salary increases	3.50%	3.50%

Amount in unrestricted assets expected to be recognized in 2017:	
Amortization of net loss	$ 928

(Amounts in Thousands)

Note 9. Benefit Plans (Continued)

The calculation of the net benefit cost for the years ended December 31, 2016 and 2015, respectively, was based upon actuarial assumptions as follows:

	2016	2015
Discount rate	4.43%	4.03%
Expected return on plan assets	6.50%	6.50%
Average rate of salary increases	3.50%	3.50%

The expected long-term rate of return on plan assets assumption is based upon a building-block method, whereby the expected rate of return on each asset class is broken down into three components: (1) inflation, (2) the real risk-free rate of return (i.e., the long-term estimate of future returns on default-free U.S. government securities), and (3) the risk premium for each asset class (i.e., the expected return in excess of the risk-free rate). All three components are based primarily on historical data, with modest adjustments to take into account additional relevant information that is currently available. For the inflation and risk-free return components, the most significant additional information is that provided by the market for nominal and inflation-indexed U.S. Treasury securities. That market provides implied forecasts of both the inflation rate and risk-free rate for the period over which currently-available securities mature. The historical data on risk premiums for each asset class is adjusted to reflect any systemic changes that have occurred in the relevant markets; e.g., the higher current valuations for equities, as a multiple of earnings, relative to the longer-term average for such valuations.

Contributions: VBMC expects to contribute approximately $2,840 to the defined benefit pension plan for fiscal year 2017.

Benefit payments: The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid out of the noncontributory defined benefit plan as follows:

Year ending December 31:		
2017	$	3,409
2018		3,673
2019		4,011
2020		4,360
2021		4,665
2022–2026		31,066

Plan assets: Defined benefit plan assets are held in a trust fund. The weighted-average asset allocation at December 31, 2016 and 2015, by asset category are as follows:

	2016	2015
Asset category:		
Cash and cash equivalents	0%	2%
Mutual funds - equity securities	55%	58%
Mutual funds - bond funds	45%	40%
	100%	100%

(Amounts in Thousands)

Note 9. Benefit Plans (Continued)

Objective: The plan's investment objectives seek a positive long-term total rate of return after inflation to meet VBMC's current and future plan obligations. The asset allocations for the plan combine tested theory and informed market judgments to balance investment risks with the need for high returns. The target allocation of plan investments is approximately 60% equity and 40% bonds.

The following tables present the VBMC plan's financial instruments as of December 31, 2016 and 2015, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 6:

	Fair Value at December 31, 2016				Valuation
	Total	Level 1	Level 2	Level 3	Technique
Cash and cash equivalents	$ 88	$ 88	$ -	$ -	Market
Equity securities	-	-	-	-	Market
Mutual funds - equity securities	40,857	40,857	-	-	Market
Mutual funds - bond funds	33,073	33,073	-	-	Market
Short-term investments	218	218	-	-	Market
Total	$ 74,236	$ 74,236	$ -	$ -	

	Fair Value at December 31, 2015				Valuation
	Total	Level 1	Level 2	Level 3	Technique
Cash and cash equivalents	$ 19	$ 19	$ -	$ -	Market
Equity securities	2,625	2,625	-	-	Market
Mutual funds - equity securities	36,683	-	36,683	-	Market
Mutual funds - bond funds	27,247	-	27,247	-	Market
Short-term investments	1,143	1,143	-	-	Market
Total	$ 67,717	$ 3,787	$ 63,930	$ -	

Certain employees of VBMC, who have completed two years of service, participate in a defined contribution retirement plan whereby contributions are made on an annual basis equal to 6% of the employees' qualifying salary. Costs related to this plan were approximately $1,276 and $1,169 for the years ended December 31, 2016 and 2015, respectively.

Putnam Hospital Center: PHC maintains a noncontributory defined benefit plan (the Putnam Plan) covering substantially all employees who have completed 5 years of service and attained 21 years of age. The Putnam Plan provides benefits based on the participants' year of service and compensation. PHC's policy is to fund amounts intended to provide for benefits attributed to service to date and those expected to be earned in the future. Effective December 31, 2007, the Putnam Plan was frozen.

(Amounts in Thousands)

Note 9. Benefit Plans (Continued)

The measurement date for the Putnam Plan is December 31. The following table provides a reconciliation of the changes in the Putnam Plan's benefit obligation and fair value of assets for the years ended December 31, 2016 and 2015, and a statement of the funded status of the Putnam Plan as of December 31, 2016 and 2015:

	2016	2015
Changes in benefit obligation:		
Benefit obligation, beginning of year:	$ (81,483)	$ (83,930)
Service cost	(747)	(522)
Interest cost	(3,348)	(3,176)
Actuarial (loss) gain	(1,401)	3,107
Benefits paid and expected expenses	5,190	3,038
Benefit obligation, at end of year	(81,789)	(81,483)
Changes in plan assets:		
Fair value of plan assets, beginning of year:	58,827	60,475
Actual return on plan assets	3,752	(353)
Contributions	1,851	1,756
Benefits paid and actual expenses	(5,266)	(3,051)
Fair value of plan assets, end of year	59,164	58,827
Funded status	$ (22,625)	$ (22,656)

As of December 31, 2016 and 2015, amounts recognized in post-retirement benefit obligations in the consolidated balance sheets consist of:

	2016	2015
Noncurrent liabilities	$ (22,625)	$ (22,656)

As of December 31, 2016 and 2015, amounts recognized in unrestricted net assets consist of:

	2016	2015
Loss	$ (28,334)	$ (29,502)

At December 31, 2016 and 2015, the accumulated benefit obligation with respect to the Putnam Plan is $81,789 and $81,483, respectively.

(Amounts in Thousands)

Note 9. Benefit Plans (Continued)

The following table provides the components of the net periodic benefit cost for the Putnam Plan for the years ended December 31, 2016 and 2015:

	2016	2015
Net periodic benefit cost:		
Service cost	$ 747	$ 522
Interest cost	3,348	3,176
Expected return on assets	(3,749)	(3,875)
Amortization of net loss	2,642	2,654
Net periodic benefit cost	2,988	2,477
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net loss	1,473	1,134
Less amortization of net loss	2,642	2,654
Total recognized in unrestricted net assets	(1,169)	(1,520)
Total recognized in net periodic benefit cost and unrestricted net assets	$ 1,819	$ 957

The calculation of the Putnam Plan's funded status and amounts recognized in the consolidated balance sheets as of December 31, 2016 and 2015 was based upon the actuarial assumptions as follows:

	2016	2015
Discount rate	3.98%	4.19%

The calculation of the net periodic benefit cost for the years ended December 31, 2016 and 2015 was based upon actuarial assumptions as follows:

	2016	2015
Discount rate	4.19%	3.84%
Expected return on plan assets	6.50%	6.50%

Amount in unrestricted assets expected to be recognized in 2017:	
Amortization of net loss	$ 2,769

(Amounts in Thousands)

Note 9. Benefit Plans (Continued)

The expected long-term rate of return on plan assets assumption is based upon a building-block method, whereby the expected rate of return on each asset class is broken down into three components: (1) inflation, (2) the real risk-free rate of return, (i.e., the long-term estimate of future returns on default-free U.S. government securities) and (3) the risk premium for each asset class (i.e., the expected return in excess of the risk-free rate). All three components are based primarily on historical data, with modest adjustments to take into account additional relevant information that is currently available. For the inflation and risk-free return components, the most significant additional information is that provided by the market for nominal and inflation-indexed U.S. Treasury securities. That market provides implied forecasts of both the inflation rate and risk-free rate for the period over which currently-available securities mature. The historical data on risk premiums for each asset class is adjusted to reflect any systemic changes that have occurred in the relevant markets; e.g., the higher current valuations for equities, as a multiple of earnings, relative to the longer-term average for such valuations.

Contributions: Expected contributions to the Putnam Plan for fiscal year 2017 are $1,992.

Benefit payments: The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid out of the Putnam Plan as follows:

Years ending December 31:	
2017	$ 3,773
2018	4,031
2019	4,303
2020	4,631
2021	4,714
2022–2026	24,939

Plan assets: PHC's weighted-average asset allocation at December 31, 2016 and 2015, by asset category are as follows:

	2016	2015
Asset category:		
Cash	1%	0%
Mutual funds - equity securities	51%	55%
Met Life assets	6%	7%
Mutual funds - bond funds	42%	38%
	100%	100%

Objective: The Putnam Plan's investment objectives seek a positive long-term total rate of return after inflation to meet PHC's current and future obligations. The asset allocations for the plan combines tested theory and informed market judgment to balance investment risks with the need for higher returns. The target allocation is approximately 60% equity and 40% fixed income securities.

(Amounts in Thousands)

Note 9. Benefit Plans (Continued)

The following table presents the Putnam Plan's financial instruments as of December 31, 2016 and 2015, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 6:

	Fair Value at December 31, 2016				Valuation
	Total	Level 1	Level 2	Level 3	Technique
Cash and cash equivalents	$ 106	$ 106	$ -	$ -	Market
Equity securities	-	-	-	-	Market
Mutual funds - equity securities	30,499	30,499	-	-	Market
Mutual funds - bond funds	24,689	24,689	-	-	Market
Met Life assets	3,702	-	3,702	-	Market
Short-term investments	168	168	-	-	Market
Total	$ 59,164	$ 55,462	$ 3,702	$ -	

	Fair Value at December 31, 2015				Valuation
	Total	Level 1	Level 2	Level 3	Technique
Cash and cash equivalents	$ 57	$ 57	$ -	$ -	Market
Equity securities	2,237	2,237	-	-	Market
Mutual funds - equity securities	30,236	-	30,236	-	Market
Mutual funds - bond funds	22,191	-	22,191	-	Market
Met Life assets	3,953	-	3,953	-	Market
Short-term investments	153	153	-	-	Market
Total	$ 58,827	$ 2,447	$ 56,380	$ -	

Certain employees of PHC, who have completed two years of service, participate in a defined contribution retirement plan whereby contributions are made on an annual basis equal to 6% of the employees' qualifying salary. Costs related to this plan were approximately $2,191 and $2,230 for the years ended December 31, 2016 and 2015, respectively.

(Amounts in Thousands)

Note 9. Benefit Plans (Continued)

Multi-employer benefit plan: VBMC and PHC participate in multi-employer defined benefit pension plans. VBMC and PHC make cash contributions to these plans under the terms of collective-bargaining agreements that cover its union employees based on a fixed rate and hours of service per week worked by the covered employees. The risks of participating in these multi-employer plans are different from other single-employer plans in the following aspects: (1) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers and (3) if VBMC or PHC chooses to stop participating in some of its multiemployer plans, VBMC or PHC may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. VBMC or PHC has contributed cash and recorded expenses for the multi-employer plans noted in the table below. The measurement dates for the following plans are as of December 31.

Pension fund:

	2016	2015
1199 SEIU Health Care Employees Pension Fund	$ 5,224	$ 4,684

VBMC and PHC contributions to the 1199 SEIU Health Care Employees Pension Fund represent approximately 0.4% of total plan contributions.

The 1199 SEIU Health Care Employees Pension Fund covers employees of both VBMC and PHC and while it is only one plan, VBMC and PHC each have a separate EIN / Pension plan number. The following table includes additional disclosure information as it relates to the Pension Funds for VBMC and PHC, respectively:

EIN/Pension Plan Number	Pension Protection Act Zone Status 2016	Pension Protection Act Zone Status 2015	FIP/RP Status Pending/ Implemented	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
14-1338586	Green	Green	No	No	September 30, 2018
14-6019179	Green	Green	No	No	September 30, 2018

The Pension Protection Act zone status indicates the plan's funded status of either at least 80% funded (green) or less than 80% funded (red). A zone status of red requires the plan sponsor to implement a Funding Improvement Plan (FIP) or Rehabilitation Plan (RP).

Northern Dutchess Hospital: NDH maintains a defined contribution plan covering all full-time employees who have completed two years of service. NDH's pension contribution is 6% of eligible payroll for 2016 and 2015. Pension expense for the years ended December 31, 2016 and 2015 was $1,193 and $1,048, respectively.

Health Quest: Health Quest maintains a defined contribution plan covering all full-time employees who have completed two years of service. Health Quest's pension contribution is 6% of eligible payroll for 2016 and 2015. Pension expense for the years ended December 31, 2016 and 2015 was $5,449 and $5,887, respectively.

Note 9. Benefit Plans (Continued)

Health Quest has active 457B and 457F deferred compensation plans which are offered to select management based on title (Physicians and AVP or higher level). The employee contributions are capped at the annual Federal limit for deferred compensation and the employer portion does not carry a limit, however there are substantial risk of forfeitures which apply. In addition, there is a closed KEYSOP plan for deferred compensation which had been offered to executive employees of Health Quest, VBMC and HQMP. NDH currently has a liability for a deferred compensation plan for the previous administrators prior to the formation of Health Quest. This plan is currently closed. The assets related to these plans are included in other assets and amounted to $3,993 and $4,771 as of December 31, 2016 and 2015, respectively. The assets primarily consist of money market funds and other marketable securities which are considered Level 1 based on the fair value hierarchy described in Note 6. The liabilities that relate to these plans are included in estimated amounts due to third party payors and other liabilities and are $4,079 and $4,785 as of December 31, 2016 and 2015, respectively.

Note 10. Professional Liabilities

During 1988, Health Quest (then known as VBH Corporation) established VBH Insurance, a captive insurance company (the Captive) to provide and augment the professional liability coverage for VBMC. Beginning August 1, 2005, PHC and NDH purchased insurance from the Captive. The Captive has provided various levels of coverage since inception to the three hospitals. On July 1, 2013, the Captive began to provide professional liability coverage for employed physicians. The hospitals and HQMP purchase commercial insurance to supplement the coverage provided by the Captive.

The hospitals purchased primary coverage through a commercial insurer through July 31, 2011. Effective August 1, 2011, the primary coverage is through the Captive with excess coverage through a commercial insurer. VBMC, PHC and NDH accrue premiums payable to the Captive based on the estimated ultimate cost of losses payable by the Captive at a discount rate of 2.5% at December 31, 2016 and 2015, respectively.

VBH Insurance loss reserves comprise estimates for known reported losses and loss expenses plus a provision for losses incurred but not reported. Losses are valued by an independent actuary retained by VBH Insurance and are based on the loss experience of the insured. In management's opinion recorded reserves are adequate to cover the ultimate net cost of losses incurred to date however, the provision is based on estimates and may ultimately be settled for a significantly greater or lesser amount. The actuarially determined estimated loss reserve payable at December 31, 2016 and 2015 was $34,787 and $31,929, respectively.

The Nursing Home purchases commercial insurance for professional liabilities on a claims made basis and HQHC purchases coverage through a commercial insurer on an occurrence basis. The balance of employed physicians is covered under an individual policy purchased through commercial carriers.

Total amounts accrued under these programs approximate $46,452 and $49,511 at December 31, 2016 and 2015, respectively, and are included in estimated amounts due to third-party payors and other liabilities in the consolidated balance sheets. Amounts recognized as anticipated insurance recoveries related to the claims approximate $19,091 and $23,119 at December 31, 2016 and 2015, respectively, and are included in other assets in the consolidated balance sheets. Insurance recoveries are measured on the same basis as the liability subject to the need for valuation allowance for uncollectible amounts.

(Amounts in Thousands)

Note 11. Workers' Compensation Insurance

The Company is self-insured for workers' compensation claim losses and expenses effective April 1, 2006. Included in amounts due to third-party payors and other liabilities at December 31, 2016 and 2015 are accruals of $12,296 and $12,107, respectively for specific incidents to the extent that they have been asserted or are probable of assertion and can be reasonably estimated. This liability has been discounted at 2.5% at December 31, 2016 and 2015.

Note 12. Medical Benefits

Effective January 1, 2006, the Company provides employee health and welfare benefits under a self-insured program. Included in other liabilities at December 31, 2016 and 2015 are accruals of $4,820 and $4,040, respectively, for claims that have been incurred but not reported.

Note 13. Functional Expenses

The Company provides health care services to residents within their geographic areas including general acute care with a full range of inpatient and outpatient services. Expenses related to providing these services for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Health care services	$ 710,698	$ 637,646
General and administrative	221,017	195,784
	$ 931,715	$ 833,430

Note 14. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at December 31, 2016 and 2015 are restricted for the following purposes:

	2016	2015
Capital asset acquisition	$ 16,761	$ 20,627
Health care services	3,919	3,627
Health education	173	163
	$ 20,853	$ 24,417

Permanently restricted net assets at December 31, 2016 and 2015 are:

	2016	2015
Investments to be held in perpetuity, the income from which is expendable to support health care services (reported as nonoperating income)	$ 5,386	$ 5,384

Note 14. Temporarily and Permanently Restricted Net Assets (Continued)

In September 2010, New York State enacted its version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Company has interpreted UPMIFA as requiring the preservation of the value of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Company classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated 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 portion of the donor-restricted endowment that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Company in a manner consistent with the standard of prudence prescribed by UPMIFA.

Note 15. Commitments and Contingencies

In June 2015, the United States Attorney's Office for the Northern District of New York (DOJ) served a Civil Investigative Demand (CID) on Health Quest Systems, Inc. and Health Quest Medical Practice, P.C. (collectively, "Health Quest"), seeking information relating to nine topics. Health Quest responded to the CID and has cooperated with the investigation. Cooperation continues, and Health Quest continues to produce documents responsive to the CID. In connection with the issues raised in the CID, and before receipt of the CID, Health Quest had made self-disclosures as to several of the issues in the CID and had refunded several hundred thousand dollars in overpayments. DOJ has continued to seek additional information and documents from Health Quest, which continues to cooperate with DOJ's investigation. As is common in DOJ investigations, the New York State Medicaid Fraud Unit also is working on the investigation with DOJ, and Health Quest also is cooperating with their inquiries, which are joint with DOJ. Lastly, in the ordinary course of auditing payment and complying with the law, Health Quest, its outside counsel, and its outside claims auditors have been auditing, refunding overpayments and implementing corrective action plans in connection with claims billed to payors. Health Quest continues to evaluate any additional potential overpayment amount, but any such amount is unknown at this time. At December 31, 2016, the Company recorded an estimated liability for potential overpayments related to the four areas, however it is reasonably possible that a change in this estimate will occur in the future and the change could be material to the consolidated financial statements.

The Company is involved in litigations arising in the course of business. While the outcome of these suits cannot be determined at this time, management, based on the advice from legal counsel, currently believes that any loss which may arise from these actions will not have a material adverse effect on the Company's financial position or results of operations. The liabilities, if accrued, might be subject to change in the future based on new developments, or changes in circumstances, which could have a material impact on the Company's results of operations, financial position and cash flows.

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. Recently, government activity has increased with respect to investigations concerning possible violations by health care providers of fraud and abuse statutes and regulations. Compliance with such laws and regulations are subject to future government review and interpretations as well as potential regulatory actions.

The Company leases various equipment and facilities under operating leases. Total rent expense in 2016 and 2015 for all operating leases was approximately $11,235 and $10,883, respectively.

(Amounts in Thousands)

Note 15. Commitments and Contingencies (Continued)

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2016, that have initial or remaining lease terms in excess of one year.

		Amount
Years ending December 31:		
2017	$	8,712
2018		7,555
2019		6,488
2020		5,787
2021		4,653
Thereafter		18,149
Total	$	51,344

Note 16. Subsequent Events

On September 13, 2016, Health Quest entered into an asset purchase agreement with Regional Healthcare for the acquisition of Sharon Hospital in Sharon, Connecticut. Sharon Hospital is a small community hospital located just outside the Obligated Group's primary service area. Health Quest is currently in the process of acquiring Connecticut state approval. The anticipated date of closing on the transaction is expected to be July 1, 2017.

Subsequent events have been evaluated through April 28, 2017, the date the consolidated financial statements were issued.

Health Quest Systems, Inc. and Subsidiaries

Consolidating Balance Sheet
December 31, 2016
(in thousands)

	HQ Obligated Group	VBH Insurance	Foundation for VBMC	PHC Foundation	NDH Foundation	NDRHCF	RDSI	HQ Med Practice	HQUMCP	HV Cardio Practice	Alamo	HQ Homecare	Wells Manor	RMSI	Total	Total Eliminations	Consolidated
Assets																	
Current assets:																	
Cash and cash equivalents	$ 81,195	$ 250	$ 4,933	$ 5,599	$ 1,436	$ 1,579	$ -	$ 1,422	$ 438	$ 1,041	$ -	$ 547	$ 49	$ -	$ 98,489	$ -	$ 98,489
Restricted cash	633	-	-	-	27	22	-	-	-	-	-	-	27	-	709	-	709
Investments	217,020	-	27,333	6,203	3,754	-	-	-	-	-	-	-	-	-	254,310	-	254,310
Assets whose use is limited and required for current liabilities																	
Externally restricted	2,272	-	-	-	-	-	-	-	-	-	-	-	-	-	2,272	-	2,272
Patient accounts receivable, net	104,864	-	-	-	-	1,305	-	6,784	246	1,734	-	738	-	-	115,671	-	115,671
Supplies and prepaid expenses	26,919	-	5	4	5	6	-	3,039	117	445	-	12	-	-	30,552	-	30,552
Other current assets	820	14,262	909	222	750	1	-	101	-	719	-	-	15	-	17,799	(10,034)	7,765
Amounts due from third-party payors	5,845	-	-	-	-	-	-	-	-	-	-	-	-	-	5,845	-	5,845
Interest in Foundation, current	1,881	-	-	-	-	-	-	-	-	-	-	-	-	-	1,881	(1,881)	-
Due from affiliates, current portion	49,836	-	161	3	-	11	-	1,150	175	55	-	3	-	-	51,394	(51,394)	-
Total current assets	491,265	14,512	33,341	12,031	5,972	2,924	-	12,496	976	3,994	-	1,300	91	-	578,922	(63,309)	515,613
Interest in Foundation	22,464	-	-	-	-	-	-	-	-	-	-	-	-	-	22,464	(22,464)	-
Assets whose use is limited																	
Externally restricted	392,733	-	-	-	-	-	-	-	-	-	-	-	-	-	392,733	-	392,733
Investments held by captive	-	31,035	-	-	-	-	-	-	-	-	-	-	-	-	31,035	-	31,035
Long-term investments	9,149	-	-	-	439	-	-	-	-	-	-	-	-	-	9,588	-	9,588
Property, plant and equipment, net	446,312	-	54	3	11	2,078	-	8,651	1,644	1,358	-	54	1,077	-	461,242	-	461,242
Goodwill	25,960	-	-	-	-	-	-	985	-	3,342	-	298	-	-	30,585	-	30,585
Other assets	7,952	-	1,947	207	2,224	-	-	13,841	-	1,477	-	-	587	-	28,235	-	28,235
Due from affiliates, net of current	30,191	-	-	-	-	50	-	-	-	-	-	-	-	-	30,241	(30,241)	-
Total assets	$ 1,426,046	$ 45,547	$ 35,342	$ 12,241	$ 8,646	$ 5,052	$ -	$ 35,973	$ 2,620	$ 10,171	$ -	$ 1,652	$ 1,755	$ -	$ 1,585,045	$ (116,014)	$ 1,469,031
Liabilities and Net Assets																	
Current liabilities:																	
Current portion of long-term debt	$ 19,751	$ -	$ -	$ -	$ -	$ -	$ -	$ 41	$ -	$ -	$ -	$ -	$ 134	$ -	$ 19,926	$ -	$ 19,926
Accounts payable and accrued expenses	121,840	222	178	4	3	983	-	10,676	158	5,365	32	397	147	-	140,005	(85)	139,920
Amounts due to third-party payors	7,581	-	-	-	-	453	-	-	-	-	-	-	-	-	8,034	-	8,034
Captive insurance loss reserve payable	-	8,530	-	-	-	-	-	-	-	-	-	-	-	-	8,530	-	8,530
Due to affiliates, current portion	20,883	-	2,071	1,609	1,229	3,463	-	10,134	162	11,127	424	10,289	-	-	61,391	(61,391)	-
Total current liabilities	170,055	8,752	2,249	1,613	1,232	4,899	-	20,851	320	16,492	456	10,686	281	-	237,886	(61,476)	176,410
Long-term debt, net of current portion	562,753	-	-	-	-	-	-	-	-	-	-	-	1,681	-	564,434	-	564,434
Postretirement benefit obligations	79,515	-	-	-	-	-	-	-	-	-	-	-	-	-	79,515	-	79,515
Amounts due to third-party payors and other liabilities	85,975	34,787	-	-	-	-	-	17,468	-	1,459	-	5,737	-	-	145,426	(27,361)	118,065
Due to affiliates, net of current portion	204	-	-	-	-	180	-	1,521	773	20	121	11	-	-	2,830	(2,830)	-
Total liabilities	898,502	43,539	2,249	1,613	1,232	5,079	-	39,840	1,093	17,971	577	16,434	1,962	-	1,030,091	(91,667)	938,424
Net assets:																	
Unrestricted	502,563	2,008	25,198	6,944	638	(215)	-	(3,985)	1,527	(7,800)	(577)	(14,782)	(207)	-	511,312	(6,944)	504,368
Temporarily restricted	20,479	-	7,447	2,868	6,340	188	-	118	-	-	-	-	-	-	37,440	(16,587)	20,853
Permanently restricted	4,502	-	448	816	436	-	-	-	-	-	-	-	-	-	6,202	(816)	5,386
Total net assets	527,544	2,008	33,093	10,628	7,414	(27)	-	(3,867)	1,527	(7,800)	(577)	(14,782)	(207)	-	554,954	(24,347)	530,607
Total liabilities and net assets	$ 1,426,046	$ 45,547	$ 35,342	$ 12,241	$ 8,646	$ 5,052	$ -	$ 35,973	$ 2,620	$ 10,171	$ -	$ 1,652	$ 1,755	$ -	$ 1,585,045	$ (116,014)	$ 1,469,031

Health Quest Systems, Inc. and Subsidiaries

Consolidating Balance Sheet - Obligated Group
December 31, 2016
(in thousands)

	VBMC	PHC	NDH	Health Quest	Total	Eliminations	HQ Obligated Group
Assets							
Current assets:							
Cash and cash equivalents	$ 37,323	$ 13,195	$ 26,556	$ 4,121	$ 81,195	$ -	$ 81,195
Restricted cash	-	633	-	-	633	-	633
Investments	162,173	39,023	15,824	-	217,020	-	217,020
Assets whose use is limited and required for current liabilities:							
Externally restricted	540	1,437	295	-	2,272	-	2,272
Patient accounts receivable, net	75,488	18,038	11,338	-	104,864	-	104,864
Supplies and prepaid expenses	13,247	3,776	2,410	7,486	26,919	-	26,919
Other current assets	82	217	223	298	820	-	820
Amounts due from third-party payors	3,557	1,311	977	-	5,845	-	5,845
Interest in Foundation, current	909	222	750	-	1,881	-	1,881
Due from affiliates, current portion	8,544	27,206	3,589	25,221	64,560	(14,724)	49,836
Total current assets	301,863	105,058	61,962	37,126	506,009	(14,724)	491,285
Interest in Foundation	6,492	10,406	5,566	-	22,464	-	22,464
Assets whose use is limited:							
Externally restricted	390,709	1,005	1,019	-	392,733	-	392,733
Long-term investments	9,149	-	-	-	9,149	-	9,149
Property, plant and equipment, net	285,733	60,881	80,763	18,935	446,312	-	446,312
Goodwill	25,916	44	-	-	25,960	-	25,960
Other assets	864	-	206	6,882	7,952	-	7,952
Due from affiliates, net of current	21,318	6,611	5,455	29,017	62,401	(32,210)	30,191
Total assets	$ 1,042,044	$ 184,005	$ 154,971	$ 91,960	$ 1,472,980	$ (46,934)	$ 1,426,046
Liabilities and Net Assets							
Current liabilities:							
Current portion of long-term debt	$ 17,206	$ 1,996	$ 549	$ -	$ 19,751	$ -	$ 19,751
Accounts payable and accrued expenses	65,348	12,594	8,020	35,878	121,840	-	121,840
Amounts due to third-party payors	6,210	1,354	17	-	7,581	-	7,581
Due to affiliates, current portion	12,607	1,319	3,339	18,342	35,607	(14,724)	20,883
Total current liabilities	101,371	17,263	11,925	54,220	184,779	(14,724)	170,055
Long-term debt, net of current portion	494,779	23,518	44,456	-	562,753	-	562,753
Postretirement benefit obligations	56,890	22,625	-	-	79,515	-	79,515
Amounts due to third-party payors and other liabilities	45,240	12,561	9,510	18,664	85,975	-	85,975
Due to affiliates, net of current portion	2,371	943	405	28,695	32,414	(32,210)	204
Total liabilities	700,651	76,910	66,296	101,579	945,436	(46,934)	898,502
Net assets:							
Unrestricted	329,118	102,471	80,593	(9,619)	502,563	-	502,563
Temporarily restricted	10,084	3,808	6,587	-	20,479	-	20,479
Permanently restricted	2,191	816	1,495	-	4,502	-	4,502
Total net assets	341,393	107,095	88,675	(9,619)	527,544	-	527,544
Total liabilities and net assets	$ 1,042,044	$ 184,005	$ 154,971	$ 91,960	$ 1,472,980	$ (46,934)	$ 1,426,046

Health Quest Systems, Inc. and Subsidiaries

Consolidating Balance Sheet
December 31, 2015
(in thousands)

	HQ Obligated Group	VBH Insurance	Foundation for VBMC	PHC Foundation	NDH Foundation	NDRHCF	RDSI	HQ Med Practice	HQUMCP	HV Cardio Practice	Alamo	HQ Homecare	Wells Manor	RMSI	Total	Total Eliminations	Consolidated
Assets																	
Current assets:																	
Cash and cash equivalents	$ 90,938	$ 1,280	$ 4,444	$ 4,819	$ 3,265	$ 1,405	$ 152	$ 1,550	$ 542	$ 609	$ -	$ 353	$ 4	$ -	$ 109,359	$ -	$ 109,359
Restricted cash	633	-	-	-	27	38	-	-	-	-	-	-	24	-	722	-	722
Investments	163,026	-	25,293	6,483	3,438	-	-	-	-	-	-	-	-	-	198,240	-	198,240
Assets whose use is limited and required for current liabilities:																	
Externally restricted	2,013	-	-	-	-	-	-	-	-	-	-	-	-	-	2,013	-	2,013
Patient accounts receivable, net	81,513	-	-	-	-	789	473	6,205	503	1,816	-	749	-	-	92,048	-	92,048
Supplies and prepaid expenses	23,724	-	5	11	9	23	54	2,959	79	182	-	11	-	-	27,057	-	27,057
Other current assets	872	18,214	1,001	251	882	1	-	134	-	716	-	-	15	-	22,086	(14,546)	7,540
Amounts due from third-party payors	8,664	-	-	-	-	-	-	-	-	-	-	-	-	-	8,664	-	8,664
Interest in Foundation, current	2,134	-	-	-	-	-	-	-	-	-	-	-	-	-	2,134	(2,134)	-
Due from affiliates, current portion	39,532	-	363	3	-	11	1,989	6,976	164	288	-	3	-	-	49,329	(49,329)	-
Total current assets	413,047	19,494	31,106	11,567	7,621	2,267	2,668	17,824	1,288	3,611	-	1,116	43	-	511,652	(66,009)	445,643
Interest in Foundation	25,512	-	-	-	-	-	-	-	-	-	-	-	-	-	25,512	(25,512)	-
Assets whose use is limited																	
Externally restricted	21,595	-	-	-	-	-	-	-	-	-	-	-	-	-	21,595	-	21,595
Investments held by captive	-	28,076	-	-	-	-	-	-	-	-	-	-	-	-	28,076	-	28,076
Long-term investments	8,447	-	-	-	406	-	-	-	-	-	-	-	-	-	8,853	-	8,853
Property, plant and equipment, net	396,379	-	60	5	17	2,271	5	8,940	1,778	1,416	-	92	1,117	-	412,080	-	412,080
Goodwill	25,962	-	-	-	-	-	-	1,068	-	3,342	-	298	-	-	30,670	-	30,670
Other assets	12,583	-	2,705	433	3,335	-	540	14,198	-	755	-	-	536	-	35,085	-	35,085
Due from affiliates, net of current	34,212	-	-	-	-	49	-	-	-	-	-	-	-	-	34,261	(34,261)	-
Total assets	$ 937,737	$ 47,570	$ 33,871	$ 12,005	$ 11,379	$ 4,587	$ 3,213	$ 42,030	$ 3,066	$ 9,124	$ -	$ 1,506	$ 1,696	$ -	$ 1,107,764	$ (125,782)	$ 982,002
Liabilities and Net Assets																	
Current liabilities:																	
Current portion of long-term debt	$ 17,428	$ -	$ -	$ -	$ -	$ -	$ -	$ 98	$ -	$ -	$ -	$ -	$ 122	$ -	$ 17,648	$ -	$ 17,648
Accounts payable and accrued expenses	99,366	6,079	118	15	6	1,007	307	8,514	421	5,678	33	440	120	-	122,104	(5,806)	116,298
Amounts due to third-party payors	7,417	-	-	-	-	255	-	1	-	-	-	-	-	-	7,673	-	7,673
Captive insurance loss reserve payable	-	8,147	-	-	-	-	-	-	-	-	-	-	-	-	8,147	-	8,147
Due to affiliates, current portion	10,844	-	1,698	1,971	995	1,164	2,078	18,251	999	10,467	420	9,233	-	-	58,120	(58,120)	-
Total current liabilities	135,055	14,226	1,816	1,986	1,001	2,426	2,385	26,864	1,420	16,145	453	9,673	242	-	213,692	(63,926)	149,766
Long-term debt, net of current portion	187,043	-	-	-	-	-	-	41	-	-	-	-	1,814	-	188,898	-	188,898
Postretirement benefit obligations	75,521	-	-	-	-	-	-	-	-	-	-	-	-	-	75,521	-	75,521
Amounts due to third-party payors and other liabilities	88,826	31,988	-	-	-	-	541	17,296	-	782	-	5,737	-	-	145,172	(26,390)	118,782
Due to affiliates, net of current portion	5,181	-	-	-	-	190	-	1,524	790	1	124	10	-	-	7,820	(7,820)	-
Total liabilities	491,626	46,214	1,816	1,986	1,001	2,616	2,926	45,727	2,210	16,928	577	15,420	2,056	-	631,103	(98,136)	532,967
Net assets:																	
Unrestricted	417,513	1,356	23,214	6,546	650	1,785	287	(3,772)	856	(7,804)	(577)	(13,914)	(360)	-	425,780	(6,546)	419,234
Temporarily restricted	24,098	-	8,393	2,659	9,292	186	-	75	-	-	-	-	-	-	44,703	(20,286)	24,417
Permanently restricted	4,500	-	448	814	436	-	-	-	-	-	-	-	-	-	6,198	(814)	5,384
Total net assets	446,111	1,356	32,055	10,019	10,378	1,971	287	(3,697)	856	(7,804)	(577)	(13,914)	(360)	-	476,681	(27,646)	449,035
Total liabilities and net assets	$ 937,737	$ 47,570	$ 33,871	$ 12,005	$ 11,379	$ 4,587	$ 3,213	$ 42,030	$ 3,066	$ 9,124	$ -	$ 1,506	$ 1,696	$ -	$ 1,107,764	$ (125,782)	$ 982,002

Health Quest Systems, Inc. and Subsidiaries

Consolidating Balance Sheet - Obligated Group
December 31, 2015
(in thousands)

	VBMC	PHC	NDH	Health Quest	Total	Eliminations	HQ Obligated Group
Assets							
Current assets:							
Cash and cash equivalents	$ 42,207	$ 17,232	$ 29,538	$ 1,959	$ 90,936	$ -	$ 90,936
Restricted cash	-	633	-	-	633	-	633
Investments	131,744	26,037	5,245	-	163,026	-	163,026
Assets whose use is limited and required for current liabilities:							
Externally restricted	800	494	719	-	2,013	-	2,013
Patient accounts receivable, net	58,474	15,214	7,825	-	81,513	-	81,513
Supplies and prepaid expenses	11,681	3,959	2,415	5,669	23,724	-	23,724
Other current assets	186	398	189	99	872	-	872
Amounts due from third-party payors	5,180	2,052	1,432	-	8,664	-	8,664
Interest in Foundation, current	1,001	251	882	-	2,134	-	2,134
Due from affiliates, current portion	7,414	22,656	6,493	32,699	69,262	(29,730)	39,532
Total current assets	258,687	88,926	54,738	40,426	442,777	(29,730)	413,047
Interest in Foundation	7,356	9,768	8,388	-	25,512	-	25,512
Assets whose use is limited:							
Externally restricted	8,382	6,544	6,669	-	21,595	-	21,595
Long-term investments	8,447	-	-	-	8,447	-	8,447
Property, plant and equipment, net	245,541	67,450	69,132	14,256	396,379	-	396,379
Goodwill	25,916	46	-	-	25,962	-	25,962
Other assets	1,577	-	139	10,867	12,583	-	12,583
Due from affiliates, net of current	22,813	7,209	5,908	30,642	66,572	(32,360)	34,212
Total assets	$ 578,719	$ 179,943	$ 144,974	$ 96,191	$ 999,827	$ (62,090)	$ 937,737
Liabilities and Net Assets							
Current liabilities:							
Current portion of long-term debt	$ 14,852	$ 786	$ 1,139	$ 651	$ 17,428	$ -	$ 17,428
Accounts payable and accrued expenses	44,121	14,507	8,838	31,900	99,366	-	99,366
Amounts due to third-party payors	5,530	1,394	493	-	7,417	-	7,417
Due to affiliates, current portion	20,450	983	3,200	15,941	40,574	(29,730)	10,844
Total current liabilities	84,953	17,670	13,670	48,492	164,785	(29,730)	135,055
Long-term debt, net of current portion	110,753	29,812	46,478	-	187,043	-	187,043
Postretirement benefit obligations	52,865	22,656	-	-	75,521	-	75,521
Amounts due to third-party payors and other liabilities	48,245	12,626	9,897	18,058	88,826	-	88,826
Due to affiliates, net of current portion	2,211	948	411	33,971	37,541	(32,360)	5,181
Total liabilities	299,027	83,712	70,456	100,521	553,716	(62,090)	491,626
Net assets:							
Unrestricted	266,550	91,803	63,490	(4,330)	417,513	-	417,513
Temporarily restricted	10,951	3,614	9,533	-	24,098	-	24,098
Permanently restricted	2,191	814	1,495	-	4,500	-	4,500
Total net assets	279,692	96,231	74,518	(4,330)	446,111	-	446,111
Total liabilities and net assets	$ 578,719	$ 179,943	$ 144,974	$ 96,191	$ 999,827	$ (62,090)	$ 937,737

Health Quest Systems, Inc. and Subsidiaries

Consolidating Statement of Operations
Year Ended December 31, 2016
(in thousands)

	HQ Obligated Group	VBH Insurance	Foundation for VBMC	PHC Foundation	NDH Foundation	NDRHCF	RDSI	HQ Med Practice	HQUMCP	HV Cardio Practice	Alamo	HQ Homecare	Wells Manor	RMSI	Total	Eliminations	Consolidated
Operating revenue:																	
Net patient service revenue	$ 885,028	$ -	$ -	$ -	$ -	$ 10,171	$ -	$ 64,020	$ 4,689	$ 24,966	$ -	$ 4,256	$ -	$ -	$ 993,130	$ -	$ 993,130
Provision for bad debts	(23,183)	-	-	-	-	(123)	-	(3,922)	(215)	(885)	-	(32)	-	-	(28,360)	-	(28,360)
Net patient service revenue less provisions for bad debts	861,845	-	-	-	-	10,048	-	60,098	4,474	24,081	-	4,224	-	-	964,770	-	964,770
Other revenue	36,758	9,706	6,055	1,660	788	20	-	38,047	28	850	-	84	950	-	94,946	(60,314)	34,632
Net assets released from restriction used for operations	440	-	-	-	-	-	-	-	-	-	-	-	-	-	440	-	440
Total operating revenue	899,043	9,706	6,055	1,660	788	10,068	-	98,145	4,502	24,931	-	4,308	950	-	1,060,156	(60,314)	999,842
Operating expenses:																	
Salaries and fees	326,718	-	509	150	166	6,016	-	75,288	2,858	27,231	-	3,095	-	-	442,029	-	442,029
Employee benefits	103,949	-	108	48	40	2,142	-	11,055	622	3,552	(9)	828	-	-	122,335	-	122,335
Supplies	147,475	-	1	2	-	1,155	-	2,234	149	468	-	91	-	-	151,573	-	151,573
Other expenses	165,065	10,770	546	204	359	2,525	-	26,092	2,070	5,250	9	1,124	533	-	214,547	(60,314)	154,233
Interest	9,140	-	-	-	-	-	-	-	-	-	-	-	173	-	9,313	-	9,313
Depreciation and amortization	48,101	-	8	3	5	232	-	2,157	146	332	-	38	91	-	51,113	-	51,113
Loss on extinguishment of debt	1,119	-	-	-	-	-	-	-	-	-	-	-	-	-	1,119	-	1,119
Total operating expenses	801,567	10,770	1,172	407	570	12,070	-	116,826	5,843	36,831	-	5,176	797	-	992,029	(60,314)	931,715
Operating income (loss)	97,476	(1,064)	4,883	1,253	218	(2,002)	-	(18,681)	(1,341)	(11,900)	-	(868)	153	-	68,127	-	68,127
Investment loss (income)	15,475	1,716	(2,899)	(855)	(230)	1	-	-	-	-	-	-	-	-	13,208	-	13,208
Gain on sale of property, plant and equipment	6	-	-	-	-	1	-	44	-	-	-	-	-	-	51	-	51
Excess (deficiency) of revenue over expenses	112,957	652	1,984	398	(12)	(2,000)	-	(18,637)	(1,341)	(11,900)	-	(868)	153	-	81,386	-	81,386
Pension related changes other than net periodic pension costs	(853)	-	-	-	-	-	-	-	-	-	-	-	-	-	(853)	-	(853)
Grant revenue for capital expenditures	197	-	-	-	-	-	-	-	-	-	-	-	-	-	197	-	197
Net assets released from restrictions for capital expenditures	4,404	-	-	-	-	-	-	-	-	-	-	-	-	-	4,404	-	4,404
Change in interest in foundation	398	-	-	-	-	-	-	-	-	-	-	-	-	-	398	(398)	-
Transfers of equity	(32,053)	-	-	-	-	-	-	18,137	2,012	11,904	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	$ 85,050	$ 652	$ 1,984	$ 398	$ (12)	$ (2,000)	$ -	$ (500)	$ 671	$ 4	$ -	$ (868)	$ 153	$ -	$ 85,532	$ (398)	$ 85,134

Health Quest Systems, Inc. and Subsidiaries

Consolidating Statement of Operations - Obligated Group
Year Ended December 31, 2016
(in thousands)

	VBMC	PHC	NDH	Health Quest	Eliminations	HQ Obligated Group
Operating revenue:						
Net patient service revenue	$ 609,038	$ 166,492	$ 109,498	$ -	$ -	$ 885,028
Provision for bad debts	(17,386)	(4,033)	(1,764)	-	-	(23,183)
Net patient service revenue less provisions for bad debts	591,652	162,459	107,734	-	-	861,845
Other revenue	10,621	3,527	2,109	174,278	(153,777)	36,758
Net assets released from restriction used for operations	362	-	78	-	-	440
Total operating revenue	602,635	165,986	109,921	174,278	(153,777)	899,043
Operating expenses:						
Salaries and fees	155,599	52,380	32,356	86,383	-	326,718
Employee benefits	53,589	20,005	9,046	21,309	-	103,949
Supplies	95,591	26,580	17,300	8,004	-	147,475
Other expenses	184,726	47,627	26,689	59,800	(153,777)	165,065
Interest	5,346	1,461	2,167	166	-	9,140
Depreciation and amortization	29,103	9,265	5,824	3,909	-	48,101
Loss on extinguishment of debt	3	950	166	-	-	1,119
Total operating expenses	523,957	158,268	93,548	179,571	(153,777)	801,567
Operating income (loss)	78,678	7,718	16,373	(5,293)	-	97,476
Investment loss	12,562	2,298	615	-	-	15,475
Gain on sale of property, plant and equipment	2	-	-	4	-	6
Excess (deficiency) of revenue over expenses	91,242	10,016	16,988	(5,289)	-	112,957
Pension related changes other than net periodic pension costs	(2,022)	1,169	-	-	-	(853)
Grant revenue for capital expenditures	-	-	197	-	-	197
Net assets released from restrictions for capital expenditures	1,125	-	3,279	-	-	4,404
Change in interest in foundation	-	398	-	-	-	398
Transfers of equity	(27,777)	(915)	(3,361)	-	-	(32,053)
Increase (decrease) in unrestricted net assets	$ 62,568	$ 10,668	$ 17,103	$ (5,289)	$ -	$ 85,050

Health Quest Systems, Inc. and Subsidiaries

Consolidating Statement of Operations
Year Ended December 31, 2015
(in thousands)

	HQ Obligated Group	VBH Insurance	Foundation for VBMC	PHC Foundation	NDH Foundation	NDRHCF	RDSI	HQ Med Practice	HQUMCP	HV Cardio Practice	Alamo	HQ Homecare	Wells Manor	RMSI	Total	Eliminations	Consolidated
Operating revenue																	
Net patient service revenue	$ 771,276	$ -	$ -	$ -	$ -	$ 9,998	$ 2,835	$ 54,695	$ 4,493	$ 21,210	$ -	$ 4,386	$ -	$ -	$ 868,893	$ -	$ 868,893
Provision for bad debts	(20,822)	-	-	-	-	(1)	(283)	(3,378)	(188)	(886)	-	(33)	-	-	(25,591)	-	(25,591)
Net patient service revenue less provisions for bad debts	750,454	-	-	-	-	9,997	2,552	51,317	4,305	20,324	-	4,353	-	-	843,302	-	843,302
Other revenue	36,498	8,553	1,529	665	263	29	938	28,608	8	(94)	-	8	934	2,932	80,871	(53,378)	27,493
Net assets released from restriction used for operations	54	-	-	-	-	-	-	-	-	-	-	-	-	-	54	-	54
Total operating revenue	787,006	8,553	1,529	665	263	10,026	3,490	79,925	4,313	20,230	-	4,361	934	2,932	924,227	(53,378)	870,849
Operating expenses																	
Salaries and fees	292,693	-	522	209	132	5,651	2,383	62,665	2,950	24,906	-	3,211	-	-	395,322	-	395,322
Employee benefits	95,641	-	106	53	38	1,798	311	10,010	559	3,206	48	790	-	-	112,560	-	112,560
Supplies	126,624	-	1	1	1	1,063	1	2,574	174	1,050	-	84	-	-	131,573	-	131,573
Other expenses	141,080	9,786	543	264	440	2,609	785	22,684	2,060	5,134	17	1,153	541	-	187,096	(50,446)	136,650
Interest	9,206	-	-	-	-	-	-	-	-	-	-	-	185	-	9,391	-	9,391
Depreciation and amortization	45,013	-	9	4	7	202	3	2,118	155	292	-	42	89	-	47,934	-	47,934
Total operating expenses	710,257	9,786	1,181	531	618	11,323	3,483	100,051	5,898	34,588	65	5,280	815	-	883,876	(50,446)	833,430
Operating income (loss)	76,749	(1,233)	348	134	(355)	(1,297)	7	(20,126)	(1,585)	(14,358)	(65)	(919)	119	2,932	40,351	(2,932)	37,419
Investment loss (income)	(3,307)	18	(1,155)	(294)	(162)	-	-	-	-	-	-	-	-	-	(4,900)	-	(4,900)
Gain on sale of property, plant and equipment	252	-	-	-	-	-	-	-	-	-	-	-	-	-	252	-	252
Excess (deficiency) of revenue over expenses	73,694	(1,215)	(807)	(160)	(517)	(1,297)	7	(20,126)	(1,585)	(14,358)	(65)	(919)	119	2,932	35,703	(2,932)	32,771
Pension related changes other than net periodic pension costs	4,271	-	-	-	-	-	-	-	-	-	-	-	-	-	4,271	-	4,271
Grant revenue for capital expenditures	203	-	-	-	-	-	-	-	-	-	-	-	-	-	203	-	203
Net assets released from restrictions for capital expenditures	2,615	-	-	-	-	-	-	-	-	-	-	-	-	-	2,615	-	2,615
Change in interest in foundation	(160)	-	-	-	-	-	-	-	-	-	-	-	-	-	(160)	160	-
Transfers of equity	(33,726)	-	-	-	-	768	(1,031)	18,034	1,602	14,353	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	$ 46,897	$ (1,215)	$ (807)	$ (160)	$ (517)	$ (529)	$ (1,024)	$ (2,092)	$ 17	$ (5)	$ (65)	$ (919)	$ 119	$ 2,932	$ 42,632	$ (2,772)	$ 39,860

Health Quest Systems, Inc. and Subsidiaries

Consolidating Statement of Operations - Obligated Group
Year Ended December 31, 2015
(in thousands)

	VBMC	PHC	NDH	Health Quest	Eliminations	HQ Obligated Group
Operating revenue:						
Net patient service revenue	$ 520,204	$ 158,716	$ 92,356	$ -	$ -	$ 771,276
Provision for bad debts	(15,147)	(3,941)	(1,734)	-	-	(20,822)
Net patient service revenue less provisions for bad debts	505,057	154,775	90,622	-	-	750,454
Other revenue	10,184	4,120	1,982	156,354	(136,142)	36,498
Net assets released from restriction used for operations	-	-	54	-	-	54
Total operating revenue	515,241	158,895	92,658	156,354	(136,142)	787,006
Operating expenses:						
Salaries and fees	138,281	50,054	27,652	76,706	-	292,693
Employee benefits	49,781	19,293	7,984	18,583	-	95,641
Supplies	78,379	25,699	14,561	7,985	-	126,624
Other expenses	158,142	45,886	24,282	48,912	(136,142)	141,080
Interest	5,495	1,952	1,425	334	-	9,206
Depreciation and amortization	27,488	9,209	4,338	3,978	-	45,013
Total operating expenses	457,566	152,093	80,242	156,498	(136,142)	710,257
Operating income (loss)	57,675	6,802	12,416	(144)	-	76,749
Investment loss	(2,679)	(543)	(85)	-	-	(3,307)
Gain on sale of property, plant and equipment	246	1	3	2	-	252
Excess (deficiency) of revenue over expenses	55,242	6,260	12,334	(142)	-	73,694
Pension related changes other than net periodic pension costs	2,751	1,520	-	-	-	4,271
Grant revenue for capital expenditures	-	6	197	-	-	203
Net assets released from restrictions for capital expenditures	1,541	760	314	-	-	2,615
Change in interest in foundation	-	(160)	-	-	-	(160)
Transfers of equity	(29,685)	(963)	(3,078)	-	-	(33,726)
Increase (decrease) in unrestricted net assets	$ 29,849	$ 7,423	$ 9,767	$ (142)	$ -	$ 46,897

Note 1. Summary of Significant Accounting Policies

Basis of presentation: The accompanying consolidating balance sheets and consolidating statements of operations by business unit as of and for the years ended December 31, 2016 and 2015 are provided for purposes of additional analysis and is not required as part of the basic consolidated financial statements. The information is presented on the accrual basis of accounting and is prepared net of related eliminations. These schedules are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America (GAAP) as a result of the exclusion of the changes in temporarily restricted and permanently restricted net assets.

The accompanying obligated group information has been prepared to satisfy debt covenant requirements and is not required as part of the basic consolidated financial statements. The Obligated Group consists of VBMC, PHC, NDH and Health Quest. The information is prepared on the accrual basis of accounting and is prepared net of related eliminations. These schedules are not intended to be a presentation in accordance with GAAP as a result of the exclusion of entities that would otherwise be required to be consolidated under GAAP.