Consolidated Unaudited Interim
Financial Statements

Royal Charter Properties – East, Inc.

June 30, 2017

RCP

Royal Charter Properties – East, Inc.

Unaudited Interim Consolidated Financial Statements

Six-Months Ended June 30, 2017 and 2016

Contents

Royal Charter Properties – East, Inc.

Unaudited Consolidated Statements of Financial Position

	(Unaudited) June 30, 2017	(Audited) December 31, 2016
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 63,591**	$ 62,581
Accounts receivable, less allowance for uncollectibles (2017 – $132; 2016 – $147)	**381**	686
Assets limited as to use – current	**3,597**	3,222
Tenant security deposits held in trust	**5,594**	5,154
Other current assets	**710**	752
Total current assets	**73,873**	72,395
Property, buildings and equipment – net	**139,448**	140,788
Assets limited as to use	**10,607**	10,112
Derivative instruments	**2,104**	4,220
Accrued rent receivable	**3,649**	3,691
Total assets	**$ 229,681**	$ 231,206
Liabilities and net asset deficiency		
Current liabilities:		
Current portion of long-term debt	**$ 3,597**	$ 3,222
Accounts payable and accrued expenses	**2,878**	2,465
Due to related organizations	**4,049**	3,657
Tenant security deposits payable	**5,594**	5,154
Deferred rental revenue – current	**651**	420
Accrued interest payable	**205**	171
Total current liabilities	**16,974**	15,089
Deferred rental revenue	**555**	609
Long-term debt – less current portion	**226,463**	228,218
Total liabilities	**243,992**	243,916
Commitments and contingencies		
Net asset deficiency:		
Unrestricted net asset deficiency	**(14,311)**	(12,710)
Total liabilities and net asset deficiency	**$ 229,681**	$ 231,206

See accompanying notes.

Royal Charter Properties – East, Inc.

Unaudited Interim Consolidated Statements of Operations
and Changes in Net Asset Deficiency

	(Unaudited) Six-Months Ended June 30 2017	2016
	(In Thousands)	
Revenue		
Rental and parking income:		
Tenant	**$ 30,194**	$ 29,045
Hotel	**4,643**	4,367
Parking	**2,076**	2,175
Miscellaneous	**220**	243
Total rental and parking income	**37,133**	35,830
Interest income	**116**	72
Total revenue	**37,249**	35,902
Expenses		
Salaries and benefits	**565**	797
Salaries and benefits – contracted services	**4,846**	4,700
Supplies and other expenses	**5,357**	5,250
Depreciation	**4,826**	4,810
Interest expense and amortization of deferred financing costs	**2,277**	1,766
Total expenses	**17,871**	17,323
Excess of revenue over expenses	**19,378**	18,579
Change in net unrealized gains and losses on marketable securities	**(1)**	(5)
Net change in fair value of derivative instruments	**(2,116)**	(2,046)
Distributions to The New York and Presbyterian Hospital	**(18,862)**	(18,063)
Changes in net asset deficiency	**(1,601)**	(1,535)
Net asset deficiency at beginning of year	**(12,710)**	(14,526)
Net asset deficiency at end of period	**$ (14,311)**	$ (16,061)

See accompanying notes.

Royal Charter Properties – East, Inc.

Unaudited Interim Consolidated Statements of Cash Flows

	(Unaudited) Six-Months Ended June 30 2017	2016
	(In Thousands)	
Operating activities		
Changes in net asset deficiency	**$ (1,601)**	$ (1,535)
Adjustments to reconcile changes in net asset deficiency to net cash provided by operating activities:		
Depreciation	**4,826**	4,810
Amortization of deferred financing costs and bond discount	**195**	202
Change in net unrealized gains and losses on marketable securities	**1**	5
Net change in fair value of derivative instruments	**2,116**	2,047
Distributions to The New York and Presbyterian Hospital	**18,862**	18,063
Changes in operating assets and liabilities:		
Accounts receivable, accrued rent receivable and deferred rental revenue	**524**	1,094
Other current assets	**42**	284
Due to related organizations	**392**	28
Accounts payable and accrued expenses	**413**	515
Accrued interest payable	**34**	(3)
Net cash provided by operating activities	**25,804**	25,510
Investing activities		
Acquisition of property, buildings and equipment	**(3,486)**	(989)
Net purchases of assets limited as to use	**(871)**	(1,603)
Net cash used in investing activities	**(4,357)**	(2,592)
Financing activities		
Payments on long-term debt	**(1,575)**	(1,230)
Distributions to The New York and Presbyterian Hospital	**(18,862)**	(18,063)
Net cash used in financing activities	**(20,437)**	(19,293)
Net increase in cash and cash equivalents	**1,010**	3,625
Cash and cash equivalents at beginning of year	**62,581**	59,237
Cash and cash equivalents at end of period	**$ 63,591**	$ 62,862

See accompanying notes.

1. Organization and Significant Accounting Policies

Interim Financial Statements

Royal Charter Properties – East, Inc. (the Company) presumes that users of this unaudited interim financial information have read or have access to the Company's audited financial statements which include certain disclosures required by U.S. generally accepted accounting principles. The audited financial statements of the Company for the years ended December 31, 2016 and 2015 are on file with the Municipal Securities Rulemaking Board and are accessible through its Electronic Municipal Market Access Database (EMMA). Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in the Company's most recent financial statements have been omitted from the unaudited interim financial information.

In the opinion of management, all adjustments considered necessary for a fair presentation of the results of the interim periods have been included in the accompanying unaudited interim financial statements. All such adjustments are considered by management to be of a normal, recurring nature, except as noted otherwise.

Operating revenues and expenses are subject to seasonal variations caused by a number of factors, included, but not necessarily limited to, climate and weather conditions. Monthly operating results are not necessarily representative of operations for a full year for various reasons, including levels of interest rates, unusual or non-recurring items and other seasonal fluctuations.

Organization

The Company was incorporated under the New York State not-for-profit corporation law for the purpose of acquiring and holding direct and indirect interests in real estate and related personal property which is located primarily in Manhattan, New York. The Company primarily provides residential housing, office and parking to related organizations and their employees. The Company is a membership corporation, which membership consists of the members of New York-Presbyterian Foundation, Inc. (Foundation, Inc.), who are also Trustees of The New York and Presbyterian Hospital (the Hospital). The Company's members elect the Company's Board of Directors. Foundation, Inc. is related to a number of other organizations.

The Company is the sole member of RCP – East, LLC, a New York limited liability company, that owns and manages a building constructed primarily for residential housing for staff of the Hospital.

1. Organization and Significant Accounting Policies (continued)

The following is a summary of significant accounting policies:

Basis of Financial Statement Presentation: The accompanying consolidated financial statements are prepared on the accrual basis of accounting. Included in the accompanying consolidated financial statements is the Company's wholly owned subsidiary, RCP – East, LLC. All significant intercompany accounts and transactions are eliminated in consolidation. The accompanying consolidated financial statements do not include the accounts of other affiliated organizations.

Use of Estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, such as estimated uncollectibles for accounts receivable and the value of derivative instruments, and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term.

Derivative Instruments: The Company recognizes derivative instruments as either an asset or liability in the consolidated statements of financial position at fair value. The fair value of derivative instruments is determined utilizing forward interest rate estimates and present value techniques.

Revenue Recognition: Tenant leases are accounted for as operating leases. Scheduled base rent increases under tenant leases are recognized as rental income on a straight-line basis over the lease term. Advance lease payments received are recorded as deferred rental revenue upon receipt and are recognized as rental income on a straight-line basis over the lease term. Hotel income is recognized in the period the rooms are occupied. Parking income is recognized in the period that parking facilities are used by customers or the monthly parking fee is incurred.

Tax Status: The Company is a Section 501(c)(3) organization exempt from federal income taxes under Section 501(a) of the Internal Revenue Code. The Company also is exempt from New York State and City income taxes.

1. Organization and Significant Accounting Policies (continued)

Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 are effective for the Company beginning January 1, 2018. Early application is permitted. The Company is currently evaluating the impact of ASU 2014-09 on its consolidated financial statements and the options of adopting using either a full retrospective or modified approach.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 will require lessees to report most leases on their statements of financial position and recognize expenses on their income statements in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. Lessors in operating leases continue to recognize lease income on either a straight-line basis or another systematic and rational basis. The provisions of ASU 2016-02 are effective for the Company beginning January 1, 2019 with early adoption permitted. The Company is currently evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statement Presentation*, which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs will be required to classify net assets as net assets with donor restrictions or without donor restrictions. Among other things, the guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs will also be required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 are effective for the Company for annual periods beginning after December 15, 2017, and interim periods thereafter. Early adoption is permitted. The Company has not completed the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

1. Organization and Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the Company for annual periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. The Company has not completed the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

2. Derivative Instruments – Interest Rate Cap Agreements

The Company is required by Fannie Mae to use derivative instruments for interest rate risk exposure/management purposes related to the Company's variable rate bonds. Therefore, the Company has entered into interest rate cap agreements for each of its outstanding variable rate bonds. Under the terms of the agreements, the Company initially paid a fixed amount and will receive payments if the interest rates on its variable rate bonds exceed specified maximum interest rates during the term of the agreements.

The following table summarizes the terms of the interest rate cap agreements:

			Notional Amount at	
	Maximum Interest Rate	**Expiration Date**	**June 30, 2017**	**December 31, 2016**
			(In Thousands)	
2005 Series A interest rate cap	6.00%	April 2035	**$ 76,625**	$ 83,575
2006 Series A interest rate cap	6.18	November 2036	**147,770**	147,770
2006 Series B interest rate cap	7.62	May 2020	**1,073**	10,093
			$ 225,468	$ 241,438

2. Derivative Instruments – Interest Rate Cap Agreements (continued)

The fair value (asset as reported in the consolidated statements of financial position) of the Company's interest rate caps and the net change in fair value, are as follows:

	Fair Value at		Change in Fair Value for the Six-Months Ended June 30	
	June 30, 2017	**December 31, 2016**	**2017**	**2016**
	(In Thousands)			
2005 interest rate cap	**$ 621**	$ 1,272	**$ (652)**	$ (613)
2006 Series A interest rate cap	**1,483**	2,947	**(1,464)**	(1,433)
2006 Series B interest rate cap	**–**	1	**–**	–
	$ 2,104	$ 4,220	**$ (2,116)**	$ (2,046)

The fair values incorporate estimates for the effects of counterparty nonperformance risk.

3. Fair Value Measurements

The Company uses various methods of calculating fair value to value its financial assets and liabilities, when applicable. The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and has established a framework for measuring fair value. Fair value measurements are applied based on the unit of account from the Company's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated).

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

> *Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
>
> *Level 2:* Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

3. Fair Value Measurements (continued)

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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

Financial assets carried at fair value at June 30, 2017 and December 31, 2016 are classified in the tables below in one of the three categories described above:

	(Unaudited) **June 30, 2017**			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Cash and cash equivalents (including tenant security deposits)	**$ 70,376**	**$ –**	**$ –**	**$ 70,376**
U.S. government notes – short term	**13,013**	**–**	**–**	**13,013**
Derivative instruments	**–**	**2,104**	**–**	**2,104**
Total financial assets at fair value	**$ 83,389**	**$ 2,104**	**$ –**	**$ 85,493**

	(Audited) **December 31, 2016**			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Cash and cash equivalents (including tenant security deposits)	$ 69,306	$ –	$ –	$ 69,306
U.S. government notes – short term	11,763	–	–	11,763
Derivative instruments	–	4,220	–	4,220
Total financial assets at fair value	$ 81,069	$ 4,220	$ –	$ 85,289

3. Fair Value Measurements (continued)

Fair value for Level 1 is based upon quoted market prices in active markets. The fair value of the derivative instruments is determined based on the present value of expected future cash flows using discount rates appropriate to the risks involved. The valuations include a credit spread adjustment to market interest rate curves to reflect nonperformance risk. The credit spread adjustment is derived from comparably rated entities' bonds recently priced to market.

The carrying values of receivables and accounts payable are reasonable estimates for fair values due to their short-term nature. The fair value of long-term debt obligations, excluding the unamortized discount, totaled approximately $234.6 million and $236.2 million at June 30, 2017 and December 31, 2016, respectively. The carrying value of long-term debt obligations, excluding the unamortized discount, totaled approximately $234.6 million and $236.2 million at June 30, 2017 and December 31, 2016, respectively. The fair value of long-term debt is classified as Level 2 in the fair value hierarchy, using techniques consistent with the market approach. Valuations for the bonds are based on quoted market prices for related bonds and model-based valuation techniques.

4. Events Subsequent to June 30, 2017

Subsequent events have been evaluated through August 29, 2017, which is the date the unaudited interim financial statements were issued.

No subsequent events have occurred that require disclosure in or adjustment to these unaudited interim consolidated financial statements.