



**\$956,919,000**  
**NORTHWELL HEALTH**  
**Taxable Bonds, Series 2017A**

**Dated: Date of Delivery**      **\$108,504,000 3.391% Bonds Due November 1, 2027, Price 100%, CUSIP 667274AB0**  
**\$848,415,000 4.260% Bonds Due November 1, 2047, Price 100%, CUSIP 667274AC8**

This Offering Memorandum has been prepared to provide information in connection with the execution and delivery of the above bonds (the “Bonds”) issued by Northwell Healthcare, Inc. (“HCI”).

The Bonds will be issued as fully registered bonds in denominations of \$1,000 or any integral multiple thereof. When issued, the Bonds will be registered in the name of Cede & Co. as and nominee for The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the Bonds and individual purchases of Bonds will be made in book-entry only form, as described herein. Principal, redemption price and Make-Whole Redemption Price (as defined herein) of and interest on the Bonds will be payable by U.S. Bank National Association, as trustee (the “Bond Trustee”), to DTC. Subsequent disbursements of such principal, redemption price, Make-Whole Redemption Price and interest will be made to the individual purchasers of beneficial interests in the Bonds pursuant to DTC policies, as described herein. So long as Cede & Co. is the registered owner of the Bonds, references herein to the holders or registered owners of the Bonds shall mean Cede & Co. and shall not mean the beneficial owners of the Bonds. See APPENDIX D – “BOOK-ENTRY ONLY SYSTEM” herein.

Interest on the Bonds will be paid on November 1, 2017 and semiannually thereafter on May 1 and November 1 of each year. In the event that the book-entry system shall no longer be used with respect to the Bonds, interest on the Bonds will be payable by check mailed to the registered owners of the Bonds on each interest payment date at their addresses as they appear on the bond registration books of the Bond Trustee as of the fifteenth day of the month immediately preceding an interest payment date, or as of a special record date established for the payment of defaulted interest.

Payment of the principal of and interest on the Bonds, when due, will be secured by payments made pursuant to an Obligation with respect to the Bonds (the “Series 2017A Obligation”) issued by HCI pursuant to the Master Trust Indenture, dated as of July 1, 1998, as supplemented, amended and restated (the “Master Trust Indenture”), which Series 2017A Obligation constitutes the joint and several general obligation of all the Members of the Obligated Group (as hereinafter defined). The Series 2017A Obligation is secured by a security interest in the Gross Receipts of HCI and the other Members of the Obligated Group. Pursuant to the Master Trust Indenture, the Series 2017A Obligation is also secured by mortgages on certain “core” healthcare facilities of the Members of the Obligated Group as described in more detail herein. However, no mortgage has been specifically granted to secure the Series 2017A Obligation.

**The Bonds are subject to optional redemption or purchase in lieu of optional redemption prior to maturity as described herein.**

**Interest on and profit, if any, on the sale of the Bonds are not excludable from gross income for federal, state or local income tax purposes. See “TAX MATTERS” herein.**

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This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of the Bonds. Investors are instructed to read the entire Offering Memorandum to obtain information essential to the making of an informed investment decision.

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*The Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of their legality and certain other matters by Hawkins Delafield & Wood LLP, New York, New York, special counsel to HCI and the Obligated Group. In addition, certain legal matters will be passed upon for HCI and the Obligated Group by their disclosure counsel, Ropes & Gray LLP, Boston, Massachusetts. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York. It is expected that the Bonds in definitive form will be available for delivery in book-entry form to DTC in New York, New York or to its custodial agent on or about September 26, 2017.*

No dealer, broker, salesperson or other person has been authorized by HCI or the Underwriters to give any information or to make any representations with respect to the Bonds, other than the information and representations contained in this Offering Memorandum. If given or made, any such information or representations must not be relied upon as having been authorized by HCI or the Underwriters.

This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be a sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

**IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND OTHERS AT A PRICE LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Bonds, or determined that this Offering Memorandum is accurate or complete. Any representation to the contrary is a criminal offense. The Bonds have not been and will not be registered under the Securities Act of 1933, as amended (the “Securities Act”), and are being issued in reliance on an exemption under Section 3(a)(4) of the Securities Act. The Bonds are not exempt in every jurisdiction in the United States; some jurisdictions’ securities laws (the “blue sky laws”) may require a filing and a fee to secure the Bonds’ exemption from registration.

The distribution of this Offering Memorandum and the offer or sale of Bonds may be restricted by law in certain jurisdictions. Neither HCI nor the Underwriters represent that this Offering Memorandum may be lawfully distributed, or that any Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by HCI or the Underwriters that would permit a public offering of any of the Bonds or distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. Action may be required to secure exemptions from the blue sky registration requirements either for the primary distributions or any secondary sales that may occur. Accordingly, none of the Bonds may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

All information set forth herein has been obtained from HCI and other sources that are believed to be reliable, but are not guaranteed as to accuracy or completeness, and are not to be construed as representations of the Underwriters. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Offering Memorandum nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of HCI and the other Members of the Obligated Group since the date hereof. The Underwriters have provided the following sentence for inclusion in this Offering Memorandum. The Underwriters have reviewed the information in this Offering Memorandum in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Certain statements included or incorporated by reference in this Offering Memorandum may constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget,” “intend,” “projection” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information in APPENDIX A – “NORTHWELL AND THE OBLIGATED GROUP.” A number of important factors, including factors affecting the Obligated Group’s financial condition and factors which are otherwise unrelated thereto, could cause actual results to differ materially from those stated in such forward-looking statements. HCI DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

The Bond Trustee has provided the following language for inclusion in this Offering Memorandum: U.S. Bank National Association has been appointed to serve as Bond Trustee under the Bond Indenture. The Bond Trustee is to carry out only those duties specifically set forth in the Bond Indenture. The Bond Trustee has not reviewed or participated in the preparation of this Offering Memorandum and assumes no responsibility for the contents, accuracy, fairness or completeness of the information

given in this Offering Memorandum or for the recitals contained in the whereas clauses of the Bond Indenture or for the validity, sufficiency, or legal effect of any of such documents. Furthermore, the Bond Trustee has no oversight responsibility, other than as specifically set forth in the Bond Indenture, and is not accountable, for the use or application by HCI of the proceeds of the Bonds other than as specifically set forth in the Bond Indenture. The Bond Trustee has no duty to, has not undertaken to evaluate, and has not evaluated, the risks, benefits, or propriety of any investment in the Bonds and makes no representation, and has reached no conclusions, regarding the investment quality of the Bonds, about all of which the Bond Trustee expresses no opinion and expressly disclaims the expertise to evaluate. For a discussion of the standard of care for the Bond Trustee under the Bond Indenture, see “Rights of Bond Trustee” in APPENDIX C-1 – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE.”

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## SUMMARY OF THE OFFERING

<b>Issuer</b>	Northwell Healthcare, Inc. (“HCI”)
<b>Securities Offered</b>	<p>\$108,504,000 3.391% Northwell Health Taxable Bonds, Series 2017A, due November 1, 2027</p> <p>\$848,415,000 4.260% Northwell Health Taxable Bonds, Series 2017A, due November 1, 2047</p>
<b>Interest Accrual Date</b>	Interest will accrue from the Settlement Date.
<b>Interest Payment Dates</b>	May 1 and November 1 of each year, commencing November 1, 2017
<b>Redemption and Purchase in Lieu of Optional Redemption</b>	The Bonds are subject to optional redemption and purchase in lieu of optional redemption in whole or in part by HCI prior to maturity, on any date, in such order of maturity as directed by HCI (i) with respect to the Bonds maturing on November 1, 2027, prior to August 1, 2027, and with respect to the Bonds maturing on November 1, 2047, prior to November 1, 2046, in each case at their respective Make-Whole Redemption Price, and (ii) with respect to the Bonds maturing on November 1, 2027, on or after August 1, 2027, and with respect to the Bonds maturing on November 1, 2047, on or after November 1, 2046, in each case at a redemption price equal to the principal amount of Bonds to be redeemed, in either case together with accrued interest to the date fixed for redemption, all as further described herein. See “THE BONDS – Redemption Provisions” herein.
<b>Settlement Date</b>	September 26, 2017.
<b>Form of Depository</b>	The Bonds will be delivered solely in book-entry form through the facilities of DTC.
<b>Use of Proceeds</b>	HCI will use proceeds of the Bonds (i) to advance refund all or a portion of the outstanding Dormitory Authority of the State of New York North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2011A, (ii) for general corporate purposes, as further described herein, and (iii) to pay costs of issuance incurred in connection with the issuance of the Bonds. See “PLAN OF FINANCE” herein.
<b>Ratings</b>	<p>Fitch: “A”</p> <p>Moody’s: “A3”</p> <p>S&amp;P: “A-”</p>
<b>Bond Trustee</b>	U.S. Bank National Association

## **OFFERING MEMORANDUM RELATING TO**

**\$956,919,000**

**NORTHWELL HEALTH  
Taxable Bonds, Series 2017A**

### **INTRODUCTION**

#### **Purpose of the Offering Memorandum**

This Offering Memorandum, including the cover page, the inside cover page and the appendices hereto, is provided to furnish information in connection with the sale and delivery of \$956,919,000 aggregate principal amount of Northwell Health Taxable Bonds, Series 2017A (the “Bonds”).

The following is a brief description of certain information concerning the Bonds. A more complete description of such information and additional information that may affect a decision to invest in the Bonds is contained throughout this Offering Memorandum, which should be read in its entirety.

Capitalized terms used herein and not defined have the meanings set forth in APPENDIX C-1 – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE” and APPENDIX C-2 – “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE.”

#### **Purpose of the Issue**

The Bonds will be issued by Northwell Healthcare, Inc. (“HCI”) in order to provide funds (i) to advance refund all or a portion of the outstanding Dormitory Authority of the State of New York North Shore-Long Island Jewish Obligated Group Revenue Bonds, Series 2011A (the “Refunded Bonds”), (ii) for general corporate purposes, including future capital expenditures and capital investments, and (iii) to pay costs of issuance incurred in connection with the issuance of the Bonds. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS.”

#### **The Bonds**

The Bonds will be issued pursuant to a Bond Indenture, dated as of September 1, 2017 (the “Bond Indenture”), between HCI and U.S. Bank National Association, as trustee (the “Bond Trustee”). The Bonds will be dated the date of their delivery, and will bear interest from such date (payable on November 1, 2017 and on each May 1 and November 1 thereafter until maturity or the earlier redemption thereof) at the rates, and will mature in the amounts and at the times, set forth on the cover page of this Offering Memorandum. See “THE BONDS – Description of the Bonds.”

The Bonds will be general obligations of HCI payable solely from certain payments to be made by HCI under the Bond Indenture and payments to be made by the Members of the Obligated Group under an Obligation securing the Bonds (the “Series 2017A Obligation”).

The Series 2017A Obligation will be issued pursuant to the Master Trust Indenture, dated as of July 1, 1998, as supplemented, amended and restated by and among the Members of the Obligated Group and The Bank of New York Mellon, as Master Trustee (the “Master Trustee”), including as supplemented by the Supplemental Indenture for Obligation No. 54, dated as of September 1, 2017 (the “Series 2017A Supplemental Indenture”), by and among the Members of the Obligated Group and the Master Trustee. The Master Trust Indenture as so supplemented and amended is hereinafter referred to as the “Master Trust Indenture.” See “SOURCE OF PAYMENT AND SECURITY FOR THE BONDS.”

The Series 2017A Obligation shall constitute a joint and several general obligation of each Member of the Obligated Group, secured under the Master Trust Indenture on a parity basis by the security interest in Gross Receipts. Pursuant to the Master Trust Indenture, the Series 2017A Obligation is also secured by mortgages on certain “core” healthcare facilities of the Members of the Obligated Group as described in

more detail herein. However, no mortgage has been specifically granted to secure the Series 2017A Obligation. See “SOURCE OF PAYMENT AND SECURITY FOR THE BONDS – The Master Trust Indenture” and “– The Mortgages.”

## **Northwell**

Northwell Health, Inc. (“NHI”), together with its member corporations and affiliated entities, constitutes an integrated health care delivery system comprised of eighteen hospitals, four long-term care facilities, four certified home health care agencies, six trauma centers, a hospice network, over 550 ambulatory and physician practice locations, The Feinstein Institute for Medical Research and other controlled entities (collectively referred to as “Northwell”). HCI provides administrative and management services for Northwell-affiliated hospitals.

HCI is the sole member (parent) of each of the following, which together with HCI comprise the Obligated Group (hereinafter collectively, the “Members of the Obligated Group”): North Shore University Hospital (“NSUH”), Long Island Jewish Medical Center (“LIJMC”), Glen Cove Hospital (“GCH”), Plainview Hospital (“PVH”), Northwell Health Stern Family Center for Rehabilitation (“Stern”), Lenox Hill Hospital (“Lenox”), Southside Hospital (“SH”), Huntington Hospital Association d/b/a Huntington Hospital (“HH”) and Staten Island University Hospital (“SIUH”). Each Member of the Obligated Group is a New York not-for-profit corporation that is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”), as an organization described in Section 501(c)(3) of the Code. Additionally each Member of the Obligated Group has been established as an operator or co-operator of a hospital or a long-term care facility pursuant to Article 28 of the Public Health Law of the State of New York (“PHL”).

See APPENDIX A – “NORTHWELL AND THE OBLIGATED GROUP” for a more complete description of Northwell and the Members of the Obligated Group. Important information on the financial condition of Northwell is set forth in APPENDIX A, APPENDIX B-1 – “AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF NORTHWELL HEALTH, INC. FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 WITH REPORT OF INDEPENDENT AUDITORS” and APPENDIX B-2 – “UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF NORTHWELL HEALTH, INC. FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016” attached hereto, which should be read in their entirety.

The ultimate parent of Northwell is NHI. NHI is not a Member of the Obligated Group.

## **SOURCE OF PAYMENT AND SECURITY FOR THE BONDS**

### **Payment of and Security for the Bonds**

#### ***General***

The obligations of HCI under the Bond Indenture constitute a general obligation of HCI. The Bond Indenture obligates HCI to make payments to the Bond Trustee in amounts sufficient to pay, among other things, the principal of, and interest on, the Outstanding Bonds as they become due. With respect to the Bonds, each payment will be made in immediately available funds by depositing the same with or to the account of the Bond Trustee one (1) day prior to the day such payments shall become due or payable (or the next preceding Business Day (as defined in the Bond Indenture) if such date is not a Business Day). See APPENDIX C-1 – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE.” Payment of the principal, redemption price or Make-Whole Redemption Price, if any, and interest on the Bonds when due under the Bond Indenture, will be secured by payments made by the Obligated Group pursuant to the Series 2017A Obligation. The Series 2017A Obligation is a joint and several general obligation of each Member of the Obligated Group. See “SOURCE OF PAYMENT AND SECURITY FOR THE BONDS – The Master Trust Indenture” and “– The Mortgages.”



The actual realization of amounts to be derived upon the enforcement of any security interest securing the Bonds will depend upon the exercise of various remedies specified by the Bond Indenture, the Mortgages and the Master Trust Indenture. These and other remedies may, in many respects, require judicial action of a nature that is often subject to discretion and delay. Under existing law, the remedies specified by the Bond Indenture, the Mortgages and the Master Trust Indenture may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in those documents. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, fraudulent conveyance, reorganization and other laws affecting the enforcement of creditors' rights generally. See "RISK FACTORS AND REGULATORY PROVISIONS THAT MAY AFFECT NORTHWELL AND THE OBLIGATED GROUP" and APPENDIX C-2 – "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE."

## **The Master Trust Indenture**

### ***General***

Pursuant to the Master Trust Indenture, each Obligation issued thereunder, including the Series 2017A Obligation, is a joint and several general obligation of each Member of the Obligated Group. The Master Trust Indenture includes a pledge of a security interest in the Gross Receipts of each Member of the Obligated Group made to the Master Trustee to secure on a parity basis all Obligations theretofore and thereafter issued under the Master Trust Indenture. Pursuant to the Master Trust Indenture, the Master Trustee holds the Mortgages from each Member of the Obligated Group (except HCI) granted to secure all Obligations issued under the Master Trust Indenture on a parity basis. See "SOURCE OF PAYMENT AND SECURITY FOR THE BONDS – The Mortgages." As described in APPENDIX C-2 – "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE – Limitations on Creation of Liens" and "– Limitations on Indebtedness," under certain circumstances the Members of the Obligated Group may create Liens on Property or incur Indebtedness. The Members may not create or suffer to be created any Lien on Property other than Permitted Liens. The Master Trust Indenture states that the Mortgages shall serve as additional security for all Obligations issued and to be issued under the Master Trust Indenture. The Liens created by the Mortgages are Permitted Liens. The Master Trust Indenture provides that the distribution of proceeds from the enforcement or foreclosure of the Mortgages and any future Mortgage will be pro rata based on the outstanding principal amount (after deducting certain amounts) of the Obligations secured by the Mortgages, thereby effectively placing all Obligations on parity with respect to foreclosure proceeds regardless of the order of priority of the liens granted under such Mortgages and any future Mortgages; provided, however, no assurance can be given that such provisions of the Master Trust Indenture that indicate the intention of the Obligated Group to equally and ratably secure all Obligations with regard to any foreclosure proceeds of a Mortgage will bind other creditors or Obligation holders that are not secured pursuant to the terms of a specific Mortgage. See "– The Mortgages" in this section.

As of June 30, 2017, there are parity Obligations securing debt in the aggregate principal amount of \$2,197,530,000 Outstanding under the Master Trust Indenture, as well as Obligations in the amount of \$41,130,000 securing contingent liabilities for debt service reserve fund letters of credit and commitments for such letters of credit, Obligations in the amount of \$120,473,000 securing letters of credit for workers compensation coverage, and an Obligation securing an interest rate swap in the current notional amount of \$11,610,000. Members of the Obligated Group have previously arranged (and may again in the future arrange) for Obligations to secure swaps and letters of credit (which will, for example, support insurance policies such as noted in "Risk Management and Commercial Insurance Program" in APPENDIX A or to substitute for trustee-held debt service reserve funds). The Members of the Obligated Group may issue additional Obligations that are intended by the Obligated Group to be secured by the security interest in Gross Receipts and the Mortgages on a parity with the Series 2017A Obligation and all previously issued Obligations. See APPENDIX C-2 – "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER

TRUST INDENTURE – MASTER TRUST INDENTURE – Limitations on Indebtedness” for a description of the conditions whereby the Members of the Obligated Group may issue additional Obligations.

THE MASTER TRUST INDENTURE PERMITS EACH MEMBER OF THE OBLIGATED GROUP TO ISSUE OR INCUR ADDITIONAL INDEBTEDNESS EVIDENCED BY OBLIGATIONS THAT WILL SHARE THE SECURITY FOR THE SERIES 2017A OBLIGATION EVIDENCED BY THE PLEDGE OF GROSS RECEIPTS AND THE MORTGAGES. SUCH ADDITIONAL OBLIGATIONS WILL NOT BE SECURED BY ANY OTHER MONEY OR INVESTMENTS IN ANY FUND OR ACCOUNT HELD BY THE BOND TRUSTEE FOR THE SECURITY OF THE BONDS.

### ***Security Interest in Gross Receipts***

As security for the Obligations of the Members of the Obligated Group under the Master Trust Indenture, each Member of the Obligated Group has pledged to the Master Trustee a security interest in its Gross Receipts, consisting of all receipts, revenues, income and other moneys (other than proceeds of borrowing) received or receivable by or on behalf of a Member of the Obligated Group and all other amounts available to a Member of the Obligated Group from any other source; provided, however, that Gross Receipts do not include (x) gifts, grants, bequests, donations, and contributions and any income derived therefrom, to the extent specifically restricted by the donor or grantor to a special object or purpose inconsistent with (i) paying debt service on an Obligation or (ii) meeting any commitment of a Member under a Related Bond Indenture, (y) funds which are established and maintained with fees collected in private practice by physicians who are employed by a Member of the Obligated Group, or (z) all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group and the proceeds thereof and any insurance or condemnation proceeds thereon, whether now owned or hereafter acquired, derived from Excluded Property which constitutes real property. See “RISK FACTORS AND REGULATORY PROVISIONS THAT MAY AFFECT NORTHWELL AND THE OBLIGATED GROUP – Enforceability of Lien of Gross Receipts.” See also APPENDIX C-2 – “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE – Security.”

### ***Particular Covenants***

Subject to the terms of the Master Trust Indenture, any Persons that are not Members of the Obligated Group and corporations that are successor corporations to any Member of the Obligated Group through merger or consolidation as permitted by the Master Trust Indenture may become a Member of the Obligated Group. The Members of the Obligated Group are subject to covenants under the Master Trust Indenture relating to maintenance of a Long-Term Debt Service Coverage Ratio and restricting, among other things, incurrence of Indebtedness, existence of Liens on Property, consolidation and merger, disposition of assets, permitted releases of portions of the Mortgaged Property or permitted modifications of the Mortgages, addition of Members to the Obligated Group and withdrawal of Members from the Obligated Group. See APPENDIX C-2 – “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE.”

In addition, the Members of the Obligated Group covenant with the Holder of the Series 2017A Obligation, as set forth in the Series 2017A Supplemental Indenture, that in no event will the Long-Term Debt Service Coverage Ratio be less than 1.00 as of the end of any Fiscal Year. Such covenant is made solely for the benefit of the Holder of the Series 2017A Obligation.

### **Additional Bonds**

The Bond Indenture provides that HCI may issue Additional Bonds thereunder, subject to the terms and conditions set forth in the Bond Indenture. At the option and direction of HCI, and upon compliance with certain requirements of the Bond Indenture, any Additional Bonds may be consolidated with the Bonds. Any Additional Bonds that are consolidated with the Bonds shall mature on the applicable maturity date for the Bonds and shall bear interest at the applicable rate per annum for the Bonds, and shall be subject to redemption at the same times and at the same redemption price or Make-Whole Redemption Price, as

applicable, as the Bonds. Each Additional Bond to be so consolidated shall constitute part of the same Bond transaction. See APPENDIX C-1 – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE—Additional Bonds.”

### **Certain Expected Amendments to the Master Trust Indenture**

The Members of the Obligated Group intend, over time, to implement certain amendments to the Master Trust Indenture. Such proposed amendments are described below and in APPENDIX C-3 – “THE SPRINGING AMENDMENTS TO THE MASTER TRUST INDENTURE” hereto (the “Springing Amendments”). Section 6.02 of the Master Trust Indenture provides that the Master Trust Indenture may be amended with the consent of the Holders of not less than 51% in aggregate principal amount of the Obligations then Outstanding under the Master Trust Indenture and entitled to grant consents to amendments thereto. By their purchase of the Bonds, the original purchasers thereof (i) shall consent, and shall be deemed to have consented, to the Springing Amendments to the Master Trust Indenture described below and in APPENDIX C-3 – “THE SPRINGING AMENDMENTS TO THE MASTER TRUST INDENTURE” hereto, and (ii) shall waive, and shall be deemed to have waived, any and all other formal notice, implementation, execution or timing requirements that may otherwise be required under the Master Trust Indenture in order to implement the Springing Amendments. Upon obtaining the consent of the Holders of not less than 51% in aggregate principal amount of all Obligations Outstanding under the Master Trust Indenture and entitled to grant consents to amendments thereto, some or all of such Springing Amendments, at the election of the Obligated Group Representative, will then be effective. After giving effect to the issuance of the Bonds (and thereby obtaining the consent of the original purchasers of such Bonds as described above), and after giving effect to the defeasance of the Refunded Bonds, there will be approximately \$2,812,959,000 of Obligations Outstanding under the Master Trust Indenture, the Holders of which have the right to consent to the Springing Amendments, and the consent of the Holders of approximately \$956,919,000, or 34%, in aggregate principal amount of such Obligations (representing the consents of the Holders of the Series 2017A Obligation that secures the Bonds), shall have been obtained with respect to the Springing Amendments. As such, at the time of the issuance of the Bonds, the Holders of not less than 51% in aggregate principal amount of all Obligations shall not have been obtained with respect to the Springing Amendments. The Springing Amendments will not become effective unless and until the consent of the Holders of not less than 51% in aggregate principal amount of all Obligations Outstanding under the Master Trust Indenture and entitled to consent to amendments thereto has been obtained. Select Springing Amendments may also require the consent of the Dormitory Authority of the State of New York (“DASNY”). In addition, the terms and provisions of certain outstanding Indebtedness of the Obligated Group also currently require the consent of certain other entities before the Springing Amendments can fully take effect under the documents related to such other outstanding Indebtedness. No assurance can be given as to whether, or when, or which of, the Springing Amendments will become effective.

#### ***The Springing Amendments***

The Springing Amendments consist of the following:

**New Definitions.** The following definitions would be added to Section 1.01 of the Master Trust Indenture:

“Bond Index” means, at the option of the Obligated Group Representative as directed by an Officer’s Certificate, either (i) the average rate on the Indebtedness in question during any twelve-month period ending within thirty (30) days prior to the date of calculation (or such lesser time period as such Indebtedness has been Outstanding), (ii) the average rate of a comparable variable rate interest index during any twelve-month period ending within thirty (30) days prior to the date of calculation (or such lesser time period as such comparable index has been determined), (iii) the 30-year Revenue Bond Index published most recently by The Bond Buyer, or a comparable index if such Revenue Bond Index is not so published,

(iv) the SIFMA Index, or (v) such other interest rate or interest index as may be certified in writing to the Master Trustee as appropriate to the situation by the Obligated Group Representative.

“SIFMA” means the Securities Industry and Financial Markets Association, any successor thereto, or any person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Obligated Group Representative.

“SIFMA Index” means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations (the SIFMA Municipal Swap Index), as produced by Municipal Market Data and published or made available by SIFMA, or any person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Obligated Group Representative, and effective from such date.

“Transaction Test” means the Master Trustee shall have received any one of the following:

(i) an Officer’s Certificate demonstrating that the Long-Term Debt Service Coverage Ratio for the most recent twelve (12) full consecutive calendar months for which there are Audited Consolidated Financial Statements available, assuming that the proposed additional Long-Term Indebtedness had been incurred, or that the proposed transaction had occurred, at the beginning of the most recent twelve (12) full consecutive calendar months for which there are Audited Consolidated Financial Statements available, is not less than 1.10; or

(ii) an Officer’s Certificate demonstrating (a) that the Long-Term Debt Service Coverage Ratio for the most recent twelve (12) full consecutive calendar months for which there are Audited Consolidated Financial Statements available was not less than 1.10, and (b) that the Long-Term Debt Service Coverage Ratio for each of the two full Fiscal Years following the computation then being made, or if later, following the estimated date of completion of the capital improvements or expenditures, if any, then being financed, is projected to be not less than 1.10 or, if less than 1.10 but at least 1.00, is projected to be greater than such ratio would have been if the proposed transaction had not taken place; or

(iii) an Officer’s Certificate demonstrating that immediately after the proposed transaction the aggregate principal amount of all outstanding Long-Term Indebtedness of the Members of the Obligated Group (excluding any Guaranty) will not exceed sixty-five percent (65%) of the sum of (a) the aggregate principal amount of all outstanding Long-Term Indebtedness of the Members of the Obligated Group (excluding any Guaranty) plus (b) the aggregate net assets of the Members of the Obligated Group.

A number of other definitions will be modified (“Balloon Long-Term Indebtedness,” “Long-Term Debt Service Requirement” and “Days Cash on Hand”) as set forth below.

**Revised Definition of Balloon Long-Term Indebtedness.** The definition of “Balloon Long-Term Indebtedness” in Section 1.01 of the Master Trust Indenture would be amended to change the reference to “25%” therein to “15%”.

**Revised Definition of Long-Term Debt Service Requirement.** Clause (a) of paragraph (i) of the definition of “Long-Term Debt Service Requirement” in the Master Trust Indenture, relating to Balloon Long-Term Indebtedness, would be amended to read as follows:

“(a) the amount of principal which would be payable in such period if such principal were amortized from the date of such calculation over a period of the longer of (I) thirty (30) years or (II) the remaining period to the final maturity of such Balloon Long-Term Indebtedness, in each

case on a level debt service basis, and at an interest rate, at the option of the Obligated Group Representative, equal to either the actual rate borne by such Indebtedness on the date calculated, or an interest rate derived from the Bond Index, as such interest rate in either case may be determined by an Officer's Certificate (in addition, the calculation of the Long-Term Debt Service Requirement for Outstanding Balloon Long-Term Indebtedness may be further adjusted upon delivery to the Master Trustee of (A) an Officer's Certificate, dated within 90 days prior to the date of calculation of the Long-Term Debt Service Requirement, stating that financing of a stated term (which shall not extend beyond 30 years after such date of calculation), amortization, and interest rate of Outstanding Balloon Long-Term Indebtedness is reasonably attainable by the Obligated Group to refund or otherwise directly or indirectly to refinance any amount of such Balloon Long-Term Indebtedness, in which case the principal of and premium, if any, and interest and other debt service charges on the amount of such Balloon Long-Term Indebtedness so certified to be refundable or refinancable (whether or not any such refunding or refinancing is imminent) shall be excluded from the calculation of the Long-Term Debt Service Requirement and the principal of and premium, if any, and interest and other debt service charges (which need not be based upon level annual debt service) on the theoretical refunding or refinancing Indebtedness as so certified which would result from such theoretical refunding or refinancing if incurred on the first day of the Fiscal Year for which the Long-Term Debt Service Requirement is being calculated, shall be added to the calculation of such Long-Term Debt Service Requirement; and (B) an Officer's Certificate, accompanied by a written consent or agreement of the obligor on such Balloon Long-Term Indebtedness agreeing to retire (and such Balloon Long-Term Indebtedness shall permit the retirement of), or to fund a sinking fund or escrow for, the principal of such Balloon Long-Term Indebtedness according to a fixed schedule stated in such consent or agreement ending on or before the Fiscal Year in which such amount is due or could become due or payable in respect of any required purchase or maturity of such Balloon Long-Term Indebtedness, in which case the principal of (and, in the case of retirement, the premium, if any, and interest and other debt service charges on) such Balloon Long-Term Indebtedness shall be computed as if the same were due in accordance with such fixed schedule; provided that this clause (B) shall only be applicable to Outstanding Balloon Long-Term Indebtedness for which the installments of principal previously scheduled have been paid or funded on or before the times required by such previous schedule);"

**Revised Definition of Days Cash on Hand.** The definition of "Days Cash on Hand" in the Master Trust Indenture would be amended by changing the reference to "180 times" therein to "183 times" and by deleting the phrase "unrestricted marketable securities and other investments" in clause (i) of such definition and replacing such phrase with "unrestricted securities and other unrestricted investments", such that the definition would read as follows:

““Days Cash On Hand” means, for purposes of Sections 18 and 19 of the Series 2011 Supplemental Indenture, for the Obligated Group, as of any date, the product of 365 times or 183 times, as the case may be, (i) the unrestricted cash and cash equivalents plus unrestricted securities and other unrestricted investments (in accordance with generally accepted accounting principles) as reflected in the financial statements of the Obligated Group as derived from the Audited Consolidated Financial Statements of the Health System, at December 31, and as reflected in the unaudited interim consolidated financial statements of the Obligated Group as derived from the unaudited financial statements of the Health System, at June 30, in each case plus board and management designated assets and interest funds in any trustee funds which are to be applied to the current year's interest expense, divided by (ii) the operating and non-operating expenses of the Obligated Group for the twelve or six months, as the case may be, excluding from such expenses: (a) depreciation and amortization of debt and bond issuance costs, (b) any amount included in the operating and non-operating expenses representing bad debt expense, and (c) any extraordinary or nonrecurring item.”

**Accounting Changes and Flexibility.** A new Section 1.03 would be added to the Master Trust Indenture, to read as follows:

“Section 1.03. **Accounting Principles and Financial Reporting.** (a) All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles consistently applied, except as otherwise stated herein. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation, combination or other accounting computation is required to be made for the purposes of this Master Indenture or any agreement, document or certificate executed and delivered in connection with or pursuant to this Master Indenture, then, notwithstanding any other provision to the contrary in this Master Indenture requiring that generally accepted accounting principles be consistently applied, such determination or computation shall be done in accordance with generally accepted accounting principles in effect on, at the sole option of the Obligated Group Representative, (i) the date such determination or computation is made for any purpose of this Master Indenture, (ii) September 1, 2017, or (iii) the date that this Section 1.03 becomes effective if the Obligated Group Representative delivers an Officer’s Certificate to the Master Trustee explaining the basis for such treatment; provided that intercompany balances and liabilities among the Members of the Obligated Group shall be disregarded.

(b) Notwithstanding anything else in this Master Indenture to the contrary, in addition to those provisions of this Master Indenture which expressly permit the use of financial or other information on the basis of the Health System, in computing or calculating Balloon Long-Term Indebtedness, Book Value, Days Cash on Hand, Income Available for Debt Service, Indebtedness, Long-Term Debt Service Coverage Ratio, Long-Term Debt Service Requirement, Maximum Annual Debt Service, Operating Assets, Property, Property Plant and Equipment, Total Operating Revenues, Transaction Test or any other quantitative financial test or provision, the Obligated Group, at the option of the Obligated Group Representative, may, unless the context specifically requires otherwise, utilize financial and other information either (i) with respect to the Members of the Obligated Group in the aggregate or (ii), so long as the Obligated Group constitutes or is responsible for at least eighty percent (80%) of the assets or revenues of the Health System for the most recent Fiscal Year of the Health System, with respect to the Health System in the aggregate, with such percentage being calculated in a manner that excludes intercompany eliminations from the numerator of such calculation.

(c) The Members of the Obligated Group shall not be required to have the same Fiscal Year, and calculations of covenants in this Master Indenture may be made based upon any such differing Fiscal Years in the event that Members of the Obligated Group have differing Fiscal Years, notwithstanding anything to the contrary in this Master Indenture or in the definition of Fiscal Year in Section 1.01 of this Master Indenture.

(d) The provisions of this Section 1.03 shall be applicable and effective notwithstanding the provisions of Section 1.02(c), (f) and (g) hereof.”

**Accounts Receivable.** Section 3.05(b)(ix) of the Master Trust Indenture, as relates to Liens on accounts receivable, would be amended by deleting the phrase “So long as no Event of Default exists under this Master Indenture,”.

**Lien Basket.** Section 3.05(b)(x) of the Master Trust Indenture, as relates to the Lien basket, would be amended by (a) adding the phrase “or any other obligations or liabilities of a Member of the Obligated Group” after the phrase “which secures Indebtedness or Derivative Agreements”, and (b) deleting the phrase “in aggregate 20% of Total Operating Revenue” and adding in its place the phrase “the greater of (i) in aggregate 20% of Total Operating Revenue or (ii) in aggregate 20% of the combined Book Value of the Property of the Obligated Group, in either case”.

**Allowing Swap Collateral.** Section 3.05 of the Master Trust Indenture, relating to Permitted Liens, would be amended by adding a new paragraph: 3.05(b)(xxi) thereto, to read as follows:

“(xxi) Any Lien securing any Derivative Agreement or the obligations of any one or more Members of the Obligated Group under any Derivative Agreement, in each case which Derivative Agreement is related to Indebtedness (including any obligation arising upon the termination of any such Derivative Agreement), or that may be required from time to time to satisfy any collateralization requirements under any such Derivative Agreement.”

**Bankers’ Liens.** Section 3.05 of the Master Trust Indenture, relating to Permitted Liens, would be amended by adding a new paragraph: 3.05(b)(xxii) thereto, to read as follows:

“(xxii) Any Lien in the nature of a bankers’ lien or rights of set-off.”

**Accountable Care Organizations.** Section 3.05 of the Master Trust Indenture, relating to Permitted Liens, would be amended by adding a new paragraph: 3.05(b)(xxiii) thereto, to read as follows:

“(xxiii) Any Lien in favor of any members of, or participants in, an accountable care organization or similar arrangement to which a Member of the Obligated Group is a member or participant.”

**DASNY Consent to Short-Term Debt.** Section 3.06(c) of the Master Trust Indenture, relating to Short-Term Indebtedness, would be amended by deleting the first proviso phrase therein, which reads “; provided, however, if Related Bonds issued by the Authority are Outstanding, the Obligated Group must first obtain the written consent of the Authority prior to issuing Short-Term Indebtedness in excess of 15% of Total Operating Revenues for the most recent period of twelve consecutive months for which Audited Consolidated Financial Statements are available; and”.

**Additional Permitted Dispositions.** Section 3.08 of the Master Trust Indenture, relating to dispositions, would be amended by adding two new paragraphs: 3.08(a)(vii) and (a)(viii) thereto, to read as follows:

“(vii) To any affiliated physician or medical group practice provided that such transfer is used solely to subsidize or support salary and benefits of physician employees and ordinary course operating expenses of such group practice.

(viii) To any self-insurance trust or captive insurance company.”

**Allowing As-of-Right Mergers Between Obligated Group Members.** Section 3.09 of the Master Trust Indenture would be amended by adding a new proviso at the end of subsection (a)(iv) thereof, to read as follows:

“; provided, however, that the provisions of this subparagraph (iv) shall not be required to be satisfied if the merger or consolidation is only between or among Members of the Obligated Group.”

**Fiscal Year.** The provisions of Section 3.11(a)(ii) of the Master Trust Indenture, which reads “(ii) to adopt the same Fiscal Year as that of the Members of the Obligated Group”, would be deleted.

**Allowing Elimination of Mortgages.** Section 3.13 of the Master Trust Indenture would be amended by adding a new subsection (e) thereto, to read as follows:

“(e) Notwithstanding any other provisions in this Master Indenture, any Supplement, or any Obligation relating to the Mortgages or the release or amendments

thereof, the Master Trustee shall release and discharge all or any of the Mortgages upon the written direction of the Obligated Group Representative. Promptly upon receipt by the Master Trustee of such written direction, the Master Trustee shall, as directed by the Obligated Group Representative, take such action as may be necessary or appropriate to release and discharge any such Mortgages.”

**Transaction Test.** A new Section 3.14 would be added to the Master Trust Indenture, to read as follows:

“Section 3.14. Transaction Test. Notwithstanding, and in addition to, and as an alternative to, the provisions of Sections 3.05, 3.06, 3.08, 3.09, 3.11, 3.12 and 3.13 of this Master Indenture, (i) the Obligated Group or any Member of the Obligated Group may create or suffer to exist any Lien on Property (as an additional category of Permitted Lien); (ii) the Obligated Group or any Member of the Obligated Group may incur Additional Indebtedness; (iii) the Obligated Group or any Member of the Obligated Group may sell, lease, transfer or dispose of Operating Assets, or dispose of cash, investments, or other Property; (iv) the Obligated Group or any Member of the Obligated Group may merge or consolidate with an entity that is not a Member of the Obligated Group; (v) a Person may become a Member of the Obligated Group; (vi) a Member of the Obligated Group may withdraw from the Obligated Group; (vii) the Obligated Group or any Member of the Obligated Group may release or allow the release of any of the Mortgaged Property from the Lien of the Mortgages (as an additional category of Permitted Release); and (viii) the Obligated Group or any Member of the Obligated Group may modify or amend any of the Mortgages (as an additional category of Permitted Modification), in each case of clauses (i) through and including (viii) of this section, upon the delivery of an Officer’s Certificate to the Master Trustee demonstrating compliance with any one of the provisions of the Transaction Test.”

**Elimination of Certain Amendment Restrictions.** Section 6.01 of the Master Trust Indenture would be amended by deleting the proviso immediately following Section 6.01(h)(iii).

**Elimination of Credit Facility Issuer Consent Requirement.** Section 6.02(a) of the Master Trust Indenture would be amended by deleting the phrase “, with consent of each Credit Facility Issuer insuring Obligations or Related Bonds”.

**Document Substitution.** A new Section 6.04 would be added to the Master Trust Indenture, to read as follows:

“Section 6.04. Document Substitution. (a) This Master Indenture may be amended or supplemented as provided in Sections 6.01 and 6.02 of this Master Indenture.

(b) In addition, the Obligated Group and the Master Trustee, may, without the consent of any of the Holders of any Obligations or any Related Bonds, but only upon receipt by the Master Trustee of an Officer’s Certificate demonstrating satisfaction of the Substitution Transaction Test (as defined below), enter into one or more supplements, amendments, restatements, replacements or substitutions to this Master Indenture, to modify, amend, restate, supplement, replace, substitute, change or remove any covenant, agreement, term or provision of this Master Indenture, in whole or in part, including, but not limited to, an amendment, restatement or substitution of this Master Indenture, in whole to relate to all Related Bonds, or in part to relate to a portion of the Related Bonds, including but not limited to a series or subseries of the Related Bonds secured by payment obligations of the health care facilities on whose behalf the allocable portion of the proceeds of the Related Bonds were utilized, or an affiliate of such health care facilities, in order to effect (i) the affiliation of the Obligated Group Representative, the Obligated Group, or any Members of the



Obligated Group with any of the foregoing or with another entity or entities in order to create a new or modified credit group or structure or in order to provide for the inclusion of the Obligated Group Representative, the Obligated Group, or any Members of the Obligated Group in another obligated group, combined group or other unified credit group or structure, (ii) the release or discharge of any collateral securing the Related Bonds, including, but not limited to, the release or discharge of (A) any or all Obligations, in whole or in part, issued pursuant to this Master Indenture to secure the Related Bonds and (B) the Obligated Group Representative, the Obligated Group, or any Members of the Obligated Group from any or all liability (whether direct or indirect) with respect to the Related Bonds or a portion thereof, any Related Loan Agreement, any Related Bond Indenture, the Obligations, or this Master Indenture or any portion of any thereof, in consideration for the issuance of a note or notes to secure the Related Bonds or portion of the Related Bonds that are to become an obligation of the new affiliated entities or the new obligated group, combined group or other unified credit group, which note or notes would constitute obligations of the new affiliated entities or the members of the new obligated group, combined group or other unified credit group, and (iii) the replacement of all or a portion of the financial and operating covenants and related definitions set forth in this Master Indenture with those of the new affiliated entities or the new obligated group, combined group or other unified credit group, set forth in the new agreement or master indenture (such transaction is referred to collectively herein as the “Substitution Transaction”).

(c) The Substitution Transaction Test shall mean, and be satisfied if, the Obligated Group Representative delivers to the Master Trustee any one of the following:

(A) Rating Upgrade. An Officer’s Certificate demonstrating that, upon consummation of the Substitution Transaction, and after giving effect to such Substitution Transaction, (i) at least one rating agency that has provided a long-term rating on the publicly sold Related Bonds provides written confirmation or other evidence to the effect that the long-term rating by such rating agency on such Related Bonds will either be A+ or higher, or will be a higher rating category or rating modifier than the then-current rating immediately prior to the Substitution Transaction as a result of and giving effect to the implementation of the Substitution Transaction; and (ii) the new obligated group satisfies the Transaction Test, assuming the incurrence of \$1.00 of additional Long-Term Indebtedness; or

(B) Coverage Test. An Officer’s Certificate demonstrating (i) that the Long-Term Debt Service Coverage Ratio for the twelve (12) full consecutive calendar months for which there are Audited Consolidated Financial Statements available, assuming the proposed Substitution Transaction had occurred at the beginning of such twelve (12) calendar month period, is not less than 1.75, and (ii) that the Long-Term Debt Service Coverage Ratio for each of the two full Fiscal Years following implementation of the Substitution Transaction is projected to be not less than 1.75, or if less than 1.75 but at least 1.00, is projected to be greater than such ratio would have been if the proposed Substitution Transaction had not been implemented, and (iii) the new obligated group satisfies the Transaction Test, assuming the incurrence of \$1.00 of additional Long-Term Indebtedness; or

(C) Rating Confirmation. In the event that the new obligated group, after giving effect to the Substitution Transaction, cannot satisfy the requirements of Paragraph (A) or (B) above, an Officer’s Certificate demonstrating that, upon consummation of the Substitution Transaction, and after giving effect to the implementation of the Substitution Transaction, (i) at least two of the rating agencies that have provided a long-term rating on the publicly sold Related Bonds provide written confirmation or other evidence to the effect that the long-term

ratings by each such rating agency on such Related Bonds, as a result of and giving effect to the implementation of the Substitution Transaction, will be no less than the then-current rating on such Related Bonds immediately prior to the implementation of the Substitution Transaction, or that the then-current rating will not be decreased or withdrawn as a result of the implementation of the Substitution Transaction (a rating decrease shall include instances where the rating category level remains unchanged but the rating modifier (such as “+” or “-”) is decreased as a result of the implementation of the Substitution Transaction, but a rating decrease shall not include instances where the outlook alone is decreased); (ii) the new obligated group satisfies the Transaction Test, assuming the incurrence of \$1.00 of additional Long-Term Indebtedness; and (iii) the new master indenture contains a pledge of gross revenues or gross receipts similar to the pledge of Gross Receipts established under this Master Indenture.

(d) Upon the implementation of the Substitution Transaction pursuant to paragraph (c) above, and concurrently therewith, the Master Trustee shall, as may be directed in writing by the Obligated Group Representative, at the option and direction of the Obligated Group Representative, release and discharge the pledge of and security interest in Gross Receipts (only in the case of (c)(A) or (B) above) or any or all of the Mortgages or any portions thereof (in the case of (c)(A), (B) or (C) above), and file or record or allow to be filed or recorded any releases, discharges or termination statements that may be applicable thereto.

(e) If all amounts due or to become due on the Related Bonds have not been fully paid to the Holders thereof, at or prior to the implementation of the Substitution Transaction there shall also be delivered to the Master Trustee: (i) an Opinion of Bond Counsel to the effect that under then existing law the implementation of the Substitution Transaction and the execution of the amendments, supplements, restatements, replacements or substitutions contemplated in this Section, in and of themselves, would not adversely affect the validity of the Related Bonds or the exclusion from federal income taxation of interest payable on the Related Bonds, and (ii) an Opinion of Counsel to the new affiliated entities or the new obligated group, combined group or other unified credit group to the effect that (1) the note or notes of the new affiliated entities or the new obligated group, combined group or other unified credit group to be delivered in connection with the implementation of the Substitution Transaction constitute legal, valid and binding obligations of the new affiliated entities or the new obligated group, combined group or other unified credit group enforceable in accordance with their terms, except to the extent that the enforceability of such note or notes may be limited by any applicable bankruptcy, insolvency, liquidation, rehabilitation or other similar laws or enactment affecting the enforcement of creditors’ rights, and such other customary exceptions for similar transactions, and (2) the issuance of the note or notes will not cause the Related Bonds or such note or notes to become subject to the registration requirements pursuant to the Securities Act of 1933, as amended.

(f) Notwithstanding any other provisions of this Section 6.04, in no event may the implementation of the Substitution Transaction result in a change described in clause (i), (ii) or (iii) of Section 6.02(a) hereof without the receipt of the applicable level of consents required under such clauses.

(g) In addition, upon the implementation of the Substitution Transaction, the Obligated Group Representative shall direct the Master Trustee to give written notice thereof, by first-class mail, to the Holders of the Obligations then Outstanding.”

## **The Mortgages**

The Mortgages granted by the Members of the Obligated Group on or prior to June 23, 2015 specifically secure Obligations issued pursuant to the Master Trust Indenture on or prior to that date. **No Mortgage has been specifically granted to secure the Series 2017A Obligation.** The Master Trust Indenture provides that each Obligation, heretofore or hereafter issued pursuant to the Master Trust Indenture, including the Series 2017A Obligation, is secured equally and ratably by Mortgages granted to the Master Trustee by the Members of the Obligated Group (other than HCI) on their core healthcare facilities, regardless of when granted and whether or not it purports to secure future Obligations. However, no assurance can be given that such provision of the Master Trust Indenture will be upheld by a court in bankruptcy to the extent that an Obligation is not specifically covered by a Mortgage. Additionally, the Mortgage granted by Lenox on the premises known as the Manhattan Eye, Ear and Throat Institute, a Lenox outpatient center located on East 64th Street in Manhattan, is subordinate to a prior mortgage in favor of a commercial lender. The Master Trustee may release portions of the Mortgaged Property from the Lien of the Mortgages, or amend or modify any of the Mortgages, as provided in the Master Trust Indenture.

The Master Trust Indenture provides for the pro rata allocation of the proceeds of foreclosure of all or any of the Mortgages and any future Mortgage to payment of outstanding Obligations, including the Series 2017A Obligation and Obligations that secure all other existing and future bonds issued for the benefit of one or more Members of the Obligated Group and future Obligations issued under the Master Trust Indenture to secure other indebtedness. The pro rata allocation of such proceeds shall be based on the outstanding par amount of each Obligation issued under the Master Trust Indenture. The dollar amount secured by the Mortgages is less than the aggregate outstanding amount of all Obligations issued under the Master Trust Indenture. Accordingly, in the event of a default under the Master Trust Indenture, it may not be possible to realize the outstanding interest on and principal of the Bonds from a foreclosure upon, or a sale or lease of, the Mortgaged Property. See “RISK FACTORS AND REGULATORY PROVISIONS THAT MAY AFFECT NORTHWELL AND THE OBLIGATED GROUP – Realization of Value on the Mortgaged Property.”

See APPENDIX C-2 – “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE – Permitted Releases and Permitted Modifications with Respect to the Mortgages” and APPENDIX C-3 – “THE SPRINGING AMENDMENTS TO THE MASTER TRUST INDENTURE – 11. Allowing Elimination of Mortgages.”

### **Amendments of Bond Indenture, Master Trust Indenture, Series 2017A Supplemental Indenture and Series 2017A Obligation**

Each of the Bond Indenture and the Master Trust Indenture provides for the modification or amendment of the Bond Indenture and the Master Trust Indenture, respectively, from time to time, in certain circumstances without the consent of the Holders of the Bonds or any Additional Bonds issued and Outstanding under the Bond Indenture or the Holders of Obligations (including the Series 2017A Obligation or any other Obligation issued under the Master Trust Indenture to secure Additional Bonds), respectively, and in other circumstances with the consent of the Holders of a majority of the principal amount of the Bonds and any Additional Bonds issued and Outstanding under the Bond Indenture, or the consent of the Holders of a majority in aggregate principal amount of the outstanding Series 2017A Obligation and any other Obligation issued under the Master Trust Indenture to secure Additional Bonds, respectively. Such amendments could be substantial and result in the modification, waiver or removal of certain existing covenants or restrictions contained in the Bond Indenture or the Master Trust Indenture. Such amendments could adversely affect the security of the Bondholders. See APPENDIX C-2 – “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE—Supplements and Amendments” and APPENDIX C-1 – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE—Modification or Amendment of Bond Indenture.” No consent is required from the Holders or Beneficial Owners of the Bonds to any amendment to authorize the issuance of Additional Bonds (including any Additional Bonds that are consolidated with the Bonds) under the Bond Indenture.

As described herein, the Springing Amendments will not become effective unless and until the consent of the Holders of not less than 51% in aggregate principal amount of all Obligations Outstanding under the Master Trust Indenture and entitled to consent to amendments thereto has been obtained. By their purchase of the Bonds, the original purchasers thereof shall consent, and shall be deemed to have consented, to the Springing Amendments to the Master Trust Indenture. See “—Certain Expected Amendments to the Master Trust Indenture” above and “APPENDIX C-3 – “THE SPRINGING AMENDMENTS TO THE MASTER TRUST INDENTURE” hereto.

### **Events of Default and Acceleration**

The following constitute Events of Default under the Bond Indenture with respect to the Bonds: (i) a default by HCI in the payment of the principal of, redemption price or Make-Whole Redemption Price (as applicable) of (upon an unconditional redemption proceeding), or interest on, any Bond; (ii) a default by HCI in the observance or performance of any covenants or agreements on its part under the Bonds or in the Bond Indenture (other than as described above) which continues for thirty (30) days after written notice of such failure, requiring the same to be remedied, shall have been given to HCI by the Bond Trustee, or to HCI and the Bond Trustee by the Holders of at least fifty percent (50%) in aggregate principal amount of Bonds then Outstanding (if the breach of the covenant or agreement is one which cannot be completely remedied within the thirty (30) days after written notice has been given, it shall not be a Bond Indenture Event of Default as long as NSLIJ HCI has taken active steps within the thirty (30) days after written notice has been given to remedy the failure and is diligently pursuing such remedy); or (iii) the occurrence and continuance of an Event of Default (as defined in the Master Trust Indenture) under the Master Trust Indenture.

Upon the occurrence and continuance of an Event of Default under the Bond Indenture, the Bond Trustee may, and upon the written request of the Holders of not less than fifty percent (50%) in aggregate principal amount of the Bonds Outstanding shall, without any further action, declare all Bonds Outstanding to be immediately due and payable, anything in the Bonds or in the Bond Indenture to the contrary notwithstanding. In such event, there shall be due and payable on the Bonds an amount equal to the total principal amount of all such Bonds, plus all interest accrued thereon and which accrues to the date of payment. **The Make-Whole Redemption Price will not be payable in the event of acceleration.** Upon the declaration of acceleration by the Bond Trustee pursuant to the Bond Indenture, the Bond Trustee shall also request the Master Trustee to declare all Outstanding Obligations to be immediately due and payable. Pursuant to the Master Trust Indenture, the Master Trustee may, upon the occurrence and during the continuation of an Event of Default under the Master Trust Indenture, and, upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Obligations Outstanding, will, declare all Obligations Outstanding immediately due and payable.

Upon the occurrence and continuance of any Bond Indenture Event of Default, the Bond Trustee may, and upon the written request of the Holders of not less than fifty percent (50%) in principal amount of the Outstanding Bonds shall, proceed (upon being indemnified to its satisfaction) to institute and maintain suits or proceedings to protect and enforce its rights and the rights of the Holders of the Bonds under the Bond Indenture and the Bonds.

Regardless of the happening of a Bond Indenture Event of Default, the Bond Trustee, if requested in writing by the Holders of not less than fifty percent (50%) in aggregate principal amount of the Bonds then Outstanding, shall (upon being indemnified to its satisfaction) institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security by any acts which may be unlawful or in violation of the Bond Indenture, or (ii) to preserve or protect the interests of the Holders, provided that such request is in accordance with law and, in the sole judgment of the Bond Trustee, is not unduly prejudicial to the interest of the Holders of Bonds not making such request.

The Bond Indenture provides that the Bond Trustee shall give notice to the Holders within thirty (30) days of each Bond Indenture Event of Default known to the Bond Trustee, in each case after knowledge of the occurrence thereof unless such default has been remedied or cured before the giving of such notice; provided, however, that, except in the case of default in the payment of principal, redemption price or Make-Whole Redemption Price (as applicable) of, or interest on, any of the Bonds, the Bond Trustee shall be protected in withholding such notice thereof to the Holders if the Bond Trustee in good faith determines that the withholding of such notice is in the best interests of the Holders of the Bonds.

## **THE BONDS**

### **Description of the Bonds**

#### ***General***

The Bonds will be issued pursuant to the Bond Indenture. The Bonds will be dated their date of delivery, and will bear interest from such date (payable on November 1, 2017 and on each May 1 and November 1 thereafter until final maturity or earlier redemption thereof) at the rate and will mature as set forth on the cover page of this Offering Memorandum. Interest on the Bonds will be calculated on the basis of a three hundred sixty (360) day year consisting of twelve (12) thirty (30) day months.

The principal, redemption price and Make-Whole Redemption Price of the Bonds will be payable by check or by wire transfer of immediately available funds in lawful money of the United States of America at the designated office of the Bond Trustee.

The Bonds will be issued as fully registered bonds in denominations of \$1,000 or any integral multiple thereof. The Bonds will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC's Book-Entry Only System. Purchases of beneficial interests in the Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the Bonds, the Bonds will be exchangeable for other fully registered certificated Bonds of the same maturity in any authorized denominations. See APPENDIX D – "BOOK-ENTRY ONLY SYSTEM" herein. The Bond Trustee may impose a charge sufficient to reimburse HCI or the Bond Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of a Bond. The cost, if any, of preparing each new Bond issued upon such exchange or transfer, and any other expenses of HCI or the Bond Trustee incurred in connection therewith, will be paid by the person requesting such exchange or transfer.

Interest on the Bonds will be payable by check or draft mailed to the registered owners thereof. As long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See APPENDIX D – "BOOK-ENTRY ONLY SYSTEM" herein. If the Bonds are not registered in the name of Cede & Co., as nominee for DTC, Holders of at least \$1,000,000 in aggregate principal amount of Bonds may request interest to be paid by wire or electronic transfer at a wire transfer address within the continental United States upon the written request of such owner received by the Bond Trustee not less than fifteen (15) days prior to the Record Date.

### **Redemption Provisions**

#### ***Optional Redemption***

All or any number of the Bonds are subject to redemption at the option of HCI prior to maturity in whole or in part, on any date, (i) with respect to the Bonds maturing on November 1, 2027, prior to August 1, 2027, and with respect to the Bonds maturing on November 1, 2047, prior to November 1, 2046, in each case at their respective Make-Whole Redemption Price (defined below), and (ii) with respect to the Bonds maturing on November 1, 2027, on or after August 1, 2027, and with respect to the Bonds maturing on November 1, 2047, on or after November 1, 2046, in each case at a redemption price equal to the principal

amount of Bonds to be redeemed, in either case together with accrued interest to the date fixed for redemption.

The “Make-Whole Redemption Price” is equal to the greater of (i) one hundred percent (100%) of the principal amount of any Bonds being redeemed, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on any Bonds being redeemed (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 20 basis points in the case of the Bonds maturing on November 1, 2027, or plus 25 basis points in the case of the Bonds maturing on November 1, 2047. The term “Treasury Rate” means with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. See APPENDIX C-1 – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE.”

HCI shall give the Bond Trustee written notice of its intention to prepay the Bonds under the Bond Indenture and redemption price or the method of calculating the Make-Whole Redemption Price (as applicable) in sufficient time to enable the Bond Trustee to give notice of such prepayment in the manner provided below.

### ***Selection of Bonds for Redemption***

In the event of any redemption of less than all Outstanding Bonds, the Bond Trustee shall select the Bonds or any given portions thereof to be redeemed from Bonds Outstanding or such given portion thereof not previously called for redemption, pro-rata.

If the Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Bonds, if less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Bonds are held in book-entry form, the selection for redemption of such Bonds shall be made in accordance with the operational arrangements of DTC then in effect.

It is HCI’s intent that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, neither HCI nor the Underwriters can provide any assurance that DTC, DTC’s direct and indirect participants or any other intermediary will allocate the redemption of Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds on a pro rata pass-through distribution of principal basis as discussed above, then the Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

### ***Notice of Redemption***

If less than all the Bonds are to be redeemed, the Bonds to be redeemed shall be identified by reference to the issue, date of issue, CUSIP numbers and maturity dates. Notice of redemption of any Bonds shall be mailed by the Bond Trustee, by first-class mail, postage prepaid, not less than thirty (30) nor more than forty-five (45) days prior to the date set for redemption, to each registered Holder of a Bond to be so redeemed at the address shown on the books of the Bond Trustee but failure to so mail or any defect in any such notice with respect to any Bond shall not affect the validity of the proceedings for the redemption of any other Bond with respect to which notice was so mailed or with respect to which no such defect occurred, respectively.

The Bond Trustee also shall send a copy of such notice by email for receipt not less than thirty (30) days before such redemption date to DTC.

Any notice mailed as provided herein shall be conclusively presumed to have been duly given upon mailing, whether or not the Holder of such Bonds receives the notice.

Any notice of optional redemption given under the Bond Indenture may state that it is conditional, and if so may be rescinded upon written request of HCI at any time up to and including the fifth (5<sup>th</sup>) Business Day prior to the date fixed for redemption. The Bond Trustee shall give notice of such rescission in the same manner as for notices of redemption. Failure to pay the redemption price or Make-Whole Redemption Price (as applicable) of a Bond or accrued interest thereon to the date fixed for redemption as to which a conditional notice of redemption has been given does not constitute a default under the Bond Indenture.

### ***Partial Redemption of Bonds***

Upon surrender of any Bond redeemed in part only, the Bond Trustee shall provide a replacement Bond in a principal amount equal to the portion of such Bond not redeemed, and deliver it to the Holder thereof. The Bond so surrendered shall be cancelled by the Bond Trustee as provided herein. HCI and the Bond Trustee shall be fully released and discharged from all liability to the extent of payment of the redemption price or Make-Whole Redemption Price (as applicable) or accrued interest to the date fixed for redemption for such partial redemption.

The Bond Trustee may agree with any Holder of any such Bond that such Holder may, in lieu of surrendering the same for a new Bond, endorse on the reverse of such Bond a notice of such partial redemption, which notice shall set forth, over the signature of such Holder, the redemption date, the principal amount redeemed and the principal amount remaining unpaid; provided, however, for so long as the book-entry only system is being used, partial redemption of a Bond shall be recorded or evidenced as directed by DTC. Such partial redemption shall be valid upon payment of the amount thereof to the registered owner of any such Bond and the Bond Trustee shall be fully released and discharged from all liability to the extent of such payment irrespective of whether such endorsement shall or shall not have been made upon the reverse of such Bond by the owner thereof and irrespective of any error or omission in such endorsement.

### ***Effect of Redemption***

Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price or Make-Whole Redemption Price (as applicable) and accrued interest to the date fixed for redemption being held by the Bond Trustee, the Bonds, or portions thereof, so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price or Make-Whole Redemption Price (as applicable) specified in such notice together with accrued interest to the date fixed for redemption, interest on the Bonds, or portions thereof, so called for redemption shall cease to accrue, said Bonds shall cease to be entitled to any lien, benefit or security under the Bond Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price or Make-Whole Redemption Price (as applicable) thereof and accrued interest thereon to the date fixed for redemption. All Bonds fully redeemed pursuant to the provisions of the Bond Indenture shall be cancelled upon surrender thereof and may be disposed of by the Bond Trustee in accordance with its customary procedures, which shall, upon written request of HCI, deliver to HCI a certificate evidencing such disposition.

### ***Purchase in Lieu of Optional Redemption***

In the event that any of the Bonds have been called for optional redemption, HCI has the right to purchase such Bonds in lieu of the optional redemption thereof, at a price equal to the redemption price or Make-Whole Redemption Price (as applicable) if such Bonds were then being optionally redeemed plus accrued interest on such Bonds to the date fixed for redemption. To exercise such right, HCI is to give written notice of its intent to purchase the Bonds to the Bond Trustee not later than 12:00 noon, New York

City time, no later than the Business Day immediately preceding the applicable redemption date. Such written notice will state whether the Bonds are to remain Outstanding or be cancelled.

For a more complete description of the redemption, purchase in lieu of optional redemption and other provisions relating to the Bonds, see APPENDIX C-1 – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE.”

## **PLAN OF FINANCE**

### **General**

The Bonds are being issued by HCI in order to provide funds (i) in the amount of \$356,919,000 to advance refund the Refunded Bonds and pay the costs of issuance related thereto and (ii) in the amount of \$600,000,000 for general corporate purposes, including future capital expenditures and capital investments and to pay the costs of issuance related thereto.

### **The Refunded Bonds**

Subject to market conditions at the time of the pricing of the Bonds, a portion of such proceeds, will be deposited with the trustee for the Refunded Bonds (the “Prior Trustee”), and together with other available funds, will be used to defease all or a portion of the Refunded Bonds listed in the table below at the closing of the Bonds. The Refunded Bonds will be redeemed or paid at maturity, as applicable, on the dates listed in the table below:

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**Dormitory Authority of the State of New York  
North Shore-Long Island Jewish Obligated Group  
Revenue Bonds, Series 2011A**

<b>Maturity Date</b>	<b>Par Outstanding</b>	<b>CUSIP</b>	<b>Redemption Date/Maturity Date</b>
5/1/2018	\$ 3,035,000	649906JN5	5/1/2018*
5/1/2018	5,010,000	649906JX3	5/1/2018*
5/1/2019	6,720,000	649906JP0	5/1/2019*
5/1/2019	1,850,000	649906JY1	5/1/2019*
5/1/2020	1,470,000	649906JQ8	5/1/2020*
5/1/2020	7,190,000	649906JZ8	5/1/2020*
5/1/2021	5,770,000	649906JR6	5/1/2021*
5/1/2021	3,595,000	649906KA1	5/1/2021*
5/1/2022	9,380,000	649906JU9	5/1/2021
5/1/2023	9,855,000	649906JV7	5/1/2021
5/1/2026	21,350,000	649906JS4	5/1/2021
5/1/2026	18,280,000	649906KB9	5/1/2021
5/1/2032	83,835,000	649906KC7	5/1/2021
5/1/2034	34,085,000	649906KD5	5/1/2021
5/1/2041	130,065,000	649906JT2	5/1/2021

\* To be paid at maturity.

A portion of the proceeds of the Bonds together with other available funds will be used to purchase defeasance securities, the principal of and interest on which when due will, together with any uninvested cash, provide moneys sufficient to pay the principal, sinking fund installment or redemption price of and interest due on the applicable Refunded Bonds to their respective maturity or redemption dates.

The mathematical accuracy of certain information and assertions provided by the Underwriters (as hereinafter defined), relating to (a) the computations contained in certain schedules which represent that the anticipated receipts from the investments and cash deposits to be held in escrow, will be sufficient to pay, when due, the interest and redemption requirements on the Refunded Bonds, (b) the computation of yield on the Refunded Bonds, and (c) the computation of yield on the escrow purchased with proceeds of the Bonds to refund the Refunded Bonds, was verified by Chris D. Berens, CPA (the "Verification Agent"). Such computations were based solely upon information provided by the Underwriters. The Verification Agent expressed no opinion as to the appropriateness of the methodologies used in preparing such schedules or the actual existence or the attributes of the Refunded Bonds extracted from historical data. The Verification Agent made no representations as to questions of legal interpretation, and accordingly expressed no opinion with regard to any determination that the Refunded Bonds remain in compliance with existing statutes, regulations, administrative interpretations, and court decisions, and disclaimed any obligation to update its report in the future.

The refunding of the Refunded Bonds is subject to market conditions at the time of sale of the Bonds. In the event that none or less than all, of the Refunded Bonds is refunded by the Bonds, this Offering Memorandum will be modified appropriately.

## ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds related to the Bonds:

### Sources:

Bond Proceeds .....	\$956,919,000.00
Other Available Funds <sup>1</sup> .....	<u>31,914,252.41</u>

<b>Total Sources:</b> .....	<u>\$988,833,252.41</u>
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### Uses:

Corporate Purposes of the Members of the Obligated Group	\$595,020,768.54
Defeasance of Refunded Bonds .....	386,087,448.58
Cost of Issuance <sup>2</sup> .....	1,243,610.29
Underwriters' Discount .....	<u>6,481,425.00</u>

<b>Total Uses:</b> .....	<u>\$988,833,252.41</u>
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<sup>1</sup> Includes released funds from the Debt Service Fund and Debt Service Reserve Fund relating to the Refunded Bonds.

<sup>2</sup> Includes legal, financing and consulting fees, rating agency fees, printing costs and other miscellaneous expenses.

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## **RISK FACTORS AND REGULATORY PROVISIONS THAT MAY AFFECT NORTHWELL AND THE OBLIGATED GROUP**

The following discussion of risks to holders of the Bonds is not intended to be exhaustive, but rather to summarize certain matters that could affect payment of the Bonds, in addition to other risks described throughout this Offering Memorandum. The Members of the Obligated Group (as defined in the forepart of this Offering Memorandum) and the Other Northwell Entities (as defined in APPENDIX A – “NORTHWELL AND THE OBLIGATED GROUP”) are each referred to herein as a “Northwell affiliate” and, collectively, as the “Northwell affiliates.”

### **General**

Health care providers are paid by governmental and other sources under complex and continually changing regulations, contractual requirements, and other guidance. Health care providers must therefore attempt to respond to and anticipate regulatory and other changes, and the success of any specific strategy and the financial results of operation are often unsettled until after multiple years during which the regulations, contractual requirements, and other guidance are clarified and implemented. In addition, and as a result of the Patient Protection and Affordable Care Act, enacted in March 2010 and subsequently amended (the “ACA”), substantial changes have occurred and are occurring in the United States health care system. Such legislation has been intended by its supporters to be transformative and includes numerous provisions affecting the delivery of health care services, the financing of health care costs, payments to health care providers and the legal obligations of health insurers, providers, employers and consumers. The effect on Northwell of future changes in federal, state and private policies and interpretations of policies cannot be determined at this time.

Northwell may be affected by future events and economic conditions, including competition from health systems that are expanding through acquisition, affiliation, and internal growth; competition from vertically aligned payers and other providers; changes in demand for health care services; an inability to control expenses in periods of inflation; the capability of Northwell management; the receipt of grants and contributions; referring physicians’ and self-referred patients’ confidence in Northwell; and increased use of discounted, value-based, performance-based, or risk-based contracts with managed care organizations (“MCOs”) and other payers. Other factors that may affect revenues and expenses include the ability of Northwell to provide services required by patients; the relationship of Northwell with physicians; the success of Northwell’s strategic plans; the degree of cooperation among and competition with other providers in Northwell’s service area; changes in levels of private philanthropy; malpractice claims, investigations, audits and other litigation; and economic and demographic developments in the United States and in the service areas in which Northwell operates. See APPENDIX A – “NORTHWELL AND THE OBLIGATED GROUP,” APPENDIX B-1 – “AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF NORTHWELL HEALTH, INC. FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 WITH REPORT OF INDEPENDENT AUDITORS” and APPENDIX B-2 – “UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF NORTHWELL HEALTH, INC. FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016.”

### **Health Care Reform**

Due to the complexity of the ACA, the ramifications of federal health care reform legislation may also become apparent only following implementation or through later regulatory and judicial interpretations. Portions of the ACA may also be limited or nullified as a result of legal challenges or amendments, efforts to reduce funding for the implementation of the ACA or executive decision to defer implementation of components of the ACA. In addition, general uncertainties regarding the implementation of the ACA create unpredictability for the strategic and business planning efforts of health care providers, which in itself creates risk.

The changes in the health care industry brought about by the ACA have both positive and negative effects, directly and indirectly, on the nation's hospitals and other health care providers, including the Northwell affiliates. For example, the number of individuals with health care insurance increased as a consequence of Medicaid expansion, creation of health insurance exchanges, subsidies for insurance purchase, and the mandate for individuals to purchase health insurance. This resulted in lower levels of bad debt and increased utilization or profitable shifts in utilization patterns for hospitals. Substantial reductions in the rate of increase of Medicare "market basket" adjustments and in actual reductions in Medicare payments will likely result in a significant negative impact to the hospital industry overall. The legislation's cost-cutting provisions to the Medicare program include reductions in Medicare market basket updates to hospital payment rates under the inpatient prospective payment system over the next five years, as well as reductions to or elimination of Medicare payments for certain patient readmissions and hospital-acquired conditions. In addition, pressure from the ACA has led to increasing consolidation among providers, and among payers, changing the relative bargaining power of various industry participants.

Initiatives to repeal the ACA, in whole or in part, to delay elements of implementation or funding, and to offer amendments or supplements to modify its provisions have been persistent and have increased as a result of the 2016 election. President Trump promised to modify or repeal the ACA during his campaign in 2016. The ultimate outcomes of legislative attempts to repeal or amend the ACA and the legal challenges to the ACA are unknown. On May 4, 2017, the House of Representatives passed the American Health Care Act, which, if ultimately enacted into law in its current form, would repeal substantial portions of the ACA, including the individual mandate to carry health insurance. To date, the Senate has not succeeded in passing any repeal and/or replacement bill of the ACA. It remains unclear whether the American Health Care Act will be further amended or enacted. Any future repeal or replacement of the ACA in whole or in part, including passage of the American Health Care Act, may have a significant impact on the reimbursement for health care services generally. Accordingly, there can be no assurance that the adoption of any future federal or state healthcare reform legislation will not have a negative financial impact on Northwell.

Health care providers may be further subject to decreased payment rates as a result of implementation of recommendations of the Independent Payment Advisory Board ("IPAB"), whose mandate is to reduce Medicare cost growth. Legislation to repeal the IPAB's mandate was passed by the House of Representatives in 2015, but has not been enacted. Members of the IPAB have not yet been appointed, and the IPAB has not yet issued any recommendations. Additionally, the Chief Actuary of The Centers for Medicare & Medicaid Services ("CMS") has concluded that the projected Medicare per capita growth rate has not yet exceeded the target growth rate and there will be no need for IPAB activity at least through 2017. Hospitals are not subject to cost reductions proposed by the IPAB until after 2019, and the future status of the IPAB is uncertain. Industry experts expect that MCOs and private insurers may follow government cost reduction actions.

The ACA has affected and likely will continue to affect some health care organizations differently from others, depending, in part, on how each organization adapts to the legislation's emphasis on directing more federal health care dollars to integrated provider organizations and providers with demonstrable achievements in quality care. The ACA has adopted a value-based purchasing system for hospitals under which a percentage of payments are contingent on satisfaction of specified performance measures related to common and high-cost medical conditions, such as cardiac, surgical and pneumonia care. The legislation also funds various demonstration programs and pilot projects and other voluntary programs to evaluate and encourage new provider delivery models and payment structures, including "accountable care organizations" ("ACOs") and bundled provider payments. The outcomes of these projects and programs, including the likelihood of their being made permanent or expanded, and their effect on health care organizations' revenues or financial performance, cannot be predicted.

The ACA contains amendments to existing criminal, civil and administrative anti-fraud statutes and increases funding for enforcement and efforts to recoup prior federal health care payments to providers. Under the ACA, a broad range of providers, suppliers and physicians are required to adopt compliance and

ethics programs. While the government has already increased its enforcement efforts, failure to implement certain core compliance program features provide new opportunities for regulatory and enforcement scrutiny, as well as potential liability if an organization fails to prevent or identify improper federal health care program claims and payments.

Some of the specific provisions of the ACA that may affect Northwell's operations, financial performance or financial condition are described below. *This listing is not intended to be, nor should be considered by the reader as comprehensive. The ACA is complex and comprehensive, and includes myriad new programs and initiatives and changes to existing programs, policies, practices and laws. Prospective purchasers of the Bonds are encouraged to review the ACA and repeal and/or replace proposals and/or more comprehensive summaries and analyses available in the public media.*

**Market Basket Reductions.** Generally, Medicare payment rates to hospitals are adjusted annually based on a "market basket" update of estimated cost increases, which have averaged approximately 2–3% annually in recent years. The ACA provides for certain types of annual reductions in the market basket, including both a general reduction of up to 0.75% for each federal fiscal year ("FFY") through 2019; and a "productivity adjustment" based on national economic productivity statistics. For FFY 2018, the net market basket adjustment for general acute care hospitals that participate in the Hospital Inpatient Quality Reporting Program and are meaningful electronic health record users is approximately 1.2%.

**Hospital Value Based Purchasing Program.** Established by the ACA, the hospital value based purchasing program adjusts payments to hospitals for inpatient services based on their performance against certain specified quality measures. See APPENDIX A – "NORTHWELL AND THE OBLIGATED GROUP – Payment Methodologies – Medicare" herein for risks relating to value based purchasing programs.

**Hospital Acquired Conditions Penalty.** Beginning in FFY 2015, Medicare inpatient payments to hospitals that are in the top quartile nationally for frequency of certain "hospital-acquired conditions" were reduced by 1% for all discharges for the applicable FFY.

**Readmission Rate Penalty.** Medicare inpatient payments to each hospital are reduced based on the dollar value of that hospital's percentage of preventable Medicare readmissions for certain medical conditions, up to a maximum of 3% for FFY 2017.

**DSH Funding.** Hospitals, including certain Northwell hospitals, that receive supplemental disproportionate share hospital ("DSH") payments from Medicare (i.e., those hospitals that care for a disproportionate share of Medicaid beneficiaries and certain other low income patient populations) have had their traditional DSH payments reduced by 75%, with the reductions pooled nationally and redistributed under a formula set by CMS. Separately, Medicaid DSH allotments to each state have also been reduced, based on a methodology to be determined by the United States Department of Health and Human Services ("DHHS"), accounting for statewide reductions in uninsured and uncompensated care. See APPENDIX A – "NORTHWELL AND THE OBLIGATED GROUP – Payment Methodologies - Medicare" herein for background about DSH funding.

**Payments to Medicare Advantage Plans.** Hospitals also receive payments from health plans under the Medicare Advantage program. The ACA includes significant changes to federal payments to Medicare Advantage plans, which are now tied to the level of fee-for-service spending in the applicable county, resulting in a reduction from prior years. In addition, payment to plans also will be based on achievement of quality indicators. Medicare's new payment methodology could result in lower payments to plans, which could impact the plans' scope of coverage or cause plan sponsors to negotiate lower payments to providers.

## **Legislative, Regulatory and Contractual Matters Affecting Revenue**

Northwell is participating in a range of approaches to population health management and value based payment, including participating in ACOs, patient-centered medical homes and other value-focused

and risk-based agreements. Among these are: establishing the Northwell Health ACO, which coordinates care for approximately 40,000 Medicare lives in the Medicare Shared Savings Program; partnering with Northwell's strategic affiliate Montefiore Medical Center in its NextGen ACO to coordinate care for over 5,000 Medicare lives; contracts with Healthfirst, a New York not-for-profit MCO of which Northwell is a partial owner, to manage global risk for approximately 70,000 Medicaid, Medicare and commercial lives; participation in the CMS Bundled Payments for Care Improvement initiative; and participation in several other value-based payment arrangements with MCOs affecting approximately 170,000 Medicare and commercial lives.

Northwell has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payers for adjustments to current and prior years' payment rates, based on industry-wide and Northwell-specific data. The current Medicaid, Medicare and other third-party payer programs are based upon complex laws and regulations that are subject to interpretation. Medicare cost reports, which serve as the basis for final settlement with government payers, are still open for multiple years. More recent cost reports have not been final settled pending the outcome of litigation challenging the calculation of various hospitals' DSH payments. Final settlement of these cost reports may materially change recorded estimates as new CMS policy decisions impact payments. In addition, noncompliance with such laws and regulations and new interpretations of such authority could result in fines, penalties and exclusion from such programs.

Legislation is periodically introduced in Congress and in the New York State Legislature that could result in limitations on Northwell's revenue, third-party payments, and costs or charges, or that could result in increased competition or an increase in the level of indigent care required to be provided by Northwell. From time to time, legislative proposals are made at the federal and state level to engage in broader reform of the health care industry, including proposals to promote competition in the health care industry, to contain health care costs, to provide national health insurance and to impose additional requirements and restrictions on health care insurers, providers and other health care entities. The effects of future reform efforts on Northwell cannot be predicted.

### **New York State Budget**

In 2011, Governor Andrew M. Cuomo issued an Executive Order creating the Medicaid Redesign Team and setting in motion a process of substantial reform of New York's Medicaid program. The Medicaid Redesign Team, comprised of health care professionals, stakeholders in the industry and legislators, was charged with reducing Medicaid costs and improving patient care. In 2011, the Medicaid Redesign Team issued a report containing findings and recommendations for cost reductions of over \$2.3 billion to the Governor for consideration in the budget negotiation process. The majority of these recommendations (so-called "Phase I" proposals) were included in the 2011–2012 Final Budget and passed by the New York legislature in 2011. The 2012–2013 Final Budget included a number of Phase II proposals designed to continue the reformation of Medicaid within New York. The Final Budget for the following years through the 2017–2018 Final Budget, signed into law on April 10, 2017, included additional recommendations, described in more detail below.

The 2011–2012 Final Budget (implementing Phase I) included a series of changes and cost-containment measures such as programmatic reforms to Medicaid payments and program structures; the elimination of annual statutory inflation factors for hospitals, nursing homes and home and personal care providers; a 2% across-the-board rate reduction and other industry-specific measures; the acceleration of certain payments to take advantage of additional enhanced Federal Medical Assistance Percentage payments; mandatory managed care enrollment of previously exempt populations; changes in the benefit package and reimbursement for certain overused benefits; and creation of new integrated care models anticipated to save Medicaid dollars in the long run by improving patient care. The 2012–2013 Final Budget (implementing Phase II) continued the work of the Medicaid Redesign Team and included provisions calling for further redesign of the basic benefit package; additional initiatives to provide integrated care; and a state takeover of Medicaid administration from local governments. The 2013–2014 Final Budget

included expansion of eligibility for and the scope of services provided by managed care plans and acceleration of several cost-saving Medicaid Redesign Team initiatives to offset the cost of creating a Mental Hygiene Stabilization Fund. The 2014–2015 Final Budget included further provisions implementing the work of the Medicaid Redesign Team, including integration of physical and behavioral health services through Behavioral Health Organizations and Health and Recovery Plans, an increase in funding available for affordable housing, and an increase in payments to essential community providers. The 2015–2016 Final Budget included provisions to modify the calculation of the global cap to account for additional costs or savings that result from implementation of the Basic Health Plan.

Each of the Final Budgets for 2011–2012 through 2017–2018 assumed a targeted growth rate for Medicaid equal to the ten-year average change of the medical component of the Consumer Price Index (currently 3.2%) and grant the New York State Department of Health (“NYSDOH”) and the State Department of Budget authority to hold Medicaid spending to this rate. If spending is projected to exceed the budget cap, NYSDOH and the State Department of Budget have the authority to develop and implement a plan of action to bring spending in line with the cap, which could include modifying or reducing reimbursement methods or program benefits. The global spending cap has increased in each of the last six years from \$15.9 billion for the 2012–2013 Final Budget to \$18.3 billion for the 2017–2018 Final Budget. In each of the last six years, Medicaid spending has been below the global spending cap. Although successful in meeting the budget cap in the first five years, higher-than-average Medicaid enrollment threatens the ability of NYSDOH to continue to meet the ambitious savings goal in future years.

Although Final Budgets for 2011–2012 through 2017–2018 contain the statutory tools necessary to implement the recommendations of the Medicaid Redesign Team, there can be no assurance that these proposals will achieve the level of gap-closing savings anticipated or limit the rate of annual growth in NYSDOH State Funds Medicaid spending. In addition, many of the cost-saving initiatives are dependent upon timely federal approvals, appropriate amendments to the existing systems and processes and a collaborative working relationship with health care industry stakeholders.

The effect of the Medicaid redesign process on Northwell will depend significantly on participation in new models of integrated care delivery, the ability to collaborate with different types of providers and relationships with Medicaid managed care plans, as those plans will play an increasingly larger role over the next several years.

## **Medicare and Medicaid Payment**

The ACA has continued the historic trend of regulatory effort to force greater cost containment and performance-based payments. See “Health Care Reform” herein. Diverse and complex statutory and regulatory mechanisms, the effect of which is to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs, have been enacted and approved in recent years. It is impossible to predict what effect, if any, current and future legislative initiatives related to Medicare and Medicaid may have on the operations of Northwell. For further information concerning Medicare and Medicaid payment methodologies, including with respect to physician services and hospital capital costs, see APPENDIX A – “NORTHWELL AND THE OBLIGATED GROUP – Payment Methodologies.”

*Annual Cost Reports.* All hospitals participating in the Medicare and Medicaid programs must meet specific financial reporting requirements, which involve submission of annual cost reports to identify expenses associated with the services provided to Medicare and Medicaid beneficiaries. These cost reports are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due. The audit process may be prolonged, and it may take several years to reach the final determination of allowable amounts.

*Compliance and Payment.* Hospitals must comply with standards called “Conditions of Participation” to be eligible for Medicare and Medicaid payments. CMS is responsible for ensuring that hospitals meet these regulatory Conditions of Participation. Under applicable Medicare rules, hospitals accredited by The Joint Commission are deemed to meet the Conditions of Participation, subject to CMS’s

requirement that hospitals satisfy reenrollment criteria as required by CMS. Failure to maintain The Joint Commission accreditation or to otherwise comply with the Conditions of Participation or other applicable state licensing requirements could have a material adverse effect on the revenues of Northwell. There can be no assurance that the Northwell hospitals will continue to receive The Joint Commission accreditation or meet the Conditions of Participation in the future.

Future actions by the federal and state governments are expected to continue the trend toward more restrictive limits on payments for hospital services. Northwell management cannot assess or predict the ultimate effect of any such legislation or regulation, if enacted or adopted, on its operations.

*Regulatory Reviews and Audits.* Hospitals that participate in the Medicare and Medicaid programs are subject from time to time to audits and other investigations relating to various aspects of their operations and billing practices, as well as to retroactive audit adjustments with respect to payments claimed under these programs. Medicare and Medicaid regulations also provide for withholding payments in certain circumstances. New billing rules and reporting requirements for which there is no clear guidance from CMS or state Medicaid agencies could result in claims submissions being considered inaccurate. The penalties for violations may include an obligation to refund money to the Medicare or Medicaid program, payment of criminal or civil fines and, for serious or repeated violations, exclusion from participation in federal health programs. Medicare and Medicaid Managed Care plans and commercial payers also conduct routine and targeted pre- and post-payment audits of claims that may result in recoupment or overpayment demands.

Audits may result in reduced payments or repayment obligations related to past alleged overpayments and may also delay Medicare or Medicaid payments to health care providers pending resolution of the appeals process. The ACA explicitly gives DHHS the authority to suspend Medicare and Medicaid payments to a health care provider or supplier during a pending investigation of fraud. The ACA also amended certain provisions of the False Claims Act to include retention of overpayments as a violation. It also added provisions respecting the timing of the obligation to identify, report and reimburse overpayments. See “Federal and State False Claims Acts” herein. See APPENDIX A – “NORTHWELL AND THE OBLIGATED GROUP – Regulatory Reviews, Audits, Litigation and Investigations” and “– Payment Methodologies – Medicare” for more information.

For information on trends in commercial managed care and the potential impact on Northwell’s financial condition, see APPENDIX A – “NORTHWELL AND THE OBLIGATED GROUP – Payment Methodologies –Non-Medicare Payment.”

*Medicare Trust Funds.* Two trust funds are maintained as part of the Medicare Program. Hospital Insurance (“HI”) or Medicare Part A, helps to pay for hospital, home health, skilled nursing facility, and hospice care for the aged and disabled and is financed primarily by payroll taxes paid by workers and employers. The Medicare Board of Trustees annual report to Congress in July 2017 (the “Medicare Annual Report”) indicated that the HI Trust Fund is not adequately financed and is projected to be exhausted in 2029, one year later than in the prior year report. The other trust fund and various other components of the Medicare Program also have significant funding challenges. The trustees recommended that Congress and the executive branch work closely together with a sense of urgency to address the depletion of the HI Trust Fund and the projected growth in hospital and other expenditures. Accordingly, it is likely that statutory and regulatory attempts to contain increases in Medicare costs will continue in the future.

### **Medicare and Medicaid Managed Care**

The Medicare program has encouraged the development of managed care products for Medicare beneficiaries. Enrollment in a Medicare managed care product is voluntary and enrollees may disenroll and re-enroll in the traditional fee-for-service Medicare system. Managed Medicare plans may be structured as HMOs, PPOs, private fee-for-service-plans or Provider Sponsored Organizations.



The federal Medicare program pays each managed Medicare plan a pre-established monthly premium for each Medicare beneficiary who voluntarily enrolls in the plan. In return for the premium, the plan pays for all the covered and medically necessary services delivered to the enrollee in the month. The plan is at full financial risk for costs incurred for caring for its enrollees in the given month, as described above. The ACA provides for reductions to managed Medicare plan payments, with the intention of aligning managed Medicare per capita premium payments with expenditures in the traditional Medicare fee-for-service program.

Northwell affiliates also participate in the New York State Medicaid program. In order to control Medicaid expenditures, the State has sought to enroll large numbers of Medicaid patients in managed care programs because experience in other states has shown that inpatient utilization decreases for Medicaid recipients who are enrolled in such programs. The rules for the enrollment of Medicaid patients in managed care programs, premium payments to MCOs, and the resulting potential financial risks to Northwell are similar to those already discussed for Medicare managed care programs.

New York State's program for mandatory Medicaid managed care enrollment, The Partnership Plan (also known as the 1115 Waiver), was approved by CMS in July 1997, allowing the State to begin enrolling most Medicaid recipients in managed care plans. Mandatory Medicaid managed care enrollment programs were instituted throughout New York City, and a significant portion of the Medicaid eligible population has been enrolled in managed care plans. Since 1997, the Partnership Plan 1115 Waiver has been extended several times.

As of April 14, 2014, The Partnership Plan was amended to allow the State to reinvest over a five-year period up to \$8 billion of the \$17.1 billion in federal savings generated by State Medicaid reforms. Up to \$6.42 billion of this amount will be applied to the Delivery System Reform Incentive Payment ("DSRIP") Program, which has a goal of reducing avoidable Medicaid hospitalizations and hospital emergency visits by 25% over the next five years. The DSRIP payments are to be made to providers who collaborate in some fashion to achieve this goal and are to be paid in part, based on performance. Northwell, through certain Northwell affiliates, including LIJMC, LIJFH, SSH, Lenox and SIUH, is participating in five separate collaborative groups of health care providers to pursue the reform objectives of the DSRIP program and address the needs of Medicaid patients in the New York metropolitan area. The future impact of any potential loss in volume from decreased hospitalizations and emergency room utilization on the financial performance of Northwell cannot be determined at this time.

Northwell has been attempting to retain volume and reasonable payment levels through its ownership interest in Healthfirst, a not-for-profit MCO, and provider participation contracts with other Medicaid MCOs. In particular, Northwell is working with health plans, social service agencies, and others to ensure that Medicaid patients currently cared for at Northwell hospitals will continue to have access to these facilities throughout the managed Medicaid enrollment process. Despite these efforts, Medicaid patient volume at Northwell hospitals may be reduced, partially attributable to competition from other health networks treating Medicaid patients. The teaching component of Medicaid and managed Medicaid payment is expected to continue to be paid by the State directly to the hospitals. See APPENDIX A – "NORTHWELL AND THE OBLIGATED GROUP – Payment Methodologies – Managed Care."

## **Litigation and Claims**

See APPENDIX A – "NORTHWELL AND THE OBLIGATED GROUP – Regulatory Reviews, Audits, Litigation and Investigations" for a discussion of various regulatory investigations and litigation matters.

## **Competition**

Competition from other hospitals may adversely affect revenues. In New York, hospital systems continue to consolidate, increasing competitive pressures on acute care hospitals, including the Northwell hospitals. Development of health maintenance and other alternative delivery programs and future medical

and scientific advances could result in decreased usage of the Northwell hospitals' facilities. Northwell further faces and will continue to face increased competition from other hospitals, integrated delivery systems, ambulatory care providers, rehabilitation facilities, urgent care centers, drug stores and other retail businesses offering health care services, freestanding independent diagnostic treatment facilities and increasingly sophisticated physician group practices, among others that offer similar health care services as well as expanded preventive medicine treatment.

Payments to the hospital industry have undergone rapid and fundamental change triggered by the deregulation of the acute care hospital payment system and the requirement to negotiate all nongovernment contracts and prices. Such changes may further increase competitive pressures on acute care hospitals, including the Northwell hospitals. Northwell faces and will continue to face competition from other hospitals, integrated delivery systems and ambulatory care providers that offer similar health care services.

There are many limitations on the ability of a hospital to increase volume and control costs, and there can be no assurance that volume increases or expense reductions needed to maintain the financial stability of Northwell will occur.

Management believes that governmental payers, insurers, and MCOs will encourage competition among hospitals and providers on the basis of price, payment terms and quality. Payers have used the threat of patient steerage, restrictive physician contracting, carve outs, tiered pricing, and network exclusion to drive provider prices lower. This may lead to increased competition among hospitals based on price where payers attempt to steer patients to the hospitals that have the most favorable contracts. In addition, loss of established managed care contracts by Northwell affiliates could also adversely affect the future Northwell revenues.

### **Workforce Shortages**

Workforce shortages are affecting health care organizations at the local, regional and national level. In some years salaries have been increased at greater than the rate of inflation in order to recruit and retain adequate staff. There can be no assurance that such workforce shortages will not continue or increase over time and adversely affect Northwell's ability to control costs and its financial performance.

### **Labor Relations**

Collective Bargaining. Certain Northwell affiliates have collective bargaining agreements with multiple labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to the affected members. In addition, employee strikes or other adverse labor actions may have an adverse impact on Northwell. See APPENDIX A – "NORTHWELL AND THE OBLIGATED GROUP – Labor Relations."

Employment Issues. As with all large employers, the Northwell affiliates bear a wide variety of risks in connection with their employees. In addition to strikes or other labor actions, these risks include contract disputes, difficulties in recruitment, discrimination claims, personal tort actions, work related injuries, exposure to hazardous materials, interpersonal torts, risks related to its benefit plans, and other risks that may flow from the relationships between employer and employee or between physicians, patients and employees. Many of these risks are not covered by insurance, and certain of them cannot be anticipated or prevented in advance.

### **Multiemployer Pension Plans**

Certain of the employees of the Northwell affiliates are covered by defined benefit multiemployer pension plans (each, a "Plan") to which the Northwell affiliates make contributions pursuant to collective bargaining agreements. Each Plan covers employees of multiple unrelated employers, and employers do not typically have access to complete and current information concerning the funding status of a Plan. Plans

carry with them the risk that benefit liabilities associated with one participating employer may, over time, be shouldered by other participating employers through increased contributions payable by them, for example where a participating employer is unable to make its required contributions (e.g., due to bankruptcy). Further, under pension regulations, all members of a “controlled group,” including such a participating employer, determined under Internal Revenue Service rules, generally are jointly and severally liable together with such participating employer to make contributions to the Plan.

If a Northwell affiliate withdraws from a Plan in a complete or partial withdrawal, the Northwell affiliate and all members of such Northwell affiliate’s “controlled group” may be jointly and severally liable for withdrawal liability to the Plan. Such withdrawal liability typically is in addition to the collectively bargained obligation to contribute and represents the Northwell affiliate’s share, computed under rules established by the Plan pursuant to applicable law, of the aggregate unfunded vested benefit liabilities of the Plan.

Northwell affiliates that participate in a Plan, and members of such Northwell affiliates’ “controlled groups,” are subject to various risks, including but not limited to lack of transparency concerning the full extent of the funding status of the Plan; lack of transparency concerning creditworthiness of other employers participating in the Plan (and attendant liability for shortfalls in funding by such other employers); unpredictable spikes in pension cost upon renewal of collective bargaining agreements due to underfunding of the Plan resulting from failure by other employers to contribute to the Plan as required or other causes such as adverse investment results with respect to Plan assets or increases in Plan liabilities due to benefit increases or changes in actuarial assumptions; withdrawal liabilities as described above; and other factors which may be outside the knowledge or control of the respective Northwell affiliate.

Under current generally accepted accounting principles, the extent of any funding shortfall in a Plan is not recorded as a liability of a participating employer on its financial statements, although the amount of such funding shortfall that may be allocated to such participating employer may be material.

Changes in generally accepted accounting principles which took effect for Northwell’s fiscal year ended December 31, 2011 required that an employer’s financial statements reflect certain additional information concerning the extent of its participation in a Plan, the most recent certified funding “zone” status of the Plan, and certain other information, not including the dollar amount of any current underfunding of such Plan (which, as noted above, is not generally known by the employers on a current basis). For further information on the Northwell affiliates’ Plans, see Note 8 to the Audited Consolidated Financial Statements of Northwell Health, Inc. for the years ended December 31, 2016 and 2015 with Report of Independent Auditors included as Appendix B-1.

## **Federal “Fraud and Abuse” Laws and Regulations**

The federal Anti-Kickback Law is a criminal statute that prohibits anyone from knowingly or willfully offering, paying, soliciting or receiving any remuneration, directly or indirectly, in return for or to induce business that may be paid for, in whole or in part, under a federal health care program including, but not limited to, the Medicare or Medicaid programs. The ACA amended the Anti-Kickback Law to provide that a claim that includes items or services resulting from a violation of the Anti-Kickback Law now constitutes a false or fraudulent claim for purposes of the False Claims Act. This Anti-Kickback Law has been further amended to provide that a violation may be established without showing that an individual knew of the statute’s proscriptions or acted with specific intent to violate the Anti-Kickback Law, but only that the conduct was generally unlawful. Violation of the Anti-Kickback Law is a felony, subject to a maximum fine of \$25,000 for each criminal act, imprisonment for up to five years and exclusion from the Medicare and Medicaid programs. The Office of Inspector General of DHHS (the “OIG”), the enforcement arm of DHHS, can also initiate an administrative exclusion of a provider from the Medicare and Medicaid programs. In addition, civil monetary penalties of \$73,588 for each act in violation of the Anti-Kickback Law or damages equal to three times the amount of prohibited remuneration may be imposed and violation of this law also renders the violator civilly liable under the False Claims Act. The scope of prohibited

payments in the Anti-Kickback Law is broad and includes many economic arrangements involving hospitals, physicians and other health care providers, including (but not limited to) joint ventures, space and equipment rentals, purchases of physician practices and management and personal services contracts.

The outcome of any government efforts to enforce the Anti-Kickback Law against health care providers is difficult to predict due, in part, to government discretion in pursuing enforcement and the lack of significant case law.

### **Federal and State False Claims Acts**

The federal criminal False Claims Act (“criminal FCA”) makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government. Violation of the criminal FCA can result in imprisonment and/or a fine. The federal civil False Claims Act (“civil FCA”), is one of the government’s primary weapons against health care fraud. Under the civil FCA, those who knowingly submit, or cause another person or entity to submit, false claims for payment of government funds are liable for three times the government’s damages plus civil penalties of \$5,500 to \$11,000 per civil FCA false claim. Effective February 3, 2017, these penalties increased to \$10,957 (minimum) to \$21,916 (maximum) per claim for penalties assessed after February 3, 2017. As of August 1, 2016, civil FCA penalties are indexed for inflation based on the Bureau of Labor Statistics’ Consumer Price Index. The increased penalty range significantly increases the potential financial exposure resulting from an FCA violation.

The ACA expanded the activities that are violations of the civil FCA, including, among other actions, failure to report and return to a federal health care program a known overpayment within 60 days of having identified the overpayment or, for cost-reporting entities, the date (if later) on which a hospital cost report is due. The State of New York also has a False Claims Act that closely tracks the federal civil FCA (the “New York State FCA”). It imposes penalties and fines on individuals and entities that file false or fraudulent claims for payment from any state or local government, including health care programs such as Medicaid. The civil federal and New York State FCA also permit individuals to initiate actions on behalf of the government in lawsuits called qui tam actions. These qui tam plaintiffs, or “whistleblowers,” can share in the damages recovered by the government.

Under the civil FCA and New York State FCA, health care providers may be liable if they take steps to obtain improper payments from the government by submitting false claims or failing to refund known overpayments. Civil FCA and New York State FCA violations have been alleged solely on the existence of alleged kickback or self-referral arrangements. Even in the absence of evidence that literally false claims have been submitted, these cases argue that the improper business relationship tainted the subsequently submitted claims, thereby rendering the claims false under the civil federal and New York State FCA. Other civil FCA and New York State FCA cases have proceeded on a theory that providers are liable for the submission of false claims when they are not in full compliance with applicable legal and regulatory standards. It is impossible to predict with certainty whether courts will uniformly hold that regulatory non-compliance or self-referral violations are subject to prosecutions as false claims. If a provider is faced with a civil FCA or New York State FCA prosecution based on one of these theories, however, allocation of the funds required to contest or settle the matter could have a material adverse impact on that provider and, potentially, its affiliates.

Violations of the civil FCA and New York State FCA can result in penalties up to triple the actual damages incurred by the government, significant monetary penalties and exclusion.

### **Limitations on Certain Arrangements Imposed by Federal Ethics in Patient Referrals Act**

The Federal Ethics in Patient Referrals Act (known as the “Stark Law”) prohibits the referral of Medicare and Medicaid patients for certain “designated health services” to entities with which the referring physician (or an immediate family member of such physician) has a financial relationship. The statute also prohibits the entity furnishing “designated health services” from billing the Medicare or Medicaid program for “designated health services” furnished pursuant to a prohibited referral.

The New York Health Care Practitioner Referral Law (the “State Provisions”) is similar to the Stark Law; however, it covers all patients (irrespective of payer) and covers a different set of prohibited referrals.

A financial relationship, for purposes of the Stark Law and State Provisions (the Stark Law and State Provisions are hereinafter collectively referred to as “Stark”), is defined as either an ownership or investment interest in the entity or a compensation arrangement between the practitioner (or immediate family member) and the entity. An ownership or investment interest may be through equity, debt, or other means and includes an interest in an entity that holds an ownership or investment interest in an entity providing the designated health services. Many ordinary business practices and economically desirable arrangements with physicians would constitute “financial relationships” within the meaning of Stark.

The Stark provisions provide certain exceptions to these restrictions, but these exceptions are narrow and an arrangement must fully comply with an exception. If the relationship (which would include compensation arrangements such as employment and other professional services relationships, and ownership or investment interests) between a physician/practitioner and the hospital cannot be made to fit within the exceptions, the hospital will not be permitted to accept referrals for designated services from the physician/practitioner who has such financial relationship.

Stark is a strict liability statute, which means intent to violate the law is not required. Violations of Stark can result in denial of payment, substantial civil money penalties, and exclusion from the Medicare and Medicaid programs. In certain circumstances, knowing violations may also create liability under the federal False Claims Act. Enforcement actions for any such violations could have a material adverse impact on the financial condition of a health care provider, including the Northwell affiliates.

### **Regulation of Patient Transfer**

Federal and New York laws require hospitals to provide emergency treatment to all persons presenting themselves with emergency medical conditions. The Emergency Medical Treatment and Active Labor Act (“EMTALA”) requires hospitals with emergency rooms, including the Northwell hospitals, to treat or conduct an appropriate and uniform medical screening for emergency conditions (including active labor) on all patients and to stabilize a patient’s emergency medical condition before releasing, discharging or transferring the patient to another hospital.

Failure to comply with EMTALA can result in exclusion from the Medicare and/or Medicaid programs as well as civil penalties of up to \$50,000 per violation. In addition, the hospital is liable for any claim by an individual who has suffered harm as a result of such violation.

### **Civil Monetary Penalty Act**

The federal Civil Monetary Penalty Act (“CMPA”) provides for administrative sanctions against health care providers for a broad range of billing and other abuses. A health care provider is liable under the CMPA if it knowingly presents, or causes to be presented, improper claims for payment under Medicare, Medicaid and other federal health care programs. A hospital that participates in arrangements known as “gain sharing” by paying a physician to limit or reduce services to Medicare fee-for-service beneficiaries also would be subject to CMPA penalties. A health care provider that provides benefits to Medicare or Medicaid beneficiaries that the provider knows or should know are likely to induce the beneficiaries to choose the provider for their care also would be subject to CMPA penalties. The CMPA authorizes imposition of a civil money penalty and treble damages.

Health care providers may be found liable under the CMPA even when they did not have actual knowledge of the impropriety of their action. Knowingly undertaking the action is sufficient. Ignorance of the Medicare regulations is no defense. The imposition of civil money penalties on a health care provider could have a materially adverse impact on the provider’s financial condition. The ACA also amended the CMPA laws to establish various new grounds for exclusion and civil monetary penalties, as well as increased penalty thresholds for existing civil monetary penalties.

## **Exclusions From Medicare or Medicaid Participation**

The Secretary of DHHS is required to exclude from governmental program participation (including Medicare and Medicaid) for not less than five years any individual or entity who has been convicted of a criminal offense relating to the delivery of any item or service paid for under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, felony fraud against any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription or dispensing of a controlled substance. DHHS also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, theft, embezzlement, breach of fiduciary duty or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. The New York Office of the Medicaid Inspector General (the “OMIG”) also has the authority to exclude individuals and entities from participation in Medicaid. Providers are excluded for reasons that may include program-related convictions, patient abuse or neglect convictions, and licensing board disciplinary actions. The ACA authorizes the Secretary of DHHS to exclude a provider from participation in Medicare and Medicaid, as well as to suspend payments to a provider pending an investigation or prosecution of a credible allegation of fraud against the provider. Exclusion from any governmental program would have a material adverse effect on an excluded Northwell affiliate.

## **Enforcement Activity**

Enforcement activity against health care providers has increased, and enforcement authorities are adopting more aggressive approaches. Enforcement authorities are sometimes in a position to compel settlements by providers charged with, or being investigated for, false claims violations by withholding or threatening to withhold Medicare, Medicaid or similar payments or by threatening the possibility of a criminal action. In addition, the cost of defending such an action, the time and management attention consumed thereby and the facts of a particular case may dictate settlement. Therefore, regardless of the merits of a particular case or cases, Northwell could experience materially adverse settlement costs, as well as materially adverse costs associated with the implementation of any settlement agreement. Prolonged and publicized investigations could be damaging to the reputation, business and credit of Northwell, regardless of the outcome, and could have material adverse consequences on the financial condition of Northwell.

## **Increased Enforcement Affecting Academic Research**

In addition to increasing enforcement of laws governing payments to hospitals, the federal government has also increased enforcement of laws and regulations governing the conduct of clinical trials at hospitals. DHHS elevated and strengthened its Office of Human Research Protection, one of the agencies with responsibility for monitoring federally funded research. In addition, the National Institutes of Health (“NIH”) significantly increased the number of facility inspections that these agencies perform. The United States Food and Drug Administration (“FDA”) also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. The Northwell affiliates are subject to complex and ambiguous coverage principles and rules governing billing for items or services it provides to patients participating in clinical trials funded by governmental agencies and private sponsors. These agencies’ enforcement powers range from substantial fines and penalties to exclusion of researchers and suspension or termination of entire research programs, and errors in the billing of Medicare for care provided to patients enrolled in clinical trials that are not eligible for Medicare payment can subject the Northwell affiliates to sanctions as well as repayment obligations.

## **Research Funding**

Future funding of Northwell’s research depends upon the continued availability of funding from the federal government and other public, private and commercial sources as well as the ability of

Northwell's researchers to successfully compete for such funds. Federal legislation and policies to control the federal deficit, as well as other factors, could result in future reduction in the amount of research funding available from the federal government.

### **Department of Health Regulations**

The Northwell affiliates are subject to regulations of NYSDOH. Compliance with such regulations may require substantial expenditures for administrative or other costs. A Northwell affiliate's ability to add services or beds and to modify existing services materially is also subject to NYSDOH review and approval under the certificate of need and licensure laws. Approvals can be highly discretionary, may involve substantial delay, and may require substantial changes in the proposed request. Accordingly, Northwell's ability to make changes to its service offerings and respond to changes in the regulatory environment may be limited.

### **New York State Executive Order**

Since 2012, pursuant to an executive order and implementing regulations, service providers that receive above a defined threshold of state funding (including Medicaid), such as the Northwell affiliates, are subject to limits on spending for administrative costs and executive compensation. The order has been subject to multiple legal challenges, and the future status of the order is uncertain. The way in which the final regulations may impact Northwell remains unclear. Accordingly, it is impossible at this time to predict what changes in accounting or practices might be required of Northwell as a result of this executive order.

### **Other Governmental Regulation**

The Northwell affiliates are subject to regulatory actions and policy changes by those governmental and private agencies that administer the Medicare and Medicaid programs and actions by, among others, the National Labor Relations Board, professional and industrial associations of staff and employees, applicable professional review organizations, The Joint Commission, the Environmental Protection Agency, the Internal Revenue Service and other federal, state and local governmental agencies, and by the various federal, state and local agencies created by the National Health Planning and Resources Development Act and the Occupational Safety Health Act.

Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative activity or response by the Northwell affiliates. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could cause a loss or reduction for a Northwell affiliate in the scope of licensure, certification or accreditation, could reduce the payment received or could require repayment of amounts previously remitted to the provider.

### **OIG and OMIG Compliance Guidelines**

The OIG has published guidelines urging hospitals to adopt and implement effective programs to promote compliance with applicable federal and state law and the program requirements of federal, state, and private health plans. Compliance with the guidance is voluntary but is nevertheless an important factor in controlling risk because the OIG will consider the existence of an effective compliance program that predated any governmental investigation when addressing the appropriateness of administrative penalties. Northwell maintains a corporate compliance program that is designed to assist staff to meet or exceed applicable standards established by federal and state laws and regulations. However, the presence of a compliance program is not an assurance that health care providers, such as the Northwell affiliates, will not be investigated by one or more federal or state agencies that enforce health care fraud and abuse laws or that they will not be required to make repayments to various health care insurers (including the Medicare and/or Medicaid programs).

New York also requires hospitals to have an effective compliance program. The compliance program must include, among other things, a chief compliance officer, written policies and the conduct of audits after the identification of risk areas. It is expected that the OMIG will conduct audits of compliance programs and assess their effectiveness.

### **State Regulation of Insurance Companies**

Insurance companies must be licensed by the jurisdictions in which they conduct business. States generally require periodic financial reports, establish minimum capital or restricted cash reserve requirements, and may limit transfers to or from affiliated entities. Compliance with these laws may restrict the ability of Northwell to make revenues realized by the insurance companies available to Northwell as a whole, while minimum capital requirements may conversely necessitate funds transfers from some Northwell entities to others. Such transfers could result in the movement of assets out of the Obligated Group. For a discussion of Northwell's decision to exit the health insurance market and wind down its health plans, see APPENDIX A – "NORTHWELL AND THE OBLIGATED GROUP – Health Insurance Companies" and "– Management's Discussion and Analysis of Recent Financial Performance."

### **Not-for-Profit Status**

In order to maintain their tax-exempt status, hospitals are required to provide emergency care without regard to a patient's ability to pay. Poor economic conditions and increased unemployment can enlarge the population that does not have health care coverage and thus cannot pay for care out-of-pocket, which in turn can increase the uncompensated care that the Northwell hospitals provide. Tax-exempt hospitals, in particular, often treat large numbers of indigent patients who are unable to pay in full, or perhaps at all, for their medical care. Poor economic conditions and increased unemployment can lead patients to postpone or forego elective procedures, thereby reducing volume and revenue.

As nonprofit tax-exempt organizations, certain Northwell affiliates are also subject to detailed federal, state and local laws, regulations, rulings and court decisions relating to their respective organizations and operations, including their operation for charitable purposes. At the same time, such Northwell affiliates conduct large-scale complex business transactions and are significant employers in their geographic areas. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex health care organization.

An increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead, in many cases are examinations of core business practices of the health care organizations. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, methods of providing and reporting community benefit, executive compensation, exemption of property from real property taxation, private use of facilities financed with tax-exempt bonds and others. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures and patients, and in a variety of forums, including hearings, audits and litigation.

*Tax-Exempt Status.* Hospitals are permitted to have tax-exempt status under the Internal Revenue Code of 1986, as amended (the "Code"), because the provision of health care for the benefit of the community historically has been treated as a "charitable" enterprise. This treatment arose before most Americans had health insurance, and when charitable donations were required to fund the health care provided to the sick and disabled. Some have posited that, with the onset of employer health insurance and government payment programs, there is no longer any justification for special tax treatment for the not-for-profit health care sector, and the availability of tax-exempt status for hospitals should be eliminated. Northwell management cannot predict the likelihood of such a dramatic change in the law. Any suspension, limitation, or revocation of the tax-exempt status of Northwell affiliates or assessment of significant tax



liability could have a material adverse effect on Northwell. Federal and state tax authorities have increasingly demanded that tax-exempt hospitals justify their tax-exempt status by documenting their charitable care and other community benefits. In certain states, the real estate tax-exemption has been threatened to be revoked due to failure to provide adequate community benefit.

*Litigation Relating to Billing and Collection Practices.* Lawsuits have been filed against various nonprofit health care providers in federal and state courts across the country regarding billing and collection practices relating to the uninsured. The lawsuits are premised on the notion that federal and state laws require nonprofit health care providers to provide certain levels of free or discounted health care to the uninsured. Thus, the plaintiffs in those lawsuits have alleged, among other things, that the defendants violated federal and state law by billing the uninsured at undiscounted rates, that the medical bills the defendants sent to the uninsured are inflated, and that the defendants engaged in unfair debt collection practices.

### **IRS Form 990 for Not-for-Profit Corporations**

The IRS Form 990 is used by 501(c)(3) not-for-profit organizations (including certain of the Northwell affiliates) to submit information required by the federal government for tax exemption. Form 990 requires detailed public disclosure of compensation practices, corporate governance, loans to and others, joint ventures, compliance with community benefit and billing requirements, compliance with rules relating to tax-exempt bonds, political campaign activities, and other areas the IRS deems to be compliance risk areas. Form 990 makes available substantial information on compliance risk areas to the IRS and other enforcement agencies.

### **Internal Revenue Service Examination of Compensation Practices and Community Benefit**

The IRS has developed a new schedule, Schedule R, that will build upon further information concerning a hospital's community benefit and billing practices that became required as part of the ACA.

The United States Treasury Department is required to review information about each tax-exempt hospital's community benefit activities at least once every three years, as well as to submit an annual report to Congress with information regarding the levels of charity care, bad debt expenses, costs of non-payment from government programs, and costs incurred by tax-exempt hospitals for community benefit activities. The periodic reviews and reports to Congress regarding the community benefits provided by 501(c)(3) hospitals may increase the likelihood that Congress will require such hospitals to provide a minimum level of charity care in order to retain tax-exempt status and may increase IRS scrutiny of particular 501(c)(3) hospital organizations.

### **Internal Revenue Code Limitations**

*Private Inurement and Excess Benefit Transactions.* The Code contains restrictions on the issuance of tax-exempt bonds for the purpose of financing and refinancing different types of health care facilities for not-for-profit organizations, including facilities generating taxable income. Consequently, the Code could adversely affect Northwell's ability to finance its future capital needs and could have other adverse effects on Northwell that cannot be predicted at this time. The Code continues to subject unrelated business income of nonprofit organizations to taxation.

As tax-exempt organizations, certain of the Northwell affiliates are limited with respect to the use of practice income guarantees, reduced rent on medical office space, below market rate loans, joint venture programs, and other means of recruiting and retaining physicians. The IRS scrutinizes a broad variety of contractual relationships commonly entered into by hospitals and affiliated entities, including the tax-exempt Northwell affiliates, and has issued detailed hospital audit guidelines suggesting that field agents scrutinize numerous activities of hospitals in an effort to determine whether any action should be taken with respect to limitations on, or revocation of, their tax-exempt status or assessment of additional tax. The IRS has also commenced intensive audits of select health care providers to determine whether the activities of

these providers are consistent with their continued tax-exempt status. The IRS has indicated that, in certain circumstances, violation of the fraud and abuse statutes could constitute grounds for revocation of a hospital's tax-exempt status.

Any suspension, limitation, or revocation of the tax-exempt status of the Northwell affiliates or assessment of significant tax liability would have a material adverse effect on Northwell.

Section 501(c)(3) of the Code specifically conditions the continued exemption of all Section 501(c)(3) organizations upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. Any violation of the prohibition against private inurement may cause the organization to lose its tax-exempt status under Section 501(c)(3) of the Code. The IRS has issued guidance in informal private letter rulings and general counsel memoranda on some situations that give rise to private inurement, but there is no definitive body of law and no regulations or public advisory rulings that address many common arrangements between exempt health care providers and nonexempt individuals or entities. There can be no assurance concerning the outcome of an audit or other investigation given the lack of clear authority interpreting the range of activities undertaken by the tax-exempt Northwell affiliates.

Pursuant to the so called intermediate sanctions legislation, penalty excise taxes may be imposed if an exempt organization is found to have engaged in an "excess benefit transaction" with a "disqualified person." Such penalty excise taxes may be imposed in lieu of revocation of exemption or in addition to such revocation in cases where the magnitude or nature of the excess benefit calls into question whether the organization functions as a public charity. The tax is imposed both on the disqualified person receiving such excess benefit and on any officer, director, trustee or other person having similar powers or responsibilities who participated in the transaction willfully or without reasonable cause, knowing it will involve "excess benefit." "Excess benefit transactions" include transactions in which a disqualified person receives compensation for services that exceeds the fair market value of the services provided by the disqualified person. "Disqualified persons" include "insiders" such as board members and officers, senior management, and members of the medical staff, who in each case are in a position to substantially influence the affairs of the organization; their family members; and entities which are more than 35% controlled by a disqualified person.

Any imposition of penalty excise tax in lieu of revocation, based upon a finding that any of the tax-exempt Northwell affiliates engaged in an excess benefit transaction, is likely to result in negative publicity and other consequences that could have a materially adverse impact on the operations, property or assets of Northwell.

## **Tax Audits**

Taxing authorities historically have conducted tax audits of nonprofit organizations to confirm that such organizations are in compliance with applicable tax rules and in some instances have collected significant payments as part of the settlement process.

## **Antitrust**

Enforcement of the antitrust laws against health care providers is increasingly common. Antitrust liability may arise in a wide variety of circumstances including joint ventures, merger, affiliation and acquisition activities, medical staff privilege disputes, payer contracting, physician relations, and certain pricing and salary setting activities. Actions can be brought by federal and state enforcement agencies seeking criminal and civil penalties and, in some instances, by private litigants seeking damages for harm arising out of allegedly anti-competitive behavior. Common areas of potential liability include joint action among providers with respect to payer contracting, medical staff credentialing, and issues relating to market share. Liability in any of these or other trade regulation areas may be substantial, depending on the facts and circumstances of each case. With respect to payer contracting, Northwell, from time to time, may be involved in joint contracting activity with hospitals or other providers. If any provider with whom

Northwell is or becomes affiliated is determined to have violated the antitrust laws, Northwell may be subject to liability as a joint actor.

Some judicial decisions have permitted physicians who are subject to disciplinary or other adverse actions by a hospital at which they practice, including denial or revocation of medical staff privileges, to seek treble damages from the hospital under the federal antitrust laws. The Federal Health Care Quality Improvement Act of 1986 provides immunity from liability for discipline of physicians by hospitals under certain circumstances, but courts have differed over the nature and scope of this immunity. In addition, hospitals occasionally indemnify medical staff members who incur costs as defendants in lawsuits involving medical staff privilege decisions. Some court decisions have also permitted recovery by competitors claiming harm from a hospital's use of its market power to obtain unfair competitive advantage in expanding into ancillary health care businesses. Antitrust liability in any of these contexts can be substantial, depending upon the facts and circumstances involved. There can be no assurance that a third party reviewing the activities of Northwell would find such activities to be in full compliance with the antitrust laws.

### **Health Insurance Portability and Accountability Act**

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") established civil and criminal sanctions for health care fraud, which expanded upon prior health care fraud laws and applies to health care benefit programs, whether public or private.

HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, securities, premiums, credits, property or other assets of a health care benefit program. A health care provider convicted of health care fraud could be subject to mandatory exclusion from the Medicare program.

HIPAA also required DHHS to adopt national standards for electronic health care transactions, including federal privacy standards for the protection of health information kept by health care providers, among others, that conduct certain financial and administrative transactions electronically (the "Privacy Rule") and standards relating to the security of such health information (the "Security Rule"). Compliance with the requirements of the Privacy Rule, the Security Rule and other HIPAA requirements has required the Northwell affiliates to develop and use policies and procedures designed to inform patients about their privacy rights and how their protected health information may be used, to keep protected information secure, to train employees so that they understand the applicable privacy procedures and practices and to designate a privacy officer responsible for seeing that privacy procedures are adopted and followed. HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information.

The HITECH Act was adopted in 2009 and expanded the scope and application of the administrative simplification provisions of HIPAA, and its implementing regulation, (i) extending the reach of the Privacy Rule and Security Rule to business associates, (ii) imposing a written notice obligation upon covered entities for security breaches involving "unsecured" protected health information, (iii) limiting certain uses and disclosures of protected health information, (iv) increasing individuals' rights with respect to protected health information, (v) increasing penalties for violations, and (vi) providing for enforcement of violations by state attorneys general.

In 2013, DHHS issued comprehensive modifications to the HIPAA regulations to implement the requirements of the HITECH Act, commonly known as the "HIPAA Omnibus Rule." The DHHS Office for Civil Rights, the agency tasked with enforcement of HIPAA, the HITECH Act and the HIPAA Omnibus Rule (collectively the "HIPAA Laws"), has increasingly pursued enforcement actions and penalties for violations of these regulations. The obligations imposed by the HIPAA Laws could have a material adverse effect on the financial condition of Northwell. For information about the HIPAA Laws activity regarding

Northwell, see APPENDIX A – “NORTHWELL AND THE OBLIGATED GROUP – Regulatory Reviews, Audits, Litigation and Investigations.”

### **Security Breaches and Unauthorized Releases of Personal Information**

State and local authorities are increasingly focused on the importance of protecting the confidentiality of individuals’ personal information, including patient health information. Many states have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed. State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, the public nature of security breaches exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently damage a health care provider’s reputation and materially adversely affect business operations. For information about privacy regulatory activity regarding Northwell, see APPENDIX A – “NORTHWELL AND THE OBLIGATED GROUP – Regulatory Reviews, Audits, Litigation and Investigations.”

### **Environmental Matters**

Health care providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These requirements govern medical and toxic or hazardous waste management, air and water quality control, notices to employees and the public and training requirements for employees. As owners and operators of properties and facilities, the Northwell affiliates may be subject to potentially material liability for costs of investigating and remedying the release of any such substances either on, or that have migrated off the property. Typical health care provider operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, health care provider operations are particularly susceptible to the practical, financial and legal risks associated with the obligations imposed by applicable environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance. There can be no assurance that Northwell will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of Northwell.

### **Affiliation, Merger, Acquisition and Divestiture**

As part of its ongoing planning and property management functions, Northwell reviews the use, compatibility and financial viability of many of its operations, and from time to time, may pursue changes in the use, or disposition, of its facilities. Likewise, Northwell may receive offers from, or conduct discussions with, third parties about the potential acquisition of operations or properties that may become part of Northwell in the future, or about the potential sale of some of the operations and properties of Northwell. Discussions with respect to affiliation, merger, acquisition, disposition, or change of use, including those that may affect Northwell, are held on an intermittent, and usually confidential, basis. As a result, it is possible that the assets currently owned by the Members of the Obligated Group may change from time to time, subject to the provisions in the Master Trust Indenture that apply to merger, sale, disposition or purchase of assets. Northwell evaluates affiliation opportunities as they arise. Any affiliation or other similar transaction would be completed in compliance with the covenants in the Master Trust Indenture.

## **Insurance**

Northwell carried primary malpractice insurance through Physicians' Reciprocal Insurers ("PRI"), New York State's second-largest medical malpractice insurer, through December 2016. For further information on coverage and policy limits see Note 10 to the Audited Consolidated Financial Statements of Northwell Health, Inc. for the years ended December 31, 2016 and 2015 with Report of Independent Auditors included as Appendix B-1. DFS has been examining PRI's management company, the Administrators for the Professions, Inc. ("AFP"), and in July 2017 issued an order finding mismanagement of PRI and other problems. The July 2017 order revokes the authority of AFP to act on behalf of PRI and directs the execution of a management agreement with a new manager to be approved by the Superintendent of DFS. The outcome of PRI's efforts to restore its finances and the ultimate effect on subscribers' coverage cannot be predicted.

The Northwell affiliates currently carry malpractice, directors' and officers' liability and general liability insurance (some of which is self-insured or insured through a controlled captive), which Northwell management considers adequate, but no assurance can be given that the Northwell affiliates will maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover all malpractice judgments rendered against the Northwell affiliates or settlements of any such claims or that such coverage will be available at a reasonable cost in the future. The dollar amounts of patient damage recoveries for malpractice cases remain potentially significant. For a discussion of the insurance coverage of the Northwell affiliates, see APPENDIX A – "NORTHWELL AND THE OBLIGATED GROUP – Risk Management and Commercial Insurance Program."

## **Certain Accreditations**

Certain of the Northwell affiliates are subject to periodic review by The Joint Commission. Those Northwell affiliates have each received accreditation from The Joint Commission. See APPENDIX A – "NORTHWELL AND THE OBLIGATED GROUP – Licensure and Accreditation." No assurance can be given as to the effect on future operations of existing, or subsequently amended, laws, regulations and standards for certification or accreditation.

In addition, certain of the Northwell affiliates sponsor programs of graduate medical education ("GME Programs"), training residents and fellows, which programs are accredited by the Accreditation Council for Graduate Medical Education ("ACGME") (for medical programs) and by the American Dental Association ("ADA") (for dental programs). All GME Programs are subject to periodic review by the applicable specialty Residency Review Committee of the ACGME, or by the ADA, as appropriate. No assurance can be given as to (i) the outcome of future reviews of these GME Programs, (ii) such programs' continued accreditation, or (iii) the continuing eligibility of the costs associated with graduate medical education for payment from government programs. See APPENDIX A – "NORTHWELL AND THE OBLIGATED GROUP – Licensure and Accreditation."

## **Increased Costs and State-Regulated Payments**

In recent years, substantial cutbacks in personnel and other cost-cutting measures have been instituted at hospitals throughout the State. Generally, these cutbacks have been instituted to address the disparity between rising medical costs and State-regulated payment formulas, including those for Medicaid, Blue Cross and Blue Shield, and other third-party payers. Rising health care costs resulted from, among other factors, health care costs exceeding inflation, staff shortages, pharmaceutical costs and the highly technical nature of the industry. Northwell has been affected by the impact of such rising costs, and there can be no assurance that Northwell would not be similarly affected by the impact of additional unreimbursed costs in the future.

## **Secondary Market**

There can be no assurance that there will be a secondary market for the purchase or sale of the Bonds. From time to time there may be no market for them depending upon prevailing market conditions, including the financial condition or market position of firms who may make the secondary market, the evaluation of Northwell's capabilities and the financial conditions and results of operations of Northwell.

## **Enforceability of Lien on Gross Receipts**

The Bonds are secured in part by a security interest granted to the Master Trustee in the Gross Receipts of the Members of the Obligated Group. See "SOURCE OF PAYMENT AND SECURITY FOR THE BONDS." The lien on Gross Receipts may become subordinate to certain Permitted Liens under the Master Trust Indenture. Gross Receipts paid by the Members of the Obligated Group to other parties in the ordinary course might no longer be subject to the lien on the Master Trust Indenture and might therefore be unavailable to the Master Trustee.

To the extent that Gross Receipts are derived from payments by the federal or state government under the Medicare or Medicaid program, any right to receive such payments directly may be unenforceable. The Social Security Act and state regulations prohibit anyone other than the individual receiving care or the institution providing service from collecting Medicare and Medicaid payments directly from the federal or state government. In addition, Medicare and Medicaid receivables may be subject to provisions of the Assignment of Claims Act of 1940, which restricts the ability of a secured party to collect accounts directly from government agencies. With respect to receivables and Gross Receipts not subject to the Lien, the Master Trustee would occupy the position of an unsecured creditor. Counsel to the Members of the Obligated Group have not provided an opinion with regard to the enforceability of the Lien on Gross Receipts of the Members of the Obligated Group, where such Gross Receipts are derived from the Medicare and Medicaid programs.

In the event of bankruptcy of a Member of the Obligated Group, transfers of property by the bankrupt entity, including the payment of debt or the transfer of any collateral, including receivables and Gross Receipts on or after the date which is 90 days (or, in some circumstances, one year) prior to the commencement of the case in bankruptcy court, may be subject to avoidance or recoupment as preferential transfers. Under certain circumstances a court may have the power to direct the use of Gross Receipts to meet expenses of the Members of the Obligated Group before paying debt service on the Bonds.

Pursuant to the New York Uniform Commercial Code, a security interest in the proceeds of Gross Receipts may not continue to be perfected if such proceeds are not paid over to the Master Trustee by a Member of the Obligated Group under certain circumstances. If any required payment is not made when due, the Members of the Obligated Group must transfer or pay over immediately to the Master Trustee any Gross Receipts with respect to which the security interest remains perfected pursuant to law. Any Gross Receipts thereafter received shall upon receipt by a Member of the Obligated Group be transferred to the Master Trustee without such Gross Receipts being commingled with other funds, in the form received (with necessary endorsements) up to an amount equal to the amount of the missed payment. The value of the security interest in the Gross Receipts could be diluted by the incurrence of additional Indebtedness secured equally and ratably with the Bonds as to the security interest in the Gross Receipts or by the issuance of debt secured on a basis senior to the Bonds. See "SOURCE OF PAYMENT AND SECURITY FOR THE BONDS – Payment of and Security for the Bonds."

## **Enforceability of the Master Trust Indenture**

Under New York law, a not-for-profit corporation may guarantee the debt of another corporation only if such guaranty is in furtherance of the corporate purposes of such guarantor not-for-profit corporation. In addition, it is possible that the security interest granted by a Member and the joint and several obligation of a Member to make payments due under an Obligation, including the Series 2017A Obligation, relating to bonds issued for the benefit of another Member, may be declared void in an action

brought by a third-party creditor pursuant to the New York fraudulent conveyance statutes or may be avoided by a Member or a trustee in bankruptcy in the event of the bankruptcy of the Member from which payment is requested. An obligation may be voided under the federal Bankruptcy Code or under the New York fraudulent conveyance statute, if (a) the obligation was incurred without receipt by the obligor of “fair consideration” or “reasonably equivalent value,” and (b) the obligation renders the obligor “insolvent,” as such terms are defined under the applicable statute. Interpretation by the courts of the tests of “insolvency,” “reasonably equivalent value” and “fair consideration” has resulted in a conflicting body of case law. For example, a Member’s joint and several obligation under the Master Trust Indenture to make all payments thereunder, including payments in respect of funds used for the benefit of the other Members, may be held to be a “transfer” which makes such Member “insolvent” in the sense that the total amount due under the Master Trust Indenture could be considered as causing its liabilities to exceed its assets. Also, one of the Members may be deemed to have received less than “fair consideration” for such obligation because none or only a portion of the proceeds of the indebtedness are to be used to finance projects occupied or used by such Member. While the Members may benefit generally from the projects financed from the indebtedness for the other Members, the actual cash value of this benefit may be less than the joint and several obligation. The rights under the New York fraudulent conveyance statutes may be asserted for a period of up to six years from the incurring of the obligations or granting of security under the Master Trust Indenture.

In addition, the assets of any Member may be held by a court to be subject to a charitable trust which prohibits payments in respect of obligations incurred by or for the benefit of others if a Member has insufficient assets remaining to carry out its own charitable functions or, under certain circumstances, if the obligations paid by such Member were issued for purposes inconsistent with or beyond the scope of the charitable purposes for which the Member was organized. The enforceability of similar master trust indentures has been challenged in jurisdictions outside of the state. In the absence of clear legal precedent in this area, the extent to which the assets of any Member can be used to pay Obligations issued by or on behalf of others cannot be determined at this time.

In addition, there exists common law authority and authority under state statutes for the ability of the state courts to terminate the existence of a not-for-profit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court’s own motion or pursuant to a petition of the state attorney general or such other persons who have interests different from those of the general public, pursuant to common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

An action to enforce a charitable trust and to see to the application of its funds could also arise if an action to enforce the obligation to make payments on an Obligation issued for the benefit of another Member of the Obligated Group would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Member of the Obligated Group from which payment is requested.

### **Exercise of Remedies Under Master Trust Indenture**

“Events of Default” under the Master Trust Indenture include the failure of the Members of the Obligated Group to make payments on any Obligation Outstanding under the Master Trust Indenture (such as the Series 2017A Obligation) and may include nonpayment related defaults under documents such as the Bond Indenture or the Mortgages. The Master Trust Indenture provides that upon an “Event of Default” thereunder, the Master Trustee may in its discretion, by notice in writing to Members of the Obligated Group, declare the principal of all (but not less than all) Obligations Outstanding thereunder to be due and payable immediately and may exercise other remedies thereunder. However, the Master Trustee is not required to declare amounts under the Master Trust Indenture to be due and payable immediately unless requested to do so by the holders of not less than 25% in aggregate principal amount of all Obligations then Outstanding under the Master Trust Indenture. Consequently, upon the occurrence of an “Event of Default”

under the Indenture with respect to the Bonds and an acceleration of the maturity of the Bonds, the Master Trustee is not required to accelerate the maturity of all Obligations Outstanding under the Master Trust Indenture upon direction from the Trustee unless (i) the principal amount of the Bonds Outstanding is at least equal to 25% of the principal amount of all Obligations Outstanding under the Master Trust Indenture, or (ii) the Trustee and all other holders of Obligations requesting such acceleration hold at least 25% of all Obligations Outstanding under the Master Trust Indenture.

## **Bankruptcy**

The Bonds are payable from the sources and are secured as described in this Offering Memorandum. The practical realization of value from the collateral for the Bonds described herein upon any default will depend upon the exercise of various remedies specified by the Bond Indenture, the Mortgages and the Master Trust Indenture. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay.

Under existing law, the remedies specified by the Bond Indenture, the Mortgages and the Master Trust Indenture may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various agreements and other instruments by limitations imposed by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization or other laws affecting the enforcement of creditors' rights generally.

The rights and remedies of the holders of the Bonds are subject to various provisions of Title 11 of the United States Code (the "Bankruptcy Code"). If the Members of the Obligated Group were to file a petition for relief under the Bankruptcy Code, the filing would automatically stay the commencement or continuation of any judicial or other proceedings against the Members of the Obligated Group and their property, including the commencement of foreclosure proceedings under the Mortgages. The Members of the Obligated Group would not be permitted or required to make payments of principal or interest under the Bond Indenture and the Obligation, unless an order of the United States Bankruptcy Court were issued for such purpose. In addition, without an order of the United States Bankruptcy Court, the automatic stay may serve to prevent the Trustee from applying amounts on deposit in certain funds and accounts held under the Indenture including the transfer of amounts on deposit in the funds held thereunder, from being applied in accordance with the provisions of the Bond Indenture, and the application of such amounts to the payment of principal and Sinking Fund Installments of, and interest on, the Bonds. Moreover, any motion for an order canceling the automatic stay and permitting such funds and accounts to be applied in accordance with the provisions of the Bond Indenture would be subject to the discretion of the United States Bankruptcy Court, and may be subject to objection and/or comment by other creditors of the Members of the Obligated Group, which could affect the likelihood or timing of obtaining such relief. The commencement of a bankruptcy case by or against a Member of the Obligated Group may also extinguish the Master Trustee's security interest in the Obligated Group's Gross Receipts arising subsequent to the filing of the bankruptcy petition, adversely affect the ability of the Master Trustee to exercise remedies upon default, including the acceleration of all amounts payable by the Members of the Obligated Group under the Obligation, the Master Trust Indenture, the Mortgages, and the Bond Indenture, and may adversely affect the Master Trustee's or the Trustee's ability to take all steps necessary to file a claim under the applicable documents on a timely basis.

The Members of the Obligated Group could file a plan for the adjustment of its debts in a proceeding under the Bankruptcy Code, which plan could include provisions modifying or altering the rights of creditors generally, or any class of them, whether secured or unsecured. The plan, when confirmed by the United States Bankruptcy Court, would bind all creditors who have notice or knowledge of the plan and would discharge all claims against the Members of the Obligated Group provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by at least one class of claims impaired there under.



A class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

No Mortgage has been specifically granted to secure the Series 2017A Obligation. The Master Trust Indenture provides that all Obligations, including the Series 2017A Obligation, will be secured pro rata by the proceeds realized on any of the Mortgages. However, no assurance can be given that a court in bankruptcy would enforce such provisions with respect to an Obligation for which a Mortgage has not been specifically granted.

### **Realization of Value on Mortgaged Property**

The Mortgaged Property is not comprised of general purpose buildings and would not generally be suitable for industrial or commercial use. Consequently, it would be difficult to find a buyer or lessee for the Mortgaged Property if it were necessary to foreclose on the Mortgaged Property. Thus, upon any default, it may not be possible to realize the outstanding interest on and principal on the Bonds from a sale or lease of the Mortgaged Property. In addition, in order to operate the Mortgaged Property as health care facilities, a purchaser of the Mortgaged Property at a foreclosure sale would under present law have to obtain a certificate of need from NYSDOH and licenses for the facilities. Further, title insurance has not been obtained in the full par amount of all Obligations outstanding under the Master Trust Indenture. The dollar value secured by the Mortgages is less than the aggregate par amount of all Obligations outstanding under the Master Trust Indenture.

In addition, under applicable environmental law, in the event of any past or future releases of pollutants or contaminants on or near the Mortgaged Property, a lien superior to the lien of the Mortgages could attach to the Mortgaged Property to secure the costs of removing or otherwise treating such pollutants or contaminants. Such a lien could adversely affect the Master Trustee's ability to realize sufficient amounts to pay the Obligations in full. Furthermore, in determining whether to exercise any foreclosure rights with respect to the Mortgaged Property, the Master Trustee may have to take into account the potential liability of any owner of the Mortgaged Property, including an owner by foreclosure, for clean-up costs with respect to such pollutants and contaminants. No environmental assessment of the Mortgaged Property has been made prior to the issuance of the Bonds.

### **Considerations Relating to Additional Debt**

Subject to the coverage and other tests set forth therein, the Master Trust Indenture permits the Members of the Obligated Group to incur additional indebtedness. Such indebtedness would increase the Obligated Group's debt service and repayment requirements and may adversely affect debt service coverage on the Bonds. In certain circumstances, indebtedness may be issued on a basis senior to the Obligations Outstanding under the Master Trust Indenture.

### **Risks Related to Interest Rate Swap Agreements**

Certain of the Northwell affiliates have entered into interest rate swap agreements related to indebtedness of such Northwell affiliates (the "Swaps"). The Swaps are and will be subject to periodic "mark-to-market" valuations and at any time may have a negative value to such Northwell affiliates. The Swaps counterparties may terminate the Swaps upon the occurrence of certain "termination events" or "events of default." The Northwell affiliates may terminate the Swaps at any time. If either the counterparty to one of the Swaps or the Northwell affiliate terminates any of the Swaps during a negative value situation, the Northwell affiliates may be required to make a termination payment to such Swaps counterparty, and such payment could be material.

## Other Risk Factors

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Northwell affiliates, or the market value of the Bonds, to an extent that cannot be determined at this time:

- Adoption of legislation that would establish a national or statewide single-payer health program or that would establish national, statewide or otherwise regulated rates.
- Increased unemployment or other economic conditions in the Northwell service area, which could increase the proportion of patients who are unable to pay fully for the cost of their care.
- Efforts by insurers and governmental agencies to limit the cost of hospital and physician services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payers to control or restrict the operations of certain health care facilities.
- Termination, non-renewal or renegotiation of provider participation agreements with third-party payers could reduce demand for Northwell's services, resulting in reduced market share, reduced net patient services revenues and reduced net income.
- Reduced demand for Northwell's services that might result from decreases in population or innovations in technology.
- Technical issues and delays associated with development and implementation of information technology systems to support critical clinical and financial operations.
- Competition in Northwell's service area could increase from alternative modes of care, including life care, assisted living facilities, and home care.
- Bankruptcy of an indemnity/commercial insurer, managed care plan or other payer.
- The occurrence of a natural or man-made disaster, including but not limited to weather, acts of God or acts of terrorists, that could damage Northwell's facilities, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair the operations and the generation of revenues from Northwell's facilities.
- A change in federal income tax law or replacement of the federal income tax with another form of taxation, which, among other consequences, might adversely affect the market value of the Bonds and the level of charitable donations to the Northwell affiliates.

## **TAX MATTERS**

### **General**

The following discussion is a summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of Bonds by original purchasers of the Bonds who are U.S. Holders (as defined below). This summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), Treasury regulations, revenue rulings and court decisions, all as now in effect and all subject to change at any time, possibly with retroactive effect. This summary assumes that the Bonds will be held as “capital assets” under the Code, and it does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Bonds as a position in a “hedge” or “straddle” for United States Federal income tax purposes, holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code. Each prospective purchaser of the Bonds should consult with its own tax advisor concerning the United States Federal income tax and other tax consequences to it of the acquisition, ownership and disposition of the Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

As used herein, the term “U.S. Holder” means a beneficial owner of a Bond that is for United States Federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

### **U.S. Holders—Interest Income**

Interest on the Bonds is not excludable from gross income for United States Federal income tax purposes.

### **U.S. Holders—Disposition of Bonds**

Upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Bond, a U.S. Holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such U.S. Holder’s adjusted tax basis in the Bond. A U.S. Holder’s adjusted tax basis in a Bond generally will equal such U.S. Holder’s initial investment in the Bond, decreased by the amount of any payments, other than qualified stated interest payments, received with respect to such Bond. Such gain or loss generally will be long-term capital gain or loss if the Bond was held for more than one year.

### **U.S. Holders—Defeasance**

U.S. Holders of the Bonds should be aware that, for Federal income tax purposes, the deposit of moneys or securities in escrow in such amount and manner as to cause the Bonds to be deemed to be no longer outstanding under the resolution of the Bonds (a “defeasance”), could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, for Federal income tax purposes, the character and timing of receipt of payments on the Bonds subsequent to any such defeasance could also be affected. U.S. Holders of the Bonds are advised to consult with their own tax advisors regarding the consequences of a defeasance for Federal income tax purposes, and for state and local tax purposes.

## **U.S. Holders—Backup Withholding and Information Reporting**

In general, information reporting requirements will apply to non-corporate U.S. Holders with respect to payments of principal and payments of interest on a Bond and the proceeds of the sale of a Bond before maturity within the United States. Backup withholding at a current rate of 31% will apply to such payments unless the U.S. Holder (i) is a corporation or other exempt recipient and, when required, demonstrates that fact, or (ii) provides a correct taxpayer identification number, certifies under penalties of perjury, when required, that such U.S. Holder is not subject to backup withholding and has not been notified by the Internal Revenue Service that it has failed to report all interest and dividends required to be shown on its United States Federal income tax returns.

Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's United States Federal income tax provided the required information is furnished to the Internal Revenue Service.

### **Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

## **CERTAIN ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain fiduciary obligations and prohibited transaction restrictions on employee benefit plans subject to Title I of ERISA ("ERISA Plans"). Section 4975 of the Code imposes essentially the same prohibited transaction restrictions on tax-qualified retirement plans (among other "plans" set forth in Section 4975(e) of the Code) described in Section 401(a) and 403(a) of the Code, which are exempt from tax under Section 501(a) of the Code, ("Qualified Retirement Plans"), and on individual retirement accounts ("IRAs") described in Section 408(b) of the Code (collectively, "Tax-Favored Plans").

Among other requirements, ERISA requires ERISA Plan fiduciaries to exercise prudence when investing ERISA Plan assets, taking into account diversification of the ERISA Plan's portfolio, liquidity needs and the requirement that ERISA Plan investments be made in accordance with the documents governing such ERISA Plan. Further, Section 406 of ERISA and Section 4975 of the Code ("Prohibited Transaction Rules") prohibit a broad range of transactions involving assets of ERISA Plans and Tax-Favored Plans and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, "Benefit Plan Investors") and persons who have certain specified relationships to the Benefit Plan Investors ("Parties in Interest" or "Disqualified Persons"), unless a statutory or administrative exemption is available. Certain Parties in Interest (or Disqualified Persons) that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA (or Section 4975 of the Code) unless a statutory or administrative exemption is available. Notwithstanding the foregoing, certain restrictions and requirements set forth above may not apply to an investment in the Bonds if it is determined that the Bonds represent indebtedness and not an "equity interest" under ERISA and the Prohibited Transaction Rules. By acquiring the Bonds, each Holder will be deemed to represent that either (i) it is not acquiring Bonds with assets of an ERISA Plan or a Tax-Favored Plan; or (ii) the acquisition and holding of the Bonds will not give rise to a nonexempt prohibited transaction under the Prohibited Transaction Rules.

Any ERISA Plan fiduciary considering whether to purchase Bonds on behalf of an ERISA Plan should consult with its counsel regarding its fiduciary responsibilities, if any, and the Prohibited Transaction Rules. Persons responsible for investing the assets of Tax-Favored Plans that are not ERISA Plans should

seek similar counsel with respect to the prohibited transaction provisions of Section 4975 of the Code and the applicability of any similar state or federal law. Parties in Interest should similarly consider their responsibilities under the Prohibited Transaction Rules before engaging in bond transactions in a manner that affects assets of Benefit Plan Investors.

## **LEGAL MATTERS**

Certain legal matters will be passed on for HCI and the Obligated Group by its special counsel, Hawkins Delafield & Wood LLP, New York, New York. In addition, certain legal matters will be passed upon for HCI and the Obligated Group by their disclosure counsel, Ropes & Gray LLP, Boston, Massachusetts. Certain legal matters will be passed on for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued.

## **UNDERWRITING**

The Bonds are being purchased by Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC (the “Underwriters”). The Underwriters have agreed, severally and not jointly, subject to certain conditions, to purchase the Bonds from HCI at an aggregate purchase price of \$950,437,575 (reflecting an Underwriters’ discount of \$6,481,425).

The Bonds may be offered and sold to certain dealers (including the Underwriters) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters.

Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may distribute securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for HCI and Northwell for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of HCI and Northwell or issued for the benefit of HCI and Northwell.

## **CONTINUING DISCLOSURE**

HCI has entered into continuing disclosure undertakings (the “Continuing Disclosure Undertakings”) in connection with certain tax-exempt revenue bonds previously issued for the benefit of the Obligated Group (the “Tax-Exempt Bonds”). Holders and prospective purchasers of the Bonds may obtain copies of the information provided by HCI under those Continuing Disclosure Undertakings on Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (“EMMA”) system or

Digital Assurance Certification, L.L.C. (“DAC”). Each Continuing Disclosure Undertaking terminates when the related Tax-Exempt Bonds are paid or deemed paid in full.

HCI covenants in the Bond Indenture that unless otherwise available on EMMA or DAC or any successor thereto or to the functions thereof, copies of NHI’s unaudited quarterly consolidated financial statements, and consolidated annual audited consolidated financial statements, with supplementary information, will either be posted on Northwell’s website, posted on EMMA or DAC or filed with the Bond Trustee. A breach of this covenant does not constitute an Event of Default under the Bond Indenture. The sole and exclusive remedy for a breach of this covenant is specific performance and no person, including any Holder or any Beneficial Owner of the Bonds, may recover monetary damages thereunder under any circumstances.

## **RATINGS**

Fitch, Inc., Moody’s Investors Service, Inc. and S&P Global Ratings have assigned the Bonds ratings of “A,” “A3” and “A-,” respectively. An explanation of the significance of such ratings may be obtained only from the rating agencies furnishing the same. Certain information and materials not included in this Offering Memorandum were furnished to the rating agencies. There is no assurance that such ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating agencies, if, in the judgment of any or all of them, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market prices of the Bonds. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

## **MISCELLANEOUS**

Reference in this Offering Memorandum to the Bond Indenture, the Mortgages, the Master Trust Indenture, the Series 2017A Supplemental Indenture and the Series 2017A Obligation do not purport to be complete. Investors should refer to the Bond Indenture, the Mortgages, the Master Trust Indenture, the Series 2017A Supplemental Indenture and the Series 2017A Obligation for full and complete details of their provisions. Copies of the Bond Indenture, the Mortgages, the Master Trust Indenture, the Series 2017A Supplemental Indenture and the Series 2017A Obligation are on file with the Bond Trustee.

Any statements in this Offering Memorandum involving matters of opinion, whether or not expressly stated, are intended merely as expressions of opinion and not as representations of fact.

The information regarding DTC and DTC’s book-entry system has been furnished by DTC. HCI believes that this information is reliable, but HCI makes no representations or warranties whatsoever as to the accuracy or completeness of this information.

APPENDIX A – “NORTHWELL AND THE OBLIGATED GROUP” and the Unaudited Interim Consolidated Financial Statements of Northwell Health, Inc. for the Six Months ended June 30, 2017 and 2016 included in APPENDIX B-2 have been provided by HCI.

The Consolidated Financial Statements of Northwell Health, Inc. as of December 31, 2016 and 2015 and for the years then ended included in APPENDIX B-1 have been audited by Ernst & Young LLP, independent auditors, as stated in their report therein.

Hawkins Delafield & Wood LLP, New York, New York, special counsel to HCI and the Obligated Group, have prepared APPENDIX C-1 – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE,” APPENDIX C-2 – “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE,” APPENDIX C-3 – “THE SPRINGING AMENDMENTS TO THE MASTER TRUST INDENTURE” and APPENDIX E – “PROPOSED FORM OF OPINION OF HAWKINS DELAFIELD & WOOD LLP.”

HCI has reviewed the sections of this Offering Memorandum describing the Obligated Group and Northwell under the headings, “INTRODUCTION,” “SOURCE OF PAYMENT AND SECURITY FOR THE BONDS,” “THE BONDS,” “PLAN OF FINANCE,” “ESTIMATED SOURCES AND USES OF FUNDS,” “RISK FACTORS AND REGULATORY PROVISIONS THAT MAY AFFECT NORTHWELL AND THE OBLIGATED GROUP,” “CONTINUING DISCLOSURE,” APPENDIX A – “NORTHWELL AND THE OBLIGATED GROUP,” APPENDIX B-1 – “AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF NORTHWELL HEALTH, INC. FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 WITH REPORT OF INDEPENDENT AUDITORS” and APPENDIX B-2 – “UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF NORTHWELL HEALTH, INC. FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016.” HCI shall certify as of the date hereof and of delivery of the Bonds that such sections and Appendices do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading.

HCI has agreed to indemnify the Underwriters and certain others against losses, claims, damages and liabilities arising out of any untrue statements or omissions of statements of any material fact as described in the preceding paragraph.

The execution and delivery of this Offering Memorandum by an Authorized Officer have been duly authorized by HCI.

**NORTHWELL HEALTHCARE, INC.**

By: /s/ Robert S. Shapiro

Robert S. Shapiro  
Executive Vice President and  
Chief Financial Officer

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## **APPENDIX A**

### **NORTHWELL AND THE OBLIGATED GROUP**

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## **NORTHWELL AND THE OBLIGATED GROUP**

### **Introduction**

Northwell Health, Inc. (“NHI”), together with its member corporations and affiliated entities, constitutes an integrated health care delivery system serving the greater metropolitan New York area, and is comprised of 18 hospitals, four long-term care facilities, four certified home health care agencies, six trauma centers, a hospice network, over 550 ambulatory and physician practice locations, The Feinstein Institute for Medical Research (the “Feinstein Institute”) and other controlled entities (collectively referred to as “Northwell”).

The members of the Obligated Group, each of which is part of Northwell, are: Long Island Jewish Medical Center (“LIJMC”), North Shore University Hospital (“NSUH”), Glen Cove Hospital (“GCH”), Plainview Hospital (“PVH”), Northwell Health Stern Family Center for Rehabilitation (“Stern”), Southside Hospital (“SH”), Huntington Hospital Association d/b/a Huntington Hospital (“HH”), Staten Island University Hospital (“SIUH”), Lenox Hill Hospital (“Lenox”) and Northwell Healthcare, Inc. (“HCI”). The above-referenced entities are each referred to individually as a “Member of the Obligated Group” and, collectively, as the “Obligated Group”. HCI is the sole member (parent) of each other Member of the Obligated Group. The Obligated Group represents the majority of the total revenues and assets of Northwell, as hereinafter described. See “Organizational Chart” herein.

HCI is both a Member of and the representative for the Obligated Group. NHI is the ultimate parent holding company of each Member of the Obligated Group and of Northwell, but NHI is not a Member of the Obligated Group.

Northwell had \$9.9 billion in total operating revenue for the fiscal year ended December 31, 2016. For the year ended and as of December 31, 2016, the Members of the Obligated Group represented 83.9% of the total consolidated operating revenue and 90.2% of the total consolidated assets of Northwell.

Unless otherwise indicated, all references to financial and statistical data are based on Northwell internal records.

### **Northwell**

According to “The Top 25 Integrated Health Systems”, a market insights report published by SK&A/QuintilesIMS in August 2017 that ranked all health systems in the United States by number of facilities and physicians, Northwell is the:

- 8<sup>th</sup> largest health care system operating in a single market;
- 12<sup>th</sup> largest not-for-profit health care system in the nation; and
- 15<sup>th</sup> largest health care system overall in the nation.

Based on data provided by the New York Statewide Planning and Research Cooperative System, Northwell had a 2016 inpatient market share of 28.3% in its service area, which has a population of more than eight million people residing in Nassau, Suffolk, Queens, New York (Manhattan), Richmond (Staten Island) and Westchester Counties. Northwell attracts patients from other surrounding areas as well.

Northwell delivers clinical care throughout the New York metropolitan area, conducts research at the Feinstein Institute, has developed innovative approaches to undergraduate medical education at the Donald and Barbara Zucker School of Medicine at Hofstra/Northwell (the “School of Medicine”), and through its population health initiatives addresses the full spectrum of health care needs of the communities

it serves. Northwell cares for people at every stage of life. Northwell's hospitals and long-term care facilities house approximately 6,600 beds, employ more than 15,000 nurses and have affiliations with over 12,200 physicians. With a workforce of approximately 62,800, Northwell is one of the ten largest private-sector employers in New York State according to the New York State Department of Labor as of August 2016.

Approximately 3,800 employed physicians and over 8,400 community physicians are on the medical staffs of the Northwell facilities. According to "The Top 50 Medical Groups", a market insights report published by SK&A/QuintilesIMS in January 2017, Northwell Health Physician Partners (a division of Northwell) is the fifth largest medical group in the United States. In addition, "New York's Best Doctors", a survey published in *New York* magazine on May 29, 2017, cited over 140 Northwell doctors among a total of 1,321 physicians recognized as being at the top of their fields in the New York area. Those honored physicians represent a wide variety of specialties.

In 2013, Northwell established a provider-owned health plan. Specifically, Northwell created two health insurance companies, North Shore-LIJ Health Plan, Inc. ("Health Plan"), which began operating a partial capitation Medicaid Managed Long-Term Care ("MLTC") plan in November 2013, and CareConnect Insurance Company, Inc. ("CareConnect"), which began issuing commercial health insurance policies in January 2014 (Health Plan and CareConnect are referred to collectively as the "Health Insurance Companies"). Total net premium revenue for Northwell attributable to the Health Insurance Companies was approximately \$549 million in 2016. In 2017, Northwell announced that it plans to wind down the Health Insurance Companies' operations and withdraw from New York State's insurance markets. For additional information, see "Health Insurance Companies" and "Management's Discussion and Analysis of Recent Financial Performance" herein.

In 2008, Hofstra University and Northwell entered into a joint academic agreement to develop the School of Medicine as an allopathic medical school. The School of Medicine received full accreditation in February 2015, and the inaugural class graduated in May 2015. See "Donald and Barbara Zucker School of Medicine at Hofstra/Northwell" herein. In March 2015, Hofstra University and Northwell announced plans to launch a school of graduate nursing and health professionals ("Hofstra Northwell School of Graduate Nursing and Physician Assistant Studies") to expand Northwell's medical school partnership with Hofstra University in order to meet the need for nurse practitioners and physician assistants to deliver community-based health care. In July 2015, New York State approval was obtained for the Hofstra Northwell School of Graduate Nursing and Physician Assistant Studies, which enrolled its inaugural class of 30 students in September 2015. A class of 66 students has been accepted to enter in September 2017. Northwell also provides many community education programs and sponsors more than 120 accredited medical, dental and podiatry residency and fellowship training programs, educating over 1,600 future practicing physicians each year. In addition, Northwell educates over 600 students annually from the School of Medicine as well as through its major medical school affiliations with Albert Einstein College of Medicine, New York University, The State University of New York ("SUNY") Downstate, and New York Medical College, as well as other students from medical, dental and podiatric schools across the country and overseas.

## **Strategy**

Over the past decade, Northwell management has pursued and refined a multifaceted plan to expand and strengthen Northwell in order to improve the quality and efficiency of services delivered to residents of its service area while meeting the changing demands of the health care industry. The principal elements of this strategic plan include the following:

1. Provide a full continuum of care;
2. Educate and train health care providers;
3. Develop pioneering discoveries;
4. Improve the health of populations served;
5. Position Northwell for value-based care payment;
6. Support local communities and address social determinants of health; and
7. Ensure a financially stable organization that is able to fund mission needs.

The implementation of the strategy has included various transactions, as described further below.

## ***Acquisitions***

On August 1, 2017, Northwell acquired Visiting Nurse Association of Hudson Valley, Inc. and subsidiaries (collectively “VNA”), not-for-profit corporations that operate a certified home health agency, a licensed home health agency and a certified hospice program in Westchester and Putnam Counties in New York. Northwell acquired VNA by means of an inherent contribution with no consideration transferred by Northwell.

In June 2017, Northwell and John T. Mather Memorial Hospital (“Mather”), located in Port Jefferson, New York, executed a letter of intent to pursue the goal of HCI becoming the sole corporate member and active parent of Mather. Mather is a 248-bed community teaching hospital that provides care in bariatrics, neurosurgery, orthopedics, pulmonology, robotic surgery, breast health, mental health and emergency services. It also operates the Precision CyberKnife of New York advanced radiosurgery program. Mather’s graduate medical education program offers residencies in internal medicine, psychiatry, radiology and transitional care. It has more than 2,600 employees and over 600 employed and affiliated physicians. The letter of intent, which is non-binding, contemplates certain Mather capital expenditures to be funded through (i) savings generated through the integration with Northwell, and (ii) one or more direct cash infusions from HCI in an amount not less than \$90 million over a five-year period. Any transaction between Northwell and Mather would be subject to receipt of regulatory and board approvals of both organizations and satisfaction of all closing conditions.

In June 2017, Lenox executed an agreement to purchase a block of land in New York City in close proximity to Lenox. The transaction is expected to close by mid-2019, subject to satisfaction of closing conditions. Program plans for the site are in process as part of Northwell’s master facility plan for the Manhattan market.

On March 1, 2017, Northwell purchased the assets of Westchester Health Associates, PLLC, a multispecialty medical practice with over 100 physician, nurse practitioner and physician assistant

providers practicing in 37 locations throughout Westchester and Putnam Counties in New York and Fairfield County in Connecticut.

Northwell has executed a definitive agreement to acquire the assets of Orlin & Cohen, a medical group consisting of 80 providers in four specialties (orthopedics, physical medicine and rehabilitation, neurology, and pain management) operating across eight locations in Nassau and Suffolk Counties. The transaction is expected to be effective as of January 1, 2018.

In January 2016, HCI became the sole corporate member of Peconic Bay Medical Center (“Peconic”), a not-for-profit corporation that operates a 140-bed acute care hospital and a 60-bed skilled nursing/rehabilitation center located in Riverhead, New York. Peconic also operates a certified home health agency, a six-bed palliative care center, a campus in Manorville, New York that provides ambulatory and urgent care, and a network of community-based family care and specialty physician practices throughout central and eastern Suffolk County. Peconic is not a Member of the Obligated Group.

In January 2015, HCI became the sole corporate member of two not-for-profit acute care hospitals in Westchester County, New York: Phelps Memorial Hospital Association d/b/a Phelps Hospital (“Phelps”), located in Sleepy Hollow and licensed for 238 beds, and Northern Westchester Hospital Association d/b/a Northern Westchester Hospital (“Northern Westchester”), located in Mount Kisco and licensed for 245 beds. Neither Phelps nor Northern Westchester is a Member of the Obligated Group.

In order for any Northwell affiliate to join the Obligated Group, a certificate of need application to the New York State Department of Health (“NYSDOH”) would be required under New York State law. In addition, the test set forth in the Master Trust Indenture (as defined in the forepart of this Offering Memorandum) for entry into the Obligated Group must be satisfied for any entity to become a Member of the Obligated Group. See “Appendix C-2 – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE” for information regarding the requirements to become a Member of the Obligated Group. Each Member of the Obligated Group is jointly and severally liable for obligations issued under the Master Trust Indenture. No decision has been reached by Northwell as to whether any additional Northwell affiliates will join the Obligated Group.

### ***Joint Ventures, Strategic Alliances and Clinical Collaborations***

Management believes it is strategically important to form partnerships and other affiliations across a broad array of health care industry participants, in order to bring new ideas and approaches and diverse sources of capital to Northwell activities. As such, Northwell continues to develop joint ventures, strategic alliances and affiliations with hospitals, other health systems, private physician practices and other partners with which it can pursue its mission and strategic goals. A number of these arrangements are described below.

One key element of Northwell’s joint venture strategy is the acquisition and development of ambulatory surgical centers (“ASCs”) in various specialties in partnership with physicians. To date, Northwell affiliates have acquired controlling interests in five ASCs and non-controlling interests in three other ASCs located in the Northwell market area. One of the ASCs in which Northwell has a controlling interest is developing an additional *de novo* ASC as an extension location. Construction began on the facility in August 2017 and it is expected to open in the first half of 2018. Northwell management expects to make additional investments in existing and *de novo* ASCs over the next several years.

Northwell established a not-for-profit supporting organization, True North Health Services Company, LLC (“True North”), to house its existing physician revenue cycle management and patient access service capabilities. In September 2016, True North, together with a private equity sponsor, founded

Formativ Health (“Formativ”) to offer physician revenue cycle management, patient access services and other business services to unrelated entities and to new affiliates of Northwell. True North and the private equity sponsor contributed cash, employment agreements with certain members of the management team, physician practice revenue cycle capabilities, certain analytics, educational and marketing capabilities and physician revenue cycle management expertise to Formativ. Northwell, through True North, owns approximately 41% of Formativ.

Northwell is partnering with DaVita Kidney Care (“DaVita”) (the country’s second largest dialysis provider) in a joint venture to serve thousands of patients in the Northwell service area with integrated kidney care. With a shared vision of kidney care services, the joint venture between Northwell and DaVita seeks to enhance the services provided to kidney dialysis patients throughout the New York metropolitan area. The joint venture became effective in March 2016 and is scheduled to open approximately 14 dialysis centers throughout the New York metropolitan area within the next two years, of which six were in operation as of September 2017.

In June 2016, HCI executed a long-term lease for the site of the former Victory Memorial Hospital in the Bay Ridge section of Brooklyn. The facility is to be developed as the site for a variety of health care programs to be delivered by Northwell, its strategic affiliate, Maimonides Medical Center (“MMC”), and potentially other partners in pursuit of Northwell’s expansion plans in Brooklyn. The lease became effective in June 2017.

In August 2015, HCI entered into a clinical affiliation and collaboration agreement with MMC, a 711-bed acute care hospital located in Brooklyn, New York. The purpose of the affiliation is to pursue collaborative activities, such as clinical integration initiatives and ambulatory services joint ventures, as well as service agreements that may generate operational efficiencies. Under the terms of the affiliation agreement, Northwell and MMC will remain independent organizations governed by their respective boards of trustees, and HCI has agreed to loan up to \$125 million to MMC for activities in furtherance of the clinical affiliation and collaboration, the full amount of which has been drawn as of August 31, 2017. If Northwell acquires or becomes the sole member and corporate parent of MMC in the future, outstanding amounts borrowed under the loan agreement, including accrued interest, are expected to be forgiven.

In April 2015, Northwell entered into a strategic affiliation with Cold Spring Harbor Laboratory (“CSHL”). Under the terms of this affiliation, Northwell and CSHL will continue as independent organizations governed by their respective boards of trustees. The institutions appointed a committee with responsibility for oversight, staffing and implementation of the affiliation. The goals of the affiliation include: advancing cancer therapeutics research, developing a new clinical cancer research unit at the Northwell Cancer Institute (see “Centers of Excellence” and “Research” herein) to support early-phase clinical studies of new cancer therapies, and recruiting and training more clinician-scientists in oncology.

In April 2015, Northwell entered into an agreement with Optum360, LLC (“Optum360”), a provider of revenue cycle management solutions and technology. Optum360 provides end-to-end revenue cycle management services for most of Northwell’s hospitals. The goal of the arrangement is to enhance Northwell’s hospital revenue cycle, including the modernization of revenue cycle technology, so that Northwell can continue to efficiently and effectively meet the needs of and improve the experience of Northwell’s patients and customers.

In 2014, Northwell executed an agreement with Access Clinical Partners, with a goal of launching a new network of up to 40 GoHealth Urgent Care centers across the New York metropolitan area over four years. As of July 2017, GoHealth Urgent Care centers had opened at 36 locations throughout the New York metropolitan area.



In 2014, Northwell, in partnership with Yale-New Haven Health System, launched SkyHealth, the New York area's first hospital-based Helicopter Emergency Medical Service. Patients of both health systems needing lifesaving care for major traumas, heart attack, stroke and other life-threatening brain injuries can receive emergency medical care by helicopter and be quickly flown to the most appropriate hospital.

Strategic partnerships and alliances (not involving control relationships) have been established with Cleveland Clinic, Crouse Health, Institute for Healthcare Improvement, Joint Commission Center for Transforming Healthcare, Karolinska Institute, Montefiore Medical Center, University of Notre Dame, Yale-New Haven Health System, Boca Raton Regional Hospital and NuHealth (Nassau University Medical Center). In addition, NHI has contractual agreements with several other health care institutions (*e.g.*, skilled nursing facilities), terminable on specified written notice, that, along with the strategic partnerships and alliances, provide for cooperation on matters relating to health care delivery, clinical research and health care education for the benefit of their respective communities and the furtherance of their respective missions. These institutions are sometimes referred to herein as "Clinical Affiliates."

### ***Strategic Realignment of Service Offerings and Affiliations***

In connection with Northwell's overall strategy to respond to shifting trends in utilization of and payment for health care services and other changes associated with health care reform, Northwell's strategic initiatives may call for changes to, and realignment of, service offerings and other activities of Northwell. From time to time, Northwell may identify and pursue various realignment strategies with the goal of better positioning Northwell to respond to changes in the health care market. In addition, the hospital market in New York City and the surrounding area is in the process of consolidation, and Northwell, from time to time, engages in affiliation discussions with other hospitals and health systems. For a discussion of risks relating to affiliations and similar transactions, see "RISK FACTORS AND REGULATORY PROVISIONS THAT MAY AFFECT NORTHWELL AND THE OBLIGATED GROUP – Affiliation, Merger, Acquisition and Divestiture" in the forepart of this Offering Memorandum.

### **Other Information Concerning Northwell**

The Chief Executive Officer of NHI is also the Chief Executive Officer of each of the Members of the Obligated Group (other than HH). HCI is the sole corporate member of each other Member of the Obligated Group, and NHI is the sole corporate member of HCI.

With NHI as their common direct or indirect parent, all of the Northwell entities are considered to be under common control for antitrust and other legal purposes and, thus, conduct joint managed care contracting and other joint activities, including strategic planning.

NHI directly or indirectly controls several other corporations that are not Members of the Obligated Group, including but not limited to Peconic, Phelps, Northern Westchester and the Health Insurance Companies. These corporations are referred to herein as the "Other Northwell Entities." See "Health Insurance Companies" and "Other Northwell Entities" herein for more information.

### **Other Northwell Entities**

In addition to the Members of the Obligated Group, there are other entities that are part of Northwell and have NHI as their ultimate parent but are not Members of the Obligated Group (as previously defined, the "Other Northwell Entities").

One of the largest of these entities in terms of total operating revenue in 2016 was Northwell Health Laboratories, which had revenues of approximately \$358 million, including \$156 million for laboratory

services provided to the members of Northwell, and also provides reference laboratory services for a broad number of providers throughout the service area.

As described above, Phelps and Northern Westchester became members of Northwell effective January 1, 2015, but they are not Members of the Obligated Group. Phelps had 2016 operating revenue of approximately \$255 million, and Northern Westchester had 2016 operating revenue of approximately \$273 million. Peconic became a member of Northwell effective January 15, 2016 and had operating revenue of approximately \$178 million in 2016, but it is not a Member of the Obligated Group. See “Strategy – *Acquisitions*” herein.

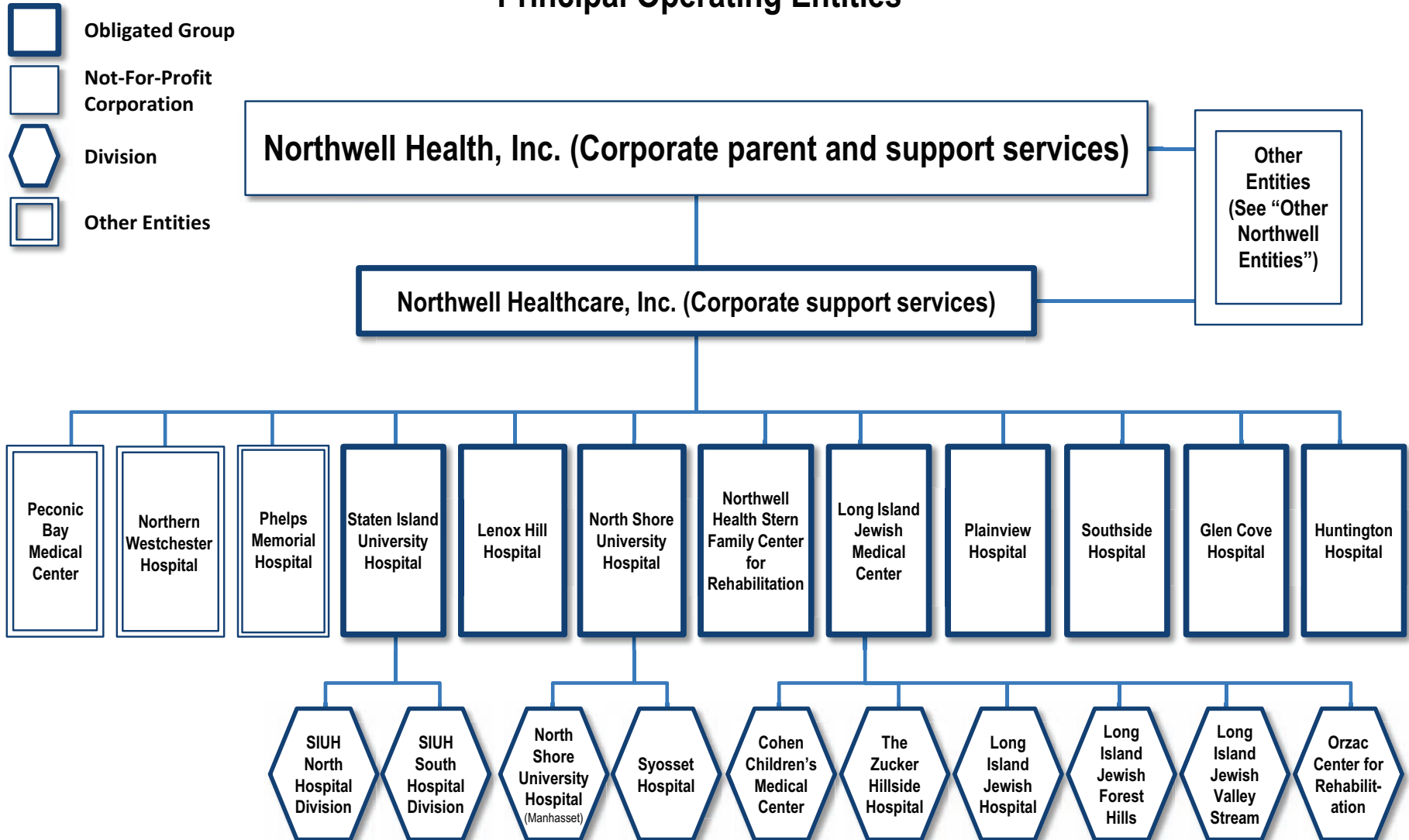
In addition, the Health Insurance Companies (see “Health Insurance Companies” herein) and the Feinstein Institute (see “Research” herein), which had operating revenue of approximately \$556 million and \$59 million in 2016, respectively, are not Members of the Obligated Group.

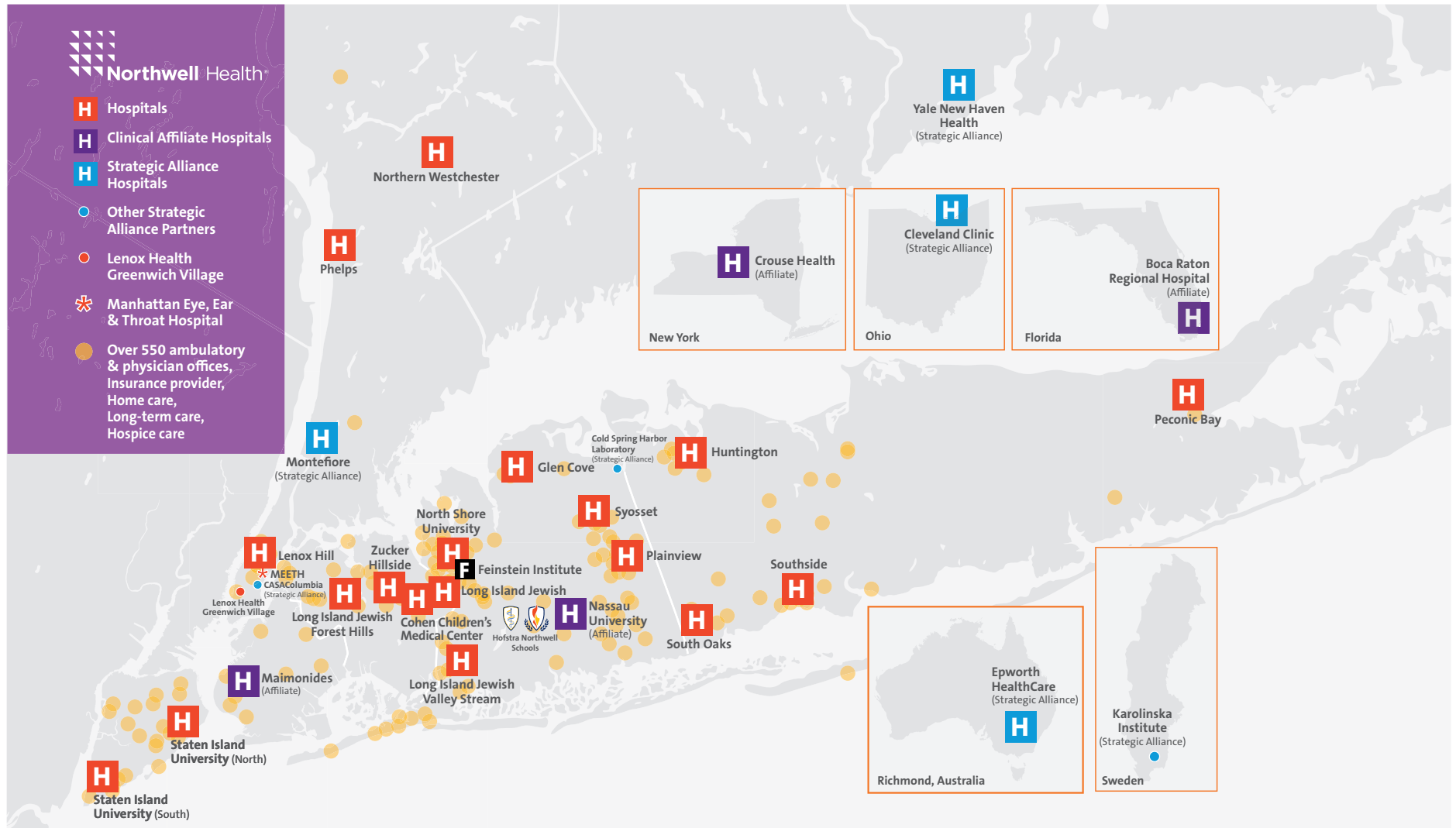
**THE OTHER NORTHWELL ENTITIES ARE NOT MEMBERS OF THE OBLIGATED GROUP AND, THEREFORE, ARE NEITHER OBLIGATED UNDER THE MASTER TRUST INDENTURE NOR RESPONSIBLE FOR PAYMENT OF THE DEBT SERVICE ON THE BONDS.**

The following organizational chart sets forth the principal operating entities that comprise Northwell, and the map shows the location of each of the hospitals in Northwell.

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# Northwell Health Principal Operating Entities





## Hospitals and Long-Term Care Facilities

Each Northwell facility listed in the table below is a New York not-for-profit corporation that is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”), as an organization described in Section 501(c)(3) of the Code, and has been established as an operator of a hospital or a long-term care facility pursuant to Article 28 of the Public Health Law of the State of New York (the “Public Health Law”). Several of these entities are also concurrently licensed under Article 31 and/or Article 32 of the Public Health Law.

<b>Tertiary Facilities</b>	<b>Licensed Beds</b>
Long Island Jewish Medical Center	
Long Island Jewish Hospital	583
The Zucker Hillside Hospital <sup>(1)</sup>	236
Steven and Alexandra Cohen Children’s Medical Center (“CCMC”) <sup>(1)</sup>	206
Long Island Jewish Forest Hills (“LIJFH”) <sup>(2)</sup>	312
Long Island Jewish at Valley Stream (“LIJVS”) <sup>(2)</sup>	284
Orzac Center for Rehabilitation (“Orzac”) <sup>(3)</sup>	120
North Shore University Hospital	
North Shore University Hospital (Manhasset)	738
North Shore University Hospital (Syosset) <sup>(4)</sup>	103
Lenox Hill Hospital	634
Southside Hospital	320
Staten Island University Hospital	
Staten Island University Hospital – South <sup>(4)</sup>	206
Staten Island University Hospital – North	479
<b>Community Hospitals and Skilled Nursing Facilities</b>	
Huntington Hospital	408
Glen Cove Hospital	247
Northern Westchester Hospital	245
Peconic Bay Medical Center <sup>(5)</sup>	200
Phelps Hospital	238
Plainview Hospital	204
Northwell Health Stern Family Center for Rehabilitation	256
South Oaks Hospital	258
Broadlawn Manor Nursing and Rehabilitation Center (“Broadlawn”)	320

<sup>(1)</sup> The Zucker Hillside Hospital and CCMC are specialty care hospitals under common license with LIJMC.

<sup>(2)</sup> LIJFH (formerly Forest Hills Hospital) and LIJVS (formerly Franklin Hospital) provide community care under common license with LIJMC and were merged into LIJMC effective January 2016.

<sup>(3)</sup> Orzac provides skilled nursing care under common license with LIJMC.

<sup>(4)</sup> Syosset and Staten Island University Hospital – South each primarily provide community hospital care, but under common license with NSUH and SIUH, respectively.

<sup>(5)</sup> Includes 60 skilled nursing beds.

Northwell opened a freestanding emergency medical facility in 2014 at Lenox Health Greenwich Village, which operates as a division of Lenox. An imaging center was opened at this facility in 2016 and a specialized ASC is scheduled to open in the fourth quarter of 2017. There are plans for the addition of physician offices in the future.

In November 2016, The Long Island Home (“LIH”) executed an agreement to sell the assets of Broadlawn, a skilled nursing facility operated by LIH, to an independent operator of skilled nursing facilities. The transaction has been approved by NYSDOH, and is expected to close in 2017.

### **Competition and Other Area Health Systems**

The Members of the Obligated Group and the Other Northwell Entities operate within a highly competitive health care market, which includes Nassau and Suffolk Counties on Long Island, New York (Manhattan), Queens and Richmond (Staten Island) Counties in New York City, and Westchester County, and also draw patients from surrounding areas. The service areas of the hospitals in these areas tend to overlap due in part to their relatively close geographic proximity. While these hospitals typically have a number of core services to meet the health care needs of the local community, their more sophisticated services and specialty programs also draw patients nationally and in some cases internationally.

Competitors and other local health systems and hospitals on Long Island include: (i) Catholic Health Services of Long Island (“CHS-LI”), a health system with three hospitals in Nassau County (St. Francis Hospital, Mercy Medical Center and St. Joseph’s Hospital) and three hospitals in Suffolk County (St. Charles Hospital and Rehabilitation Center, St. Catherine of Siena Hospital and Good Samaritan Hospital Medical Center); (ii) NYU Winthrop Hospital (formerly known as Winthrop-University Hospital Association) (which became an affiliate of NYU Langone Health in April 2017); (iii) South Nassau Communities Hospital (which announced in May 2017 that it had entered into a non-binding letter of intent to explore an affiliation with Mount Sinai Health System (“Mount Sinai”)); (iv) Stony Brook University Medical Center (“SBUMC”) (which includes the hospital formerly known as Southampton Hospital, which merged into SBUMC effective August 2017); (v) Eastern Long Island Hospital (“ELIH”) (a combination of ELIH and SBUMC is pending); and (vi) Nassau University Medical Center, which is a Clinical Affiliate of Northwell (see “Strategy – *Joint Ventures, Strategic Alliances and Clinical Collaborations*” herein).

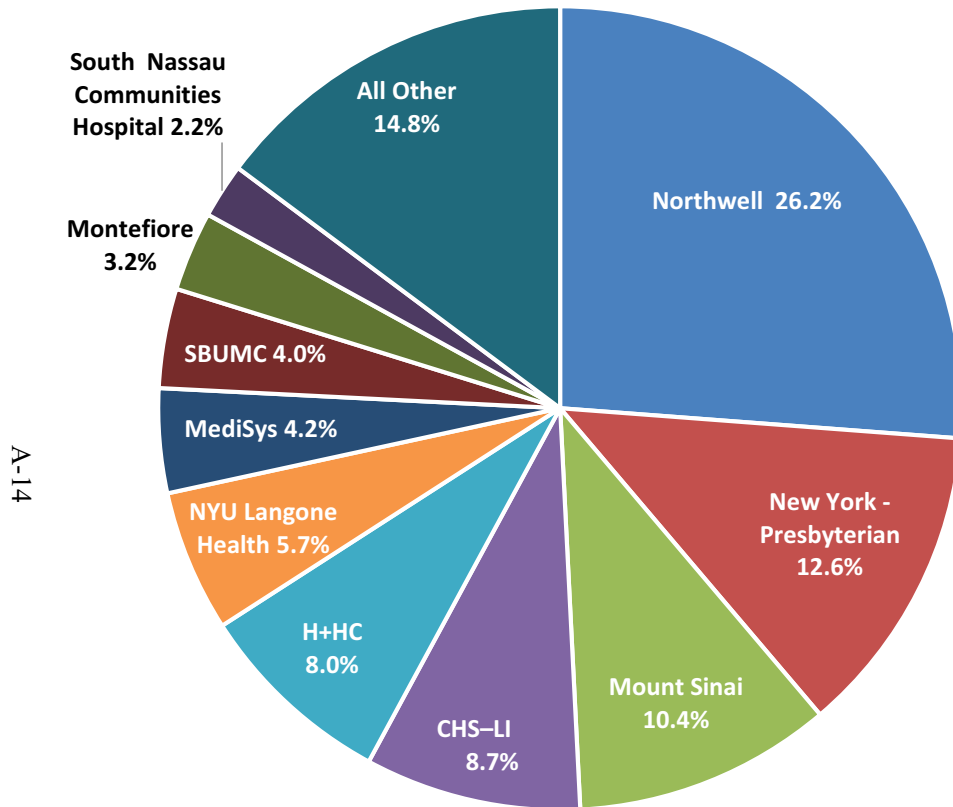
Competitor systems and major medical centers located in and around Manhattan include: (i) New York-Presbyterian Healthcare System (“New York-Presbyterian”), a health system composed of several affiliated hospitals, including one hospital in Queens (New York-Presbyterian/Queens), and four in Manhattan (New York-Presbyterian/Columbia University Medical Center, New York-Presbyterian/Weill Cornell Medical Center, New York-Presbyterian/The Allen Hospital and New York-Presbyterian/Lower Manhattan Hospital), and two in Westchester County (New York-Presbyterian/Hudson Valley Hospital and New York-Presbyterian/Lawrence Hospital); (ii) NYC Health and Hospitals (“H+HC”), a municipal health system comprising eleven hospitals in the Bronx, Brooklyn, Queens and Manhattan (in the Northwell service area, H+HC operates two hospitals in Queens: Elmhurst Hospital Center and Queens Hospital Center, and three hospitals in Manhattan: Bellevue Hospital Center, Harlem Hospital Center, and Metropolitan Hospital Center); (iii) Mount Sinai, a health system with one hospital in Brooklyn (Mount Sinai Brooklyn), one in Queens (Mount Sinai Queens) and five in Manhattan (The Mount Sinai Hospital, New York Eye & Ear Infirmary of Mount Sinai, Mount Sinai Beth Israel, Mount Sinai West and Mount Sinai St. Luke’s); (iv) NYU Langone Health, with two hospitals in Manhattan (Tisch Hospital and NYU Langone Orthopedic Hospital), one in Brooklyn (NYU Langone Hospital - Brooklyn) and one on Long Island (NYU Winthrop Hospital); and (v) MediSys Health Network (“MediSys”), which is comprised of two hospitals in Queens (Jamaica Hospital Medical Center and Flushing Hospital Medical Center). In Richmond County, where SIUH is the major provider, the only other acute care hospital provider is Richmond University Medical Center.

In Westchester County, competitors and other nearby hospitals include Westchester Medical Center in Valhalla, New York, Presbyterian/Hudson Valley Hospital in Peekskill, and White Plains Hospital in White Plains, a member of the Montefiore Health System.

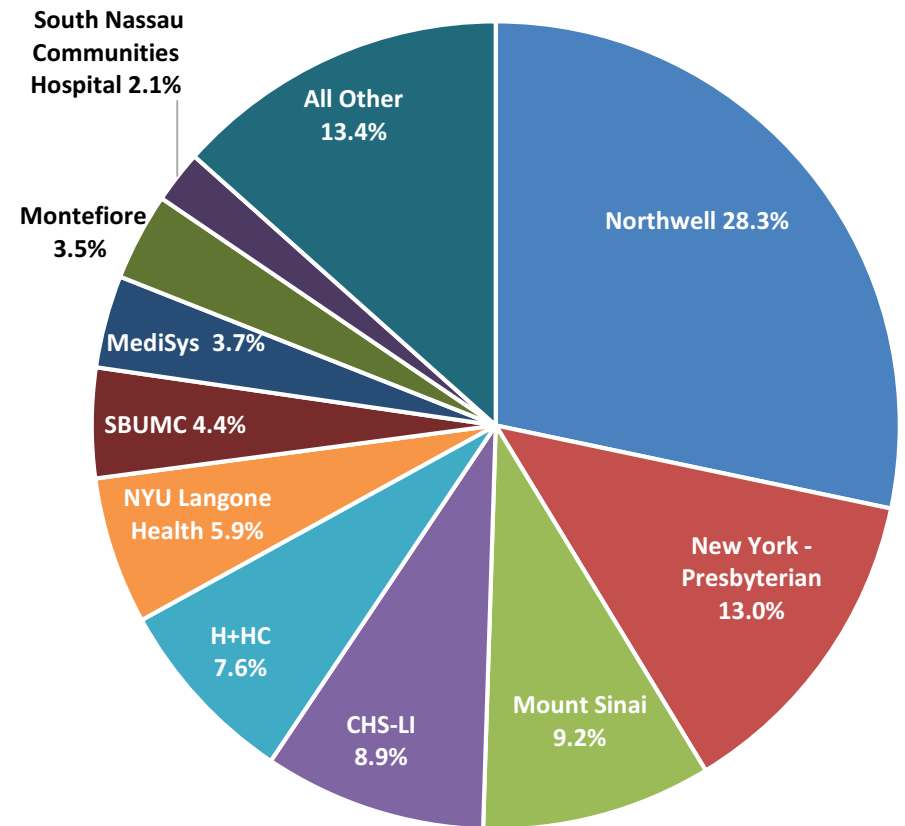
According to the New York Statewide Planning and Research Cooperative System data for hospital discharges for the years ended December 31, 2016 and 2015, Northwell (including Northern Westchester, Phelps and Peconic in all periods) had an inpatient market share of 28.3% and 27.5% respectively, in its market area (as defined above and excluding newborns). For the year ended December 31, 2016, the next largest single competitor, New York-Presbyterian, held a 13.0% market share.

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## 2010 Market Share\*



## 2016 Market Share\*



Source: SPARCS data as of 7/13/2017 based on discharges and patient origin; excludes normal newborns (DRG 795). Market includes Staten Island, Queens, Manhattan, Nassau, Suffolk and Westchester residents.

\* Includes all Northwell hospitals in both years, including Peconic Bay, which joined Northwell on January 15, 2016, and all competitor hospitals for both years, including NYU Winthrop Hospital, which became an affiliate of NYU Langone Health in April 2017.



## Geographic Origin of Inpatients and Ambulatory Surgery Patients of Northwell

The following chart sets forth the geographic origin of inpatient and ambulatory surgery patients of the Northwell hospitals for the three years ended December 31, 2014, 2015 and 2016.

<u>County</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Nassau	21.3%	21.3%	21.2%
Suffolk	20.5%	20.6%	21.2%
New York	5.7%	5.7%	5.6%
Queens	23.9%	24.1%	24.3%
Richmond	12.4%	12.2%	11.9%
Westchester	5.9%	5.8%	5.7%
All Other	<u>10.3%</u>	<u>10.3%</u>	<u>10.1%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

## Northwell Physician Partners and Ambulatory Services

Northwell Physician Partners (“Physician Partners”), consisting of approximately 3,800 physicians, includes all faculty physicians and clinical practitioners employed by the Members of the Obligated Group and the Other Northwell Entities. Physician Partners practitioners recorded over 4.1 million patient visits and consultations in 2016. Physician Partners is responsible for quality and ambulatory nursing and maintains an oversight committee that provides sponsorship and support for the activities of the faculty practice. Northwell maintains an administrative unit (“Ambulatory Services”) that supports Physician Partners and all other ambulatory clinical services through strategic planning and business development, revenue cycle services, physician practice management, finance, information technology, human resources and operational support.

Physician Partners and Ambulatory Services are integrated components of Northwell and are not incorporated as separate business entities. Management of Northwell believes that this structure encourages the integration of administration and clinicians acting as partners in fulfilling objectives consistent with the mission of Northwell.

Ambulatory care services are provided at many locations in the service area, including the Northwell Health Center for Advanced Medicine (“CFAM”), which is located adjacent to LIJMC’s campus and two miles from the NSUH-Manhasset campus. CFAM houses the Northwell Cancer Institute, which brings together all ambulatory cancer services offered by NSUH and LIJMC at one facility. CFAM also includes The Smith Institute for Urology, an ASC, a diagnostic imaging center, and the Bioskills Education Center.

The Lenox Hill Hospital Extension Clinic at MEETH (“MEETH”) is a Lenox outpatient center located on East 64th Street in Manhattan (formerly the site of Manhattan Eye, Ear and Throat Hospital, which merged into Lenox in 2007). MEETH includes an ambulatory surgery center as well as numerous outpatient specialty clinics.

Ambulatory care services within Northwell cover six primary care areas and 43 specialty care services, and provide services that allow access to medical care to individuals across their entire life span. The six primary care areas are General Internal Medical, General Pediatrics, Adolescent Medicine, Obstetrics/Gynecology, Nephrology/End-Stage Renal Disease and Infectious Disease/Center for AIDS Research and Treatment. The 43 specialty care services encompass a full spectrum of medical, pediatric,

and surgical specialty services, capable of addressing complex as well as simple health needs. These services are provided in locations that include both the hospital campuses and off-site locations.

### Medical Staff

Northwell members employ directly, or through controlled professional corporations, approximately 3,800 physicians. In addition, approximately 8,400 private practice physicians who are not employed by Northwell have medical staff privileges at Northwell facilities.

The following is a summary of the medical staff of Northwell as of June 2017:

<b>Active Medical Staff <sup>(1)</sup></b>	<b>% Board Certified</b>	<b>Average Age of Active Medical Staff</b>
12,200	86%	52

<sup>(1)</sup> Total number of active physicians at all facilities are counted only once and do not include cross-credentialing hospital affiliations.

### Centers of Excellence

Northwell provides substantially all inpatient specialties and subspecialties and a broad range of outpatient services. In addition, Northwell is currently expanding centers of excellence in neurosciences, tertiary cardiac care, women's health, cancer, orthopedics, robotic and minimally invasive surgery, and trauma. Examples of this strategy include CFAM, The Institute for Orthopedic Science, the Katz Women's Hospital, the Harvey Cushing Institutes of Neuroscience, the Institute for Heart and Vascular Medicine, the Heart Hospital, the Trauma Institute, and the network of excellence in robotic and minimally invasive surgery.

### Research

The Feinstein Institute is the research branch of Northwell and is headquartered in Manhasset, New York. The Feinstein Institute is composed of more than 1,500 clinicians, scientists and staff who work in laboratories and clinical research programs in collaboration with clinicians and patients throughout Northwell facilities. Every year, more than 15,000 patients and volunteers participate in over 2,000 research studies. The Feinstein Institute received a total of approximately \$45 million in grants and contracts from the National Institutes of Health, the Department of Defense and other federal and private sources in 2016.

The Feinstein Institute, which is not a Member of the Obligated Group, was established by Northwell in 1999 as an independently chartered, not-for-profit research corporation, beginning with 30 laboratories and clinical research programs. In 2010, the Feinstein Institute opened a new 55,000 square foot research building to increase its capacity to recruit scientific leaders in molecular medicine, doubling the size of the animal vivarium and increasing scientific staff working in preclinical development. Currently, 50 laboratories and programs are operated at the Feinstein Institute.

The Feinstein Institute researchers focus on discoveries that can become the basis for innovative therapies, integrating both basic science and clinical experience into approaches designed to unravel the causes of a wide variety of diseases. The major components of this enterprise include bioelectronic medicine, molecular medicine, clinical research, cancer research, and health and economic outcomes (also known as health services or public health research). Scientific advances stemming from these investigations have led to a patent estate of more than 200 patents in 70 fields of technology.

## **Labor Relations**

As of July 2017, Northwell had over 62,800 employees. Through its Corporate Human Resources Department, Northwell manages its entire workforce, administers benefits and compensation packages to all employees, and handles all labor relations and union contracts organization-wide.

Due to many factors, including an aging national workforce, a high volume of workers approaching retirement and an increase in senior patient populations, labor shortages are affecting health care institutions at local, regional and national levels. To respond to these challenges, Northwell continues to offer total rewards packages that management believes are competitive.

In addition, Northwell has developed various pipeline programs for shortage occupations, including medical coding and nursing specialty practice areas (*i.e.*, critical care, operating room, emergency department, and pediatric intensive care). Northwell and the SEIU 1199 Training and Union Employment Fund work collaboratively with learning institutions and the Health Career Advancement Program, a national labor/management organization, on numerous workforce training and development initiatives. Northwell established administrative fellowship and high potential development programs to meet increasing needs for physician and administrative leaders to support system growth and transform care. These programs also enhance employee engagement.

The Hofstra Northwell School of Graduate Nursing and Physician Assistant Studies opened in 2015 to address the increasing need for nurse practitioners and physician assistants to deliver community-based care, along with projected occupational shortages. For more information regarding the Hofstra Northwell School of Graduate Nursing and Physician Assistant Studies, see “Northwell” herein.

There are currently 27 collective bargaining agreements in effect to which a Member of the Obligated Group is a party, of which two agreements are currently in negotiation. The remaining agreements expire on a rolling basis through December 31, 2019. In the past fifteen years, there have not been any work stoppages at any Member of the Obligated Group. The largest union presence is 1199 Service Employees International Union United Healthcare Workers East (“SEIU”), which represents over 16,400 employees and whose contract is currently scheduled to expire on September 30, 2018.

Management believes that Northwell’s relationships with SEIU, the New York State Nurses Association and its other collective bargaining organizations are good. As of June 30, 2017, 35% of the total Northwell workforce was unionized. The workforce of the Northwell hospital facilities totals over 38,000 employees, of whom 48% are represented by labor unions. The Northwell Labor and Employee Relations Management team routinely collaborates with various groups of union organizers and delegates to support sound employee relations, to reduce areas of conflict and to ensure that the interests of all parties are served. In addition, the majority of Northwell’s unionized facilities have Departmental Labor Management Committees, Unit-Based Councils, or Collaborative Care Councils that work to resolve challenges and lead quality improvement initiatives at the department/unit level.

## **Employee Benefit Plans**

Northwell’s principal post-retirement benefit plan is a noncontributory, defined benefit pension plan referred to as the Northwell Health Cash Balance Plan (the “Cash Balance Plan”). Several other defined benefit and defined contribution retirement plans are also administered by Northwell.

Contributions to the defined benefit and defined contribution plans are funded as required by the Employee Retirement Income Security Act of 1974 (“ERISA”) as amended under the Pension Protection Act of 2006 and The Worker, Retiree and Employer Recovery Act of 2008. Defined benefit plan

contributions are based on annual actuarial projections. Contributions to the defined contribution plans are based on percentages of annual salaries.

The combined funded status of Northwell's non-contributory defined benefit pension plans, on an actuarial basis was 70% and 67% at December 31, 2015, and 2016, respectively. The discount rates used as the basis for calculating the pension plan liability were 4.65% and 4.25%, respectively. Refer to Note 8 to the Audited Consolidated Financial Statements of Northwell Health, Inc. for the years ended December 31, 2016 and 2015 with Report of Independent Auditors (the "Audited Consolidated Financial Statements") in Appendix B-1 and "Management's Discussion and Analysis of Recent Financial Performance" herein for additional information on the funded status of Northwell's pension plans and "Investment Policy" herein for Northwell's investment target allocations for plan assets.

For further information concerning Northwell's participation in multi-employer defined benefit pension plans and the risks of such plans, which as of June 30, 2017 covered approximately 18,500, unionized Northwell workers, see Note 8 to the Audited Consolidated Financial Statements in Appendix B-1 and "RISK FACTORS AND REGULATORY PROVISIONS THAT MAY AFFECT NORTHWELL AND THE OBLIGATED GROUP – Multiemployer Pension Plans" in the forepart of this Offering Memorandum. For information concerning other postretirement benefit plans, see Note 9 to the Audited Consolidated Financial Statements in Appendix B-1.

### **Donald and Barbara Zucker School of Medicine at Hofstra/Northwell**

In 2008, Hofstra University, based in Hempstead, New York, and Northwell entered into a joint academic agreement to work in close collaboration to develop an allopathic medical school. The school was renamed in August 2017 as the Donald and Barbara Zucker School of Medicine at Hofstra/Northwell in recognition of the Zucker family's long-time and significant support of the next generation of health care professionals in medicine, research and nursing. The School of Medicine is a division of Hofstra University and is not a member of Northwell or of the Obligated Group.

The School of Medicine opened with its first class of 40 students in August 2011. It is fully accredited by the Liaison Committee on Medical Education and by the New York State Department of Education. Northwell and Hofstra University have jointly developed the School of Medicine's curriculum. Training involves a patient-centric approach, including case studies, team-based learning and hands-on care. For the 2017–2018 academic year, the School of Medicine reached its full enrollment of approximately 100 students in each year of training for a total student body of over 400 students, including a Medical Scientist Training Program that awards a dual M.D./Ph.D. degree. During the application process for the 2017 entering class, the School of Medicine received applications from over 6,088 applicants, of which 686 were selected for interviews and 359 were accepted. The entering class of 2017 comes from 51 undergraduate universities in 16 different states and has a mean GPA of 3.73 and MCAT score of 34.

Northwell agreed to reimburse Hofstra University for a portion of the School of Medicine's annual operating costs each year through June 30, 2017, which aggregated \$50 million. Reimbursement payments after June 30, 2017 are required to be a minimum of \$5 million for each academic year, with amounts indexed to the School of Medicine's tuition. Reimbursement payments are contingent upon annual approval by the boards of NHI and Hofstra University. For further information concerning Northwell's commitments to the School of Medicine, see Note 13 to the Audited Consolidated Financial Statements in Appendix B-1.

### **Licensure and Accreditation**

Northwell's hospitals are each licensed by NYSDOH and are currently accredited through The Joint Commission. The accreditations are typically renewed on a three-year basis and the renewal dates

vary among the hospitals. These hospitals are also certified by the United States Department of Health and Human Services (“DHHS”) for participation in the Medicare and Medicaid programs.

### **Community Benefit**

Northwell strives to improve the health and quality of life of the people and communities it serves by providing high-quality service and patient-centered care. To fulfill its mission and meet its charitable purpose, in 2015 Northwell contributed more than \$1 billion in community benefit programs and services or approximately 12% of Northwell’s operating expenses, offering more than 3,800 unique programs and serving over five million community members. Northwell provides a broad array of community benefit programs, such as: improving access to health care services and caring for the medically underserved; screenings and health fairs; community education and outreach; and support groups.

### **Financial Assistance Policy**

To further its mission of providing the highest quality of care to all patients, regardless of their ability to pay, Northwell offers care at reduced fees for individuals and families who lack insurance, or are underinsured, and cannot afford to pay out-of-pocket expenses. The centerpiece of this community health advocacy plan is a financial assistance policy (the “FAP”) that establishes reduced fees for needy patients seeking medically necessary inpatient, outpatient, emergency, ancillary, ambulatory, primary or specialty care at Northwell facilities. The FAP also includes professional fees if the services are performed at a Northwell facility by employed physicians or other providers. Eligibility is based on income and family size and is available for families earning up to five times the Federal Poverty Level issued by DHHS. Individuals are also screened for Medicaid and other government-subsidized insurance programs such as Child Health Plus. The FAP exceeds the requirements for providing financial assistance to low-income, uninsured patients enacted by the New York State Legislature.

All medically necessary services are covered under the FAP. The FAP is communicated through multilingual signage throughout Northwell’s facilities, multilingual educational brochures at key points of patient contact, the website, staff outreach and is noted on patient bills.

### **Outstanding Indebtedness**

Northwell’s total outstanding debt, including long-term debt, capital lease obligations and short-term borrowings, as of June 30, 2017, was approximately \$3.0 billion and was comprised of 7.7% variable rate debt and 92.3% fixed rate debt. The majority of the long-term variable rate debt is hedged under interest rate swap agreements. As such, the effective percentage of variable and fixed rate debt of Northwell’s total outstanding debt is 5.2% and 94.8%, respectively. Approximately \$2.2 billion of the total debt is secured by obligations issued under the Master Trust Indenture.

Refer to Note 6 of the Audited Consolidated Financial Statements in Appendix B-1 and see “Management’s Discussion and Analysis of Recent Financial Performance” herein for more information on revolving credit availability, debt, capital lease obligations and interest rate swap agreements.

### **Risk Management and Commercial Insurance Program**

Oversight of Northwell’s commercial insurance program and risk management services is centralized and provided by the Risk Management Department. This department has a staff of 45 risk and insurance professionals who identify, evaluate and mitigate risks within Northwell. The department has oversight of the commercial property and casualty insurance as well as self-insurance programs. It also reviews contracts for risk issues, administers property and casualty claims, recommends the purchase of insurance as needed, and consults with Northwell’s insurance brokers, defense counsel, actuarial firms and third party claims administrators.

Northwell maintains a portfolio of commercial insurance to transfer certain risks. The portfolio currently includes directors' and officers'/employment practices liability insurance, fiduciary liability, umbrella liability policies, automobile liability, cyber/privacy insurance, crime, pollution legal liability, statutory workers' compensation, and property insurance including boiler and machinery coverage. Northwell's property insurance program has an overall limit of \$1 billion; sub-limits apply for certain perils (including \$150 million for earthquake damage and \$250 million for flood damage). To date, these limits have been sufficient to pay for losses that occurred at Northwell as result of Hurricane Irene in 2011 and Super Storm Sandy in 2012.

As the organization has grown, management has elected to self-insure certain types and/or layers of risk as an effective tool utilized by many companies Northwell's size. Management believes that the size of Northwell and the cost of certain types of insurance increase the need for and efficiency of self-insuring and self-administering the risk within certain layers and commercially insuring against catastrophic exposure. These currently include the primary medical malpractice limits of \$7.5 million plus defense costs, general liability (\$1 million per occurrence plus defense costs), a \$750,000 deductible on automobile liability, a \$250,000 deductible for most perils on automobile physical damage, and a \$1 million deductible on workers' compensation and/or employer's liability claims. The Risk Management Department works closely with an independent actuary and its insurance broker to review Northwell's self-insured and/or retained risk programs on a regular basis.

The purchase of the various policies and limits and deductibles are adjusted in accordance with the current insurance market and exposures within Northwell. Formal loss control programs are in force to reduce loss throughout Northwell from a variety of risks such as injury to patients, damage to property and injury to employees.

In conjunction with the workers' compensation program, letters of credit secured by obligations under the Master Trust Indenture have been issued to support the programs. For additional information, see Note I to the Unaudited Interim Consolidated Financial Statements of Northwell Health, Inc. for the six months ended June 30, 2017 and 2016 (the "Unaudited Interim Consolidated Financial Statements") included as Appendix B-2.

See Note 10 of the Audited Consolidated Financial Statements in Appendix B-1 for further information concerning Northwell's professional liability and workers' compensation insurance programs and actuarial estimates relating to loss reserves.

## **Investment Policy**

The Investment Committee of Northwell monitors, in conjunction with its investment consultants and Northwell's Treasury Department, the investment performance of and provides the investment guidelines and investment policy for substantially all of Northwell's operating funds, retirement plans (including the Cash Balance Plan), self-insurance funds, Regional Insurance Company Ltd. (Northwell's offshore captive malpractice insurance provider) and endowment funds. Independent firms manage investment of all funds under the guidelines established by the Investment Committee. The Investment Committee, comprised of investment professionals, is a subcommittee of the Finance Committee, which reports to the Board of Trustees. The Investment Committee regularly reviews the asset allocation of these funds in relation to the cash flow requirements of the funds and reviews the performance of each professional investment manager compared against an appropriate benchmark index. The goal of the portfolio design, which is based on asset liability studies, is to generate adequate yield while minimizing risk and volatility for the portfolios' time horizons.

As of June 30, 2017, the target asset allocation for the operating fund, the self-insurance fund and Regional Insurance Company Ltd. was 5% cash, 43% fixed income, 35% public equity, 12% funds of hedge funds and 5% risk parity.

As of June 30, 2017, the Northwell endowment's long term target asset allocation was 19% fixed income, 45% public equity, 31% alternative investments (including 16% funds of hedge funds, 11% private equity, and 4% private real estate) and 5% risk parity.

Northwell's retirement plans are monitored for compliance with ERISA. The asset allocation targets for Northwell's Cash Balance Plan are intended to reflect the plan's liability characteristics. As of June 30, 2017, the long term target asset allocation for the Cash Balance Plan is 1% cash, 34.5% fixed income, 28.5% public equity, 31% alternative investments (including 16% funds of hedge funds, 11% private equity, and 4% private real estate), and 5% risk parity.

The board of CareConnect is responsible for the management, oversight and the establishment of policies and guidelines for its invested assets. It receives assistance from the Northwell Investment Committee, Northwell management and external consultants in the selection and monitoring of managers, and utilizes an external custodian for the custody of investments and preparation of monthly and quarterly performance reports. The CareConnect board has established investment guidelines that comply with the applicable limitations and requirements of the New York Insurance Law which include meeting minimum capital requirements and that have the primary investment objectives of generating income, preserving principal and providing for liquidity as needed to meet the liquidity and liability needs of the organization. For more information about Northwell's announcement to exit the health insurance markets and wind-down CareConnect, see "Health Insurance Companies" and "Management's Discussion and Analysis of Recent Financial Performance" herein.

### **Health Insurance Companies**

In November 2013, Northwell began offering health insurance products that provide access to a clinically integrated network comprised of Northwell and community-based providers that collectively provide coordinated care for patients in what Northwell believes to be a high quality and cost competitive manner.

Health Plan, a tax-exempt health insurance entity authorized by NYSDOH to operate a MLTC plan, began providing coverage to MLTC members in November 2013. As of December 31, 2016, there were 4,438 members enrolled in the plans. As of June 30, 2017, there were 5,448 members enrolled, and the Obligated Group had made a total of \$54.1 million in capital contributions to Health Plan through June 30, 2017, since inception. In July 2017, Health Plan filed a termination plan, which is subject to approval by NYSDOH, pursuant to which Health Plan ceased enrollment in its MLTC plan as of August 2017 and will begin the process of transitioning its members to other plans.

CareConnect, a for-profit entity licensed under Article 42 of the New York State Insurance Law, began providing coverage to members both on and off the New York State exchange on January 1, 2014. As of December 31, 2016, there were 112,426 members enrolled. As of June 30, 2017, there were 118,211 members enrolled, and the Obligated Group had made a total of \$330.0 million in capital contributions to CareConnect through June 30, 2017, since inception. In August 2017, Northwell announced that it is winding down CareConnect and withdrawing from New York State's insurance markets over the next year as it works with customers, businesses and others to help transfer policyholders to other health insurance plans.

Refer to the Audited Consolidated Financial Statements in Appendix B-1, as well as “Northwell” and “Management’s Discussion and Analysis of Recent Financial Performance” herein for more information on the Health Insurance Companies, including the impact of the Affordable Care Act’s (“ACA”) risk adjustment program liability on CareConnect and Northwell’s decision to wind down the operations of the Health Insurance Companies.

In the event additional capitalization or financial support of the Health Insurance Companies is required, management expects that all or a portion of such funding will be provided by the Obligated Group. For a further discussion of risks relating to insurance companies, see “RISK FACTORS AND REGULATORY PROVISIONS THAT MAY AFFECT NORTHWELL AND THE OBLIGATED GROUP – Health Insurance Market ACA Regulations” and “ – State Regulation of Insurance Companies” in the forepart of this Offering Memorandum.

### **Future Capital Expenditures and Strategic Investments**

Northwell currently plans for capital improvements and strategic investments on a two year basis with periodic updates. Northwell’s current plan covers the 2017–2018 period and anticipates aggregate expenditures of \$1.8 billion over that time period for new and replacement equipment, information technology, major capital projects and investments in joint ventures and other strategic initiatives. Capital expenditures equate to approximately 170% of Northwell’s projected depreciation over the 2017–2018 period. It is currently anticipated that total planned investments will be funded approximately 36% from operations, 5% from donations, and 59% from debt, including the proceeds of the Bonds and unexpended funds from other outstanding debt. Management continually monitors the allocation of capital to projects in light of both operational and strategic priorities.

Northwell may continue its practice of bridging donor funded projects with committed bank revolving credits and using leases primarily for equipment subject to rapidly changing technology and for securing space in locations outside of its owned facilities. See “Management’s Discussion and Analysis of Recent Financial Performance” herein for a discussion of annual capital expenditures.

Management may explore certain tax-exempt and taxable financing opportunities in the future to the extent such financings are permissible under the additional indebtedness restrictions set forth in the Master Trust Indenture. See “Appendix C-2 – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE” for information regarding limitations on the Obligated Group’s ability to incur additional indebtedness.

Management is monitoring the commencement of capital projects, and the aggregate level of expenditures, mix of funding sources and issuance of new debt may change based on market conditions and other relevant factors. Management anticipates making the full range of capital investments described above only if funds available from donations and cash generated from operations are sufficient to support such expenditures or debt is incurred to finance those expenditures.

### **Regulatory Reviews, Audits, Litigation and Investigations**

Northwell, similar to other health care institutions, is subject to regulatory review, audits and investigations of its governmental payments, as well as to general litigation pertaining to various issues. Northwell also conducts regular internal audits of its claims for payments, some of which may result in voluntary disclosures and repayments. In the last several years the federal and state governments have devoted a significant amount of resources to the auditing of health care providers, including hospitals. The recoveries from these audits can be significant and are often based on a small sample size with the results extrapolated to a universe of all paid claims in the audit period.



In August 2015, Northwell received requests for documents from various law enforcement agencies focusing on gifts made to it by a Long Island-based charitable foundation and its court-appointed receiver. In particular, Northwell received document requests from: (i) the New York Attorney General's Office; (ii) the United States Attorney's Office for the Eastern District of New York; and (iii) an examiner appointed by the Surrogate's Court to investigate the receiver's conduct. Northwell has been fully cooperative in these inquiries and produced documents in response to the requests. It is the understanding of Northwell management that neither Northwell nor any of its employees is currently a subject or target of these investigations.

In September 2015, SIUH made self-disclosures to each of the Office of Inspector General of the Department of Health and Human Services ("OIG-HHS") and the New York State Office of the Medicaid Inspector General ("OMIG") relating to certain documentation issues at one of its laboratory patient service centers. In January 2017, SIUH entered into a stipulation with OIG-HHS under which it paid \$1.1 million to resolve the OIG-HHS self-disclosure submitted to it. OMIG has informed Northwell that it has received the self-disclosure in the amount of \$78,000 submitted to it and is in the process of reviewing the disclosure.

In the normal course of business, CareConnect was examined by the Health Bureau of the New York State Department of Financial Services ("DFS") covering the period from October 31, 2013 through December 31, 2015. The examination began in September 2016 and was completed in late March 2017. In the course of the examination, DFS reviewed the manner in which CareConnect conducts its business practices and fulfills its contractual obligations to policyholders and claimants (referred to as "market conduct activities"). The review focused on claims processing, accounts and records, arrangements with brokers and agents, underwriting and the treatment of policyholders. The examination also included a Risk-Focused Information Technology Review, a review of the company's information technology general controls. No final report has been received at this time.

On March 16, 2016, the Feinstein Institute resolved an information privacy and security matter, entering into a resolution agreement (the "Resolution Agreement") with the DHHS, Office for Civil Rights ("OCR"). Under the Resolution Agreement, OCR agreed to a conditional release of claims upon the Feinstein Institute's payment of a \$3.9 million resolution amount and entrance into a three-year corrective action plan ("CAP"). Under the CAP, the Feinstein Institute must conduct a risk analysis of its information privacy and security systems, and develop a plan to mitigate any security risks or vulnerabilities identified thereunder. Such remedial measures may require significant financial expenditures by the Feinstein Institute, although the total amounts of any such expenditures cannot be estimated at this time.

In April 2017, Northwell made a self-disclosure to OIG-HHS in the amount of approximately \$9.1 million relating to overpayments received by certain Northwell hospitals for certain inpatient and outpatient percutaneous vertebral augmentation procedures, which were discovered by Northwell during the course of a routine internal compliance audit. OIG-HHS has informed Northwell that it has received the self-disclosure, and is in the process of reviewing it.

In June 2017, NYU Hospitals Center, now known as NYU Langone Hospitals ("NYU"), filed an antitrust lawsuit against SEIU, the 1199 SEIU National Benefit Fund for Health and Human Services Employees (the "Fund"), the League of Voluntary Hospitals and Homes of New York (the "League") (a collective-bargaining unit that represents many not-for-profit hospitals and nursing homes), and four hospitals, including LIJMC. Upon withdrawing from the League in 2016, NYU claims that it lost its right to certain benefits that apply to employers that are League members. NYU's complaint alleges that its loss of these benefits resulted from an unlawful conspiracy among the defendants to punish NYU for its withdrawal from the League. LIJMC, jointly with the other three hospital defendants, has retained outside antitrust counsel and intends to vigorously defend this lawsuit.

Health Plan was examined by the NYSDOH in March 2017 covering the period of January 2014 to January 2017. In the course of the examination, the NYSDOH reviewed the manner in which the Health Plan conducts its business practices, complies with applicable law and fulfills its contractual obligations to members and the State. Health Plan is also the subject of various routine audits by NYSDOH related to the Health Plan's filed financial statements, clinical assessments of its members, and capitation payments received. Further, Health Plan is regularly the subject of administrative hearings known as "fair hearings" with the Office of Temporary and Disability Assistance where members appeal proposed reductions, denials or terminations of services. This examination and these audits and administrative hearings have not resulted in any material liabilities.

The ultimate effect, if any, of the matters described above on Northwell or on the Obligated Group cannot currently be determined. Adverse resolution of any of the above reviews, audits, investigations or litigation could have a material adverse effect on the financial position or results of operations of Northwell and the Obligated Group.

### **Other Litigation**

Various claimants have asserted professional malpractice liability claims against Northwell. The claims are in various stages of processing and some may ultimately be brought to trial. The outcome of these actions cannot be predicted with certainty by management of Northwell or by counsel to the respective insurance companies handling such matters. It is the opinion of management, based on prior experience, that adequate insurance and/or self-insurance reserves are maintained to provide for all routine professional malpractice liability losses which may arise.

Northwell is also a defendant in various commercial and other actions. Although the outcome of any such claim or action or any pending or threatened claim of which Northwell has knowledge cannot be currently determined, management is of the opinion that the eventual liability therefrom, if any, will not have a material adverse effect on the financial position or results of operations of the Members of the Obligated Group or on their ability to make required debt service payments.

### **Governance**

The board of trustees of each member of Northwell is comprised of substantially identical membership, with the exception of HH, which has a separate governing body. HH has a Board of Directors with a composition separate from the other Members of the Obligated Group, but the directors of HH are elected by and can be removed by HCI.

Each Member of the Obligated Group is a separate New York not-for-profit corporation governed by its own Board of Trustees (Board of Directors for HH). The Chief Executive Officer of NHI is a member of the Board of each Member of the Obligated Group.

In July 2016, Northwell and the Members of the Obligated Group restructured their governance resulting in a significant reduction in the number of trustees on their Boards in order to streamline the Boards and provide for more efficient governance.

The following is a list of the members of the Boards of Trustees of NHI, HCI and each Member of the Obligated Group (excluding HH), including their business affiliations/occupations, as of June 30, 2017.

<b>Trustees</b>	<b>Affiliation/Occupation</b>
Frank J. Besignano	Retired Businessman
Roger A. Blumencranz	President, BWD Group LLC
Robert W. Chasanoff	Partner, Chasanoff Properties
Mark L. Claster, Chairman	President, Carl Marks & Co, Inc.
Michael J. Dowling	President and CEO, Northwell
Michael A. Epstein	Partner, Weil, Gotshal & Manges, LLP
Michael E. Feldman	Retired Partner, Proskauer Rose LLP
Catherine C. Foster	Retired, Former Senior Executive, American Express
L. Keith Friedlander	Managing Director, Acrisure, LLC
Lloyd M. Goldman	President, BLDG Management Company
Richard D. Goldstein	Chairman and CEO, AEP Capital LLC
Alan I. Greene	Managing Director, The Greene Group, Neuberger Berman Investment Advisors, LLC
Paul B. Guenther	Retired, Former President, PaineWebber Group, Inc.
William O. Hiltz	Senior Managing Director, Evercore Partners
Nancy Karch	Retired, Former Senior Partner, McKinsey & Company
Saul B. Katz	President and COO, Sterling Equities, Inc.
Cary Kravet	President, Kravet, Inc.
Jeffrey B. Lane	Partner, YorkBridge Wealth Partners
Seth B. Lipsay	Executive Managing Director, New World Realty Advisors LLC
William L. Mack	Chairman and Founder, Mack Real Estate Group; President, The Mack Company
F.J. McCarthy	President, Site Selection Advisory Group, Inc.
Patrick F. McDermott	Partner, McDermott & Thomas Associates
Ralph A. Nappi	Executive Vice Chairman, Board of Trustees, Northwell
Richard B. Nye	President, Baker Nye Advisers
Sharon Patterson	Real Estate Broker, Edwin Fishel Tuccio Real Estate
Lewis S. Ranieri	Chairman and CEO, Ranieri & Co., Inc.; Founder and Chairman, Ranieri Partners Management, LLC
Robert D. Rosenthal	Chairman and CEO, First Long Island Investors, LLC
Barry Rubenstein	Managing Partner, Wheatley Partners
Richard J. Sinni	President and CEO, Veras Management
Donald Zucker	Chairman of the Board, Donald Zucker Company
Roy J. Zuckerberg	Senior Director, Goldman Sachs Group, Inc.

## Executive Management

Biographies of the senior executive staff of NHI, HCI and the Members of the Obligated Group (other than HH) follow below. For purposes of these biographies, references to the Members of the Obligated Group do not include HH unless expressly stated otherwise. HH has an executive staff different from that of the other Members of the Obligated Group, although the HH executive staff has a direct reporting relationship to the executive staff of NHI, and the NHI Chief Financial Officer and Deputy General Counsel serve in similar positions at HH.

**Michael J. Dowling**, age 67, *President, Chief Executive Officer and Board Member of NHI, HCI, and of each Member of the Obligated Group*. Prior to becoming President and CEO in 2002, Mr. Dowling was the health system's Executive Vice President and Chief Operating Officer. Before joining Northwell Health in 1995, he was a Senior Vice President at Empire Blue Cross/Blue Shield.

Mr. Dowling served in New York State government for 12 years, including seven years as State director of Health, Education and Human Services and deputy secretary to the governor. He was also commissioner of the New York State Department of Social Services.

Before his public service career, Mr. Dowling was a professor of social policy and an assistant dean at the Fordham University Graduate School of Social Services, and director of the Fordham campus in Westchester County.

Mr. Dowling has been honored with many awards over the years. They include: his selection as the Grand Marshal of the 2017 St. Patrick's Day Parade in New York City, induction into the *Irish America* Hall of Fame, the 2012 B'nai B'rith National Healthcare Award, the 2011 Gail L. Warden Leadership Excellence Award from the National Center for Healthcare Leadership, the 2011 CEO Information Technology Award from *Modern Healthcare* magazine and the Healthcare Information and Management Systems Society, the National Human Relations Award from the American Jewish Committee, the Ellis Island Medal of Honor, the Distinguished Public Service Award from the State University of New York's Nelson A. Rockefeller College of Public Affairs and Policy, an Outstanding Public Service Award from the Mental Health Association of New York State, an Outstanding Public Service Award from the Mental Health Association of Nassau County, the Alfred E. Smith Award from the American Society for Public Administration, and the Gold Medal from the American Irish Historical Society. For 10 consecutive years, *Modern Healthcare* has ranked Mr. Dowling on its annual list of the "100 Most Powerful People in Healthcare." In March 2016, Mr. Dowling was also listed number one on the Long Island Press 2015 "Power List" recognizing the 50 most-influential Long Islanders.

Mr. Dowling is chair of the Healthcare Institute and the Institute for Healthcare Improvement. He is a member of the Institute of Medicine of the National Academies of Sciences and the North American Board of the Smurfit School of Business at University College, Dublin, Ireland. He also serves as a board member of the Long Island Association and BankUnited, Inc. He is past chair and a current board member of the National Center for Healthcare Leadership, the Greater New York Hospital Association, the Healthcare Association of New York State ("HANYS") and the League of Voluntary Hospitals of New York. Mr. Dowling was an instructor at the Center for Continuing Professional Education at the Harvard School of Public Health.

Mr. Dowling grew up in County Limerick, Ireland. He earned his undergraduate degree from University College, Cork, Ireland, and his Master's Degree from Fordham University. He also has honorary doctorates from University College, Dublin, Hofstra University, Dowling College and Fordham University.

**Lawrence G. Smith, MD**, age 67, *Executive Vice President and Physician-in-Chief of NHI, HCI and of each Member of the Obligated Group as well as Dean of the Donald and Barbara Zucker School of Medicine at Hofstra/Northwell*. Dr. Smith joined Northwell in May 2005 as Chief Academic Officer and Senior Vice President of Academic Affairs to oversee Northwell's graduate medical education and medical student education programs, as well as academic faculty appointments. He was appointed Senior Vice President and Chief Medical Officer in September 2006, promoted to Executive Vice President in January 2010 and in January 2011 to Physician-in-Chief. As Physician-in-Chief, Dr. Smith is Northwell's senior physician for all clinical issues.

In March 2008, Dr. Smith was appointed to be the founding Dean of the School of Medicine. As the School of Medicine's first Dean, Dr. Smith is working closely with academic leaders in shaping the educational framework at the school, including the development of a curriculum, the selection of faculty, and moving the accreditation process forward.

**Mark J. Solazzo**, age 58, *Executive Vice President and Chief Operating Officer of NHI, HCI and of each Member of the Obligated Group*. Prior to his appointment as Chief Operating Officer in 2005, Mr. Solazzo served as Chief of Staff and Chief Administrative Officer to Northwell's President and CEO. In that position, he worked with senior leadership to successfully implement Northwell's strategic objectives, providing management oversight for the development of cost-effective and integrated programs to ensure the operational and strategic success of the organization. He was also accountable for government relations, and managed Northwell's emergency preparedness efforts and special projects for the Center for Emergency Medical Services and other core divisions.

Before joining Northwell in 1995, Mr. Solazzo held a number of senior-level positions within the New York State Department of Social Services ("DSS"), where he oversaw health and social services issues for 15 years. During his tenure there, he was responsible for the state's Child Assistance Program which earned him Harvard University's Innovations in Government Award. Mr. Solazzo culminated his work at DSS as director of the Bureau of Management and Administrative Support.

Mr. Solazzo is a member of the American College of Healthcare Executives, HANYS Solutions Board of Directors, Healthcare Institute, Inc., The Health Management Academy, The Academy Huron Institute as Committee Chair, Optum360 Board of Directors and the Healthcare Association of New York State and is a Knight of the Sacred Military Constantinian Order of St. George.

Mr. Solazzo earned an undergraduate degree from Fordham University, studied at Albany Medical College, and received an MBA with a specialization in health systems management from Union College, Schenectady, NY.

**Robert S. Shapiro**, age 63, *Executive Vice President and Chief Financial Officer of HCI, NHI and of each Member of the Obligated Group*. Robert S. Shapiro has served as Northwell's Chief Financial Officer since 2000. His responsibilities include oversight of financial affairs and other corporate operations including treasury, which includes bank relationships, investment management and cash management; budget; financial and strategic planning; capital planning and access; and insurance. Mr. Shapiro also serves as the administrative contact for several committees of the Board of Trustees.

Prior to holding the Executive Vice President and Chief Financial Officer position, Mr. Shapiro was Vice President of Financial Operations and Director of Finance/Assistant Administrator. He joined Northwell in 1984.

Mr. Shapiro began his career as a senior accountant with Blue Cross and Blue Shield of Greater New York from 1976 to 1978. In 1978, he was a supervisor with Touche Ross & Company, before being appointed Assistant Director of Finance of Maimonides Medical Center in 1981.

Mr. Shapiro is a Certified Public Accountant and a Fellow of the Healthcare Financial Management Association. He is an Adjunct Professor at Hofstra University in Hempstead, New York. Mr. Shapiro received his Bachelor of Science degree from the State University of New York at Binghamton in 1975. Mr. Shapiro has announced his retirement, to be effective at the end of 2017. Northwell is reviewing the span of Mr. Shapiro's oversight responsibilities and anticipates reorganizing those responsibilities between two internal candidates.

**Michele L. Cusack**, age 45, *Senior Vice President and Deputy Chief Financial Officer*. Ms. Cusack joined Northwell in 1996 and has responsibility for and oversight of various corporate financial operations including financial reporting, budgeting, cash management, tax management and other financial functions that collaborate with revenue cycle, managed care and operational teams across the organization to achieve the strategic goals of the organization. She serves as management liaison to the Finance and Audit Committees of the Board of Trustees and is a member of the Dean's Advisory Board of the Hofstra University Frank G. Zarb School of Business. She also serves as a New York State delegate to the Regional Policy Board 2 of the American Hospital Association.

Ms. Cusack is a Certified Public Accountant and earned Master of Business Administration and Bachelor of Business Administration degrees from Hofstra University. Prior to joining Northwell, she worked at Deloitte & Touche LLP.

**Richard T. Miller**, age 57, *Senior Vice President, Payer Relations and Contract Development and Deputy Chief Financial Officer*. Mr. Miller is responsible for developing contracting and business development strategies, payer relations and contract negotiations, healthcare economics and analytics, and value-based contracting.

Mr. Miller serves as Chairman of the Northwell Health Plans Holding Company and serves on external boards and advisory committees of other entities, including the Nassau Queens Performing Provider System, Optum360, and Healthfirst Finance Committee.

Mr. Miller joined Northwell in 2008 as Vice President, Financial Planning before assuming his current position in 2013. Prior to Northwell Health, he served as the Chief Financial Officer for NYU Hospitals Center from 2001 to 2008 and prior to that was Vice President, Finance for NYU Hospitals Center and the Hospital for Joint Diseases. Mr. Miller has an MBA from the Stern School of Business of New York University and a BBA from Bernard Baruch College. He has served on the faculty of St. Joseph's College, New York, where he taught a graduate course on Health Care Finance.

**Howard B. Gold**, age 66, *Executive Vice President and Chief Managed Care Officer*. Mr. Gold oversees all business matters related to managed care and business development, including contractual relationships with third-party payers. Prior to joining Northwell in 1995, he was vice president-vice provost for strategic planning, The New York Hospital-Cornell Medical Center.

From 1991 to 1993, Mr. Gold was executive director of Governor Cuomo's Health Care Advisory Board. Prior to that, he held several positions with the New York State Office of Mental Retardation and Development Disabilities, culminating in his serving as deputy commissioner, office of policy and planning.

Mr. Gold received his Bachelor of Arts degree from the State University of New York at Buffalo and his master's degree from the New School for Social Research.

**David L. Battinelli, MD**, age 60, *Senior Vice President & Chief Medical Officer*. Dr. Battinelli is responsible for the overall professional management of clinical, education, research and operational issues related to medical and clinical affairs. Previously, he served as Northwell's chief academic officer and senior vice president of academic affairs, in charge of all undergraduate and graduate educational programs, all continuing medical education, and academic affairs and institutional relationships.

Dr. Battinelli is Dean for Education and the Betsy Cushing Whitney Professor of Medicine at the Donald and Barbara Zucker School of Medicine at Hofstra/Northwell.

A board-certified internist, Dr. Battinelli came to Northwell from Boston Medical Center ("BMC") where he served as vice chairman for education, program director, internal medicine residency program and professor of medicine at Boston University School of Medicine. He was also an active staff physician at BMC and the Boston Veterans Administration.

Dr. Battinelli is a past-president of the Association of Program Directors in Internal Medicine. He has worked closely with and served on numerous committees for a variety of national medical organizations including the Alliance for Academic Internal Medicine, American Board of Internal Medicine, American College of Physicians, and the Accreditation Committee on Graduate Medical Education, among others. In addition, he has lectured extensively on clinical education, faculty development of teaching skills and internal medicine, and is a noted workshop leader and author on these subjects.

Dr. Battinelli earned his medical degree from the University of Medicine and Dentistry, Newark, NJ, and a Bachelor of Science degree from the University of Scranton, Scranton, PA.

**Laurence Kraemer, JD, LL.M.**, age 61, *Senior Vice President, Interim Chief Legal Officer*. Mr. Kraemer became Interim Chief Legal Officer in August 2017. He has been with the Northwell Legal Affairs Department for the past ten years, where he has led the corporate, mergers and acquisitions, physician transactions and tax teams. He came to Northwell from Deloitte & Touche, where he led the Deloitte Northeast Healthcare, Colleges and Universities and Exempt Organizations Tax Practice. He began his legal career as an associate at Hayt, Hayt & Landau, in Great Neck, New York.

Mr. Kraemer received a law degree from Boston University School of Law, an LL.M. from the New York University School of Law and a bachelor's degree from Rutgers College.

**Jeffrey A. Kraut**, age 60, *Executive Vice President, Strategy and Analytics of HCI, NHI and of each Member of the Obligated Group*. Mr. Kraut is responsible for coordinating the strategic planning activities of Northwell, as well as the development of its network of providers through merger, acquisition or affiliated relationships and organizing the next generation of business and clinical analytics throughout Northwell. He also serves as Associate Dean for Strategic Planning in the School of Medicine. Prior to the merger of NSHS and LIJMC, Mr. Kraut served as the LIJMC Vice President for Strategic Planning. Mr. Kraut joined LIJMC in 1994.

Mr. Kraut was formerly the Vice President for Planning and Policy at the SUNY Health Sciences Center at Brooklyn (Downstate Medical Center) and served as a manager of the Health Care Strategy Development Group at KPMG Peat Marwick and as Vice President at RMR Health Management Consultants, Inc.

Mr. Kraut is involved in regional health policy development and planning, as well as economic development and community building activities. He serves as Chair of the New York State Public Health and Health Planning Council ("PHHPC"). The PHHPC oversees public health planning, regulatory and certificate of need activities in New York. He currently serves as vice chair of Healthix, New York's largest

regional health information organization which facilitates the interoperability and sharing of health information across the provider continuum. He is a member of the Board of American Hospital Association's Society for Healthcare Strategy and Market Development and he is a fellow of the New York Academy of Medicine. He was the recipient of the 25<sup>th</sup> Anniversary Leadership Award of The New York State Society for Health Planning, an organization of which he served as past President.

He is a board member of the Long Island Regional Planning Council, Sustainable Long Island and The Brookville Center for Children Services where he serves as its president. Mr. Kraut advises the Long Island Index and ERASE Racism on health policy and community health needs.

Previously, Mr. Kraut has served as a member of the Long Island Regional Advisory Committee of the New York State Commission on Health Care Facilities in the 21st Century.

Mr. Kraut received a Master of Business Administration from the Baruch College - Mount Sinai School of Medicine of the City University of New York. He received his Bachelor of Arts degree from SUNY Stony Brook.

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## Utilization Statistics and Payer Mix

As Northwell's continuing disclosure obligations in connection with its outstanding bonds require disclosure of utilization statistics and payer mix information on an Obligated Group basis, the following information is presented for the Members of the Obligated Group only.

### Utilization Statistics for the Obligated Group

	Year Ended December 31,			Six Months Ended June 30,	
<b><u>Inpatient</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>
Discharges (excl. Nursery)	245,594	248,409	254,672	127,190	128,202
Patient Days (excl. Nursery)	1,420,111	1,409,498	1,423,473	714,340	720,439
Average Length of Stay (in Days)	5.78	5.67	5.59	5.62	5.62
Average Daily Census	3,891	3,862	3,889	3,925	3,980
Licensed Beds (excl. Nursery)	5,435	5,415	5,412	5,415	5,357
Beds Available (excl. Nursery) <sup>(1)</sup>	4,554	4,521	4,461	4,496	4,427
Occupancy Percentage <sup>(1)</sup>	84.7%	85.2%	86.6%	87.1%	89.6%
Normal Newborn Discharges	24,874	25,012	25,906	12,573	12,413
Total Discharges	270,468	273,421	280,578	139,763	140,615
<b><u>Outpatient</u></b>					
Emergency Room Visits <sup>(2)</sup>	527,123	552,603	562,743	281,817	280,954
Emergency Room Admissions	159,979	162,951	165,510	83,450	83,103
Total ER Encounters	687,102	715,554	728,253	365,267	364,057
Health Center Visits	893,377	887,313	891,026	435,368	431,024
Ambulatory Surgery Visits	138,229	142,429	141,895	71,876	70,456
Home Care Admissions	29,171	33,262	37,068	17,959	19,974
Other Outpatient Visits and Encounters <sup>(3)</sup>	951,055	1,091,415	1,150,072	569,202	584,609

<sup>(1)</sup> Beds Available, which vary primarily based upon need, are reported as the number of beds at the end of each reporting period. Occupancy Percentage is calculated using the average beds available for the reporting period.

<sup>(2)</sup> Includes observation room visits.

<sup>(3)</sup> Certain revisions were made to the 2014–2016 Other Outpatient Visits and Encounters to conform to the 2017 presentation.

## Payer Mix for the Obligated Group

*Based on Percent of Gross Revenue (Inpatient and Outpatient)*

	Year Ended December 31,		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Medicare<sup>(1)</sup></b>	42%	42%	42%
<b>Medicaid<sup>(2)</sup></b>	19%	21%	21%
<b>Commercial</b>	32%	31%	31%
<b>Self Pay</b>	3%	2%	2%
<b>Other</b>	4%	4%	4%
<b>Total</b>	100%	100%	100%

(1) Includes Medicare Managed Care.

(2) Includes Medicaid Managed Care.

## Consolidated Statements of Operations

The following consolidated statements of operations for the years ended December 31, 2014, 2015 and 2016 have been derived from the consolidated financial statements of Northwell, which have been audited by Ernst & Young LLP. The financial data for the six months ended June 30, 2016 and 2017 are derived from unaudited interim consolidated financial statements. The unaudited interim consolidated financial statements include all adjustments, consisting of normal recurring accruals, which Northwell considers necessary for a fair presentation of the results of operations for these periods. Operating results for the six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2017. The December 31, 2015 and 2016 data should be read in conjunction with the Audited Consolidated Financial Statements included in Appendix B-1 to this Offering Memorandum and “Management’s Discussion and Analysis of Recent Financial Performance” herein. The June 30, 2016 and 2017 data should be read in conjunction with the Audited Consolidated Financial Statements included in Appendix B-1 to this Offering Memorandum, the Unaudited Interim Consolidated Financial Statements included as Appendix B-2 to this Offering Memorandum and “Management’s Discussion and Analysis of Recent Financial Performance” herein. **The following consolidated statements of operations include results from the operations of the Other Northwell Entities. The Other Northwell Entities are not Members of the Obligated Group and, therefore, are neither obligated under the Master Trust Indenture nor responsible for payment of the debt service on the Bonds.**

As further discussed in Note 1 to the Audited Consolidated Financial Statements included in Appendix B-1 and “Management’s Discussion and Analysis of Recent Financial Performance”, Northwell acquired Northern Westchester and Phelps on January 1, 2015. Accordingly, in accordance with U.S. generally accepted accounting principles, the accompanying consolidated statements of operations for periods after the date of these acquisitions (but not the prior periods), include the results of operations of Northern Westchester and Phelps from the date of acquisition.

As further discussed in Note 1 to the Audited Consolidated Financial Statements included in Appendix B-1, Note D to the Unaudited Interim Consolidated Financial Statements included in Appendix B-2 and “Management’s Discussion and Analysis of Recent Financial Performance”, Northwell acquired Peconic on January 15, 2016. Accordingly, in accordance with U.S. generally accepted accounting

principles, the accompanying consolidated statements of operations for periods after the date of acquisition (but not the prior periods) include the results of operations of Peconic from the acquisition date.

In the June 30, 2016 unaudited interim consolidated financial statements originally issued, the fair value accounting for the Peconic acquisition was incomplete, and therefore, certain amounts were deemed provisional at the time. As a result, certain 2016 amounts have been retrospectively adjusted from the provisional amounts previously reported in the June 30, 2016 consolidated financial statements. The impact of such retrospective adjustments resulted in an immaterial decrease to the contribution received in the acquisition of Peconic.

In 2017, Northwell early adopted Accounting Standards Update 2017-07 (“ASU 2017-07”), *Compensation—Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which resulted in the classification of certain components of net periodic benefit cost (those other than the service cost) amounting to \$14.5 million for the six months ended June 30, 2017 as a component of non-operating gains and losses in the unaudited interim consolidated statements of operations, outside of operating income, rather than in employee benefits. The corresponding prior period amounts, aggregating \$17.2 million for the six months ended June 30, 2016 and (\$10.6) million, \$20.3 million and \$39.8 million for the years ended December 31, 2014, 2015 and 2016, respectively, have been reclassified from amounts previously reported to conform to the 2017 presentation. As a result of this financial statement reclassification, certain financial ratios previously reported in Management’s Discussion and Analysis of Recent Financial Performance have been revised to conform to the 2017 presentation. Refer to Notes C and H to the Unaudited Interim Consolidated Financial Statements and Notes 8 and 9 to the Audited Consolidated Financial Statements for additional information.

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**Northwell**  
**Consolidated Statements of Operations**  
(In Thousands)

	<b>Audited</b> <b>Year Ended December 31,</b>			<b>Unaudited</b> <b>Six Months Ended June 30,</b>	
	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>
Operating revenue:					
Net patient service revenue	\$ 6,078,845	\$ 6,962,767	\$ 7,625,675	\$ 3,732,766	\$ 3,883,875
Physician practice revenue	961,772	1,125,838	1,282,059	620,731	710,625
Provision for bad debts	(103,871)	(110,265)	(120,411)	(60,842)	(62,715)
Total patient revenue, net of provision for bad debts	6,936,746	7,978,340	8,787,323	4,292,655	4,531,785
Other operating revenue	367,374	457,612	546,592	248,162	307,248
Health insurance premium revenue	85,808	228,427	548,884	253,543	403,395
Net assets released from restrictions used for operations	45,119	58,276	55,469	28,516	34,828
Total operating revenue	7,435,047	8,722,655	9,938,268	4,822,876	5,277,256
Operating expenses:					
Salaries	3,816,925	4,319,212	4,752,362	2,302,818	2,542,607
Employee benefits	958,353	1,079,790	1,169,405	589,205	615,751
Supplies and expenses	2,156,716	2,724,420	3,354,660	1,588,742	1,811,270
Depreciation and amortization	331,036	384,206	410,939	203,563	223,537
Interest	95,113	105,018	115,231	54,860	61,498
Total operating expenses	7,358,143	8,612,646	9,802,597	4,739,188	5,254,663
Excess of operating revenue over operating expenses	76,904	110,009	135,671	83,688	22,593
Non-operating gains and losses:					
Investment income	100,817	62,205	67,680	16,442	51,698
Change in net unrealized gains and losses and change in value of equity method investments	(24,354)	(112,700)	117,864	50,862	157,973
Change in fair value of interest rate swap agreements designated as derivative instruments	841	790	190	190	-
Loss on refunding and redemption of long-term debt	-	(56,975)	-	-	-
Non-operating net periodic benefit credit (cost)	10,609	(20,311)	(39,804)	(17,205)	(14,533)
Contributions received in the acquisitions of Northern Westchester (2015), Phelps (2015) and Peconic (2016)	-	259,807	36,343	36,343	-
Gain from acquired interest in Optum360	-	115,600	-	-	-
Other non-operating gains and losses	25,967	(10,981)	24,690	(4,319)	(3,307)
Total non-operating gains and losses	113,880	237,435	206,963	82,313	191,831
Excess of revenue and gains and losses over expenses	\$ 190,784	\$ 347,444	\$ 342,634	\$ 166,001	\$ 214,424

## **Consolidated Statements of Financial Position**

The following consolidated statements of financial position of Northwell as of December 31, 2014, 2015 and 2016 have been derived from the consolidated financial statements of Northwell, which have been audited by Ernst & Young LLP. The financial data as of June 30, 2017 is derived from the Unaudited Interim Consolidated Financial Statements. The Unaudited Interim Consolidated Financial Statements include all adjustments, consisting of normal recurring accruals, which Northwell considers necessary for a fair presentation of its financial position. The December 31, 2015 and 2016 data should be read in conjunction with the Audited Consolidated Financial Statements included in Appendix B-1 to this Offering Memorandum and “Management’s Discussion and Analysis of Recent Financial Performance” herein. The June 30, 2017 data should be read in conjunction with the Audited Consolidated Financial Statements included in Appendix B-1 to this Offering Memorandum, the Unaudited Interim Consolidated Financial Statements included as Appendix B-2 to this Offering Memorandum and “Management’s Discussion and Analysis of Recent Financial Performance” herein. **The following consolidated statements of financial position include the financial position of the Other Northwell Entities. The Other Northwell Entities are not Members of the Obligated Group and, therefore, are neither obligated under the Master Trust Indenture nor responsible for payment of the debt service on the Bonds.**

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**Northwell**  
**Consolidated Statements of Financial Position**  
(In Thousands)

	Audited December 31, <u>2014*</u>	Audited December 31, <u>2015</u>	Audited December 31, <u>2016</u>	Unaudited June 30, <u>2017</u>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 194,570	\$ 432,829	\$ 383,295	\$ 450,888
Short-term investments	2,009,727	1,946,575	2,464,366	2,438,185
Accounts receivable for services to patients, net of allowance for doubtful accounts	774,831	876,130	975,423	1,040,654
Accounts receivable for physician activities, net	74,058	111,902	127,718	133,486
Pledges receivable, current portion	36,129	35,097	46,197	52,001
Insurance claims receivable, current portion	83,268	71,068	71,014	71,010
Other current assets	172,369	207,968	269,472	299,870
Total current assets	3,344,952	3,681,569	4,337,485	4,486,094
Long-term investments	1,365,666	1,628,015	1,875,198	1,854,488
Pledges receivable, net of current portion	101,423	91,090	96,371	107,312
Property, plant and equipment, net	3,762,104	4,315,166	4,610,223	4,738,971
Insurance claims receivable, net of current portion	312,169	278,530	245,967	217,934
Other assets	125,240	144,357	199,020	241,127
Total assets	\$ 9,011,554	\$ 10,138,727	\$ 11,364,264	\$ 11,645,926
<b>Liabilities and net assets</b>				
Current liabilities:				
Short-term borrowings	\$ 110,218	\$ 110,218	\$ 110,218	\$ 110,218
Accounts payable and accrued expenses	607,224	726,782	857,584	887,636
Accrued salaries and related benefits	595,405	625,383	671,594	651,815
Current portion of capital lease obligations	5,902	3,138	3,470	3,379
Current portion of long-term debt	55,357	55,613	59,829	60,750
Current portion of insurance claims liability	83,268	71,068	71,014	71,010
Current portion of malpractice and other insurance liabilities	81,344	101,720	123,740	123,762
Current portion of estimated payables to third-party payers	252,281	246,985	320,126	413,981
Total current liabilities	1,790,999	1,940,907	2,217,575	2,322,551
Accrued retirement benefits, net of current portion	706,145	782,972	927,378	869,738
Capital lease obligations, net of current portion	196,582	171,888	173,108	171,646
Long-term debt, net of current portion	1,822,743	2,199,401	2,680,021	2,634,896
Insurance claims liability, net of current portion	312,169	278,530	245,967	217,934
Malpractice and other insurance liabilities, net of current portion	758,983	881,794	944,225	1,004,007
Other long-term liabilities	590,542	644,195	573,464	551,413
Total liabilities	6,178,163	6,899,687	7,761,738	7,772,185
Commitments and contingencies				
Net assets:				
Unrestricted	2,340,552	2,710,921	3,027,943	3,273,214
Temporarily restricted	357,127	363,573	393,610	420,003
Permanently restricted	135,712	164,546	180,973	180,524
Total net assets	2,833,391	3,239,040	3,602,526	3,873,741
Total liabilities and net assets	\$ 9,011,554	\$ 10,138,727	\$ 11,364,264	\$ 11,645,926

\*Certain December 31, 2014 amounts were reclassified from amounts previously reported to conform to the current presentation.

## Management's Discussion and Analysis of Recent Financial Performance

Management's Discussion and Analysis of Recent Financial Performance contains "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Northwell expressly disclaims any obligation or undertaking to issue any updates or revisions to those forward-looking statements if or when their expectations change, or events, conditions or circumstances on which such statements are based occur.

Management's Discussion and Analysis of Recent Financial Performance is based upon the consolidated financial results of Northwell, of which the Members of the Obligated Group represented 83.9% of the total consolidated operating revenue and 90.2% of the total consolidated assets for the year ended and as of December 31, 2016. Accordingly, the discussion below includes the financial results of entities that are not Members of the Obligated Group. Refer to the Audited Consolidated Financial Statements in Appendix B-1 and the Unaudited Interim Consolidated Financial Statements in Appendix B-2 for the consolidating and combining schedules of Northwell and the Obligated Group.

On January 1, 2015, Northwell acquired Phelps and Northern Westchester. Accordingly, the consolidated financial statements include the results of operations of Phelps and Northern Westchester since the acquisition date. Results of operations of Phelps and Northern Westchester for periods prior to the acquisition date are excluded from the consolidated financial statements. The operating revenue of Phelps and Northern Westchester for the year ended December 31, 2016 was \$255 million and \$273 million, respectively. Phelps and Northern Westchester are not members of the Obligated Group. Refer to Note 1 to the Audited Consolidated Financial Statements included in Appendix B-1 for further information.

On January 15, 2016, Northwell acquired Peconic. Accordingly, the consolidated financial statements include the results of operations of Peconic since the acquisition date. Results of operations of Peconic for periods prior to the acquisition date are excluded from the consolidated financial statements. The operating revenue of Peconic from the acquisition date through December 31, 2016 was \$178 million. Peconic is not a member of the Obligated Group. Refer to Note 1 to the Audited Consolidated Financial Statements in Appendix B-1 for further information.

In 2017, Northwell early adopted ASU 2017-07, *Compensation—Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which resulted in the classification of certain components of net periodic benefit cost (those other than the service cost) amounting to \$14.5 million for the six months ended June 30, 2017 as a component of non-operating gains and losses in the unaudited interim consolidated statement of operations, outside of operating income, rather than in employee benefits. The corresponding prior period amounts, aggregating \$17.2 million for the six months ended June 30, 2016 and (\$10.6) million, \$20.3 million and \$39.8 million for the years ended December 31, 2014, 2015 and 2016, respectively, have been reclassified from amounts previously reported to conform to the 2017 presentation. As a result of this financial statement reclassification, certain financial ratios previously reported in Management's Discussion and Analysis of Recent Financial Performance for prior bond issues and continuing disclosure reports have also been revised to conform to the 2017 presentation. Refer to Notes C and H to the Unaudited Interim Consolidated Financial Statements included in Appendix B-2 and Notes 8 and 9 to the Audited Consolidated Financial Statements included in Appendix B-1 for additional information.

As further discussed in this section and under “Health Insurance Companies” herein, in 2017, Northwell announced plans to wind down the operations of its Health Insurance Companies and withdraw from New York State’s insurance markets.

### ***Introduction***

For the year ended December 31, 2016, Northwell’s operating income<sup>[a]</sup> and operating margin grew to \$135.7 million and 1.4%, respectively, compared to \$110.0 million and 1.3% for the year ended December 31, 2015, and \$76.9 million and 1.0% for the year ended December 31, 2014, despite increasing losses at CareConnect. Operating cash flow margin was 6.7% for the year ended December 31, 2016, compared to 6.9% and 6.8% for the years ended December 31, 2015 and 2014, respectively. Total operating revenue and total operating expenses grew by \$2.50 billion and \$2.44 billion, respectively, from 2014 to 2016.

For the six months ended June 30, 2017, Northwell’s operating income and operating margin were \$22.6 million and 0.4%, respectively, compared to operating income of \$83.7 million and a 1.7% operating margin for the six months ended June 30, 2016. Operating cash flow margin was 5.8% for the six months ended June 30, 2017, compared to 7.1% for the six months ended June 30, 2016. Total operating revenue grew by \$454.4 million or 9.4% for the six months ended June 30, 2017 compared to the six months ended June 30, 2016, while total operating expenses increased \$515.5 million or 10.9%. Management attributes the decline in operating results primarily to the timing of certain investments and a higher loss incurred by CareConnect. The losses generated by CareConnect in both periods were primarily attributable to what management believes is the flawed ACA risk adjustment program.

Operating revenue growth was primarily attributable to increased patient volume (primarily associated with the Peconic, Phelps and Northern Westchester acquisitions, the ambulatory and physician network expansion including investments in joint ventures, and increases in market share), increased payment rates, continued revenue cycle initiatives, and increased premium revenue associated with membership growth at the Health Insurance Companies. Operating revenue growth was negatively affected by an increase in inpatient denial activity from commercial payers and a shift in payer mix from traditional commercial payers to lower paying government and health care exchange payers.

The increase in operating expenses was partially attributable to incremental costs associated with the increased patient volume and member enrollment, routine cost of living wage adjustments and the impact of inflation on supply and expense price trends. In addition, continued investments in the following areas contributed to the growth of total operating expenses: (i) facilities and programs to enhance capacity and rebuild infrastructure; (ii) investments in population health management and to further prepare for the migration from fee-for-service to value-based payment models, including investments to scale operations relative to member growth at the Health Insurance Companies; (iii) safety, quality and patient experience initiatives; (iv) information technology (“IT”), including investments in electronic health records and other clinical software; and (v) investments in medical research. Expense reductions as a result of the implementation of productivity and efficiency efforts, program consolidation, and supply chain initiatives (including the continuous review of programs to improve the standardization, distribution and utilization of medical and surgical supplies and pharmaceuticals) helped control the growth rate of expenses.

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<sup>[a]</sup> Excess of operating revenue over operating expenses in the consolidated statement of operations is referred to as “operating income” for purposes of Management’s Discussion and Analysis of Recent Financial Performance.



Northwell's net income<sup>[b]</sup> and net income margin for the year ended December 31, 2016 were \$306.3 million and 3.0%, respectively, compared to \$29.0 million and 0.3% for the year ended December 31, 2015, and \$190.8 million and 2.5% for the year ended December 31, 2014. For the six months ended June 30, 2017, Northwell's net income and net income margin were \$214.4 million and 3.9%, respectively, compared to \$129.7 million and 2.7% for the six months ended June 30, 2016. Investment income, including net realized gains and losses, and the change in net unrealized gains and losses and change in value of equity method investments, which totaled \$185.5 million, (\$50.5) million and \$76.5 million, respectively, for the years ended December 31, 2016, 2015 and 2014 and \$209.7 million and \$67.3 million, respectively, for the six months ended June 30, 2017 and 2016, affected the net income reported for each of these periods.

Management continues to focus on (i) patient experience, safety and quality improvements, (ii) market share growth, (iii) population health management and value-based payment models, (iv) diversifying the revenue streams within the Northwell business model, including entering into joint venture arrangements with various partners, and (v) actions intended to curtail the operating losses at CareConnect. Maintaining the balance sheet and improving operating results also remain top management priorities so that Northwell can continue to invest in people, programs and facilities to successfully adapt and respond to changes in the health care industry while continuing to meet the needs of the patients and families in all the communities it serves.

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<sup>[b]</sup> Excess of revenue and gains and losses over expenses in the consolidated statement of operations is referred to as "net income" for purposes of Management's Discussion and Analysis of Recent Financial Performance with the following exceptions:

- 2016 net income excludes the non-cash contribution received in the acquisition of Peconic
- 2015 net income excludes the non-cash contributions received in the acquisitions of Phelps and Northern Westchester
- 2015 net income excludes the accounting loss on refunding and redemption of long-term debt
- 2015 net income excludes the non-cash gain from the acquired interest in Optum360

## Operations and Net Income Overview

### Operating Income, Operating Cash Flow and Net Income

The following table presents a summary of key operating performance results and measures for Northwell for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017. The results of operations of Phelps, Northern Westchester and Peconic since their respective January 1, 2015 (Phelps and Northern Westchester) and January 15, 2016 (Peconic) acquisition dates have been included in this and other tables presented herein. Results of operations of Phelps, Northern Westchester and Peconic for periods prior to these acquisition dates are excluded from the consolidated financial statements.

<i>(\$'s In Millions)</i>	2014 <sup>[4]</sup>	2015 <sup>[4]</sup>	2016 <sup>[4]</sup>	Six Months Ended June 30, 2016	Six Months Ended June 30, 2017
Operating income <sup>[1]</sup>	\$76.9	\$110.0	\$135.7	\$83.7	\$22.6
Operating margin <sup>[1]</sup>	1.0%	1.3%	1.4%	1.7%	0.4%
CareConnect operating loss <sup>[2]</sup>	(\$26.9)	(\$31.3)	(\$155.9)	(\$46.0)	(\$57.5)
CareConnect impact on operating margin	(0.4%)	(0.4%)	(1.7%)	(1.1%)	(1.2%)
Operating cash flow <sup>[1] [3]</sup>	\$503.1	\$599.2	\$661.8	\$342.1	\$307.6
Operating cash flow margin <sup>[1]</sup>	6.8%	6.9%	6.7%	7.1%	5.8%
Net income	\$190.8	\$29.0	\$306.3	\$129.7	\$214.4
Net income margin	2.5%	0.3%	3.0%	2.7%	3.9%

<sup>[1]</sup> Amounts for the 2016 periods and prior have been restated for the reclassification of certain components of net periodic benefit cost to conform to the 2017 presentation, as noted previously.

<sup>[2]</sup> CareConnect's operating loss includes premium revenue reductions of \$9.3 million, \$125.2 million for the years ended December 31, 2015 and 2016, respectively, and \$57.4 million and \$69.7 million for the six months ended June 30, 2016 and 2017, respectively, related to the impact of the ACA risk adjustment program. The year ended December 31, 2014 results included \$2.2 million of revenue related to this program, based on initial estimates.

<sup>[3]</sup> Operating income before interest and depreciation and amortization.

<sup>[4]</sup> Derived from audited consolidated financial statements.

### Operating Revenue and Volume

Total operating revenue increased \$2.50 billion from the year ended December 31, 2014 to the year ended December 31, 2016, reflecting a compound annual growth rate ("CAGR") of 15.6%. During the same period, excluding the impact of the Phelps, Northern Westchester and Peconic acquisitions, total operating revenue increased by \$1.80 billion, reflecting a CAGR of 11.4%.

For the six months ended June 30, 2017, total operating revenue increased by \$454.4 million or 9.4%, compared to the six months ended June 30, 2016.

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The following table presents consolidated Northwell operating revenue and certain volume statistics for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017.

<i>(\$'s In Millions)</i>	2014 <sup>[4]</sup>	2015 <sup>[4]</sup>	2016 <sup>[4]</sup>	Six Months Ended June 30, 2016	Six Months Ended June 30, 2017
<b>Operating Revenue:</b>					
Net patient service revenue	\$6,078.8	\$6,962.8	\$7,625.7	\$3,732.8	\$3,883.9
Physician practice revenue	\$961.8	\$1,125.8	\$1,282.1	\$620.7	\$710.6
Provision for bad debts	(\$103.9)	(\$110.3)	(\$120.4)	(\$60.8)	(\$62.7)
Total patient revenue, net of provision for bad debts	\$6,936.7	\$7,978.3	\$8,787.3	\$4,292.7	\$4,531.8
Other operating revenue	\$367.4	\$457.6	\$546.6	\$248.2	\$307.2
Health insurance premium revenue <sup>[1]</sup>	\$85.8	\$228.4	\$548.9	\$253.5	\$403.4
Net assets released from restrictions used for operations	\$45.1	\$58.3	\$55.5	\$28.5	\$34.8
Total operating revenue	\$7,435.0	\$8,722.7	\$9,938.3	\$4,822.9	\$5,277.3
<b>Volume:<sup>[2]</sup></b>					
Discharges (excluding nursery)	251,621	271,209	286,690	143,037	144,328
Ambulatory surgery visits	147,731	174,003	184,323	92,261	96,180
Emergency room visits (treated and released)	527,123	598,277	635,293	317,459	316,694
Health center visits (includes GoHealth urgent care centers)	997,775	1,069,943	1,191,170	575,362	632,626
Home care admissions	31,745	36,401	42,556	20,592	23,027
Other outpatient visits <sup>[3]</sup>	1,074,289	1,469,525	1,571,604	780,376	838,918

<sup>[1]</sup> Health insurance premium revenue is shown net of the recorded ACA risk adjustment program liability of \$9.3 million and \$125.2 million for the years ended December 31, 2015 and 2016, respectively, and \$57.4 million and \$69.7 million for the six months ended June 30, 2016 and 2017, respectively. Premium revenue for the year ended December 31, 2014 included \$2.2 million of revenue related to this program, based on recorded estimates.

<sup>[2]</sup> Volume statistics for all periods exclude physician practice visits, but include statistics from Northwell entities that are not members of the Obligated Group. Volume statistics for Phelps, Northern Westchester and Peconic are only included from their respective acquisition dates. Discharges for the six months ended June 30, 2017 for Phelps, Northern Westchester and Peconic included above were 3,650, 4,623 and 4,543, respectively.

<sup>[3]</sup> Other outpatient visits for the years ended December 31, 2014 and 2015 and for the six months ended June 30, 2016 were restated to conform to the current presentation, and all 2016 and 2017 periods exclude Peconic, as these visits were not available.

<sup>[4]</sup> Dollar amounts are derived from audited consolidated financial statements.

Northwell's core business revenue consists of net patient service revenue and physician practice revenue (collectively referred to as "total patient revenue" and reported net of the provision for bad debts). For the year ended December 31, 2016, Northwell's total patient revenue increased by \$1.85 billion with a CAGR of 12.6%, compared to the year ended December 31, 2014. During the same period, excluding the impact of the Phelps, Northern Westchester and Peconic acquisitions, total patient revenue increased by \$1.16 billion with a CAGR of 8.1%. For the six months ended June 30, 2017, Northwell's total patient revenue increased by \$239.1 million or 5.6%, compared to the six months ended June 30, 2016.

The increase in total patient revenue for all periods (excluding the impact of the Phelps, Northern Westchester and Peconic acquisitions) was primarily a result of increases in volume (partially related to the continued growth in physician and ambulatory services), increases in payment rates and revenue cycle initiatives. The growth in physician and ambulatory services resulted from continued physician recruitment efforts, the acquisition of medical group practices, and the acquisition of existing and opening of new ambulatory centers providing ambulatory surgery, cancer care and imaging services, including several majority-owned ambulatory surgery centers recently acquired with joint venture partners. Revenue growth was slightly diminished by an increase in inpatient denial activity from commercial payers and a shift in payer mix from traditional commercial payers to lower paying government and health care exchange payers.

Together, charity care and the provision for bad debts represent uncompensated care. The estimated cost of uncompensated care remained relatively constant at approximately 2.5% of total patient revenue for all periods presented.

The major components of other operating revenue are laboratory services, grants and contracts, specialty and retail pharmacy sales, health plan risk pool distributions (unrelated to the Health Insurance Companies) and rental income. Other operating revenue increased by \$179.2 million with a CAGR of 22.0% from 2014 to 2016, primarily as a result of increased revenue from specialty and retail pharmacy sales, laboratory services, and grants and contracts. \$17.1 million of the increase related to the acquisitions of Phelps, Northern Westchester and Peconic.

Other operating revenue increased by \$59.1 million or 23.8% for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The increase was primarily a result of increased revenue from laboratory services, specialty and retail pharmacy sales, and grants and contracts.

CareConnect, which as explained below is being wound down, began providing coverage to members both on and off the New York State exchange on January 1, 2014. As of December 31, 2014, there were 11,882 members enrolled. As of June 30, 2017, there were 118,211 members enrolled, of which approximately 13,200 enrolled through the exchange. The Obligated Group has recorded a total of \$330.0 million in capital contributions to CareConnect from inception through June 30, 2017.

Health Plan began providing coverage to MLTC members in November 2013. As of December 31, 2014, there were 1,443 members enrolled in the plans, compared to 5,448 members as of June 30, 2017. The Obligated Group has recorded a total of \$54.1 million in capital contributions to Health Plan from inception through June 30, 2017. In July 2017, Health Plan filed a termination plan subject to approval by the NYSDOH, under which it ceased new enrollment in its MLTC plan in August 2017, and will begin the process of transitioning its existing members to other plans.

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The following table presents components of the Health Insurance Companies' operating results and certain membership statistics for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017.

<i>(\$'s In Millions)</i>	2014 <sup>[2]</sup>	2015 <sup>[2]</sup>	2016 <sup>[2]</sup>	Six Months Ended June 30, 2016	Six Months Ended June 30, 2017
CareConnect net premium revenue <sup>[1]</sup>	\$44.9	\$127.5	\$360.8	\$174.3	\$269.2
CareConnect ACA risk adjustment program premium revenue adjustment	\$2.2	(\$9.3)	(\$125.2)	(\$57.4)	(\$69.7)
CareConnect operating loss	(\$26.9)	(\$31.3)	(\$155.9)	(\$46.0)	(\$57.5)
CareConnect members as of period end date	11,882	69,641	112,426	97,175	118,211
Health Plan net premium revenue	\$40.9	\$100.9	\$188.1	\$79.2	\$134.2
Health Plan operating (loss)/income	(\$6.1)	(\$10.1)	(\$12.1)	(\$0.8)	\$2.7
Health Plan members as of period end date	1,443	2,614	4,438	3,472	5,448

<sup>[1]</sup> Includes the ACA risk adjustment program premium revenue adjustment noted in the table above.

<sup>[2]</sup> Dollar amounts are derived from audited consolidated financial statements.

CareConnect's net premium revenue and overall operating results since 2015 have been negatively impacted by the ACA risk adjustment program, as reflected in the table above. The ACA risk adjustment program, which affects the individual and small group insurance markets, is a budget neutral program for each state and is intended to transfer premium revenue from insurers that enrolled a healthier population to insurers that enrolled a less healthy population, thereby attempting to eliminate or substantially reduce an insurer's risk of adverse selection of members with costlier and complex health conditions. The risk adjustment program has been controversial, and numerous organizations across the nation, including CareConnect, have been requesting the Centers for Medicare and Medicaid Services ("CMS") and state insurance regulators to make adjustments to demonstrated flaws in the methodology used to calculate the risk adjustments, which particularly disadvantage and challenge smaller and newer insurers. In April 2017, definitive guidance on revised risk adjustment regulations was issued by DFS. Based on actuarial assumptions and all available information regarding the New York small group market, DFS determined that a 30% uniform percentage adjustment will be used in applying a market stabilization mechanism effective for the 2017 plan year, and a 40% adjustment for both the small group and individual markets effective for the 2018 plan year. Based on the latest information available on the risk adjusted profile of the CareConnect members compared to the New York market and actuarial assumptions, the regulatory change is estimated to reduce CareConnect's full year 2017 risk adjustment program liability by approximately \$42 million, of which \$20.9 million of relief was recognized for the six months ended June 30, 2017 and included in the \$69.7 million total risk adjustment program premium revenue reduction recorded for this period. The overall risk adjustment liability for the 2017 plan year is currently estimated to be approximately \$120 million, net of the relief, based on the 2017 membership, however, management has developed action plans intended to lessen the ultimate liability.

Even with the DFS regulatory relief to the risk adjustment program and management's actions, CareConnect is still facing a significant risk adjustment liability for the 2017 plan year, and the ACA risk corridor funding anticipated from the Federal government to help cover insurer losses in the first three years of the health insurance exchanges has never materialized. In addition, DFS recently approved 2018 rates for the individual and small group markets at amounts less than CareConnect had requested. All of these

factors are significant contributors to CareConnect having no viable path to profitability in the foreseeable future in the opinion of management, and being financially unsustainable for Northwell to continue. As a result, in August 2017 Northwell announced that it is winding down CareConnect and withdrawing from New York State's insurance markets over the next year as it works with customers, businesses and others to help transfer policy holders to other health insurance plans, while continuing to remain committed to other population health and value-based payment strategies.

### *Operating Expenses*

Total operating expenses increased \$2.44 billion from the year ended December 31, 2014 to the year ended December 31, 2016, reflecting a CAGR of 15.4%. During the same period, excluding the impact of the Phelps, Northern Westchester and Peconic acquisitions, total operating expenses increased by \$1.76 billion, reflecting a CAGR of 11.3%.

Total operating expenses for the six months ended June 30, 2017 increased by \$515.5 million or 10.9% from the six months ended June 30, 2016.

Summarized below are the consolidated Northwell operating expenses for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017.

				Six Months Ended June 30, 2016	Six Months Ended June 30, 2017
<i>(\$'s In Millions)</i>	2014 <sup>[2]</sup>	2015 <sup>[2]</sup>	2016 <sup>[2]</sup>		
<b>Operating Expenses:</b>					
Salaries and employee benefits <sup>[1]</sup>	\$4,775.3	\$5,399.0	\$5,921.8	\$2,892.0	\$3,158.4
Supplies and expenses	\$2,156.7	\$2,724.4	\$3,354.7	\$1,588.7	\$1,811.3
Depreciation and amortization	\$331.0	\$384.2	\$410.9	\$203.6	\$223.5
Interest expense	\$95.1	\$105.0	\$115.2	\$54.9	\$61.5
Total operating expenses <sup>[1]</sup>	\$7,358.1	\$8,612.6	\$9,802.6	\$4,739.2	\$5,254.7

<sup>[1]</sup> Amounts for the 2016 periods and prior have been restated for the reclassification of certain components of net periodic benefit cost to conform to the 2017 presentation, as noted previously.

<sup>[2]</sup> Derived from audited consolidated financial statements.

Salaries and employee benefits increased by \$1.15 billion, with an 11.4% CAGR, from the year ended December 31, 2014 to the year ended December 31, 2016. During the same period, excluding the impact of the Phelps, Northern Westchester and Peconic acquisitions, salaries and employee benefits increased by \$728.8 million, with a 7.4% CAGR. This increase was partially due to increased staffing associated with the volume increases and the continued investments in strategic initiatives related to the changes in health care delivery and payment models. These investments included adding physicians and staff to support program expansion within the hospitals and the ambulatory network, further investment in IT, investments in the Health Insurance Companies, and investments in Health Solutions, Northwell's care management division established to steward population health and value-based programs, such as the New York State Delivery System Reform Incentive Payment Program also known as DSRIP. Wage increases and staffing investments in medical research and in various safety, quality and patient experience initiatives throughout Northwell also contributed to the growth in salaries and employee benefits.

For the six months ended June 30, 2017, salaries and employee benefits increased by \$266.3 million or 9.2%, compared to the six months ended June 30, 2016. The increase was primarily the result of the continued staffing investments and wage increases noted above.

Supplies and expenses increased by \$1.20 billion from the year ended December 31, 2014 to the year ended December 31, 2016, reflecting a 24.7% CAGR. During the same period, excluding the impact of the Phelps, Northern Westchester and Peconic acquisitions, supplies and expenses increased by \$961.8 million, with a 20.2% CAGR. The remaining increase was primarily due to supply costs associated with the increase in volume and increased specialty and retail pharmacy sales, and medical claim expenses associated with the increased membership at the Health Insurance Companies. Investments in safety, quality and patient experience initiatives, IT, and new physician practices and ambulatory centers also contributed to the increase. Supply chain improvement efforts (which include standardization, distribution and utilization initiatives for medical and surgical supplies and pharmaceuticals) along with productivity and efficiency efforts, helped control the growth rate of supplies and expenses including the impact of inflation.

Supplies and expenses for the six months ended June 30, 2017 increased by \$222.5 million or 14.0%, compared to the six months ended June 30, 2016. The increase was primarily due to the growth in volume and the Health Insurance Companies' membership and the continued investments noted above.

Depreciation and amortization increased by \$79.9 million, with an 11.4% CAGR, from 2014 to 2016, primarily due to continued investments in IT, facilities and programs, and the acquisitions of Phelps, Northern Westchester and Peconic. During the same period, excluding the impact of the Phelps, Northern Westchester and Peconic acquisitions, depreciation and amortization increased by \$54.1 million, with a 7.9% CAGR.

For the six months ended June 30, 2017, depreciation and amortization increased by \$20.0 million or 9.8%, compared to the six months ended June 30, 2016, primarily due to the continued investments noted above.

The increase in interest expense of \$20.1 million from the year ended December 31, 2014 to the year ended December 31, 2016 was primarily due to the issuance of \$250 million of notes in October 2014, the real estate financing transactions entered into by Northwell in 2014 and 2015 and the issuance of \$500 million of Northwell Health Series 2016A taxable bonds (the "2016A Bonds") in September 2016, and was partially offset by the amortization of existing debt. The acquisitions of Phelps, Northern Westchester and Peconic also contributed to the increase.

For the six months ended June 30, 2017, interest expense increased by \$6.6 million or 12.1% compared to the six months ended June 30, 2016, primarily due to the issuance of the 2016A Bonds.

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## Non-Operating Gains and Losses

The following table presents a summary of non-operating gains and losses for Northwell for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017.

(\$'s In Millions)	2014 <sup>[2]</sup>	2015 <sup>[2]</sup>	2016 <sup>[2]</sup>	Six Months Ended June 30, 2016	Six Months Ended June 30, 2017
<b>Non-Operating Gains and Losses:</b>					
Investment income	\$100.8	\$62.2	\$67.7	\$16.4	\$51.7
Change in net unrealized gains and losses and change in value of equity method investments	(\$24.4)	(\$112.7)	\$117.9	\$50.9	\$158.0
Change in fair value of interest rate swap agreements designated as derivative instruments <sup>[1]</sup>	\$0.8	\$0.8	\$0.2	\$0.2	-
Non-operating net periodic benefit credit (cost)	\$10.6	(\$20.3)	(\$39.8)	(\$17.2)	(\$14.5)
Loss on refunding and redemption of long-term debt	-	(\$57.0)	-	-	-
Contributions received in the acquisitions of Phelps and Northern Westchester (2015) and Peconic (2016)	-	\$259.8	\$36.3	\$36.3	-
Gain from acquired interest in Optum360	-	\$115.6	-	-	-
Other non-operating gains and losses	\$26.0	(\$11.0)	\$24.7	(\$4.3)	(\$3.3)
<b>Total non-operating gains and losses</b>	<b>\$113.9</b>	<b>\$237.4</b>	<b>\$207.0</b>	<b>\$82.3</b>	<b>\$191.8</b>

<sup>[1]</sup> Refer to “Interest Rate Swap Agreements” herein.

<sup>[2]</sup> Derived from audited consolidated financial statements.

Due to ongoing volatility in the investment markets, Northwell’s net gains and losses relating to investments have fluctuated. Refer to “Investment Policy” herein, the Audited Consolidated Financial Statements in Appendix B-1 and the Unaudited Interim Consolidated Financial Statements in Appendix B-2 for more information on Northwell’s investments.

The non-operating net periodic benefit cost is the result of adopting ASU 2017-07 in 2017 and the reclassification of this cost for the 2016 periods and prior to conform to the current year presentation, as previously noted in the forepart of this section.

In May 2015, the outstanding \$13.2 million of the Obligated Group’s Series 2003 bonds were cash defeased. A loss on redemption of long-term debt of \$0.5 million resulted from this cash defeasance.

In June 2015, the Obligated Group issued \$503.6 million of revenue bonds through the Dormitory Authority of the State of New York Series 2015A bonds (the “2015A Bonds”). The proceeds of the 2015A Bonds were used to: (i) refund \$470.4 million in Series 2005A, 2005B, 2007A and 2009A bonds of the Obligated Group, (ii) finance projects for certain members of the Obligated Group, (iii) pay a portion of the interest on the 2015A Bonds, and (iv) pay costs of issuance incurred in connection with the issuance of the 2015A Bonds. A loss on refunding of long-term debt of \$56.5 million resulted from the 2015A Bond transaction, mainly due to the financing of interest due through the redemption dates, which extend through May 2019, and the write-off of the unamortized original costs of issuance of the refunded bonds in the



calculation. However, the refunding transaction resulted in an overall net present value savings to the Obligated Group of approximately \$15.0 million.

On January 1, 2015, Northwell acquired Phelps and Northern Westchester by means of inherent contributions in which no consideration was transferred by Northwell. Northwell accounted for these business combinations by applying the acquisition method and, accordingly, the inherent contributions received were valued as the excess of Phelps' and Northern Westchester's assets over liabilities. In determining the inherent contributions received, all assets and liabilities were measured at fair value as of the acquisition date. The combined unrestricted excess of the fair value of assets over liabilities of \$259.8 million was recorded as contributions within non-operating gains and losses in the consolidated statement of operations for the year ended December 31, 2015. The total contributions received in the acquisitions of Phelps and Northern Westchester increased Northwell's total net assets by \$294.9 million, including \$25.9 million and \$9.2 million related to temporarily and permanently restricted net assets, respectively. Refer to Note 1 to the Audited Consolidated Financial Statements in Appendix B-1 for additional information.

On January 15, 2016, Northwell acquired Peconic by means of an inherent contribution where no consideration was transferred by Northwell. Northwell accounted for the business combination by applying the acquisition method, and accordingly, the inherent contribution received was valued as the excess of Peconic's assets over liabilities. In determining the inherent contribution received, all assets and liabilities were measured at fair value as of the acquisition date. The unrestricted excess of the fair value of assets over liabilities of \$36.3 million was recorded as a contribution within non-operating gains and losses in the consolidated statement of operations for the year ended December 31, 2016. The total contribution received in the acquisition of Peconic increased Northwell's total net assets by \$39.6 million, including \$2.5 million and \$0.8 million related to temporarily and permanently restricted net assets, respectively. Refer to Note 1 to the Audited Consolidated Financial Statements in Appendix B-1 and Note D to the Unaudited Interim Financial Statements in Appendix B-2 for additional information.

In April 2015, Northwell entered into an agreement with Optum360, a provider of revenue cycle management solutions and technology, for Optum360 to provide end-to-end revenue cycle services for most of Northwell's hospitals, effective July 2015. As part of the agreement, Northwell contributed certain intellectual property related to its internal revenue cycle management functions in exchange for an 8% ownership interest in Optum360. A non-cash gain on the transaction of \$115.6 million, representing the difference between the fair value of the interest in Optum360 received in the transaction and the value of the assets contributed, was recorded within non-operating gains and losses in the consolidated statement of operations for the year ended December 31, 2015. Northwell accounts for this investment using the equity method of accounting.

### ***Other Changes in Unrestricted Net Assets***

For a complete list of other changes in unrestricted net assets, refer to the Audited Consolidated Financial Statements in Appendix B-1 and the Unaudited Interim Consolidated Financial Statements in Appendix B-2.

### ***Pension and Other Postretirement Liability Adjustments***

Northwell maintains several defined benefit pension and other postretirement plans for its employees. For the year ended December 31, 2016, Northwell recorded a decrease in unrestricted net assets of \$56.8 million, compared to an increase in unrestricted net assets of \$18.1 million for the year ended December 31, 2015 and a decrease in unrestricted net assets of \$359.7 million for the year ended December 31, 2014, associated with pension and other postretirement liability adjustments. These adjustments relate to changes in discount rates, a change in the mortality table and mortality projection scale (2014 only) and

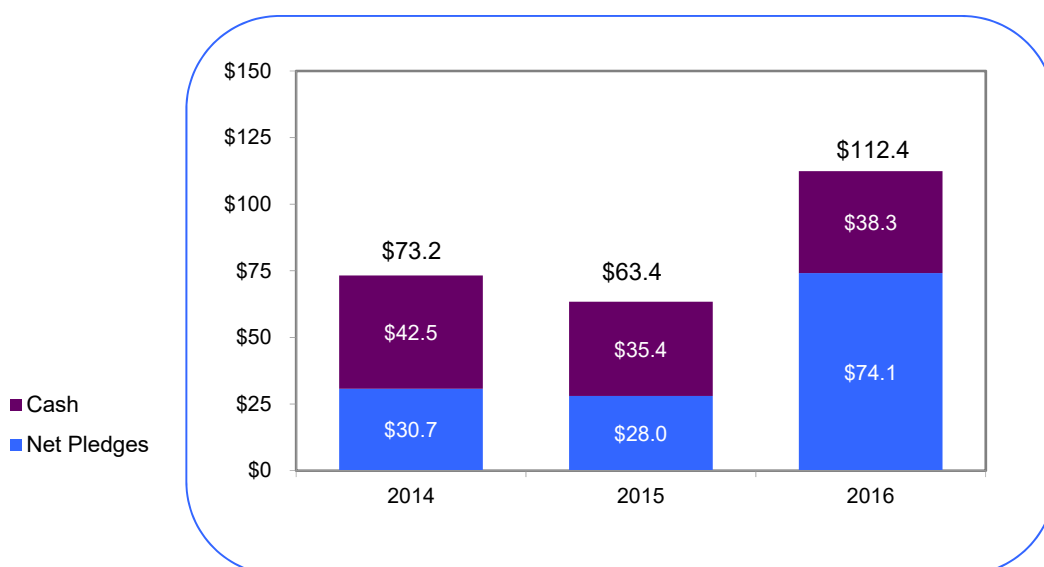
investment gains and losses on pension plan assets, and were made in accordance with the provisions of the Accounting Standards Codification Topic 715, *Compensation - Retirement Benefits*, which requires Northwell to recognize the funded status (the difference between the projected benefit obligations and the fair value of plan assets) of its defined benefit pension and other postretirement plans in the consolidated statements of financial position with a corresponding adjustment to unrestricted net assets.

The combined fair value of plan assets at December 31, 2016, 2015 and 2014 as a percentage of the projected benefit obligations of Northwell's non-contributory defined benefit pension plans was 67%, 70% and 72%, respectively. Refer to Note 8 to the Audited Consolidated Financial Statements in Appendix B-1 for more information.

### ***Fundraising***

For the years ended December 31, 2014, 2015 and 2016, Northwell's fundraising efforts resulted in the following donations (in millions).

**Fundraising - Cash and Net Pledges**



For the six months ended June 30, 2017 and 2016, Northwell received \$68.8 million and \$30.5 million, respectively, in new net pledges and cash donations. Of the \$68.8 million received during 2017, \$51.8 million was in pledges and \$17.0 million was in cash. Of the \$30.5 million received during 2016, \$19.9 million was in pledges and \$10.6 million was in cash.

Cash and pledges are generally received by the Northwell Health Foundation (the "Foundation"), which was formed to solicit, receive and administer funds to be used for major modernization projects, capital acquisitions, special programs and other health care services for the benefit of the Members of the Obligated Group and other affiliated tax-exempt organizations of Northwell. The Foundation is not a Member of the Obligated Group.

## Statement of Financial Position Overview

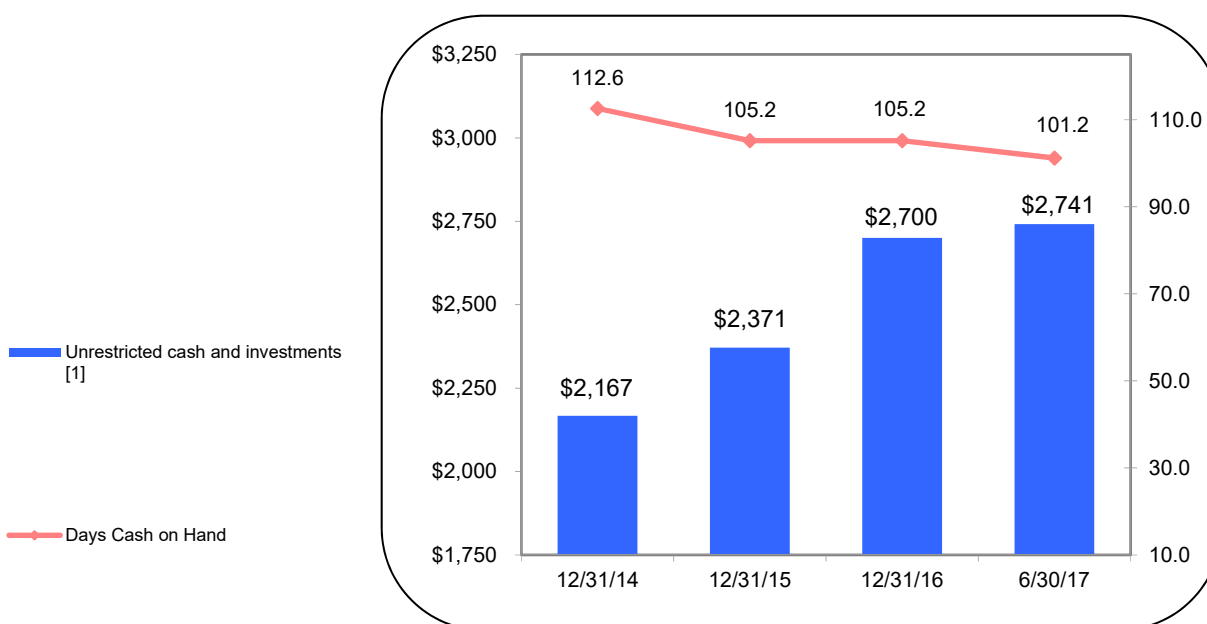
Days cash on hand, long-term debt to cash flow and long-term debt service coverage ratios for June 30, 2017 are calculated using twelve months of operating results, covering the period July 1, 2016 through June 30, 2017.

### Liquidity and Capital Resources

Unrestricted cash and investments increased to \$2.74 billion as of June 30, 2017, from \$2.17 billion as of December 31, 2014, resulting in 101.2 days cash on hand as of June 30, 2017, a decline of 11.4 days from December 31, 2014. Management attributes this decline in days cash on hand primarily to the losses at the Health Insurance Companies, the timing of cash receipts and expenditures, including those related to strategic and capital investments, and the acquisitions of Phelps, Northern Westchester and Peconic. Total unrestricted cash and investments are comprised of cash and cash equivalents, marketable securities and other investments. Refer to Note F to the Unaudited Interim Consolidated Financial Statements in Appendix B-2 and Note 3 to the Audited Consolidated Financial Statements in Appendix B-1 for more information. Funds designated to pay the CareConnect ACA risk adjustment program liability are excluded from Northwell's days cash on hand calculation.

The following chart presents the total unrestricted cash and investments, in millions, included in the days cash on hand calculations and the days cash on hand at December 31, 2014, 2015 and 2016 and June 30, 2017.

**Total Unrestricted Cash and Investments and Days Cash on Hand**



<sup>[1]</sup> Refer to Note 3 to the Audited Consolidated Financial Statements in Appendix B-1 and Note F to the Unaudited Interim Consolidated Financial Statements in Appendix B-2 for more information.

In order to smooth future repayment of taxable debt with bullet maturities, management has designated sinking funds amounting to \$69.2 million, \$45.6 million, \$29.3 million and \$26.0 million at June 30, 2017 and December 31, 2016, 2015 and 2014, respectively. These sinking fund amounts are excluded from total unrestricted cash and investments and the days cash on hand calculation reflected in

the above chart. Although total unrestricted cash and investments increased over this period, Northwell's cash to debt measurement decreased to 94.3% at June 30, 2017 compared to 100.1% at December 31, 2014, primarily as a result of the new debt from the 2015A and 2016A Bonds and the real estate financing transactions entered into by Northwell in 2015. The cash to debt measurement has been calculated including the management designated sinking funds with the unrestricted cash and investments.

#### *Patient Accounts Receivable*

Days of total patient revenue in patient accounts receivable were 46 days, 45 days, 45 days and 44 days as of June 30, 2017 and December 31, 2016, 2015 and 2014, respectively.

#### *Property, Plant and Equipment*

Management monitors and manages capital spending in relation to operations, capital market conditions affecting investments, fundraising and debt capacity. Capital additions (including assets acquired under capital lease obligations and real estate financing transactions) totaled \$626.4 million, \$632.8 million and \$545.1 million for the years ended December 31, 2016, 2015 and 2014, respectively. For the six months ended June 30, 2017, capital additions totaled \$352.3 million.

Net assets released from restrictions for capital asset acquisitions totaled \$33.9 million, \$7.7 million and \$27.1 million for the years ended December 31, 2016, 2015 and 2014, respectively. For the six months ended June 30, 2017, net assets released from restrictions for capital asset acquisitions were \$32.5 million.

Reflecting continued capital investments throughout Northwell, capital expenditures as a percentage of depreciation and amortization were 158%, 150%, 145% and 137% for the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014, respectively.

#### *Accounts Payable*

Days of supplies and expenses in accounts payable were 87 days, 92 days, 95 days and 100 days as of June 30, 2017 and December 31, 2016, 2015 and 2014, respectively.

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## Debt

The following table presents a summary of Northwell's total outstanding debt, debt to capitalization, long-term debt to cash flow and long-term debt service coverage ratio as of and for the years ended December 31, 2014, 2015 and 2016 and twelve months ended June 30, 2017.

<i>(\$'s In Millions)</i>	12/31/14 <sup>[4]</sup>	12/31/15 <sup>[4]</sup>	12/31/16 <sup>[4]</sup>	6/30/17
Total outstanding debt <sup>[1]</sup>	\$2,190.8	\$2,540.3	\$3,026.6	\$2,980.9
Debt to capitalization <sup>[2]</sup>	44.8%	45.2%	46.9%	44.7%
Long-term debt / cash flow <sup>[3]</sup>	3.7x	4.5x	4.8x	4.7x
Long-term debt service coverage	3.7x	3.6x	3.4x	3.3x

[1] Total outstanding debt includes long-term debt, capital lease obligations and short-term borrowings.

[2] Capitalization is defined as the sum of total outstanding debt and unrestricted and temporarily restricted net assets.

[3] Long-term debt includes long-term debt and capital lease obligations, net of current portions. Cash flow is defined as net income before all items defined in footnote [c] below, except for interest expense.

[4] Derived from audited consolidated financial statements.

Northwell's total debt profile as of June 30, 2017 was comprised of 7.7% variable rate debt and 92.3% fixed rate debt. However, the majority of the long-term variable rate debt is hedged under interest rate swap agreements. As such, the effective variable and fixed rate debt is 5.2% and 94.8%, respectively, of the total outstanding debt. Total outstanding debt increased by \$790.1 million from December 31, 2014 to June 30, 2017, primarily due to the issuance of the 2015A and 2016A Bonds, the real estate financing transactions entered into by Northwell in 2015, and the acquisitions of Phelps, Northern Westchester and Peconic, which added \$132.5 million to Northwell's total outstanding debt as of June 30, 2017. These increases were partially offset by scheduled principal payments.

Debt to capitalization improved slightly to 44.7% at June 30, 2017, compared to 44.8% at December 31, 2014. Long-term debt to cash flow increased to 4.7x at June 30, 2017, compared to 3.7x at December 31, 2014, due to the increase in long-term debt, although cash flow improved by \$51.7 million for the twelve months ended June 30, 2017, compared to the year ended December 31, 2014.

The long-term debt service coverage ratio decreased to 3.3x for the twelve months ended June 30, 2017, compared to 3.7x for the year ended December 31, 2014. For the June 30, 2017 and December 31, 2014 calculations, maximum annual debt service was \$216.1 million and \$170.9 million, respectively, occurring in 2017 and 2015. Income available for debt service<sup>[c]</sup> for the twelve months ended June 30, 2017 and the year ended December 31, 2014 was \$718.9 million and \$640.4 million, respectively. Refer to "Historical and Pro Forma Coverage of Debt Service" herein for further information.

Northwell primarily uses its short-term borrowings under revolving credit facilities to bridge capital expenditures to be paid with donations and/or bond issues. Short-term borrowings were \$110.2 million as of June 30, 2017 and December 31, 2016, 2015 and 2014. The total credit currently available under such arrangements is \$288 million.

<sup>[c]</sup> Net income as defined in footnote [b] before depreciation and amortization, interest expense, the change in net unrealized gains and losses and change in value of equity method investments, and the change in fair value of interest rate swap agreements designated as derivative instruments.

### *Interest Rate Swap Agreements*

Certain members of Northwell have entered into various interest rate swap agreements with financial institutions, matched or related to the term and rate of various bond issues or debt agreements. As of June 30, 2017 and December 31, 2016, 2015 and 2014, the aggregate fair value of the interest rate swap agreements was a liability of \$6.9 million, \$7.9 million, \$3.7 million and \$5.0 million, respectively. The increase at December 31, 2016 was attributable to Peconic's swap agreements in place at the time of the Peconic acquisition.

Swap agreements expose Northwell to credit risk in the event of nonperformance by the counterparties. Northwell believes that the risk of material impact to its consolidated financial statements arising from nonperformance by the counterparties is low. For further information, see "RISK FACTORS AND REGULATORY PROVISIONS THAT MAY AFFECT NORTHWELL AND THE OBLIGATED GROUP – Risks Related to Interest Rate Swap Agreements" in the forefront of this Offering Memorandum.

### *Commitments and Contingencies*

For information on commitments and contingencies, refer to "Regulatory Reviews, Audits, Litigation and Investigations" and "Other Litigation" herein and Note I to the Unaudited Interim Consolidated Financial Statements in Appendix B-2.

### ***Summary***

Revenue growth associated with increased volume and payment rates, revenue cycle initiatives, acquisitions and growth in physician and ambulatory services, coupled with expense reductions from supply chain and other productivity and efficiency initiatives, offset by investments, including those related to the changing models of health care delivery and payment, and the CareConnect operating losses as impacted by the ACA risk adjustment program, all contributed to the operating results for Northwell for the periods presented.

Despite the challenges and factors pressuring operating margins, Northwell continues to focus on improving operating performance, as evidenced by the recent decision to wind down CareConnect and Health Plan. While management continues to believe that operating a provider owned insurance company could be an effective strategy to manage population health with the right regulatory environment, there are multiple other strategies and tactics currently in place to achieve similar goals to which Northwell remains committed.

Management also continues to focus on operating expense reductions with operational efficiency efforts, program consolidation and supply chain initiatives, while creating additional revenue opportunities through new and enhanced facilities, building a more diversified business model (including expanding joint venture partnerships), physician recruitment efforts, and the on-going migration from fee-for-service to value-based payment models associated with population health management.

Northwell continues to invest in strategic capital projects and technology, including electronic health records and other clinical software, to maintain what management believes is a competitive advantage regarding physician satisfaction and retention, and to improve clinical outcomes, patient experience, and operational processes. In addition, Northwell is making strategic investments in physicians who support key clinical service lines and staff to support the growth in the ambulatory network and outpatient volume, and in various other safety, quality and service initiatives. Management continues to monitor strategic capital needs in relation to operations, capital market conditions affecting investment returns, fundraising and debt capacity, so that Northwell can continue to invest in people, programs and

facilities in order to successfully adapt and respond to changes in the health care industry while continuing to meet the needs of the patients and families in all the communities it serves.

## Financial Ratios

### Northwell Financial Ratios

	December 31,		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Days Cash on Hand <sup>(1)</sup>	112.6	105.2	105.2
Long-Term Debt/Cash Flow <sup>(2)</sup>	3.7	4.5	4.8
Debt to Capitalization	44.8%	45.2%	46.9%
(Capitalization = Total Debt + Unrestricted and Temporarily Restricted net Assets)			

- (1) Days Cash on Hand is calculated as described in “Management’s Discussion and Analysis of Recent Financial Performance—*Statement of Financial Position Overview—Liquidity and Capital Resources*” herein. Although the Days Cash on Hand presented above was calculated for Northwell on a consolidated basis, the amounts are not materially different from the Days Cash on Hand for the Obligated Group, which was 116, 109 and 109 as of December 31, 2014, 2015 and 2016, respectively.
- (2) Long-term debt includes long-term debt and capital lease obligations, net of current portions. Cash flow is defined as the excess of revenue and gains and losses over expenses before depreciation and amortization, the change in net unrealized gains and losses and change in value of equity method investments, the change in fair value of interest rate swap agreements designated as derivative instruments, the non-cash contributions received in the acquisitions of Phelps and Northern Westchester (2015) and Peconic (2016), the accounting loss on refunding and redemption of long term debt (2015), and the non-cash gain from the acquired interest in Optum360 (2015).

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## Capitalization

The following table sets forth Northwell's historical capitalization ratios as of December 31, 2015 and 2016, and the pro forma capitalization ratio as of December 31, 2016, including the issuance of the Bonds.

<b>Northwell Capitalization (Dollars in Thousands)</b>			
	<b>2015</b>	<b>December 31, 2016</b>	<b>2016 Pro Forma</b>
Debt:			
Pro Forma 2017 Debt <sup>(1)</sup>	\$ -	\$ -	\$949,194
Existing Debt <sup>(2)</sup>	2,540,258	3,026,646	2,690,065
Total Debt	2,540,258	3,026,646	3,639,259
Net Assets-Unrestricted	2,710,921	3,027,943	3,027,943
Net Assets-Temporarily Restricted	363,573	393,610	393,610
Total Capitalization	5,614,752	6,448,199	7,060,812
Percentage of Debt to Capitalization	45.2%	46.9%	51.5%

(1) Pro Forma 2017 Debt includes \$956.9 million relating to the Bonds, including the impact of refunding the Series 2011A Bonds, less \$7.7 million of bond issuance costs.

(2) Pro Forma Existing Debt as of December 31, 2016 reflects the refunding of \$336.6 million of Series 2011A Bonds, inclusive of unamortized premium and bond issuance costs.

## Principal and Interest Requirements

The following table sets forth, for each respective year ending December 31, the amounts required to be paid by the Members of the Obligated Group or the Other Northwell Entities in such year for (i) the principal of the Bonds coming due during each such period; (ii) the interest with respect to the Bonds coming due during each such period; (iii) the total debt service coming due during each such period with respect to other long-term indebtedness of the Obligated Group (excluding the Series 2011A Bonds to be refunded with the issuance of the Bonds); (iv) the total aggregate debt service of the Obligated Group, which includes the Bonds and all other long-term indebtedness; (v) other debt service of Northwell coming due during each such period; and (vi) the total aggregate debt service of Northwell during each such period. Such amounts exclude the amortization of balloon indebtedness over 30 years as required by the Master Trust Indenture in the determination of the maximum annual debt service for the purpose of calculating the long-term debt service coverage ratio.



**Northwell**  
**Long-Term Debt Service Requirements\***

<b>Fiscal Year Ending December 31,</b>	<b>Debt Service on the Bonds Principal</b>	<b>Interest</b>	<b>Total Debt Service on Other Long- Term Debt of the Obligated Group<sup>(1), (2)</sup></b>	<b>Total Debt Service on All Long-Term Debt of the Obligated Group</b>	<b>Other Northwell Debt Service <sup>(3)</sup></b>	<b>Total Northwell Debt Service</b>
2017	-	\$3,871,569	\$155,550,717	\$159,422,286	\$21,739,611	\$181,161,897
2018	-	39,821,850	153,264,165	193,086,015	16,514,040	209,600,055
2019	-	39,821,850	155,547,731	195,369,581	36,232,432	231,602,013
2020	-	39,821,850	155,386,377	195,208,227	12,555,656	207,763,883
2021	-	39,821,850	155,596,302	195,418,152	12,141,247	207,559,399
2022	-	39,821,850	156,278,603	196,100,453	12,999,916	209,100,369
2023	-	39,821,850	154,442,530	194,264,380	10,569,292	204,833,672
2024	-	39,821,850	150,283,562	190,105,412	10,518,838	200,624,250
2025	-	39,821,850	148,827,302	188,649,152	9,221,614	197,870,766
2026	-	39,821,850	149,519,551	189,341,401	8,791,628	198,133,029
2027	\$108,504,000	39,821,850	152,011,788	300,337,638	8,780,600	309,118,238
2028	-	36,142,479	152,272,638	188,415,117	8,845,881	197,260,998
2029	-	36,142,479	154,181,157	190,323,636	8,832,881	199,156,517
2030	-	36,142,479	153,843,524	189,986,003	8,870,078	198,856,081
2031	-	36,142,479	123,173,221	159,315,700	6,626,997	165,942,697
2032	-	36,142,479	122,418,247	158,560,726	3,974,889	162,535,615
2033	-	36,142,479	122,566,716	158,709,195	2,710,440	161,419,635
2034	-	36,142,479	122,839,025	158,981,504	2,691,848	161,673,352
2035	-	36,142,479	125,156,667	161,299,146	2,673,256	163,972,402
2036	-	36,142,479	125,769,730	161,912,209	2,654,664	164,566,873
2037	-	36,142,479	127,657,416	163,799,895	2,636,072	166,435,967
2038	-	36,142,479	129,656,832	165,799,311	2,619,049	168,418,360
2039	-	36,142,479	129,951,881	166,094,360	1,360,271	167,454,631
2040	-	36,142,479	79,893,851	116,036,330	-	116,036,330
2041	-	36,142,479	80,549,939	116,692,418	-	116,692,418
2042	-	36,142,479	240,616,090	276,758,569	-	276,758,569
2043	-	36,142,479	360,721,471	396,863,950	-	396,863,950
2044	-	36,142,479	55,699,982	91,842,461	-	91,842,461
2045	-	36,142,479	37,307,417	73,449,896	-	73,449,896
2046	-	36,142,479	525,542,669	561,685,148	-	561,685,148
2047	848,415,000	36,142,479	5,667,349	890,224,828	-	890,224,828
2048	-	-	5,687,324	5,687,324	-	5,687,324
2049	-	-	3,410,120	3,410,120	-	3,410,120
2050	-	-	1,392,495	1,392,495	-	1,392,495
2051	-	-	941,770	941,770	-	941,770
	<b>\$956,919,000</b>	<b>\$1,124,939,645</b>	<b>\$4,673,626,161</b>	<b>\$6,755,484,806</b>	<b>\$214,561,201</b>	<b>\$6,970,046,007</b>

\* Totals may not foot due to rounding.

(1) Other Long-Term Debt of the Obligated Group encompasses existing outstanding bonds of the Obligated Group (excluding the Series 2011A Bonds that are to be refunded with the issuance of the Bonds), as well as non-bonded long-term obligations of the Obligated Group.

(2) Debt service for Series 2007B Floating Rate Notes was calculated at the synthetic fixed swap rate of 4.172%.

(3) Other Northwell Debt Service includes debt obligations of Other Northwell Entities outside the Obligated Group, including Northern Westchester, Phelps, Peconic, LIH and various consolidated clinical joint ventures. \$94.9 million of Phelps, Northern Westchester and Peconic bonds payable at December 31, 2016, which are supported by bank direct purchase agreements or letters of credit, may come due prior to the final maturity of the underlying bonds if the bank expiry dates are not extended.

## Historical and Pro Forma Coverage of Debt Service

The following table sets forth Northwell's historical long-term debt service coverage ratio calculated pursuant to the definition in the Master Trust Indenture for the year ended December 31, 2016 and the pro forma long-term debt service coverage ratios for the year ended December 31, 2016 and the twelve month period ended June 30, 2017. The pro forma long-term debt service coverage ratios for the year ended December 31, 2016 and the twelve month period ended June 30, 2017 assumed pro forma maximum annual debt service including the issuance of the Bonds.

<b>Northwell</b> <b>Long-Term Debt Service Coverage Ratio</b> <b>(Dollars in Thousands)</b>			
	<b>12/31/2016</b>	<b>Pro Forma 12/31/2016</b>	<b>Pro Forma 6/30/17<sup>(4)</sup></b>
<b>Funds Available for Debt Service:</b>			
Excess of Revenue and Gains and Losses over Expenses	\$342,634	\$342,634	\$391,057
Plus: Interest	115,231	115,231	121,869
Plus: Depreciation and Amortization	410,939	410,939	430,913
Less: Change in Net Unrealized Gains and Losses and Change in Value of Equity Method Investments	(117,864)	(117,864)	(224,975)
Less: Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments	(190)	(190)	-
Less: Contribution Received in the Acquisition of Peconic	(36,343)	(36,343)	-
<b>Total Funds Available for Debt Service</b>	<b>\$714,407</b>	<b>\$714,407</b>	<b>\$718,864</b>
<b>Maximum Annual Debt Service Requirements:</b>			
Existing Debt <sup>(1)</sup>	212,139	-	-
Existing Debt and Pro Forma 2017 Debt <sup>(1), (2)</sup>	-	241,237	241,237
<b>Total Maximum Annual Debt Service Requirements</b>	<b>\$212,139</b>	<b>\$241,237</b>	<b>\$241,237</b>
<b>Historical and Pro Forma Long-Term Debt Service Coverage Ratio<sup>(3)</sup></b>	<b>3.4x</b>	<b>3.0x</b>	<b>3.0x</b>

<sup>(1)</sup> Maximum Annual Debt Service ("MADS") has been calculated in accordance with the Master Trust Indenture except for the Series 2007B Floating Rate Notes, which were calculated using the synthetic fixed swap rate of 4.172%. MADS occurs in 2017 for the December 31, 2016 calculation and in 2022 for the pro forma December 31, 2016 and June 30, 2017 calculations.

<sup>(2)</sup> Pro Forma Maximum Annual Debt Service as of December 31, 2016 and June 30, 2017 includes \$956.9 million relating to the Bonds, including the impact of refunding the Series 2011A Bonds.

<sup>(3)</sup> The Long-term Debt Service Coverage Ratio presented above was calculated for Northwell on a consolidated basis. The Long-term Debt Service Coverage Ratio for the Obligated Group as calculated in accordance with the Master Trust Indenture for the year ended December 31, 2016 was 4.4x.

<sup>(4)</sup> Calculated using twelve months of operating results covering the period July 1, 2016 through June 30, 2017.

## Historical and Pro Forma Debt to EBITDA

The following table sets forth Northwell's historical debt to EBITDA (as defined in the table below) ratio for the year ended December 31, 2016 and the pro forma debt to EBITDA ratios for the year ended December 31, 2016 and the twelve month period ended June 30, 2017. The pro forma debt to EBITDA ratios for the year ended December 31, 2016 and twelve month period ended June 30, 2017 includes the issuance of the Bonds.

<b>Northwell Debt to EBITDA (Dollars in Thousands)</b>			
	<b>12/31/2016</b>	<b>Pro Forma 12/31/2016</b>	<b>Pro Forma 6/30/2017<sup>(3)</sup></b>
<b>Debt:</b>			
Pro Forma 2017 Debt <sup>(1)</sup>	\$ -	\$ 949,194	\$ 949,194
Existing Debt <sup>(2)</sup>	3,026,646	2,690,065	2,644,308
<b>Total Debt</b>	<b>\$3,026,646</b>	<b>\$3,639,259</b>	<b>\$3,593,502</b>
<b>Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA):</b>			
Excess of Revenue and Gains and Losses over Expenses	\$342,634	\$342,634	\$391,057
Plus: Interest	115,231	115,231	121,869
Plus: Depreciation and Amortization	410,939	410,939	430,913
Less: Change in Net Unrealized Gains and Losses and Change in Value of Equity Method Investments	(117,864)	(117,864)	(224,975)
Less: Change in Fair Value of Interest Rate Swap Agreements Designated as Derivative Instruments	(190)	(190)	-
Less: Contribution Received in the Acquisition of Peconic	(36,343)	(36,343)	-
<b>Total EBITDA</b>	<b>\$714,407</b>	<b>\$714,407</b>	<b>\$718,864</b>
<b>Historical and Pro Forma Debt to EBITDA</b>	<b>4.2</b>	<b>5.1</b>	<b>5.0</b>

(1) Pro Forma 2017 Debt includes \$956.9 million relating to the Bonds, including the impact of refunding the Series 2011A Bonds, less \$7.7 million of bond issuance costs.

(2) Pro Forma Existing Debt as of December 31, 2016 and June 30, 2017 reflects the refunding of \$336.6 million of Series 2011A Bonds, inclusive of unamortized premium and bond issuance costs.

(3) Calculated using twelve months of operating results covering the period from July 1, 2016 through June 30, 2017.

## Budgetary Process

The annual operating and capital budgets of Northwell are prepared by the finance office of Northwell in collaboration with the administrative leadership of each Member of the Obligated Group. The budgets are reviewed and approved by the Executive Leadership of Northwell and Northwell Board of Trustees. The operating budget sets the targeted gain from operations; however, there can be no assurance that this goal will be achieved in any year.

## **Payment Methodologies**

### ***Medicare***

Medicare covers hospital services for eligible individuals who are elderly, disabled or subject to certain chronic conditions. Medicare pays acute care hospitals, such as the Obligated Group hospitals, for most general medical/surgical services provided to eligible inpatients under a prospective payment system (“PPS”) known as “inpatient PPS.” Under the inpatient PPS, hospitals receive a predetermined payment amount for each Medicare discharge. This PPS payment is a standard national amount based on the diagnostic related group (“DRG”) for the discharge subject to a geographic adjustment that takes into account regional wage differentials compared to the nation as a whole. DRGs classify treatments for illnesses according to the estimated costs of hospital resources necessary to furnish care for each patient’s principal diagnosis. Hospitals are thus at financial risk for providing services to a patient at an actual cost greater than the applicable DRG payment. DRG rates are updated annually (the update factor) based on a statistical estimate of the increase in the cost of goods and services used by hospitals in providing care (the market basket). Historically, the increases to the DRG rates have often been lower than the percentage increases in the costs of goods and services purchased by hospitals. Under provisions of the ACA, there are further reductions in the market basket percentage increase, consisting of both a flat percentage reduction and an economic productivity adjustment. DRG weights are also recalibrated annually. Hospitals also receive additional payments for certain costs, such as new technology costs as well as atypical cases (known as outliers) and the costs of organ procurement for those hospitals that have designated organ transplant programs. Hospitals also receive an additional per discharge payment based on a federal rate (with certain adjustments) to reimburse hospitals for capital costs. There is no assurance that these payments will be sufficient to cover the actual cost of providing hospital services. Medicare payments will be increasingly based on “Value Based Purchasing” (“VBP”) in the future. This methodology withholds 2.0% of the federal fiscal year (“FFY”) 2017 payments (and will withhold the same percentage for FFY 2018 payments) and then redistributes these funds back to hospitals based upon quality metrics. Since FFY 2015, hospitals may also be penalized up to three percent of inpatient base operating payments for unnecessary re-admissions. Since FFY 2015, as mandated by the ACA, a hospital acquired condition reduction program was implemented. A one percent payment penalty is assessed on those hospitals that trigger the unacceptable threshold. The Obligated Group hospitals continue to focus on the performance of each of the above quality based initiatives.

In 2013, CMS announced the so-called “two-midnight rule” to clarify when it expected Medicare patients to be designated as meeting the criteria for inpatient status. Under this rule, only patients that the admitting physician expects will need to spend two nights in the hospital would be considered and paid for by Medicare as hospital inpatients. CMS is requiring the subcontractor (BFCC-QIOs) to re-review all claims they denied in their medical review process since October 2015 to make sure medical review decisions and subsequent provider education are consistent with current policy.

Certain hospital inpatient facilities or units providing specialized services, such as rehabilitation or psychiatric units, are paid under distinct payment methodologies. In 2002, Medicare implemented a distinct PPS for inpatient rehabilitation services and reduced the number of diagnoses that qualify a patient to be treated in an inpatient rehabilitation unit. Patients receiving rehabilitation services are classified into case mix groups based upon impairment, age, co-morbidities and functional capability. Hospitals receive a predetermined amount per discharge based on the patient’s case mix group as adjusted for geographic area wage levels, low-income patients, hospital teaching status, rural areas and high-cost outliers. Medicare initiated a distinct PPS for inpatient psychiatric services in 2005. Hospitals receive a predetermined per diem payment with adjustments for factors such as patient characteristics, DRG, hospital teaching status and geographic area wage levels. Rehabilitation and psychiatric PPS rates are also subject to updates. There can be no assurance that these payments will be sufficient to cover the actual cost of providing hospital services.

Most hospital outpatient services are also paid on a PPS basis. Payments under the outpatient PPS (“OPPS”) are based upon ambulatory payment classification (“APC”) groups. An APC group includes various services and procedures determined to be similar. APC rates are adjusted annually and are subject to a geographic adjustment that takes into account wage differentials and the average amount of resources required to provide the service (*e.g.*, visit, chest x-ray, surgical procedure). Hospitals are eligible to receive additional payments for certain new or high cost drugs and devices as well as certain outlier payments. There can be no assurance that the hospital OPPS rate, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the services. In addition to the APC rate, there is a predetermined beneficiary coinsurance amount for each APC group. There can be no assurance that the beneficiary will pay this amount.

OPPS applies to most hospital outpatient services, other than ambulance and rehabilitation services, clinical diagnostic laboratory services, dialysis for end-stage renal disease, non-implantable durable medical equipment, prosthetic devices and orthotics. Outpatient services not covered by OPPS are paid on the basis of fee schedules, the lower of costs or charges, or a blend of fee schedules and costs.

Certain hospitals, including the Obligated Group hospitals, qualify for additional payments from Medicare to cover some of the costs of providing care to a high level of Medicaid and uninsured patients (disproportionate share hospital (“DSH”) payments) and training physicians and other medical professionals (graduate medical education (“GME”) payments). DSH payments are determined annually based on certain statistical information submitted to DHHS and are paid as a percentage addition to DRG payments. In FFY 2014, in accordance with the ACA, there were major changes made to the DSH payment formula. Significantly, the ACA modified the DSH payment methodology so that DSH qualifying hospitals receive only 25% of the DSH payment amount the hospitals would have received previously under the Medicare DSH statutory formula. The remaining 75% of what otherwise would have been paid is reduced in accordance with the reduced level of uninsured persons throughout the country and is available to make additional payments to each DSH qualifying hospital that has uncompensated care. Each fiscal year, the payments to each hospital are based on the hospital’s amount of uncompensated care for a time period relative to the total amount of uncompensated care for the same time period for all DSH qualifying hospitals that receive DSH payments that year. Through 2017, uncompensated care is calculated based on each hospital’s Medicaid and Medicare Supplemental Security Income days. Beginning in 2018, uncompensated care will be calculated based on uncompensated care reported on the Medicare cost report. This change will be phased in over the period of FFY 2018–2020. It is too early to determine whether the proposed change will have a material adverse impact on Northwell. See “RISK FACTORS AND REGULATORY PROVISIONS THAT MAY AFFECT NORTHWELL AND THE OBLIGATED GROUP – Health Care Reform” for further information on these changes.

There are two forms of payment for GME: Direct Graduate Medical Education (“DGME”) and Indirect Medical Education (“IME”) payments. DGME payments support the direct costs of training (*e.g.*, resident stipends, supervision), while IME payments support the higher infrastructure relating to teaching, greater patient acuity and their extensive “stand-by” capabilities. DGME costs are paid under a prospective methodology based on a hospital-specific approved amount per resident. Additional payments are available to PPS teaching hospitals for the IME costs attributable to their approved graduate medical education programs. The IME payment is an additional payment calculated as a percentage add-on to the inpatient DRG payment. The payment is based on a formula that incorporates the hospital’s ratio of residents to beds in use and total inpatient PPS operating cost revenue. DGME and IME payments are subject to certain limitations, such as a cap on a hospital’s allowable residents based on the number of residents in a base year, and reductions for training taking place in non-hospital settings unless certain criteria are met. Congress has repeatedly sought to limit GME payments and there can be no assurance that such efforts will not be successful in the future.

Medicare Advantage plans are alternate insurance products offered by private companies that engage in direct managed care risk contracting with the Medicare program. Under the Medicare Advantage program, these private companies agree to accept a fixed, per-beneficiary payment from the Medicare program to cover all care that the beneficiary may require. See “RISK FACTORS AND REGULATORY PROVISIONS THAT MAY AFFECT NORTHWELL AND THE OBLIGATED GROUP – Health Care Reform” for a discussion of the impact of the ACA on Medicare Advantage plans.

The Medicare program has experienced frequent legislative, regulatory and administrative revisions in its payment methodologies and other provisions, many of which have sought to reduce the level of payment and rate of increase in the cost of the program. The most significant areas of concern for cuts to the Medicare program are IME and DSH payments. A future area of concern is “Pay for Performance” or VBP (as discussed above), which incorporates either an increase or decrease to the Medicare base payment rate based on the results of quality measure that a hospital must submit to Medicare. The intention of Pay for Performance is to pay for quality delivery of care, not simply quantity. It is likely that revisions will continue, some of which may adversely affect the Medicare payments that Members of the Obligated Group receive.

The OIG of DHHS reviews the appropriateness and accuracy of hospital payments. The OIG compares payments for physician office visits furnished in provider-based and free-standing clinics for similar procedures and assesses the potential impact on the Medicare program of hospitals’ claiming provider-based status for such facilities. OIG reviews of hospitals will continue to scrutinize the impact of provider-based status on Medicare billing. Provider-based status allows a subordinate facility to bill as part of the main facility and can result in additional Medicare payments for services furnished at provider-based facilities.

The 340b Drug Pricing Program requires drug manufacturers to provide outpatient drugs to eligible health care organizations and other covered entities at significantly reduced prices. The 340b program enables covered entities to reach more eligible patients and provide more comprehensive services. LIJMC (including LIJFH and LIJVS), SS, SIUH, Phelps, and Lenox are eligible and participate in the 340b discount program.

Medicare pays home health agencies a prospective predetermined episodic base payment adjusted for patients’ health condition and care needs. The payment is also adjusted for geographic wage differences based on the location of service. Medicare pays hospices a daily wage-adjusted payment rate for each day a patient is enrolled in the hospice benefit. These daily rates are made regardless of the amount of services provided on a given day. Payments are made based on four levels of care required to meet patient and family needs.

Medicare pays for certain physician services based on a national fee schedule called the “resource-based-relative-value scale” (“RB-RVS”). The RB-RVS fee schedule establishes payment amounts for all physician services, including services of provider-based physicians, and is subject to annual updates. On April 16, 2015, Congress signed into law the Medicare Access and CHIP Restoration Act of 2015. This act permanently replaces the sustainable growth rate formula used by Medicare to determine payments for physician services with a fixed 0.5% annual adjustment for the years 2015 through 2019. From 2020-2025, the base rates will be maintained and physician compensation will be subject to adjustment under the Merit-Based Incentive Payment System (“MIPS”). Beginning in 2026, physicians who receive a significant portion of revenue through alternative payment models will receive a 0.75% increase, while those physicians who do not participate in these alternatives will receive an increase of 0.25%. Under MIPS, physicians will be assigned a composite performance score based on measures of quality, resource use, meaningful use of electronic health records, and clinical practice improvement activities. A threshold performance score will be set annually by DHHS at the mean or medium of all composite scores for a prior

annual performance period. Performance exceeding the threshold will result in a positive adjustment, performance below the threshold will result in a negative adjustment, and performance at the threshold will result in no adjustment.

### ***Non-Medicare Payment***

As periodically updated and renewed, the New York State payment methodologies govern non-Medicare payments to hospitals in New York State. Under the New York State payment methodologies, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payers are billed at hospitals' established charges with the exception of Medicaid HMO payers who will be billed at the Medicaid HMO default rate as established by the NYSDOH. Medicaid, Workers' Compensation and No-Fault payers pay hospital rates promulgated by NYSDOH on a prospective basis. Every year, Northwell's hospitals and nursing homes must have their Medicaid payment rates certified for the forthcoming year by the New York State Commissioner of Health and approved by the State Director of Budget, recognizing economic and budgetary considerations. In addition, Medicaid rate methodologies are subject to approval at the federal level by CMS, which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Obligated Group is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for Medicaid will continue to be made in future years.

New York State payment methodologies include a system of state-imposed assessments and surcharges on various categories of third-party payers for health care services that fund annual state-operated pools for indigent care. In 2010, funds from the professional education pool were transferred to the indigent care pool and distributed to hospitals on a methodology utilizing uninsured patient volume. There will be continued changes in the methodology used to determine the amount of the distributions to be made to hospitals and in the methodology used to determine the cap on the amount of the distributions to hospitals. These issues could negatively impact Northwell. Charity care has become an area of intense focus by both federal and state governments. The NYSDOH has changed the pool distribution methodology. Effective January 1, 2013, funds are distributed in accordance with each facility's relative uncompensated care need, which will be based on uninsured inpatient and outpatient units of service from cost reporting periods two years prior to the distribution year, multiplied by the applicable Medicaid rates in effect as of January 1 of the distribution year adjusted by a statewide cost adjustment factor and reduced by any payment amounts collected from such uninsured patients. To ease the transition to this new payment methodology, NYSDOH provided a transition period during which no hospital experienced a reduction in indigent care pool payments for calendar year 2013 greater than 2.5% of its average distributions received over the three previous calendar years. For each subsequent year, the reduction in pool distributions is limited to an additional 2.5% of the preceding three-year average (*i.e.*, the cap on losses is 12.5% in 2017 and 15.0% in 2018). The teaching component of Medicaid and Medicaid Managed Care payments, which is distributed outside the pools, is expected to continue to be paid by the State directly to the hospitals through the Medicaid rates. Members of the Obligated Group receive significant payments from the indigent care pool, and no assurances can be given that substantial subsequent changes in these programs will not occur, nor that subsequent payments will remain at levels comparable to the present level.

In New York State, Medicaid is a jointly funded federal-state-county program administered by the State by which hospitals receive payment for services provided to eligible infants, children, adolescents and indigent adults. Since its application for a federal Medicaid waiver under Section 1115 of the Social Security Act was first approved in 1997, the State of New York has mandated that a significant portion of its Medicaid population be assigned and enrolled into private managed care plans. Under the waiver, Medicaid recipients are required to enroll in one of several managed care options, unless they fall into an exempt or excluded category enumerated in the New York statute. Management of the Obligated Group

believes that Medicaid fee-for-service payments will likely constitute a reduced percentage of the Obligated Group's inpatient revenue as Medicaid Managed Care plans contract with hospitals on a negotiated-rate basis. See "Managed Care" herein.

In 2011, the New York State Budget included further cuts to payments to providers in a wide variety of areas. In addition, many modifications occurred as a result of the Medicaid Redesign Team. One of the key provisions is an overall state spending cap, which if exceeded, will result in further payment cuts. Total State Medicaid expenditures were just under the Medicaid spending cap for State fiscal year 2016–2017. The State was \$8 million (0.043%) below the \$18.6 billion target. Nevertheless, it remains uncertain whether the State will be able to keep spending below the limit in future years without resorting to additional rate cuts.

Payments made to health care providers under the Medicaid program are subject to change as a result of federal or state legislative and administrative actions, including changes in the methods for calculating payments, the amount of payments that will be made for covered services and the types of services that will be covered under the program. Such changes have occurred in the past and may be expected to occur in the future, particularly in response to federal and state budgetary constraints.

There are various proposals at the federal and State levels that could, among other things, significantly reduce rates or modify rate setting methods. The ultimate outcome of these proposals and other market changes cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on Northwell. Additionally, certain payers' payment rates for various years have been appealed by certain Members of the Obligated Group. If the appeals are successful, additional income applicable to those years might be realized.

Any future reductions could have a material adverse effect on the financial condition of Northwell.

See "RISK FACTORS AND REGULATORY PROVISIONS THAT MAY AFFECT NORTHWELL AND THE OBLIGATED GROUP – New York State Budget" and "– Medicare and Medicaid Payment."

### ***Managed Care***

Managed care programs, which include various payment methodologies and utilization controls through the use of primary care physicians, case managers and other care coordinators are increasingly being offered by traditional insurance companies and managed care organizations in New York State. Payment methodologies include per diem rates, per discharge rates, discounts from established charges, fee schedules and capitation payments. Enrollment in managed care programs has increased, and managed care programs are expected to have a greater influence on the manner in which health care services are delivered and paid for in the future. Managed care programs are expected to reduce the utilization of health care services, and inpatient services in particular. In addition, some managed care organizations have been delaying payments to hospitals thereby affecting institution cash flows. The Obligated Group's financial condition may be adversely affected by these trends. See "RISK FACTORS AND REGULATORY PROVISIONS THAT MAY AFFECT NORTHWELL AND THE OBLIGATED GROUP – Other Risk Factors."

Northwell has established relationships with most managed care companies in the market, and these contracts cover most products (HMO, point of service, PPO) and payer types (Medicare, Medicaid, commercial). The five managed care companies that represent the largest managed care patient volume within Northwell are Empire Health Choice/Anthem, United HealthCare, Emblem Health, CIGNA and Aetna.



The hospitals of Northwell, including the Members of the Obligated Group, employ a multifaceted strategy for managed care contracting. The goal of the contracting effort is to create mutually beneficial arrangements with managed care payers that will enable Northwell to maintain and enhance the quality of care provided to patients. This strategy was implemented in an effort to allow Northwell to maintain stable compensation/revenue through a combination of price enhancements and increases in volume to its facilities. The contracting initiatives include achieving efficiencies through unified integrated system-wide contracting, payment assurances, limitations on payer preferred pricing and volume objectives, open panels for physicians and diversified contracting for various products offered by each carrier. From time to time, Northwell has disputes with HMOs, PPOs and other managed care payers concerning payment and contract interpretation issues. Such disputes may result in mediation, arbitration or litigation.

These efforts are taking place despite the increased strength of payers due to a number of factors. Payer consolidation in the marketplace would further disadvantage hospitals and result in a small number of managed care payers controlling the majority of discharges. Shifts between product types within a particular payer's population may adversely affect expected compensation/revenue. In addition, managed care payers have also begun implementing disease management programs and carving out many services (such as Behavioral Health / Substance Abuse, Laboratory and Radiology services) to third parties, as well as creating sub-networks ("centers of excellence") for high cost services such as cardiac care, bariatric surgery or bone marrow transplants, restricting the number of providers that may offer these services to their members in return for additional discounts or contract terms favoring the payer. Northwell has also embarked on a strategy to give consideration to equity in pricing as volume shifts from inpatient to outpatient settings due to innovations in medical technology and clinical practice, and shared savings/shared risk arrangements that reward efficiencies and provide volume channeling. Examples of this include: pricing discounts linked to volume channeling, more favorable payment terms, preferred networks and benefit differentials, participation in "centers of excellence," and considerations for the relative size of the payer in the marketplace. In addition, Northwell participates in pay-for-performance arrangements with several payers that provide opportunities for incentive payments tied to performance on specified quality and/or efficiency measures.

The majority of managed care payment is paid on either a discounted fee-for-service basis or case rate according to contracted rates. Financial terms are established based upon the size of health plan membership and the ability of the company to direct patients to Northwell. Separate rates are established for each product line (Medicare, Medicaid, Indemnity, HMO, and PPO). Most contracts are either on a DRG-based per case rate for all acute services or include per diem rates for general inpatient services and an extensive number of DRG-based case rates for tertiary and quaternary care. Psychiatric and Rehabilitation services are generally negotiated on a per diem basis. Outpatient services are paid on a percent of charges or fixed fee schedule basis.

Most Medicaid managed care members are enrolled with Prepaid Health Services Plans ("PHSPs"). PHSPs are managed care companies that were enabled by New York State as part of the federal waiver it received to enroll Medicaid eligible patients in managed care. For several years, Northwell prepared for the implementation of mandatory Medicaid managed care enrollment in New York City and Nassau and Suffolk Counties, New York, through contracting initiatives and operational changes to ensure continued patient volume. A major part of this initiative was purchasing a significant ownership interest, currently 11%, in Healthfirst, a health plan owned collectively by a consortium of hospitals in the region and the largest managed Medicaid plan in New York City.

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**APPENDIX B-1**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF NORTHWELL HEALTH, INC.  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 WITH REPORT OF  
INDEPENDENT AUDITORS**

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CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Northwell Health, Inc.  
Years Ended December 31, 2016 and 2015  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

Northwell Health, Inc.

Consolidated Financial Statements  
and Supplementary Information

Years Ended December 31, 2016 and 2015

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Ernst & Young LLP  
One Jericho Plaza  
Suite 105  
Jericho, NY 11753

Tel: +1 516 336 0100  
ey.com

## Report of Independent Auditors

The Board of Trustees  
Northwell Health, Inc.

We have audited the accompanying consolidated financial statements of Northwell Health, Inc. and its member corporations and other affiliated entities (collectively, Northwell), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northwell Health, Inc. and its member corporations and other affiliated entities at December 31, 2016 and 2015, and the consolidated results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating and combining statements of financial position and consolidating and combining statements of operations are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Ernst & Young LLP*

April 28, 2017



# Northwell Health, Inc.

## Consolidated Statements of Financial Position

(In Thousands)

	December 31	
	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 383,295	\$ 432,829
Short-term investments	2,464,366	1,946,575
Accounts receivable for services to patients, net of allowance for doubtful accounts of \$122,200 in 2016 and \$94,700 in 2015	975,423	876,130
Accounts receivable for physician activities, net	127,718	111,902
Pledges receivable, current portion	46,197	35,097
Insurance claims receivable, current portion	71,014	71,068
Other current assets	269,472	207,968
Total current assets	4,337,485	3,681,569
Long-term investments	1,875,198	1,628,015
Pledges receivable, net of current portion	96,371	91,090
Property, plant and equipment, net	4,610,223	4,315,166
Insurance claims receivable, net of current portion	245,967	278,530
Other assets	199,020	144,357
Total assets	\$ 11,364,264	\$ 10,138,727
<b>Liabilities and net assets</b>		
Current liabilities:		
Short-term borrowings	\$ 110,218	\$ 110,218
Accounts payable and accrued expenses	857,584	726,782
Accrued salaries and related benefits	671,594	625,383
Current portion of capital lease obligations	3,470	3,138
Current portion of long-term debt	59,829	55,613
Current portion of insurance claims liability	71,014	71,068
Current portion of malpractice and other insurance liabilities	123,740	101,720
Current portion of estimated payables to third-party payers	320,126	246,985
Total current liabilities	2,217,575	1,940,907
Accrued retirement benefits, net of current portion	927,378	782,972
Capital lease obligations, net of current portion	173,108	171,888
Long-term debt, net of current portion	2,680,021	2,199,401
Insurance claims liability, net of current portion	245,967	278,530
Malpractice and other insurance liabilities, net of current portion	944,225	881,794
Other long-term liabilities	573,464	644,195
Total liabilities	7,761,738	6,899,687
Commitments and contingencies		
Net assets:		
Unrestricted	3,027,943	2,710,921
Temporarily restricted	393,610	363,573
Permanently restricted	180,973	164,546
Total net assets	3,602,526	3,239,040
Total liabilities and net assets	\$ 11,364,264	\$ 10,138,727

See accompanying notes.

Northwell Health, Inc.

Consolidated Statements of Operations

(In Thousands)

	Year Ended December 31	
	2016	2015
Operating revenue:		
Net patient service revenue	\$ 7,625,675	\$ 6,962,767
Physician practice revenue	1,282,059	1,125,838
Provision for bad debts	(120,411)	(110,265)
Total patient revenue, net of provision for bad debts	8,787,323	7,978,340
Other operating revenue	546,592	457,612
Health insurance premium revenue	548,884	228,427
Net assets released from restrictions used for operations	55,469	58,276
Total operating revenue	9,938,268	8,722,655
Operating expenses:		
Salaries	4,752,362	4,319,212
Employee benefits	1,209,209	1,100,101
Supplies and expenses	3,354,660	2,724,420
Depreciation and amortization	410,939	384,206
Interest	115,231	105,018
Total operating expenses	9,842,401	8,632,957
Excess of operating revenue over operating expenses	95,867	89,698
Non-operating gains and losses:		
Investment income	67,680	62,205
Change in net unrealized gains and losses and change in value of equity method investments	117,864	(112,700)
Change in fair value of interest rate swap agreements designated as derivative instruments	190	790
Loss on refunding and redemption of long-term debt	—	(56,975)
Contributions received in the acquisitions of Peconic Bay Medical Center (2016), Phelps Memorial Hospital (2015) and Northern Westchester Hospital (2015)	36,343	259,807
Gain from acquired interest in Optum360	—	115,600
Other non-operating gains and losses	24,690	(10,981)
Total non-operating gains and losses	246,767	257,746
Excess of revenue and gains and losses over expenses	342,634	347,444
Net assets released from restrictions for capital asset acquisitions	33,877	7,696
Change in fair value of interest rate swap agreements designated as cash flow hedges	2,402	1,289
Recovery (loss) of fair value of endowment corpus	608	(608)
Pension and other postretirement liability adjustments	(56,801)	18,131
Other changes in net assets	(5,698)	(3,583)
Increase in unrestricted net assets	\$ 317,022	\$ 370,369

See accompanying notes.

Northwell Health, Inc.

Consolidated Statements of Changes in Net Assets

(In Thousands)

Years Ended December 31, 2016 and 2015

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Net assets, January 1, 2015	\$ 2,833,391	\$ 2,340,552	\$ 357,127	\$ 135,712
Contributions and grants	86,124	—	66,496	19,628
Investment income	5,944	—	5,944	—
Change in net unrealized gains and losses and change in value of equity method investments	(6,326)	—	(6,326)	—
Contributions received in the acquisitions of Phelps Memorial Hospital and Northern Westchester Hospital	35,061	—	25,855	9,206
Excess of revenue and gains and losses over expenses	347,444	347,444	—	—
Net assets released from restrictions for:				
Capital asset acquisitions	—	7,696	(7,696)	—
Operations	(58,276)	—	(58,276)	—
Non-operating activities	(20,159)	—	(20,159)	—
Change in fair value of interest rate swap agreements designated as cash flow hedges	1,289	1,289	—	—
Loss of fair value of endowment corpus	—	(608)	608	—
Pension and other postretirement liability adjustments	18,131	18,131	—	—
Other changes in net assets	(3,583)	(3,583)	—	—
Increase in net assets	405,649	370,369	6,446	28,834
Net assets, December 31, 2015	\$ 3,239,040	\$ 2,710,921	\$ 363,573	\$ 164,546

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Net assets, January 1, 2016	\$ 3,239,040	\$ 2,710,921	\$ 363,573	\$ 164,546
Contributions and grants	137,746	—	122,106	15,640
Investment income	8,093	—	8,093	—
Change in net unrealized gains and losses and change in value of equity method investments	6,469	—	6,469	—
Contribution received in the acquisition of Peconic Bay Medical Center	3,285	—	2,498	787
Excess of revenue and gains and losses over expenses	342,634	342,634	—	—
Net assets released from restrictions for:				
Capital asset acquisitions	—	33,877	(33,877)	—
Operations	(55,469)	—	(55,469)	—
Non-operating activities	(19,175)	—	(19,175)	—
Change in fair value of interest rate swap agreements designated as cash flow hedges	2,402	2,402	—	—
Recovery of fair value of endowment corpus	—	608	(608)	—
Pension and other postretirement liability adjustments	(56,801)	(56,801)	—	—
Other changes in net assets	(5,698)	(5,698)	—	—
Increase in net assets	363,486	317,022	30,037	16,427
Net assets, December 31, 2016	\$ 3,602,526	\$ 3,027,943	\$ 393,610	\$ 180,973

See accompanying notes.

# Northwell Health, Inc.

## Consolidated Statements of Cash Flows (In Thousands)

	Year Ended December 31	
	2016	2015
<b>Operating activities</b>		
Increase in net assets	\$ 363,486	\$ 405,649
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions received in the acquisitions of Peconic Bay Medical Center (2016), Phelps Memorial Hospital (2015) and Northern Westchester Hospital (2015)	(39,628)	(294,868)
Permanently restricted contributions	(15,640)	(19,628)
Depreciation and amortization	410,939	384,206
Amortization of bond premiums, discounts and financing costs	(1,603)	(1,923)
Net realized gains and losses, change in net unrealized gains and losses and change in value of equity method investments	(168,349)	84,234
Change in fair value of interest rate swap agreements	(2,592)	(2,079)
Gain from acquired interest in Optum360	—	(115,600)
Loss on refunding and redemption of long-term debt	—	56,975
Changes in operating assets and liabilities:		
Accounts receivable for services to patients, net	(86,266)	(47,557)
Accounts receivable for physician activities, net	(15,069)	(37,844)
Pledges receivable	(10,227)	37,239
Current portion of estimated payable to third-party payers	65,430	(7,338)
Accrued retirement benefits, net of current portion	140,385	25,138
Malpractice and other insurance liabilities	73,354	91,622
Net change in all other operating assets and liabilities	35,927	106,664
Net cash provided by operating activities	750,147	664,890
<b>Investing activities</b>		
Capital expenditures	(617,948)	(558,079)
Net cash invested in short-term and long-term investments	(592,662)	(88,305)
Cash received in the acquisitions of Peconic Bay Medical Center (2016), Phelps Memorial Hospital (2015) and Northern Westchester Hospital (2015)	19,100	71,243
Payments for joint venture investments, net	(56,556)	(19,259)
Net cash used in investing activities	(1,248,066)	(594,400)
<b>Financing activities</b>		
Principal payments on long-term debt and capital lease obligations	(57,552)	(61,680)
Payments on refunded and redeemed long-term debt	—	(483,555)
Payments on short-term borrowings	(10,000)	(174,500)
Proceeds from short-term borrowings	10,000	174,500
Proceeds from long-term debt	500,000	543,569
Net proceeds received from real estate financing transactions	—	169,516
Payments for financing costs	(4,549)	(5,385)
Proceeds from permanently restricted contributions	10,486	5,304
Net cash provided by financing activities	448,385	167,769
Net (decrease) increase in cash and cash equivalents	(49,534)	238,259
Cash and cash equivalents, beginning of year	432,829	194,570
Cash and cash equivalents, end of year	\$ 383,295	\$ 432,829
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest (exclusive of amounts capitalized)	\$ 111,069	\$ 102,991
<b>Supplemental disclosure of noncash investing and financing activities</b>		
Assets acquired under capital lease obligations and real estate financing transactions	\$ 8,419	\$ 74,747

See accompanying notes.

# Northwell Health, Inc.

## Notes to Consolidated Financial Statements

*(In Thousands)*

December 31, 2016

### 1. Organization and Principles of Consolidation

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

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

#### Hospitals

- North Shore University Hospital (NSUH), including the accounts of Syosset Hospital
- Long Island Jewish Medical Center (LIJMC), including Long Island Jewish Hospital, Long Island Jewish Forest Hills, Long Island Jewish Valley Stream, Steven and Alexandra Cohen Children's Medical Center of New York, Zucker Hillside Hospital and Orzac Center for Rehabilitation
- Staten Island University Hospital (Staten Island)
- Lenox Hill Hospital (Lenox)
- Southside Hospital (Southside)
- Glen Cove Hospital (Glen Cove)
- Huntington Hospital Association (Huntington)
- Plainview Hospital (Plainview)
- South Oaks Hospital (part of The Long Island Home)
- Phelps Memorial Hospital Association
- Northern Westchester Hospital Association
- Peconic Bay Medical Center

#### Other Entities

- Northwell Health, Inc. and Northwell Healthcare, Inc. (HCI) – parent holding companies
- Northwell Health Stern Family Center for Rehabilitation (Stern) – skilled nursing facility and rehabilitation center
- Northwell Health Laboratories – laboratory services
- The Feinstein Institute for Medical Research – medical research
- Northwell Health Foundation – fundraising

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### 1. Organization and Principles of Consolidation (continued)

##### Other Entities (continued)

- Broadlawn Manor Nursing and Rehabilitation Center (part of The Long Island Home) – skilled nursing facility and rehabilitation center
- North Shore Health System Enterprises, Inc., North Shore Health Enterprises, Inc. and True North Health Services Company, LLC – holding companies for certain related entities
- RegionCare, Inc. – infusion therapy, nurse staffing and licensed home health agency services
- North Shore Community Services, Inc. – real estate holdings and related services
- North Shore University Hospital Housing, Inc., North Shore University Hospital at Glen Cove Housing, Inc. and Hillside Hospital Houses, Inc. – housing and auxiliary facilities for staff members, students and employees
- Endoscopy Center of Long Island, LLC – outpatient endoscopy center 70% owned by Northwell
- North Shore Medical Accelerator, P.C. – outpatient radiation oncology center 70% owned by Northwell
- North Shore-LIJ and Yale New Haven Medical Air Transport, LLC – medical air transport company 90% owned by Northwell
- Hospice Care Network – hospice services
- North Shore-LIJ Health Plan Inc. (Health Plan) – tax-exempt health insurance entity authorized by the State of New York to operate a Medicaid Managed Long-Term Care Plan and a Fully Integrated Dual Advantage Plan
- CareConnect Insurance Company Inc. (CareConnect) – for-profit health insurance entity licensed to issue commercial health insurance products in the State of New York
- Regional Insurance Company Ltd. (Regional Insurance) – captive insurance company providing excess professional liability insurance
- Huntington Hospital Dolan Family Health Center – community health center
- Endo Group, LLC (d/b/a Garden City SurgiCenter) – outpatient ambulatory surgery center 56.5% owned by Northwell
- South Shore Surgery Center, LLC – outpatient ambulatory surgery center 50.1% owned by Northwell
- Suffolk Surgery Center, LLC – outpatient ambulatory surgery center 70% owned by Northwell
- Other affiliated professional corporations

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **1. Organization and Principles of Consolidation (continued)**

Certain members of Northwell (the Obligated Group) are jointly and severally liable for obligations under bond indentures (see Note 6). The Obligated Group consists of HCI, NSUH, LIJMC, Staten Island, Lenox, Southside, Huntington, Glen Cove, Plainview and Stern.

Effective January 14, 2016, Forest Hills Hospital and Franklin Hospital merged into LIJMC. In conjunction with the merger, the names of the hospitals were changed to Long Island Jewish Forest Hills and Long Island Jewish Valley Stream, respectively.

Northwell maintains a controlling ownership in various entities whose results of operations are included in the accompanying consolidated financial statements. Northwell's non-controlling interest in these entities at December 31, 2016 and 2015 is immaterial, both individually and in the aggregate, to Northwell's net assets and excess of revenue and gains and losses over expenses as reported in the accompanying consolidated financial statements.

In September 2016, Northwell, through a supporting organization, True North Health Services Company, LLC (TNHS), invested approximately \$53,500 to acquire a 40.6% minority equity interest in a company established as a joint venture between Northwell and a private equity sponsor. The joint venture offers physician revenue cycle management services and patient access services to unrelated entities through its acquisition of an existing company providing such services and the expertise of the management team from Northwell and its partner. TNHS will account for its investment in the joint venture using the equity method of accounting, and it is reported within long-term investments in the accompanying consolidated statements of financial position. The purchase price approximates the investment value at December 31, 2016.

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **1. Organization and Principles of Consolidation (continued)**

In April 2015, Northwell entered into an agreement with Optum360, LLC (Optum360), a provider of revenue cycle management solutions and technology, for Optum360 to provide end-to-end revenue cycle services for most of Northwell's hospitals, effective July 2015. As part of the agreement, Northwell contributed certain intellectual property related to its internal revenue cycle management functions in exchange for an 8% ownership interest in Optum360. A non-cash gain on the transaction of \$115,600, representing the difference between the fair value of the interest in Optum360 received in the transaction and the value of the assets contributed, was recorded within non-operating gains and losses in the accompanying consolidated statement of operations for the year ended December 31, 2015. Northwell accounts for this investment using the equity method of accounting. At December 31, 2016 and 2015, \$123,976 and \$119,983, respectively, is reported within long-term investments in the accompanying consolidated statements of financial position for this investment. Northwell paid management fees of \$113,938 and \$37,015 to Optum360 for revenue cycle services for the years ended December 31, 2016 and 2015, respectively.

#### **Acquisitions**

On January 15, 2016 (the 2016 Acquisition Date), Northwell acquired Peconic Bay Medical Center (Peconic), a not-for-profit corporation that operates a 140 bed acute care hospital and a skilled nursing/rehabilitation center located in eastern Suffolk County, New York. Northwell acquired Peconic by means of an inherent contribution where no consideration was transferred by Northwell. Northwell accounted for the business combination by applying the acquisition method, and accordingly, the inherent contribution received was valued as the excess of Peconic's assets over liabilities. In determining the inherent contribution received, all assets and liabilities were measured at fair value as of the 2016 Acquisition Date. The results of Peconic's operations have been included in the consolidated financial statements since the 2016 Acquisition Date. Peconic is not a member of the Obligated Group.



Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**1. Organization and Principles of Consolidation (continued)**

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the 2016 Acquisition Date:

	<b>January 15, 2016</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 19,100
Short-term investments	10,474
Accounts receivable for services to patients	13,027
Accounts receivable for physician activities	747
Other current assets	15,572
Long-term investments	787
Pledges receivable, net	1,000
Property, plant and equipment	79,629
Other assets	5,939
Total assets acquired	<u>146,275</u>
<b>Liabilities</b>	
Accounts payable and accrued expenses	22,008
Accrued salaries and related benefits	8,640
Estimated payables to third-party payers	7,711
Accrued retirement benefits	4,273
Capital lease obligations	4,645
Long-term debt	37,028
Malpractice and other insurance liabilities	11,097
Other long-term liabilities	11,245
Total liabilities assumed	<u>106,647</u>
Excess of assets acquired over liabilities assumed	<u>\$ 39,628</u>
<b>Net assets acquired</b>	
Unrestricted	\$ 36,343
Temporarily restricted	2,498
Permanently restricted	787
	<u>\$ 39,628</u>

Northwell Health, Inc.

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

**1. Organization and Principles of Consolidation (continued)**

The following table summarizes amounts attributable to Peconic from the 2016 Acquisition Date through December 31, 2016 that are included in the accompanying 2016 consolidated financial statement of operations and statement of changes in net assets:

	<b>Year Ended December 31, 2016</b>
Total operating revenue	\$ 178,298
Total operating expenses	<u>175,194</u>
Excess of operating revenue over operating expenses	3,104
Total non-operating gains and losses	<u>4,962</u>
Excess of revenue and gains and losses over expenses	<u><u>\$ 8,066</u></u>
Change in net assets:	
Unrestricted net assets	\$ 10,224
Temporarily restricted net assets	4,102
Permanently restricted net assets	—
Total change in net assets	<u><u>\$ 14,326</u></u>

# Northwell Health, Inc.

## Notes to Consolidated Financial Statements (continued)

(In Thousands)

### 1. Organization and Principles of Consolidation (continued)

The following table represents unaudited pro forma financial information for Northwell, assuming the acquisition of Peconic had taken place on January 1, 2015. The pro forma financial information excludes the contribution received in the acquisition of Peconic and is not necessarily indicative of the results of operations as they would have been had the transaction been effected on January 1, 2015.

	<b>Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Total operating revenue	<b>\$ 9,944,415</b>	\$ 8,886,274
Total operating expenses	<b>9,848,473</b>	8,794,774
Excess of operating revenue over operating expenses	<b>95,942</b>	91,500
Total non-operating gains and losses	<b>210,425</b>	257,777
Excess of revenue and gains and losses over expenses	<b>\$ 306,367</b>	\$ 349,277
Change in net assets:		
Unrestricted net assets	<b>\$ 280,679</b>	\$ 373,036
Temporarily restricted net assets	<b>27,539</b>	4,640
Permanently restricted net assets	<b>15,640</b>	28,834
Total change in net assets	<b>\$ 323,858</b>	\$ 406,510

On January 1, 2015 (the 2015 Acquisition Date), Northwell acquired Phelps Memorial Hospital Association, a not-for-profit 238 bed acute care hospital located in Westchester County, New York, and its subsidiaries (collectively, Phelps). Also on January 1, 2015, Northwell acquired Northern Westchester Hospital Association, a not-for-profit 245 bed acute care hospital in Westchester County, and its subsidiaries (collectively, NWH). Northwell acquired Phelps and NWH by means of inherent contributions, where no consideration was transferred by Northwell. Northwell accounted for these business combinations by applying the acquisition method and, accordingly, the inherent contributions received were valued as the excess of Phelps' and NWH's assets over liabilities. In determining the inherent contributions received, all assets and liabilities were measured at fair value as of the 2015 Acquisition Date. The results of Phelps' and NWH's operations have been included in the consolidated financial statements since the 2015 Acquisition Date. Phelps and NWH are not members of the Obligated Group.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**1. Organization and Principles of Consolidation (continued)**

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the 2015 Acquisition Date:

	<b>January 1, 2015</b>		
	<b>Phelps</b>	<b>NWH</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 30,360	\$ 40,883	\$ 71,243
Short-term investments	10,148	10,309	20,457
Accounts receivable for services to patients	22,042	28,766	50,808
Accounts receivable for physician activities	2,023	911	2,934
Other current assets	4,749	8,991	13,740
Long-term investments	33,872	72,317	106,189
Pledges receivable, net	4,573	6,977	11,550
Property, plant and equipment	139,701	164,741	304,442
Insurance claims receivable	8,405	—	8,405
Other assets	5,770	7,983	13,753
Total assets acquired	261,643	341,878	603,521
<b>Liabilities</b>			
Accounts payable and accrued expenses	16,964	40,273	57,237
Accrued salaries and related benefits	11,297	8,697	19,994
Estimated payables to third-party payers	754	4,042	4,796
Accrued retirement benefits	—	51,689	51,689
Capital lease obligations	138	1,545	1,683
Long-term debt	37,814	65,775	103,589
Insurance claims liability	8,405	—	8,405
Malpractice and other insurance liabilities	30,566	20,999	51,565
Other long-term liabilities	5,729	3,966	9,695
Total liabilities assumed	111,667	196,986	308,653
Excess of assets acquired over liabilities assumed	\$ 149,976	\$ 144,892	\$ 294,868
<b>Net assets acquired</b>			
Unrestricted	\$ 138,894	\$ 120,913	\$ 259,807
Temporarily restricted	8,848	17,007	25,855
Permanently restricted	2,234	6,972	9,206
	\$ 149,976	\$ 144,892	\$ 294,868

# Northwell Health, Inc.

## Notes to Consolidated Financial Statements (continued)

(In Thousands)

### 1. Organization and Principles of Consolidation (continued)

The following table summarizes amounts attributable to Phelps and NWH from the 2015 Acquisition Date through December 31, 2015 that are included in the accompanying 2015 consolidated statement of operations and statement of changes in net assets:

	Year Ended December 31, 2015		
	Phelps	NWH	Total
Total operating revenue	\$ 241,351	\$ 259,435	\$ 500,786
Total operating expenses	237,356	247,109	484,465
Excess of operating revenue over operating expenses	3,995	12,326	16,321
Total non-operating gains and losses	595	(1,593)	(998)
Excess of revenue and gains and losses over expenses	\$ 4,590	\$ 10,733	\$ 15,323
Change in net assets:			
Unrestricted net assets	\$ 14,490	\$ 12,898	\$ 27,388
Temporarily restricted net assets	(173)	1,764	1,591
Permanently restricted net assets	1,050	75	1,125
Total change in net assets	\$ 15,367	\$ 14,737	\$ 30,104

### 2. Summary of Significant Accounting Policies

#### Consolidated Statements of Operations

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

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

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

(In Thousands)

## 2. Summary of Significant Accounting Policies (continued)

### Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (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 provisions of ASU 2014-09, as amended by ASU 2015-14, are effective for Northwell for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Northwell has not completed the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentations of Financial Statements – Going Concern*, that requires management of public and nonpublic companies to evaluate and disclose where there is substantial doubt about an entity's ability to continue as a going concern. Northwell adopted ASU 2014-15 as of December 31, 2016. The adoption did not impact Northwell's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If certain criteria are met, an entity may account for such an arrangement under the internal use software guidance included in Accounting Standards Codification (ASC) 350-40, *Internal Use Software*, whereby amounts are capitalized. If such criteria are not met, the cloud computing arrangement is considered a service contract and the related costs are expensed as incurred. The provisions of ASU 2015-05 became effective for Northwell on January 1, 2016. The adoption of ASU 2015-05 did not have a significant impact on Northwell's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, that will require lessees to report most leases on their statements of financial position but recognize expenses on their income statements in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. The provisions of ASU 2016-02 are effective for Northwell for annual periods beginning after December 15, 2018 and interim periods within those years. Early adoption is permitted. Northwell has not completed the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

(In Thousands)

#### 2. Summary of Significant Accounting Policies (continued)

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. Entities that use the direct method of presenting operating cash flows will no longer be required to provide a reconciliation of the change in net assets to operating cash flows. 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 Northwell for annual periods beginning after December 15, 2017, and interim periods thereafter. Early adoption is permitted. Northwell is in the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits: 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 statement of operations. Employers will be required to present the service cost component of net periodic benefit cost in the same statement of operations 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 Northwell for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The adoption of ASU 2017-07 will require Northwell to retain the service cost component of net periodic benefit cost related to its defined benefit pension plans and other postretirement benefit plans (approximately \$73,000 for 2016) within employee benefits on the consolidated statements of operations and to present all other components (approximately \$40,000 for 2016) as a separate line item excluded from the subtotal for excess of operating revenue over operating expenses. Net periodic benefit cost is recorded currently as a component of employee benefits on the consolidated statements of operations.

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Use of Estimates**

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

During 2016 and 2015, Northwell revised certain estimates made in prior years to reflect the passage of time and the availability of more recent information. For the year ended December 31, 2016, the net change in estimates related to prior years resulted in a decrease in liabilities by approximately \$45,000, primarily due to a reduction in estimated payables to third-party payers related to modifications made by the Centers for Medicare and Medicaid Services (CMS) in 2016 to the Medicare recovery audit contractor program. For the year ended December 31, 2015, the net change in estimates affecting the reported amounts of assets and liabilities related to prior years was not significant.

##### **Cash and Cash Equivalents**

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

##### **Accounts Receivable and Patient Revenue**

Net patient service revenue and physician practice revenue (collectively, patient revenue) are reported at estimated net realizable amounts due from patients and third-party payers for services rendered and include estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are provided and are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.



## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

Northwell recognizes accounts receivable and patient revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates, governmental rates or established charges for the services rendered. For uninsured patients who are ineligible for any government assistance program, Northwell provides services without charge or at amounts less than its established rates for patients who meet the criteria of its charity care policy. Because Northwell does not pursue collection of amounts determined to qualify as charity care, such services are not reported as patient revenue. For patients who were determined by Northwell to have the ability to pay but do not, the estimated uncollectible amounts are recorded as the provision for bad debts. In distinguishing charity care from the provision for bad debts, a number of factors are considered, certain of which require a high degree of judgment.

Patient revenue, net of contractual and charity care allowances, but before the provision for bad debts, from insured and self-pay patients was approximately \$8,825,000 and \$83,000, respectively, for the year ended December 31, 2016, and approximately \$7,995,000 and \$94,000, respectively, for the year ended December 31, 2015. Deductibles and copayments due from patients under third-party payment programs are included in the insured amount above.

The allowance for doubtful accounts represents Northwell's estimate of the uncollectible accounts receivable related to bad debts. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. The allowance for doubtful accounts is based upon Northwell's assessment of historical and expected net collections, business and economic conditions, trends in health care coverage and other collection indicators.

For receivables associated with services provided to patients who have third-party payer coverage, Northwell analyzes amounts due from third-parties and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for third-party payers who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay balances, which includes amounts for patients without insurance, patients with deductible and copayment balances due after third-party coverage and balances for services not covered by insurance, Northwell records an allowance for doubtful accounts and a provision for bad debts in the period of service based on past experience. The allowances for both doubtful accounts and anticipated charity care for self-pay patients aggregated to approximately 84% and 87% of the gross self-pay accounts receivable balance as of December 31, 2016 and 2015, respectively.

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

Northwell's allowance for doubtful accounts relating to accounts receivable for services to patients and accounts receivable for physician activities totaled approximately \$124,600 and \$106,900 at December 31, 2016 and 2015, respectively.

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

##### ***Non-Medicare Reimbursement***

In New York State, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate payment rates. If negotiated rates are not established, payers are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the New York State Department of Health (NYSDOH). Effective December 1, 2009, the New York State prospective payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide rate, with retroactive adjustments for certain rate components paid concurrently with the settlement of the final rate. Outpatient services also are paid based on a statewide prospective system that was effective December 1, 2008. Medicaid rate methodologies are subject to approval at the Federal level by CMS, which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until Northwell is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payers will continue to be made in future years.

##### ***Medicare Reimbursement***

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

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

Northwell has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payers for adjustments to current and prior years' payment rates, based on industry-wide and Northwell-specific data. The current Medicaid, Medicare and other third-party payer programs are based upon extremely complex laws and regulations that are subject to interpretation. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. Northwell is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance with all applicable laws and regulations. Medicare cost reports, which are filed individually by the applicable Northwell entities and serve as the basis for final settlement with the Medicare program, have been audited by the Medicare fiscal intermediary and settled through years ranging from 2000 to 2014. Other years remain open for audit and settlement, as do certain issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained.

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

Northwell grants credit without collateral to its patients, most of whom are insured under various third-party agreements. Government payer programs account for a significant portion of net patient service revenue. For the years ended December 31, 2016 and 2015, revenue from the Medicare and Medicaid programs, including Medicare and Medicaid managed care programs, accounted for approximately 50% of Northwell's net patient service revenue.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

**2. Summary of Significant Accounting Policies (continued)**

The significant concentrations of gross accounts receivable for services to patients from third-party payers and patients at December 31, 2016 and 2015 are as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Medicare and Medicare managed care	<b>33%</b>	36%
Medicaid and Medicaid managed care	<b>21</b>	20
Self-pay	<b>6</b>	6
Other third-party payers	<b>40</b>	38
	<b>100%</b>	100%

**Charity Care**

Together, charity care and the provision for bad debts represent uncompensated care. The estimated cost of total uncompensated care was approximately \$220,000 and \$191,000 for the years ended December 31, 2016 and 2015, respectively. The estimated cost of charity care provided was approximately \$169,000 and \$152,000 for the years ended December 31, 2016 and 2015, respectively. The estimated cost of uncompensated care and charity care is based on the ratio of cost to charges, as determined by Northwell-specific data.

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

The NYSDOH Hospital Indigent Care Pool (the Pool) was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. For the years ended December 31, 2016 and 2015, Northwell received \$76,240 and \$88,823, respectively, in Pool distributions, of which approximately \$59,000 and \$72,000 was related to charity care. Northwell made payments into the Pool of \$48,767 and \$46,620 for the years ended December 31, 2016 and 2015, respectively, for the 1% assessment.

#### **Pledges Receivable**

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

#### **Short-term and Long-term Investments**

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

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

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

Individual investment holdings of the funds of hedge funds, hedge funds, private equity funds and private real estate funds may include investments in both nonmarketable and market-traded securities. Valuations of these investments, and therefore Northwell's holdings, may be determined by the investment managers or general partners. Values may be based on estimates that require varying degrees of judgment. Recorded estimates may change by a material amount in the near term. The investments may indirectly expose Northwell to securities lending, short sales of securities and trading in futures and forwards contracts, options and other derivative products. However, Northwell's risk is limited to its amounts invested. The financial statements of the funds of hedge funds, hedge funds, private equity funds and private real estate funds are audited annually by independent auditors. At December 31, 2016, Northwell has future commitments of \$101,733 and \$11,277 to invest in private equity and private real estate funds for pension and restricted assets, respectively.

Other investments also include certain direct equity method investments, as well as investments in commingled fixed income, equity and risk-parity funds. Direct equity method investments are non-controlling interests in joint ventures held by Northwell for investment purposes and include the investment in Optum360 and the TNHS investment, disclosed in Note 1. The underlying investment holdings of the commingled funds are predominantly marketable securities. These investments are reported under the equity method of accounting, which approximates fair value. The equity method reflects Northwell's share of the net asset value of these investments. The financial statements of the commingled fixed income, equity and risk-parity funds are audited annually by independent auditors.

Included in investments are assets limited as to use, which include funds held pursuant to debt financing arrangements, internally designated funds (including internally designated malpractice and other self-insurance assets), deferred employee compensation plans and temporarily and permanently restricted assets. Amounts required to meet current liabilities are reported as short-term investments.

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

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

**2. Summary of Significant Accounting Policies (continued)**

**Inventory of Supplies**

Inventory, included in other current assets, is stated at the lower of cost (first-in, first-out method) or market.

**Insurance Claims Receivable and Liability**

For medical malpractice and similar contingent liabilities, Northwell does not net insurance recoveries against related claims liabilities and determines such claims liabilities without consideration of insurance recoveries. Accordingly, Northwell recognizes insurance receivables at the same time that it recognizes the liabilities, measured on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible amounts in the accompanying consolidated statements of financial position. Such amounts represent the actuarially determined present value of medical malpractice and other claims that are anticipated to be covered by insurance, discounted at a rate of 2.0%.

**Property, Plant and Equipment**

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

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

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

During the period of construction of capital assets, interest costs are capitalized as a component of the cost of assets. When assets are disposed of, the carrying amounts of the assets and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss on disposal is included in the performance indicator. When assets become fully depreciated, the carrying amounts of such assets and the related accumulated depreciation are removed from the accounts (see Note 5).

#### **Long-Lived Assets**

Gifts of long-lived assets are reported at fair value established at the date of contribution as changes in unrestricted net assets, excluded from the performance indicator, unless explicit donor stipulations specify how the donated asset must be used.

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

#### **Other Assets**

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

In connection with various acquisitions, Northwell has recognized certain indefinite-lived intangible assets totaling approximately \$93,000 and \$73,000 at December 31, 2016 and 2015, respectively. The intangible assets are subject to impairment testing on an annual basis. At December 31, 2016 and 2015, Northwell determined that there has been no impairment of these intangible assets.



## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Deferred Financing Costs**

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

##### **Interest Rate Swap Agreements**

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

##### **Other Long-Term Liabilities**

Other long-term liabilities included in the accompanying consolidated statements of financial position primarily consist of the long-term portion of estimated payables to third-party payers, deferred rent payable, asset retirement obligations, deferred revenue, and the fair value of the interest rate swap agreements.

##### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are restricted by donors or other external parties to be used for designated purposes or over specified time periods. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

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

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### 2. Summary of Significant Accounting Policies (continued)

##### Donor Gifts

Gifts of cash and other assets, including unconditional promises to give cash and other assets (pledges), are reported at fair value when the gift is received (or promise is made). Donor-restricted contributions whose restrictions are met within the same year as received are classified as unrestricted contributions in the accompanying consolidated financial statements. Northwell receives conditional pledges, which are not reflected in the accompanying consolidated financial statements. The conditional pledges primarily relate to the establishment of certain programs. As the conditions of the pledges are met, the pledges are recognized. At December 31, 2016 and 2015, \$18,471 and \$11,305, respectively, of conditional pledges have not been recognized in the consolidated statements of financial position.

Contributions and pledges raised through fundraising efforts for the years ended December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Unrestricted	\$ 2,987	\$ 3,894
Temporarily restricted	93,752	39,934
Permanently restricted	15,640	19,628
	<u>\$ 112,379</u>	<u>\$ 63,456</u>

##### Health Insurance Premium Revenue

Health insurance premium revenue for Health Plan and CareConnect (collectively, the Health Insurance Companies) is earned over the term of the related insurance policies and recorded in the month for which members are entitled to health care services at estimated net realizable value. Unearned premium reserves, which are established to cover the unexpired portion of premiums written and are included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position, totaled \$25,522 and \$7,977 for the years ended December 31, 2016 and 2015, respectively. Included in other current assets in the accompanying consolidated statements of financial position at December 31, 2016 and 2015 is \$10,361 and \$8,005, respectively, of health insurance premium receivables.

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Affordable Care Act (ACA) Risk Adjustment Program**

The ACA risk adjustment program intends to reallocate funds from insurers with lower risk populations to insurers with higher risk populations, based on the relative risk scores of participants in non-grandfathered plans in the individual and small group markets, both on and off the exchanges. Included in the current portion of estimated payables to third-party payers in the accompanying consolidated statements of financial position at December 31, 2016 and 2015 is \$120,747 and \$6,871, respectively, related to CareConnect's estimated ACA risk adjustment program liability. Due to the limited publicly available information, such estimates could change in the future as more information becomes known and, as a result, there is at least a reasonable possibility that the recorded estimate may change by a material amount in the near term. Increases to the ACA risk adjustment program liability are recorded as a reduction of health insurance premium revenue in the accompanying consolidated statements of operations.

##### **Medical Claims Expense and Accrued Medical Claims**

The Health Insurance Companies contract with various health care providers, including Northwell, to provide care to their members. The Health Insurance Companies compensate these providers on either a capitated or fee-for-service basis. The cost of health care services is accrued in the period provided to enrollees and is based on estimates for such services which have been incurred but not reported. Adjustments to these estimates are recorded in future periods as amounts become known. Included in supplies and expenses in the accompanying consolidated statements of operations for the years ended December 31, 2016 and 2015 is \$446,901 and \$135,204, respectively, of medical claims expense. For the years ended December 31, 2016 and 2015, this amount is net of \$171,397 and \$73,125, respectively, of medical claims expense eliminated in consolidation, along with a corresponding amount of total patient revenue, related to transactions between the Health Insurance Companies and Northwell's health care providers.

Included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position at December 31, 2016 and 2015 is \$86,161 and \$29,339, respectively, of accrued medical claims liability. For December 31, 2016 and 2015, this amount is net of \$30,237 and \$13,278, respectively, of accrued medical claims liability eliminated in consolidation, along with corresponding amounts of accounts receivable for services to patients and accounts receivable for physician activities, related to transactions between the Health Insurance Companies and Northwell's health care providers.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**2. Summary of Significant Accounting Policies (continued)**

**Functional Expenses**

Northwell provides health care services to residents primarily within its geographic areas. Expenses related to providing these services pertain to the following functional categories for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Health care services	\$ 8,666,355	\$ 7,663,295
General and administrative	<u>1,176,046</u>	<u>969,662</u>
Total operating expenses	<u>\$ 9,842,401</u>	<u>\$ 8,632,957</u>

**Tax Status**

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

The effect on deferred taxes of a change in tax rates is recognized in income in the period of enactment. At December 31, 2016 and 2015, Northwell has a deferred income tax asset which has been fully offset by a related valuation allowance. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax asset will not be realized. Significant components of the deferred tax asset relate to the allowance for doubtful accounts and net operating loss carryforwards. Certain entities have net operating loss carryforwards aggregating approximately \$408,000, which expire in varying amounts through 2036, and are available to offset future taxable income.

# Northwell Health, Inc.

## Notes to Consolidated Financial Statements (continued)

(In Thousands)

### 2. Summary of Significant Accounting Policies (continued)

#### Reclassifications

Certain 2015 amounts in the accompanying consolidated financial statements have been reclassified from amounts previously reported to conform to the 2016 presentation. These reclassifications have no impact on the net assets previously reported.

### 3. Cash and Investments

Northwell's cash and investments are reported in the consolidated statements of financial position as presented below at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 383,295	\$ 432,829
Short-term investments	2,464,366	1,946,575
Long-term investments	1,875,198	1,628,015
Total cash and investments	<u>4,722,859</u>	<u>4,007,419</u>
Less assets limited as to use:		
Under bond indentures, third-party agreements and other	1,032,961	708,769
Deferred employee compensation plan assets	135,718	111,321
Malpractice and other self-insurance assets	647,173	601,648
Temporarily and permanently restricted assets	207,177	214,753
Total assets limited as to use	<u>2,023,029</u>	<u>1,636,491</u>
Total unrestricted cash and investments	<u>\$ 2,699,830</u>	<u>\$ 2,370,928</u>

The total unrestricted cash and investments is used in Northwell's days cash on hand calculation, a required financial ratio for certain debt compliance covenants (see Note 6).

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**3. Cash and Investments (continued)**

Cash and cash equivalents, short-term investments and long term-investments, stated at fair value or under the equity method of accounting as applicable based on the appropriate measurement basis as described in Note 2, consist of the following at December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Cash and cash equivalents (including amounts in the investment portfolio)	<b>\$ 755,002</b>	\$ 779,822
U.S. Government obligations	<b>289,925</b>	227,112
Corporate and other bonds	<b>439,543</b>	394,597
Fixed income mutual funds	<b>447,413</b>	437,657
Commingled fixed income funds	<b>539,827</b>	359,463
Equity securities	<b>644,448</b>	484,997
Equity mutual funds	<b>520,743</b>	396,755
Commingled equity funds	<b>190,534</b>	195,240
Target-age mutual funds	<b>30,955</b>	22,632
Commingled risk-parity funds	<b>188,602</b>	175,614
Funds of hedge funds	<b>457,652</b>	375,315
Hedge funds	<b>10,768</b>	21,718
Private equity funds	<b>9,849</b>	7,231
Private real estate funds	<b>3,693</b>	3,920
Direct equity method investments	<b>179,049</b>	119,983
Interest and other receivables	<b>14,856</b>	5,363
	<b><u>\$ 4,722,859</u></b>	<b><u>\$ 4,007,419</u></b>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**3. Cash and Investments (continued)**

Investment income and the change in net unrealized gains and losses and change in value of equity method investments are comprised of the following for the years ended December 31, 2016 and 2015:

	2016		
	Unrestricted	Temporarily Restricted	Total
Investment income:			
Interest and dividend income	\$ 40,045	\$ 3,699	\$ 43,744
Net realized gains and losses	39,622	4,394	44,016
Less interest and dividend income on malpractice and other self-insurance assets (included in other operating revenue)	(11,987)	–	(11,987)
	<u>\$ 67,680</u>	<u>\$ 8,093</u>	<u>\$ 75,773</u>
Change in net unrealized gains and losses and change in value of equity method investments:			
Change in net unrealized gains and losses	\$ 70,193	\$ 4,786	\$ 74,979
Equity method investment gains – investments	40,601	1,455	42,056
Equity method investment gains – other assets	7,070	228	7,298
	<u>\$ 117,864</u>	<u>\$ 6,469</u>	<u>\$ 124,333</u>
	2015		
	Unrestricted	Temporarily Restricted	Total
Investment income:			
Interest and dividend income	\$ 40,512	\$ 1,909	\$ 42,421
Net realized gains and losses	30,757	4,035	34,792
Less interest and dividend income on malpractice and other self-insurance assets (included in other operating revenue)	(9,064)	–	(9,064)
	<u>\$ 62,205</u>	<u>\$ 5,944</u>	<u>\$ 68,149</u>
Change in net unrealized gains and losses and change in value of equity method investments:			
Change in net unrealized gains and losses	\$ (74,704)	\$ (4,304)	\$ (79,008)
Equity method investment losses – investments	(37,840)	(2,022)	(39,862)
Equity method investment losses – other assets	(156)	–	(156)
	<u>\$ (112,700)</u>	<u>\$ (6,326)</u>	<u>\$ (119,026)</u>

Northwell Health, Inc.

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

**4. Pledges Receivable**

Pledges receivable at December 31, 2016 and 2015 consist of the following:

	<b>2016</b>	<b>2015</b>
Amounts expected to be collected in:		
Less than one year	\$ 49,041	\$ 50,544
One to five years	102,104	95,167
More than five years	50,954	38,401
	<b>202,099</b>	184,112
Less:		
Discount to present value of future cash flows (discount rates ranging from 0.75% to 4.7%)	15,073	12,478
Allowance for uncollectible amounts	44,458	45,447
Current portion of pledges receivable	46,197	35,097
Pledges receivable, net of current portion	<b>\$ 96,371</b>	<b>\$ 91,090</b>



Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

**5. Property, Plant and Equipment**

Property, plant and equipment and accumulated depreciation and amortization at December 31, 2016 and 2015 are summarized as follows:

	<b>2016</b>	<b>2015</b>
Land	\$ 755,345	\$ 740,437
Land improvements	27,805	23,385
Buildings and fixed equipment	3,757,909	3,544,656
Movable equipment	1,608,419	1,514,512
Leasehold improvements	25,209	16,773
	<b>6,174,687</b>	5,839,763
Less accumulated depreciation and amortization	<b>1,986,820</b>	1,830,697
	<b>4,187,867</b>	4,009,066
Construction-in-progress	422,356	306,100
	<b>\$ 4,610,223</b>	<b>\$ 4,315,166</b>

Northwell wrote off approximately \$255,000 and \$236,000 of fully depreciated assets in 2016 and 2015, respectively.

Net interest capitalized for the years ended December 31, 2016 and 2015 was approximately \$9,900 and \$8,700, respectively.

Certain leases are considered to be the equivalent of installment purchases for purposes of accounting presentation. The liabilities relating to these assets are included in capital lease obligations. The cost, less accumulated amortization, of these assets is included in property, plant and equipment at December 31, 2016 and 2015 as follows:

	<b>2016</b>	<b>2015</b>
Land	\$ 56,640	\$ 56,640
Buildings and fixed equipment	79,144	77,220
Movable equipment	18,913	11,706
	<b>154,697</b>	145,566
Less accumulated amortization	<b>18,944</b>	11,526
	<b>\$ 135,753</b>	<b>\$ 134,040</b>

Northwell Health, Inc.

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

**6. Debt**

**Long-Term Debt**

Long-term debt at December 31, 2016 and 2015 consists of the following:

	<b>2016</b>	<b>2015</b>
Bonds payable at varying dates through November 2046, at fixed and variable interest rates ranging from 1.32% to 6.15%	<b>\$ 2,096,632</b>	\$ 1,602,935
Other long-term debt payable at varying dates through August 2051 at variable and fixed interest rates ranging from 1.89% to 5.69%	<b>629,525</b>	632,169
Total long-term debt	<b>2,726,157</b>	2,235,104
Less current portion of bonds payable	<b>40,377</b>	35,657
Less current portion of other long-term debt	<b>19,452</b>	19,956
Less net unamortized debt issuance costs	<b>27,893</b>	25,710
Add net unamortized bond premium	<b>41,586</b>	45,620
	<b><u>\$ 2,680,021</u></b>	<u>\$ 2,199,401</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**6. Debt (continued)**

Annual aggregate principal payments applicable to long-term debt for years subsequent to December 31, 2016 are as follows:

	<b>Bonds Payable</b>	<b>Other Long-Term Debt</b>	<b>Total</b>
Year ended December 31:			
2017	\$ 40,377	\$ 19,452	\$ 59,829
2018	41,204	16,651	57,855
2019	43,518	40,360	83,878
2020	46,136	16,333	62,469
2021	37,219	27,831	65,050
Thereafter	1,888,178	508,898	2,397,076
	<u>\$ 2,096,632</u>	<u>\$ 629,525</u>	<u>\$ 2,726,157</u>

Most of Northwell's debt arrangements include security agreements of various types. The agreements include, among other provisions, the pledging as collateral certain assets and revenues, and limitations on the use of assets, including restrictions on the transfer of assets to entities outside Northwell. At December 31, 2016 and 2015, the majority of Northwell's assets were pledged as collateral under the terms of various debt agreements. In addition, certain debt agreements contain covenants related to the maintenance of financial ratios, including debt service coverage ratios and days cash on hand, and the maintenance of certain debt service and other reserve funds included in assets limited as to use. At December 31, 2016 and 2015, Northwell was in compliance with the financial covenants.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**6. Debt (continued)**

**Bonds Payable**

Bonds payable by Northwell consists of the following at December 31, 2016:

	<b>Interest Structure</b>	<b>Final Maturity</b>	<b>Outstanding Principal</b>
<b>Obligated Group:</b>			
Series 2016A (taxable)	Fixed	2046	\$ 500,000
Series 2015A	Fixed	2043	497,190
Series 2013A (taxable)	Fixed	2043	250,000
Series 2012A	Fixed	2023	34,805
Series 2012B (taxable)	Fixed	2042	135,000
Series 2011A	Fixed	2041	348,870
Series 2009A	Fixed	2019	6,500
Series 2009B	Fixed	2039	50,000
Series 2009C	Fixed	2039	37,500
Series 2009D	Fixed	2039	37,500
Series 2009E	Fixed	2033	60,890
Series 2007B	Variable*	2018	23,005
<b>Other:</b>			
Phelps Series 2013	Fixed	2038	12,320
Phelps Series 2005	Fixed	2030	19,115
NWH Series 2014	Fixed	2039	32,677
NWH Series 2009	Variable	2034	13,575
NWH Series 2004	Variable*	2024	8,330
Peconic Series A	Variable*	2031	6,125
Peconic Series B	Variable*	2031	11,965
Peconic Series C	Variable*	2017	1,380
Peconic Series D	Variable*	2032	9,885
			<u>\$ 2,096,632</u>

\*Variable rate debt is swapped to a fixed rate via interest rate swap agreements.

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

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**6. Debt (continued)**

In September 2016, HCI issued \$500,000 of taxable Northwell Health Series 2016A bonds. The Series 2016A bonds were issued by HCI as a joint and several general obligation of the Obligated Group. The 2016A bonds bear interest at fixed interest rates, payable semi-annually, with a final maturity date of November 1, 2046. The proceeds of the Series 2016A bonds will primarily be used for capital expenditures and may be used for general corporate purposes.

In June 2015, the Obligated Group issued \$503,640 of revenue bonds through the DASNY Series 2015A bonds. The Series 2015A bonds were sold at a premium of \$39,929 and bear interest at fixed interest rates, payable semi-annually, with a final maturity date of May 2043. The proceeds of the Series 2015A bonds were used to: (i) refund \$470,385 in Series 2005A, 2005B, 2007A and 2009A bonds of the Obligated Group, (ii) finance projects for certain members of the Obligated Group, (iii) pay a portion of the interest on the Series 2015A bonds, and (iv) pay costs of issuance incurred in connection with the issuance of the Series 2015A bonds. A loss on refunding of long-term debt of \$56,518 resulted from the Series 2015A bond transaction.

In May 2015, the outstanding \$13,245 of the Obligated Group's Series 2003 bonds were cash defeased. A loss on redemption of long-term debt of \$457 resulted from this cash defeasance.

For certain Obligated Group bonds that were included in Northwell's 2015 refunding transaction, funds were placed in escrow with a trustee to pay bondholders at future redemption dates. These funds and the liability for the corresponding bonds are excluded from Northwell's consolidated statements of financial position at December 31, 2016 and 2015. Outstanding principal amounts to be paid from escrow to bondholders are comprised of the following at December 31, 2016:

	<b>Date of Final Redemption</b>	<b>Outstanding Principal</b>
Series 2007A Bonds	May 1, 2017	\$ 133,940
Series 2009A Bonds	May 1, 2019	200,955
		<u>\$ 334,895</u>

Northwell Health, Inc.

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

**6. Debt (continued)**

**Other Long-Term Debt**

Other long-term debt consists of the following at December 31, 2016:

	<b>Interest Structure</b>	<b>Final Maturity</b>	<b>Outstanding Principal</b>
HCI Notes Payable	Fixed	2030	\$ 250,000
Real Estate Financing	Fixed	2051	73,054
Staten Island Term Loan <sup>(a)</sup>	Fixed	2023	26,000
Lenox Mortgage	Variable	2029	23,806
The Long Island Home Mortgage <sup>(c)</sup>	Variable <sup>(b)</sup>	2019	24,651
LIJMC Tax-Exempt Lease Financing	Fixed	2019	6,356
Staten Island Tax-Exempt Lease Financing	Fixed	2018	3,218
LIJMC Mortgage	Fixed	2045	206,186
Phelps Mortgage <sup>(c)</sup>	Fixed	2031	3,557
NWH Term Loan <sup>(c)</sup>	Variable	2022	6,000
Peconic Loans <sup>(c)</sup>	Variable	2027	4,869
Other Loans <sup>(c)</sup>	Fixed	2021	1,828
			<u>\$ 629,525</u>

<sup>(a)</sup> The lender has an April 2018 call option.

<sup>(b)</sup> Variable rate debt is swapped to a fixed rate via interest rate swap agreements.

<sup>(c)</sup> Debt is not included in the Obligated Group.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

**6. Debt (continued)**

In September 2016, Northwell closed on a real estate financing transaction for a building and land that was accounted for as long-term debt, valued at approximately \$6,800. Payments of principal and interest are due monthly and extend through 2051.

In November 2015, Northwell amended an existing real estate lease which was previously accounted for as a capital lease obligation. The modification terminated the lease and provided Northwell with ownership of leasehold condominiums relating to the property. In conjunction with purchasing the leasehold condominiums, Northwell recorded \$30,000 of debt under a promissory note, with principal and interest payable in monthly installments through September 2045, at a fixed interest rate of 2.0%. As a result of the transaction, capital lease obligations of approximately \$22,000 were removed from Northwell's consolidated statement of financial position.

In March 2015, LIJMC entered into a real estate transaction to purchase a building and land that it previously occupied under a capital lease agreement. In conjunction with the transaction, LIJMC obtained a mortgage for \$211,000, with principal and interest payable in monthly installments through March 2045, at a fixed interest rate of 4.47%. The proceeds of the mortgage were primarily used to purchase the property, with the remaining funds put into escrow to be used to fund capital improvements. As a result of the transaction, capital lease obligations of approximately \$70,000 were removed from Northwell's consolidated statement of financial position.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**6. Debt (continued)**

**Capital Lease Obligations**

Northwell has entered into various capital lease agreements for land, buildings and equipment. Capital lease obligations at December 31, 2016 and 2015 consist of the following:

	<b>2016</b>	<b>2015</b>
Minimum lease payments	<b>\$ 382,869</b>	\$ 389,054
Less interest	<b>205,179</b>	212,851
Less current portion at net present value	<b>3,470</b>	3,138
Present value of net minimum long-term lease payments	<b>174,220</b>	173,065
Less net unamortized issuance costs	<b>1,112</b>	1,177
	<b><u>\$ 173,108</u></b>	<b><u>\$ 171,888</u></b>

Future minimum lease payments under capital lease obligations as of December 31, 2016 are as follows:

Year ending December 31:	
2017	\$ 13,513
2018	12,958
2019	12,572
2020	12,387
2021	12,656
Thereafter	318,783
Total minimum lease payments	<b><u>\$ 382,869</u></b>

In December 2015, Northwell entered into a real estate lease for a building and land that was accounted for as a capital lease obligation, valued at approximately \$67,000. Payments of principal and interest are due monthly and extend through 2045.



## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **6. Debt (continued)**

##### **Short-Term Borrowings**

Certain members of Northwell have entered into several unsecured revolving credit facilities with commercial banks with commitment availability through dates ranging from August 31, 2017 to July 23, 2020. Borrowings under these credit facilities are short-term and are primarily used to provide interim financing for capital improvement projects, with repayment to be provided from bond proceeds and/or the receipt of fundraising proceeds from capital campaigns. Additionally, amounts can be used to provide backup financing for the support of the certificate of need process as required by the NYSDOH and short-term working capital to support the monthly operating cash conversion cycle. Interest options include prime-based rates, LIBOR-based rates and bank cost of funds rates. Total credit available under such arrangements is \$288,000. Balances outstanding from these borrowings are \$110,218 at December 31, 2016 and 2015.

#### **7. Fair Values of Financial Instruments**

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

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

- Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2:* Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.
- Level 3:* Unobservable inputs are used when little or no market data is available.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**7. Fair Values of Financial Instruments (continued)**

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

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

Financial assets and liabilities carried at fair value as of December 31, 2016 are classified in the following table in one of the three categories described previously:

	2016			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents (including amounts in the investment portfolio)	\$ 755,002	\$ —	\$ —	\$ 755,002
Fixed income obligations:				
U.S. Government obligations	171,403	118,522	—	289,925
Corporate and other bonds	—	439,543	—	439,543
Fixed income mutual funds	447,413	—	—	447,413
Equity securities:				
Value	283,791	—	—	283,791
Small cap	100,389	—	—	100,389
Global	177,922	—	—	177,922
Growth	82,346	—	—	82,346
Equity mutual funds	520,743	—	—	520,743
Target-age mutual funds	30,955	—	—	30,955
Interest and other receivables	14,856	—	—	14,856
<b>Liabilities</b>				
Interest rate swap agreements	—	(7,866)	—	(7,866)
	<u>\$ 2,584,820</u>	<u>\$ 550,199</u>	<u>\$ —</u>	<u>\$ 3,135,019</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**7. Fair Values of Financial Instruments (continued)**

Financial assets and liabilities carried at fair value as of December 31, 2015 are classified in the following table in one of the three categories described previously:

	2015			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents (including amounts in the investment portfolio)	\$ 779,822	\$ —	\$ —	\$ 779,822
Fixed income obligations:				
U.S. Government obligations	107,015	120,097	—	227,112
Corporate and other bonds	—	394,597	—	394,597
Fixed income mutual funds	437,657	—	—	437,657
Equity securities:				
Value	76,589	—	—	76,589
Small cap	31,735	—	—	31,735
Global	305,907	—	—	305,907
Growth	70,766	—	—	70,766
Equity mutual funds	396,755	—	—	396,755
Target-age mutual funds	22,632	—	—	22,632
Interest and other receivables	5,363	—	—	5,363
<b>Liabilities</b>				
Interest rate swap agreements	—	(3,653)	—	(3,653)
	<u>\$ 2,234,241</u>	<u>\$ 511,041</u>	<u>\$ —</u>	<u>\$ 2,745,282</u>

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

The amounts reported in the previous tables exclude investments reported under the equity method of accounting in the amounts of \$1,579,974 and \$1,258,484 at December 31, 2016 and 2015, respectively (see Note 2), and assets invested in Northwell's pension plans (see Note 8).

# Northwell Health, Inc.

## Notes to Consolidated Financial Statements (continued)

(In Thousands)

### 7. Fair Values of Financial Instruments (continued)

The fair values and carrying values of Northwell's financial instruments that are not required to be carried at fair value are as follows at December 31, 2016 and 2015:

	2016		2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Debt (including short-term borrowings; excluding capital lease obligations)	\$ 2,924,636	\$ 2,850,068	\$ 2,485,298	\$ 2,365,232

The fair value of Northwell's bonds payable is based on quoted market prices for the related bonds. The fair value of other debt is based upon discounted cash flow analyses. Fair value of bonds payable at December 31, 2016 and 2015 is classified as Level 1 (\$2,212,786 and \$1,768,622, respectively), while fair value of other debt is classified as Level 2 (\$711,850 and \$716,676, respectively).

### 8. Pension Plans

Northwell maintains several pension plans for its employees. The following are descriptions of such plans and the respective pension expense for the years ended December 31, 2016 and 2015.

Certain members of Northwell provide pension and similar benefits to their employees through defined contribution plans. Contributions to the defined contribution plans are based on percentages of annual salaries. It is the policy of these members to fund accrued costs under these plans on a current basis. Pension expense for 2016 and 2015 related to the defined contribution plans amounted to \$136,806 and \$123,885, respectively.

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **8. Pension Plans (continued)**

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

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

Northwell's significant participation in certain plans for the annual period ended December 31, 2016 is outlined in the following table. The following information for the 1199SEIU Health Care Employees Pension Fund (the 1199 Plan) and the New York State Nurses Association Pension Plan (the NYSNA Plan) is included within the table:

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

# Northwell Health, Inc.

## Notes to Consolidated Financial Statements (continued)

(In Thousands)

### 8. Pension Plans (continued)

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	Contributions of Northwell		Surcharge Imposed	Expiration Date of Collective-Bargaining Agreements
		2016	2015		2016	2015		
1199 Plan <sup>(a)</sup>	13-3604862/001	Green	Green	N/A	\$ 68,174	\$ 63,106	No	9/30/2018 to 3/31/2019
NYSNA Plan <sup>(a)</sup>	13-6604799/001	Green	Green	N/A	\$ 11,214	\$ 9,258	No	10/12/2017, 12/31/2017

(a) Northwell contributions represent more than 5% of total contributions to the 1199 and NYSNA Plans for the plan years ended December 31, 2016 and 2015.

In addition to the plans noted in the table above, Northwell also participates in several other multiemployer plans. Contributions for these other plans totaled \$1,002 and \$886 for the years ended December 31, 2016 and 2015, respectively.

Certain of Northwell's employees participate in deferred compensation plans. The liability for these plans totaled \$7,633 and \$7,123 at December 31, 2016 and 2015, respectively. In connection with these plans, Northwell deposits amounts with trustees on behalf of the participating employees. Under the terms of the plans, Northwell is not responsible for investment gains or losses incurred. The assets are restricted for payments under the plans, but may revert to Northwell under certain specified circumstances.

In addition, Northwell maintains various deferred compensation plans pursuant to Section 457(b) of the Code (the 457(b) Plans). Eligible employees may defer compensation under a salary reduction agreement, subject to certain dollar limitations. Non-elective employer contributions may also be made for some of the 457(b) Plans. Payments upon retirement or termination of employment are based on amounts credited to the individual accounts. The assets and corresponding liability for the 457(b) Plans, included in long-term investments and accrued retirement benefits in the accompanying consolidated statements of financial position, totaled \$128,085 and \$104,198 at December 31, 2016 and 2015, respectively.

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

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**8. Pension Plans (continued)**

The following tables provide a reconciliation of the changes in the Plans' projected benefit obligation and fair value of plan assets for the years ended December 31, 2016 and 2015 and the funded status and accumulated benefit obligation of the Plans as of December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
<b>Reconciliation of the projected benefit obligation</b>		
Obligation at January 1	\$ 2,079,435	\$ 1,968,263
Inclusion of Peconic (2016) and NWH (2015) obligation at acquisition dates	19,307	128,379
Service cost	72,035	72,322
Interest cost	100,634	91,623
Plan amendments	—	45
Actuarial loss (gain)	94,870	(100,027)
Benefit payments	(92,629)	(81,170)
Settlements	(1,354)	—
Obligation at December 31	<u>\$ 2,272,298</u>	<u>\$ 2,079,435</u>
<b>Reconciliation of fair value of plan assets</b>		
Fair value of plan assets at January 1	\$ 1,445,919	\$ 1,409,341
Inclusion of Peconic (2016) and NWH (2015) plan assets at acquisition dates	15,034	78,252
Actual return on plan assets	96,463	(20,844)
Employer contributions	56,810	60,340
Benefit payments	(92,629)	(81,170)
Settlements	(1,347)	—
Fair value of plan assets at December 31	<u>\$ 1,520,250</u>	<u>\$ 1,445,919</u>
<b>Funded status</b>		
Funded status at December 31	<u>\$ (752,048)</u>	<u>\$ (633,516)</u>
Accumulated benefit obligation at December 31	<u>\$ 2,105,879</u>	<u>\$ 1,938,265</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**8. Pension Plans (continued)**

The current portion of accrued retirement benefits related to the Plans, included in accrued salaries and related benefits in the accompanying consolidated statements of financial position, is \$2,807 and \$6,013 at December 31, 2016 and 2015, respectively.

The actuarial loss in 2016 is primarily due to the decrease in the discount rate used in the measurement of the Plans' benefit obligation and demographic experience. The actuarial gain in 2015 is primarily due to the increase in the discount rate.

Included in unrestricted net assets at December 31, 2016 and 2015 are the following amounts that have not yet been recognized in net periodic benefit cost:

	<b>2016</b>		
	<b>Defined Benefit Pension Plans</b>	<b>Postretirement Benefit Plans (See Note 9)</b>	<b>Total</b>
Unrecognized actuarial (loss) gain	\$ (625,393)	\$ 38,556	\$ (586,837)
Unrecognized prior service (cost) credit	(10,276)	2,041	(8,235)
	<u>\$ (635,669)</u>	<u>\$ 40,597</u>	<u>\$ (595,072)</u>
	<b>2015</b>		
	<b>Defined Benefit Pension Plans</b>	<b>Postretirement Benefit Plans (See Note 9)</b>	<b>Total</b>
Unrecognized actuarial (loss) gain	\$ (565,061)	\$ 37,613	\$ (527,448)
Unrecognized prior service (cost) credit	(14,001)	3,178	(10,823)
	<u>\$ (579,062)</u>	<u>\$ 40,791</u>	<u>\$ (538,271)</u>



Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**8. Pension Plans (continued)**

The actuarial loss (gain) and prior service cost (credit) included in unrestricted net assets expected to be recognized in net periodic benefit cost during the year ended December 31, 2017 are as follows:

	<b>Defined Benefit Pension Plans</b>	<b>Postretirement Benefit Plans (See Note 9)</b>	<b>Total</b>
Actuarial loss (gain)	\$ 40,456	\$ (2,248)	\$ 38,208
Prior service cost (credit)	3,612	(1,138)	2,474
Increase (decrease) to net periodic benefit cost	<u>\$ 44,068</u>	<u>\$ (3,386)</u>	<u>\$ 40,682</u>

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

	<b>2016</b>	<b>2015</b>
Service cost	\$ 72,035	\$ 72,322
Interest cost on projected benefit obligation	100,634	91,623
Expected return on plan assets	(105,167)	(112,531)
Amortization of actuarial loss	41,489	38,172
Amortization of prior service cost	3,725	3,983
Settlement loss	510	—
Net periodic benefit cost	<u>\$ 113,226</u>	<u>\$ 93,569</u>

**Assumptions**

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

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**8. Pension Plans (continued)**

The assumptions used in the measurement of the Cash Balance Plan's benefit obligations at December 31, 2016 and 2015 are shown in the following table:

	<b>2016</b>	<b>2015</b>
Discount rate	<b>4.25%</b>	4.65%
Rate of compensation increase	<b>4.00%</b>	4.00%

The assumptions used in the measurement of the Cash Balance Plan's net periodic benefit cost for the years ended December 31, 2016 and 2015 are shown in the following table:

	<b>2016</b>	<b>2015</b>
Discount rate	<b>4.65%</b>	4.30%
Expected long-term rate of return on plan assets	<b>7.25%</b>	7.50%
Rate of compensation increase	<b>4.00%</b>	4.00%

The Cash Balance Plan comprises 89.4% and 89.6% of the Plans' total projected benefit obligation as of December 31, 2016 and 2015, respectively, and 94.1% and 94.2% of the net periodic benefit cost for the years ended December 31, 2016 and 2015, respectively.

**Estimated Future Benefit Payments**

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

2017	\$ 95,574
2018	101,362
2019	108,653
2020	112,352
2021	122,175
2022 to 2026	679,442

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**8. Pension Plans (continued)**

**Cash Flows**

Northwell expects to make contributions of approximately \$133,000 to the Plans in 2017.

The fair values of the Plans' assets at December 31, 2016, by asset category, are as follows:

<b>Asset Category</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and short-term investments	\$ 23,466	\$ —	\$ —	\$ 23,466
Fixed income obligations:				
U.S. Government obligations	8,459	14,658	—	23,117
Corporate and other bonds	—	103,164	—	103,164
Fixed income mutual funds	125,978	—	—	125,978
Equity securities:				
Value	36,867	—	—	36,867
Small cap	42,086	—	—	42,086
Global	147,882	—	—	147,882
Growth	34,767	—	—	34,767
Equity mutual funds	172,854	—	—	172,854
Interest and other receivables	2,264	—	—	2,264
	<u>\$ 594,623</u>	<u>\$ 117,822</u>	<u>\$ —</u>	<u>712,445</u>

Assets measured at net asset value:

Commingled fixed income funds	233,210
Commingled equity funds	118,144
Commingled commodity fund	764
Commingled risk-parity fund	77,431
Funds of hedge funds	221,743
Hedge funds	22,047
Private equity funds	99,552
Private real estate funds	34,914
Total assets at fair value	<u>\$ 1,520,250</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**8. Pension Plans (continued)**

The fair values of the Plans' assets at December 31, 2015, by asset category, are as follows:

<b>Asset Category</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and short-term investments	\$ 71,097	\$ –	\$ –	\$ 71,097
Fixed income obligations:				
U.S. Government obligations	2,506	14,336	–	16,842
Corporate and other bonds	–	119,644	–	119,644
Fixed income mutual funds	103,625	–	–	103,625
Equity securities:				
Value	33,656	–	–	33,656
Small cap	13,562	–	–	13,562
Global	137,642	–	–	137,642
Growth	33,948	–	–	33,948
Equity mutual funds	116,975	–	–	116,975
Interest and other receivables	25,945	–	–	25,945
	<u>\$ 538,956</u>	<u>\$ 133,980</u>	<u>\$ –</u>	<u>672,936</u>
Assets measured at net asset value:				
Commingled fixed income funds				184,549
Commingled equity funds				130,666
Commingled risk-parity fund				127,397
Funds of hedge funds				209,652
Hedge funds				28,465
Private equity funds				59,989
Private real estate funds				32,265
Total assets at fair value				<u>\$ 1,445,919</u>

Subsequent to Northwell's acquisition of NWH, Northwell began the process of aligning NWH's pension plan investment portfolio with revised target allocations. At December 31, 2015, certain assets of NWH's pension plan were in the process of being redeemed and reinvested in a manner in which to more closely attain the revised target allocation.

# Northwell Health, Inc.

## Notes to Consolidated Financial Statements (continued)

(In Thousands)

### 8. Pension Plans (continued)

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

The following is a summary of assets in the Plans at December 31, 2016 (by asset category) with redemption restrictions:

	<b>Fair Value</b>	<b>Redemption Period (Including Notice Period)</b>
Commingled fixed income funds	\$ 233,210	1 day to 45 days
Commingled equity funds	118,144	3 days to 45 days
Commingled risk-parity fund	77,431	5 days to 120 days
Funds of hedge funds	221,743	61 days to 299 days
Hedge funds	22,047	60 days to 90 days

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

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

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

**8. Pension Plans (continued)**

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

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

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

**Description of Investment Policies and Strategies**

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

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

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**8. Pension Plans (continued)**

The Cash Balance Plan's asset allocation at December 31, 2016 and 2015, by asset category, is as follows:

	<b>2016</b>	<b>2015</b>	<b>Target Allocation</b>
Cash and short-term investments	<b>1.4%</b>	3.4%	1.0%
Fixed income obligations, including commingled fixed income funds	<b>31.9</b>	31.2	34.5
Equity securities, including commingled equity funds	<b>35.3</b>	32.4	28.5
Commingled risk-parity funds	<b>5.4</b>	9.8	5.0
Alternative investments	<b>26.0</b>	23.2	31.0
	<b>100.0%</b>	100.0%	100.0%

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

The Cash Balance Plan comprises 89.1% and 90.1% of the Plans' total fair value of plan assets as of December 31, 2016 and 2015, respectively.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

**9. Postretirement Benefits Other Than Pensions**

Certain employees are covered by the Northwell Health Retiree Medical and Life Insurance Plan (the Northwell Plan) and other postretirement benefit plans other than pensions.

The Northwell Plan is contributory with a 2% per year service subsidy up to 30 years (maximum 60%) for non-union employees hired prior to January 1, 2001. The subsidy for future retirees is as follows: for pre-65 retirees, a 2% per year service subsidy for years of service through 2000 and a 1% per year service subsidy for years of service for 2001 and thereafter, up to 30 years. For post-65 retirees, a 1% per year service subsidy for years of service through 2000 and a 0.5% per year service subsidy for years of service for 2001 and thereafter, up to 30 years. For non-union employees hired after January 1, 2001, the Northwell Plan provides a defined dollar benefit subsidy of \$2,500 per year prior to age 65 and \$1,000 per year age 65 and later. To be eligible for the medical benefits, the employee must be at least 55 years old and be employed for at least fifteen years or after age 65, be employed for at least five years. Only pre-1994 retirees are eligible for the life insurance benefits. The life insurance benefit is not available to active employees. The Northwell Plan is unfunded.



Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**9. Postretirement Benefits Other Than Pensions (continued)**

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of plan assets for the years ended December 31, 2016 and 2015 and a statement of the funded status of the plans as of December 31, 2016 and 2015:

	2016	2015
<b>Reconciliation of the benefit obligation</b>		
Obligation at January 1	\$ 46,602	\$ 58,785
Service cost	1,024	1,144
Interest cost	2,073	2,328
Plan participants' contributions	1,977	2,198
Plan amendments	—	283
Actuarial gain	(3,281)	(13,309)
Benefit payments	(4,698)	(5,044)
Federal subsidy on benefits paid	201	217
Obligation at December 31	<u>\$ 43,898</u>	<u>\$ 46,602</u>
<b>Reconciliation of fair value of plan assets</b>		
Fair value of plan assets at January 1	\$ —	\$ —
Employer contributions	2,721	2,846
Plan participants' contributions	1,977	2,198
Benefit payments	(4,698)	(5,044)
Fair value of plan assets at December 31	<u>\$ —</u>	<u>\$ —</u>
<b>Funded status</b>		
Funded status at December 31	<u>\$ (43,898)</u>	<u>\$ (46,602)</u>

The current portion of accrued retirement benefits related to the plans, included in accrued salaries and related benefits in the accompanying consolidated statements of financial position, is \$1,479 and \$2,454 at December 31, 2016 and 2015, respectively.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**9. Postretirement Benefits Other Than Pensions (continued)**

The actuarial gain in 2016 is primarily due to changes in the mortality assumptions and demographic experience. The actuarial gain in 2015 is primarily due to an increase in the discount rate and favorable claims experience.

The following table provides the components of the net periodic benefit (credit) cost for the plans for the years ended December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Service cost	\$ 1,024	\$ 1,144
Interest cost on benefit obligation	2,073	2,328
Amortization of net gain	(2,322)	(1,587)
Amortization of prior service credit	(1,138)	(1,677)
Net periodic benefit (credit) cost	<u>\$ (363)</u>	<u>\$ 208</u>

**Assumptions**

The range of weighted-average discount rates used in the measurement of benefit obligations for the plans was 3.85% to 4.30% and 4.15% to 4.70% at December 31, 2016 and 2015, respectively. The range of weighted-average discount rates used in the measurement of net periodic benefit (credit) cost for the plans was 4.15% to 4.70% and 3.75% to 4.25% for 2016 and 2015, respectively.

**Assumed Health Care Cost Trends**

The assumed health care cost trend rates used in measuring the postretirement benefit obligation for the plans for 2016 and 2015 are as follows:

	<b>2016</b>	<b>2015</b>
Health care cost trend rate assumed for next year	6.5%	7.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2022	2022

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**9. Postretirement Benefits Other Than Pensions (continued)**

Assumed health care cost trend rates have an effect on the amounts reported. A 1% change in assumed health care cost trend rates would have the following effects on the plans:

	2016		2015	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement benefit cost	\$ 171	\$ (145)	\$ 245	\$ (204)
Effect on the health care component of the postretirement benefit obligation	2,843	(2,415)	3,619	(2,879)

**Estimated Future Benefit Payments**

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

2017	\$ 1,808
2018	1,962
2019	2,071
2020	2,141
2021	2,254
2022 to 2026	12,554

**Prescription Drug Benefits**

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 provides for a prescription drug benefit under Medicare (Medicare Part D), as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The subsidy did not have a material impact on net postretirement benefit cost for the 2016 and 2015 plan years.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**9. Postretirement Benefits Other Than Pensions (continued)**

Expected federal subsidies to be received in future years for the plans are as follows:

2017	\$	328
2018		141
2019		138
2020		133
2021		128
2022 to 2026		541

**10. Malpractice and Other Insurance Liabilities**

**Malpractice**

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

*Primary Insurance Coverage*

Since January 2003, Northwell purchases primary malpractice insurance on an occurrence basis, covering most hospitals. The policy provides coverage with limits of \$1,000 per claim and a \$50,000 annual policy in the aggregate through 2009. Effective January 2010, the program retained \$750 of the primary coverage per indemnity claim, while aggregate limits increased to \$60,000. Effective January 2013, the retention level increased to \$900 per claim.

From January 1, 1997 to December 31, 2002, Northwell's hospitals primarily participated in a combined insurance program, which provided coverage on a claims-made basis. In December 2002, Northwell purchased a tail insurance policy to cover unreported occurrences from these prior claims-made policy periods.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

**10. Malpractice and Other Insurance Liabilities (continued)**

The estimated undiscounted liability for the retained primary coverage and losses in excess of the primary aggregate for the hospitals at December 31, 2016 and 2015 is \$543,237 and \$493,523, respectively. At December 31, 2016 and 2015, the liability is recorded at the actuarially determined present value of \$501,956 and \$455,245, respectively, based on a discount rate of 2.0%. Malpractice and other insurance liabilities are discounted based on the expected timing of the actuarially estimated future claim payments under the programs, using a risk-free rate. Such estimates are reviewed and updated on an annual basis.

*Excess Insurance Coverage*

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

Regional Insurance's estimated undiscounted reserves for losses and loss expenses outstanding at December 31, 2016 and 2015 are \$212,293 and \$271,389, respectively, and are recorded at the actuarially determined present value of \$201,447 and \$256,189, respectively, based on a discount rate of 2.0%.

Effective January 1, 2015, the aggregate excess coverage provided by Regional Insurance was reduced to \$6,500 per year, which resulted in an undiscounted liability for the hospitals for estimated losses in excess of the aggregate at December 31, 2016 and 2015 of \$118,079 and \$52,497, respectively, recorded at the actuarially determined present value of \$107,526 and \$47,081, respectively, based on a 2% discount rate.

The estimated undiscounted incurred but not reported liability for claims in excess of primary insurance layers at December 31, 2016 and 2015 is \$96,186 and \$96,944, respectively, and is recorded at the actuarially determined present value of \$83,566 and \$84,242, respectively, based on a discount rate of 2.0%.

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **10. Malpractice and Other Insurance Liabilities (continued)**

##### *Self-Insurance Coverage*

For certain years, certain Northwell hospitals, including Phelps, NWH and Peconic, are covered for malpractice claims under various other self-insured arrangements. For self-insured claims and incidents, Northwell has accrued \$42,393 and \$33,889 at December 31, 2016 and 2015, respectively, based on actuarial determinations and a discount rate of 2%, as its best estimates of the ultimate cost of such losses.

Malpractice claims have been asserted against Northwell by various claimants. These claims are in various stages of processing, and some may ultimately be brought to trial. There are known incidents that have occurred through December 31, 2016 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. It is the opinion of Northwell's management that adequate insurance, including self-insurance, and malpractice reserves are being maintained to cover potential malpractice losses.

##### **Workers' Compensation**

In June 2013, Northwell changed its workers' compensation insurance program from a guaranteed cost program to a high deductible program with a \$1,000 per claim retention level. Effective July 2013, the employees of Lenox and The Long Island Home became covered under Northwell's high deductible program, and the employees of Phelps, NWH and Peconic became covered during 2016. At December 31, 2016 and 2015, the liability for retained losses under this program is recorded at the actuarially determined present value of \$119,158 and \$92,095, respectively, based on a discount rate of 2.0%. The estimated undiscounted liability is \$135,200 and \$104,688 at December 31, 2016 and 2015, respectively.

Prior to joining Northwell's high deductible program, Lenox, The Long Island Home, Phelps and NWH had various self-insured programs for workers' compensation claims. At December 31, 2016 and 2015, the liability for these self-insured losses is recorded at the actuarially determined present value of \$10,815 and \$14,000, respectively, based on a discount rate of 2.0%.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**11. Other Operating Revenue**

Other operating revenue consists of the following for the years ended December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Grants and contracts	\$ 86,785	\$ 79,376
Laboratory services	206,069	165,010
Pharmacy sales	78,145	53,126
Electronic Health Record meaningful use revenue	6,966	14,596
Health plan risk pool distributions	26,956	23,876
Health plan care coordination revenue	3,944	7,946
Group purchasing rebates	13,124	8,751
Miscellaneous	51,805	50,858
Investment income (see Note 3)	11,987	9,064
Rental income	34,956	20,633
Cafeteria and gift shop sales	17,830	16,267
Parking garage	6,140	5,832
Telephone and television	482	553
Resident rotations	1,403	1,724
	<b>\$ 546,592</b>	<b>\$ 457,612</b>

**12. Net Assets**

Temporarily restricted net assets at December 31, 2016 and 2015 are available for the following health care services:

	<b>2016</b>	<b>2015</b>
Teaching, research, training, and other	\$ 266,179	\$ 242,140
Major modernization and purchases of equipment	127,431	121,433
	<b>\$ 393,610</b>	<b>\$ 363,573</b>

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **12. Net Assets (continued)**

Northwell follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as they relate to its permanently restricted endowments. Northwell has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift, as of the gift date, of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Northwell classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment funds.

Northwell's endowments consist of donor-restricted funds established for a variety of purposes. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Northwell requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Northwell classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. Northwell considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) the investment policies of Northwell.

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



Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(In Thousands)

**12. Net Assets (continued)**

To satisfy its long-term rate-of-return objectives, Northwell relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Northwell targets a diversified asset allocation that consists of equities, fixed income and alternative investments.

Northwell has a policy of appropriating for distribution each year, no more than a 5% return on its endowment funds' corpus. In establishing this policy, Northwell considered the long-term expected return on its endowments.

For the year ended December 31, 2016, Northwell had the following endowment-related activities:

	<b>2016</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment balance, beginning of year	\$ 30,497	\$ 163,938	\$ 194,435
Investment return:			
Investment income	8,093	—	8,093
Net appreciation	6,469	—	6,469
Recovery of fair value of endowment corpus	—	608	608
Total investment return	14,562	608	15,170
Contributions	—	15,640	15,640
Contributions received in the acquisition of Peconic	—	787	787
Amounts appropriated for expenditure	(4,419)	—	(4,419)
Net change in endowment funds	10,143	17,035	27,178
Endowment balance, end of year	\$ 40,640	\$ 180,973	\$ 221,613

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### 12. Net Assets (continued)

For the year ended December 31, 2015, Northwell had the following endowment-related activities:

	<b>2015</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment balance, beginning of year	\$ 33,650	\$ 135,712	\$ 169,362
Investment return:			
Investment income	5,944	—	5,944
Net depreciation	(6,326)	—	(6,326)
Loss of fair value of endowment corpus	—	(608)	(608)
Total investment return	(382)	(608)	(990)
Contributions	—	19,628	19,628
Contributions received in the acquisitions of Phelps and NWH	—	9,206	9,206
Amounts appropriated for expenditure	(2,771)	—	(2,771)
Net change in endowment funds	(3,153)	28,226	25,073
Endowment balance, end of year	<u>\$ 30,497</u>	<u>\$ 163,938</u>	<u>\$ 194,435</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires Northwell to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$608 as of December 31, 2015 and resulted from unfavorable market fluctuations. The individual donor-restricted endowment funds with deficiencies will retain future income and appreciation to restore the required fair value of the assets. There was no such deficiency as of December 31, 2016.

#### 13. Commitments and Contingencies

##### Litigation and Claims

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

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### 13. Commitments and Contingencies (continued)

##### Operating Leases

Northwell leases certain office facility space, patient care facility space and equipment under operating leases that have initial or remaining noncancelable terms in excess of one year. Aggregate minimum operating lease payments are amortized on the straight-line basis over the terms of the respective leases. Rent expense under such leases was \$108,548 and \$93,547 for 2016 and 2015, respectively.

Future minimum lease payments under noncancelable operating leases with terms of one year or more are as follows:

2017	\$ 100,530
2018	89,634
2019	83,204
2020	74,432
2021	68,189
Thereafter	376,865

##### Collective Bargaining Agreements

At December 31, 2016, approximately 35% of Northwell's employees are union employees who are covered under the terms of various collective bargaining agreements. Certain collective bargaining agreements, which represent approximately 17% of union employees (6% of total employees), have expired, or will expire, within the next year and are currently being renegotiated.

##### Letters of Credit

At December 31, 2016, \$18,816 in secured irrevocable direct-pay letters of credit were maintained with two commercial banks, replacing various debt service reserve funds for certain Obligated Group bond issues. A \$22,314 commitment from one commercial bank remains available for future letters of credit.

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **13. Commitments and Contingencies (continued)**

Four commercial banks are providing a total of \$233,000 in commitments, solely to support letters of credit required for Northwell's high deductible workers' compensation insurance program. At December 31, 2016, \$89,973 in secured irrevocable direct-pay letters of credit were maintained with two of the banks, and \$143,027 of the commitments remain available for future letters of credit.

#### **Other Commitments**

In 2008, Hofstra University (the University) and Northwell entered into a joint academic agreement to work in close collaboration in the development of a medical school, now known as the Hofstra Northwell School of Medicine (the Medical School), at the University, while remaining as separate corporations with separate governance. In 2010, the Medical School received preliminary accreditation from the Liaison Committee on Medical Education and in February 2015 was granted full accreditation. Northwell has agreed to reimburse the University for a portion of the Medical School's annual costs each year through June 30, 2017 in an aggregate amount of up to \$50,000. Reimbursement payments after June 30, 2017 will be a minimum of \$5,000 for each academic year, with amounts indexed to the Medical School tuition. Reimbursement payments are contingent upon annual approval by the Boards of Northwell and the University. Northwell shall not advance funds to the University that have not yet been spent in connection with the Medical School. To date, Northwell has recorded approximately \$47,500 of these costs related to the Medical School. Northwell also provides approximately \$2,000 annually for funding of Medical School scholarships and approximately \$2,000 annually for funding of student loans, with amounts indexed to the Medical School tuition.

In April 2015, Northwell entered into a strategic affiliation with Cold Spring Harbor Laboratory (CSHL). Under the terms of this affiliation, Northwell and CSHL will continue as independent organizations governed by their respective Boards of Trustees. The institutions appointed a committee with responsibility for the oversight, staffing and implementation of the affiliation. The goals of the affiliation include advancing cancer diagnostic and therapeutic research, developing a new clinical cancer research unit at Northwell to support early-phase clinical studies of new cancer therapies, and recruiting and training more clinician-scientists in oncology. Pursuant to the agreement, Northwell is committed to pay CSHL \$5,000 in year one, \$10,000 in year two and \$15,000 annually thereafter, throughout the term of the affiliation.

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In Thousands)*

#### **13. Commitments and Contingencies (continued)**

In August 2015, Northwell entered into a clinical affiliation and collaboration agreement with Maimonides Medical Center (Maimonides), a not-for-profit acute care hospital located in Brooklyn, New York. The purpose of the affiliation is to pursue collaborative activities, such as clinical integration initiatives and ambulatory services joint ventures, as well as service agreements that may generate operational efficiencies. Under the terms of the affiliation agreement, Northwell and Maimonides will remain independent organizations governed by their respective Boards of Trustees. Pursuant to the affiliation agreement, the parties have also entered into an unsecured loan agreement, whereby Northwell has loaned a total of \$81,250 to Maimonides as of December 31, 2016, with an additional \$25,000 in February 2017 and a commitment to loan a total increasing to \$125,000 by August 2017. Payments on the loan and accrued interest thereon would not commence until the termination or expiration of the affiliation agreement. However, if Northwell becomes the sole member and corporate parent of Maimonides, outstanding amounts borrowed under the loan agreement, including accrued interest, will be forgiven.

In June 2016, Northwell executed a long-term lease for the site of the former Victory Memorial Hospital in the Bay Ridge section of Brooklyn. However, the lease will not become effective until certain contingencies and regulatory approvals are met. Plans are being developed to potentially use the site for a variety of health care programs to be delivered by Northwell, its strategic affiliate, Maimonides, and possibly other partners as part of Northwell's expansion plans into Brooklyn.

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

#### **14. Subsequent Events**

Management has evaluated the impact of subsequent events through April 28, 2017 representing the date at which the consolidated financial statements were issued. No events, aside from the additional loan to Maimonides disclosed in Note 13, have occurred that require disclosure in, or adjustment to, the consolidated financial statements.

## Supplementary Information

Northwell Health, Inc.

Consolidating Statement of Financial Position  
(In Thousands)

December 31, 2016

	Northwell Health, Inc. Total	Eliminations	Northwell Health Group	Phelps Memorial Hospital Association and Subsidiaries	Northern Westchester Hospital Association and Subsidiaries	Peconic Bay Medical Center	The Long Island Home	Hospice Care Network	The Feinstein Institute for Medical Research	Northwell Health Foundation	Northwell Health Laboratories	Regional Insurance Company	Dolan Family Health Center	Health Insurance Companies	Endoscopy Center of Long Island	Garden City SurgCenter	South Shore Surgery Center	Suffolk Surgery Center	Other Northwell Health Entities
<b>Assets</b>																			
Current assets:																			
Cash and cash equivalents	\$ 383,295	\$ —	\$ 127,466	\$ 41,505	\$ 12,154	\$ 28,583	\$ 3,212	\$ 13,732	\$ —	\$ 34,719	\$ —	\$ 44	\$ —	\$ 107,150	\$ 756	\$ 184	\$ 156	\$ 489	\$ 13,145
Short-term investments	2,464,366	—	2,178,163	8,207	42,852	4,413	75	23,765	20	6,677	—	41,428	598	158,168	—	—	—	—	—
Accounts receivable for services to patients, net of allowance for doubtful accounts	975,423	(25,152)	901,010	25,052	25,531	13,393	16,608	7,602	—	—	—	—	329	—	—	—	1,158	—	9,892
Accounts receivable for physician activities, net	127,718	(5,085)	106,588	3,142	1,864	1,855	—	—	—	—	—	—	—	—	—	—	—	1,034	18,320
Pledges receivable, current portion	46,197	—	—	—	—	1,250	—	97	—	44,591	—	—	—	—	—	—	—	—	259
Insurance claims receivable, current portion	71,014	(4,983)	73,336	111	480	—	1,636	39	90	5	300	—	—	—	—	—	—	—	—
Other current assets	269,472	(6,643)	179,280	6,800	6,494	6,545	1,736	243	16,013	547	18,688	1	914	28,790	16	—	386	493	9,169
Total current assets	4,337,485	(41,863)	3,565,843	84,817	89,375	56,039	23,267	45,478	16,123	86,539	18,988	41,473	1,841	294,108	772	184	1,700	2,016	50,785
Due from affiliates, net	—	(150,615)	—	4,168	—	—	—	—	—	11,145	60,519	39,789	—	34,968	—	—	26	—	—
Note receivable from affiliate	—	(46,989)	46,989	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Long-term investments	1,875,198	(238,275)	1,626,013	25,744	78,406	11,153	9,900	2,065	87,421	76,840	—	169,443	6,179	8,051	—	—	—	—	12,258
Pledges receivable, net of current portion	96,371	—	—	2,234	3,267	2,375	—	146	—	86,695	—	—	—	—	—	—	—	—	1,654
Property, plant and equipment, net	4,610,223	—	3,960,871	150,018	183,751	80,508	58,383	884	56,077	1,169	12,225	—	615	3,657	384	1,367	2,849	1,023	96,442
Insurance claims receivable, net of current portion	245,967	(168,157)	383,640	9,786	2,084	—	4,994	147	306	20	1,015	12,132	—	—	—	—	—	—	—
Other assets	199,020	(536,773)	665,313	5,611	8,321	5,230	8,742	216	32	—	—	1,800	—	—	30,168	6,417	4,150	5,358	(5,565)
Total assets	\$ 11,364,264	\$ (1,182,672)	\$ 10,248,669	\$ 282,378	\$ 365,204	\$ 155,305	\$ 105,286	\$ 48,936	\$ 159,959	\$ 262,408	\$ 92,747	\$ 264,637	\$ 8,635	\$ 340,784	\$ 31,324	\$ 7,968	\$ 8,725	\$ 8,397	\$ 155,574
<b>Liabilities and net assets (deficit)</b>																			
Current liabilities:																			
Short-term borrowings	\$ 110,218	\$ —	\$ 110,218	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Accounts payable and accrued expenses	857,584	(36,882)	597,901	12,193	19,731	18,142	6,344	2,339	10,580	858	25,995	294	193	160,610	66	237	705	108	38,170
Accrued salaries and related benefits	671,594	—	580,942	14,897	13,217	11,467	6,432	1,930	7,389	1,807	6,364	—	428	3,687	106	43	46	94	22,745
Current portion of capital lease obligations	3,470	—	1,797	—	—	1,673	—	—	—	—	—	—	—	—	—	—	—	—	—
Current portion of long-term debt	59,829	—	49,007	1,789	3,497	3,508	938	—	—	—	—	—	—	—	—	13	1,007	70	—
Current portion of insurance claims liability	71,014	(4,983)	73,336	111	480	—	1,636	39	90	5	300	—	—	—	—	—	—	—	—
Current portion of malpractice and other insurance liabilities	123,740	(1,164)	75,575	1,870	3,235	1,522	577	—	—	—	—	42,125	—	—	—	—	—	—	—
Current portion of estimated payables to third-party payers	320,126	—	165,965	—	315	7,712	2,511	—	—	—	21,664	—	8	121,917	—	—	—	—	34
Total current liabilities	2,217,575	(43,029)	1,654,741	30,860	40,475	44,024	18,438	4,308	18,059	2,670	54,323	42,419	629	286,214	172	293	1,758	272	60,949
Due to affiliates, net	—	(109,635)	15,013	—	6,070	607	6,396	642	8,673	—	—	—	10,417	—	432	2	—	56	61,327
Note payable to affiliate	—	(46,989)	—	—	—	—	46,989	—	—	—	—	—	—	—	—	—	—	—	—
Accrued retirement benefits, net of current portion	927,378	—	865,968	5,218	44,448	2,806	8,692	173	—	—	—	—	—	73	—	—	—	—	—
Capital lease obligations, net of current portion	173,108	—	170,192	—	—	2,916	—	—	—	—	—	—	—	—	—	—	—	—	—
Long-term debt, net of current portion	2,680,021	—	2,534,565	33,203	57,086	30,717	23,713	—	—	—	—	—	—	—	—	51	488	198	—
Insurance claims liability, net of current portion	245,967	(168,157)	383,640	9,786	2,084	—	4,994	147	306	20	1,015	12,132	—	—	—	—	—	—	—
Malpractice and other insurance liabilities, net of current portion	944,225	(39,275)	775,943	14,369	20,595	10,234	3,037	—	—	—	—	159,322	—	—	—	—	—	—	—
Other long-term liabilities	573,464	—	542,283	2,182	7,646	10,047	747	834	—	7,112	1,304	—	—	298	—	—	102	69	840
Total liabilities	7,761,738	(407,085)	6,942,345	95,618	178,404	101,351	113,006	6,104	27,038	9,802	56,642	213,873	11,046	286,585	604	346	2,348	595	123,116
Commitments and contingencies																			
Net assets (deficit):																			
Unrestricted	3,027,943	(489,774)	2,875,058	174,407	157,778	46,567	(7,720)	40,862	27,505	35	36,105	50,764	(8,608)	54,199	30,720	7,622	6,377	7,802	18,244
Temporarily restricted	393,610	(246,991)	352,179	8,792	21,975	6,600	—	1,592	62,292	171,163	—	—	1,794	—	—	—	—	—	14,214
Permanently restricted	180,973	(38,822)	79,087	3,561	7,047	787	—	378	43,124	81,408	—	—	4,403	—	—	—	—	—	—
Total net assets (deficit)	3,602,526	(775,587)	3,306,324	186,760	186,800	53,954	(7,720)	42,832	132,921	252,606	36,105	50,764	(2,411)	54,199	30,720	7,622	6,377	7,802	32,458
Total liabilities and net assets (deficit)	\$ 11,364,264	\$ (1,182,672)	\$ 10,248,669	\$ 282,378	\$ 365,204	\$ 155,305	\$ 105,286	\$ 48,936	\$ 159,959	\$ 262,408	\$ 92,747	\$ 264,637	\$ 8,635	\$ 340,784	\$ 31,324	\$ 7,968	\$ 8,725	\$ 8,397	\$ 155,574

The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

Northwell Health, Inc.

Combining Statement of Financial Position – Northwell Health Obligated Group  
(In Thousands)

December 31, 2016

	Total Obligated Group	Eliminations	Northwell Healthcare, Inc.	North Shore University Hospital	Long Island Jewish Medical Center (*)	Staten Island University Hospital	Lenox Hill Hospital	Southside Hospital	Huntington Hospital Association	Glen Cove Hospital	Plainview Hospital	Northwell Health Stern Family Center for Rehabilitation
<b>Assets</b>												
Current assets:												
Cash and cash equivalents	\$ 127,466	\$ –	\$ 99,778	\$ 9,605	\$ 1,097	\$ 15,802	\$ 937	\$ 38	\$ 202	\$ 5	\$ 1	\$ 1
Short-term investments	2,178,163	–	143,951	754,127	649,575	323,709	45,950	5,323	175,513	78,504	662	849
Accounts receivable for services to patients, net of allowance for doubtful accounts	901,010	–	–	217,297	284,165	124,344	131,416	57,174	45,558	12,838	19,052	9,166
Accounts receivable for physician activities, net	106,588	–	–	99,784	3,292	–	1,815	775	606	214	102	–
Insurance claims receivable, current portion	73,336	–	906	16,264	18,839	9,933	16,612	4,156	3,086	1,293	1,978	269
Other current assets	179,280	(3,000)	20,417	47,881	56,745	18,313	19,127	7,157	7,810	1,536	3,214	80
Total current assets	3,565,843	(3,000)	265,052	1,144,958	1,013,713	492,101	215,857	74,623	232,775	94,390	25,009	10,365
Due from affiliates, net	–	(263,347)	–	66,243	161,260	–	–	–	–	–	13,090	22,754
Note receivable from affiliate	46,989	–	46,989	–	–	–	–	–	–	–	–	–
Long-term investments	1,626,013	–	759,017	230,975	288,712	167,961	74,658	35,811	45,882	8,064	573	14,270
Property, plant and equipment, net	3,960,871	–	673,852	443,734	1,227,209	202,691	967,395	186,768	170,369	46,166	32,213	10,474
Insurance claims receivable, net of current portion	383,640	–	3,072	86,614	118,954	63,234	51,967	23,599	14,779	8,835	11,673	913
Other assets	665,313	(565,257)	1,042,943	136,738	13,797	11,788	23,914	1,390	–	–	–	–
Total assets	\$ 10,248,669	\$ (831,604)	\$ 2,791,015	\$ 2,109,262	\$ 2,823,645	\$ 937,775	\$ 1,333,791	\$ 322,191	\$ 463,805	\$ 157,455	\$ 82,558	\$ 58,776
<b>Liabilities and net assets (deficit)</b>												
Current liabilities:												
Short-term borrowings	\$ 110,218	\$ –	\$ –	\$ 7,500	\$ 102,718	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Accounts payable and accrued expenses	597,901	–	168,870	117,597	112,866	54,953	64,201	32,888	24,741	10,373	9,859	1,553
Accrued salaries and related benefits	580,942	–	193,834	102,235	123,107	48,332	45,576	26,091	21,837	6,595	11,139	2,196
Current portion of capital lease obligations	1,797	–	1,567	–	–	–	230	–	–	–	–	–
Current portion of long-term debt	49,007	–	756	9,942	19,545	8,453	4,915	1,145	1,170	749	1,521	811
Current portion of insurance claims liability	73,336	–	906	16,264	18,839	9,933	16,612	4,156	3,086	1,293	1,978	269
Current portion of malpractice and other insurance liabilities	75,575	–	20,539	14,453	17,345	9,337	5,184	3,745	2,188	1,280	1,504	–
Current portion of estimated payables to third-party payers	165,965	–	600	43,163	41,931	41,501	16,343	10,429	1,149	6,286	779	3,784
Total current liabilities	1,654,741	–	387,072	311,154	436,351	172,509	153,061	78,454	54,171	26,576	26,780	8,613
Due to affiliates, net	15,013	(388,140)	148,094	–	–	27,496	123,788	83,389	13,912	6,474	–	–
Accrued retirement benefits, net of current portion	865,968	–	188,412	151,921	79,368	2,997	202,033	71,581	121,971	16,318	26,422	4,945
Capital lease obligations, net of current portion	170,192	–	100,957	–	66,678	–	2,557	–	–	–	–	–
Long-term debt, net of current portion	2,534,565	–	1,194,611	115,687	867,512	74,807	114,258	70,116	77,078	6,652	9,938	3,906
Insurance claims liability, net of current portion	383,640	–	3,072	86,614	118,954	63,234	51,967	23,599	14,779	8,835	11,673	913
Malpractice and other insurance liabilities, net of current portion	775,943	–	97,975	185,394	216,952	95,743	67,573	47,982	36,459	12,042	15,823	–
Other long-term liabilities	542,283	–	617	129,062	230,078	47,987	58,410	42,118	11,325	6,860	15,109	717
Total liabilities	6,942,345	(388,140)	2,120,810	979,832	2,015,893	484,773	773,647	417,239	329,695	83,757	105,745	19,094
Commitments and contingencies												
Net assets (deficit):												
Unrestricted	2,875,058	(348,912)	526,880	1,020,614	688,749	440,662	465,592	(118,189)	122,629	61,840	(23,651)	38,844
Temporarily restricted	352,179	(69,633)	107,011	80,718	109,843	10,856	69,633	23,141	10,318	8,990	464	838
Permanently restricted	79,087	(24,919)	36,314	28,098	9,160	1,484	24,919	–	1,163	2,868	–	–
Total net assets (deficit)	3,306,324	(443,464)	670,205	1,129,430	807,752	453,002	560,144	(95,048)	134,110	73,698	(23,187)	39,682
Total liabilities and net assets (deficit)	\$ 10,248,669	\$ (831,604)	\$ 2,791,015	\$ 2,109,262	\$ 2,823,645	\$ 937,775	\$ 1,333,791	\$ 322,191	\$ 463,805	\$ 157,455	\$ 82,558	\$ 58,776

(\*) Effective January 14, 2016, Forest Hills Hospital and Franklin Hospital merged into Long Island Jewish Medical Center.

The combining schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in combination, the schedules are not intended to present the financial position or results of operations of the individual entities.



# Northwell Health, Inc.

## Consolidating Statement of Financial Position – Phelps Memorial Hospital (In Thousands)

December 31, 2016

	Phelps Memorial Hospital Association and Subsidiaries	Eliminations	Phelps Memorial Hospital Association	Phelps Professional Building Co.	Phelps Medical Associates
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 41,505	\$ –	\$ 38,231	\$ 1,401	\$ 1,873
Short-term investments	8,207	–	8,207	–	–
Accounts receivable for services to patients, net of allowance for doubtful accounts	25,052	–	25,052	–	–
Accounts receivable for physician activities, net	3,142	–	1,697	–	1,445
Insurance claims receivable, current	111	–	111	–	–
Other current assets	6,800	–	6,541	259	–
Total current assets	84,817	–	79,839	1,660	3,318
Due from affiliates, net	4,168	(2,509)	6,677	–	–
Long-term investments	25,744	–	25,744	–	–
Pledges receivable, net of current portion	2,234	–	2,234	–	–
Property, plant and equipment, net	150,018	–	140,155	9,446	417
Insurance claims receivable, net of current portion	9,786	–	9,786	–	–
Other assets	5,611	(1,860)	7,471	–	–
Total assets	\$ 282,378	\$ (4,369)	\$ 271,906	\$ 11,106	\$ 3,735
<b>Liabilities and net assets (deficit)</b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 12,193	\$ –	\$ 12,017	\$ 54	\$ 122
Accrued salaries and related benefits	14,897	–	13,549	–	1,348
Current portion of long-term debt	1,789	–	1,590	199	–
Current portion of insurance claims liability	111	–	111	–	–
Current portion of malpractice and other insurance liabilities	1,870	–	1,870	–	–
Total current liabilities	30,860	–	29,137	253	1,470
Due to affiliates, net	–	(2,509)	151	–	2,358
Accrued retirement benefits, net of current portion	5,218	–	5,218	–	–
Long-term debt, net of current portion	33,203	–	29,845	3,358	–
Insurance claims liability, net of current portion	9,786	–	9,786	–	–
Malpractice and other insurance liabilities, net of current portion	14,369	–	14,369	–	–
Other long-term liabilities	2,182	–	2,182	–	–
Total liabilities	95,618	(2,509)	90,688	3,611	3,828
Commitments and contingencies					
Net assets (deficit):					
Unrestricted	174,407	(1,860)	168,865	7,495	(93)
Temporarily restricted	8,792	–	8,792	–	–
Permanently restricted	3,561	–	3,561	–	–
Total net assets (deficit)	186,760	(1,860)	181,218	7,495	(93)
Total liabilities and net assets (deficit)	\$ 282,378	\$ (4,369)	\$ 271,906	\$ 11,106	\$ 3,735

The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

# Northwell Health, Inc.

## Consolidating Statement of Financial Position – Northern Westchester Hospital (In Thousands)

December 31, 2016

	Northern Westchester Hospital Association and Subsidiaries	Eliminations	Northern Westchester Hospital Association	Northern Westchester Hospital Center Foundation	Other Subsidiaries
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 12,154	\$ —	\$ 11,949	\$ —	\$ 205
Short-term investments	42,852	—	42,852	—	—
Accounts receivable for services to patients, net of allowance for doubtful accounts	25,531	—	25,531	—	—
Accounts receivable for physician activities, net	1,864	—	1,864	—	—
Insurance claims receivable, current	480	—	480	—	—
Other current assets	6,494	—	6,420	—	74
Total current assets	89,375	—	89,096	—	279
Due from affiliates, net	—	(875)	—	—	875
Long-term investments	78,406	—	54,345	24,061	—
Pledges receivable, net of current portion	3,267	—	—	3,267	—
Property, plant and equipment, net	183,751	—	168,929	—	14,822
Insurance claims receivable, net of current portion	2,084	—	2,084	—	—
Other assets	8,321	—	7,461	—	860
Total assets	\$ 365,204	\$ (875)	\$ 321,915	\$ 27,328	\$ 16,836
<b>Liabilities and net assets</b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 19,731	\$ —	\$ 19,367	\$ 24	\$ 340
Accrued salaries and related benefits	13,217	—	13,181	36	—
Current portion of long-term debt	3,497	—	3,497	—	—
Current portion of insurance claims liability	480	—	480	—	—
Current portion of malpractice and other insurance liabilities	3,235	—	3,235	—	—
Current portion of estimated payables to third-party payers	315	—	315	—	—
Total current liabilities	40,475	—	40,075	60	340
Due to affiliates, net	6,070	(875)	314	213	6,418
Accrued retirement benefits, net of current portion	44,448	—	44,448	—	—
Long-term debt, net of current portion	57,086	—	57,086	—	—
Insurance claims liability, net of current portion	2,084	—	2,084	—	—
Malpractice and other insurance liabilities, net of current portion	20,595	—	20,595	—	—
Other long-term liabilities	7,646	—	6,592	—	1,054
Total liabilities	178,404	(875)	171,194	273	7,812
Commitments and contingencies					
Net assets:					
Unrestricted	157,778	—	145,522	3,232	9,024
Temporarily restricted	21,975	—	4,289	17,686	—
Permanently restricted	7,047	—	910	6,137	—
Total net assets	186,800	—	150,721	27,055	9,024
Total liabilities and net assets	\$ 365,204	\$ (875)	\$ 321,915	\$ 27,328	\$ 16,836

The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

Northwell Health, Inc.

Consolidating Statement of Operations  
(In Thousands)

Year Ended December 31, 2016

	Northwell Health, Inc. Total	Eliminations	Northwell Health Obligated Group	Phelps Memorial Hospital Association and Subsidiaries	Northern Westchester Hospital Association and Subsidiaries	Peconic Bay Medical Center (*)	The Long Island Home	Hospice Care Network	The Feinstein Institute for Medical Research	Northwell Health Foundation	Northwell Health Laboratories	Regional Insurance Company	Dolan Family Health Center	Health Insurance Companies	Endoscopy Center of Long Island	Garden City Surge Center	South Shore Surgery Center	Suffolk Surgery Center	Other Northwell Health Entities
Operating revenue:																			
Net patient service revenue	\$ 7,625,675	\$ (149,361)	\$ 6,875,020	\$ 221,861	\$ 261,669	\$ 160,564	\$ 115,289	\$ 49,104	\$ 52	\$ --	\$ --	\$ --	\$ 4,736	\$ --	\$ 18,312	\$ 9,613	\$ 7,317	\$ 1,065	\$ 50,434
Physician practice revenue	1,282,059	(45,148)	981,722	26,980	9,900	16,877	2,174	510	--	--	--	--	--	--	--	--	--	--	289,044
Provision for bad debts	(120,411)	13	(102,879)	(2,009)	(4,933)	(3,598)	(2,686)	(225)	--	--	(914)	--	(3)	--	--	--	--	--	(3,177)
Total patient revenue, net of provision for bad debts	8,787,323	(194,496)	7,753,863	246,832	266,636	173,843	114,777	49,389	52	--	(914)	--	4,733	--	18,312	9,613	7,317	1,065	336,301
Other operating revenue	546,592	(631,540)	544,953	8,086	5,613	3,455	569	6	46,959	--	358,813	(9,869)	2,191	--	--	10	--	--	210,358
Health insurance premium revenue	548,884	--	--	--	--	--	--	--	--	--	--	--	--	548,884	--	--	--	--	--
Net assets released from restrictions used for operations	55,669	--	40,033	328	1,208	1,000	--	1,027	11,653	--	--	--	220	--	--	--	--	--	--
Total operating revenue	9,938,268	(826,036)	8,338,849	255,246	273,457	178,298	115,346	50,422	58,664	--	357,899	(9,869)	7,144	555,872	18,312	9,623	7,317	1,065	546,659
Operating expenses:																			
Salaries	4,752,362	(69,911)	3,969,043	135,165	114,845	76,225	69,350	19,427	57,462	--	78,388	--	4,127	32,190	2,007	2,391	1,601	290	259,762
Employee benefits	1,209,209	(41,780)	1,030,163	35,987	36,345	18,478	22,997	4,956	16,694	--	26,005	--	1,650	5,902	353	383	236	26	50,814
Supplies and expenses	3,354,640	(707,812)	2,573,440	68,157	94,797	73,151	23,446	21,302	23,965	--	226,549	(7,125)	2,307	685,971	5,073	4,663	2,890	445	262,221
Depreciation and amortization	410,939	--	368,565	9,942	10,727	5,171	2,656	311	5,939	--	1,855	--	90	710	26	76	307	114	4,450
Interest	115,231	(613)	108,921	1,257	1,654	2,109	1,768	--	--	--	--	--	--	--	--	1	70	2	--
Total operating expenses	9,842,401	(819,916)	8,650,132	256,508	258,368	175,104	120,217	45,996	105,960	--	332,797	(7,125)	8,174	723,873	7,459	7,516	5,104	877	577,247
Excess (deficiency) of operating revenue over operating expenses	95,867	(6,120)	288,717	4,738	15,089	3,104	(4,891)	4,426	(47,296)	--	25,102	(2,744)	(1,030)	(168,001)	10,853	2,107	2,213	188	(30,588)
Non-operating gains and losses:																			
Investment income (loss)	67,680	--	61,359	311	539	219	50	623	28	85	(61)	4,956	--	(264)	(22)	(43)	(13)	(1)	(86)
Change in net unrealized gains and losses and change in value of equity method investments	117,864	--	108,050	1,010	137	1,994	--	274	4	126	--	7,991	--	(1,722)	--	--	--	--	--
Change in interest in acquired entities	--	(58,001)	63,244	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	(5,243)
Change in fair value of interest rate swap agreements designated as derivative instruments	190	--	190	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Contribution received in the acquisition of Peconic Bay Medical Center	36,343	--	36,343	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Other non-operating gains and losses	24,690	--	33,825	368	(168)	2,740	--	845	--	(12,491)	--	--	--	--	--	--	--	--	--
Total non-operating gains and losses	246,767	(58,001)	303,011	1,689	508	4,962	50	1,442	32	(12,409)	(61)	17,947	--	(1,986)	(22)	(43)	(13)	(1)	(5,267)
Excess (deficiency) of revenue and gains and losses over expenses	342,634	(64,121)	591,728	6,427	15,597	8,066	(4,841)	5,868	(47,264)	(12,480)	25,041	10,203	(1,030)	(169,987)	10,831	2,064	2,200	187	(35,855)
Net assets released from restrictions for capital asset acquisitions	33,877	--	33,615	27	--	--	--	--	235	--	--	--	--	--	--	--	--	--	--
Change in fair value of interest rate swap agreements designated as cash flow hedges	2,402	--	799	--	--	1,189	414	--	--	--	--	--	--	--	--	--	--	--	--
Recovery of fair value of endowment corpus	608	--	180	--	--	--	--	--	325	--	--	--	--	--	--	--	--	--	--
Transfers (to) from affiliates	--	6,120	(312,246)	14,895	15,000	744	--	--	46,704	11,000	(6,120)	--	--	191,916	--	--	--	--	32,007
Pension and other postretirement liability adjustments	(56,801)	--	(49,580)	--	--	(6,630)	225	--	(816)	--	--	--	--	--	--	--	--	--	--
Other changes in net assets	(5,698)	10,313	--	(326)	--	--	--	--	--	--	--	--	--	(550)	(10,900)	--	--	--	(976)
Increase (decrease) in unrestricted net assets	\$ 317,022	\$ (47,688)	\$ 264,476	\$ 21,023	\$ 23,967	\$ 10,224	\$ (5,243)	\$ 5,868	\$ --	\$ (1,377)	\$ 18,921	\$ 10,203	\$ (1,030)	\$ 21,379	\$ (69)	\$ 326	\$ 679	\$ 187	\$ (4,824)

(\*) Peconic Bay Medical Center's operating results above are from the January 15, 2016 acquisition date forward.

The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

Northwell Health, Inc.

Combining Statement of Operations – Northwell Health Obligated Group  
(In Thousands)

Year Ended December 31, 2016

	Total Obligated Group	Eliminations	Northwell Healthcare, Inc.	North Shore University Hospital	Long Island Jewish Medical Center (*)	Staten Island University Hospital	Lenox Hill Hospital	Southside Hospital	Huntington Hospital Association	Glen Cove Hospital	Plainview Hospital	Forest Hills Hospital (*)	Franklin Hospital (*)	Northwell Health Stern Family Center for Rehabilitation
Operating revenue:														
Net patient service revenue	\$ 6,875,020	\$ (373)	\$ —	\$ 1,764,008	\$ 2,117,007	\$ 880,783	\$ 972,987	\$ 425,047	\$ 341,739	\$ 109,498	\$ 193,714	\$ 8,529	\$ 6,810	\$ 55,271
Physician practice revenue	981,722	—	—	384,067	332,992	77	72,666	87,310	63,263	17,228	21,914	768	523	914
Provision for bad debts	(102,879)	6,027	—	(37,756)	(30,475)	(8,961)	(14,700)	(7,896)	(3,571)	(2,158)	(2,417)	(264)	(276)	(432)
Total patient revenue, net of provision for bad debts	7,753,863	5,654	—	2,110,319	2,419,524	871,899	1,030,953	504,461	401,431	124,568	213,211	9,033	7,057	55,753
Other operating revenue	544,953	(1,164,395)	1,083,405	281,074	150,192	24,563	130,373	18,616	5,933	5,377	9,034	96	155	530
Net assets released from restrictions used for operations	40,033	—	1,163	14,470	15,816	766	7,668	77	73	—	—	—	—	—
Total operating revenue	8,338,849	(1,158,741)	1,084,568	2,405,863	2,585,532	897,228	1,168,994	523,154	407,437	129,945	222,245	9,129	7,212	56,283
Operating expenses:														
Salaries	3,969,043	(377,272)	359,581	1,159,745	1,205,484	387,668	557,868	268,750	186,633	73,755	106,440	4,844	3,807	31,740
Employee benefits	1,030,163	(83,347)	92,139	240,872	314,703	130,632	139,947	74,068	53,233	18,547	34,895	1,622	1,243	11,609
Supplies and expenses	2,573,440	(698,122)	494,828	820,634	805,304	316,384	401,074	172,643	135,790	38,749	69,707	2,621	1,893	11,935
Depreciation and amortization	368,565	—	94,595	65,437	94,147	27,589	44,130	14,771	15,295	6,416	4,194	310	178	1,503
Interest	108,921	—	43,262	5,608	45,554	4,522	5,307	1,789	1,804	307	511	21	24	212
Total operating expenses	8,050,132	(1,158,741)	1,084,405	2,292,296	2,465,192	866,795	1,148,326	532,021	392,755	137,774	215,747	9,418	7,145	56,999
Excess (deficiency) of operating revenue over operating expenses	288,717	—	163	113,567	120,340	30,433	20,668	(8,867)	14,682	(7,829)	6,498	(289)	67	(716)
Non-operating gains and losses:														
Investment income (loss)	61,359	—	6,855	21,174	16,097	10,831	630	94	3,587	2,007	(55)	(1)	(1)	141
Change in net unrealized gains and losses and change in value of equity method investments	108,050	—	13,274	34,476	28,506	19,162	2,031	347	7,130	3,094	—	—	1	29
Change in interest in acquired entities	63,244	(22,284)	77,503	8,025	—	—	—	—	—	—	—	—	—	—
Change in fair value of interest rate swap agreements designated as derivative instruments	190	—	—	—	—	190	—	—	—	—	—	—	—	—
Contribution received in the acquisition of Peconic Bay Medical Center	36,343	—	36,343	—	—	—	—	—	—	—	—	—	—	—
Other non-operating gains and losses	33,825	—	—	16,967	20,491	(3,633)	—	—	—	—	—	—	—	—
Total non-operating gains and losses	303,011	(22,284)	133,975	80,642	65,094	26,550	2,661	441	10,717	5,101	(55)	(1)	—	170
Excess (deficiency) of revenue and gains and losses over expenses	591,728	(22,284)	134,138	194,209	185,434	56,983	23,329	(8,426)	25,399	(2,728)	6,443	(290)	67	(546)
Net assets released from restrictions for capital asset acquisitions	33,615	—	761	3,989	19,103	1,263	8,187	249	63	—	—	—	—	—
Change in fair value of interest rate swap agreements designated as cash flow hedges	799	—	—	288	511	—	—	—	—	—	—	—	—	—
Recovery of fair value of endowment corpus	180	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers (to) from affiliates	(312,266)	—	(266,353)	(25,538)	(74,250)	—	—	857	—	—	—	3,837	49,181	—
Pension and other postretirement liability adjustments	(49,580)	—	(4,390)	(11,817)	(8,584)	335	(9,232)	1,673	(12,049)	(1,750)	(3,242)	—	—	(524)
Increase (decrease) in unrestricted net assets	\$ 264,476	\$ (22,284)	\$ (135,844)	\$ 161,311	\$ 122,214	\$ 58,581	\$ 22,284	\$ (5,647)	\$ 13,413	\$ (4,478)	\$ 3,201	\$ 3,547	\$ 49,248	\$ (1,070)

(\*)Effective January 14, 2016, Forest Hills Hospital and Franklin Hospital merged into Long Island Jewish Medical Center. As such, the Forest Hills Hospital and Franklin Hospital columns above only reflect the results of operations through January 13, 2016. Beginning January 14, 2016, the operating results of these hospitals are included with the Long Island Jewish Medical Center column.

The combining schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in combination, the schedules are not intended to present the financial position or results of operations of the individual entities.

# Northwell Health, Inc.

## Consolidating Statement of Operations – Phelps Memorial Hospital (In Thousands)

Year Ended December 31, 2016

	Phelps Memorial Hospital Association and Subsidiaries	Eliminations	Phelps Memorial Hospital Association	Phelps Professional Building Co.	Phelps Medical Associates
Operating revenue:					
Net patient service revenue	\$ 221,861	\$ —	\$ 221,861	\$ —	\$ —
Physician practice revenue	26,980	—	9,886	—	17,094
Provision for bad debts	(2,009)	—	(2,006)	—	(3)
Total patient revenue, net of provision for bad debts	246,832	—	229,741	—	17,091
Other operating revenue	8,086	(2,404)	7,801	2,190	499
Net assets released from restrictions used for operations	328	—	328	—	—
Total operating revenue	255,246	(2,404)	237,870	2,190	17,590
Operating expenses:					
Salaries	135,165	—	114,932	—	20,233
Employee benefits	35,987	—	31,260	—	4,727
Supplies and expenses	68,157	(2,404)	64,089	968	5,504
Depreciation and amortization	9,942	—	9,631	287	24
Interest	1,257	—	1,089	168	—
Total operating expenses	250,508	(2,404)	221,001	1,423	30,488
Excess (deficiency) of operating revenue over operating expenses	4,738	—	16,869	767	(12,898)
Non-operating gains and losses:					
Investment income	311	—	311	—	—
Change in net unrealized gains and losses and change in value of equity method investments	1,010	—	1,010	—	—
Change in interest in Phelps Professional Building Co.	—	(582)	582	—	—
Other non-operating gains and losses	368	—	368	—	—
Total non-operating gains and losses	1,689	(582)	2,271	—	—
Excess (deficiency) of revenue and gains and losses over expenses	6,427	(582)	19,140	767	(12,898)
Net assets released from restrictions for capital asset acquisitions	27	—	27	—	—
Transfers from affiliates	14,895	—	2,106	—	12,789
Other changes in net assets	(326)	802	—	(1,128)	—
Increase (decrease) in unrestricted net assets	\$ 21,023	\$ 220	\$ 21,273	\$ (361)	\$ (109)

The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

# Northwell Health, Inc.

## Consolidating Statement of Operations – Northern Westchester Hospital (In Thousands)

Year Ended December 31, 2016

	Northern Westchester Hospital Association and Subsidiaries	Northern Westchester Hospital Association	Northern Westchester Hospital Center Foundation	Other Subsidiaries
Operating revenue:				
Net patient service revenue	\$ 261,669	\$ 261,669	\$ —	\$ —
Physician practice revenue	9,900	9,900	—	—
Provision for bad debts	(4,933)	(4,933)	—	—
Total patient revenue, net of provision for bad debts	266,636	266,636	—	—
Other operating revenue	5,613	3,968	—	1,645
Net assets released from restrictions used for operations	1,208	1,208	—	—
Total operating revenue	273,457	271,812	—	1,645
Operating expenses:				
Salaries	114,845	114,794	—	51
Employee benefits	36,345	36,345	—	—
Supplies and expenses	94,797	93,777	—	1,020
Depreciation and amortization	10,727	10,197	—	530
Interest	1,654	1,654	—	—
Total operating expenses	258,368	256,767	—	1,601
Excess of operating revenue over operating expenses	15,089	15,045	—	44
Non-operating gains and losses:				
Investment income	539	64	1	474
Change in net unrealized gains and losses and change in value of equity method investments	137	137	—	—
Other non-operating gains and losses	(168)	522	(690)	—
Total non-operating gains and losses	508	723	(689)	474
Excess (deficiency) of revenue and gains and losses over expenses	15,597	15,768	(689)	518
Transfers from affiliates	15,000	15,000	—	—
Pension and other postretirement liability adjustments	(6,630)	(6,630)	—	—
Increase (decrease) in unrestricted net assets	\$ 23,967	\$ 24,138	\$ (689)	\$ 518

The consolidating schedules are presented for supplementary informational purposes. Due to the effects of intercompany transactions, which are eliminated in consolidation, the schedules are not intended to present the financial position or results of operations of the individual entities.

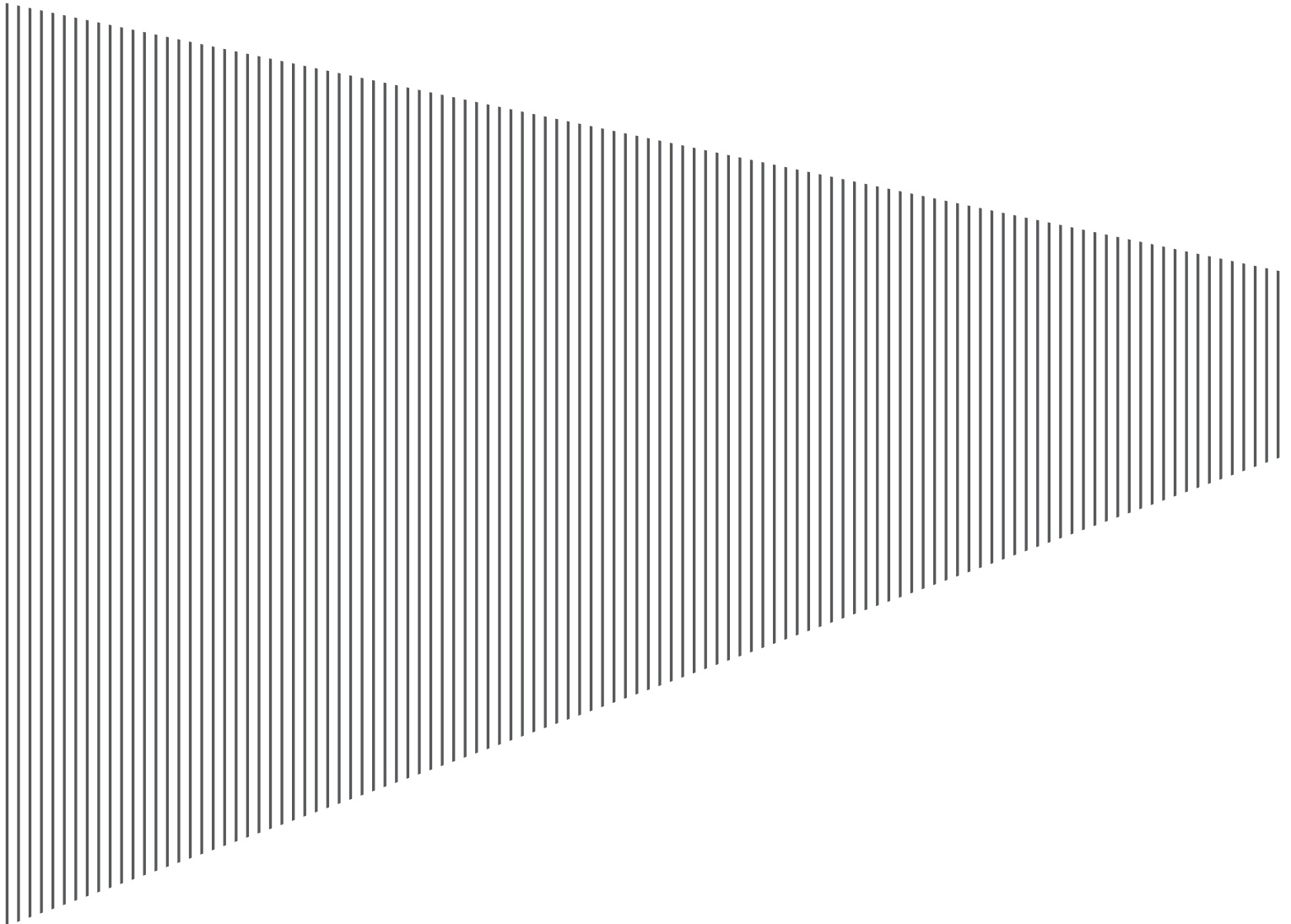
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**APPENDIX B-2**

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF NORTHWELL  
HEALTH, INC. FOR THE SIX MONTHS ENDED  
JUNE 30, 2017 AND 2016**

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**Northwell Health, Inc.**  
**Consolidated Financial Statements and Supplementary Information**  
**For the Six Months Ended June 30, 2017 and 2016**

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**Northwell Health, Inc.**

**Consolidated Statements of Financial Position**  
**June 30, 2017 and December 31, 2016 (In Thousands)**

	(Unaudited) June 30, 2017	(Audited) December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 450,888	\$ 383,295
Short-term investments	2,438,185	2,464,366
Accounts receivable for services to patients, net of allowance for doubtful accounts	1,040,654	975,423
Accounts receivable for physician activities, net	133,486	127,718
Pledges receivable, current portion	52,001	46,197
Insurance claims receivable, current portion	71,010	71,014
Other current assets	299,870	269,472
Total current assets	4,486,094	4,337,485
Long-term investments	1,854,488	1,875,198
Pledges receivable, net of current portion	107,312	96,371
Property, plant and equipment, net	4,738,971	4,610,223
Insurance claims receivable, net of current portion	217,934	245,967
Other assets	241,127	199,020
Total assets	<u>\$ 11,645,926</u>	<u>\$ 11,364,264</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Short-term borrowings	\$ 110,218	\$ 110,218
Accounts payable and accrued expenses	887,636	857,584
Accrued salaries and related benefits	651,815	671,594
Current portion of capital lease obligations	3,379	3,470
Current portion of long-term debt	60,750	59,829
Current portion of insurance claims liability	71,010	71,014
Current portion of malpractice and other insurance liabilities	123,762	123,740
Current portion of estimated payable to third-party payers	413,981	320,126
Total current liabilities	2,322,551	2,217,575
Accrued retirement benefits, net of current portion	869,738	927,378
Capital lease obligations, net of current portion	171,646	173,108
Long-term debt, net of current portion	2,634,896	2,680,021
Insurance claims liability, net of current portion	217,934	245,967
Malpractice and other insurance liabilities, net of current portion	1,004,007	944,225
Other long-term liabilities	551,413	573,464
Total liabilities	7,772,185	7,761,738
Commitments and contingencies		
Net assets:		
Unrestricted	3,273,214	3,027,943
Temporarily restricted	420,003	393,610
Permanently restricted	180,524	180,973
Total net assets	3,873,741	3,602,526
Total liabilities and net assets	<u>\$ 11,645,926</u>	<u>\$ 11,364,264</u>

See accompanying notes.

**Northwell Health, Inc.**

**Consolidated Statements of Operations**

**For the Six Months Ended June 30, 2017 and 2016 (In Thousands)**

	(Unaudited) <b>2017</b>	(Unaudited) <b>2016</b>
Operating revenue:		
Net patient service revenue	\$ 3,883,875	\$ 3,732,766
Physician practice revenue	710,625	620,731
Provision for bad debts	(62,715)	(60,842)
Total patient revenue, net of provision for bad debts	4,531,785	4,292,655
Other operating revenue	307,248	248,162
Health insurance premium revenue	403,395	253,543
Net assets released from restrictions used for operations	34,828	28,516
Total operating revenue	5,277,256	4,822,876
Operating expenses:		
Salaries	2,542,607	2,302,818
Employee benefits	615,751	589,205
Supplies and expenses	1,811,270	1,588,742
Depreciation and amortization	223,537	203,563
Interest	61,498	54,860
Total operating expenses	5,254,663	4,739,188
Excess of operating revenue over operating expenses	22,593	83,688
Non-operating gains and losses:		
Investment income	51,698	16,442
Change in net unrealized gains and losses and change in value of equity method investments	157,973	50,862
Change in fair value of interest rate swap agreements designated as derivative instruments	-	190
Non-operating net periodic benefit cost	(14,533)	(17,205)
Contribution received in the acquisition of Peconic Bay Medical Center	-	36,343
Other non-operating gains and losses	(3,307)	(4,319)
Total non-operating gains and losses	191,831	82,313
Excess of revenue and gains and losses over expenses	214,424	166,001
Net assets released from restrictions for capital asset acquisitions	32,452	24,573
Change in fair value of interest rate swap agreements designated as cash flow hedges	1,293	(776)
Recovery of fair value of endowment corpus	-	502
Other changes in net assets	(2,898)	(3,280)
Increase in unrestricted net assets	\$ 245,271	\$ 187,020

*See accompanying notes.*

**Northwell Health, Inc.**

**Consolidated Statements of Changes in Net Assets  
For the Six Months Ended June 30, 2017 and 2016 (In Thousands)**

	(Unaudited)			
	<b>Total</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Net assets, December 31, 2015	\$ 3,239,040	\$ 2,710,921	\$ 363,573	\$ 164,546
Contributions and grants	44,956	-	41,912	3,044
Investment income	2,167	-	2,167	-
Change in net unrealized gains and losses and change in value of equity method investments	1,527	-	1,527	-
Contribution received in the acquisition of Peconic Bay Medical Center	3,285	-	2,498	787
Excess of revenue and gains and losses over expenses	166,001	166,001	-	-
Net assets released from restrictions for:				
Capital asset acquisitions	-	24,573	(24,573)	-
Operations	(28,516)	-	(28,516)	-
Non-operating activities	(9,322)	-	(9,322)	-
Change in fair value of interest rate swap agreements designated as cash flow hedges	(776)	(776)	-	-
Recovery of fair value of endowment corpus	-	502	(502)	-
Other changes in net assets	(3,280)	(3,280)	-	-
Increase (decrease) in net assets	176,042	187,020	(14,809)	3,831
Net assets, June 30, 2016	\$ 3,415,082	\$ 2,897,941	\$ 348,764	\$ 168,377

	(Unaudited)			
	<b>Total</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Net assets, December 31, 2016	\$ 3,602,526	\$ 3,027,943	\$ 393,610	\$ 180,973
Contributions and grants	84,848	-	84,626	222
Investment income	6,170	-	6,170	-
Change in net unrealized gains and losses and change in value of equity method investments	12,011	-	12,011	-
Excess of revenue and gains and losses over expenses	214,424	214,424	-	-
Net assets released from restrictions for:				
Capital asset acquisitions	-	32,452	(32,452)	-
Operations	(34,828)	-	(34,828)	-
Non-operating activities	(9,134)	-	(9,134)	-
Change in fair value of interest rate swap agreements designated as cash flow hedges	1,293	1,293	-	-
Other changes in net assets	(3,569)	(2,898)	-	(671)
Increase (decrease) in net assets	271,215	245,271	26,393	(449)
Net assets, June 30, 2017	\$ 3,873,741	\$ 3,273,214	\$ 420,003	\$ 180,524

*See accompanying notes.*

**Northwell Health, Inc.**

**Consolidated Statements of Cash Flows**

**For the Six Months Ended June 30, 2017 and 2016 (In Thousands)**

	(Unaudited) <b>2017</b>	(Unaudited) <b>2016</b>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 271,215	\$ 176,042
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Contribution received in the acquisition of Peconic Bay Medical Center	-	(39,628)
Permanently restricted contributions	(222)	(3,044)
Depreciation and amortization	223,537	203,563
Amortization of bond premiums, discounts and financing costs	(977)	(1,001)
Net realized gains and losses, change in net unrealized gains and losses and change in value of equity method investments	(217,073)	(57,689)
Change in fair value of interest rate swap agreements	(1,293)	586
Changes in operating assets and liabilities:		
Accounts receivable for services to patients, net	(65,231)	(110,483)
Accounts receivable for physician activities, net	(5,768)	(490)
Pledges receivable	(17,220)	4,425
Current portion of estimated payable to third party-payers	93,855	91,408
Accrued retirement benefits, net of current portion	(57,640)	23,696
Malpractice and other insurance liabilities	59,804	35,236
Net change in all other operating assets and liabilities	(53,674)	(11,926)
Net cash provided by operating activities	<u>229,313</u>	<u>310,695</u>
<b>Cash flows from investing activities</b>		
Capital expenditures	(352,285)	(287,977)
Net cash from sale of short-term and long-term investments	264,008	2,251
Cash received in the acquisition of Peconic Bay Medical Center	-	19,100
Payments for clinical joint venture and other investments, net	(29,360)	(14,500)
Net cash used in investing activities	<u>(117,637)</u>	<u>(281,126)</u>
<b>Cash flows from financing activities</b>		
Principal payments on long-term debt and capital lease obligations	(44,780)	(39,815)
Payments on short-term borrowings	(5,000)	-
Proceeds from short-term borrowings	5,000	-
Proceeds from permanently restricted contributions	697	996
Net cash used in financing activities	<u>(44,083)</u>	<u>(38,819)</u>
Net increase (decrease) in cash and cash equivalents	67,593	(9,250)
Cash and cash equivalents, beginning of period	383,295	432,829
Cash and cash equivalents, end of period	<u>\$ 450,888</u>	<u>\$ 423,579</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the period for interest (exclusive of amount capitalized)	<u>\$ 61,809</u>	<u>\$ 54,347</u>

*See accompanying notes.*

Northwell Health, Inc.

Consolidating Statement of Financial Position  
June 30, 2017 (Unaudited and In Thousands)

	Northwell Health, Inc. Total	Eliminations	Northwell Health Obligated Group	Pheips Memorial Hospital Association and Subsidiaries	Northern Westchester Hospital Association and Subsidiaries	Peconic Bay Medical Center	The Long Island Home	Hospice Care Network	The Feinstein Institute for Medical Research	Northwell Health Foundation	Northwell Health Laboratories	Regional Insurance Company	Dolan Family Health Center	Health Insurance Companies	Joint Venture Ambulatory Surgery Centers	Other Northwell Health Entities
<b>Assets</b>																
Current assets:																
Cash and cash equivalents	\$450,888	\$-	\$145,297	\$36,789	\$24,008	\$25,806	\$3,023	\$15,036	\$-	\$39,220	\$-	\$100	\$-	\$147,094	\$2,420	\$12,095
Short-term investments	2,438,185	-	2,127,202	22,964	61,111	1,222	82	27,256	20	7,131	-	41,428	689	149,080	-	-
Accounts receivable for services to patients, net of allowance for doubtful accounts	1,040,654	(29,082)	967,912	27,067	23,628	13,697	17,771	6,630	-	-	-	-	293	-	2,470	10,268
Accounts receivable for physician activities, net	133,486	(5,120)	100,508	3,142	1,980	3,832	-	-	-	-	-	-	-	-	-	29,144
Pledges receivable, current portion	52,001	-	-	-	-	1,250	-	97	-	50,397	-	-	-	-	-	257
Insurance claims receivable, current portion	71,010	(4,983)	73,335	111	480	-	1,636	35	90	6	300	-	-	-	-	-
Other current assets	299,870	(3,719)	196,723	10,266	5,668	7,528	1,826	159	15,676	714	19,852	21	611	30,625	897	13,023
Total current assets	4,486,094	(42,904)	3,610,977	100,339	116,875	53,335	24,338	49,213	15,786	97,468	20,152	41,549	1,593	326,799	5,787	64,787
Due from affiliates, net	-	(190,861)	42,375	86	-	159	-	-	-	-	80,924	34,587	-	32,730	-	-
Note receivable from affiliate	-	(56,989)	56,989	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-term investments	1,854,488	(255,204)	1,542,619	28,025	62,250	10,655	9,900	1,765	87,728	89,865	-	182,436	6,728	73,418	-	14,303
Pledges receivable, net of current portion	107,312	-	-	2,063	2,017	2,375	-	146	-	99,121	-	-	-	-	-	1,590
Property, plant and equipment, net	4,738,971	-	4,055,761	155,665	192,410	84,129	59,957	746	54,864	1,135	20,262	-	988	3,449	5,803	103,802
Insurance claims receivable, net of current portion	217,934	(168,157)	358,022	9,742	2,062	-	4,994	103	266	17	885	10,000	-	-	-	-
Other assets	241,127	(580,497)	734,426	5,597	8,088	9,720	8,742	216	-	288	-	-	-	-	50,420	4,127
Total assets	\$11,645,926	(\$1,294,612)	\$10,401,169	\$301,517	\$383,702	\$160,373	\$107,931	\$52,189	\$158,644	\$287,894	\$122,223	\$268,572	\$9,309	\$436,396	\$62,010	\$188,609
<b>Liabilities and net assets (deficit)</b>																
Current liabilities:																
Short-term borrowings	\$110,218	\$-	\$110,218	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Accounts payable and accrued expenses	887,636	(37,924)	596,536	13,233	28,734	18,900	7,136	2,195	13,267	320	28,073	218	786	174,400	1,483	40,279
Accrued salaries and related benefits	651,815	-	564,019	12,080	11,412	11,720	7,152	1,531	5,963	1,153	5,948	-	429	2,221	420	27,767
Current portion of capital lease obligations	3,379	-	1,810	-	-	1,540	-	-	-	-	-	-	-	-	29	-
Current portion of long-term debt	60,750	-	49,805	1,888	3,497	3,508	962	-	-	-	-	-	-	-	1,090	-
Current portion of insurance claims liability	71,010	(4,983)	73,335	111	480	-	1,636	35	90	6	300	-	-	-	-	-
Current portion of malpractice and other insurance liabilities	123,762	(1,164)	75,755	1,891	3,235	1,522	577	-	-	-	-	42,126	-	-	-	-
Current portion of estimated payable to third-party payers	413,981	-	176,709	-	556	8,028	2,220	-	-	-	34,112	-	196	192,126	-	34
Total current liabilities	2,322,551	(44,071)	1,648,007	29,203	47,914	45,218	19,683	3,761	19,320	1,479	68,433	42,344	1,411	368,747	3,022	68,080
Due to affiliates, net	-	(146,332)	-	-	625	-	6,780	310	7,709	8,876	-	-	10,427	-	697	110,908
Note payable to affiliate	-	(56,989)	-	-	-	-	56,989	-	-	-	-	-	-	-	-	-
Accrued retirement benefits, net of current portion	869,738	-	810,590	5,219	43,474	2,855	7,321	172	-	-	-	-	-	107	-	-
Capital lease obligations, net of current portion	171,646	-	169,302	-	-	2,159	-	-	-	-	-	-	-	-	185	-
Long-term debt, net of current portion	2,634,896	-	2,491,608	31,974	53,678	34,235	23,222	-	-	-	-	-	-	-	179	-
Insurance claims liability, net of current portion	217,934	(168,157)	358,022	9,742	2,062	-	4,994	103	266	17	885	10,000	-	-	-	-
Malpractice and other insurance liabilities, net of current portion	1,004,007	(42,823)	843,651	14,859	21,686	10,671	3,301	-	-	-	-	152,662	-	-	-	-
Other long-term liabilities	551,413	-	525,044	2,182	7,116	5,789	501	857	28	7,274	1,304	-	-	346	121	851
Total liabilities	7,772,185	(458,372)	6,846,224	93,179	176,555	100,927	122,791	5,203	27,323	17,646	70,622	205,006	11,838	369,200	4,204	179,839
Commitments and contingencies																
Net assets (deficit):																
Unrestricted	3,273,214	(532,161)	3,097,071	195,623	177,151	52,059	(14,860)	45,347	27,288	67	51,601	63,566	(9,257)	67,196	57,806	(5,283)
Temporarily restricted	420,003	(263,238)	378,670	8,952	22,949	6,690	-	1,261	58,975	189,456	-	-	2,325	-	-	14,053
Permanently restricted	180,524	(40,841)	79,204	3,763	7,047	787	-	378	45,058	80,725	-	-	4,403	-	-	-
Total net assets (deficit)	3,873,741	(836,240)	3,554,945	208,338	207,147	59,446	(14,860)	46,986	131,321	270,248	51,601	63,566	(2,529)	67,196	57,806	8,770
Total liabilities and net assets (deficit)	\$11,645,926	(\$1,294,612)	\$10,401,169	\$301,517	\$383,702	\$160,373	\$107,931	\$52,189	\$158,644	\$287,894	\$122,223	\$268,572	\$9,309	\$436,396	\$62,010	\$188,609



Northwell Health, Inc.

Combining Statement of Financial Position - Northwell Health Obligated Group  
June 30, 2017 (Unaudited and In Thousands)

	Total Obligated Group	Eliminations	Northwell Healthcare, Inc.	North Shore University Hospital	Long Island Jewish Medical Center	Staten Island University Hospital	Lenox Hill Hospital	Southside Hospital	Huntington Hospital Association	Glen Cove Hospital	Plainview Hospital	Northwell Health Stern Family Center for Rehabilitation
<b>Assets</b>												
Current assets:												
Cash and cash equivalents	\$145,297	\$-	\$123,041	\$7,097	\$557	\$11,991	\$295	\$196	\$273	\$-	\$1,846	\$1
Short-term investments	2,127,202	-	42,445	723,734	691,075	366,003	46,018	1,613	187,903	68,109	198	104
Accounts receivable for services to patients, net of allowance for doubtful accounts	967,912	-	-	232,366	317,974	137,179	139,874	61,199	35,570	14,644	19,324	9,782
Accounts receivable for physician activities, net	100,508	-	-	95,968	1,898	-	1,469	654	333	123	63	-
Insurance claims receivable, current portion	73,335	-	906	16,264	18,839	9,933	16,612	4,156	3,085	1,293	1,978	269
Other current assets	196,723	(3,000)	31,037	59,556	47,326	21,759	20,008	7,837	7,663	1,853	2,607	77
Total current assets	3,610,977	(3,000)	197,429	1,134,985	1,077,669	546,865	224,276	75,655	234,827	86,022	26,016	10,233
Due from affiliates, net	42,375	(327,780)	-	158,505	184,792	-	-	-	-	-	6,879	19,979
Note receivable from affiliate	56,989	-	56,989	-	-	-	-	-	-	-	-	-
Long-term investments	1,542,619	-	614,654	276,586	315,919	170,946	71,020	26,492	41,595	9,977	591	14,839
Property, plant and equipment, net	4,055,761	-	735,456	452,129	1,212,257	192,997	974,115	227,823	173,250	45,781	31,693	10,260
Insurance claims receivable, net of current portion	358,022	-	2,678	80,267	111,956	59,548	47,914	22,016	13,566	8,364	10,917	796
Other assets	734,426	(576,670)	1,101,233	146,974	13,796	11,788	35,915	1,390	-	-	-	-
Total assets	\$10,401,169	(\$907,450)	\$2,708,439	\$2,249,446	\$2,916,389	\$982,144	\$1,353,240	\$353,376	\$463,238	\$150,144	\$76,096	\$56,107
<b>Liabilities and net assets (deficit)</b>												
Current liabilities:												
Short-term borrowings	\$110,218	\$-	\$-	\$7,500	\$102,718	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Accounts payable and accrued expenses	596,536	-	161,799	131,126	114,790	49,826	62,374	35,171	19,949	9,990	10,109	1,402
Accrued salaries and related benefits	564,019	-	155,973	114,622	123,156	50,330	47,925	29,915	21,571	7,535	11,068	1,924
Current portion of capital lease obligations	1,810	-	1,567	-	-	-	243	-	-	-	-	-
Current portion of long-term debt	49,805	-	756	10,039	20,849	7,381	5,055	1,350	1,275	754	1,531	815
Current portion of insurance claims liability	73,335	-	906	16,264	18,839	9,933	16,612	4,156	3,085	1,293	1,978	269
Current portion of malpractice and other insurance liabilities	75,575	-	20,539	14,453	17,345	9,337	5,184	3,745	2,188	1,280	1,504	-
Current portion of estimated payable to third-party payers	176,709	-	900	41,587	58,622	36,279	14,310	12,191	1,829	6,926	278	3,787
Total current liabilities	1,648,007	-	342,440	335,591	456,319	163,086	151,703	86,528	49,897	27,778	26,468	8,197
Due to affiliates, net	-	(452,574)	115,623	-	-	19,888	166,267	126,966	23,134	696	-	-
Accrued retirement benefits, net of current portion	810,590	-	200,858	143,382	73,221	2,674	176,454	63,134	108,780	14,281	23,412	4,394
Capital lease obligations, net of current portion	169,302	-	100,223	-	66,661	-	2,418	-	-	-	-	-
Long-term debt, net of current portion	2,491,608	-	1,194,574	105,355	848,758	70,959	110,093	68,757	75,784	5,875	8,377	3,076
Insurance claims liability, net of current portion	358,022	-	2,678	80,267	111,956	59,548	47,914	22,016	13,566	8,364	10,917	796
Malpractice and other insurance liabilities, net of current portion	843,651	-	113,009	203,109	229,018	103,181	74,940	52,825	39,229	12,014	16,326	-
Other long-term liabilities	525,044	-	1,170	123,195	228,590	44,827	51,892	43,464	10,166	6,485	14,543	712
Total liabilities	6,846,224	(452,574)	2,070,575	990,899	2,014,523	464,163	781,681	463,690	320,556	75,493	100,043	17,175
Commitments and contingencies												
Net assets (deficit):												
Unrestricted	3,097,071	(369,037)	501,916	1,115,689	771,639	505,391	485,717	(120,201)	130,977	61,287	(24,429)	38,122
Temporarily restricted	378,670	(60,920)	99,432	114,878	121,067	11,106	60,923	9,887	10,542	10,463	482	810
Permanently restricted	79,204	(24,919)	36,516	27,980	9,160	1,484	24,919	-	1,163	2,901	-	-
Total net assets (deficit)	3,554,945	(454,876)	637,864	1,258,547	901,866	517,981	571,559	(110,314)	142,682	74,651	(23,947)	38,932
Total liabilities and net assets (deficit)	\$10,401,169	(\$907,450)	\$2,708,439	\$2,249,446	\$2,916,389	\$982,144	\$1,353,240	\$353,376	\$463,238	\$150,144	\$76,096	\$56,107

Northwell Health, Inc.

Consolidating Statement of Operations  
For the Six Months Ended June 30, 2017 (Unaudited and In Thousands)

	Northwell Health, Inc. Total	Eliminations	Northwell Health Obligated Group	Phelps Memorial Hospital Association and Subsidiaries	Northern Westchester Hospital Association and Subsidiaries	Peconic Bay Medical Center	The Long Island Home	Hospice Care Network	The Feinstein Institute for Medical Research	Northwell Health Foundation	Northwell Health Laboratories	Regional Insurance Company	Dolan Family Health Center	Health Insurance Companies	Joint Venture Ambulatory Surgery Centers	Other Northwell Health Entities
Operating revenue:																
Net patient service revenue	\$3,883,875	(\$93,450)	\$3,507,222	\$117,569	\$131,328	\$84,542	\$57,698	\$25,737	\$7	\$-	\$-	\$-	\$2,478	\$-	\$23,385	\$27,359
Physician practice revenue	710,625	(28,873)	522,992	13,547	5,388	10,877	1,008	198	-	-	-	-	-	-	-	185,488
Provision for bad debts	(62,715)	-	(52,991)	(1,081)	(2,250)	(2,203)	(1,541)	(75)	-	-	(634)	-	(2)	-	-	(1,938)
Total patient revenue, net of provision for bad debts	4,531,785	(122,323)	3,977,223	130,035	134,466	93,216	57,165	25,860	7	-	(634)	-	2,476	-	23,385	210,909
Other operating revenue	307,248	(373,598)	316,063	3,386	2,900	2,426	247	45	23,423	-	201,608	6,022	1,085	4,930	-	118,711
Health insurance premium revenue	403,395	-	-	-	-	-	-	-	-	-	-	-	-	403,395	-	-
Net assets released from restrictions used for operations	34,828	-	23,964	115	318	1,198	-	480	8,620	-	-	-	133	-	-	-
Total operating revenue	5,277,256	(495,921)	4,317,250	133,536	137,684	96,840	57,412	26,385	32,050	-	200,974	6,022	3,694	408,325	23,385	329,620
Operating expenses:																
Salaries	2,542,607	(50,614)	2,110,288	70,492	60,224	42,229	37,541	9,675	29,067	-	43,208	-	2,259	17,737	4,350	166,151
Employee benefits	615,751	(36,134)	533,974	12,514	15,730	10,642	13,216	3,091	8,807	-	14,323	-	914	3,639	674	34,361
Supplies and expenses	1,811,270	(408,780)	1,309,338	36,566	47,733	38,613	11,860	10,578	14,018	-	126,578	6,022	1,077	441,223	9,432	167,012
Depreciation and amortization	223,537	-	198,299	5,688	7,602	2,733	1,353	157	3,199	-	1,068	-	47	371	385	2,635
Interest	61,498	(393)	58,316	559	1,005	1,028	947	-	-	-	-	-	-	-	36	-
Total operating expenses	5,254,663	(495,921)	4,210,215	125,819	132,294	95,245	64,917	23,501	55,091	-	185,177	6,022	4,297	462,970	14,877	370,159
Excess (deficiency) of operating revenue over operating expenses	22,593	-	107,035	7,717	5,390	1,595	(7,505)	2,884	(23,041)	-	15,797	-	(603)	(54,645)	8,508	(40,539)
Non-operating gains and losses:																
Investment income	51,698	-	49,324	188	878	276	30	267	14	104	(13)	892	-	(151)	(73)	(38)
Change in net unrealized gains and losses and change in value of equity method investments	157,973	-	140,935	1,121	2,488	(113)	-	1,198	3	261	-	11,910	-	170	-	-
Change in interest in acquired entities	-	(42,829)	49,969	-	-	-	-	-	-	-	-	-	-	-	-	(7,140)
Non-operating net periodic benefit cost	(14,533)	-	(13,819)	-	-	-	-	-	(219)	(82)	(288)	-	(46)	-	-	(79)
Other non-operating gains and losses	(3,307)	-	4,571	102	358	-	-	136	-	(8,551)	-	-	-	-	-	77
Total non-operating gains and losses	191,831	(42,829)	230,980	1,411	3,724	163	30	1,601	(202)	(8,268)	(301)	12,802	(46)	19	(73)	(7,180)
Excess (deficiency) of revenue and gains and losses over expenses	214,424	(42,829)	338,015	9,128	9,114	1,758	(7,475)	4,485	(23,243)	(8,268)	15,496	12,802	(649)	(54,626)	8,435	(47,719)
Net assets released from restrictions for capital asset acquisitions	32,452	-	31,973	9	-	-	-	-	470	-	-	-	-	-	-	-
Change in fair value of interest rate swap agreements designated as cash flow hedges	1,293	-	321	-	459	267	246	-	-	-	-	-	-	-	-	-
Transfers (to) from affiliates	-	-	(148,296)	12,298	9,800	3,461	89	-	22,556	8,300	-	-	-	67,600	-	24,192
Other changes in net assets	(2,898)	5,440	-	(219)	-	6	-	-	-	-	-	-	-	23	(8,148)	-
Increase (decrease) in unrestricted net assets	\$245,271	(\$37,389)	\$222,013	\$21,216	\$19,373	\$5,492	(\$7,140)	\$4,485	(\$217)	\$32	\$15,496	\$12,802	(\$649)	\$12,997	\$287	(\$23,527)

Northwell Health, Inc.

Combining Statement of Operations - Northwell Health Obligated Group  
For the Six Months Ended June 30, 2017 (Unaudited and In Thousands)

	Total Obligated Group	Eliminations	Northwell Healthcare, Inc.	North Shore University Hospital	Long Island Jewish Medical Center	Staten Island University Hospital	Lenox Hill Hospital	Southside Hospital	Huntington Hospital Association	Glen Cove Hospital	Plainview Hospital	Northwell Health Stern Family Center for Rehabilitation
Operating revenue:												
Net patient service revenue	\$3,507,222	\$-	\$-	\$879,627	\$1,106,455	\$457,272	\$504,256	\$220,649	\$162,702	\$56,402	\$92,309	\$27,550
Physician practice revenue	522,992	-	-	201,931	174,889	2	40,367	51,294	33,564	8,905	11,594	446
Provision for bad debts	(52,991)	3,033	-	(19,142)	(15,997)	(4,640)	(7,753)	(4,232)	(1,727)	(1,143)	(1,179)	(211)
Total patient revenue, net of provision for bad debts	3,977,223	3,033	-	1,062,416	1,265,347	452,634	536,870	267,711	194,539	64,164	102,724	27,785
Other operating revenue	316,063	(618,138)	575,394	166,004	84,434	15,930	70,893	10,550	3,363	2,851	4,518	264
Net assets released from restrictions used for operations	23,964	-	290	7,676	10,948	212	4,715	70	9	-	-	44
Total operating revenue	4,317,250	(615,105)	575,684	1,236,096	1,360,729	468,776	612,478	278,331	197,911	67,015	107,242	28,093
Operating expenses:												
Salaries	2,110,288	(210,544)	203,957	613,666	648,390	205,105	296,762	146,978	96,761	39,460	53,520	16,233
Employee benefits	533,974	(45,883)	49,903	125,504	169,346	68,834	68,016	40,703	25,264	9,781	16,786	5,720
Supplies and expenses	1,309,338	(358,678)	239,157	420,370	430,464	146,968	207,849	94,289	67,926	20,112	34,858	6,023
Depreciation and amortization	198,299	-	56,343	33,580	47,442	13,859	23,214	9,064	8,804	3,176	2,042	775
Interest	58,316	-	24,148	2,986	22,550	1,842	2,786	1,681	1,861	141	229	92
Total operating expenses	4,210,215	(615,105)	573,508	1,196,106	1,318,192	436,608	598,627	292,715	200,616	72,670	107,435	28,843
Excess (deficiency) of operating revenue over operating expenses	107,035	-	2,176	39,990	42,537	32,168	13,851	(14,384)	(2,705)	(5,655)	(193)	(750)
Non-operating gains and losses:												
Investment income	49,324	-	7,460	13,825	12,920	8,650	677	124	4,096	1,502	(17)	87
Change in net unrealized gains and losses and change in value of equity method investments	140,935	-	26,697	41,561	33,174	23,701	2,111	471	9,420	3,778	-	22
Change in interest in acquired entities	49,969	(20,125)	65,667	4,427	-	-	-	-	-	-	-	-
Non-operating net periodic benefit cost	(13,819)	-	(1,103)	(2,364)	(1,384)	-	(3,986)	(1,619)	(2,463)	(251)	(568)	(81)
Other non-operating gains and losses	4,571	-	-	-	4,571	-	-	-	-	-	-	-
Total non-operating gains and losses	230,980	(20,125)	98,721	57,449	49,281	32,351	(1,198)	(1,024)	11,053	5,029	(585)	28
Excess (deficiency) of revenue and gains and losses over expenses	338,015	(20,125)	100,897	97,439	91,818	64,519	12,653	(15,408)	8,348	(626)	(778)	(722)
Net assets released from restrictions for capital asset acquisitions	31,973	-	1	9,699	1,122	210	7,472	13,396	-	73	-	-
Change in fair value of interest rate swap agreements designated as cash flow hedges	321	-	-	115	206	-	-	-	-	-	-	-
Transfers (to) from affiliates	(148,296)	-	(125,862)	(12,178)	(10,256)	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	\$222,013	(\$20,125)	(\$24,964)	\$95,075	\$82,890	\$64,729	\$20,125	(\$2,012)	\$8,348	(\$553)	(\$778)	(\$722)

Northwell Health, Inc.

Notes to Consolidated Financial Statements

June 30, 2017

*(information pertaining to the six months ended June 30, 2017 and 2016 is unaudited)*  
*(in thousands)*

**Note A - Basis of Presentation**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles applied on a basis consistent with that of the 2016 audited consolidated financial statements of Northwell Health, Inc. and its member corporations and other affiliated entities (collectively, “Northwell”). Northwell presumes that users of this interim financial information have read or have access to Northwell’s audited consolidated financial statements and that the adequacy of additional disclosures needed for a fair presentation may be determined in that context. The audited consolidated financial statements of Northwell 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. Information contained in Northwell’s audited consolidated financial statements for the years ended December 31, 2016 and 2015 is incorporated herein. Footnotes and other disclosures that would substantially duplicate the disclosures contained in Northwell’s most recent audited consolidated financial statements have been omitted. Accordingly, the accompanying unaudited interim consolidated financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all transactions considered necessary for a fair presentation have been included.

Patient volumes and net operating revenue and results are subject to seasonal and other variations caused by a number of factors. Monthly and periodic operating results are not necessarily representative of operations for a full year for various reasons, including occupancy levels and other patient volumes, interest rates, unusual or infrequent items and other seasonal fluctuations. These same considerations apply to year-to-year comparisons.

Northwell is an integrated health care delivery system in the New York metropolitan area. Various entities within Northwell are exempt from Federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code (the “Code”) as organizations described in Section 501(c)(3), while other entities are not exempt from such income taxes. The exempt organizations are also exempt from New York State and local income taxes. The effect of income taxes is not material to the unaudited interim consolidated financial statements.

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

## Northwell Health, Inc.

### Notes to Consolidated Financial Statements (continued)

*(information pertaining to the six months ended June 30, 2017 and 2016 is unaudited)*  
*(in thousands)*

#### **Note A - Basis of Presentation (continued)**

##### ***Hospitals***

- North Shore University Hospital (“NSUH”), including the accounts of Syosset Hospital
- Long Island Jewish Medical Center (“LIJMC”), including Long Island Jewish Hospital, Long Island Jewish Forest Hills, Long Island Jewish Valley Stream, Steven and Alexandra Cohen Children’s Medical Center of New York, Zucker Hillside Hospital and Orzac Center for Rehabilitation
- Staten Island University Hospital (“Staten Island”)
- Lenox Hill Hospital (“Lenox”)
- Southside Hospital (“Southside”)
- Glen Cove Hospital (“Glen Cove”)
- Huntington Hospital Association (“Huntington”)
- Plainview Hospital (“Plainview”)
- South Oaks Hospital (part of The Long Island Home)
- Phelps Memorial Hospital Association
- Northern Westchester Hospital Association (“Northern Westchester”)
- Peconic Bay Medical Center

##### ***Other Entities***

- Northwell Health, Inc. and Northwell Healthcare, Inc. (“HCI”) – parent holding companies
- Northwell Health Stern Family Center for Rehabilitation (“Stern”) – skilled nursing facility and rehabilitation center
- Broadlawn Manor Nursing and Rehabilitation Center (“Broadlawn”, part of The Long Island Home) – skilled nursing facility and rehabilitation center
- North Shore Health System Enterprises, Inc., North Shore Health Enterprises, Inc. and True North Health Services Company, LLC – holding companies for certain related entities
- RegionCare, Inc. – infusion therapy, nurse staffing and licensed home health agency services
- North Shore Community Services, Inc. – real estate holdings and related services
- North Shore University Hospital Housing, Inc., North Shore University Hospital at Glen Cove Housing, Inc. and Hillside Hospital Houses, Inc. – housing and auxiliary facilities for staff members, students and employees
- Endoscopy Center of Long Island, LLC – outpatient endoscopy center 70% owned by Northwell
- North Shore Medical Accelerator, P.C. – outpatient radiation oncology center 70% owned by Northwell
- North Shore-LIJ and Yale New Haven Medical Air Transport, LLC – medical air transport company 90% owned by Northwell
- Northwell Health Laboratories – laboratory services
- The Feinstein Institute for Medical Research – medical research
- Northwell Health Foundation – fundraising
- Hospice Care Network – hospice services
- North Shore-LIJ Health Plan Inc. (“Health Plan”) – tax-exempt health insurance entity authorized by the State of New York to operate a Medicaid Managed Long-Term Care Plan
- CareConnect Insurance Company Inc. (“CareConnect”) – for-profit health insurance entity licensed to issue commercial health insurance products in the State of New York
- Regional Insurance Company Ltd. – captive insurance company providing excess professional liability insurance
- Huntington Hospital Dolan Family Health Center – community health center
- South Shore Surgery Center, LLC – outpatient ambulatory surgery center 50.1% owned by Northwell
- Suffolk Surgery Center, LLC – outpatient ambulatory surgery center 70% owned by Northwell
- Digestive Health Center of Huntington, Inc. – outpatient endoscopy center 51% owned by Northwell
- Endo Group, LLC (d/b/a Garden City SurgiCenter) – outpatient ambulatory surgery center 56.5% owned by Northwell
- True North Health Pharmacy, Inc. – retail pharmacy
- Other affiliated professional corporations

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

*(information pertaining to the six months ended June 30, 2017 and 2016 is unaudited)*  
*(in thousands)*

**Note A - Basis of Presentation (continued)**

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

Northwell maintains a controlling ownership in various entities whose results of operations are included in the accompanying consolidated financial statements. Northwell’s non-controlling interest in these entities at June 30, 2017 and 2016 was immaterial, both individually and in the aggregate, to Northwell’s net assets and excess of revenue and gains and losses over expenses as reported in the accompanying consolidated financial statements.

**Note B - Use of Estimates**

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

**Note C - Recent Accounting Standards**

In March 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. (“ASU”) 2017-07, *Compensation—Retirement Benefits: 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 statement of operations. Employers will be required to present the service cost component of net periodic benefit cost in the same statement of operations 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. Northwell early adopted the provisions of ASU 2017-07 in the first quarter of 2017 and retrospectively applied the presentation requirements to the consolidated statement of operations for the six months ended June 30, 2016. An allowable practical expedient under ASU 2017-07 was utilized wherein the previously disclosed amounts comprising the periodic benefit cost were utilized in the retrospective presentation of prior periods. The components of net periodic benefit cost other than service cost are recorded within the non-operating net periodic benefit cost line of the consolidated statements of operations.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

*(information pertaining to the six months ended June 30, 2017 and 2016 is unaudited)*  
*(in thousands)*

**Note D – Acquisitions**

On January 15, 2016 (the “Acquisition Date”), Northwell acquired Peconic Bay Medical Center (“Peconic”), a not-for-profit corporation that operates a 140 bed acute care hospital and a skilled nursing/rehabilitation center located in eastern Suffolk County, New York. Northwell acquired Peconic by means of an inherent contribution where no consideration was transferred by Northwell. Northwell accounted for the business combination by applying the acquisition method, and accordingly, the inherent contribution received was valued as the excess of Peconic’s assets over liabilities. In determining the inherent contribution received, all assets and liabilities were measured at fair value as of the Acquisition Date. The results of Peconic’s operations have been included in the consolidated financial statements since the Acquisition Date. Peconic is not a member of the Obligated Group.

In the June 30, 2016 consolidated financial statements, the fair value accounting for the Peconic acquisition was incomplete, and therefore, certain amounts were deemed provisional. As a result, certain 2016 amounts in the accompanying consolidated financial statements have been retrospectively adjusted from the provisional amounts previously reported in the June 30, 2016 consolidated financial statements. The impact of such retrospective adjustments resulted in a decrease to total net assets of \$27 as of June 30, 2016.

On August 1, 2017, Northwell acquired Visiting Nurse Association of Hudson Valley, Inc. and subsidiaries (collectively “VNA”), not-for-profit corporations that operate a certified home health agency, a licensed home health agency and a certified hospice program in Westchester and Putnam counties. Northwell acquired VNA by means of an inherent contribution where no consideration was transferred by Northwell. VNA, which is not a member of the Obligated Group, had operating revenue of approximately \$25,000 in 2016.

**Note E - Accounts Receivable and Patient Revenue**

Net patient service revenue and physician practice revenue (collectively, “patient revenue”) are reported at estimated net realizable amounts due from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are provided and are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

*(information pertaining to the six months ended June 30, 2017 and 2016 is unaudited)*  
*(in thousands)*

**Note E - Accounts Receivable and Patient Revenue (continued)**

Northwell recognizes accounts receivable and patient revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates, governmental rates or established charges for the services rendered. For uninsured patients who are ineligible for any government assistance program, Northwell provides services without charge or at amounts less than its established rates to patients who meet the criteria of its charity care policy. Because Northwell does not pursue collection of amounts determined to qualify as charity care, such services are not reported as patient revenue. For patients who were determined by Northwell to have the ability to pay but do not, the estimated uncollectible amounts are recorded as the provision for bad debts. In distinguishing charity care from the provision for bad debts, a number of factors are considered, certain of which require a high degree of judgment.

Patient revenue, net of contractual and charity care allowances, but before the provision for bad debts, from insured and self-pay patients was approximately \$4,546,000 and \$49,000, respectively, for the six months ended June 30, 2017, and approximately \$4,304,000 and \$49,000, respectively, for the six months ended June 30, 2016. Deductibles and copayments due from patients under third-party payment programs are included in the insured amounts above.

The allowance for doubtful accounts represents Northwell's estimate of the uncollectible accounts receivable related to bad debts. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. The allowance for doubtful accounts is based upon Northwell's assessment of historical and expected net collections, business and economic conditions, trends in health care coverage and other collection indicators.

For receivables associated with services provided to patients who have third-party payer coverage, Northwell analyzes amounts due from third-parties and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for third-party payers who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay balances, which include balances for patients without insurance, patients with deductible and copayment amounts due after third-party coverage and balances for services not covered by insurance, Northwell records an allowance for doubtful accounts and provision for bad debts in the period of service based on past experience.

The allowances for both doubtful accounts and anticipated charity care for self-pay patients aggregated to approximately 84% of the gross self-pay accounts receivable balance as of both June 30, 2017 and December 31, 2016.

Northwell's allowance for doubtful accounts relating to accounts receivable for services to patients and accounts receivable for physician activities totaled approximately \$131,200 and \$124,600 at June 30, 2017 and December 31, 2016, respectively.



Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

*(information pertaining to the six months ended June 30, 2017 and 2016 is unaudited)*  
*(in thousands)*

**Note F – Cash and Investments**

Northwell's cash and investments are reported in the consolidated statements of financial position as presented below at June 30, 2017 and December 31, 2016:

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Cash and cash equivalents	\$ 450,888	\$ 383,295
Short-term investments	2,438,185	2,464,366
Long-term investments	1,854,488	1,875,198
Total cash and investments	4,743,561	4,722,859
Less assets limited as to use:		
Under bond indentures, third party agreements and other <sup>*</sup>	908,609	1,032,961
Deferred employee compensation plan assets	156,444	135,718
Malpractice and other self-insurance assets	695,738	647,173
Temporarily and permanently restricted assets	241,365	207,177
Total assets limited as to use	2,002,156	2,023,029
Total unrestricted cash and investments	<u>\$ 2,741,405</u>	<u>\$ 2,699,830</u>

<sup>\*</sup> Other assets limited as to use includes management designated sinking funds established to repay Northwell's taxable debt and direct equity method investments in joint ventures held for investment purposes.

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

Short-term investments include \$240,367 and \$256,967 of assets limited as to use at June 30, 2017 and December 31, 2016, respectively. Long-term investments include \$1,761,789 and \$1,766,062 of assets limited as to use at June 30, 2017 and December 31, 2016, respectively.

**Note G - Fair Value Measurements**

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

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(information pertaining to the six months ended June 30, 2017 and 2016 is unaudited)  
(in thousands)

**Note G - Fair Value Measurements (continued)**

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

- Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2:* Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.
- Level 3:* Unobservable inputs are used when little or no market data is available. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, Northwell uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

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

Financial assets and liabilities carried at fair value as of June 30, 2017 are classified in the following table in one of the three categories described previously:

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents (including amounts in the investment portfolio)	\$ 759,023	\$ –	\$ –	\$ 759,023
Fixed income obligations:				
U.S. Government obligations	131,721	135,325	–	267,046
Corporate and other bonds	–	433,177	–	433,177
Fixed income mutual funds	442,843	–	–	442,843
Equity securities:				
Value	300,737	–	–	300,737
Small cap	96,051	–	–	96,051
Global	189,490	–	–	189,490
Growth	90,997	–	–	90,997
Equity mutual funds	562,856	–	–	562,856
Target-age mutual funds	38,394	–	–	38,394
Interest and other receivables	7,399	–	–	7,399
<b>Liabilities</b>				
Interest rate swap agreements	–	(6,940)	–	(6,940)
	<u>\$ 2,619,511</u>	<u>\$ 561,562</u>	<u>\$ –</u>	<u>\$ 3,181,073</u>

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(information pertaining to the six months ended June 30, 2017 and 2016 is unaudited)  
(in thousands)

**Note G - Fair Value Measurements (continued)**

Financial assets and liabilities carried at fair value as of December 31, 2016 are classified in the following table in one of the three categories described previously:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents (including amounts in the investment portfolio)	\$ 755,002	\$ —	\$ —	\$ 755,002
Fixed income obligations:				
U.S. Government obligations	171,403	118,522	—	289,925
Corporate and other bonds	—	439,543	—	439,543
Fixed income mutual funds	447,413	—	—	447,413
Equity securities:				
Value	283,791	—	—	283,791
Small cap	100,389	—	—	100,389
Global	177,922	—	—	177,922
Growth	82,346	—	—	82,346
Equity mutual funds	520,743	—	—	520,743
Target-age mutual funds	30,955	—	—	30,955
Interest and other receivables	14,856	—	—	14,856
<b>Liabilities</b>				
Interest rate swap agreements	—	(7,866)	—	(7,866)
	<u>\$ 2,584,820</u>	<u>\$ 550,199</u>	<u>\$ —</u>	<u>\$ 3,135,019</u>

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

The amounts reported in the previous tables exclude investments reported under the equity method of accounting in the amounts of \$1,555,548 and \$1,579,974 at June 30, 2017 and December 31, 2016, respectively, and assets invested in Northwell's pension plans.

The fair values and carrying values of Northwell's financial instruments that are not required to be carried at fair value were as follows at June 30, 2017 and December 31, 2016:

	June 30, 2017		December 31, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Debt (including short-term borrowings; excluding capital lease obligations)	<b>\$2,928,186</b>	<b>\$2,805,864</b>	\$2,924,636	\$2,850,068

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

*(information pertaining to the six months ended June 30, 2017 and 2016 is unaudited)  
(in thousands)*

**Note G - Fair Value Measurements (continued)**

The fair value of Northwell's bonds payable is based on quoted market prices for the related bonds. The fair value of other debt is based upon discounted cash flow analyses. Fair value of bonds payable at June 30, 2017 and December 31, 2016 is classified as Level 1 (\$2,220,965 and \$2,212,786, respectively), while fair value of other debt is classified as Level 2 (\$707,221 and \$711,850, respectively).

**Note H - Pension and Postretirement Benefits**

Northwell maintains several pension plans for its employees. The following are brief descriptions of such plans and the respective pension expense for the six months ended June 30, 2017 and 2016.

Certain members of Northwell provide pension and similar benefits to its employees through defined contribution plans. Contributions to defined contribution plans are based on percentages of annual salaries. It is the policy of these members to fund accrued costs under these plans on a current basis. Pension expense related to the defined contribution plans was \$83,077 and \$74,031 for the six months ended June 30, 2017 and 2016, respectively.

Certain members of Northwell contribute to various multiemployer defined benefit pension plans under the terms of collective bargaining agreements that cover union-represented employees. Contributions to these plans aggregated \$39,312 and \$39,876 for the six months ended June 30, 2017 and 2016, respectively.

Certain of Northwell's employees participate in deferred compensation plans. In connection with these plans, Northwell deposits amounts with trustees on behalf of the participating employees. Under the terms of the plans, Northwell is not responsible for investment gains or losses incurred. The assets are restricted for payments under the plans, but may revert to Northwell under certain specified circumstances.

In addition, Northwell maintains various deferred compensation plans pursuant to Section 457(b) of the Code (the "457(b) Plans"). Eligible employees may defer compensation under a salary reduction agreement, subject to certain dollar limitations. Non-elective employer contributions may also be made for some of the 457(b) Plans. Payments upon retirement or termination of employment are based on amounts credited to the individual accounts.

Certain Northwell employees are covered by noncontributory defined benefit pension plans and defined benefit postretirement medical and life insurance plans.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

(information pertaining to the six months ended June 30, 2017 and 2016 is unaudited)  
(in thousands)

**Note H - Pension and Postretirement Benefits (continued)**

The following table provides an estimate of the components of the total net periodic benefit cost for the defined benefit pension and postretirement plans for the six months ended June 30, 2017 and 2016:

	<b>Defined Benefit Pension Plans</b>		<b>Postretirement Benefit Plans</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Service cost (included in employee benefits)	<b>\$37,793</b>	\$34,556	<b>\$653</b>	\$550
Interest cost on projected benefit obligation	<b>40,563</b>	49,773	<b>947</b>	1,234
Expected return on plan assets	<b>(44,647)</b>	(53,092)	—	—
Amortization of net loss (gain)	<b>18,536</b>	18,903	<b>(822)</b>	(864)
Amortization of prior service cost (credit)	<b>538</b>	1,844	<b>(582)</b>	(593)
Total included in non-operating net periodic benefit cost	<b>14,990</b>	17,428	<b>(457)</b>	(223)
Total net periodic benefit cost	<b>\$52,783</b>	\$51,984	<b>\$196</b>	\$327

**Note I - Commitments and Contingencies**

**Litigation, Claims and Settlements**

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

**Letters of Credit**

At June 30, 2017, \$18,816 in secured direct-pay letters of credit were maintained with two commercial banks, in lieu of debt service reserve funds for certain Obligated Group bond issues. A \$22,314 commitment from one bank remains available for future letters of credit.

Four commercial banks are providing a total of \$233,000 in commitments, solely to support letters of credit required for Northwell's high deductible workers' compensation insurance program. At June 30, 2017, \$120,473 in secured direct-pay letters of credit were maintained with three of the banks, and \$112,527 of the commitments remain available for future letters of credit.

At June 30, 2017, \$19,742 in direct-pay letters of credit were maintained with a commercial bank to secure certain Northern Westchester bond issues.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

*(information pertaining to the six months ended June 30, 2017 and 2016 is unaudited)*  
*(in thousands)*

**Note I - Commitments and Contingencies (continued)**

**Other Commitments**

In 2008, Hofstra University (the “University”) and Northwell entered into a joint academic agreement to establish the Hofstra Northwell School of Medicine (the “Medical School”), at the University, while remaining as separate corporations with separate governance. Under the agreement Northwell agreed to reimburse the University for a portion of the Medical School’s annual costs each year through June 30, 2017, which aggregated \$50,000. Reimbursement payments after June 30, 2017 will be a minimum of \$5,000 for each academic year, with amounts indexed to the Medical School tuition, and are contingent upon annual approval by the Boards of Northwell and the University. Northwell shall not advance funds to the University that have not yet been spent in connection with the Medical School. Northwell also provides approximately \$4,000 annually for funding of Medical School scholarships and student loans, with amounts indexed to the Medical School tuition.

In April 2015, Northwell entered into a strategic affiliation with Cold Spring Harbor Laboratory (“CSHL”). Under the terms of this affiliation, Northwell and CSHL will continue as independent organizations governed by their respective Boards of Trustees. The institutions appointed a committee with responsibility for the oversight, staffing and implementation of the affiliation. The goals of the affiliation include advancing cancer diagnostic and therapeutic research, developing a new clinical cancer research unit at Northwell to support early-phase clinical studies of new cancer therapies, and recruiting and training more clinician-scientists in oncology. Pursuant to the agreement, Northwell is committed to pay CSHL \$5,000 in year one, \$10,000 in year two and \$15,000 annually thereafter, throughout the term of the affiliation.

In August 2015, Northwell entered into a clinical affiliation and collaboration agreement with Maimonides Medical Center (“Maimonides”), a not-for-profit acute care hospital located in Brooklyn, New York. The purpose of the affiliation is to pursue collaborative activities, such as clinical integration initiatives and ambulatory services joint ventures, as well as service agreements that may generate operational efficiencies. Under the terms of the affiliation agreement, Northwell and Maimonides will remain independent organizations governed by their respective Boards of Trustees. Pursuant to the affiliation agreement, the parties have also entered into an unsecured loan agreement whereby Northwell has loaned a total of \$106,250 to Maimonides as of June 30, 2017, with a commitment to loan an additional \$18,750, which occurred in August 2017. Payments on the loan and accrued interest thereon would not commence until the termination or expiration of the affiliation agreement. However, if Northwell becomes the sole member and corporate parent of Maimonides, outstanding amounts borrowed under the loan agreement, including accrued interest, will be forgiven.

Northwell Health, Inc.

Notes to Consolidated Financial Statements (continued)

*(information pertaining to the six months ended June 30, 2017 and 2016 is unaudited)*  
*(in thousands)*

**Note I - Commitments and Contingencies (continued)**

In June 2016, Northwell executed a long-term lease for the site of the former Victory Memorial Hospital in the Bay Ridge section of Brooklyn. However, the lease did not become effective until certain contingencies and regulatory approvals were met in June 2017. Plans are being developed to potentially use the site for a variety of health care programs to be delivered by Northwell, its strategic affiliate Maimonides and possibly other partners as part of Northwell's expansion plans into Brooklyn. This lease is being accounted for as an operating lease.

In November 2016, The Long Island Home entered into an agreement to sell the assets of Broadlawn to an independent operator of skilled nursing facilities. The sale is expected to close in 2017.

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

**Note J - Subsequent Events**

Management has evaluated events and transactions subsequent to June 30, 2017 through August 29, 2017, representing the date at which the unaudited interim consolidated financial statements were issued.

In July 2017, Health Plan filed a termination plan subject to approval by the New York State Department of Health, under which it ceased new enrollment in its Medicaid Managed Long-Term Care Plan in August 2017, and will begin the process of transitioning its existing members to other plans.

In August 2017, Northwell announced that it is winding down CareConnect and withdrawing from New York State's insurance markets over the next year as it works with customers, businesses and others to help transfer policy holders to other health insurance plans.

No other events, aside from the acquisition of VNA disclosed in Note D, and the additional loan to Maimonides and pending sale of Broadlawn disclosed in Note I, have occurred that require disclosure in, or adjustment to, the unaudited interim consolidated financial statements.

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## **APPENDIX C-1**

### **SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE**

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## **SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE**

The Bond Indenture contains terms and conditions relating to the issuance of Bonds under the Bond Indenture, including various financial covenants and security provisions, certain of which are summarized below. This summary does not purport to be comprehensive or definitive and is subject to all of the provisions of the Bond Indenture, and reference is made to such Bond Indenture, copies of which are available from the Bond Trustee. This summary uses various terms defined in the Bond Indenture and such terms as used in the Bond Indenture will have the same meanings as so defined.

### **BOND INDENTURE**

#### **Certain Definitions (Section 1.01)**

Unless the context shall otherwise require, the following words and terms as used in this Bond Indenture shall have the following meanings:

“Account” shall mean any account created under this Bond Indenture.

“Additional Bonds” shall mean Bonds issued under this Bond Indenture subsequent to the issuance of the Series 2017A Bonds, which as designated by HCI may be consolidated with either maturity of the Series 2017A Bonds or which are not so consolidated but are issued as a separate series, in either case pursuant to Section 2.15 of this Bond Indenture.

“Bonds” shall mean the Series 2017A Bonds, and any Additional Bonds issued under this Bond Indenture.

“Bond Fund” shall mean the fund created pursuant to Section 5.01(a) of this Bond Indenture.

“Bond Indenture” shall mean this Bond Indenture, dated as of September 1, 2017, by and between HCI and the Bond Trustee, and when amended or supplemented, this Bond Indenture, as amended or supplemented.

“Bond Indenture Event of Default” shall mean any one or more of those events set forth in Section 7.01 of this Bond Indenture.

“Bond Payment Date” shall mean each date on which interest or both principal and interest shall be payable on any of the Bonds according to their respective terms, so long as any Bonds are Outstanding.

“Bond Proceeds Fund” shall mean the fund (and any accounts of HCI within such fund) created pursuant to Section 4.01 of this Bond Indenture.

“Bond Purchase Contract” shall mean each purchase contract between HCI and the Underwriters of a series of the Bonds.

“Bond Trustee” shall mean U.S. Bank National Association, of New York, New York, and any successor to its duties under this Bond Indenture.

“Business Day” shall mean any day of the week other than Saturday, Sunday or a day which shall be in the State of New York or in the jurisdiction of the Bond Trustee a legal holiday or a day on which banking corporations are authorized or obligated by law or executive order to close.

“Code” shall mean the Internal Revenue Code of 1986, as amended, or any successor code or law, and any regulations in effect or promulgated thereunder.

“Comparable Treasury Issue” shall mean the United States Treasury security or securities selected by a Designated Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Bonds to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Bonds.

“Comparable Treasury Price” shall mean, with respect to any redemption date, the average of the Reference Treasury Dealer Quotations for such redemption date or, if the Designated Investment Banker obtains only one Reference Treasury Dealer Quotation, such Reference Treasury Dealer Quotation.

“Corporate Trust Office” shall mean the designated office of the Bond Trustee at which its corporate trust business is conducted, which at the date hereof is located at U.S. Bank National Association, 100 Wall Street, Suite 1600, New York, New York 10005, Attention: Corporate Trust Department, except that with respect to presentation of Bonds for payment or for registration of transfer or exchange, such term shall mean the office or agency of the Bond Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

“Designated Investment Banker” shall mean one of the Reference Treasury Dealers appointed by HCI.

“DTC” shall mean The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York, which is presently located at 55 Water Street, 50th Floor, New York, New York 10041-0099, Attention: Call Notification Department, Fax (212) 855-7232; and its successors and assigns, or any other depository which agrees to follow the procedures required to be followed by such depository in connection with the Bonds.

“Fund” shall mean any fund created under this Bond Indenture.

“Governing Body” shall mean HCI’s Board of Trustees.

“Government Obligations” shall mean direct obligations of (including obligations issued or held in book-entry form on the books of the Department of the Treasury), or obligations the timely payment of principal and interest on which are unconditionally guaranteed by, the United States of America.

“HCI” shall mean the private, not-for-profit corporation organized and existing under the laws of the State, the corporate name of which is Northwell Healthcare, Inc., and its successors.

“HCI Representative” shall mean the Person at the time designated to act on behalf of HCI by written certificate furnished to the Bond Trustee, containing the specimen signature of such Person and signed on behalf of HCI by its chairman, its president or chief executive officer, its chief financial officer or any senior vice president or vice president. Such certificate may designate an alternate or alternates who shall have the same authority, duties and powers as such HCI Representative.

“Holder” or “Bondholder” shall mean the registered owner of any Bond, including DTC or its nominee as the sole registered owner of book-entry Bonds.

“Interest Account” shall mean the account of the Bond Fund created pursuant to Section 5.01(a)(i) of this Bond Indenture.

“Make-Whole Redemption Price” shall mean, for the Series 2017A Bonds, the greater of:

(1) 100% of the principal amount of any Series 2017A Bonds being redeemed; or

(2) the sum of the present values of the remaining scheduled payments of principal and interest on any Series 2017A Bonds being redeemed (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the

Treasury Rate plus 20 basis points in the case of the Series 2017A Bonds maturing on November 1, 2027, or plus 25 basis points in the case of the Series 2017A Bonds maturing on November 1, 2047.

“Master Indenture” shall mean the Master Trust Indenture dated as of July 1, 1998, as amended, supplemented or restated from time to time, by and among the Members of the Obligated Group and the Master Trustee.

“Master Trustee” shall mean The Bank of New York Mellon, New York, New York, and its successors in the trusts created under the Master Indenture.

“Member of the Obligated Group” or “Member” shall mean each of Northwell Healthcare, Inc., North Shore University Hospital, Long Island Jewish Medical Center, Glen Cove Hospital, Plainview Hospital, Northwell Health Stern Family Center for Rehabilitation, Lenox Hill Hospital, Southside Hospital, Huntington Hospital Association d/b/a Huntington Hospital and Staten Island University Hospital, and any other Person becoming a Member of the Obligated Group pursuant to the Master Indenture.

“Obligated Group” shall mean, collectively, the Members of the Obligated Group.

“Obligated Group Representative” shall mean Northwell Healthcare, Inc., and its legal successors, and thereafter any Person as may be designated as such pursuant to written notice to the Master Trustee by the Members of the Obligated Group.

“Obligation” shall mean Obligation No. 54 for Series 2017A issued by the Members of the Obligated Group to the Bond Trustee pursuant to the Master Indenture, including Supplement No. 54, in order to secure the Series 2017A Bonds, and any other Obligation issued pursuant to the Master Indenture to secure Additional Bonds.

“Opinion of Counsel” shall mean a written opinion of an attorney or firm of attorneys reasonably acceptable to the Bond Trustee and (so long as no Bond Indenture Event of Default has occurred and is continuing) HCI, and who (except as otherwise expressly provided herein) may be counsel for HCI.

“Outstanding,” when used with reference to the Bonds, shall mean, as of any date of determination, all Bonds theretofore authenticated and delivered except: (i) Bonds theretofore cancelled by the Bond Trustee or delivered to the Bond Trustee for cancellation; (ii) Bonds paid pursuant to Section 2.04; (iii) Bonds which are deemed paid and no longer Outstanding as provided in this Bond Indenture; (iv) Bonds in lieu of which other Bonds have been issued pursuant to the provisions of this Bond Indenture relating to Bonds destroyed, stolen or lost, unless evidence satisfactory to the Bond Trustee has been received that any such Bond is held by a bona fide purchaser; and (v) for purposes of any consent or other action to be taken under this Bond Indenture by the Holders of a specified percentage of principal amount of Bonds, Bonds held by or for the account of HCI, or any Person controlling, controlled by, or under common control with, HCI (for purposes of this clause (v), the Bond Trustee shall be permitted to rely on a certificate of HCI).

“Permitted Investments” shall mean and include any of the following, if and to the extent the same are at the time legal for the investment of HCI’s money (provided that the Bond Trustee shall be entitled to rely upon any investment directions from HCI as conclusive certification to the Bond Trustee that the investments described therein are legal investments for HCI, and provided further, that all references in this definition to ratings of any investment or asset shall refer to ratings at the time of purchase of such investment or asset):

(a) Government Obligations;

(b) Government Obligations which have been stripped of their unmatured interest coupons and interest coupons stripped from Government Obligations and receipts, certificates or other similar documents evidencing ownership of future principal or interest payments due on Government Obligations which are held in a custody or trust account by a commercial bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$20,000,000;

(c) Bonds, debentures, notes or other evidences of indebtedness issued by any of the following: Federal Home Loan Banks; Federal Home Loan Mortgage Corporation (including participation certificates); Federal National Mortgage Association; Government National Mortgage Association; Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing Bank; Export-Import Bank of the United States; or Federal Land Banks;

(d) All other obligations issued or unconditionally guaranteed as to the timely payment of principal and interest by an agency or Person controlled or supervised by and acting as an instrumentality of the United States government pursuant to authority granted by Congress;

(e) (i) Interest-bearing time or demand deposits, certificates of deposit, trust accounts, trust funds or other similar banking arrangements with any government securities dealer, bank, trust company, savings and loan association, national banking association or other savings institution (including the Bond Trustee or any affiliate thereof), provided that such deposits, trust accounts, trust funds, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or (ii) interest-bearing time or demand deposits, trust accounts, trust funds or certificates of deposit with any bank, trust company, national banking association or other savings institution (including the Bond Trustee or any affiliate thereof), provided such deposits, trust accounts, trust funds and certificates are in or with a bank, trust company, national banking association or other savings institution whose (or whose parent's) long-term unsecured debt is rated in either of the two highest long term rating categories by Moody's Investors Service, S&P Global Ratings, or Fitch, Inc. and provided further that with respect to (i) and (ii) any such obligations are held by, or are in the name of, the Bond Trustee or a bank, trust company or national banking association (other than the issuer of such obligations);

(f) Repurchase agreements collateralized by securities described in subparagraphs (a), (b), (c) or (d) above with any financial institution that has an uninsured, unsecured and unguaranteed obligation rated, or is itself rated, in one of the three highest rating categories by Moody's Investors Service, S&P Global Ratings or Fitch, Inc. (including the Bond Trustee or any affiliate of the Bond Trustee), provided that (1) a specific written repurchase agreement governs the transaction, (2) the securities are held, free and clear of any lien, by the Bond Trustee or an affiliate of the Bond Trustee or an independent third party on behalf of the Bond Trustee, and such affiliate of the Bond Trustee or third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25,000,000, and the Bond Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Bond Trustee, (3) a perfected first security interest under the Uniform Commercial Code of the State, or book entry procedures prescribed at 31 CFR 306.1 et seq. or 31 CFR 350.0 et seq. in such securities is created for the benefit of the Bond Trustee, (4) the repurchase agreement has a term of thirty days or less, or provides that such independent third party will value the collateral securities no less frequently than monthly and the Bond Trustee will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation, and (5) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%;

(g) Money market accounts rated in one of the three highest long term rating categories by S&P Global Ratings, Moody's Investors Service or Fitch, Inc. or investment agreements with a financial institution (including the Bond Trustee or any affiliate thereof) whose long term debt (or the long-term debt of such institution's parent company) is rated in either of the two highest long term rating categories by S&P Global Ratings, Moody's Investors Service or Fitch, Inc.;

(h) Commercial paper rated in the highest rating category by Moody's Investors Service, S&P Global Ratings or Fitch, Inc.;

(i) Shares of investment companies rated in one of the three highest long term rating categories by S&P Global Ratings, Moody's Investors Service or Fitch, Inc. (including, without limitation, any mutual fund for which the Bond Trustee or an affiliate of the Bond Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Bond Trustee or an affiliate of the Bond Trustee receives fees from such funds for services rendered, (ii) the Bond Trustee charges and collects fees for services rendered pursuant to the Bond Indenture, which fees are separate from the fees received from such funds,

and (iii) services performed for such funds and pursuant to the Bond Indenture may at times duplicate those provided to such funds by the Bond Trustee or its affiliates), or cash equivalent investments which are authorized to invest only in assets or securities described in subparagraphs (a), (b), (c), (d) and (f) above;

(j) Obligations that are exempt from Federal income taxation that are rated in one of the three highest rating categories by Moody's Investors Service, S&P Global Ratings or Fitch, Inc.;

(k) Forward delivery agreements, forward supply contracts, or similar products that provide for the delivery of the securities listed in paragraphs (a), (b), (c), (d), (h) and (j) above;

(l) Investment agreements, including guaranteed investment contracts, that are obligations of an entity whose senior long-term debt obligations or claims-paying ability are rated, or guaranteed by an entity whose obligations are rated (at the time the investment is entered into) in one of the two highest rating categories by Moody's Investors Service, S&P Global Ratings or Fitch, Inc.;

(m) interest bearing bankers acceptances and demand or time deposits (including certificates of deposit) in banks (including the Bond Trustee and its affiliates), providing such deposits are either (i) secured at all times, in the manner and to the extent provided by law, by collateral security described in clause (a) or (b) of this definition of a market value no less than the amount of moneys so invested and are maintained with banks the debt obligations of which are rated in one of the two highest rating categories by Moody's Investors Service, S&P Global Ratings or Fitch, Inc., or (ii) fully insured by the Federal Deposit Insurance Corporation;

(n) taxable government money market portfolios composed of obligations issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States of America, including without limitation any portfolio for which the Bond Trustee's parent, affiliates or subsidiaries provide investment advisory or other management services, which are rated in one of the two highest rating categories by Moody's Investors Service, S&P Global Ratings or Fitch, Inc.;

(o) commercial paper rated at the time of purchase in the highest rating category by Moody's Investors Service, S&P Global Ratings or Fitch, Inc. and issued by corporations organized and operating within the United States and having total assets in excess of \$500,000,000;

(p) collateralized investment agreements or other collateralized contractual arrangements with corporations, financial institutions or national associations within the United States with such entities which are rated in one of the two highest rating categories by Moody's Investors Service, S&P Global Ratings or Fitch, Inc. and fully secured by collateral security described in clause (a) or (b) of this definition;

(q) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P Global Ratings or Fitch, Inc. or an equivalent rating by Moody's Investors Service, including funds for which the Bond Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Bond Trustee or such holding company provide investment advisory or other management services; and

(r) United States dollar denominated deposit accounts with domestic national or commercial banks, including the Bond Trustee or an affiliate of the Bond Trustee, that have a short term issuer rating on the date of purchase of "A-1+" or "A-1" by S&P Global Ratings or "Prime-1" or better by Moody's Investors Service and maturing no more than 360 days after the date of purchase.

"Person" shall include an individual, association, unincorporated organization, corporation, limited liability company, partnership, joint venture, or government or agency or political subdivision thereof.

"Principal Account" shall mean the account of the Bond Fund created pursuant to Section 5.01(a)(ii) of this Bond Indenture.

“Projects” shall mean general corporate purposes of HCI or of its affiliates, including future capital expenditures for various Members of the Obligated Group, to be financed with proceeds of the Bonds, and the refunding of certain outstanding debt.

“Record Date” shall mean each April 15 and October 15 (whether or not a Business Day), unless otherwise provided in a Supplemental Bond Indenture for Additional Bonds that are not consolidated with the Series 2017A Bonds.

“Redemption Account” shall mean the account of the Bond Fund created pursuant to Section 5.01(a)(iii) of this Bond Indenture.

“Redemption Price” shall mean, when used with respect to a Bond or portion thereof to be redeemed, the Make-Whole Redemption Price payable upon redemption thereof or, as may be applicable, the principal amount thereof.

“Reference Treasury Dealer” shall mean each of Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC, or their respective affiliates which are primary U.S. government securities dealers, and their respective successors; provided that if Citigroup Global Markets Inc. or Morgan Stanley & Co. LLC or their respective affiliates shall cease to be a primary U.S. government securities dealer (a “Primary Treasury Dealer”), HCI shall substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” shall mean, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding such redemption date.

“Representation Letter” shall mean each Letter of Representations from HCI and the Bond Trustee to DTC with respect to a series of the Bonds.

“Responsible Officer” shall mean, when used with respect to the Bond Trustee, any officer within the corporate trust department of the Bond Trustee, including any vice president, assistant vice president, assistant secretary, assistant treasurer, trust officer or any other officer of the Bond Trustee who customarily performs functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person’s knowledge of and familiarity with the particular subject and, in each case, who shall have direct responsibility for the administration of this Bond Indenture and the Bonds.

“Series 2017A Bonds” shall mean HCI’s \$956,919,000 aggregate principal amount of Northwell Health Taxable Bonds, Series 2017A, dated their date of delivery and issued under this Bond Indenture to finance costs of the Projects, to refund certain outstanding debt, and to pay costs of issuance of the Series 2017A Bonds.

“State” shall mean the State of New York.

“Supplemental Bond Indenture” shall mean any supplement to this Bond Indenture, including any supplement pursuant to which Additional Bonds are to be issued.

“Supplement No. 54” shall mean the Supplemental Indenture for Obligation No. 54, dated as of September 1, 2017, by and among the Members of the Obligated Group and the Master Trustee.

“Treasury Rate” shall mean, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.



“Underwriters” shall mean, for the Series 2017A Bonds, Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC, and for any Additional Bonds, as may be designated in the applicable Supplemental Bond Indenture or applicable Bond Purchase Contract.

### **All Bonds Equally and Ratably Secured; Bonds Are General Obligations of HCI (*Section 1.03*)**

All Bonds issued hereunder and at any time Outstanding shall in all respects be equally and ratably secured hereby, without preference, priority, or distinction on account of the date or dates or the actual time or times of the issuance or maturity of the Bonds, so that all Bonds at any time issued and Outstanding hereunder shall have the same right, lien, and preference hereunder, and shall all be equally and ratably secured hereby. The Bonds shall constitute general obligations of HCI. In addition, the Bonds are secured by each Obligation, including but not limited to Obligation No. 54, issued by the Members of the Obligated Group to the Bond Trustee to secure Bonds pursuant to the Master Indenture, including but not limited to Supplement No. 54.

### **Payments of Principal, Redemption Price and Interest (*Section 1.04*)**

HCI covenants that it will duly and punctually pay the principal of and interest and any Redemption Price on the Bonds on the dates and in the places and manner mentioned therein and herein. Notwithstanding any schedule of payments to be made on the Bonds set forth therein or herein, HCI agrees to make payments upon the Bonds and be liable therefor at the times and in the amounts equal to the amounts to be paid as principal or Redemption Price of or interest on the Bonds from time to time Outstanding under this Bond Indenture as the same shall become due whether at maturity, upon redemption, by declaration of acceleration or otherwise.

All amounts payable with respect to the Bonds or hereunder by HCI, except as otherwise expressly provided herein, shall be paid to the Bond Trustee so long as any Bonds remain Outstanding.

HCI agrees and represents that it has received fair consideration in return for the obligations undertaken and to be undertaken by HCI resulting from each Bond issued or to be issued by HCI hereunder.

### **Obligations Unconditional (*Section 1.05*)**

This Bond Indenture is a general obligation of HCI and the obligations of HCI to make payments pursuant hereto and pursuant to the Bonds and to perform and observe all agreements on its part contained herein shall be absolute and unconditional. Until this Bond Indenture is terminated or payment in full of all Bonds is made or is provided for in accordance with this Bond Indenture, HCI (i) will not suspend or discontinue any payments hereunder or neglect to perform any of its duties required hereunder; (ii) will perform and observe all of its obligations set forth in this Bond Indenture; and (iii) except as provided herein, will not terminate this Bond Indenture for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration; commercial frustration of purpose; any change in the tax or other laws or administrative rulings of, or administrative actions by or under authority of, the United States of America or of the State.

### **Representations of HCI (*Section 1.06*)**

HCI makes the following representations as the basis for its covenants and agreements herein:

(a) It is validly existing as a not-for-profit corporation under the laws of the State, it has full legal right, power and authority to enter into this Bond Indenture, the Master Indenture, Supplement No. 54, Obligation No. 54, and the Bond Purchase Contract, and to carry out and consummate all transactions contemplated hereby and thereby, and it has, by proper action, duly authorized the execution and delivery of this Bond Indenture, the Bond Purchase Contract, the Master Indenture, Supplement No. 54, Obligation No. 54, and the Bonds.

(b) The execution and delivery of this Bond Indenture, the Bond Purchase Contract, the Master Indenture, Supplement No. 54, Obligation No. 54, the Bonds, and the consummation of the transactions herein and therein contemplated, including the application of the proceeds of the Bonds as so contemplated, will not, in any

material respect, conflict with, or constitute a breach of, or default by it under its certificate of incorporation, its by-laws, or any statute, indenture, mortgage, deed of trust, lease, note, loan agreement or other agreement or instrument to which it is a party or by which it or its properties are bound, and will not, in any material respect, constitute a violation of any order, rule or regulation of any court or governmental agency or body having jurisdiction over it or any of its activities or properties. Additionally, HCI is not, in any material respect, in breach, default or violation of any statute, indenture, mortgage, deed of trust, note, loan agreement or other agreement or instrument which would allow the obligee or obligees thereof to take any action which would preclude performance of this Bond Indenture, the Bond Purchase Contract, the Master Indenture, Supplement No. 54, Obligation No. 54, or the Bonds by HCI.

(c) Except as may be reflected in the offering document of HCI distributed in connection with the Bonds, there are no actions, suits or proceedings of any type whatsoever pending or, to its knowledge, threatened against or affecting it or its assets, properties or operations which, if determined adversely to it or its interests, could have a material adverse effect upon its financial condition, assets, properties or operations and it is not in default with respect to any order or decree of any court or any order, regulation or decree of any federal, state, municipal or governmental agency, which default would materially and adversely affect its financial condition, assets, properties or operations.

(d) HCI is an organization described in Section 501(c)(3) of the Code, and is exempt from federal income tax under Section 501(a) of such Code, except with respect to any unrelated business income of HCI, which income is not expected to result from the consummation of any transaction contemplated by this Bond Indenture. HCI is not a private foundation within the meaning of Section 509(a) of the Code, and HCI at all times will maintain its status as an organization described in Section 501(c)(3) of the Code and its exemption from federal income tax under Section 501(a) of the Code or corresponding provisions of future federal income tax laws. The facts and circumstances which formed the basis of HCI's status as an organization described in Section 501(c)(3) of the Code as represented to the Internal Revenue Service continue substantially to exist. The proceeds of the Bonds will be used in furtherance of HCI's "exempt purpose" as defined in Section 501(c)(3) of the Code. HCI has not impaired its status as an exempt organization and will not, while any of the Bonds remain Outstanding, impair its status as an exempt organization.

(e) Neither any information, exhibit or report furnished to the Underwriters by HCI in connection with the negotiation of this Bond Indenture, the Master Indenture, Supplement No. 54, or the Bond Purchase Contract, nor any of the foregoing representations, contains any untrue statement of a material fact, or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

All representations of HCI contained herein and in any certificate or other instrument delivered by HCI pursuant to the Bond Purchase Contract, the Master Indenture, Supplement No. 54 or this Bond Indenture, or in connection with the transactions contemplated thereby, shall survive the execution and delivery thereof and the issuance, sale and delivery of the Bonds.

### **Medium and Place of Payment (Section 2.03)**

(a) Principal of, Redemption Price, if any, and interest on the Bonds shall be payable in any coin or currency of the United States of America which, on the respective dates of payment of principal and interest, is tender for the payment of public and private debts.

(b) Except for book-entry Bonds held by DTC in accordance with the terms and provisions of Section 2.13 hereof, interest on the Bonds shall be payable by check drawn upon the Bond Trustee and mailed on the Bond Payment Date to the registered Holders of such Bonds at the addresses of such Holders as they appear on the books of the Bond Trustee on the Record Date; provided, however, that interest may be paid by wire or electronic transfer to the Holder of at least \$1,000,000 aggregate principal amount of Bonds to the Holder's domestic bank account pursuant to the wire transfer instructions designated by written notice by such Holder to the Bond Trustee not less than fifteen (15) days prior to the Record Date for such payment. Any such written request shall remain in effect until rescinded in writing by such Holder. Principal of and Redemption Price, if any, on the Bonds shall be paid when due by check upon presentation and surrender of such Bonds at the Corporate Trust Office of the Bond Trustee.

(c) In the event of a default by HCI in the payment of interest due on a Bond on a Bond Payment Date, such defaulted interest will be payable to the Person in whose name such Bond is registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Bond Trustee to the registered owners of Bonds not less than ten (10) days preceding such special record date.

(d) HCI or the Bond Trustee may make a charge against any Bondholder sufficient for the reimbursement of any governmental charge required to be paid in the event that such Bondholder fails to provide a correct taxpayer identification number to the Bond Trustee. Such charge may be deducted from any interest or principal payment due to the Bondholder.

#### **Mutilated, Destroyed, Lost and Stolen Bonds (Section 2.04)**

If (i) any mutilated Bond is surrendered to the Bond Trustee or if HCI or the Bond Trustee receives evidence to their satisfaction of the destruction, loss or theft of any Bond, and (ii) there is delivered to HCI and the Bond Trustee such security or indemnity as may be required by HCI or the Bond Trustee to hold them harmless, then, in the absence of notice to the Bond Trustee that such Bond has been acquired by a bona fide purchaser and upon the Holder paying the reasonable expenses of HCI and the Bond Trustee, HCI shall cause to be executed and the Bond Trustee shall authenticate and deliver, in exchange for such mutilated Bond or in lieu of such destroyed, lost or stolen Bond, a new Bond of like principal amount, date and tenor. If any such mutilated, destroyed, lost or stolen Bond has become or is about to become due and payable, then HCI may, in its discretion, pay such Bond when due instead of delivering a new Bond.

#### **Execution and Authentication of Bonds (Section 2.05)**

All Bonds shall be executed for and on behalf of HCI by its Executive Vice President and Chief Financial Officer (or other duly authorized officer of HCI) and attested by its Secretary or an Assistant Secretary (or other duly authorized officer of HCI). The signatures of the Executive Vice President and Chief Financial Officer and the Assistant Secretary (or other duly authorized officers of HCI) may be mechanically or photographically reproduced on the Bonds. If any officer of HCI whose signature appears on any Bond ceases to be such officer before delivery thereof, such signature shall remain valid and sufficient for all purposes as if such officer had remained in office until such delivery. Each Bond shall be manually authenticated by an authorized signatory of the Bond Trustee, upon the written authentication order of HCI, without which authentication no Bond shall be entitled to the benefits hereof.

#### **Exchange of Bonds (Section 2.06)**

Except for book-entry Bonds held by DTC in accordance with the terms and provisions of Section 2.13 hereof, Bonds, upon presentation and surrender thereof to the Bond Trustee together with written instructions satisfactory to the Bond Trustee, duly executed by the registered Holder or his or her attorney duly authorized in writing, may be exchanged for an equal aggregate face amount of fully registered Bonds with the same interest rate and maturity of any other authorized denominations.

#### **Negotiability and Transfer of Bonds (Section 2.07)**

Except for book-entry Bonds held by DTC in accordance with the terms and provisions of Section 2.13 hereof, (a) all Bonds issued hereunder shall be negotiable, subject to the provisions for registration and transfer thereof contained herein or in the Bonds.

(b) So long as any Bonds are Outstanding, HCI shall cause to be maintained at the offices of the Bond Trustee books for the registration and transfer of Bonds, and shall provide for the registration and transfer of any Bond under such reasonable regulations as HCI or the Bond Trustee may prescribe. The Bond Trustee shall act as bond registrar for purposes of exchanging and registering Bonds in accordance with the provisions hereof.

(c) Each Bond shall be transferable only upon the registration books maintained by the Bond Trustee, by the Holder thereof in person or by his or her attorney duly authorized in writing, upon presentation and surrender

of such Bond together with a written instrument of transfer satisfactory to the Bond Trustee duly executed by the registered Holder or his or her duly authorized attorney. Upon surrender for transfer of any such Bond, HCI shall cause to be executed and the Bond Trustee shall authenticate and deliver, in the name of the transferee, one or more new Bonds of the same aggregate face amount, maturity, series and rate of interest as the surrendered Bond, as fully registered Bonds only.

#### **Persons Deemed Owners (Section 2.08)**

As to any Bond, the Person in whose name such Bond shall be recorded on the Bond register shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of principal or interest on any Bond shall be made only to or upon the written order of the registered Holder thereof. Such payment shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the amount so paid.

#### **Provisions with Respect to Transfers and Exchanges (Section 2.09)**

(a) All Bonds surrendered in any exchange or transfer of Bonds shall forthwith be cancelled by the Bond Trustee.

(b) In connection with any such exchange or transfer of Bonds the Holder requesting such exchange or transfer shall as a condition precedent to the exercise of the privilege of making such exchange or transfer remit to the Bond Trustee an amount sufficient to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. The cost of printing and any services rendered or expenses incurred by the Bond Trustee in connection with any transfer and exchange of Bonds shall be paid by HCI.

(c) Neither HCI nor the Bond Trustee shall be obligated to (i) issue, exchange or transfer any Bond during the period of fifteen (15) days preceding any Bond Payment Date, or (ii) transfer or exchange any Bond which has been or is being called for redemption in whole or in part.

#### **Book-Entry Bonds (Section 2.13)**

(i) Except as provided in subparagraph (iii) of this Section 2.13, or as may be provided in a Supplemental Bond Indenture for Additional Bonds that are not consolidated with the Series 2017A Bonds, the registered owner of all of the Bonds shall be DTC and the Bonds shall be registered in the name of Cede & Co., as nominee for DTC. Payment of semiannual interest for any Bond registered as of each Record Date in the name of Cede & Co. shall be made by wire or electronic transfer of funds to the account of Cede & Co. on the Bond Payment Date for the Bonds at the address indicated on the regular Record Date or special record date for Cede & Co. in the registry books of HCI kept by the Bond Trustee.

(ii) The Bonds shall be initially issued in the form of separate single fully registered Bonds, authenticated by the Bond Trustee, in the amount of each separate stated maturity of the Bonds. Upon initial issuance, the ownership of such Bonds shall be registered in the registry books of HCI kept by the Bond Trustee in the name of Cede & Co., as nominee of DTC. The Bond Trustee and HCI may treat DTC (or its nominee) as the sole and exclusive owner of the Bonds registered in its name for the purposes of payment of the principal, premium, if any, or interest on the Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Holders of the Bonds under this Bond Indenture, registering the transfer of Bonds, obtaining any consent or other action to be taken by Holders of the Bonds and for all other purposes whatsoever, and neither the Bond Trustee nor HCI shall be affected by any notice to the contrary. Neither the Bond Trustee nor HCI shall have any responsibility or obligation to any DTC participant, any Person claiming a beneficial ownership interest in the Bonds under or through DTC or any DTC participant, or any other Person which is not shown on the registration books of the Bond Trustee as being a Holder of a Bond, with respect to the accuracy of any records maintained by DTC or any DTC participant; the payment of DTC or any DTC participant of any amount in respect of the principal, premium, if any, or interest on the Bonds; any notice which is permitted or required to be given to Bondholders under this Bond Indenture; or any consent given or other action taken by DTC as Holder of a Bond. The Bond Trustee shall pay all principal of, premium, if any, and interest on the Bonds only to or "upon the order of" DTC (as that term is used in the Uniform Commercial Code as adopted in the State of New York), and all such

payments shall be valid and effective to fully satisfy and discharge HCI's obligations with respect to the principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No Person other than DTC shall receive an authenticated Bond evidencing the obligation of HCI to make payments of principal, premium, if any, and interest pursuant to this Bond Indenture. Upon delivery by DTC to the Bond Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions herein with respect to Record Dates, the word "Cede & Co." in this Bond Indenture shall refer to such new nominee of DTC.

(iii) In the event HCI determines that it is in the best interest of the Bondholders that they be able to obtain Bond certificates, HCI may notify DTC and the Bond Trustee, whereupon DTC will notify the DTC participants, of the availability through DTC of Bond certificates. In such event, the Bond Trustee shall issue, transfer and exchange Bond certificates as requested by DTC and any other Bondholders in appropriate amounts. DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving notice to HCI and the Bond Trustee and discharging its responsibilities with respect thereto under applicable law. Under such circumstances (if there is no successor securities depository), HCI and the Bond Trustee shall be obligated to deliver Bond certificates as described herein. In the event Bond certificates are issued, the provisions of this Bond Indenture shall apply to, among other things, the transfer and exchange of such certificates and the method of payment of principal of, premium, if any, and interest on such certificates. Whenever DTC requests HCI and the Bond Trustee to do so, the Bond Trustee and HCI will cooperate with DTC in taking appropriate action after reasonable notice (a) to make available one or more separate certificates evidencing the Bonds to any DTC participant having Bonds credited to its DTC account or (b) to arrange for another securities depository to maintain custody of certificates evidencing the Bonds.

(iv) Notwithstanding any other provision of this Bond Indenture to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal of, premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, to DTC as provided in the applicable Representation Letter.

(v) In connection with any notice or other communication to be provided to Holders of Bonds pursuant to the Bond Indenture by HCI or the Bond Trustee with respect to any consent or other action to be taken by Holders of Bonds, HCI or the Bond Trustee, as the case may be, shall establish a record date for such consent or other action and give DTC notice of such record date not less than fifteen (15) calendar days in advance of such record date to the extent possible. Notice to DTC shall be given only when DTC is the sole Holder of the Bonds.

(vi) The Bond Trustee and HCI may rely on instructions from DTC and its participants as to the names of the Holders of the Bonds and neither HCI nor the Bond Trustee shall be liable for the delay or delivery of such instructions and conclusively may rely on, and shall be protected in relying on, such instructions. The cost of printing Bond certificates and expenses of the Bond Trustee shall be paid for by HCI.

### **Additional Bonds (*Section 2.15*)**

One or more series of Additional Bonds may be authenticated and delivered by the Bond Trustee upon original issuance from time to time pursuant to this Section 2.15 (i) to complete or make additions or improvements to the Projects, (ii) to provide extensions, additions, improvements or repairs to the Projects or other property of any Member of the Obligated Group, (iii) to refund any or all Outstanding Bonds issued under this Bond Indenture, or any other debt of any Member of the Obligated Group, or (iv) for any other corporate purpose of any Member or Members of the Obligated Group. Additional Bonds shall be authorized by a Supplemental Bond Indenture, and the proceeds of any Additional Bonds shall be applied as provided in the Supplemental Bond Indenture authorizing such Additional Bonds and such Supplemental Bond Indenture shall set forth the terms and conditions for such Additional Bonds. The Additional Bonds so authorized shall from time to time and in such amounts as directed by HCI shall be authenticated by the Bond Trustee and by it delivered to or upon the order of HCI upon receipt of the consideration therefor. The Additional Bonds that, at the election and direction of HCI, are consolidated with the Series 2017A Bonds shall be treated as a single series of Series 2017A Bonds for all purposes of this Bond Indenture. Each Supplemental Bond Indenture authorizing the issuance of Additional Bonds shall specify the following:

- (a) The authorized principal amount of Additional Bonds to be issued;
- (b) The purpose for which the Additional Bonds are to be issued;
- (c) To the extent such Additional Bonds are consolidated, at the election and direction of HCI, with the Series 2017A Bonds, the first interest payment date for the Additional Bonds, which shall be on a Bond Payment Date for the Series 2017A Bonds;
- (d) For Additional Bonds which are not consolidated, at the election and direction of HCI, with the Series 2017A Bonds, the Bond Payment Dates (including the first Bond Payment Date), the interest rates, the maturity dates, and any redemption provisions, for the Additional Bonds;
- (e) Directions for the applications of the proceeds of the Additional Bonds;
- (f) Delivery of an Obligation, or an amendment or replacement to Obligation No. 54, as may be directed by HCI, issued under the Master Indenture to evidence and secure such Additional Bonds, together with the certifications, if any, required under the Master Indenture as a condition precedent to the issuance or amendment or replacement of an Obligation to secure such Additional Bonds; and
- (g) Such other provisions as HCI deems advisable.

#### **Limitations on Consolidated Bonds (Section 2.16)**

HCI covenants and agrees that:

- (a) Additional Bonds that are consolidated with the Series 2017A Bonds shall constitute a part of the Series 2017A Bonds;
- (b) Additional Bonds that are consolidated with the Series 2017A Bonds shall mature on the same date as the Series 2017A Bonds, shall bear interest at the same rate per annum as the Series 2017A Bonds, and shall be subject to redemption at the same times, in the same manner, and at the same Redemption Price as the Series 2017A Bonds;
- (c) Each Additional Bond to be consolidated with the Series 2017A Bonds shall have the same minimum denominations; and
- (d) As a condition to the issuance of such Additional Bonds to be consolidated with the Series 2017A Bonds, there shall be delivered to the Bond Trustee a certificate of HCI, certifying that, after consultation with counsel experienced in federal securities laws, the issuance and consolidation of such Additional Bonds will not cause the Outstanding Series 2017A Bonds to be required to be registered under the Securities Act of 1933, as amended, or cause this Bond Indenture to be required to be qualified under the Trust Indenture Act of 1939, as amended.

The limitations and conditions in paragraph (a), (b), (c) and (d) of this Section 2.16 shall not apply to any Additional Bonds issued under this Bond Indenture that will not be consolidated with the Series 2017A Bonds.

#### **Selection of Bonds for Redemption (Section 3.03)**

In the event of any redemption of less than all Outstanding Bonds of a series, HCI shall designate the series and maturity or maturities of any Bonds to be redeemed, and the Bond Trustee shall select the Bonds of such series within a maturity or any given portions thereof to be redeemed from Bonds of such series Outstanding or such given portion thereof not previously called for redemption, pro-rata.

If the Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Bonds, if less than all of the Bonds of a series and maturity are called for redemption, the particular Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Bonds are held in book-entry form, the selection for redemption of such Bonds of a series and maturity shall be made in accordance with the operational arrangements of DTC then in effect.

It is HCI's intent that redemption allocations made by DTC for any particular maturity be made on a pro rata pass-through distribution of principal basis as described above. However, HCI can provide no assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of Bonds of any such series and maturity on such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds of a series and maturity on a pro rata pass-through distribution of principal basis as described above, then the Bonds of any such series and maturity will be selected for redemption, in accordance with DTC procedures, by lot.

### **Partial Redemption of Bonds (Section 3.05)**

Upon surrender of any Bond redeemed in part only, the Bond Trustee shall provide a replacement Bond in a principal amount equal to the portion of such Bond not redeemed, and deliver it to the Holder thereof. The Bond so surrendered shall be cancelled by the Bond Trustee as provided herein. HCI and the Bond Trustee shall be fully released and discharged from all liability to the extent of payment of the Redemption Price or accrued interest to the date fixed for redemption for such partial redemption.

The Bond Trustee may agree with any Holder of any such Bond that such Holder may, in lieu of surrendering the same for a new Bond, endorse on the reverse of such Bond a notice of such partial redemption, which notice shall set forth, over the signature of such Holder, the redemption date, the principal amount redeemed and the principal amount remaining unpaid; provided, however, for so long as the book-entry only system is being used, partial redemption of a Bond shall be recorded or evidenced as directed by DTC. Such partial redemption shall be valid upon payment of the amount thereof to the registered owner of any such Bond and the Bond Trustee shall be fully released and discharged from all liability to the extent of such payment irrespective of whether such endorsement shall or shall not have been made upon the reverse of such Bond by the owner thereof and irrespective of any error or omission in such endorsement.

### **Effect of Redemption (Section 3.06)**

Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price and accrued interest to the date fixed for redemption being held by the Bond Trustee, the Bonds, or portions thereof, so called for redemption shall, on the redemption date designated in such notice, become due and payable at the Redemption Price specified in such notice together with accrued interest to the redemption date, interest on the Bonds, or portions thereof, so called for redemption shall cease to accrue, said Bonds shall cease to be entitled to any lien, benefit or security under this Bond Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price thereof and accrued interest thereon to the date fixed for redemption. All Bonds fully redeemed pursuant to the provisions of this Article III shall be cancelled upon surrender thereof and may be disposed of by the Bond Trustee in accordance with its customary practices, which shall, upon written request of HCI, deliver to HCI a certificate evidencing such disposition.

### **Purchase in Lieu of Redemption (Section 3.07)**

Notwithstanding anything to the contrary contained herein, in the event that any Bonds have been called for optional redemption pursuant to Section 3.01 hereof, HCI shall have the right to purchase such Bonds in lieu of a redemption thereof, at a price equal to the applicable Redemption Price of the Bonds so called for redemption plus accrued interest thereon to the date fixed for redemption, on the date such Bonds have been so called for optional redemption, and the payment of the Redemption Price of the Bonds so called for optional redemption shall be deemed in such event to be the payment of the purchase price of such Bonds to be purchased in lieu of such optional redemption and such Bonds may, at the option of HCI, remain Outstanding under this Bond Indenture or be cancelled. To exercise such right to purchase Bonds in lieu of optional redemption, HCI shall give written notice of its intent to purchase Bonds pursuant to this Section to the Bond Trustee not later than 12:00 noon, New York City

time, no later than the Business Day immediately preceding the applicable redemption date, which notice shall state whether such Bonds are to remain Outstanding or be cancelled, and HCI shall promptly confirm its purchase thereof in a written notice delivered to the Bond Trustee.

#### **Application of Series 2017A Bond Proceeds (Section 5.02)**

The purchase price from the sale of the Series 2017A Bonds shall be paid by the Underwriters to the Bond Trustee for deposit into the Temporary Bond Proceeds Fund which is hereby established by the Bond Trustee under this Bond Indenture, as provided herein, against receipt therefor, at or prior to the delivery of the Series 2017A Bonds. Such funds shall be transferred to HCI, or one or more affiliates of HCI that are Members of the Obligated Group, by the Bond Trustee, as directed in writing by HCI, on the date of the delivery of the Series 2017A Bonds for credit to the Bond Proceeds Fund (or one or more accounts thereof designated by HCI).

#### **Flow of Funds (Section 5.03)**

So long as any Bonds are Outstanding, HCI shall make payments (which shall be made by HCI by wire transfer of immediately available funds) to the Bond Trustee (i) with respect to interest on the Bonds on or before the Business Day prior to each Bond Payment Date on which interest is due on the Bonds, and (ii) with respect to principal of the Bonds on or before the Business Day prior to each Bond Payment Date on which principal is due on the Bonds. Payments received by the Bond Trustee from HCI shall be deposited into the account of the Bond Fund as received and shall be applied in the following manner and order of priority:

(a) Interest Account. The Bond Trustee shall deposit to the Interest Account from payments received from HCI, not later than 11:00 a.m. (New York City time) on each Bond Payment Date on which interest is due on the Bonds (i.e., on each May 1 and November 1, commencing on November 1, 2017), the amount, if any, necessary to cause the amount then being credited to the Interest Account, together with investment earnings on investments then on deposit in the Interest Account, if such earnings will be received before such Bond Payment Date on which interest is due on the Bonds (but only to the extent that such amount or investment earnings have not previously been credited for purposes of such calculation), to be not less than the amount of interest to be paid on Outstanding Bonds on such Bond Payment Date. Moneys in the Interest Account shall be used to pay interest on the Bonds as it becomes due.

(b) Principal Account. The Bond Trustee shall deposit to the Principal Account from payments received from HCI, not later than 11:00 a.m. (New York City time) on each Bond Payment Date on which principal is due on the Bonds at their maturity, the amount, if any, necessary to cause the amount then being credited to the Principal Account, together with the investment earnings on investments then on deposit in the Principal Account, if such earnings will be received before such Bond Payment Date on which principal is due on the Bonds (but only to the extent that such amount or investment earnings have not previously been credited for purposes of such calculation), to be not less than the amount of principal to be paid on Outstanding Bonds on such Bond Payment Date on which Bonds mature. Moneys in the Principal Account shall be used to retire Bonds by payment at their scheduled maturity.

(c) Redemption Account. If HCI makes an optional prepayment of any principal due on the Bonds, the amount so paid or transferred shall be credited to the Redemption Account and applied promptly by the Bond Trustee, first, to cause the amounts credited to the Interest Account or the Principal Account of the Bond Fund, in that order, to be not less than the amounts then required to be credited thereto, and then to retire Bonds by purchase, redemption or both purchase and redemption in accordance with HCI's directions. Any such purchase shall not be at a cost or price (including brokerage fees or commissions or other charges) which exceeds the Redemption Price at which such Bond could be redeemed on the date of purchase or on the next succeeding date upon which such Bond is subject to optional redemption plus accrued interest to the date of purchase. Any such redemption shall be of Bonds then subject to optional redemption at the Redemption Price then applicable for the optional redemption of such Bonds.

Any balance remaining in the Redemption Account after the purchase or redemption of Bonds in accordance with HCI's directions, or in any event on the day following the Bond Payment Date next succeeding the prepayment by HCI, shall be transferred to the Interest Account.



#### **Investment of Moneys Held by the Bond Trustee (*Section 5.04*)**

All moneys in any of the Funds and Accounts established pursuant to this Bond Indenture that are held by the Bond Trustee shall be invested by the Bond Trustee solely in such Permitted Investments as are specified in a written request of HCI filed one Business Day prior to investing, provided, however, that, if HCI does not file such a request with the Bond Trustee, the Bond Trustee shall invest to the extent practicable in investments described in clause (r) of the definition of the term “Permitted Investments” in Section 1.01; provided however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a written request of HCI specifying a specific money market fund and, if no such written request of HCI is so received, the Trustee shall hold such moneys uninvested. All moneys in the Bond Proceeds Fund held by HCI, or an affiliate of HCI that is a Member of the Obligated Group, may be invested by HCI, or an affiliate of HCI that is a Member of the Obligated Group, in its sole discretion, and any such investments in the Bond Proceeds Fund need not be Permitted Investments.

Investments in any and all Funds and Accounts established pursuant to this Bond Indenture may be commingled for purposes of making, holding and disposing of investments, notwithstanding provisions herein for transfer to or holding in a particular fund amounts received or held by the Bond Trustee hereunder, provided that the Bond Trustee shall at all times account for such investments strictly in accordance with the particular Funds to which they are credited and otherwise as provided in this Bond Indenture. The Bond Trustee and its affiliates may act as sponsor, principal or agent in the making or disposing of any investment. The Bond Trustee may sell or present for redemption, any securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the Fund or Account to which such securities are credited, and the Bond Trustee shall not be liable or responsible for any loss resulting from such investment. The Bond Trustee will furnish HCI periodic transaction statements which include detail for all investment transactions made by the Bond Trustee hereunder.

Any amounts remaining in the Bond Fund or any other Fund or Account established hereunder after payment in full of the Bonds (or after provision for payment thereof as provided herein), and the fees, charges and expenses of the Bond Trustee, shall belong and be paid to HCI by the Bond Trustee.

#### **Principal and Interest (*Section 6.01*)**

HCI covenants that it will promptly pay or cause to be paid the principal of, Redemption Price, if any, and interest on each Bond issued hereunder at the place, on the dates and in the manner provided herein and in said Bonds according to the terms thereof.

HCI shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any of the claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement except with the written consent of the Bondholders in accordance with Section 9.02 and, if the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended without the written consent of the Bondholders, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Bond Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section shall be deemed to limit the right of HCI to issue bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

### **Performance of Covenants (Section 6.02)**

HCI covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions on its part to be performed as provided herein, in each and every Bond executed, authenticated and delivered hereunder and in all proceedings of HCI pertaining thereto. HCI is duly authorized pursuant to law to issue the Bonds and to enter into this Bond Indenture and to pledge and assign the assets purported to be pledged and assigned, respectively, under this Bond Indenture in the manner and to the extent provided in this Bond Indenture. The Bonds and the provisions of this Bond Indenture are and will be the legal, valid and binding general obligations of HCI enforceable in accordance with their terms, and HCI shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of any such assets and all the rights of the Bondholders under this Bond Indenture against all claims and demands of all Persons whomsoever.

### **Protection of Lien (Section 6.04)**

HCI hereby agrees not to make or create or suffer to be made or created any assignment or lien having priority or preference over the assignment and lien hereof upon the interests granted hereby or any part thereof except as otherwise specifically provided herein.

### **Securities Law Status (Section 6.05)**

HCI affirmatively represents and warrants that, as of the date of this Bond Indenture, it is an organization organized and operated: (i) exclusively for healthcare or charitable purposes; (ii) not for pecuniary profit; and (iii) with no part of the net earnings of which inure to the benefit of any Person, private stockholder or individual, all within the meaning, respectively, of the Securities Act of 1933, as amended, and of the Securities Exchange Act of 1934, as amended. HCI covenants that it shall not perform any act nor enter into any agreement which shall change such status as set forth in this Section. HCI represents and covenants that the proceeds of the Bonds shall be used in furtherance of the exempt and charitable purposes of HCI and the other Members of the Obligated Group.

### **Secondary Market Disclosure (Section 6.07)**

HCI has entered into continuing disclosure undertakings (the “Continuing Disclosure Undertakings”) in connection with tax-exempt revenue bonds issued for the benefit of HCI and the other Members of the Obligated Group (the “Tax-Exempt Bonds”). Holders and prospective purchasers of the Bonds may obtain copies of the information provided by HCI under those Continuing Disclosure Undertakings on the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (“EMMA”) or at Digital Assurance Certification L.L.C. (“DAC”). Each Continuing Disclosure Undertaking terminates when the related Tax-Exempt Bonds are paid or deemed paid in full. HCI hereby covenants that unless otherwise available on EMMA, DAC or any successor thereto or to the functions thereof pursuant to the Continuing Disclosure Undertakings, copies of HCI’s and its affiliates’ (constituting the Northwell Health System) unaudited quarterly consolidated financial statements, and consolidated annual audited financial statements, with supplementary information, will either be posted on HCI’s website, posted on EMMA or DAC, or filed with the Bond Trustee, provided, however, that the Bond Trustee shall have no responsibility whatsoever to determine if any such posting has occurred. The failure of HCI to comply with the covenants of this Section 6.07 shall not be considered a Bond Indenture Event of Default. As the sole and exclusive remedy for HCI’s failure to comply with this Section 6.07, the Bond Trustee may (and, at the request of the holders of at least 51% in aggregate principal amount of the Outstanding Bonds, shall), or any Bondholder or any owner of a beneficial interest in a Bond or Bonds may, take such actions to seek specific performance by court order and to cause HCI to comply with its obligations under this Section 6.07 and no person, including any Holder or any Beneficial Owner of the Bonds, may recover monetary damages.

### **Bond Indenture Events of Default (Section 7.01)**

Each of the following is hereby declared a “Bond Indenture Event of Default” hereunder:

- (a) If payment by HCI in respect of any installment of interest on any Bond shall not be made in full when the same becomes due and payable;

(b) If payment by HCI in respect of the principal of or Redemption Price, if any, or purchase price, if any, upon any purchase in lieu of redemption, on any Bond shall not be made in full when the same becomes due and payable, whether at maturity or by proceedings for redemption or by declaration of acceleration or otherwise;

(c) HCI shall fail duly to observe or perform any covenant or agreement on its part under this Bond Indenture (other than as described in clauses (a) or (b) above and other than a covenant or agreement set forth in Section 6.07 hereof) for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to HCI by the Bond Trustee, or to HCI and the Bond Trustee by the Holders of at least fifty percent (50%) in aggregate principal amount of Bonds then Outstanding (if the breach of the covenant or agreement is one which cannot be completely remedied within the thirty (30) days after written notice has been given, it shall not be a Bond Indenture Event of Default as long as HCI has taken active steps within the thirty (30) days after written notice has been given to remedy the failure and is diligently pursuing such remedy);

(d) The occurrence and continuance of an Event of Default (as defined in the Master Indenture) under the Master Indenture.

#### **Acceleration; Annulment of Acceleration (Section 7.02)**

(a) Upon the occurrence and continuance of a Bond Indenture Event of Default, the Bond Trustee may, and upon the written request of the Holders of not less than fifty percent (50%) in aggregate principal amount of the Bonds Outstanding shall, without any further action, declare all Bonds Outstanding to be immediately due and payable, anything in the Bonds or herein to the contrary notwithstanding. The Bond Trustee shall declare such acceleration without regard to receipt of prior indemnification under Section 8.08 hereof. In such event, there shall be due and payable on the Bonds an amount equal to the total principal amount of all such Bonds, plus all interest accrued thereon and which accrues to the date of payment. The Bond Trustee shall give written notice of such acceleration to HCI and the Bondholders stating the accelerated date on which the Bonds shall be due and payable. Except in the case when a redemption is unconditional, and there occurs a Bond Indenture Event of Default because of the failure to pay the Make-Whole Redemption Price when due, the Make-Whole Redemption Price shall not be due and payable as a result of any such acceleration.

(b) If at any time after the principal of the Bonds shall have been so declared to be due and payable as a result of a Bond Indenture Event of Default, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under this Bond Indenture, moneys shall have accumulated in the appropriate Funds and Accounts created under this Bond Indenture sufficient to pay the principal of all matured Bonds and all arrears of interest, if any, upon all Bonds then Outstanding (except the principal of any Bonds not then due and payable by their terms and the interest accrued on such Bonds since the last Bond Payment Date), and the charges, compensation, expenses, disbursements, advances and liabilities of the Bond Trustee and all other amounts then payable by HCI hereunder shall have been paid or a sum sufficient to pay the same shall have been deposited with the Bond Trustee, and every other Bond Indenture Event of Default actually known to a Responsible Officer of the Bond Trustee in the observance or performance of any covenant, condition, agreement or provision contained in the Bonds or in this Bond Indenture (other than a default in the payment of the principal of such Bonds then due and payable only because of the declaration under this Section) shall have been remedied to the satisfaction of the Bond Trustee, then and in every such case the Bond Trustee shall, by written notice to HCI, rescind and annul such declaration and its consequences, and the Bond Trustee shall promptly give notice of such annulment in the same manner as provided in subsection (a) of this Section for giving notice of acceleration. No such annulment shall extend to or affect any subsequent Bond Indenture Event of Default or impair any right consequent thereon.

#### **Additional Remedies and Enforcement of Remedies (Section 7.03)**

(a) Upon the occurrence and continuance of any Bond Indenture Event of Default, the Bond Trustee may or upon the written request of the Holders of not less than fifty percent (50%) in an aggregate principal amount of the Bonds Outstanding, together with indemnification of the Bond Trustee to its satisfaction therefor, shall proceed forthwith to protect and enforce its rights and the rights of the Bondholders hereunder and the Bonds by such suits, actions or proceedings as the Bond Trustee, being advised by counsel, shall deem expedient, including but not limited to:

- (i) Civil action to recover money or damages due and owing;
- (ii) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders of Bonds; and
- (iii) Enforcement of any other right of the Bondholders conferred by law, under any Obligation, or hereby.

(b) Regardless of the happening of a Bond Indenture Event of Default, the Bond Trustee, if requested in writing by the Holders of not less than fifty percent (50%) in aggregate principal amount of the Bonds then Outstanding, shall upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security hereunder by any acts which may be unlawful or in violation hereof, or (ii) to preserve or protect the interests of the Holders, provided that such request is in accordance with law and the provisions hereof and, in the sole judgment of the Bond Trustee, is not unduly prejudicial to the interest of the Holders of Bonds not making such request.

#### **Application of Revenues and Other Moneys After Default (*Section 7.04*)**

During the continuance of a Bond Indenture Event of Default all moneys received by the Bond Trustee pursuant to any right given or action taken under the provisions of this Article shall, after payment of the reasonable costs and expenses of the proceedings which result in the collection of such moneys and of the reasonable fees, expenses and advances incurred or made by the Bond Trustee with respect thereto, and the payments of any amounts due under Sections 6.06 and 8.06 of this Bond Indenture be deposited in the Bond Fund, and all amounts held by the Bond Trustee hereunder shall be applied as follows:

(a) Unless the principal of all Outstanding Bonds shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on the Bonds in the order of maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal amounts or Redemption Price of any Bonds which shall have become due (other than Bonds previously called for redemption for the payment of which moneys are held pursuant to the provisions hereof), whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the principal amounts or Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference.

(b) If the principal amounts of all Outstanding Bonds shall have become or have been declared due and payable, to the payment of the principal amounts and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal amounts and interest, to the Persons entitled thereto without any discrimination or preference.

(c) If the principal amounts of all Outstanding Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Article, then, subject to the provisions of paragraph (b) of this Section in the event that the principal amounts of all Outstanding Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) of this Section.

Whenever moneys are to be applied by the Bond Trustee pursuant to the provisions of this Section, such moneys shall be applied by it at such times, and from time to time, as the Bond Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Bond Trustee shall apply such moneys, it shall fix the date (which shall be a Bond Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the principal amounts to be paid on such dates shall cease to accrue. The Bond Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any Bond until such Bond shall be presented to the Bond Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Bonds and interest thereon have been paid under the provisions of this Section, and all reasonable fees, expenses and charges of the Bond Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to HCI or as a court of competent jurisdiction may direct.

#### **Remedies Not Exclusive (*Section 7.05*)**

No remedy by the terms hereof conferred upon or reserved to the Bond Trustee or the Bondholders is intended to be exclusive of any other remedy but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or existing at law or in equity on or after the date hereof.

#### **Remedies Vested in the Bond Trustee (*Section 7.06*)**

All rights of action (including the right to file proof of claims) hereunder or under any of the Bonds may be enforced by the Bond Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Bond Trustee may be brought in its name as the Bond Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Bonds. Subject to the provisions of Section 7.04 hereof, any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding Bonds.

#### **Bondholders' Control of Proceedings (*Section 7.07*)**

If a Bond Indenture Event of Default shall have occurred and be continuing, notwithstanding anything herein to the contrary, the Holders of a majority in aggregate principal amount of Bonds then Outstanding shall have the right, at any time, by any instrument in writing executed and delivered to the Bond Trustee to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions hereof, provided that such direction is in accordance with law and the provisions hereof (including indemnity to the Bond Trustee as provided herein) and, in the sole judgment of the Bond Trustee, is not unduly prejudicial to the interest of Bondholders not joining in such direction and provided further that nothing in this Section shall impair the right of the Bond Trustee in its discretion to take any other action hereunder which it may deem proper and which is not inconsistent with such direction by Bondholders.

#### **Individual Bondholder Action Restricted (*Section 7.08*)**

(a) No Holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement hereof or for the execution of any trust hereunder or for any remedy hereunder unless:

(i) a Bond Indenture Event of Default has occurred (A) under subsection (a) or (b) of Section 7.01 hereof of which the Bond Trustee is deemed to have notice, or (B) under subsection (c) or (d) of Section 7.01 hereof as to which a Responsible Officer of the Bond Trustee has actual knowledge or as to which the Bond Trustee has been notified in writing, with such written notice having referenced this Bond Indenture and the Bonds;

(ii) the Holders of at least fifty percent (50%) in aggregate principal amount of Bonds Outstanding shall have made written request to the Bond Trustee to proceed to exercise the powers granted herein or to institute such action, suit or proceeding in its own name;

(iii) such Bondholders shall have offered the Bond Trustee indemnity as provided in Section 8.08 hereof;

(iv) the Bond Trustee shall have failed or refused to exercise the powers herein granted or to institute such action, suit or proceedings in its own name for a period of sixty (60) days after receipt by it of such request and offer of indemnity; and

(v) during such sixty (60) day period no direction inconsistent with such written request has been delivered to the Bond Trustee by the Holders of a majority in aggregate principal amount of Bonds then Outstanding in accordance with Section 7.07 hereof.

(b) No one or more Holders of Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the security hereof or to enforce any right hereunder except in the manner herein provided and for the equal benefit of the Holders of all Bonds Outstanding.

(c) Nothing contained herein shall affect or impair, or be construed to affect or impair, the right of the Holder of any Bond (i) to receive payment of the principal of or interest on such Bond on or after the due date thereof or (ii) to institute suit for the enforcement of any such payment on or after such due date; provided, however, no Holder of any Bond may institute or prosecute any such suit or enter judgment therein if, and to the extent that, HCI or prosecution of such suit or the entry of judgment therein would, under applicable law, result in the surrender, impairment, waiver or loss of the lien hereof on the moneys, funds and properties pledged hereunder for the equal and ratable benefit of all Holders of Bonds.

#### **Termination of Proceedings (*Section 7.09*)**

In case any proceeding taken by the Bond Trustee on account of a Bond Indenture Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Bond Trustee or to the Bondholders, then HCI, the Bond Trustee and the Bondholders shall be restored to their former positions and rights hereunder, and all rights, remedies and powers of the Bond Trustee and the Bondholders shall continue as if no such proceeding had been taken.

#### **Waiver of Bond Indenture Event of Default (*Section 7.10*)**

(a) No delay or omission of the Bond Trustee or of any Holder of the Bonds to exercise any right or power accruing upon any Bond Indenture Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Bond Indenture Event of Default or an acquiescence therein. Every power and remedy given by this Article to the Bond Trustee and the Holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Bond Trustee may waive any Bond Indenture Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions hereof, or before the completion of the enforcement of any other remedy hereunder.

(c) Notwithstanding anything contained herein to the contrary, the Bond Trustee, upon the written request of the Holders of at least a majority of the aggregate principal amount of Bonds then Outstanding, shall waive any Bond Indenture Event of Default hereunder and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) of Section 7.02 hereof, a default in the payment of the principal amount of, Redemption Price, if any, or interest on any Bond, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Bonds at the time Outstanding.

(d) In case of any waiver by the Bond Trustee of a Bond Indenture Event of Default hereunder, HCI, the Bond Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, but no such waiver shall extend to any subsequent or other Bond Indenture Event of Default or impair any right consequent thereon. The Bond Trustee shall not be responsible to any person for waiving or refraining from waiving any Bond Indenture Event of Default in accordance with this Section.

#### **Notice of Default (Section 7.11)**

(a) Promptly, but in any event within thirty (30) days after (i) the occurrence of a Bond Indenture Event of Default under Section 7.01(a) or (b) hereof, which the Bond Trustee is deemed to have notice, or (ii) receipt, in writing or otherwise, by a Responsible Officer of the Bond Trustee of actual knowledge or written notice of a Bond Indenture Event of Default under Section 7.01 (c) or (d) hereof, with such written notice having referenced this Bond Indenture and the Bonds, the Bond Trustee shall, unless such Bond Indenture Event of Default shall have theretofore been cured, give written notice thereof by first class mail to each Holder of a Bond then Outstanding, provided that, except in the case of a default in the payment of principal amounts, or the Redemption Price of or interest on any of the Bonds, the Bond Trustee shall be protected in withholding such notice thereof to the Holders if the Bond Trustee, in good faith, determines that the withholding of such notice is in the best interests of the Holders of the Bonds.

(b) The Bond Trustee shall promptly notify HCI of (i) the occurrence of a Bond Indenture Event of Default under Section 7.01(a) or (b) hereof and (ii) when a Responsible Officer of the Bond Trustee has received actual knowledge or written notice, with such written notice having referenced this Bond Indenture and the Bonds, of a Bond Indenture Event of Default under Section 7.01(c) or (d) hereof.

#### **Limitations on Remedies (Section 7.12)**

It is the purpose and intention of this Article to provide rights and remedies to the Bond Trustee and Bondholders which may be lawfully granted, but should any right or remedy herein granted be held to be unlawful, the Bond Trustee and the Bondholders shall be entitled as above set forth, to every other right and remedy provided in this Bond Indenture and by law.

#### **Rights of Bond Trustee (Section 8.03)**

(A) The recitals of facts herein and in the Bonds contained shall be taken as statements of HCI, and the Bond Trustee does not assume any responsibility for the correctness of the same or for any statement contained in any offering memorandum or disclosure material prepared in connection with the issuance of the Bonds or make any representations as to the validity or sufficiency of this Bond Indenture or the Bonds, or incur any responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Bonds assigned to or imposed upon it. The Bond Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Bond Trustee shall not be liable in connection with the performance of its respective duties hereunder, except for its own gross negligence or willful misconduct.

(B) The Bond Trustee shall not be liable for any error of judgment made in good faith unless it shall be proved that such party was grossly negligent in ascertaining the pertinent facts.

(C) The Bond Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Bond Trustee, or exercising any trust or power conferred upon the Bond Trustee under this Bond Indenture. The permissive right of the Bond Trustee to do things enumerated in this Bond Indenture shall not be construed as a duty.

(D) Except as otherwise expressly provided for herein, the Bond Trustee shall not be under any obligation to exercise any of the rights or powers vested in it by this Bond Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of this Bond Indenture unless such Bondholders shall have

offered to the Bond Trustee reasonable (in the sole discretion of the Bond Trustee) security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

(E) The Bond Trustee shall not be deemed to have knowledge of any Bond Indenture Event of Default, other than a Bond Indenture Event of Default described in Section 7.01(a) or (b) hereof, unless and until a Responsible Officer shall have actual knowledge thereof, or shall have received written notice thereof, at its Corporate Trust Office located in Philadelphia, Pennsylvania, with such written notice having referenced this Bond Indenture and the Bonds. Except as otherwise expressly provided herein, the Bond Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds or as to the existence of a Bond Indenture Event of Default hereunder.

(F) No provision of this Bond Indenture shall require the Bond Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of its rights or powers. The Bond Trustee has no obligation or liability to the Bondholders for the payment of the principal of or the interest or Redemption Price, if any, on the Bonds.

(G) The Bond Trustee shall not be bound to ascertain or inquire as to the validity or genuineness of any collateral given to or held by it. The Bond Trustee shall not be responsible for the recording or filing of any document relating to this Bond Indenture or of financing statements (or continuation statements in connection therewith) or of any supplemental instruments or documents of further assurance as may be required by law in order to perfect the security interests in any collateral given to or held by it.

(H) The Bond Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof.

(I) The Bond Trustee agrees to accept and act upon instructions or directions pursuant to this Bond Indenture sent by unsecured e-mail in PDF format, facsimile transmission or other similar unsecured electronic methods; provided, however, that, the Bond Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If HCI elects to give the Bond Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Bond Trustee in its discretion elects to act upon such instructions, the Bond Trustee's understanding of such instructions shall be deemed controlling. The Bond Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Bond Trustee's reliance upon and compliance with such instructions notwithstanding if such instructions conflict or are inconsistent with a subsequent written instruction, other than any such loss that is deemed a direct result of the Bond Trustee's gross negligence or willful misconduct. HCI agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Bond Trustee, including without limitation the risk of the Bond Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(J) From the effective date of this Bond Indenture, the Bond Trustee, or any successor in interest, shall not be considered in breach of or in default in its obligations with respect to any obligations created hereunder or progress in respect thereto, in the event of an unavoidable delay in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, acts of God (or his or her registered assigns), or of the public enemy, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the facilities of any Members of the Obligated Group, malicious mischief, condemnation, and unusually severe weather or delays of supplies or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Bond Trustee.

(K) In no event shall the Bond Trustee be responsible or liable for special, indirect, punitive or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective of



whether the Bond Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

(L) The rights, privileges, protections, immunities and benefits given to the Bond Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Bond Trustee in each of its capacities hereunder, and each agent, custodian and other Person employed to act hereunder.

(M) The Bond Trustee shall not be required to give any bond or surety in respect of the performance of its powers and duties hereunder.

#### **Amendments Not Requiring Consent of Bondholders (*Section 9.01*)**

HCI and the Bond Trustee may, without the consent of or notice to any of the Holders, enter into one or more amendments or supplements to this Bond Indenture, which amendments or supplements thereafter shall form a part of this Bond Indenture, for one or more of the following purposes:

- (a) To cure any ambiguity or formal defect or omission herein;
- (b) To correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising hereunder which shall not materially adversely affect the interests of the Holders;
- (c) To grant or confer upon the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them;
- (d) To qualify this Bond Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect;
- (e) To secure additional revenues or provide additional security or reserves for payment of the Bonds;
- (f) To replace the Bond Trustee in accordance with Section 8.01 hereof; and
- (g) To authorize the issuance of Additional Bonds under this Bond Indenture.

Any amendments or supplements authorized by the provisions of this Section 9.01 may be executed by HCI and the Bond Trustee without the consent of the Holders of any of the Bonds at the time Outstanding, notwithstanding any of the provisions of Section 9.02, but the Bond Trustee shall not be obligated to enter into any such amendments or supplements which affects the Bond Trustee's own rights, duties or immunities under this Bond Indenture or otherwise.

The Bond Trustee shall mail an executed copy of any amendments or supplements to this Bond Indenture authorized by this Section 9.01 to HCI and the rating agencies then rating the Bonds promptly after execution by HCI and the Bond Trustee.

#### **Amendments Requiring Consent of Bondholders (*Section 9.02*)**

(a) Other than amendments or supplements to this Bond Indenture referred to in Section 9.01 hereof and subject to the terms and provisions and limitations contained in this Article and not otherwise, the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, anything contained herein to the contrary notwithstanding, to consent to and approve the execution by HCI and the Bond Trustee of such amendments or supplements as shall be deemed necessary and desirable by HCI for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained herein; provided, however, nothing in this Section shall permit or be construed as permitting any amendments or supplements which would:

(i) extend the stated maturity of or time for paying interest on any Bond or reduce the principal amount of or the Redemption Price or rate of interest payable on any Bond without the consent of the Holder of such Bond;

(ii) prefer or give a priority to any Bond over any other Bond without the consent of the Holder of each Bond then Outstanding not receiving such preference or priority; or

(iii) reduce the aggregate principal amount of Bonds then Outstanding the consent of the Holders of which is required to authorize such amendment or supplement without the consent of the Holders of all Bonds then Outstanding.

(b) If at any time HCI shall request the Bond Trustee to enter into an amendment or supplement pursuant to this Section, the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such amendment or supplement to be mailed by first class mail, postage prepaid, to all Holders of Bonds then Outstanding at their addresses as they appear on the registration books herein provided for. The Bond Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail, or the failure of such Bondholder to receive, the notice required by this Section, and any such failure shall not affect the validity of such amendment or supplement when consented to and approved as provided in this Section. Such notice shall be prepared by HCI and shall briefly set forth the nature of the proposed amendment or supplement and shall state that copies thereof are on file at the office of the Bond Trustee for inspection by all Bondholders.

(c) If within such period, not exceeding five years, as shall be prescribed by HCI, following the first giving of such notice, the Bond Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount or number of Bonds specified in subsection 9.02(a) for the amendment or supplement in question which instrument or instruments shall refer to the proposed amendment or supplement described in such notice and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice as on file with the Bond Trustee, thereupon, but not otherwise, the Bond Trustee may execute such amendment or supplement in substantially such form, without liability or responsibility to any Holder of any Bond, whether or not such Holder shall have consented thereto.

(d) Any such consent shall be binding upon the Holder of the Bond giving such consent and upon any subsequent Holder of such Bond and of any Bond issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Bond giving such consent or by a subsequent Holder thereof by filing with the Bond Trustee, prior to the execution by the Bond Trustee of such amendment or supplement, such revocation. At any time after the Holders of the required principal amount or number of Bonds shall have filed their consents to the amendment or supplement, the Bond Trustee shall make and file with HCI a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(e) If the Holders of the required principal amount or number of the Bonds Outstanding shall have consented to and approved the execution of such amendment or supplement as herein provided, no Holder of any Bond shall have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Bond Trustee or HCI from executing the same or from taking any action pursuant to the provisions thereof.

#### **Execution and Effect of Amendments or Supplements (*Section 9.03*)**

(a) In executing any amendment or supplement to this Bond Indenture permitted by this Article, the Bond Trustee shall receive and conclusively rely upon an Opinion of Counsel stating that the execution of such amendment or supplement is authorized or permitted hereby and is the legal, valid and binding obligation of HCI. The Bond Trustee may but shall not be obligated to enter into any such amendment or supplement which affects the Bond Trustee's own rights, duties or immunities.

(b) Upon the execution and delivery of any amendment or supplement in accordance with this Article, the provisions hereof shall be modified in accordance therewith and such amendment or supplement shall form a part hereof for all purposes and every Holder of a Bond theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

(c) Any Bond authenticated and delivered after the execution and delivery of any amendment or supplement in accordance with this Article may, and if required by HCI or the Bond Trustee shall, bear a notation in form approved by HCI and the Bond Trustee as to any matter provided for in such amendment or supplement. If HCI shall so determine, new Bonds so modified as to conform in the opinion of the Bond Trustee and HCI to any such amendment or supplement may be prepared and executed by HCI and authenticated and delivered by the Bond Trustee in exchange for and upon surrender of Bonds then Outstanding.

#### **Discharge (*Section 10.01*)**

If payment of all principal of, Redemption Price, if any, and interest on the Bonds in accordance with their terms and as provided herein is made, and if all other sums payable by HCI hereunder shall be paid or provided for, then the liens, estates and security interests granted hereby shall cease. Thereupon, upon the request of HCI, and upon receipt by the Bond Trustee of an Opinion of Counsel stating that all conditions precedent to the satisfaction and discharge of the lien hereof have been satisfied, the Bond Trustee shall execute and deliver proper instruments acknowledging such satisfaction and discharging the lien hereof and the Bond Trustee shall transfer all property held by it hereunder, other than moneys or obligations held by the Bond Trustee for payment of amounts due or to become due on the Bonds, to HCI or such other Person as may be entitled thereto as their respective interests may appear, as directed in writing by HCI. Such satisfaction and discharge shall be without prejudice to the rights of the Bond Trustee thereafter to charge and be compensated or reimbursed for services rendered and expenditures incurred in connection herewith.

HCI may at any time surrender to the Bond Trustee for cancellation any Bond previously authenticated and delivered which HCI may have acquired in any manner whatsoever and such Bond upon such surrender and cancellation shall be deemed to be paid and retired.

#### **Providing for Payment of Bonds (*Section 10.02*)**

Payment of any or all of the Bonds may be provided for by the deposit with the Bond Trustee of moneys or non-callable Government Obligations, or any combination thereof. The moneys and the maturing principal and interest income on such non-callable Government Obligations, if any, shall be sufficient to pay when due the principal or Redemption Price of and interest on such Bonds. The moneys and non-callable Government Obligations shall be held by the Bond Trustee or an escrow agent irrevocably in trust for the Holders of such Bonds solely for the purpose of paying the principal or Redemption Price of and interest on such Bonds as the same shall mature, come due or become payable upon prior redemption, and, if applicable, upon simultaneous direction, expressed to be irrevocable, to the Bond Trustee as to the dates upon which any such Bonds are to be redeemed prior to their respective maturities.

In connection with any advance refunding or advance defeasance of the Bonds, there shall be delivered to the Bond Trustee a verification report of an accountant as to the adequacy of the escrow so established.

If payment of the Bonds is so provided for, the Bond Trustee shall mail a notice prepared by HCI within thirty (30) days thereafter so stating to each Holder of a Bond.

Bonds the payment of which has been provided for in accordance with this Section shall no longer be deemed Outstanding hereunder or secured hereby, and the Holders thereof shall thereafter be entitled to payment only from the moneys or Government Obligations deposited with the Bond Trustee to provide for the payment of such Bonds.

### **Payment of Bonds After Discharge (*Section 10.03*)**

Notwithstanding the discharge of the lien hereof as in this Article provided, the Bond Trustee shall nevertheless retain such rights, powers and duties hereunder as may be necessary and convenient for the payment of amounts due or to become due on the Bonds and the registration, transfer, exchange and replacement of Bonds as provided herein. Notwithstanding any provision of this Bond Indenture, and subject to applicable escheat laws, any moneys held by the Bond Trustee in trust for the payment of the principal of or Redemption Price, if any, or interest on any Bonds and remaining unclaimed for one year after the principal of all the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in this Bond Indenture), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to HCI free from the trusts created by this Bond Indenture, and all liability of the Bond Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to HCI as aforesaid, the Bond Trustee shall (upon the request of HCI) first mail to the Holders of Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Bond Trustee, a notice, in such form as may be deemed appropriate by the Bond Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to HCI of the moneys held for the payment thereof. Any money held by the Bond Trustee pursuant to this Section 10.03 shall be held uninvested and without any liability for interest.

### **Evidence of Acts of Bondholders (*Section 11.01*)**

Any request, direction, consent or other instrument provided hereby to be signed and executed by the Bondholders may be in any number of concurrent writings of similar tenor and may be signed or executed by such Bondholders in person or by agent appointed in writing. Proof of the execution of any such request, direction or other instrument or of the writing appointing any such agent and of the ownership of Bonds, if made in the following manner, shall be sufficient for any of the purposes hereof and shall be conclusive in favor of the Bond Trustee and HCI, with regard to any action taken by them, or either of them, under such request or other instrument.

The fact and date of the execution by any Person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments in such jurisdiction, that the Person signing such writing acknowledged before him the execution thereof, including, but not limited to, acknowledgement by a notary public, or by the affidavit of a witness of such execution; and

The ownership of all Bonds shall be proved by the register of such Bonds maintained by the Bond Trustee.

Nothing in this Section shall be construed as limiting the Bond Trustee to the proof herein specified, it being intended that the Bond Trustee may accept any other evidence of the matters herein stated which it may deem sufficient. In addition, the assignment of ownership of a Bond shall be accompanied by a signature guaranty to the satisfaction of the Bond Trustee.

Any action taken or suffered by the Bond Trustee pursuant to any provision hereof, upon the request or with the assent of any Person who at the time is the Holder of any Bond or Bonds shall be conclusive and binding upon all future Holders of the same Bond or Bonds.

Whenever in this Bond Indenture either HCI or the Bond Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Bond Indenture contained by or on behalf of HCI or the Bond Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

**Limitation of Rights (Section 11.02)**

With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Bond Indenture or the Bonds is intended or shall be construed to give to any Person other than the parties hereto, and the Holders of the Bonds any legal or equitable right, remedy or claim under or in respect to this Bond Indenture or any covenants, conditions and provisions herein contained; this Bond Indenture and all of the covenants, conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties hereto, and the Holders of the Bonds as herein provided.

**Holidays (Section 11.04)**

When the date on which principal of or interest or Redemption Price on any Bond is due and payable is a day on which banking institutions at a place of payment on the Bonds are authorized by law to remain closed, payment may be made on Bonds presented at such place of payment on the next ensuing day on which banking institutions at such place are not authorized by law to remain closed with the same effect as though payment were made on the due date, and, if such payment is made, no interest shall accrue from and after such due date. When any other action is provided herein to be done on a day named or within a time period named, and the day or the last day of the period falls on a day other than a Business Day, it may be performed on the next ensuing Business Day with the same effect as though performed on the appointed day or within the specified period.

**Governing Law; Waiver of Jury Trial (Section 11.05)**

This Bond Indenture and the Bonds are contracts made under the laws of the State and shall be governed and construed in accordance with such laws. EACH OF HCI, THE HOLDERS AND THE BOND TRUSTEE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS BOND INDENTURE, THE BONDS OR THE TRANSACTION CONTEMPLATED HEREBY.

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## **APPENDIX C-2**

### **SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE**

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## SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE

The Master Trust Indenture contains terms and conditions relating to the issuance of Obligations under the Master Trust Indenture, including various financial covenants and security provisions, certain of which are summarized below. This summary does not purport to be comprehensive or definitive and is subject to all of the provisions of the Master Trust Indenture, and reference is made to such Master Trust Indenture, copies of which are available from the Master Trustee. This summary uses various terms defined in the Master Trust Indenture and such terms as used in the Master Trust Indenture will have the same meanings as so defined.

### MASTER TRUST INDENTURE

#### Certain Definitions (*Section 1.01*)

When used in this summary of the provisions of the Master Trust Indenture, the following terms have the meanings ascribed to them below.

***“Additional Indebtedness”*** means any Indebtedness incurred by any Member of the Obligated Group subsequent to the issuance of the Series 2017A Obligation under the Master Trust Indenture or incurred by any other Member of the Obligated Group subsequent to or contemporaneously with its becoming a Member of the Obligated Group.

***“Affiliate”*** means a corporation, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which is directly or indirectly controlled by any Member or the Obligated Group Representative or their respective successors or assigns or by any Person which directly or indirectly controls a Member or the Obligated Group Representative and any joint ventures in which any of the Members or the Obligated Group Representative participates. For purposes of this definition, control means the power to direct the management and policies of a Person through the ownership of not less than a majority of its voting securities or the right to designate or elect not less than a majority of the members of its board of directors or other governing board or body by contract or otherwise.

***“Audited Consolidated Financial Statements”*** means the Health System Financial Statements for a twelve-month period, or for such other period for which an audit has been performed, which have been audited and reported upon by a firm of nationally recognized independent certified public accountants selected by the Obligated Group Representative, prepared in conformity with generally accepted accounting principles. Such Audited Consolidated Financial Statements shall include consolidated statements of financial position, consolidated statements of operations, consolidated statements of changes in net assets and consolidated statements of cash flows, and shall also include the consolidating statement of financial position and the consolidating statement of operations from which the financial information relating solely to the Obligated Group Members may be derived for the same twelve-month period.

***“Authorized Representative”*** means, with respect to the Obligated Group Representative, the Chairperson of its Governing Body, its President and Chief Executive Officer, its Senior Vice President and Chief Financial Officer, or its Senior Vice President and General Counsel, and, with respect to each Member of the Obligated Group, the Chairperson of its Governing Body, its President and Chief Executive Officer, its Senior Vice President and Chief Financial Officer, or its Senior Vice President and General Counsel, or any other person or persons designated an Authorized Representative of such Member by an Officer’s Certificate of the Obligated Group Representative or such Member of the Obligated Group, respectively, signed by the Chairperson of its Governing Body, its President and Chief Executive Officer, its Senior Vice President and Chief Financial Officer, or its Senior Vice President and General Counsel and filed with the Master Trustee.

***“Balloon Long-Term Indebtedness”*** means Long-Term Indebtedness other than a Demand Obligation 25% or more of the principal amount of which is due in a single year, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by redemption prior to such date.

***“Book Value”*** when used in connection with Property, Plant and Equipment or other Property of any Person, means the value of such property, net of accumulated depreciation, as it is carried on the books of such Person in conformity with generally accepted accounting principles, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property, Plant and Equipment or other Property of the Obligated Group determined in such a manner that no portion of such value of Property, Plant and Equipment or other Property is included more than once.

***“Capital Addition”*** means any addition, improvement or extraordinary repair to or replacement of any Property of a Member of the Obligated Group, whether real, personal or mixed, the cost of which is properly capitalized under generally accepted accounting principles.

***“Code”*** means the Internal Revenue Code of 1986, as amended.

***“Consultant”*** means a firm or firms selected by the Obligated Group Representative which is not, and no member, stockholder, director, officer, trustee or employee of which is, an officer, director, trustee or employee of any Member of the Obligated Group or any Affiliate, and which is a professional management consultant or investment banking firm or other financial institution of national repute for having the skill and experience necessary to render the particular report required by the provision of the Master Trust Indenture in which such requirement appears and which is not unacceptable to (i) the Master Trustee and (ii) so long as any Related Bonds are Outstanding, the Related Bond Issuer and the Related Credit Facility Issuer.

***“Control Agreement”*** means any agreement whereby the Obligated Group, a secured party and a banking institution have agreed in an authenticated record (such as a signed writing) that the banking institution will comply with instructions originated by the secured party directing disposition of the funds in a deposit account held by such banking institution as security for the benefit of the secured party without further consent by the Obligated Group.

***“Credit Facility”*** means a financial guaranty insurance policy, line of credit, letter of credit, standby bond purchase agreement or similar credit enhancement or liquidity facility established in connection with the issuance of Indebtedness to provide credit or liquidity support for such Indebtedness.

***“Credit Facility Issuer”*** means the firm, association, corporation or other Person, if any, which has issued a Credit Facility that provides credit or liquidity support with respect to Indebtedness or Related Bonds.

***“Cross-over Date”*** means, with respect to Cross-over Refunding Indebtedness, the last date on which the principal portion of the related Cross-over Refunded Indebtedness is to be paid or redeemed from the proceeds of such Cross-over Refunding Indebtedness.

***“Cross-over Refunded Indebtedness”*** means Indebtedness refunded by Cross-over Refunding Indebtedness.

***“Cross-over Refunding Indebtedness”*** means Indebtedness issued for the purpose of refunding other Indebtedness if the proceeds of such refunding Indebtedness are irrevocably deposited in escrow to secure the payment on the applicable redemption date or dates or maturity date of the refunded Indebtedness, and the earnings on such escrow deposit are required to be applied to pay interest on such refunding Indebtedness or refunded Indebtedness until the Cross-over Date.

***“Defeasance Obligations”*** means, unless modified by the terms of a particular Supplement, (i) noncallable, nonprepayable Government Obligations, (ii) evidences of ownership of a proportionate interest in specified noncallable, nonprepayable Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, (iii) Defeased Municipal Obligations, (iv) evidences of ownership of a proportionate interest in

specified Defeased Municipal Obligations, which Defeased Municipal Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity as custodian, and (v) stripped securities where the principal-only and interest-only strips of noncallable obligations are issued by the U.S. Treasury or Resolution Funding Corp. or securities stripped by the Federal Reserve Bank of New York.

***“Defeased Municipal Obligations”*** means obligations of state or local government municipal bond issuers rated the highest rating by S&P, Fitch or Moody’s, respectively, provision for the payment of the principal of and interest on which shall have been made by irrevocable deposit with a trustee or escrow agent of (i) noncallable, nonprepayable Government Obligations or (ii) evidences of ownership of a proportionate interest in specified noncallable, nonprepayable Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity as custodian, the maturing principal of and interest on such Government Obligations or evidences of ownership, when due and payable, shall provide sufficient money to pay the principal of, redemption premium, if any, and interest on such obligations of state or local government municipal bond issuers.

***“Defeased Obligations”*** means Obligations issued under a Supplement that has been discharged, or provision for the discharge of which has been made, pursuant to the terms of such Supplement.

***“Demand Obligation”*** means any Indebtedness the payment of all or a portion of which is subject to the demand of the holder thereof.

***“Derivative Agreement”*** means, without limitation,

- (a) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract;
- (b) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices;
- (c) any contract to exchange cash flows or payments or series of payments;
- (d) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and
- (e) any other type of contract or arrangement that the Member of the Obligated Group entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, or minimize investment risk or to protect against any type of financial risk or uncertainty.

***“Derivative Period”*** means the period during which a Derivative Agreement is in effect.

***“Escrowed Interest”*** means amounts of interest on Long-Term Indebtedness for which moneys or Defeasance Obligations have been deposited in escrow (the “Escrowed Interest Deposit”) which Escrowed Interest Deposit has been determined by an independent accounting firm to be sufficient to pay such Escrowed Interest.

***“Escrowed Principal”*** means amounts of principal on Long-Term Indebtedness for which moneys or Defeasance Obligations have been deposited in escrow (the “Escrowed Principal Deposit”) which Escrowed Principal Deposit has been determined by an independent accounting firm to be sufficient to pay such Escrowed Principal.

***“Event of Default”*** means any one or more of those events set forth in the Master Trust Indenture.

***“Excluded Property”*** means any Property that is not Health Care Facilities of the Obligated Group.

***“Fiscal Year”*** means the fiscal year of each Member of the Obligated Group, which will be the period commencing on January 1 of any year and ending on December 31 of such year unless the Master Trustee is notified in writing by the Obligated Group Representative of a change in such period, in which case the Fiscal Year will be the period set forth in such notice.

***“Fitch”*** means Fitch, Inc., its successors and their assigns, and, if such entity will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, “Fitch” will be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

***“Governing Body”*** means, when used with respect to any Member of the Obligated Group and the Obligated Group Representative, its board of directors, board of trustees, or other board or group of individuals by, or under the authority of which, corporate powers of such Member of the Obligated Group or the Obligated Group Representative are exercised.

***“Government Obligation”*** means a direct obligation of the United States of America, an obligation the timely payment of principal of, and interest on, which are fully and unconditionally guaranteed by the United States of America, an obligation (other than an obligation subject to variation in principal repayment) to which the full faith and credit of the United States of America is pledged, an obligation of any of the following instrumentalities or agencies of the United States of America: (a) Federal Home Loan Bank System; (b) Export-Import Bank of the United States; (c) Federal Financing Bank; (d) Government National Mortgage Association; (e) Farmers Home Administration; (f) Federal Home Loan Mortgage Company; (g) Federal Housing Administration; (h) Private Export Funding Corp.; (i) Federal National Mortgage Association, and (j) with certain approvals (A) an obligation of any federal agency and a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, direct obligations of the United States of America or (B) an obligation of any other agency or instrumentality of the United States of America created by Act of Congress, provided such obligation is rated at least “A” by S&P and Moody’s at all times.

***“Governmental Restrictions”*** means federal, state or other applicable governmental laws, regulations, rulings, judgments, court orders or consent decrees affecting any Member of the Obligated Group and its health care facilities including (a) Articles 28 and 28-B of the Public Health Law, and (b) those placing restrictions and limitations on (i) the fees and charges to be fixed, charged and collected by any Member of the Obligated Group or (ii) the amount or timing of the receipt of such fees or charges.

***“Gross Receipts”*** means all receipts, revenues, income and other moneys (other than proceeds of borrowing) received or receivable by or on behalf of a Member of the Obligated Group and all other amounts available to a Member of the Obligated Group from any other source, including without limitation contributions, donations, and pledges whether in the form of cash, securities or other personal property and the rights to receive the same whether in the form of accounts, payment on tangibles, contract rights, general intangibles, healthcare insurance receivables, chattel paper, deposit accounts, instruments, promissory notes and the proceeds thereof as such terms are presently or hereinafter defined in the Uniform Commercial Code in effect from time to time in the State of New York, and any insurance or condemnation proceeds thereon, whether now existing or hereafter coming into existence and whether now owned or hereafter acquired; provided, however, Gross Receipts will not include (x) gifts, grants, bequests, donations, and contributions heretofore or hereafter made, and any income derived therefrom to the extent specifically restricted by the donor or grantor to a special object or purpose inconsistent with (i) paying debt service on an Obligation or (ii) meeting any commitment of a Member under a Related Loan Agreement; (y) funds which are established and maintained with fees collected in private practice by physicians who are employed by a Member of the Obligated Group or (z) all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group, and all rights to receive the same whether in the form of accounts, contract rights, payment on tangibles, general intangibles, chattel paper, deposit accounts, instruments, promissory notes, and the proceeds thereof as such terms are presently or hereinafter defined in the Uniform Commercial Code in effect from time to time in the State of New York, and any insurance or condemnation proceeds thereon, whether now owned or hereafter acquired, derived from the Excluded Property which constitutes real property.

**“Gross Receipts Revenue Fund”** means the fund established pursuant to Section 4.03 of the Master Trust Indenture.

**“Guaranty”** means any obligation of any Member of the Obligated Group guaranteeing in any manner, directly or indirectly, any obligation of any Person that is not a Member of the Obligated Group which obligation of such other Person would, if such obligation were the obligation of a Member of the Obligated Group, constitute Indebtedness under the Master Trust Indenture. For the purposes of the Master Trust Indenture, the aggregate annual principal and interest payments on any indebtedness in respect of which any Member of the Obligated Group will have executed and delivered its Guaranty will, so long as no payments are required to be made thereunder and so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles, be deemed to be equal to 20% of the amount which would be payable as principal of and interest on the indebtedness for which a Guaranty will have been issued during the Fiscal Year for which any computation is being made (calculated in the same manner as the Long-Term Debt Service Coverage Ratio), provided that if there will have occurred a payment by a Member of the Obligated Group on such Guaranty, then, during the period commencing on the date of such payment and ending on the day which is one year after such other Person resumes making all payments on such guaranteed obligation, 100% of the amount payable for principal and interest on such guaranteed indebtedness during the period for which the computation is being made will be taken into account.

**“Health Care Facilities”** means the Mortgaged Property and any other Property now or hereafter used by any Member of the Obligated Group to provide for the care, maintenance, diagnosis and treatment of patients or to otherwise provide health care services. Any Property whose primary function or functions is other than the care, maintenance, diagnosis and treatment of patients and which has incidental health care services provided on its premises, will not be deemed to be Health Care Facilities.

**“Health System”** means the group of entities comprised of all Obligated Group Members and all of their Affiliates.

**“Health System Financial Statements”** means the consolidated financial statements prepared in conformity with generally accepted accounting principles, including financial information of the Obligated Group Members and of all of their Affiliates whose financial information is required by generally accepted accounting principles to be consolidated within such financial statements.

**“Holder”** means an owner of any Obligation issued in other than bearer form.

**“Income Available for Debt Service”** means, with respect to the Obligated Group, as to any period of twelve (12) consecutive calendar months, its Excess (Deficiency) of Revenue and Gains and Losses over Expenses (such capitalized terms are used herein in accordance with generally accepted accounting principles) before depreciation, amortization and interest expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied; *provided, however*, that (1) no determination thereof will take into account (a) any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, (b) unrealized gains and losses on investments (including “other than temporary impairment of marketable securities”), (c) the termination value of, as well as unrealized gains and losses on, Derivative Agreements of a Member of the Obligated Group, or (d) any extraordinary or non-recurring item, including payments on a called Guaranty, and (2) revenues will not include earnings from the investment of Escrowed Interest or earnings constituting Escrowed Interest to the extent that such earnings are applied to the payment of principal or interest on Long-Term Indebtedness which is excluded from the determination of Long-Term Debt Service Requirement or Related Bonds secured by such Long-Term Indebtedness.

**“Indebtedness”** means (i) all indebtedness of Members of the Obligated Group for borrowed money, (ii) all installment sales, conditional sales and capital lease obligations incurred or assumed by any Member of the Obligated Group and, (iii) all Guaranties, whether constituting Long-Term Indebtedness or Short-Term Indebtedness. Indebtedness will not include obligations of any Member of the Obligated Group to another Member of the Obligated Group.

***“Insurance Consultant”*** means a firm or Person which is not, and no member, stockholder, director, trustee, officer or employee of which is, an officer, director, trustee or employee of any Member of the Obligated Group or an Affiliate, which is qualified to survey risks and to recommend insurance coverage for hospitals, health related facilities and services and organizations engaged in such operations and which is selected by the Obligated Group Representative and is not unacceptable to the Master Trustee; provided that, except with respect to the review of self-insurance programs, the term “Insurance Consultant” will include qualified in house risk management officers employed by any Member of the Obligated Group or an Affiliate.

***“Lien”*** means any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property of any Member of the Obligated Group which secures any Indebtedness or any other obligation of any Member of the Obligated Group or which secures any obligation of any Person, other than an obligation to any Member of the Obligated Group.

***“Long-Term Debt Service Coverage Ratio”*** means for any period of time the ratio determined by dividing the Income Available for Debt Service by Maximum Annual Debt Service.

***“Long-Term Debt Service Requirement”*** means, for any period of twelve (12) consecutive calendar months for which such determination is made, the aggregate of the payments to be made in respect of principal and interest (whether or not separately stated) on Outstanding Long-Term Indebtedness of the Obligated Group during such period, also taking into account:

- (i) with respect to Balloon Long-Term Indebtedness which is not amortized by the terms thereof (a) the amount of principal which would be payable in such period if such principal were amortized from the date of incurrence thereof over a period of thirty (30) years on a level debt service basis at an interest rate equal to the rate borne by such Indebtedness on the date calculated, except that if the date of calculation is within twelve (12) months of the actual maturity of such Indebtedness, the full amount of principal payable at maturity will be included in such calculation or (b) principal payments or deposits with respect to Indebtedness secured by an irrevocable letter of credit issued by, or an irrevocable line of credit with, a bank rated at least “A” by Moody’s, Fitch or S&P, or insured by an insurance policy issued by any insurance company rated at least “A” by Alfred M. Best Company or its successors in Best’s Insurance Reports or its successor publication, nominally due in the last Fiscal Year in which such Indebtedness matures may, at the option of the Member of the Obligated Group which issued such Indebtedness, be treated as if such principal payments or deposits were due as specified in any loan or reimbursement agreement issued in connection with such letter of credit, line of credit or insurance policy or pursuant to the repayment provisions of such letter of credit, line of credit or insurance policy, and interest on such Indebtedness after such Fiscal Year will be assumed to be payable pursuant to the terms of such loan or reimbursement agreement or repayment provisions;
- (ii) with respect to Long-Term Indebtedness which is Variable Rate Indebtedness, the interest on such Indebtedness will be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), except that with respect to new Variable Rate Indebtedness (and the incurrence thereof) the interest rate for such Indebtedness for the initial interest rate period will be the initial rate at which such Indebtedness is issued and thereafter will be calculated as set forth above;
- (iii) with respect to any Credit Facility, to the extent that such Credit Facility has not been used or drawn upon, the principal and interest relating to such Credit Facility will not be included in the Long-Term Debt Service Requirement;

- (iv) with respect to any guaranties, in accordance with the Definition of “Guaranty” in the Master Trust Indenture;
- (v) with respect to Indebtedness for which a Member of the Obligated Group will have entered into a Derivative Agreement in respect of all or a portion of such Indebtedness, the principal or notional amount of such Derivative Agreement will be disregarded, and interest on such Indebtedness during any Derivative Period and for so long as the counterparty of the Derivative Agreement has not defaulted on its payment obligations thereunder will be calculated by adding (a) the amount of interest payable by a Member of the Obligated Group on such underlying Indebtedness pursuant to its terms (provided that, with respect to new Variable Rate Indebtedness, and the incurrence thereof, the interest rate for such Indebtedness for the initial interest rate period will be the initial rate at which such Indebtedness is issued), and (b) the amount of interest payable by such Member of the Obligated Group under the Derivative Agreement (provided that, with respect to new Variable Rate Indebtedness, and the incurrence thereof, the interest rate for such Derivative Agreement for the initial interest rate period will be the initial rate at which interest is payable under such Derivative Agreement), and subtracting (c) the amount of interest payable by the counterparty of the Derivative Agreement at the rate specified in the Derivative Agreement (provided that, with respect to new Variable Rate Indebtedness, and the incurrence thereof, the interest rate for such Derivative Agreement for the initial interest rate period will be the initial rate at which interest is payable under such Derivative Agreement); provided, however, that to the extent that the counterparty of any Derivative Agreement is in default thereunder, the amount of interest payable by the Member of the Obligated Group will be the interest calculated as if such Derivative Agreement had not been executed; and
- (vi) with respect to a Derivative Agreement that does not relate to underlying Indebtedness which has been entered into by any Member of the Obligated Group, the principal or notional amount of such Derivative Agreement will be disregarded (for so long as the Member of the Obligated Group is not required to make any payment other than interest payments thereon) and interest on such Derivative Agreement during any Derivative Period, for so long as the counterparty of the Derivative Agreement has not defaulted on its payment obligations thereunder, will be calculated by taking (a) the amount of interest payable by such Member of the Obligated Group at the rate specified in the Derivative Agreement and subtracting (b) the amount of interest payable by the counterparty of the Derivative Agreement at the rate specified in the Derivative Agreement;

*provided, however, that Escrowed Interest and Escrowed Principal will be excluded from the determination of Long-Term Debt Service Requirement; provided, further, however, that in connection with the calculation of “Long-Term Debt Service Requirement”, in no event will any payments to be made in respect of principal and/or interest on any Outstanding Long-Term Indebtedness of the Obligated Group during such period be counted more than once.*

**“Long-Term Indebtedness”** means all Indebtedness having a maturity longer than one year incurred or assumed by any Member of the Obligated Group, including:

- (i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year;
- (ii) leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one year;
- (iii) installment sale or conditional sale contracts having an original term in excess of one year;

- (iv) Short-Term Indebtedness if a commitment by a financial lender exists to provide financing to retire such Short-Term Indebtedness and such commitment provides for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness; and
- (v) the current portion of Long-Term Indebtedness.

**“Master Trust Indenture”** means the Master Trust Indenture dated as of July 1, 1998, as amended and restated as of August 1, 2003, including any other amendments or supplements thereto, by and among the Members of the Obligated Group and the Master Trustee.

**“Master Trustee”** means The Bank of New York Mellon, New York, New York, and its successors in the trusts created under the Master Trust Indenture.

**“Maximum Annual Debt Service”** means the highest Long-Term Debt Service Requirement for the current or any succeeding Fiscal Year.

**“Member of the Obligated Group”** or **“Member”** means each of Northwell Healthcare, Inc., North Shore University Hospital, Long Island Jewish Medical Center, Glen Cove Hospital, Plainview Hospital, Northwell Health Stern Family Center for Rehabilitation, Lenox Hill Hospital, Southside Hospital, Huntington Hospital Association d/b/a Huntington Hospital and Staten Island University Hospital, and any other Person becoming a Member of the Obligated Group pursuant to the Master Trust Indenture.

**“Moody’s”** means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

**“Mortgaged Property”** means any and all Property, whether real, personal or mixed, and all rights and interests in and to the Property, which is subject to the liens and security interests created pursuant to the Mortgages.

**“Mortgages”** means the Mortgages granted and to be granted by a Member of the Obligated Group to the Master Trustee, or assigned by a Person to the Master Trustee, on the Mortgaged Property, as security for the performance of the Members’ obligations under the Master Trust Indenture, as such Mortgages may be amended or modified from time to time, and includes any future mortgages from a Member of the Obligated Group to the Master Trustee, executed and delivered in each case in order to secure, *pari passu*, all Obligations issued and to be issued under the Master Trust Indenture. The Master Trustee shall take such actions as it deems reasonably necessary or appropriate to assure that any Mortgages granted in the future to the Master Trustee by any Members shall secure, *pari passu*, all Obligations issued and to be issued under the Master Trust Indenture. The Master Trustee may release portions of the Mortgaged Property from the Lien of the Mortgages, or amend or modify any of the Mortgages, at the direction of the Obligated Group Representative as set forth in an Officer’s Certificate demonstrating that any such release is a Permitted Release, or that any such amendment or modification is a Permitted Modification, as provided in Section 3.13 of the Master Trust Indenture as added by the Series 2011 Supplemental Indenture. In the event of any such Permitted Release or Permitted Modification, the Master Trustee shall, upon direction of the Obligated Group Representative as set forth in such Officer’s Certificate, execute a release of its Lien on any such portion of the Mortgaged Property, in order to implement a Permitted Release, or execute any other appropriate instrument or document in order to implement a Permitted Modification.

**“Non-Recourse Indebtedness”** means any Indebtedness incurred to finance the purchase of Property secured exclusively by a Lien on such Property or the revenues or net revenues produced by such Property or both, the liability for which is effectively limited to the Property subject to such Lien with no recourse, directly or indirectly, to any other Property of any Member of the Obligated Group.

**“Obligated Group”** means, collectively, the Members of the Obligated Group.



***“Obligated Group Representative”*** means Northwell Healthcare, Inc., and its legal successors, and thereafter any Person as may be designated as such pursuant to written notice to the Master Trustee by the Members of the Obligated Group.

***“Obligation”*** means the evidence of particular Indebtedness issued under the Master Trust Indenture as a joint and several obligation of each Member of the Obligated Group. “Obligation” may also include the evidence or a particular obligation of each Member of the Obligated Group under a Derivative Agreement.

***“Officer’s Certificate”*** means a certificate signed by the Authorized Representative of such Member of the Obligated Group or the Obligated Group Representative as the context requires. Each Officer’s Certificate presented pursuant to the Master Trust Indenture will state that it is being delivered pursuant to (and will identify the section or subsection of), and will incorporate by reference and use in all appropriate instances all terms defined in, the Master Trust Indenture. Each Officer’s Certificate will state (i) that the terms thereof are in compliance with the requirements of the section or subsection pursuant to which such Officer’s Certificate is delivered or will state in reasonable detail the nature of any non compliance and the steps being taken to remedy such non compliance and (ii) that it is being delivered together with any opinions, schedules, statements or other documents required in connection therewith.

***“Operating Assets”*** means any or all land, leasehold interests, buildings, machinery, equipment, hardware, inventory and other tangible and intangible Property owned or operated by a Member of the Obligated Group and used in its respective trade or business, whether separately or together with other such assets, but not including cash, investment securities and other Property held for investment purposes.

***“Opinion of Bond Counsel”*** means an opinion in writing signed by an attorney or firm of attorneys experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds and who is acceptable to the Master Trustee and each Related Bond Issuer.

***“Opinion of Counsel”*** means an opinion in writing signed by an attorney or firm of attorneys, acceptable to the Master Trustee, who may be counsel for the Obligated Group Representative or any Member of the Obligated Group or other counsel acceptable to the Master Trustee.

***“Outstanding”*** means, as of any date of determination, (i) when used with reference to Obligations, all Obligations theretofore issued or incurred and not paid and discharged other than (A) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (B) Defeased Obligations and (C) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of the Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser, and (ii) when used with reference to Indebtedness other than Indebtedness evidenced by an Obligation, all Indebtedness theretofore issued or incurred and not paid and discharged, other than Indebtedness deemed paid and no longer outstanding under the documents pursuant to which such Indebtedness was incurred; provided, however, that for purposes of determining whether the Holders of the requisite principal amount of Obligations have concurred in any demands, direction, request, notice, consent, waiver or other action under the Master Trust Indenture, Obligations or Related Bonds that are owned by the Obligated Group Representative or any Member of the Obligated Group or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with such Member or the Obligated Group Representative will be deemed not to be Outstanding, provided further, however, that for the purposes of determining whether the Master Trustee will be protected in relying on any such direction, consent, or waiver, only such Obligations or Related Bonds which the Master Trustee has actual notice or knowledge are so owned will be deemed to be not Outstanding.

***“Permitted Liens”*** shall have the meaning given to such term found in the summary of Section 3.05 of the Master Trust Indenture under the heading “Limitations on Creation of Liens”.

***“Permitted Modification”*** means a modification or amendment of a Mortgage implemented in accordance with the provisions of Section 3.13 of the Master Trust Indenture.

**“Permitted Release”** means a release from the Liens of the Mortgages of real property, fixtures, equipment, personal property or other property subject to the Mortgages implemented in accordance with the provisions of Section 3.13 of the Master Trust Indenture.

**“Person”** means an individual, association, unincorporated organization, limited liability company, corporation, partnership, joint venture, business trust or a government or an agency or a political subdivision thereof, or any other entity.

**“Property”** means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated.

**“Property, Plant and Equipment”** means all Property of the Members of the Obligated Group which is property, plant and equipment under generally accepted accounting principles.

**“Related Bond Indenture”** means any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

**“Related Bond Issuer”** means the issuer of any issue of Related Bonds.

**“Related Bonds”** means the revenue bonds or other obligations issued by any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof (*i.e.*, a “Related Bond Issuer”) (“governmental issuer”), pursuant to a Related Bond Indenture, the proceeds of which are loaned or otherwise made available to the Obligated Group Representative or a Member of the Obligated Group in consideration of the execution, authentication and delivery of an Obligation to or for the order of such governmental issuer.

**“Related Bond Trustee”** means the trustee and its successors in the trusts created under any Related Bond Indenture.

**“Related Credit Facility Issuer”** means the Credit Facility Issuer with respect to any issue of Related Bonds.

**“Related Loan Agreement”** means any loan agreement, lease agreement or any similar instrument relating to the loan of proceeds of Related Bonds to a Member of the Obligated Group.

**“S&P”** means Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies Inc., its successors and their assigns, and, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, “S&P” will be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

**“Series 2017A Bonds”** means the Series 2017A Bonds of the Obligated Group Representative issued on behalf of the Obligated Group.

**“Series 2017A Obligation”** means the Obligation issued pursuant to the Master Trust Indenture and the Series 2017A Supplemental Indenture and designated as “Northwell Health Obligated Group Obligation No. 54 for Series 2017A”.

**“Series 2017A Supplemental Indenture”** means the Supplemental Indenture for Obligation No. 54, dated as of September 1, 2017, by and among the Members of the Obligated Group and the Master Trustee, pursuant to which the Series 2017A Obligation will be issued to secure the Series 2017A Bonds.

**“Short-Term Indebtedness”** means all Indebtedness having a maturity of one year or less, other than the current portion of Long-Term Indebtedness, incurred or assumed by any Member of the Obligated Group, including:

(i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less;

(ii) leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and

(iii) installment purchase or conditional sale contracts having an original term of one year or less.

***“Subordinated Debt”*** means Indebtedness the payment of which is evidenced by instruments, or issued under an indenture or other document, containing specific provisions subordinating such Indebtedness to the Obligations, including following any event of insolvency by the debtor or following acceleration of such Indebtedness.

***“Supplement”*** means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Trust Indenture.

***“Tax-Exempt Organization”*** means a Person organized under the laws of the United States of America or any state thereof which is (i) an organization described in Section 501(c)(3) of the Code or is treated as an organization described in Section 501(c)(3) of the Code and (ii) exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

***“Total Operating Revenues”*** means, with respect to the Obligated Group, as to any period of time, total operating revenues less all deductions from revenues, as determined in accordance with generally accepted accounting principles consistently applied.

***“Transfer”*** means any act or occurrence the result of which is to dispossess any Person of any asset or interest therein, including specifically, but without limitation, the forgiveness of any debt.

***“Variable Rate Indebtedness”*** means any portion of Indebtedness the interest on which has not been established at a fixed or constant rate to maturity.

#### **Amount of Indebtedness (Section 2.01)**

Subject to the terms, limitations and conditions established in the Master Trust Indenture, each Member of the Obligated Group may incur Indebtedness by issuing Obligations under the Master Trust Indenture or by creating Indebtedness under any other document. The principal amount of Indebtedness created under other documents and the number and principal amount of Obligations evidencing Indebtedness that may be created under the Master Trust Indenture are not limited, except as limited by the provisions of the Master Trust Indenture, including the provisions described under the heading “Limitations or Indebtedness”, or of any Supplement. Any Member of the Obligated Group proposing to issue an Obligation in a principal amount equal to or exceeding \$20,000,000, shall, at least seven (7) days prior to the date of the issuance of such Obligation, give written notice of its intention to issue such Obligation, including in such notice the amount of the Obligation to be issued and the subsection of Section 3.06 hereof under which such Obligation will be issued, to the Obligated Group Representative and the Master Trustee. Each Member of the Obligated Group is jointly and severally liable for each and every Obligation issued under the Master Trust Indenture.

#### **Supplement Creating Obligations (Section 2.05)**

The Obligated Group Representative, on behalf of each Member of the Obligated Group and the Master Trustee, may, from time to time, enter into a Supplement in order to create an Obligation under the Master Trust Indenture. Such Supplement shall, (i) with respect to an Obligation evidencing Indebtedness created thereby, set forth the date thereof, and the date or dates on which the principal of and premium, if any, and interest on such Obligation shall be payable, the provisions regarding discharge thereof, and the form of such Obligation and such

other terms and provisions as shall conform with the provisions of the Master Trust Indenture, and (ii) with respect to an Obligation relating to an obligation under a Derivative Agreement, set forth the nature and form of such Obligation and such other terms and provisions as shall conform with the provisions of the Master Trust Indenture. Any Obligation evidencing Indebtedness or relating to a Derivative Agreement shall be secured *pari passu* by the security interest in and pledge of Gross Receipts granted under the Master Trust Indenture, and may be secured by such other Properties and revenues of the Members of the Obligated Group as may be permitted under the Master Trust Indenture as a Permitted Lien or under the provisions of a Supplement.

Obligations may be issued under the Master Trust Indenture to evidence and secure Indebtedness or to evidence and secure any other financial obligations of any Member or Members of the Obligated Group, including but not limited to obligations under Derivative Agreements or Credit Facilities, and all references in the Master Trust Indenture to payments of principal of, interest on, and premium on Obligations shall be deemed to include and refer to any and all other payments due or to become due on any Obligations. Any Obligation issued and authenticated under the Master Trust Indenture to evidence or secure obligations that do not constitute Indebtedness shall nevertheless be equally and ratably secured hereunder with all Obligations issued under the Master Trust Indenture, except as otherwise provided in the Master Trust Indenture; provided, however, that any such Obligations that evidence or secure obligations that do not constitute Indebtedness shall be deemed to be Outstanding hereunder solely for the purpose of receiving payment under the Master Trust Indenture and shall not be entitled to exercise any rights under the Master Trust Indenture, including but not limited to any rights to direct the exercise of remedies, to vote or to grant consents.

### **Security; Restrictions on Encumbering Property; Payment of Principal and Interest (Section 3.01)**

(a) Any Obligation issued pursuant to the Master Trust Indenture will be a general obligation of each Member of the Obligated Group. To secure the prompt payment of the principal of, redemption premium, if any, and the interest on the Obligations and the performance by each Member of the Obligated Group of its other obligations under the Master Trust Indenture, each Member of the Obligated Group has pledged, assigned and granted to the Master Trustee a security interest in its Gross Receipts, and each Member (other than Northwell Healthcare, Inc.) has granted or provided a Mortgage to the Master Trustee.

If any Event of Default has occurred, any Gross Receipts then on deposit in any fund or account of a Member of the Obligated Group (unless such account has been pledged as security as permitted in the Master Trust Indenture), and any Gross Receipts thereafter received, will immediately, upon receipt, be transferred into the Gross Receipts Revenue Fund established pursuant to the Master Trust Indenture. Upon receipt, all such Gross Receipts will be held by the Master Trustee in trust for the Holders from time to time of all Obligations issued and Outstanding under the Master Trust Indenture, without preference or priority of any one Obligation over any other Obligation. Prior to its receipt of a request from the Master Trustee pursuant to the Master Trust Indenture, any Member of the Obligated Group may transfer, or pledge as security, all or any part of its Gross Receipts free of such security interest, as permitted pursuant to the provisions of the Master Trust Indenture. In the event of such transfer or pledge, upon the request of a Member of the Obligated Group, the Master Trustee will execute a release of its security interest with respect to the assets so transferred.

In addition to the preceding paragraph, upon an Event of Default, the Members of the Obligated Group agree to take no action inconsistent with the pledge, assignment and deposit of Gross Receipts contemplated by the Master Trust Indenture, and to cooperate in all respects to assure the deposit of such Gross Receipts in the Gross Receipts Revenue Fund.

With respect to all Obligations issued, executed and delivered under the Master Trust Indenture, there will be delivered to the Master Trustee duly executed financing statements evidencing the security interests of the Master Trustee in the Gross Receipts of the Members of the Obligated Group in the form required by the New York Uniform Commercial Code with copies sufficient in number for filing in the office of the Secretary of State of the State of New York.

Each Member of the Obligated Group will also execute and deliver to the Master Trustee from time to time such amendments or supplements to the Master Trust Indenture as may be necessary or appropriate to include as security under the Master Trust Indenture the Gross Receipts. In addition, each Member of the Obligated Group

covenants that it will prepare and file such financing statements or amendments to or terminations of existing financing statements which will, in the Opinion of Counsel, be necessary to comply with applicable law or as required due to changes in the Obligated Group, including, without limitation, (i) any Person becoming a Member of the Obligated Group pursuant to the Master Trust Indenture, or (ii) any Member of the Obligated Group ceasing to be a Member of the Obligated Group pursuant to the Master Trust Indenture.

(b) Each Member of the Obligated Group covenants that it will not pledge or grant a security interest in (except for Permitted Liens or as may be otherwise provided in the Master Trust Indenture) any of its Property.

(c) Each Obligation will be a joint and several general obligation of each Member of the Obligated Group. Each Member of the Obligated Group covenants to promptly pay or cause to be paid the principal of, premium, if any, and interest on each Obligation issued pursuant to the Master Trust Indenture at the place, on the dates and in the manner provided in the Master Trust Indenture and in said Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

(d) Each Member of the Obligated Group covenants that, if an Event of Default will have occurred and be continuing, or any Member of the Obligated Group will have failed to make a periodic deposit in respect of the interest on, or principal of any Related Bonds within three days after the same will have become payable, it will, upon request of the Master Trustee, deliver or direct to be delivered to the Master Trustee all Gross Receipts until such Event of Default has been cured or such required deposit has been made, as the case may be, such Gross Receipts to be applied in accordance with the Master Trust Indenture.

As security for the obligation to make the payments on all Obligations when due under the Master Trust Indenture, the Members have granted to the Master Trustee a security interest in all of their Gross Receipts, as provided under Section 3.01 of the Master Trust Indenture, but the existence of any such security interests shall not prevent the expenditure, deposit or commingling of Gross Receipts by such Members of the Obligated Group so long as no Event of Default under the Master Trust Indenture exists and all required payments on the Obligations are made when due. Without limiting the generality of the foregoing, such security interest shall apply to all rights to receive Gross Receipts whether in the form of accounts, accounts receivable, contract rights or other rights, and to the proceeds of such rights. This security interest shall apply to all of the foregoing, whether now existing or hereafter coming into existence and whether now owned or held or hereafter acquired by such Members of the Obligated Group.

Upon the occurrence of an event which requires the funding of the Gross Receipts Revenue Fund the Obligated Group covenants to take all action necessary to insure that all such receipts and revenues are deposited into the Gross Receipts Revenue Fund including, but not limited to, depositing directly all payments received and directing all debtors and payors of the Obligated Group to make all payments due to the Obligated Group Members to the Gross Receipts Revenue Fund. The Gross Receipts Revenue Fund shall be subject to the lien of the Master Trust Indenture in favor of the Holders of all Obligations, as provided in Section 4.03(c) of the Master Trust Indenture. The Master Trustee is authorized to take such self-help and other measures that a secured party is entitled to take under the New York Uniform Commercial Code. Upon a cure or waiver of the event which requires the funding of the Gross Receipts Revenue Fund, the Master Trustee shall transfer the amounts on deposit in the Gross Receipts Revenue Fund to the Obligated Group Representative.

### **Covenants as to Corporate Existence, Maintenance of Properties, Etc. (Section 3.02)**

Each Member of the Obligated Group covenants:

(a) Except as otherwise expressly provided in the Master Trust Indenture, to preserve its corporate or other legal existence and all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs and be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualifications; provided, however, that nothing contained in the Master Trust Indenture will be construed to obligate it to retain or preserve any of its rights or licenses, no longer used or, in the judgment of its Governing Body, useful in the conduct of its business.

(b) At all times to cause its Property to be maintained, preserved and kept in good repair, working order and condition and all needed and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in this subsection (b) will be construed to (i) prevent it from ceasing to operate any portion of its Property, if in its judgment (evidenced, in the case of such a cessation other than in the ordinary course of business by an opinion or certificate of a Consultant) it is advisable not to operate the same, or if it intends to sell or otherwise dispose of the same and within a reasonable time endeavors to effect such sale or other disposition, or (ii) to obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in the judgment of its Governing Body, useful in the conduct of its business.

(c) To do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply with any and all applicable laws of the United States and the several states thereof and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Properties; provided, nevertheless, that nothing contained in the Master Trust Indenture will require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it will be contested in good faith.

(d) To pay promptly when due all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property; provided, however, that it will have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof.

(e) To pay promptly or otherwise satisfy and discharge all of its Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations created and Outstanding under the Master Trust Indenture) whose validity, amount or collectability is being contested in good faith.

(f) At all times to comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness.

(g) To procure and maintain all necessary licenses and permits and maintain accreditation of its health care facilities (other than those of a type for which accreditation is not available) by the Joint Commission on Accreditation of Healthcare Organizations or other applicable recognized accrediting body; provided, however, that it need not comply with this Section if and to the extent that its Governing Body will have determined in good faith, evidenced by a resolution of the Governing Body, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

(h) So long as the Master Trust Indenture will remain in force and effect, each Member of the Obligated Group which is a Tax-Exempt Organization at the time it becomes a Member of the Obligated Group agrees that, so long as all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, it will not take any action or suffer any action to be taken by others, including any action which would result in the alteration or loss of its status as a Tax-Exempt Organization, or fail to take any action which failure, in the Opinion of Bond Counsel, would result in the interest on any Related Bonds becoming included in the gross income of the holder thereof for federal income tax purposes.

### **Insurance (*Section 3.03*)**

Each Member of the Obligated Group agrees that it will maintain, or cause to be maintained, insurance (including one or more self-insurance programs considered to be adequate) covering such risks in such amounts and with such deductibles and co-insurance provisions as, in the judgment of its Governing Body, are adequate to protect it and its Property and operations.

The Obligated Group Representative is required to engage an Insurance Consultant to review the insurance requirements of the Members of the Obligated Group from time to time (but not less frequently than biennially), and the Obligated Group is required to file a copy of such report as required pursuant to Section 3.10(d) of the Master

Trust Indenture. If the Insurance Consultant makes recommendations for the increase of any coverage, the applicable Member of the Obligated Group is required to increase or cause to be increased such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of such Member that such recommendations, in whole or in part, are in the best interests of the Obligated Group. If the Insurance Consultant makes recommendations for the decrease or elimination of any coverage, the Member of the Obligated Group may decrease or eliminate such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group. Notwithstanding anything in this Section to the contrary, each Member of the Obligated Group shall have the right, without giving rise to an Event of Default solely on such account, (i) to maintain insurance coverage below that most recently recommended by the Insurance Consultant, if the Obligated Group Representative furnishes to the Master Trustee a report of the Insurance Consultant to the effect that the insurance so provided affords either the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or the greatest amount of coverage necessary by reason of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or (ii) to adopt alternative risk management programs which the Insurance Consultant determines to be reasonable, including without limitation, to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved by the Insurance Consultant as reasonable and appropriate risk management by the Obligated Group. If any Member of the Obligated Group shall be self-insured for any coverage, the report of the Insurance Consultant mentioned above shall state whether the anticipated funding of any self-insurance fund is actuarially sound, and if not, the required funding to produce such result and such coverage shall be reviewed by the Insurance Consultant not less frequently than annually.

#### **Insurance and Condemnation Proceeds (Section 3.04)**

(a) Unless otherwise provided in the Mortgages or Related Loan Agreements, amounts that do not exceed 20% of the Book Value of the Property, Plant and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss relating to the Health Care Facilities or as condemnation awards relating to the Health Care Facilities may be used in such manner as the recipient may determine, including, without limitation, applying such moneys to the payment or prepayment of any Indebtedness in accordance with the terms thereof and of any pertinent Supplement.

(b) Unless otherwise provided in the Mortgages or Related Loan Agreements, amounts that exceed 20% of the Book Value of the Property, Plant and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss relating to the Health Care Facilities or as condemnation awards relating to the Health Care Facilities will be applied to repair or replace the Property (either Property serving the same function or other Property that, in the judgment of the Governing Body, is of equal usefulness) to which such proceeds relate or to the payment or prepayment of Indebtedness in accordance with the terms thereof and of any pertinent Supplement; provided, however, subject to the terms of the Related Loan Agreement, such amounts may be used in such manner as the recipient may determine, if the recipient notifies the Master Trustee and within 12 months after the casualty loss or taking, delivers to the Master Trustee:

(i) (A) An Officer's Certificate of the Obligated Group Representative certifying the forecasted Long-Term Debt Service Coverage Ratio for each of the two Fiscal Years following the date on which such proceeds or awards are forecasted to have been fully applied, which Long-Term Debt Service Coverage Ratio for each such period is not less than 1.50, as shown by pro forma financial statements for each such period, accompanied by a statement of the relevant assumptions including assumptions as to the use of such proceeds or awards, upon which such pro forma statements are based; and (B) if the amount of such proceeds or awards received with respect to any casualty loss or condemnation exceeds 30% of the Book Value of the Property, Plant and Equipment of the Obligated Group, a written report of a Consultant confirming such certification; or

(ii) A written report of a Consultant stating the Consultant's recommendations, including recommendations as to the use of such proceeds or awards, to cause the Long-Term Debt Service Coverage Ratio for each of the periods described in subsection (i) of this section to be not less than 1.20, or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level; and an Officer's Certificate of the Obligated Group Representative certifying that the recipient will use such proceeds in accordance with the recommendations contained in the Consultant's report.

Each Member of the Obligated Group agrees that it will use such proceeds or awards, to the extent permitted by law and any Related Loan Agreement and any Mortgage, only in accordance with the assumptions described in subsection (i), or the recommendations described in subsection (ii), of this Section.

### **Limitations on Creation of Liens (*Section 3.05*)**

(a) Each Member of the Obligated Group agrees that it will not create or suffer to be created or permit the existence of any Lien on Property now owned or hereafter acquired by it other than Permitted Liens.

(b) Permitted Liens shall consist of the following:

(i) Liens arising by reason of good faith deposits by any Member of the Obligated Group in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member of the Obligated Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(ii) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member of the Obligated Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(iii) Any judgment lien against any Member of the Obligated Group so long as such judgment is being contested in good faith and execution thereon is stayed;

(iv) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than 180 days; and (C) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof;

(v) Any Lien which is existing on the date of authentication and delivery of the initial Obligation issued under the Master Trust Indenture, provided that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date or to secure Indebtedness not Outstanding as of the date of the Master Trust Indenture, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien thereunder;



(vi) Any Liens of a new Member or a successor to an existing Member that is permitted to remain outstanding after such new Member or successor becomes a Member of the Obligated Group pursuant to paragraph (e) under the heading “Consolidation, Merger, Sale or Conveyance” herein or paragraph (e) under the heading “Parties Becoming Members of the Obligated Group” herein;

(vii) Any Lien securing Non-Recourse Indebtedness permitted by paragraph (d) under the heading “Limitations on Indebtedness” herein;

(viii) Any Lien on Property acquired by a Member of the Obligated Group if the indebtedness secured by the Lien is Additional Indebtedness permitted under the provisions under the heading “Limitations on Indebtedness” herein, and if an Officer’s Certificate is delivered to the Master Trustee certifying that (A) the Lien and the indebtedness secured thereby were created and incurred by a Person other than the Member of the Obligated Group, and (B) the Lien was not created for the purpose of enabling the Member of the Obligated Group to avoid the limitations of the Master Trust Indenture on creation of Liens on Property of the Obligated Group;

(ix) So long as no Event of Default exists under the Master Trust Indenture, any Lien on accounts receivable and the proceeds from the sale thereof securing Indebtedness or Derivative Agreements, which conforms to the limitations contained under the heading “Limitations on Indebtedness” herein;

(x) Any Lien on Property which secures Indebtedness or Derivative Agreements that do not exceed in aggregate 20% of Total Operating Revenue as reflected in the most recent Audited Consolidated Financial Statements of the Obligated Group;

(xi) Any Lien in favor of a creditor or a trustee on the proceeds of Indebtedness and any earnings thereon prior to the application of such proceeds and such earnings;

(xii) Any Lien in favor of a trustee or other agent on the proceeds of Indebtedness and any earnings thereon created by the irrevocable deposit of such monies for the purpose of refunding or defeasing Indebtedness;

(xiii) Any Lien securing all Obligations on a parity basis;

(xiv) Liens on moneys deposited by patients or others with any Member of the Obligated Group as security for or as prepayment for the cost of patient care;

(xv) Liens on Property received by any Member of the Obligated Group through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;

(xvi) Liens on those items described in, or the right to receive the items described in, clauses (x), (y) and (z) of the definition of Gross Receipts set forth above;

(xvii) Liens on Property due to rights of third party payers for recoupment of amounts paid to any Member of the Obligated Group;

(xviii) Any Lien created in the Related Loan Agreements;

(xix) The Mortgages; and

(xx) Any Lien on Excluded Property.

### **Limitations on Indebtedness (Section 3.06)**

Each Member of the Obligated Group covenants and agrees that it will not incur any Additional Indebtedness if, after giving effect to all other Indebtedness incurred by the Obligated Group, such Indebtedness could not be incurred pursuant to any one of subsections (a) to (g) inclusive, set forth under this heading. Any Indebtedness may be incurred only in the manner and pursuant to the terms set forth in such subsections. Each Member of the Obligated Group further covenants and agrees that it will not incur any Additional Indebtedness without the written consent of the Obligated Group Representative, as evidenced by an Officer's Certificate to be delivered to the Master Trustee prior to the incurrence of such Additional Indebtedness in accordance with the requirements contained under the heading "Amount of Indebtedness," and a certified resolution of the Governing Board of such Member of the Obligated Group.

(a) Long-Term Indebtedness may be incurred if prior to incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee:

(i) An Officer's Certificate of the Obligated Group Representative certifying that: (A) the cumulative principal amount of all Long-Term Indebtedness incurred pursuant to this subsection 3.06(a)(i)(A) does not exceed 20% of Total Operating Revenues, or (B) the Long-Term Debt Service Coverage Ratio for the most recent twelve (12) full consecutive calendar months for which there are Audited Consolidated Financial Statements available, taking all Long-Term Indebtedness incurred after such period and the proposed Long-Term Indebtedness into account as if such Long-Term Indebtedness had been incurred at the beginning of such period, is not less than 1.20 (provided, however, that for so long as the Series 1998 Bonds are Outstanding and the Credit Facility Issuer therefor is not in default on its obligations under its Credit Facility insuring the Series 1998 Bonds, such provisions shall require that the historic Long-Term Debt Service Coverage Ratio be met based upon the average of the two most recent periods of twelve (12) full calendar months for which Audited Consolidated Financial Statements are available); or

(ii) (1) an Officer's Certificate of the Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for the most recent twelve (12) full consecutive calendar months for which there are Audited Consolidated Financial Statements available, excluding the proposed Long-Term Indebtedness, is at least 1.20 (provided, however, that for so long as the Series 1998 Bonds are Outstanding and the Credit Facility Issuer therefor is not in default on its obligations under its Credit Facility insuring the Series 1998 Bonds, such provisions shall require that the historic Long-Term Debt Service Coverage Ratio be met based upon the average of the two most recent periods of twelve (12) full calendar months for which Audited Consolidated Financial Statements are available) and (2) a written report of a Consultant demonstrating that the forecasted Long-Term Debt Service Coverage Ratio is not less than 1.20 for (x) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, each of the two full Fiscal Years succeeding the date on which such capital improvements are forecasted to be in operation or (y) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, each of the two full Fiscal Years succeeding the date on which the Indebtedness is incurred, as shown by pro forma financial statements for the Obligated Group for each such period, accompanied by a statement of the relevant assumptions upon which such pro forma financial statements for the Obligated Group are based; provided, however, that compliance with the tests set forth in this subparagraph (a)(ii) may be evidenced by a certificate of the Obligated Group Representative in lieu of a Consultant's report where the Long-Term Debt Service Coverage Ratio set forth in this clause (a)(ii)(2) is equal to or greater than 1.50; provided, however, that if the report of a Consultant states that Governmental Restrictions have been imposed which make it impossible for the coverage requirements of this subsection to be met, then such coverage requirements will be reduced to the maximum coverage permitted by such Governmental Restrictions but in no event less than 1.00.

(b) Long-Term Indebtedness incurred for the purpose of refunding any Outstanding Long-Term Indebtedness may be incurred if, prior to the incurrence of such Long-Term Indebtedness, (i) the Long-Term Indebtedness to be incurred does not constitute Cross-over Refunding Indebtedness there is delivered to the Master

Trustee (A) an Officer's Certificate of the Obligated Group Representative demonstrating that Maximum Annual Debt Service will not increase by more than 15% after the incurrence of such proposed refunding Long-Term Indebtedness and after giving effect to the disposition of the proceeds thereof and (B) an Opinion of Counsel stating that upon the incurrence of such Proposed Long-Term Indebtedness and application of the proceeds thereof, the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding; or (ii) the Indebtedness proposed to be issued is Cross-over Refunding Indebtedness, there is delivered to the Master Trustee a certificate of the Obligated Group Representative stating that the total Maximum Annual Debt Service on the proposed Cross-over Refunding Indebtedness and the Related Cross-over Refunded Indebtedness, immediately after the issuance of the proposed Cross-over Refunding Indebtedness, will not exceed the Maximum Annual Debt Service on the Cross-over Refunded Indebtedness alone, immediately prior to the issuance of the Cross-over Refunding Indebtedness, by more than 15%.

(c) Short-Term Indebtedness may be incurred in the ordinary course of business subject to the limitation that the aggregate of all Short-Term Indebtedness will not at any time exceed 20% of Total Operating Revenues as reflected in the Audited Consolidated Financial Statements of the Obligated Group for the most recent period of twelve consecutive months for which Audited Consolidated Financial Statements are available; provided, however, that there will be a period of at least 30 consecutive calendar days during each such period of twelve consecutive calendar months for which Audited Consolidated Financial Statements are available during which Short-Term Indebtedness will not exceed 5% of Total Operating Revenues. For purposes of this paragraph (c), a Guaranty of Short-Term Indebtedness shall be valued at 20% of the aggregate principal amount of the Short-Term Indebtedness guaranteed so long as no payments are required to be made thereunder and so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles; provided that in the event such Guaranty shall be drawn upon, such Guaranty shall be valued at 100% of the aggregate principal amount of the Short-Term Indebtedness guaranteed. For the purpose of calculating compliance with the tests set for in this paragraph (c), Short-Term Indebtedness secured by accounts receivable will not be taken into account except to the extent provided in paragraph (f) under this heading.

(d) Non-Recourse Indebtedness may be incurred without limit.

(e) Subordinated Debt may be incurred without limit.

(f) Short-Term Indebtedness secured by accounts receivable may be incurred within the limitations imposed on the pledge or sale of accounts receivable, as provided in the last paragraph under this heading; provided that at the time of incurrence, the outstanding principal amount of such Short-Term Indebtedness is less than or equal to the fair market value of the accounts receivable pledged to secure such Short-Term Indebtedness. At any time that the outstanding principal amount of such Short-Term Indebtedness is greater than the fair market value of the accounts receivable pledged to secure such Short-Term Indebtedness, the excess amount will be treated as Short-Term Indebtedness for the purposes of the tests set forth in paragraph (c) under this heading.

(g) Indebtedness may be incurred in an amount limited to the cost of completion for the purpose of financing the completion of the acquisition or construction of a Capital Addition with respect to which Indebtedness has theretofore been incurred, provided there will be delivered to the Master Trustee (i) a certificate of the Obligated Group Representative to the effect that the Obligated Group Representative did reasonably expect at the time the initial Indebtedness was incurred that the proceeds of such Indebtedness, together with other available funds, would be sufficient to complete the Capital Addition, (ii) a licensed architect's or licensed engineer's certificate to the effect that the proceeds of such additional Indebtedness will be sufficient to complete the Capital Addition and (iii) the amount of such Indebtedness is limited to the costs identified in (i) above plus necessary reserves and costs related to issuance of such Indebtedness.

Indebtedness incurred pursuant to subsection (a)(i) under this heading may be reclassified as Indebtedness incurred pursuant to any other of such subsections if the tests set forth in the subsection to which such Indebtedness is to be reclassified are met at the time of such reclassification.

Indebtedness containing a "put" or "tender" provision pursuant to which the holder of such Indebtedness may require that such Indebtedness be purchased prior to its maturity will not be considered Balloon Long-Term

Indebtedness, solely by reason of such “put” or “tender” provision, and the put or tender provision will not be taken into account in testing compliance with any debt incurrence test pursuant to this Section.

Accounts receivable of any Member or Members may be sold, pledged, assigned or otherwise disposed or encumbered in accordance herewith in an aggregate amount not exceeding 75% of the three-month average outstanding accounts receivable of the Obligated Group that are 90 days old or less as calculated in accordance with generally accepted accounting principles. The three-month average will be calculated based on the month end available balances for the three full calendar months immediately preceding the date on which such accounts receivable are sold, pledged, assigned or otherwise disposed or encumbered. Accounts receivable that are more than 90 days old may not be sold, pledged, assigned or otherwise disposed or encumbered.

#### **Long-Term Debt Service Coverage Ratio (*Section 3.07*)**

(a) The Members of the Obligated Group covenant to set rates and charges for their facilities, services and products such that the Long-Term Debt Service Coverage Ratio, calculated at the end of each Fiscal Year, will not be less than 1.10 for such prior Fiscal Year; provided, however, that in any case where Long-Term Indebtedness has been incurred to acquire or construct capital improvements, the Long-Term Debt Service Requirement with respect thereto will not be taken into account in making the foregoing calculation until the first Fiscal Year commencing after the occupation or utilization of such capital improvements unless the Long-Term Debt Service Requirement with respect thereto is required to be paid from sources other than the proceeds of such Long-Term Indebtedness prior to such Fiscal Year.

(b) If at any time the Long-Term Debt Service Coverage Ratio required by subsection (a) hereof, as derived from the most recent Audited Consolidated Financial Statements for the most recent Fiscal Year, is not met, the Obligated Group covenants to retain a Consultant within 30 days of the delivery of the aforementioned Audited Consolidated Financial Statements to make recommendations to increase such Long-Term Debt Service Coverage Ratio in the following Fiscal Year to the level required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest level attainable. Any Consultant so retained will be required to submit such recommendations within 45 days after being so retained. Each Member of the Obligated Group agrees that it will, to the extent permitted by Governmental Restrictions, follow the recommendations of the Consultant. So long as a Consultant will be retained and each Member of the Obligated Group will follow such Consultant’s recommendations to the extent permitted by such Governmental Restrictions, this Section will be deemed to have been complied with even if the Long-Term Debt Service Coverage Ratio for the following Fiscal Year is below the required level; provided, however, that the Obligated Group will not be required to retain a Consultant to make recommendations pursuant to this subsection (b) more frequently than biennially.

#### **Sale, Lease or Other Disposition of Operating Assets; Disposition of Cash and Investments; Unsecured Loans to Non-Members; Sale of Accounts (*Section 3.08*)**

(a) Each Member of the Obligated Group agrees that it will not transfer Property in any Fiscal Year (or other 12-month period for which Audited Consolidated Financial Statements are available) except for Transfers of Property:

(i) To any Person provided such Property has become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property.

(ii) To another Member of the Obligated Group without limit.

(iii) To any Person provided there will be delivered to the Master Trustee prior to such Transfer an Officer’s Certificate certifying that the Obligated Group is in compliance with the requirements set forth under the heading “Long-Term Debt Service Coverage Ratio” and the Long-Term Debt Service Coverage Ratio, adjusted to exclude the revenues and expenses derived from the Operating Assets proposed to be disposed of, for the most recent period of twelve (12)

full consecutive calendar months preceding the date of delivery of the Officer's Certificate for which the Audited Consolidated Financial Statements have been reported upon by independent certified public accountants (which period of 12 full consecutive months will have ended not more than eighteen calendar months prior to the date of the Officer's Certificate) and such Long-Term Debt Service Coverage Ratio is not less than 1.20 and not less than 65% of what it would have been were such Transfer not to take place.

(iv) To any Person if the aggregate Book Value of the Property Transferred pursuant to this subsection (iv) in the current Fiscal Year does not exceed 10% of the Book Value of all Property of the Obligated Group as shown in the Audited Consolidated Financial Statements for the most recent Fiscal Year.

(v) To any Person if the Property Transferred pursuant to this subsection (v) was transferred in the ordinary course of business, and at fair and reasonable terms, no less favorable to the Member of the Obligated Group, which could have been attained in a comparable arms-length transaction; provided further, however, that the proceeds from such Property Transferred are used to acquire Property, used to repay Indebtedness, or used for any other corporate purpose of a Member or Members.

(vi) To a Person which at the time of the Transfer is not a Member of the Obligated Group or successor corporation pursuant to a merger or consolidation permitted by the Master Trust Indenture, without limit, if such Person or successor corporation will, at the time of such Transfer, become a Member of the Obligated Group pursuant to the Master Trust Indenture.

(b) Any Member of the Obligated Group will have the right to sell, pledge, assign or otherwise dispose of its accounts receivable, with or without recourse, if such Member of the Obligated Group will receive as consideration for such sale, pledge, assignment or other disposition cash, services or Property equal to the fair market value of the accounts receivable so sold, as certified to the Master Trustee in an Officer's Certificate of such Member of the Obligated Group and if such sale, pledge, assignment or other disposition meets the limitations contained in the last paragraph under the heading "Limitations on Indebtedness" regarding the aggregate limit on the pledge, sale or other disposition or encumbrance of accounts receivable.

(c) Nothing contained under this heading is intended to prohibit the Transfer of Property, including cash, for payment of goods and services in the ordinary course of business of, or for the acquisition of Property by, the Members of the Obligated Group.

### **Consolidation, Merger, Sale or Conveyance (*Section 3.09*)**

(a) Each Member of the Obligated Group covenants that it will not merge or consolidate with, or sell or convey all or substantially all of its assets to any Person unless:

(i) Either a Member of the Obligated Group will be the successor corporation, or if the successor corporation is not a Member of the Obligated Group, such successor corporation will execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation to assume the due and punctual payment of the principal of, premium, if any, and interest on all Outstanding Obligations issued under the Master Trust Indenture according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Trust Indenture and any Supplement thereto; and

(ii) No Member of the Obligated Group immediately after such merger or consolidation, or such sale or conveyance, would be in default in the performance or observance of any covenant or condition of the Master Trust Indenture; and

(iii) If all amounts due or to become due on any Related Bond which bears interest which is not includable in the gross income of the recipient thereof under the Code have not been fully paid to the holder thereof, there will have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of such Related Bond, would not adversely affect the exclusion of interest payable on such Related Bond from the gross income of the holder thereof for purposes of federal income taxation; and

(iv) There is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Representative demonstrating that (A) if such merger, consolidation or sale of assets had occurred at the beginning of the most recent period of 12 full consecutive calendar months for which Audited Consolidated Financial Statements are available, the Long-Term Debt Service Coverage Ratio for such period would have been not less than 1.10, (B) if such merger, consolidation or sale of assets had occurred at the end of the most recent period of 12 full consecutive calendar months for which Audited Consolidated Financial Statements are available (which period of 12 full consecutive months will have ended not more than eighteen calendar months prior to the date of the Officer's Certificate), the conditions described in subsection (a)(i)(B) under the heading "Limitation on Indebtedness" would have been satisfied for the incurrence of an additional \$1.00 of Additional Indebtedness, and (C) the unrestricted net assets plus temporarily restricted net assets of the successor, resulting or acquiring corporation, as the case may be, after giving effect to said merger or consolidation, or sale or conveyance of assets is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Member of the Obligated Group which was merged into, consolidated with or whose assets were acquired by, such successor corporation as reflected in the most recent Audited Consolidated Financial Statements.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation will succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Master Trust Indenture as such predecessor or had become a Member of the Obligated Group pursuant to the provisions described under the heading "Parties Becoming Members of the Obligated Group," as the case may be. Such successor corporation thereupon may cause to be signed, and may issue in its own name Obligations issuable under the Master Trust Indenture; and upon the order of such successor corporation and subject to all the terms, conditions and limitations in the Master Trust Indenture prescribed, the Master Trustee will authenticate and will deliver Obligations that such successor corporation will have caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued by such successor corporation under the Master Trust Indenture will in all respects have the same security position and benefit under the Master Trust Indenture as Outstanding Obligations theretofore or thereafter issued in accordance with the terms of the Master Trust Indenture as though all of such Obligations had been issued under the Master Trust Indenture without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued under the Master Trust Indenture as may be appropriate.

(d) In the event that the Officer's Certificate described in subparagraph (a)(iv) under this heading has been delivered, the Master Trustee may accept an Opinion of Counsel (not an employee of a Member of the Obligated Group or an Affiliate in this case) as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of this Section and that it is proper for the Master Trustee under the provisions of the Master Trust Indenture to join in the execution of any instrument required to be executed and delivered by this Section.

(e) Any Indebtedness previously incurred by the Person or successor corporation becoming a Member of the Obligated Group pursuant to this Section will be permitted to remain outstanding, and any lien or security interest securing such Indebtedness will be permitted to remain in effect if such Indebtedness could have been

incurred pursuant to the provisions of the Master Trust Indenture immediately after such Person or successor corporation became a Member of the Obligated Group.

(f) All references in the Master Trust Indenture to successor corporations will be deemed to include the surviving corporation in a merger.

**Filing of Audited Consolidated Financial Statements, Certificate of No Default; Other Information (Section 3.10)**

The Obligated Group covenants that it will:

(a) Within 30 days after receipt of the audit report mentioned below, but in no event later than 150 days after the end of each Fiscal Year, file with the Master Trustee and with each Holder who may have so requested in writing or on whose behalf the Master Trustee may have so requested, a copy of the Audited Consolidated Financial Statements as of the end of such fiscal reporting period accompanied by the opinion of independent certified public accountants. Such Audited Consolidated Financial Statements will be prepared in accordance with generally accepted accounting principles and will include such statements necessary for a fair presentation of financial position, statement of activity and changes in net assets and cash flows of such fiscal reporting period.

(b) Within 30 days after receipt of the audit report mentioned above, but in no event later than 150 days after the end of each Fiscal Year, file with the Master Trustee and with each Holder who may have so requested or on whose behalf the Master Trustee may have so requested, an Officer's Certificate stating the Long-Term Debt Service Coverage Ratio for such fiscal reporting period and stating whether, to the best knowledge of the signer, any Member of the Obligated Group is in default in the performance of any covenant contained in the Master Trust Indenture and, if so, specifying each such default of which the signer may have knowledge.

(c) If an Event of Default will have occurred and be continuing, (i) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs (or of any consolidated or Obligated Group of companies, including its consolidated or combined Affiliates, including any Member of the Obligated Group) as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records and personnel records and (ii) provide access to its facilities for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request.

(d) Within 30 days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of the Master Trust Indenture requires to be prepared by a Consultant or an Insurance Consultant.

**Parties Becoming Members of the Obligated Group (Section 3.11)**

Persons which are not Members of the Obligated Group and corporations which are successor corporations to any Member of the Obligated Group through a merger or consolidation permitted by the provisions described under the heading "Consolidation, Merger, Sale or Conveyance" may, with the prior written consent of the Obligated Group Representative, become Members of the Obligated Group, if:

(a) The Person or successor corporation which is becoming a Member of the Obligated Group will execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee containing the agreement of such Person or successor corporation (i) to become a Member of the Obligated Group under the Master Trust Indenture and any Supplements and thereby become subject to compliance with all provisions of the Master Trust Indenture and any Supplements pertaining to a Member of the Obligated Group, and the performance and observance of all covenants and obligations of a Member of the Obligated Group under the Master Trust Indenture, (ii) to adopt the same Fiscal Year as that of the Members of the Obligated Group, and (iii) unconditionally and irrevocably guarantee to the Master Trustee and each other Member of the Obligated Group that all Obligations issued and then Outstanding or to be issued and Outstanding under the Master Trust Indenture will be paid in accordance with the terms thereof and of the Master Trust Indenture when due.

(b) Each instrument executed and delivered to the Master Trustee in accordance with subsection (a) of this Section, will be accompanied by an Opinion of Counsel, addressed to and satisfactory to the Master Trustee, each Related Bond Issuer and each Related Credit Facility Issuer, to the effect that such instrument has been duly authorized, executed and delivered by such Person or successor corporation and constitutes a valid and binding obligation enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency laws, other laws affecting creditors' rights generally, equity principles and laws dealing with fraudulent conveyances and that the obligations of such Person or successor corporation created thereunder include the requirements described in subsection (a).

(c) If all amounts due or to become due on any Related Bond which bears interest which is not includable in the gross income of the recipient thereof under the Code have not been paid to the Holders thereof, there will be filed with the Master Trustee, (i) an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not adversely affect the exclusion of the interest on any such Related Bond from the gross income of the holder thereof for purposes of federal income taxation and (ii) an Opinion of Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not require the registration of any Obligations under the Securities Act of 1933, as amended or the Supplements under the Trust Indenture Act of 1939, as amended, or if such registration is required, that all applicable registration and qualification provisions of said acts have been complied with.

(d) An Officer's Certificate of the Obligated Group Representative will be provided to the Master Trustee demonstrating that (i) after giving effect to the admission of such Person as a Member of the Obligated Group, the unrestricted net assets plus temporarily restricted net assets of such Person and the unrestricted net assets plus temporarily restricted net assets of the Obligated Group is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Obligated Group at the end of the Fiscal Year immediately preceding the year in which such Person will become a member of the Obligated Group and (ii) the conditions described in subsection (a)(i)(B) under the heading "Limitation on Indebtedness" have been satisfied for the incurrence of an additional one dollar of Additional Indebtedness, assuming that the Person or corporation which is becoming a Member of the Obligated Group had become a Member at the beginning of the most recent period of 12 full consecutive calendar months for which Audited Consolidated Financial Statements are available (which period of 12 full consecutive months will have ended not more than 18 calendar months prior to the date of the Officer's Certificate).

(e) Any Indebtedness previously incurred by a new Member of the Obligated Group will be permitted to remain outstanding, and any lien or security interest securing such Indebtedness will be permitted to remain in effect if such Indebtedness could have been incurred pursuant to the provisions described under the heading "Limitations on Indebtedness" immediately after such Person became a Member of the Obligated Group.

### **Withdrawal from the Obligated Group (Section 3.12)**

(a) No Member of the Obligated Group may withdraw from the Obligated Group without the prior written consent of the Obligated Group Representative; provided, that prior to the taking of such action, there is delivered to the Master Trustee:

(i) If all amounts due on any Related Bonds which bear interest which is not includable in the gross income of the recipient thereof under the Code have not been paid to the holders thereof, there will be delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such Member's withdrawal from the Obligated Group, whether or not contemplated on any date of delivery of any Related Bond, would not cause the interest payable on such Related Bond to become includable in the gross income of the recipient thereof under the Code;

(ii) (A) An Officer's Certificate of the Obligated Group Representative demonstrating that (1) the conditions described in subsection (a)(i)(B) under the heading "Limitation on Indebtedness" have been satisfied for the incurrence of an additional one dollar of Additional Indebtedness, assuming such withdrawal to have occurred at the end of the most recent period of 12 full consecutive calendar months for which Audited Consolidated Financial



Statements are available, (2) the Long-Term Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which Audited Consolidated Financial Statements are available (x) would not, if such withdrawal had occurred at the end of such period, be reduced by more than 35%; provided, however, that in no event will such ratio be reduced to less than 1.20, or (y) would be greater than in the absence of such withdrawal, and (3) after giving effect to the withdrawal of such Member of the Obligated Group, the unrestricted net assets plus temporarily restricted net assets of the Obligated Group is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Obligated Group at the end of the Fiscal Year immediately preceding the year in which such Member of the Obligated Group withdraws from the Obligated Group; or (B) a written report of a Consultant demonstrating that the forecasted average Long-Term Debt Service Coverage Ratio for the two periods of 12 full consecutive calendar months succeeding the proposed date of such withdrawal is greater than 1.35; provided, however, that compliance with the test set forth in clause (B) above may be evidenced by an Officer's Certificate of the Obligated Group Representative in lieu of a Consultant's report where the Long-Term Debt Service Coverage Ratio for each of the two periods of twelve full consecutive calendar months succeeding the proposed date of such withdrawal is greater than 2.00 and not less than 65% of what it would have been were such withdrawal not to take place, assuming such withdrawal had occurred on the first day of the most recent twelve month period for which Audited Consolidated Financial Statements of the Obligated Group are available; and

(iii) an Opinion of Counsel, addressed and satisfactory to the Master Trustee and each Credit Facility Issuer to the effect that such withdrawal is authorized by and complies with all Governmental Restrictions and the provisions of the Master Trust Indenture and any agreements or other documents relating to the Master Trust Indenture, the Obligations or the Related Bonds.

(b) Upon the withdrawal of any Member from the Obligated Group pursuant to subsection (a) of this Section, any guaranty by such Member pursuant hereto will be released and discharged in full and all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under the Master Trust Indenture will cease.

### **Permitted Releases and Permitted Modifications with Respect to the Mortgages (*Section 3.13*)**

(a) The Mortgages have been assigned or granted to the Master Trustee as additional security for all Obligations issued and to be issued under the Master Trust Indenture. The Members of the Obligated Group covenant that except for Permitted Releases described in paragraph (b) of Section 3.13 (which Permitted Releases shall also include a release to implement a sale and leaseback of a portion of the Mortgaged Property), the Members of the Obligated Group shall not release or allow the release of any of the Mortgaged Property encumbered by the Mortgages from the Lien of such Mortgages. The Members of the Obligated Group also covenant that, except for Permitted Modifications described in paragraph (c) of Section 3.13, the Members of the Obligated Group shall not modify or amend any of the Mortgages.

(b) Permitted Releases shall include only the following:

(1) a release made with respect to a portion of the Mortgaged Property that is to be disposed of in conjunction with a Transfer of Property permitted under Section 3.08 of the Master Trust Indenture (other than Section 3.08(a)(ii)); provided that (i) no such release shall be with respect to the primary healthcare facilities of any Member of the Obligated Group (primary healthcare facilities being any premises that include a building containing more than fifty (50) acute care inpatient beds that are licensed to any Member of the Obligated Group); (ii) any such release shall not, as determined in an Officer's Certificate of the Obligated Group Representative delivered to the Master Trustee, impair the ability of the applicable Member of the Obligated Group to perform its functions as a Health Care Facility; and (iii) if the portion of the Mortgaged Property to be released was financed or refinanced with the proceeds of Related Bonds, there is delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such release, in

and of itself, would not adversely affect the exclusion of interest payable on such Related Bonds from the gross income of the holder thereof for purposes of federal income taxation; or

(2) a release made with respect to a portion of the Mortgaged Property of a Member upon the withdrawal of such Member from the Obligated Group in accordance with Section 3.12 of the Master Trust Indenture; provided that any Related Bonds issued for the benefit of, or the proceeds of which were used at facilities of, such withdrawing Member have been redeemed, defeased or discharged at or prior to the date of such Member's withdrawal from the Obligated Group; or

(3) a release made with respect to a portion of the Mortgaged Property, so long as such portion constitutes Excluded Property; or

(4) a release made with respect to any portion of the Mortgaged Property so long as a Mortgage is granted to the Master Trustee on additional Property (to be added as additional Mortgaged Property), which additional Property is to be used by the Obligated Group to provide clinical services, or to provide support for clinical services, at the Health Care Facilities of one or more Members of the Obligated Group, and which additional Property has an appraised value equal to or greater than the appraised value of the portion of the Mortgaged Property being released; provided, however, that such substituted Property is not subject to any Liens other than Liens that are Permitted Liens for the Mortgaged Property ("appraised value" means a market value appraisal performed at the Obligated Group's expense by an independent M.A.I. appraiser selected by the Obligated Group, dated not more than one year prior to the date presented and accompanied by a bring-down letter from the appraiser, dated not more than one week prior to the date of substitution, to the effect that the condition and appraised value of the appraised property have not changed materially from the date of the appraisal); provided further, however, that any grant of a Mortgage on any substitute Mortgaged Property shall be accompanied by a mortgagee's policy of title insurance reasonably satisfactory to the Master Trustee and evidence reasonably satisfactory to the Master Trustee, in the form of zoning coverage in the title insurance policy or an opinion of counsel, or both, that the substitute Mortgaged Property and any remaining Mortgaged Property meet applicable zoning requirements; or

(5) a release made with respect to machinery, equipment, fixtures or other personal property located on the Mortgaged Property if such property would be eligible to be disposed of pursuant to the provisions of Section 3.08(a) of the Master Trust Indenture, or in order to implement a permitted financing or a sale and leaseback with respect to such machinery, equipment, fixtures or other personal property, or a sale and leaseback with respect to a portion of the Mortgaged Property; or

(6) a release made with respect to a portion of the Mortgaged Property, but only with the prior written consent of certain Credit Facility Issuers.

(c) Permitted Modifications shall include only the following:

(1) a modification or amendment to a Mortgage to cure any ambiguity or formal defect or omission therein; or

(2) a modification or amendment to a Mortgage to correct or supplement any provision therein which may be inconsistent with any other provision therein, or to make any other modifications or amendments with respect to matters or questions arising under such Mortgage which shall not materially and adversely affect the interests of the Holders; or

(3) a modification or amendment to a Mortgage to grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon the Holders; or

(4) a modification or amendment to a Mortgage to make any necessary or appropriate changes to reflect the issuance of additional Obligations in accordance with the provisions of Section 3.06 of the Master Trust Indenture; or

(5) a modification or amendment to a Mortgage, or a consent with respect thereto, to implement any necessary or appropriate changes to reflect matters relating to zoning, land use, environmental and other real property laws, ordinances, rules or regulations that in substance do not alter the security provided pursuant to such Mortgage or that shall not materially and adversely affect the interests of the Holders; or

(6) a modification or amendment to a Mortgage covering a portion of the Mortgaged Property so long as such portion constitutes Excluded Property; or

(7) a modification or amendment to a Mortgage, but only with the prior written consent of certain Credit Facility Issuers.

(d) The Master Trustee, at the direction of the Obligated Group Representative as set forth in an Officer's Certificate, shall cooperate with the Obligated Group and execute any and all documents or instruments in order to promptly implement any such Permitted Release or Permitted Modification. In addition, the Master Trustee, at the direction of the Obligated Group Representative as set forth in an Officer's Certificate, shall grant such consents and approvals, and shall subordinate the Lien on a portion of the Mortgaged Property to such easements or other non-monetary encumbrances, as a Member of the Obligated Group may from time to time request; provided that any such action does not materially impair the Lien of the applicable Mortgage on the Mortgaged Property nor materially diminish the value or utility of the Mortgaged Property.

#### **Events of Default (Section 4.01)**

Event of Default, as used herein, will mean any of the following events:

(a) The Members of the Obligated Group will fail to make any payment of the principal of, the premium, if any, or interest on any Obligations issued and Outstanding under the Master Trust Indenture when and as the same will become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of the Master Trust Indenture or of any Supplement;

(b) Any Member of the Obligated Group will fail duly to perform, observe or comply with any covenant or agreement on its part under the Master Trust Indenture for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, will have been given to the Members of the Obligated Group and the Obligated Group Representative by the Master Trustee, or to the Members of the Obligated Group and the Obligated Group Representative and the Master Trustee by the Holders of at least 25% in aggregate principal amount of Obligations then Outstanding or by the Credit Facility Issuer, if any, with respect to an Obligation or Related Bonds; provided, however, that if said failure be such that it cannot be corrected within 30 days after the receipt of such notice, it will not constitute an Event of Default if corrective action is instituted within such 30-day period and diligently pursued until the Event of Default is corrected;

(c) An event of default will occur under a Related Bond Indenture, under a Related Loan Agreement, upon a Related Bond or under a Mortgage that secures any Obligation issued under the Master Trust Indenture;

(d) (i) Any Member of the Obligated Group will fail to make any required payment with respect to any Indebtedness (other than Obligations issued and Outstanding under the Master Trust Indenture), which Indebtedness is in an aggregate principal amount greater than 1% of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or will hereafter be created, and any period of grace with respect thereto will have expired, or (ii) there will occur an event of default as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Indebtedness, which Indebtedness is in an aggregate principal amount greater than 1% of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or will hereafter be created, which event of default will not

have been waived by the holder of such mortgage, indenture or instrument, and as a result of such failure to pay or other event of default such Indebtedness will have been accelerated; provided, however, that such default will not constitute an Event of Default within the meaning of this Section if within 30 days (i) written notice is delivered to the Master Trustee, signed by the Obligated Group Representative, that such Member of the Obligated Group is contesting the payment of such Indebtedness and within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, any Member of the Obligated Group in good faith will commence proceedings to contest the obligation to pay such Indebtedness and if a judgment relating to such Indebtedness has been entered against such Member of the Obligated Group (A) the execution of such judgment has been stayed or (B) sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness;

(e) The entry of a decree or order by a court having jurisdiction in the premises for an order for relief against any Member of the Obligated Group, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such Member under the United States Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, custodian, assignee, or sequestrator (or other similar official) of such Member or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 90 consecutive days; and

(f) The institution by any Member of the Obligated Group of proceedings for an order for relief, or the consent by it to an order for relief against it, or the filing by it of a petition or answer or consent seeking reorganization, arrangement, adjustment, composition or relief under the United States Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, custodian, assignee, trustee or sequestrator (or other similar official) of such Member of the Obligated Group or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due.

#### **Acceleration; Annulment of Acceleration (*Section 4.02*)**

(a) Upon the occurrence and during the continuation of an Event of Default under the Master Trust Indenture, the Master Trustee may and, upon the written request of the Holders of not less than 25% in aggregate principal amount of Obligations Outstanding, will, by notice to the Members of the Obligated Group declare all Obligations Outstanding immediately due and payable, whereupon such Obligations will become and be immediately due and payable, anything in the Obligations or in any other section of the Master Trust Indenture to the contrary notwithstanding. In the event Obligations are accelerated there will be due and payable on such Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon to the date of acceleration and, to the extent permitted by applicable law, which accrues to the date of payment.

(b) At any time after the principal of the Obligations will have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Obligations Outstanding; (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay the charges, compensation, expenses, disbursements, advances, fees and liabilities of the Master Trustee; (iii) all other amounts then payable by the Obligated Group under the Master Trust Indenture will have been paid or a sum sufficient to pay the same will have been deposited with the Master Trustee; and (iv) every Event of Default (other than a default in the payment of the principal of such Obligations then due only because of such declaration) will have been remedied or waived pursuant to the provisions under the heading "Waiver of Event of Default", then the Master Trustee may, and upon the written request of Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding will, annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment will extend to or affect any subsequent Event of Default or impair any right consequent thereon.

#### **Additional Remedies and Enforcement of Remedies (Section 4.03)**

(a) Upon the occurrence and continuance of an Event of Default under the Master Trust Indenture, the Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding or upon the request of the Credit Facility Issuer, if any, with respect to any series of Obligations or Related Bonds, together with indemnification of the Master Trustee to its satisfaction therefor, will, proceed forthwith to protect and enforce its rights and the rights of the Holders under the Master Trust Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, will deem expedient, including but not limited to:

- (i) Enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;
- (ii) Bring suit upon all or any part of the Obligations;
- (iii) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders;
- (iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders;
- (v) Enforcement of rights as a secured party under the Uniform Commercial Code of the State of New York;
- (vi) Enforcement of any Mortgage granted by any Member of the Obligated Group to secure any one or more Obligations; and
- (vii) Enforcement of any other right of the Holders conferred by law or by the Master Trust Indenture.

(b) Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Obligations then Outstanding or the Credit Facility Issuer, if any, with respect to a series of Obligations or Related Bonds, will, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised will be necessary or expedient (i) to prevent any impairment of the security under the Master Trust Indenture by any acts which may be unlawful or in violation thereof, or (ii) to preserve or protect the interests of the Holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions of the Master Trust Indenture and, in the sole judgment of the Master Trustee, are not unduly prejudicial to the interest of the Holders not making such request.

(c) Upon the occurrence of an Event of Default, the Master Trustee may, and if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Obligations then Outstanding or the Credit Facility Issuer, if any, with respect to a series of Obligations or Related Bonds, realize upon any security interest which the Master Trustee may have in Gross Receipts and will establish and maintain a Gross Receipts Revenue Fund into which will be deposited all Gross Receipts as and when received. All amounts deposited into the Gross Receipts Revenue Fund will be applied by the Master Trustee or made available to any alternate paying agent appointed pursuant to any Supplement for application (i) to the payment of the reasonable and necessary operating expenses of the Obligated Group, all in accordance with budgeted amounts proposed by the Obligated Group Representative, (ii) to the payment of the principal or redemption price of, and interest on all Obligations in accordance with their respective terms, and (iii) such other amounts as may be required by the Master Trust Indenture and any Supplement thereto. Pending such application, all such moneys and investments in the Gross Receipts Revenue Fund will be held for the equal and ratable benefit of all Obligations Outstanding; provided, that amounts held in the Gross Receipts Revenue Fund for making of debt service payments on or after the due date for Obligations will be reserved and set aside solely for the purpose of making such payment. In addition, with regard

to Gross Receipts, the Master Trustee may take any one or more of the following actions: (i) during normal business hours enter the offices or facilities of any Member of the Obligated Group and examine and make copies of the financial books and records of the Member relating to the Gross Receipts and take possession of all checks or other orders for payment of money and moneys in the possession of the Members of the Obligated Group representing Gross Receipts or proceeds thereof; (ii) notify any account debtors obligated on any Gross Receipts to make payment directly to the Master Trustee, (iii) following such notification to account debtors, collect, or, in good faith compromise, settle, compound or extend amounts payable as Gross Receipts which are in the form of accounts receivable or contract rights from each Member's account debtors by suit or other means and give a full acquittance therefor and receipt therefor in the name of the Member whether or not the full amount of any such account receivable or contract right owing will be paid to the Master Trustee; (iv) forbid any Member to extend, compromise, compound or settle any accounts receivable or contract rights which represent any unpaid assigned Gross Receipts, or release, wholly or partly, any person liable for the payment thereof (except upon receipt of the full amount due) or allow any credit or discount thereon; or (v) endorse in the name of the applicable Member any checks or other orders for the payment of money representing any unpaid assigned Gross Receipts or the proceeds thereof.

(d) In addition to any remedies enforceable pursuant to the Master Trust Indenture, upon the occurrence and continuance of any Event of Default under the Master Trust Indenture, the Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding, as provided in Section 4.03(a) of the Master Trust Indenture, together with indemnification of the Master Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders under the Master Trust Indenture by such suits, actions, foreclosure proceedings or other proceedings as the Master Trustee, being advised by counsel, shall deem expedient regarding enforcement of rights under the Mortgages. Any proceeds received from the enforcement of the rights of the Master Trustee as beneficiary under any particular Mortgage shall be distributed by the Master Trustee to satisfy any amounts then due and owing under any Obligations in accordance with the Master Trust Indenture.

#### **Application of Moneys after Default (Section 4.04)**

During the continuance of an Event of Default, subject to the expenditure of moneys to make any payments required to permit any Member of the Obligated Group to comply with any requirement or covenant in any Related Indenture to cause Related Bonds the interest on which, immediately prior to such Event of Default, is excludable from the gross income of the recipients thereof for federal income tax purposes under the Code to retain such status under the Code, all Gross Receipts and other moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Article of the Master Trust Indenture relating to Events of Default will be applied, after the payment of any compensation, expenses, disbursements and advances then owing to the Master Trustee pursuant to the Master Trust Indenture and with respect to the payment of Obligations thereunder, as follows:

(a) Unless the principal of all Outstanding Obligations will have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on Obligations in the order of the maturity of such installments, and, if the amount available will not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference;

Second: To the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations which shall have become due, together with (i) any premium (including, without limitation, any make-whole amount) due thereon, and (ii), as provided in Section 2.05 hereof, any and all other payments or amounts, other than interest, due on any Obligations whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available will not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference; and

Third: To the extent there exists a Credit Facility Issuer with respect to any series of Obligations or Related Bonds, amounts owed to such Credit Facility Issuer by the Obligated Group and not otherwise paid under clauses First and Second above.

(b) If the principal of all Outstanding Obligations shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid, together with (i) any premium (including, without limitation, any make-whole amount) due thereon, and (ii), as provided in Section 2.05 hereof, any and all other payments or amounts due on any Obligations, upon Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest and premium (including, without limitation, any make-whole amount) due thereon, and, as provided in Section 2.05 of the Master Trust Indenture, any and all other payments or amounts due on any Obligations, to the Persons entitled thereto without any discrimination or preference.

(c) If the principal of all Outstanding Obligations will have been declared due and payable, and if such declaration will thereafter have been rescinded and annulled under the provisions of the Article of the Master Trust Indenture relating to Events of Default, then, subject to the provisions of paragraph (b) of this Section in the event that the principal of all Outstanding Obligations will later become due or be declared due and payable, the moneys will be applied in accordance with the provisions of paragraph (a) of this Section.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of this Section, such moneys will be applied by it at such times, and from time to time, as the Master Trustee will determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee will apply such moneys, it will fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates will cease to accrue. The Master Trustee will give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and will not be required to make payment to the Holder of any unpaid Obligation until such Obligation will be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Moneys held in the Gross Receipts Revenue Fund will be invested in Government Obligations, which mature or are redeemable at the option of the holder not later than such times as will be required to provide moneys needed to make the payments or transfers therefrom. Subject to the foregoing, such investments will be made in accordance with a certificate of the Obligated Group Representative directing the Master Trustee to make specific investments. Unless otherwise provided in the Master Trust Indenture, the Master Trustee will sell or present for redemption, any Government Obligation so acquired whenever instructed to do so pursuant to an Officer's Certificate or whenever it will be necessary to do so to provide moneys to make payments or transfers from the Gross Receipts Revenue Fund. The Master Trustee will not be liable or responsible for making any such investment in the manner provided above and will not be liable for any loss resulting from any such investment. Any investment income derived from any investment of moneys on deposit in the Gross Receipts Revenue Fund will be credited to the Gross Receipts Revenue Fund and retained therein until applied to approved purposes.

Whenever all Obligations and interest thereon have been paid under the provisions of this Section and all expenses and charges of the Master Trustee have been paid, any balance remaining will be paid to the Person entitled to receive the same; if no other Person will be entitled thereto, then the balance will be paid to the Members of the Obligated Group, their respective successors, or as a court of competent jurisdiction may direct.

#### **Holders' Control of Proceedings (*Section 4.07*)**

If an Event of Default will have occurred and be continuing, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding will have the right, at any time, by an instrument in writing executed and delivered to the Master Trustee and accompanied by indemnity satisfactory to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Master Trust Indenture or for the appointment of a receiver or any other proceedings under the Master Trust Indenture, provided that such direction is not in conflict with any applicable law or the provisions of the Master Trust Indenture, and is not unduly prejudicial to the interest of any Holders not

joining in such direction, and provided further, that the Master Trustee will have the right to decline to follow any such direction if the Master Trustee in good faith will determine that the proceeding so directed would involve it in personal liability, in the sole judgment of the Master Trustee, and provided further that nothing in this Section will impair the right of the Master Trustee in its discretion to take any other action under the Master Trust Indenture which it may deem proper and which is not inconsistent with such direction by the Holders provided, further, however, that the Credit Facility Issuer, if any, with regard to any series of Obligations or any series of Related Bonds secured by Obligations, and not the Holders, will have the right to control proceedings with respect thereto in the manner described in this Section.

#### **Waiver of Event of Default (*Section 4.09*)**

(a) No delay or omission of the Master Trustee or of any Holder to exercise any right or power accruing upon any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by the Article of the Master Trust Indenture relating to Events of Default to the Master Trustee and the Holders, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee, with the consent of the Credit Facility Issuer, if any, of any affected Obligations or Related Bonds may waive any Event of Default which in its opinion will have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Trust Indenture, or before the completion of the enforcement of any other remedy thereunder.

(c) Notwithstanding anything contained in the Master Trust Indenture to the contrary, the Master Trustee, upon the written request of the Holders of not less than a majority of the aggregate principal amount of Obligations then Outstanding, with the consent of the Credit Facility Issuer, if any, of any affected Obligations or Related Bonds, will waive any Event of Default under the Master Trust Indenture and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) of the section captioned “Acceleration; Annulment of Acceleration” herein, a default in the payment of the principal of, premium, if any, or interest on any Obligation, when the same will become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Obligations (with respect to which such payment default exists) at the time Outstanding.

(d) In case of any waiver by the Master Trustee of an Event of Default under the Master Trust Indenture, the Members of the Obligated Group, the Master Trustee and the Holders will be restored to their former positions and rights thereunder, respectively, but no such waiver will extend to any subsequent or other Event of Default or impair any right consequent thereon.

#### **Appointment of Receiver (*Section 4.10*)**

Upon the occurrence of any Event of Default, unless the same shall have been waived as provided in the Master Trust Indenture, the Master Trustee shall be entitled as a matter of right if it shall so elect, (i) forthwith and without declaring the Obligations to be due and payable, (ii) after declaring the same to be due and payable, or (iii) upon the commencement of an action to enforce the specific performance of the Master Trust Indenture or in aid thereof or upon the commencement of any other judicial proceeding to enforce any right of the Master Trustee or the Holders, to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group with such powers as the court making such appointment will confer. Each Member of the Obligated Group, respectively, consents and agrees, and will if requested by the Master Trustee consent and agree at the time of application by the Trustee for appointment of a receiver of its Property, to the appointment of such receiver of its Property and that such receiver may be given the right, power and authority, to the extent the same may lawfully be given, to take possession of and operate and deal with such Property and the revenues, profits and proceeds therefrom, with like effect as the Member of the Obligated Group could do so, and to borrow money and issue evidences of indebtedness as such receiver.



#### **Notice of Default (Section 4.12)**

The Master Trustee will, within 10 days after it has actual knowledge of the occurrence of an Event of Default, mail, by first class mail, to all Holders as the names and addresses of such Holders appear upon the books of the Master Trustee, notice of such Event of Default known to the Master Trustee, unless such Event of Default will have been cured before the giving of such notice; provided that, except in the case of default in the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified in subsections (e) and (f) under the heading “Events of Default”, the Master Trustee will be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or any responsible officer of the Master Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

#### **Removal and Resignation of the Master Trustee (Section 5.04)**

The Master Trustee may resign on its motion or may be removed at any time by an instrument or instruments in writing signed by the Holders of not less than a majority of the principal amount of Obligations then Outstanding or, if no Event of Default will have occurred and be continuing, by an instrument in writing signed by the Obligated Group Representative. No such resignation or removal will become effective unless and until a successor Master Trustee (or temporary successor trustee as provided below) has been appointed and has assumed the trusts created by the Master Trust Indenture. Written notice of such resignation or removal will be given to the Members of the Obligated Group and to each Holder by first class mail at the address then reflected on the books of the Master Trustee and such resignation or removal will take effect upon the appointment and qualification of a successor Master Trustee. A successor Master Trustee may be appointed by the Obligated Group Representative or, if no such appointment is made by the Obligated Group Representative within 30 days of the date notice of resignation or removal is given, the Holders of not less than a majority in aggregate principal amount of Obligations Outstanding. In the event a successor Master Trustee has not been appointed and qualified within 60 days of the date notice of resignation is given, the Master Trustee, any Member of the Obligated Group or any Holder may apply to any court of competent jurisdiction for the appointment of a temporary successor Master Trustee to act until such time as a successor is appointed as above provided.

Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee will be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least \$50,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

Every successor Master Trustee howsoever appointed under the Master Trust Indenture will execute, acknowledge and deliver to its predecessor and also to each Member of the Obligated Group an instrument in writing, accepting such appointment under the Master Trust Indenture, and thereupon such successor Master Trustee, without further action, will become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and such predecessor will execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of such predecessor. The predecessor Master Trustee will execute any and all documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee will promptly deliver all material records relating to the trust or copies thereof and, on request, communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

Each successor Master Trustee, not later than 10 days after its assumption of the duties under the Master Trust Indenture, will mail a notice of such assumption to each registered Holder.

#### **Supplements Not Requiring Consent of Holders (Section 6.01)**

Each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee may, without the consent of or notice to any of the Holders enter into one or more Supplements for one or more of the following purposes:

- (a) To cure any ambiguity or formal defect or omission in the Master Trust Indenture.
- (b) To correct or supplement any provision in the Master Trust Indenture which may be inconsistent with any other provision therein, or to make any other provisions with respect to matters or questions arising under the Master Trust Indenture and which will not materially and adversely affect the interests of the Holders.
- (c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the provisions of the Master Trust Indenture.
- (d) To qualify the Master Trust Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect.
- (e) To create and provide for the issuance of Indebtedness or the entry into a Derivative Agreement (including, in either case, the issuance of an Obligation in respect thereof) as permitted under the Master Trust Indenture, so long as no Event of Default has occurred and is continuing thereunder.
- (f) To obligate a successor to any Member of the Obligated Group as provided in the provisions described under the heading "Parties Becoming Members of the Obligated Group".
- (g) To comply with the provisions of any federal or state securities law.
- (h) So long as no Event of Default has occurred and is continuing under the Master Trust Indenture and so long as no event which with notice or the passage of time or both would become an Event of Default under the Master Trust Indenture has occurred and is continuing, to make any change to the provisions of the Master Trust Indenture (except as set forth below) if the following conditions are met:

(i) the Obligated Group Representative delivers to the Master Trustee prior to the date such amendment is to take effect either (A)(1) a Consultant's report to the effect that the proposed amendment is consistent with then current industry standards for comparable institutions and (2) an Officer's Certificate of the Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for the most recent period of 12 consecutive calendar months preceding the date of delivery of the report for which there are Audited Consolidated Financial Statements available was at least 1.75; or (B) evidence satisfactory to the Master Trustee to the effect that (i) there exists for each Related Bond or Obligation, which is not pledged to secure Related Bonds, credit enhancement consisting of a surety bond, insurance policy, letter of credit or other form of credit enhancement from a financial institution generally regarded as responsible (in each case which is irrevocable and will remain in full force and effect for the entire period of time each such Related Bond or Obligation, as the case may be, remains outstanding and provides for payment in full of principal and interest on such Related Bond or Obligation when due) or the Obligated Group has delivered, respectively, to each Related Bond Trustee for each outstanding Related Bond, each trustee for any outstanding Obligation which is not pledged to secure Related Bonds and each Holder of an outstanding Obligation which is not pledged to secure Related Bonds and with respect to which there is no trustee, credit enhancement of the types described above in this subsection, and (ii) evidence satisfactory to the Master Trustee from each rating agency then rating each such Related Bond and Obligation that, on the date the proposed change is to take effect, each such Related Bond and Obligation rated by such rating agency will be rated based on such credit enhancement not lower than the rating applicable to such Related Bond or Obligation on the day prior to the effective date of such change; and

(ii) if any series of Obligations or Related Bonds are rated based on credit enhancement of such Obligations or Related Bonds (whether in the form of a financial guaranty insurance policy, letter of credit, surety bond or otherwise) and not on the underlying credit of the Obligated Group, the issuer of such credit enhancement will consent in writing to such amendment or modification; and

(iii) with respect to each outstanding Related Bond, an Opinion of Bond Counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee) to the effect that the proposed change will not adversely affect the validity of any Related Bond or any exclusion from gross income for federal income taxation purposes of interest payable thereon to which such Bond would otherwise be entitled;

*provided, however*, that no amendment will be made pursuant to this clause (h) which would have the effect, directly or indirectly, of changing or providing an alternative to (1) any provision of the Master Trust Indenture requiring the maintenance or demonstration of a Long-Term Debt Service Coverage Ratio, except to reduce such ratio, but in no event will such ratio be reduced to less than 1.10 (or less than 1.00 if Governmental Restrictions make it impossible for a Long-Term Debt Service Coverage Ratio, of at least 1.10 to be maintained or demonstrated), (2) the definition of any term used in the calculation of the Long-Term Debt Service Coverage Ratio, or the amount of Long-Term Indebtedness or Short-Term Indebtedness, or the definitions of Affiliate, Audited Consolidated Financial Statements, Book Value, Non-Recourse Indebtedness, Operating Assets, Property, Plant and Equipment or Total Operating Revenues, or (3) Sections 3.01, 3.02(a), 3.05(b)(xii), 3.05(b)(xvi), 3.05(b)(xvii), 3.06(a)(i)(A), 3.08(a)(ii), 3.08(a)(iii), 3.09, 3.11, 3.12, 4.01 through 4.12, inclusive, 5.04, 6.01(h), 6.02(a), 7.01 or 8.02 of the Master Trust Indenture.

(i) To make any changes to the Master Trust Indenture in the event the Obligated Group Representative determines that a change in generally accepted accounting principles will create a lasting impediment upon the Members of the Obligated Group's ability to comply with the provisions of any quantitative financial provisions or requirements of the Master Trust Indenture, which changes to the Master Trust Indenture relate to any such quantitative provisions or requirements and the related definitions upon which the calculations included in such provisions or requirements are based, to provide for similar financial and economic measures of the performance of the Members of the Obligated Group, but only with the prior written consent of certain Credit Facility Issuers.

#### **Supplements Requiring Consent of Holders (Section 6.02)**

(a) Other than Supplements referred to under the heading "Supplements Not Requiring Consent of Holders" and subject to the terms and provisions and limitations contained in the Article of the Master Trust Indenture relating to amendments and supplements to the Master Trust Indenture and not otherwise, the Holders of not less than 51% in aggregate principal amount of Obligations then Outstanding will have the right, with consent of each Credit Facility Issuer insuring Obligations or Related Bonds, from time to time, anything contained in the Master Trust Indenture to the contrary notwithstanding, to consent to and approve the execution by each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, and the Trustee of such Supplements as will be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Trust Indenture; provided, however, nothing in this Section will permit or be construed as permitting a Supplement which would:

(i) Effect a change in the times, amounts or currency of payment of the principal of, premium, if any, and interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of such Obligation;

(ii) Except as otherwise permitted in the Master Trust Indenture or an existing Supplement, permit the preference or priority of any Obligation over any other Obligation, without the consent of the Holders of all Obligations then Outstanding; or

(iii) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Obligations then Outstanding.

(b) If at any time each Member of the Obligated Group will request the Master Trustee to enter into a Supplement pursuant to this Section, which request is accompanied by a copy of the resolution or other action of its

Governing Body certified by its secretary or assistant secretary or if it has no secretary or assistant secretary, its comparable officer, and the proposed Supplement and if the Master Trustee receives an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount or number of Obligations specified in subsection (a) of this Section for the Supplement in question which instrument or instruments will refer to the proposed Supplement and will specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee, thereupon, but not otherwise, the Master Trustee may execute such Supplement in substantially such form, without liability or responsibility to any Holder, whether or not such Holder will have consented thereto.

(c) Any such consent will be binding upon the Holder giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Supplement, such revocation and, if such Obligation is transferable by delivery, proof that such Obligation is held by the signer of such revocation in the manner permitted by the Master Trust Indenture. At any time after the Holders of the required principal amount or number of Obligations will have filed their consents to the Supplement, the Master Trustee will make and file with each Member of the Obligated Group a written statement to that effect. Such written statement will be conclusive that such consents have been so filed.

(d) If the Holders of the required principal amount of the Obligations Outstanding will have consented to and approved the execution of such Supplement as provided in the Master Trust Indenture, no Holder will have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or any Member of the Obligated Group from executing the same or from taking any action pursuant to the provisions thereof.

#### **Satisfaction and Discharge of Indenture (*Section 7.01*)**

If (i) the Obligated Group Representative will deliver to the Master Trustee for cancellation all Obligations theretofore authenticated (other than any Obligations which will have been mutilated, destroyed, lost or stolen and which will have been replaced or paid as provided in the Supplement) and not theretofore cancelled, or (ii) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation will have become due and payable and money sufficient to pay the same will have been deposited with the Master Trustee, or (iii) all Obligations that have not become due and payable and have not been cancelled or delivered to the Master Trustee for cancellation will be Defeased Obligations, and if in all cases the Members of the Obligated Group will also pay or cause to be paid all other sums payable under the Master Trust Indenture by the Members of the Obligated Group or any thereof, then the Master Trust Indenture will cease to be of further effect, and the Master Trustee, on demand of the Members of the Obligated Group and at the cost and expense of the Members of the Obligated Group, will execute proper instruments acknowledging satisfaction of and discharging the Master Trust Indenture. Each Member of the Obligated Group, respectively, agrees to reimburse the Master Trustee for any costs or expenses theretofore and thereafter reasonably and properly incurred by the Master Trustee in connection with the Master Trust Indenture or such Obligations.

#### **Evidence of Acts of Holders (*Section 8.01*)**

Except as otherwise provided in a Related Bond Indenture, in the event that any request, direction or consent is requested or permitted under the Master Trust Indenture of the Holders of any Obligation securing an issue of Related Bonds, (i) each Related Bond Issuer shall be deemed to be such Holder for the purpose of any such request, direction or consent, or (ii) in the event such series of Related Bonds or Obligation is secured by a Credit Facility, so long as the issuer of such Credit Facility is not then in default on its obligations under such Credit Facility, the Credit Facility Issuer shall be deemed to be the Holder of such Obligation or Obligations pledged as security for such Related Bonds.

**APPENDIX C-3**

**THE SPRINGING AMENDMENTS TO THE MASTER TRUST INDENTURE**

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## THE SPRINGING AMENDMENTS TO THE NORTHWELL MASTER TRUST INDENTURE

The springing amendments to the Northwell Master Trust Indenture (all, some or none of which may become effective in the future, as described in the forepart of this Offering Memorandum) would be as follows (with deletions being evidenced by a strikethrough and additions being underlined):

1. **New Definitions.** The following definitions would be added to Section 1.01 of the Master Indenture:

“Bond Index” means, at the option of the Obligated Group Representative as directed by an Officer’s Certificate, either (i) the average rate on the Indebtedness in question during any twelve-month period ending within thirty (30) days prior to the date of calculation (or such lesser time period as such Indebtedness has been Outstanding), (ii) the average rate of a comparable variable rate interest index during any twelve-month period ending within thirty (30) days prior to the date of calculation (or such lesser time period as such comparable index has been determined), (iii) the 30-year Revenue Bond Index published most recently by The Bond Buyer, or a comparable index if such Revenue Bond Index is not so published, (iv) the SIFMA Index, or (v) such other interest rate or interest index as may be certified in writing to the Master Trustee as appropriate to the situation by the Obligated Group Representative.

“SIFMA” means the Securities Industry and Financial Markets Association, any successor thereto, or any person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Obligated Group Representative.

“SIFMA Index” means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations (the SIFMA Municipal Swap Index), as produced by Municipal Market Data and published or made available by SIFMA, or any person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Obligated Group Representative, and effective from such date.

“Transaction Test” means the Master Trustee shall have received any one of the following:

(i) an Officer’s Certificate demonstrating that the Long-Term Debt Service Coverage Ratio for the most recent twelve (12) full consecutive calendar months for which there are Audited Consolidated Financial Statements available, assuming that the proposed additional Long-Term Indebtedness had been incurred, or that the proposed transaction had occurred, at the beginning of the most recent twelve (12) full consecutive calendar months for which there are Audited Consolidated Financial Statements available, is not less than 1.10; or

(ii) an Officer’s Certificate demonstrating (a) that the Long-Term Debt Service Coverage Ratio for the most recent twelve (12) full consecutive calendar months for which there are Audited Consolidated Financial Statements available was not less than 1.10, and (b) that the Long-Term Debt Service Coverage Ratio for each of the two full Fiscal Years following the computation then being made, or if later, following the estimated date of completion of the capital improvements or expenditures, if any, then being financed, is projected to be not less than 1.10 or, if less than 1.10 but at least 1.00, is projected to be greater than such ratio would have been if the proposed transaction had not taken place; or

(iii) an Officer’s Certificate demonstrating that immediately after the proposed transaction the aggregate principal amount of all outstanding Long-Term Indebtedness of the Members of the Obligated Group (excluding any Guaranty) will not exceed sixty-five percent (65%) of the sum of (a) the aggregate principal amount of all outstanding Long-Term

Indebtedness of the Members of the Obligated Group (excluding any Guaranty) plus (b) the aggregate net assets of the Members of the Obligated Group.

2. **Amended Definition — Balloon Long-Term Indebtedness.** The definition of “Balloon Long-Term Indebtedness” in Section 1.01 of the Master Indenture would be amended to change the reference to “25%” therein to “15%”, as follows:

“Balloon Long-Term Indebtedness” means Long-Term Indebtedness other than a Demand Obligation ~~25%~~ 15% or more of the principal amount of which is due in a single year, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by redemption prior to such date.

3. **Amended Definition — Days Cash on Hand.** The definition of “Days Cash on Hand” in the Master Indenture would be amended by deleting the phrase “marketable securities and other” in Clause (i) of such definition, as follows:

“Days Cash On Hand” means, for purposes of Sections 18 and 19 of the Series 2011 Supplemental Indenture, for the Obligated Group, as of any date, the product of 365 times or ~~180~~ 183 times, as the case may be, (i) the unrestricted cash and cash equivalents plus unrestricted ~~marketable~~ securities and other unrestricted investments (in accordance with generally accepted accounting principles) as reflected in the financial statements of the Obligated Group as derived from the Audited Consolidated Financial Statements of the Health System, at December 31, and as reflected in the unaudited interim consolidated financial statements of the Obligated Group as derived from the unaudited financial statements of the Health System, at June 30, in each case plus board and management designated assets and interest funds in any trusteed funds which are to be applied to the current year’s interest expense, divided by (ii) the operating and non-operating expenses of the Obligated Group for the twelve or six months, as the case may be, excluding from such expenses: (a) depreciation and amortization of debt and bond issuance costs, (b) any amount included in the operating and non-operating expenses representing bad debt expense, and (c) any extraordinary or non-recurring item.

4. **Amended Definition — Long-Term Debt Service Requirement.** Clause (a) of Paragraph (i) of the definition of “Long-Term Debt Service Requirement” in the Master Indenture, relating to Balloon Long-Term Indebtedness, would be amended, as follows:

“Long-Term Debt Service Requirement” means, for any period of twelve (12) consecutive calendar months for which such determination is made, the aggregate of the payments to be made in respect of principal and interest (whether or not separately stated) on Outstanding Long-Term Indebtedness of the Obligated Group during such period, also taking into account:

(i) with respect to Balloon Long-Term Indebtedness which is not amortized by the terms thereof ~~(a) the amount of principal which would be payable in such period if such principal were amortized from the date of incurrence thereof over a period of thirty (30) years on a level debt service basis at an interest rate equal to the rate borne by such Indebtedness on the date calculated, except that if the date of calculation is within twelve (12) months of the actual maturity of such Indebtedness, the full amount of principal payable at maturity shall be included in such calculation~~ the amount of principal which would be payable in such period if such principal were amortized from the date of such calculation over a period of the longer of (I) thirty (30) years or (II) the remaining period to the final maturity of such Balloon Long-Term Indebtedness, in each case on a level debt service basis, and at an interest rate, at the option of the Obligated Group Representative, equal to either the actual rate borne by such Indebtedness on the date calculated, or an interest rate derived from the Bond Index, as such interest rate in either case may be determined by an Officer’s Certificate (in addition, the calculation of the Long-Term Debt Service Requirement for Outstanding Balloon Long-Term Indebtedness may be further adjusted upon delivery to the Master Trustee of (A) an Officer’s Certificate, dated within 90 days prior to the date of calculation of the Long-Term Debt Service Requirement, stating that financing of a stated term (which shall not extend



beyond 30 years after such date of calculation), amortization, and interest rate of Outstanding Balloon Long-Term Indebtedness is reasonably attainable by the Obligated Group to refund or otherwise directly or indirectly to refinance any amount of such Balloon Long-Term Indebtedness, in which case the principal of and premium, if any, and interest and other debt service charges on the amount of such Outstanding Balloon Long-Term Indebtedness so certified to be refundable or refinancable (whether or not any such refunding or refinancing is imminent) shall be excluded from the calculation of the Long-Term Debt Service Requirement and the principal of and premium, if any, and interest and other debt service charges (which need not be based upon level annual debt service) on the theoretical refunding or refinancing Indebtedness as so certified which would result from such theoretical refunding or refinancing if incurred on the first day of the Fiscal Year for which the Long-Term Debt Service Requirement is being calculated, shall be added to the calculation of such Long-Term Debt Service Requirement; and (B) an Officer's Certificate, accompanied by a written consent or agreement of the obligor on such Balloon Long-Term Indebtedness agreeing to retire (and such Balloon Long-Term Indebtedness shall permit the retirement of), or to fund a sinking fund or escrow for, the principal of such Balloon Long-Term Indebtedness according to a fixed schedule stated in such consent or agreement ending on or before the Fiscal Year in which such amount is due or could become due or payable in respect of any required purchase or maturity of such Balloon Long-Term Indebtedness, in which case the principal of (and, in the case of retirement, the premium, if any, and interest and other debt service charges on) such Balloon Long-Term Indebtedness shall be computed as if the same were due in accordance with such fixed schedule; provided that this clause (B) shall only be applicable to Outstanding Balloon Long-Term Indebtedness for which the installments of principal previously scheduled have been paid or funded on or before the times required by such previous schedule); or (b) principal payments or deposits with respect to Indebtedness secured by an irrevocable letter of credit issued by, or an irrevocable line of credit with, a bank rated at least "A" by Moody's, Fitch or S&P, or insured by an insurance policy issued by any insurance company rated at least "A" by Alfred M. Best Company or its successors in Best's Insurance Reports or its successor publication, nominally due in the last Fiscal Year in which such Indebtedness matures may, at the option of the Member of the Obligated Group which issued such Indebtedness, be treated as if such principal payments or deposits were due as specified in any loan or reimbursement agreement issued in connection with such letter of credit, line of credit or insurance policy or pursuant to the repayment provisions of such letter of credit, line of credit or insurance policy, and interest on such Indebtedness after such Fiscal Year shall be assumed to be payable pursuant to the terms of such loan or reimbursement agreement or repayment provisions;

(ii) with respect to Long-Term Indebtedness which is Variable Rate Indebtedness, the interest on such Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), except that with respect to new Variable Rate Indebtedness (and the incurrence thereof) the interest rate for such Indebtedness for the initial interest rate period shall be the initial rate at which such Indebtedness is issued and thereafter shall be calculated as set forth above;

(iii) with respect to any Credit Facility, to the extent that such Credit Facility has not been used or drawn upon, the principal and interest relating to such Credit Facility shall not be included in the Long-Term Debt Service Requirement;

(iv) with respect to any guaranties, in accordance with the Definition of "Guaranty" in Section 1.01 hereof;

(v) with respect to Indebtedness for which a Member of the Obligated Group shall have entered into a Derivative Agreement in respect of all or a portion of such Indebtedness, the principal or notional amount of such Derivative Agreement shall be disregarded, and interest on such Indebtedness during any Derivative Period and for so long as the counterparty of the Derivative Agreement has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by a Member of the Obligated Group on such underlying Indebtedness pursuant to its terms (provided that, with respect to new Variable Rate Indebtedness, and the incurrence thereof, the interest rate

for such Indebtedness for the initial interest rate period shall be the initial rate at which such Indebtedness is issued), and (y) the amount of interest payable by such Member of the Obligated Group under the Derivative Agreement (provided that, with respect to new Variable Rate Indebtedness, and the incurrence thereof, the interest rate for such Derivative Agreement for the initial interest rate period shall be the initial rate at which interest is payable under such Derivative Agreement), and subtracting (z) the amount of interest payable by the counterparty of the Derivative Agreement at the rate specified in the Derivative Agreement (provided that, with respect to new Variable Rate Indebtedness, and the incurrence thereof, the interest rate for such Derivative Agreement for the initial interest rate period shall be the initial rate at which interest is payable under such Derivative Agreement); *provided, however*, that to the extent that the counterparty of any Derivative Agreement is in default thereunder, the amount of interest payable by the Member of the Obligated Group shall be the interest calculated as if such Derivative Agreement had not been executed; and

(vi) with respect to a Derivative Agreement that does not relate to underlying Indebtedness which has been entered into by any Member of the Obligated Group, the principal or notional amount of such Derivative Agreement shall be disregarded (for so long as the Member of the Obligated Group is not required to make any payment other than interest payments thereon) and interest on such Derivative Agreement during any Derivative Period, for so long as the counterparty of the Derivative Agreement has not defaulted on its payment obligations thereunder, shall be calculated by taking (y) the amount of interest payable by such Member of the Obligated Group at the rate specified in the Derivative Agreement and subtracting (z) the amount of interest payable by the counterparty of the Derivative Agreement at the rate specified in the Derivative Agreement;

*provided, however*, that Escrowed Interest and Escrowed Principal shall be excluded from the determination of Long-Term Debt Service Requirement; provided, further, however, that in connection with the calculation of “Long-Term Debt Service Requirement”, in no event shall any payments to be made in respect of principal and/or interest on any Outstanding Long-Term Indebtedness of the Obligated Group during such period be counted more than once.

5. **Accounting Changes and Flexibility.** A new Section 1.03 would be added to the Master Indenture, as follows:

Section 1.03. Accounting Principles and Financial Reporting. (a) All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles consistently applied, except as otherwise stated herein. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation, combination or other accounting computation is required to be made for the purposes of this Master Indenture or any agreement, document or certificate executed and delivered in connection with or pursuant to this Master Indenture, then, notwithstanding any other provision to the contrary in this Master Indenture requiring that generally accepted accounting principles be consistently applied, such determination or computation shall be done in accordance with generally accepted accounting principles in effect on, at the sole option of the Obligated Group Representative, (i) the date such determination or computation is made for any purpose of this Master Indenture, (ii) September 1, 2017, or (iii) the date that this Section 1.03 becomes effective if the Obligated Group Representative delivers an Officer’s Certificate to the Master Trustee explaining the basis for such treatment; provided that intercompany balances and liabilities among the Members of the Obligated Group shall be disregarded.

(b) Notwithstanding anything else in this Master Indenture to the contrary, in addition to those provisions of this Master Indenture which expressly permit the use of financial or other information on the basis of the Health System, in computing or calculating Balloon Long-Term Indebtedness, Book Value, Days Cash on Hand, Income Available for Debt Service, Indebtedness, Long-Term Debt Service Coverage Ratio, Long-Term Debt Service Requirement, Maximum Annual Debt Service, Operating Assets, Property, Plant and Equipment, Total Operating Revenues, Transaction Test or any other quantitative financial test or provision, the Obligated Group, at the option of the Obligated Group Representative, may, unless the context specifically requires otherwise, utilize financial and other information either (i) with respect to the Members of the Obligated Group in the aggregate or (ii), so long

as the Obligated Group constitutes or is responsible for at least eighty percent (80%) of the assets or revenues of the Health System for the most recent Fiscal Year of the Health System, with respect to the Health System in the aggregate, with such percentage being calculated in a manner that excludes intercompany eliminations from the numerator of such calculation.

(c) The Members of the Obligated Group shall not be required to have the same Fiscal Year, and calculations of covenants in this Master Indenture may be made based upon any such differing Fiscal Years in the event that Members of the Obligated Group have differing Fiscal Years, notwithstanding anything to the contrary in this Master Indenture or in the definition of Fiscal Year in Section 1.01 of this Master Indenture.

(d) The provisions of this Section 1.03 shall be applicable and effective notwithstanding the provisions of Section 1.02(c), (f) and (g) hereof.

6. **Permitted Liens.** Section 3.05 of the Master Indenture, relating to Permitted Liens, would be amended by adding new Paragraphs (b)(xxi), (xxii) and (xxiii) thereto, and by amending Paragraph (ix) and (x) thereto, as follows:

Section 3.05. Limitations on Creation of Liens. (a) Each Member of the Obligated Group agrees that it will not create or suffer to be created or permit the existence of any Lien on Property now owned or hereafter acquired by it other than Permitted Liens.

(b) Permitted Liens shall consist of the following:

(i) Liens arising by reason of good faith deposits by any Member of the Obligated Group in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member of the Obligated Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(ii) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or anybody created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member of the Obligated Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(iii) Any judgment lien against any Member of the Obligated Group so long as such judgment is being contested in good faith and execution thereon is stayed;

(iv) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than 180 days; and (C) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof.

(v) Any Lien which is existing on the date of authentication and delivery of the initial Obligation issued under this Master Indenture, which is set forth on Schedule A attached hereto, provided that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date or to secure Indebtedness not Outstanding as of the date hereof, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien hereunder;

(vi) Any Liens of a new Member or a successor to an existing Member that is permitted to remain outstanding after such new Member or successor becomes a Member of the Obligated Group pursuant to Sections 3.09(e) or 3.11(e) hereof;

(vii) Any Lien securing Non-Recourse Indebtedness permitted by Section 3.06(d) hereof;

(viii) Any Lien on Property acquired by a Member of the Obligated Group if the indebtedness secured by the Lien is Additional Indebtedness permitted under the provisions of Section 3.06 hereof, and if an Officer's Certificate is delivered to the Master Trustee certifying that (A) the Lien and the indebtedness secured thereby were created and incurred by a Person other than the Member of the Obligated Group, and (B) the Lien was not created for the purpose of enabling the Member of the Obligated Group to avoid the limitations hereof on creation of Liens on Property of the Obligated Group;

(ix) ~~So long as no Event of Default exists under this Master Indenture,~~ Any Lien on accounts receivable and the proceeds from the sale thereof securing Indebtedness or Derivative Agreements, which conforms to the limitations contained in Section 3.06;

(x) Any Lien on Property which secures Indebtedness or Derivative Agreements or any other obligations or liabilities of a Member of the Obligated Group that do not exceed the greater of (i) in aggregate 20% of Total Operating Revenue or (ii) in aggregate 20% of the combined Book Value of the Property of the Obligated Group, in either case as reflected in the most recent Audited Consolidated Financial Statements of the Obligated Group;

(xi) Any Lien in favor of a creditor or a trustee on the proceeds of Indebtedness and any earnings thereon prior to the application of such proceeds and such earnings;

(xii) Any Lien in favor of a trustee or other agent on the proceeds of Indebtedness and any earnings thereon created by the irrevocable deposit of such monies for the purpose of refunding or defeasing Indebtedness;

(xiii) Any Lien securing all Obligations on a parity basis;

(xiv) Liens on moneys deposited by patients or others with any Member of the Obligated Group as security for or as prepayment for the cost of patient care;

(xv) Liens on Property received by any Member of the Obligated Group through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;

(xvi) Liens on those items described in, or the right to receive the items described in, clauses (x), (y) and (z) of the definition of Gross Receipts in Section 1.01 hereof;

(xvii) Liens on Property due to rights of third party payors for recoupment of amounts paid to any Member of the Obligated Group;

(xviii) Any Lien created in the Related Loan Agreements;

(xix) The Mortgages; ~~and~~

(xx) Any Lien on Excluded Property;

(xxi) Any Lien securing any Derivative Agreement or the obligations of any one or more Members of the Obligated Group under any Derivative Agreement, in each case which Derivative Agreement is related to Indebtedness (including any obligation arising upon the termination of any such Derivative Agreement), or that may be required from time to time to satisfy any collateralization requirements under any such Derivative Agreement;

(xxii) Any Lien in the nature of a bankers' lien or rights of set-off; and

(xxiii) Any Lien in favor of any members of, or participants in, an accountable care organization or similar arrangement to which a Member of the Obligated Group is a member or participant.

7. **Permitted Debt.** Section 3.06 of the Master Indenture, relating to Additional Indebtedness, would be amended by deleting a proviso in Paragraph (c) thereof, as follows:

Section 3.06. Limitations on Indebtedness. Each Member of the Obligated Group covenants and agrees that it will not incur any Additional Indebtedness if, after giving effect to all other Indebtedness incurred by the Obligated Group, such Indebtedness could not be incurred pursuant to any one of subsections (a) to (g) inclusive, of this Section 3.06. Any Indebtedness may be incurred only in the manner and pursuant to the terms set forth in such subsections. Each Member of the Obligated Group further covenants and agrees that it will not incur any Additional Indebtedness without the written consent of the Obligated Group Representative, as evidenced by an Officer's Certificate to be delivered to the Master Trustee prior to the incurrence of such Additional Indebtedness in accordance with the requirements of Section 2.01 hereof, and a certified resolution of the Governing Board of such Member of the Obligated Group.

(a) Long-Term Indebtedness may be incurred if prior to incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee:

(i) An Officer's Certificate of the Obligated Group Representative certifying that:

(A) The cumulative principal amount of all Long-Term Indebtedness incurred pursuant to this subsection 3.06(a)(i)(A) does not exceed 20% of Total Operating Revenues, or

(B) The Long-Term Debt Service Coverage Ratio for the most recent twelve (12) full consecutive calendar months for which there are Audited Consolidated Financial Statements available, taking all Long-Term Indebtedness incurred after such period and the proposed Long-Term Indebtedness into account as if such Long-Term Indebtedness had been incurred at the beginning of such period, is not less than 1.20; or

(ii) (1) an Officer's Certificate of the Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for the most recent twelve (12) full consecutive calendar months for which there are Audited Consolidated Financial Statements available, excluding the proposed Long-Term Indebtedness, is at least 1.20 and (2) a written report of a Consultant demonstrating that the forecasted Long-Term Debt Service Coverage Ratio is not less than 1.20 for (x) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, each of the two full Fiscal Years succeeding the date on which such capital improvements are forecasted to be in operation or (y) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, each of the two full Fiscal Years succeeding the date on which the Indebtedness is incurred, as shown by pro forma financial statements for the Obligated Group for each such period, accompanied by a statement of the relevant assumptions upon which such pro forma financial statements for the Obligated

Group are based; provided, however, that compliance with the tests set forth in this Section 3.06(a)(ii) may be evidenced by a certificate of the Obligated Group Representative in lieu of a Consultant's report where the Long-Term Debt Service Coverage Ratio set forth in this Section 3.06(a)(ii)(2) is equal to or greater than 1.50; provided, however, that if the report of a Consultant states that Governmental Restrictions have been imposed which make it impossible for the coverage requirements of this subsection to be met, then such coverage requirements shall be reduced to the maximum coverage permitted by such Governmental Restrictions but in no event less than 1.00.

(b) Long-Term Indebtedness incurred for the purpose of refunding any Outstanding Long-Term Indebtedness may be incurred if, prior to the incurrence of such Long-Term Indebtedness, (i) the Long-Term Indebtedness to be incurred does not constitute Cross-over Refunding Indebtedness, and there is delivered to the Master Trustee (A) an Officer's Certificate of the Obligated Group Representative demonstrating that Maximum Annual Debt Service will not increase by more than 15% after the incurrence of such proposed refunding Long-Term Indebtedness and after giving effect to the disposition of the proceeds thereof and (B) an Opinion of Counsel stating that upon the incurrence of such Proposed Long-Term Indebtedness and application of the proceeds thereof, the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding; or (ii) the Indebtedness proposed to be issued is Cross-over Refunding Indebtedness, and there is delivered to the Master Trustee a certificate of the Obligated Group Representative stating that the total Maximum Annual Debt Service on the proposed Cross-over Refunding Indebtedness and the Related Cross-over Refunded Indebtedness, immediately after the issuance of the proposed Cross-over Refunding Indebtedness, will not exceed the Maximum Annual Debt Service on the Cross-over Refunded Indebtedness alone, immediately prior to the issuance of the Cross-over Refunding Indebtedness, by more than 15%.

(c) Short-Term Indebtedness may be incurred in the ordinary course of business subject to the limitation that the aggregate of all Short-Term Indebtedness shall not at any time exceed 20% of Total Operating Revenues as reflected in the Audited Consolidated Financial Statements of the Obligated Group for the most recent period of twelve consecutive months for which Audited Consolidated Financial Statements are available; provided, ~~however, if Related Bonds issued by the Authority are Outstanding, the Obligated Group must first obtain the written consent of the Authority prior to issuing Short-Term Indebtedness in excess of 15% of Total Operating Revenues for the most recent period of twelve consecutive months for which Audited Consolidated Financial Statements are available; and provided further~~ that there shall be a period of at least 30 consecutive calendar days during each such period of twelve consecutive calendar months for which Audited Consolidated Financial Statements are available during which Short-Term Indebtedness shall not exceed 5% of Total Operating Revenues. For purposes of this Section 3.06(c), a Guaranty of Short-Term Indebtedness shall be valued at 20% of the aggregate principal amount of the Short-Term Indebtedness guaranteed so long as no payments are required to be made thereunder and so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles; provided that in the event such Guaranty shall be drawn upon, such Guaranty shall be valued at 100% of the aggregate principal amount of the Short-Term Indebtedness guaranteed. For the purpose of calculating compliance with the tests set for in this subsection 3.06(c), Short-Term Indebtedness secured by accounts receivable shall not be taken into account except to the extent provided in subsection 3.06(f) hereof.

(d) Non-Recourse Indebtedness may be incurred without limit.

(e) Subordinated Debt may be incurred without limit.

(f) Short-Term Indebtedness secured by accounts receivable may be incurred within the limitations imposed on the pledge or sale of accounts receivable, as provided in the last paragraph of this Section 3.06; provided that at the time of incurrence, the outstanding principal amount of such Short-Term Indebtedness is less than or equal to the fair market value of the accounts receivable pledged to secure such Short-Term Indebtedness. At any time that the outstanding principal amount of such Short-Term Indebtedness is greater than the fair market value of the accounts receivable pledged to secure such Short-Term Indebtedness, the excess amount shall be treated as Short-Term Indebtedness for the purposes of the tests set forth in subsection 3.06(c) hereof.

(g) Indebtedness may be incurred in an amount limited to the cost of completion for the purpose of financing the completion of the acquisition or construction of a Capital Addition with respect to which

Indebtedness has theretofore been incurred, provided there shall be delivered to the Master Trustee (i) a certificate of the Obligated Group Representative to the effect that the Obligated Group Representative did reasonably expect at the time the initial Indebtedness was incurred that the proceeds of such Indebtedness, together with other available funds, would be sufficient to complete the Capital Addition, (ii) a licensed architect's or licensed engineer's certificate to the effect that the proceeds of such additional Indebtedness will be sufficient to complete the Capital Addition and (iii) the amount of such Indebtedness is limited to the costs identified in (i) above plus necessary reserves and costs related to issuance of such Indebtedness.

Indebtedness incurred pursuant to any one of subsections (a)(i) of this Section 3.06 may be reclassified as Indebtedness incurred pursuant to any other of such subsections if the tests set forth in the subsection to which such Indebtedness is to be reclassified are met at the time of such reclassification.

Indebtedness containing a "put" or "tender" provision pursuant to which the holder of such Indebtedness may require that such Indebtedness be purchased prior to its maturity shall not be considered Balloon Long-Term Indebtedness, solely by reason of such "put" or "tender" provision, and the put or tender provision shall not be taken into account in testing compliance with any debt incurrence test pursuant to this Section 3.06.

Accounts receivable of any Member or Members may be sold, pledged, assigned or otherwise disposed or encumbered in accordance herewith in an aggregate amount not exceeding 75% of the three month average outstanding accounts receivable of the Obligated Group that are ninety days old or less as calculated in accordance with generally accepted accounting principles. The three month average shall be calculated based on the month end available balances for the three full calendar months immediately preceding the date on which such accounts receivable are sold, pledged, assigned or otherwise disposed or encumbered. Accounts receivable that are more than ninety days old may not be sold, pledged, assigned or otherwise disposed or encumbered.

8. **Additional Permitted Dispositions.** Section 3.08 of the Master Indenture, relating to dispositions, would be amended by adding two new Paragraphs (a)(vii) and (a)(viii) thereto, as follows:

Section 3.08. Sale, Lease or Other Disposition of Operating Assets; Disposition of Cash and Investments; Unsecured Loans to Non-Members; Sale of Accounts. (a) Each Member of the Obligated Group agrees that it will not transfer Property in any Fiscal Year (or other 12-month period for which Audited Consolidated Financial Statements are available) except for Transfers of Property:

(i) To any Person provided such Property has become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property.

(ii) To another Member of the Obligated Group without limit.

(iii) To any Person provided there shall be delivered to the Master Trustee prior to such Transfer an Officer's Certificate certifying that the Obligated Group is in compliance with Section 3.07 hereof and the Long-Term Debt Service Coverage Ratio, adjusted to exclude the revenues and expenses derived from the Operating Assets proposed to be disposed of, for the most recent period of twelve (12) full consecutive calendar months preceding the date of delivery of the Officer's Certificate for which the Audited Consolidated Financial Statements have been reported upon by independent certified public accountants (which period of twelve (12) full consecutive months shall have ended not more than eighteen (18) calendar months prior to the date of the Officer's Certificate) and such Long-Term Debt Service Coverage Ratio is not less than 1.20 and not less than sixty-five percent (65%) of what it would have been were such Transfer not to take place.

(iv) To any Person if the aggregate Book Value of the Property Transferred pursuant to this subsection (iv) in the current Fiscal Year does not exceed 10% of the Book Value of all Property of the Obligated Group as shown in the Audited Consolidated Financial Statements for the most recent Fiscal Year.

(v) To any Person if the Property Transferred pursuant to this subsection (v) was transferred in the ordinary course of business, and at fair and reasonable terms, no less favorable to the Member of the Obligated Group, which could have been attained in a comparable arms-length transaction; *provided further, however*, that the proceeds from such Property Transferred are used to acquire Property, used to repay Indebtedness, or used for any other corporate purpose of a Member or Members.

(vi) To a Person which at the time of the Transfer is not a Member of the Obligated Group or successor corporation pursuant to a merger or consolidation permitted by the Master Indenture, without limit, if such Person or successor corporation shall, at the time of such Transfer, become a Member of the Obligated Group pursuant to the Master Indenture.

(vii) To any affiliated physician or medical group practice provided that such transfer is used solely to subsidize or support salary and benefits of physician employees and ordinary course operating expenses of such group practice.

(viii) To any self-insurance trust or captive insurance company.

(b) Any Member of the Obligated Group will have the right to sell, pledge, assign or otherwise dispose of its accounts receivable, with or without recourse, if such Member of the Obligated Group shall receive as consideration for such sale, pledge, assignment or other disposition cash, services or Property equal to the fair market value of the accounts receivable so sold, as certified to the Master Trustee in an Officer's Certificate of such Member of the Obligated Group and if such sale, pledge, assignment or other disposition meets the limitations contained in the last paragraph of Section 3.06 hereof regarding the aggregate limit on the pledge, sale or other disposition or encumbrance of accounts receivable.

(c) Nothing contained in this Section 3.08 is intended to prohibit the Transfer of Property, including cash, for payment of goods and services in the ordinary course of business of, or for the acquisition of Property by, the Members of the Obligated Group.

9. **Allowing As-of-Right Mergers Between Obligated Group Members.** Section 3.09 of the Master Indenture would be amended by adding a new proviso at the end of Paragraph (a)(iv) thereof, as follows:

Section 3.09. **Consolidation; Merger; Sale or Conveyance.** (a) Each Member of the Obligated Group covenants that it will not merge or consolidate with, or sell or convey all or substantially all of its assets to any Person unless:

(i) Either a Member of the Obligated Group will be the successor corporation, or if the successor corporation is not a Member of the Obligated Group, such successor corporation shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation to assume the due and punctual payment of the principal of, premium, if any, and interest on all Outstanding Obligations issued under this Master Indenture according to their tenor and the due and punctual performance and observance of all the covenants and conditions of this Master Indenture and any Supplement hereto; and

(ii) No Member of the Obligated Group immediately after such merger or consolidation, or such sale or conveyance, would be in default in the performance or observance of any covenant or condition of this Master Indenture; and

(iii) If all amounts due or to become due on any Related Bond which bears interest which is not includable in the gross income of the recipient thereof under the Code have not been fully paid to the holder thereof, there shall have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of such Related Bond, would not adversely affect the exclusion of interest payable on such Related Bond from the gross income of the holder thereof for purposes of federal income taxation; and



(iv) There is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Representative demonstrating that (A) if such merger, consolidation or sale of assets had occurred at the beginning of the most recent period of twelve (12) full consecutive calendar months for which Audited Consolidated Financial Statements are available, the Long-Term Debt Service Coverage Ratio for such period would have been not less than 1.10, (B) if such merger, consolidation or sale of assets had occurred at the end of the most recent period of twelve (12) full consecutive calendar months for which Audited Consolidated Financial Statements are available (which period of twelve (12) full consecutive months shall have ended not more than eighteen calendar months prior to the date of the Officer's Certificate), the conditions described in Section 3.06(a)(i)(B) hereof would have been satisfied for the incurrence of an additional one dollar (\$1.00) of Additional Indebtedness, and (C) the unrestricted net assets plus temporarily restricted net assets of the successor, resulting or acquiring corporation, as the case may be, after giving effect to said merger or consolidation, or sale or conveyance of assets is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Member of the Obligated Group which was merged into, consolidated with or whose assets were acquired by, such successor corporation as reflected in the most recent Audited Consolidated Financial Statements; provided, however, that the provisions of this subparagraph (iv) shall not be required to be satisfied if the merger or consolidation is only between or among Members of the Obligated Group.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for its predecessor, with the same effect as if it had been named herein as such predecessor or had become a Member of the Obligated Group pursuant to Section 3.11 hereof, as the case may be. Such successor corporation thereupon may cause to be signed, and may issue in its own name Obligations issuable hereunder; and upon the order of such successor corporation and subject to all the terms, conditions and limitations in this Master Indenture prescribed, the Master Trustee shall authenticate and shall deliver Obligations that such successor corporation shall have caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued by such successor corporation hereunder shall in all respects have the same security position and benefit under this Master Indenture as Outstanding Obligations theretofore or thereafter issued in accordance with the terms of this Master Indenture as though all of such Obligations had been issued hereunder without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued under this Master Indenture as may be appropriate.

(d) In the event that the Officer's Certificate described in subparagraph (a)(iv) hereof has been delivered, the Master Trustee may accept an Opinion of Counsel (not an employee of a Member of the Obligated Group or an Affiliate in this case) as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of this Section and that it is proper for the Master Trustee under the provisions of Article VI and of this Section to join in the execution of any instrument required to be executed and delivered by this Section.

(e) Any Indebtedness previously incurred by the Person or successor corporation becoming a Member of the Obligated Group pursuant to this Section 3.09 shall be permitted to remain outstanding, and any lien or security interest securing such Indebtedness shall be permitted to remain in effect if such Indebtedness could have been incurred pursuant to the provisions of Sections 3.06 hereof immediately after such Person or successor corporation became a Member of the Obligated Group.

(f) All references herein to successor corporations shall be deemed to include the surviving corporation in a merger.

10. **Fiscal Year.** The provisions of Section 3.11(a)(ii) of the Master Indenture, which reads “(ii) to adopt the same Fiscal Year as that of the Members of the Obligated Group”, would be deleted, as follows:

Section 3.11. **Parties Becoming Members of the Obligated Group.** Persons which are not Members of the Obligated Group and corporations which are successor corporations to any Member of the Obligated Group through a merger or consolidation permitted by Section 3.09 hereof may, with the prior written consent of the Obligated Group Representative, become Members of the Obligated Group, if:

(a) The Person or successor corporation which is becoming a Member of the Obligated Group shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee containing the agreement of such Person or successor corporation (i) to become a Member of the Obligated Group under this Master Indenture and any Supplements and thereby become subject to compliance with all provisions of this Master Indenture and any Supplements pertaining to a Member of the Obligated Group, and the performance and observance of all covenants and obligations of a Member of the Obligated Group hereunder, ~~(ii) to adopt the same Fiscal Year as that of the Members of the Obligated Group~~ and (ii) unconditionally and irrevocably guarantee to the Master Trustee and each other Member of the Obligated Group that all Obligations issued and then Outstanding or to be issued and Outstanding hereunder will be paid in accordance with the terms thereof and of this Master Indenture when due.

(b) Each instrument executed and delivered to the Master Trustee in accordance with subsection (a) of this Section, shall be accompanied by an Opinion of Counsel, addressed to and satisfactory to the Master Trustee, each Related Bond Issuer and each Related Credit Facility Issuer, to the effect that such instrument has been duly authorized, executed and delivered by such Person or successor corporation and constitutes a valid and binding obligation enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency laws, other laws affecting creditors' rights generally, equity principles and laws dealing with fraudulent conveyances and that the obligations of such Person or successor corporation created thereunder include the requirements described in subsection (a).

(c) If all amounts due or to become due on any Related Bond which bears interest which is not includable in the gross income of the recipient thereof under the Code have not been paid to the Holders thereof, there shall be filed with the Master Trustee, (i) an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not adversely affect the exclusion of the interest on any such Related Bond from the gross income of the holder thereof for purposes of federal income taxation and (ii) an Opinion of Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not require the registration of any Obligations under the Securities Act of 1933, as amended or the Supplements under the Trust Indenture Act of 1939, as amended, or if such registration is required, that all applicable registration and qualification provisions of said acts have been complied with.

(d) An Officer's Certificate of the Obligated Group Representative shall be provided to the Master Trustee demonstrating that (i) after giving effect to the admission of such Person as a Member of the Obligated Group, the unrestricted net assets plus temporarily restricted net assets of such Person and the unrestricted net assets plus temporarily restricted net assets of the Obligated Group is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Obligated Group at the end of the Fiscal Year immediately preceding the year in which such Person shall become a member of the Obligated Group, and (ii) the conditions described in Section 3.06(a)(i)(B) hereof have been satisfied for the incurrence of an additional one dollar (\$1.00) of Additional Indebtedness, assuming that the Person or corporation which is becoming a Member of the Obligated Group had become a Member at the beginning of the most recent period of twelve (12) full consecutive calendar months for which Audited Consolidated Financial Statements are available (which period of twelve (12) full consecutive months shall have ended not more than eighteen (18) calendar months prior to the date of the Officer's Certificate).

(e) Any Indebtedness previously incurred by a new Member of the Obligated Group shall be permitted to remain outstanding, and any lien or security interest securing such Indebtedness shall be permitted to remain in effect if such Indebtedness could have been incurred pursuant to the provisions of Sections 3.06 hereof immediately after such Person became a Member of the Obligated Group.

11. **Allowing Elimination of Mortgages.** Section 3.13 of the Master Indenture would be amended by adding a new Paragraph (e) thereto, as follows:

Section 3.13. **Permitted Releases and Permitted Modifications with Respect to the Mortgages.**

(a) The Mortgages have been assigned or granted to the Master Trustee as additional security for all Obligations issued and to be issued under the Master Indenture. The Members of the Obligated Group covenant that except for Permitted Releases described in paragraph (b) of this Section 3.13 (which Permitted Releases shall also include a release to implement a sale and leaseback of a portion of the Mortgaged Property), the Members of the Obligated Group shall not release or allow the release of any of the Mortgaged Property encumbered by the Mortgages from the Lien of such Mortgages. The Members of the Obligated Group also covenant that, except for Permitted Modifications described in paragraph (c) of this Section 3.13, the Members of the Obligated Group shall not modify or amend any of the Mortgages.

(b) Permitted Releases shall include only the following:

(1) a release made with respect to a portion of the Mortgaged Property that is to be disposed of in conjunction with a Transfer of Property permitted under Section 3.08 of this Master Indenture (other than Section 3.08(a)(ii)); provided that (i) no such release shall be with respect to the primary healthcare facilities of any Member of the Obligated Group (primary healthcare facilities being any premises that include a building containing more than fifty (50) acute care inpatient beds that are licensed to any Member of the Obligated Group); (ii) any such release shall not, as determined in an Officer's Certificate of the Obligated Group Representative delivered to the Master Trustee and the Authority, impair the ability of the applicable Member of the Obligated Group to perform its functions as a Health Care Facility; and (iii) if the portion of the Mortgaged Property to be released was financed or refinanced with the proceeds of Related Bonds, there is delivered to the Master Trustee and the Authority an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such release, in and of itself, would not adversely affect the exclusion of interest payable on such Related Bonds from the gross income of the holder thereof for purposes of federal income taxation; or

(2) a release made with respect to a portion of the Mortgaged Property of a Member upon the withdrawal of such Member from the Obligated Group in accordance with Section 3.12 of this Master Indenture; provided that any Related Bonds issued for the benefit of, or the proceeds of which were used at facilities of, such withdrawing Member have been redeemed, defeased or discharged at or prior to the date of such Member's withdrawal from the Obligated Group; or

(3) a release made with respect to a portion of the Mortgaged Property, so long as such portion constitutes Excluded Property; or

(4) a release made with respect to any portion of the Mortgaged Property so long as a Mortgage is granted to the Master Trustee on additional Property (to be added as additional Mortgaged Property), which additional Property is to be used by the Obligated Group to provide clinical services, or to provide support for clinical services, at the Health Care Facilities of one or more Members of the Obligated Group, and which additional Property has an appraised value equal to or greater than the appraised value of the portion of the Mortgaged Property being released; provided, however, that such substituted Property is not subject to any Liens other than Liens that are Permitted Liens for the Mortgaged Property ("appraised value" means a market value appraisal performed at the

Obligated Group's expense by an independent M.A.I. appraiser selected by the Obligated Group, dated not more than one year prior to the date presented and accompanied by a bring-down letter from the appraiser, dated not more than one week prior to the date of substitution, to the effect that the condition and appraised value of the appraised property have not changed materially from the date of the appraisal); provided further, however, that any grant of a Mortgage on any substitute Mortgaged Property shall be accompanied by a mortgagee's policy of title insurance reasonably satisfactory to the Master Trustee and evidence reasonably satisfactory to the Master Trustee, in the form of zoning coverage in the title insurance policy or an opinion of counsel, or both, that the substitute Mortgaged Property and any remaining Mortgaged Property meet applicable zoning requirements; or

(5) a release made with respect to machinery, equipment, fixtures or other personal property located on the Mortgaged Property if such property would be eligible to be disposed of pursuant to the provisions of Section 3.08(a) of the Master Indenture, or in order to implement a permitted financing or a sale and leaseback with respect to such machinery, equipment, fixtures or other personal property, or a sale and leaseback with respect to a portion of the Mortgaged Property; or

(6) a release made with respect to a portion of the Mortgaged Property, but only with the prior written consent of the Authority.

(c) Permitted Modifications shall include only the following:

(1) a modification or amendment to a Mortgage to cure any ambiguity or formal defect or omission therein; or

(2) a modification or amendment to a Mortgage to correct or supplement any provision therein which may be inconsistent with any other provision therein, or to make any other modifications or amendments with respect to matters or questions arising under such Mortgage which shall not materially and adversely affect the interests of the Holders; or

(3) a modification or amendment to a Mortgage to grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon the Holders; or

(4) a modification or amendment to a Mortgage to make any necessary or appropriate changes to reflect the issuance of additional Obligations in accordance with the provisions of Section 3.06 of this Master Indenture; or

(5) a modification or amendment to a Mortgage, or a consent with respect thereto, to implement any necessary or appropriate changes to reflect matters relating to zoning, land use, environmental and other real property laws, ordinances, rules or regulations that in substance do not alter the security provided pursuant to such Mortgage or that shall not materially and adversely affect the interests of the Holders; or

(6) a modification or amendment to a Mortgage covering a portion of the Mortgaged Property so long as such portion constitutes Excluded Property; or

(7) a modification or amendment to a Mortgage, but only with the prior written consent of the Authority.

(d) The Master Trustee, at the direction of the Obligated Group Representative as set forth in an Officer's Certificate, shall cooperate with the Obligated Group and execute any and all documents or instruments in order to promptly implement any such Permitted Release or Permitted Modification. In addition, the Master Trustee, at the direction of the Obligated Group Representative as set forth in an Officer's Certificate, shall grant such consents and approvals, and shall subordinate the Lien on a portion of the Mortgaged Property to such easements or other non-monetary encumbrances, as a Member of the Obligated Group may from time to time request; provided that any such action does not materially impair the Lien of the applicable Mortgage on the Mortgaged Property nor materially diminish the value or utility of the Mortgaged Property.

(e) Notwithstanding any other provisions in this Master Indenture, any Supplement, or any Obligation relating to the Mortgages or the release or amendments thereof, the Master Trustee shall release and discharge all or any of the Mortgages upon the written direction of the Obligated Group Representative. Promptly upon receipt by the Master Trustee of such written direction, the Master Trustee shall, as directed by the Obligated Group Representative, take such action as may be necessary or appropriate to release and discharge any such Mortgages.

12. **Transaction Test.** A new Section 3.14 would be added to the Master Indenture, as follows:

Section 3.14. Transaction Test. Notwithstanding, and in addition to, and as an alternative to, the provisions of Sections 3.05, 3.06, 3.08, 3.09, 3.11, 3.12 and 3.13 of this Master Indenture, (i) the Obligated Group or any Member of the Obligated Group may create or suffer to exist any Lien on Property (as an additional category of Permitted Lien); (ii) the Obligated Group or any Member of the Obligated Group may incur Additional Indebtedness; (iii) the Obligated Group or any Member of the Obligated Group may sell, lease, transfer or dispose of Operating Assets, or dispose of cash, investments, or other Property; (iv) the Obligated Group or any Member of the Obligated Group may merge or consolidate with an entity that is not a Member of the Obligated Group; (v) a Person may become a Member of the Obligated Group; (vi) a Member of the Obligated Group may withdraw from the Obligated Group; (vii) the Obligated Group or any Member of the Obligated Group may release or allow the release of any of the Mortgaged Property from the Lien of the Mortgages (as an additional category of Permitted Release); and (viii) the Obligated Group or any Member of the Obligated Group may modify or amend any of the Mortgages (as an additional category of Permitted Modification), in each case of clauses (i) through and including (viii) of this section, upon the delivery of an Officer's Certificate to the Master Trustee demonstrating compliance with any one of the provisions of the Transaction Test.

13. **Elimination of Certain Amendment Restrictions.** Section 6.01 of the Master Indenture would be amended by deleting the proviso immediately following Section 6.01(h)(iii), as follows:

Section 6.01. **Supplements Not Requiring Consent of Holders.** Each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee may, without the consent of or notice to any of the Holders enter into one or more Supplements for one or more of the following purposes:

- (a) To cure any ambiguity or formal defect or omission herein.
- (b) To correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising hereunder and which shall not materially and adversely affect the interests of the Holders.
- (c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the provisions of Section 6.02(a).
- (d) To qualify this Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect.

(e) To create and provide for the issuance of Indebtedness or the entry into a Derivative Agreement (including, in either case, the issuance of an Obligation in respect thereof) as permitted under the Master Trust Indenture, so long as no Event of Default has occurred and is continuing under this Master Indenture.

(f) To obligate a successor to any Member of the Obligated Group as provided in Section 3.11.

(g) To comply with the provisions of any federal or state securities law.

(h) So long as no Event of Default has occurred and is continuing under this Master Indenture and so long as no event which with notice or the passage of time or both would become an Event of Default under this Master Indenture has occurred and is continuing, to make any change to the provisions of this Master Indenture (except as set forth below) if the following conditions are met:

(i) the Obligated Group Representative delivers to the Master Trustee prior to the date such amendment is to take effect either (A)(1) a Consultant's report to the effect that the proposed amendment is consistent with then current industry standards for comparable institutions and (2) an Officer's Certificate of the Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for the most recent period of twelve (12) consecutive calendar months preceding the date of delivery of the report for which there are Audited Consolidated Financial Statements available was at least 1.75; or (B) evidence satisfactory to the Master Trustee to the effect that (i) there exists for each Related Bond or Obligation, which is not pledged to secure Related Bonds, credit enhancement consisting of a surety bond, insurance policy, letter of credit or other form of credit enhancement from a financial institution generally regarded as responsible (in each case which is irrevocable and will remain in full force and effect for the entire period of time each such Related Bond or Obligation, as the case may be, remains outstanding and provides for payment in full of principal and interest on such Related Bond or Obligation when due) or the Obligated Group has delivered, respectively, to each Related Bond Trustee for each outstanding Related Bond, each trustee for any outstanding Obligation which is not pledged to secure Related Bonds and each holder of an outstanding Obligation which is not pledged to secure Related Bonds and with respect to which there is no trustee, credit enhancement of the types described above in this subpart, and (ii) evidence satisfactory to the Master Trustee from each rating agency then rating each such Related Bond and Obligation that, on the date the proposed change is to take effect, each such Related Bond and Obligation rated by such rating agency will be rated based on such credit enhancement not lower than the rating applicable to such Related Bond or Obligation on the day prior to the effective date of such change;

(ii) if any series of Obligations or Related Bonds are rated based on credit enhancement of such Obligations or Related Bonds (whether in the form of a financial guaranty insurance policy, letter of credit, surety bond or otherwise) and not on the underlying credit of the Obligated Group, the issuer of such credit enhancement shall consent in writing to such amendment or modification; and

(iii) with respect to each outstanding Related Bond, an Opinion of Bond Counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee) to the effect that the proposed change will not adversely affect the validity of any Related Bond or any exclusion from gross income for federal income taxation purposes of interest payable thereon to which such Bond would otherwise be entitled.

~~provided, however, that no amendment shall be made pursuant to this clause (h) which would have the effect, directly or indirectly, of changing or providing an alternative to (1) any provision of this Master Indenture requiring the maintenance or demonstration of a Long Term Debt Service Coverage Ratio, except to reduce such ratio, but in no event shall such ratio be reduced to less than 1.10 (or less than 1.00 if Governmental Restrictions make it impossible for a Long Term Debt Service Coverage Ratio of at least 1.10 to be maintained or demonstrated), (2) the definition of any term used in the calculation of the Long Term Debt Service Coverage Ratio, or the amount of Long Term Indebtedness or Short Term Indebtedness, or the definitions of Affiliate, Audited Consolidated Financial Statements, Book Value, Non-Recourse Indebtedness, Operating Assets, Property, Plant and Equipment or~~

~~Total Operating Revenues, or (3) Sections 3.01, 3.02(a), 3.05(b)(xii), 3.05(b)(xvi), 3.05(b)(xvii), 3.06(a)(i)(A), 3.08(a)(ii), 3.08(a)(iii), 3.09, 3.11, 3.12, 4.01 through 4.12, inclusive, 5.04, 6.01(h), 6.02(a), 7.01 or 8.02 of this Master Indenture.~~

(i) To make any changes to this Master Indenture in the event the Obligated Group Representative determines that a change in generally accepted accounting principles will create a lasting impediment upon the Members of the Obligated Group's ability to comply with the provisions of any quantitative financial provisions or requirements of this Master Indenture, which changes to this Master Indenture relate to any such quantitative provisions or requirements and the related definitions upon which the calculations included in such provisions or requirements are based, to provide for similar financial and economic measures of the performance of the Members of the Obligated Group, but only with the prior written consent of the Authority.

14. **Elimination of Credit Facility Issuer Consent Requirement.** Section 6.02(a) of the Master Indenture would be amended by deleting the phrase “, with consent of each Credit Facility Issuer insuring Obligations or Related Bonds”, as follows:

Section 6.02. **Supplements Requiring Consent of Holders.** (a) Other than Supplements referred to in Section 6.01 hereof and subject to the terms and provisions and limitations contained in this Article and not otherwise, the Holders of not less than 51% in aggregate principal amount of Obligations then Outstanding shall have the right, ~~with consent of each Credit Facility Issuer insuring Obligations or Related Bonds~~ from time to time, anything contained herein to the contrary notwithstanding, to consent to and approve the execution by each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, and the Trustee of such Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained herein; provided, however, nothing in this Section shall permit or be construed as permitting a Supplement which would:

(i) Effect a change in the times, amounts or currency of payment of the principal of, premium, if any, and interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of such Obligation;

(ii) Except as otherwise permitted in this Master Indenture or an existing Supplement, permit the preference or priority of any Obligation over any other Obligation, without the consent of the Holders of all Obligations then Outstanding; or

(iii) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Obligations then Outstanding.

(b) If at any time each Member of the Obligated Group shall request the Master Trustee to enter into a Supplement pursuant to this Section, which request is accompanied by a copy of the resolution or other action of its Governing Body certified by its secretary or assistant secretary or if it has no secretary or assistant secretary, its comparable officer, and the proposed Supplement and if the Master Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount or number of Obligations specified in subsection (a) of this Section 6.02 for the Supplement in question which instrument or instruments shall refer to the proposed Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee, thereupon, but not otherwise, the Master Trustee may execute such Supplement in substantially such form, without liability or responsibility to any Holder, whether or not such Holder shall have consented thereto.

(c) Any such consent shall be binding upon the Holder giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Supplement, such revocation and, if such Obligation is transferable by

delivery, proof that such Obligation is held by the signer of such revocation in the manner permitted by Section 8.01 of this Master Indenture. At any time after the Holders of the required principal amount or number of Obligations shall have filed their consents to the Supplement, the Master Trustee shall make and file with each Member of the Obligated Group a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(d) If the Holders of the required principal amount of the Obligations Outstanding shall have consented to and approved the execution of such Supplement as herein provided, no Holder shall have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or any Member of the Obligated Group from executing the same or from taking any action pursuant to the provisions thereof

15. **Document Substitution.** A new Section 6.04 would be added to the Master Indenture, as follows:

Section 6.04. Document Substitution. (a) This Master Indenture may be amended or supplemented as provided in Sections 6.01 and 6.02 of this Master Indenture.

(b) In addition, the Obligated Group and the Master Trustee, may, without the consent of any of the Holders of any Obligations or any Related Bonds, but only upon receipt by the Master Trustee of an Officer's Certificate demonstrating satisfaction of the Substitution Transaction Test (as defined below), enter into one or more supplements, amendments, restatements, replacements or substitutions to this Master Indenture, to modify, amend, restate, supplement, replace, substitute, change or remove any covenant, agreement, term or provision of this Master Indenture, in whole or in part, including, but not limited to, an amendment, restatement or substitution of this Master Indenture, in whole to relate to all Related Bonds, or in part to relate to a portion of the Related Bonds, including but not limited to a series or subseries of the Related Bonds secured by payment obligations of the health care facilities on whose behalf the allocable portion of the proceeds of the Related Bonds were utilized, or an affiliate of such health care facilities, in order to effect (i) the affiliation of the Obligated Group Representative, the Obligated Group, or any Members of the Obligated Group with any of the foregoing or with another entity or entities in order to create a new or modified credit group or structure or in order to provide for the inclusion of the Obligated Group Representative, the Obligated Group, or any Members of the Obligated Group in another obligated group, combined group or other unified credit group or structure, (ii) the release or discharge of any collateral securing the Related Bonds, including, but not limited to, the release or discharge of (A) any or all Obligations, in whole or in part, issued pursuant to this Master Indenture to secure the Related Bonds and (B) the Obligated Group Representative, the Obligated Group, or any Members of the Obligated Group from any or all liability (whether direct or indirect) with respect to the Related Bonds or a portion thereof, any Related Loan Agreement, any Related Bond Indenture, the Obligations, or this Master Indenture or any portion of any thereof, in consideration for the issuance of a note or notes to secure the Related Bonds or portion of the Related Bonds that are to become an obligation of the new affiliated entities or the new obligated group, combined group or other unified credit group, which note or notes would constitute obligations of the new affiliated entities or the members of the new obligated group, combined group or other unified credit group, and (iii) the replacement of all or a portion of the financial and operating covenants and related definitions set forth in this Master Indenture with those of the new affiliated entities or the new obligated group, combined group or other unified credit group, set forth in the new agreement or master indenture (such transaction is referred to collectively herein as the "Substitution Transaction").

(c) The Substitution Transaction Test shall mean, and be satisfied if, the Obligated Group Representative delivers to the Master Trustee any one of the following:

(A) Rating Upgrade. An Officer's Certificate demonstrating that, upon consummation of the Substitution Transaction, and after giving effect to such Substitution Transaction, (i) at least one rating agency that has provided a long-term rating on the publicly sold Related Bonds provides written confirmation or other evidence to the effect that the long-term rating by such rating agency on such Related Bonds will



either be A+ or higher, or will be a higher rating category or rating modifier than the then-current rating immediately prior to the Substitution Transaction as a result of and giving effect to the implementation of the Substitution Transaction; and (ii) the new obligated group satisfies the Transaction Test, assuming the incurrence of \$1.00 of additional Long-Term Indebtedness; or

(B) Coverage Test. An Officer's Certificate demonstrating (i) that the Long-Term Debt Service Coverage Ratio for the twelve (12) full consecutive calendar months for which there are Audited Consolidated Financial Statements available, assuming the proposed Substitution Transaction had occurred at the beginning of such twelve (12) calendar month period, is not less than 1.75, and (ii) that the Long-Term Debt Service Coverage Ratio for each of the two full Fiscal Years following implementation of the Substitution Transaction is projected to be not less than 1.75, or if less than 1.75 but at least 1.00, is projected to be greater than such ratio would have been if the proposed Substitution Transaction had not been implemented, and (iii) the new obligated group satisfies the Transaction Test, assuming the incurrence of \$1.00 of additional Long-Term Indebtedness; or

(C) Rating Confirmation. In the event that the new obligated group, after giving effect to the Substitution Transaction, cannot satisfy the requirements of Paragraph (A) or (B) above, an Officer's Certificate demonstrating that, upon consummation of the Substitution Transaction, and after giving effect to the implementation of the Substitution Transaction, (i) at least two of the rating agencies that have provided a long-term rating on the publicly sold Related Bonds provide written confirmation or other evidence to the effect that the long-term ratings by each such rating agency on such Related Bonds, as a result of and giving effect to the implementation of the Substitution Transaction, will be no less than the then-current rating on such Related Bonds immediately prior to the implementation of the Substitution Transaction, or that the then-current rating will not be decreased or withdrawn as a result of the implementation of the Substitution Transaction (a rating decrease shall include instances where the rating category level remains unchanged but the rating modifier (such as "+" or "-") is decreased as a result of the implementation of the Substitution Transaction, but a rating decrease shall not include instances where the outlook alone is decreased); (ii) the new obligated group satisfies the Transaction Test, assuming the incurrence of \$1.00 of additional Long-Term Indebtedness; and (iii) the new master indenture contains a pledge of gross revenues or gross receipts similar to the pledge of Gross Receipts established under this Master Indenture.

(d) Upon the implementation of the Substitution Transaction pursuant to paragraph (c) above, and concurrently therewith, the Master Trustee shall, as may be directed in writing by the Obligated Group Representative, at the option and direction of the Obligated Group Representative, release and discharge the pledge of and security interest in Gross Receipts (only in the case of (c)(A) or (B) above) or any or all of the Mortgages or any portions thereof (in the case of (c)(A), (B) or (C) above), and file or record or allow to be filed or recorded any releases, discharges or termination statements that may be applicable thereto.

(e) If all amounts due or to become due on the Related Bonds have not been fully paid to the Holders thereof, at or prior to the implementation of the Substitution Transaction there shall also be delivered to the Master Trustee: (i) an Opinion of Bond Counsel to the effect that under then existing law the implementation of the Substitution Transaction and the execution of the amendments, supplements, restatements, replacements or substitutions contemplated in this Section, in and of themselves, would not adversely affect the validity of the Related Bonds or the exclusion from federal income taxation of interest payable on the Related Bonds, and (ii) an Opinion of Counsel to the new affiliated entities or the new obligated group, combined group or other unified credit group to the effect that (1) the note or notes of the new affiliated entities or the new obligated group, combined group or other unified credit group to be

delivered in connection with the implementation of the Substitution Transaction constitute legal, valid and binding obligations of the new affiliated entities or the new obligated group, combined group or other unified credit group enforceable in accordance with their terms, except to the extent that the enforceability of such note or notes may be limited by any applicable bankruptcy, insolvency, liquidation, rehabilitation or other similar laws or enactment affecting the enforcement of creditors' rights, and such other customary exceptions for similar transactions, and (2) the issuance of the note or notes will not cause the Related Bonds or such note or notes to become subject to the registration requirements pursuant to the Securities Act of 1933, as amended.

(f) Notwithstanding any other provisions of this Section 6.04, in no event may the implementation of the Substitution Transaction result in a change described in clause (i), (ii) or (iii) of Section 6.02(a) hereof without the receipt of the applicable level of consents required under such clauses.

(g) In addition, upon the implementation of the Substitution Transaction, the Obligated Group Representative shall direct the Master Trustee to give written notice thereof, by first-class mail, to the Holders of the Obligations then Outstanding.

## **APPENDIX D**

### **BOOK-ENTRY ONLY SYSTEM**

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial

Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond Indenture. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bond maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to HCI as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from HCI or the Bond Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee or HCI, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of HCI or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service with respect to the Bonds at any time by giving reasonable notice to HCI and the Bond Trustee and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, in the event that a successor depository is not obtained, the Bond certificates are required to be printed and delivered.

HCI may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event the Bond certificates will be printed and delivered to DTC.

HCI and the Bond Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the Bonds, giving any notice permitted or required to be given to registered owners under the Bond Indenture, registering the transfer of the Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. Neither HCI nor the Bond Trustee will have any responsibility or obligation to any Direct or Indirect Participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any Direct or Indirect Participant, or any other person which is not shown on the registration books of the Bond Trustee as being a Holder of a Bond, with respect to the accuracy of any records maintained by DTC or any Direct or Indirect Participant; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Bonds; any notice which is permitted or required to be given to registered owners under the Bond Indenture; or any consent given or other action taken by DTC as Holder of a Bond. Interest, redemption premium, if any, and principal will be paid by the Bond Trustee to DTC, or its nominee.

Disbursement of such payments to the Direct or Indirect Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct or Indirect Participants.

THE MEMBERS OF THE OBLIGATED GROUP, THE BOND TRUSTEE AND THE UNDERWRITERS CANNOT AND DO NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE BONDS; (III) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE BOND INDENTURE; (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE BONDS; (V) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; OR (VI) ANY OTHER MATTER.

**So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to the Bondholders, Holders, or registered owners of the Bonds (other than under the caption “TAX MATTERS”) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.**

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they will be sent by the Bond Trustee to DTC only.

For every transfer and exchange of Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this subsection “BOOK-ENTRY ONLY SYSTEM” has been extracted from information given by DTC. Neither the Bond Trustee, the Members of the Obligated Group, nor the Underwriters makes any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

The information in this section concerning DTC and DTC’s book-entry only system has been obtained from sources that the Obligated Group Members believes to be reliable, but none of the Members of the Obligated Group or the Underwriters takes responsibility for the accuracy thereof.

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## APPENDIX E

### PROPOSED FORM OF OPINION OF HAWKINS DELAFIELD & WOOD LLP

September \_\_\_, 2017

Northwell Healthcare, Inc.  
New Hyde Park, New York

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$956,919,000 Northwell Health Taxable Bonds, Series 2017A (the “Bonds”) by Northwell Healthcare, Inc. (“HCI”).

The Bonds are issued under and pursuant to the provisions of the Bond Indenture, dated as of September 1, 2017 (the “Bond Indenture”), between HCI and U.S. Bank National Association, as bond trustee (the “Bond Trustee”). HCI has agreed in the Bond Indenture, among other things, to pay the principal of and interest on the Bonds when due. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Indenture.

The Bonds are dated their date of delivery, bear interest from their date at the rates provided in the Bond Indenture, payable on May 1 and November 1, commencing November 1, 2017, as set forth in the Bond Indenture, and mature as provided in the Bond Indenture. The Bonds are in the form of fully-registered bonds, initially in denominations of \$1,000 and integral multiples thereof as provided in the Bond Indenture, and are numbered separately from R-1 upward in order of issuance.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than HCI. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to herein. We have not undertaken to verify through independent investigation the accuracy of the representations made in the foregoing documents.

We call attention to the fact that the rights and obligations under the Bonds and the Bond Indenture and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against nonprofit entities in the State of New York.

Based on and subject to the foregoing, as of the date hereof we are of the following opinions:

1. HCI is duly authorized and entitled to issue the Bonds and the same have been duly and validly authorized and issued by HCI in accordance with the Bond Indenture, and the Bonds constitute valid, binding, general obligations of HCI, enforceable in accordance with their terms and the terms of the Bond Indenture, and the Bonds are entitled to the benefits of the Bond Indenture.

2. The Bond Indenture has been duly authorized, executed and delivered by HCI and, assuming due authorization, execution and delivery by the Bond Trustee, constitutes a valid and legally binding agreement by and between the parties thereto, enforceable in accordance with its terms.

We express no opinion as to any Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof. We render our opinion under existing statutes and court decisions as of the date hereof, and we assume no obligation to update, revise or supplement this opinion

after the date hereof to reflect any action hereafter taken or not taken, or any facts or circumstances, or any change in law or in interpretations thereof, or otherwise, that may hereafter arise or occur, or for any other reason.

We have examined an executed Bond, and in our opinion the form of said Bond and its execution are regular and proper.

Very truly yours,



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