



# Public Health and Health Planning Council

Project # 122303-C  
**Northern Dutchess Hospital**

**County:** Dutchess County (Rhinebeck)  
**Purpose:** Construction

**Program:** Hospital  
**Submitted:** December 21, 2012

## Executive Summary

### Description

Northern Dutchess Hospital (NDH), a 68-bed not-for-profit hospital in Rhinebeck, requests approval to construct a new four-story building to replace 40 Medical-Surgical beds and six replacement operating rooms. Significant project components include:

- Add new four-level, 81,500 square foot building.
- Ground floor will act as a link to the loading dock of the existing NDH building allowing for the transfer of clean and soiled materials.
- First floor will house non-Article 28 leased medical office space.
- Second floor will hold 40 medical-surgical beds. All beds will be in single-bedded rooms.
- Third floor will hold an operating suite containing six operating rooms, eight recovery bays, one isolation bay and fifteen prep/recovery bays with associated staff and support space.

The financing of this project will be through Kirchhoff Medical Properties, LLC (KMP), a developer company that will lease the underlying land from the Hospital and construct the new building. The Hospital will lease the ground, second and third floors from the developer/owner of the building. Both leases will have a 35 year period. Beginning in year 26 of the lease term and over a 10 year period, Kirchhoff Medical properties, LLC will gift the entire entity to NDH at 10% per year and at the end of the 35 year term, will be owned by NDH.

DOH Recommendation  
Contingent approval.

### Need Summary

Because this project will involve no change in the hospital's beds or services, no Need recommendation is required.

### Program Summary

From a programmatic perspective, approval is recommended.

### Financial Summary

The project costs of \$40,383,894 associated with this application will be met with \$9,100,000 equity from Health Quest, \$6,283,894 equity from Kirchhoff Medical Properties, LLC, the developer, and a \$25,000,000 developer loan that Kirchhoff Medical Properties, LLC will incur.

Budget:	\$76,683,691
	<u>72,368,381</u>
	\$4,315,310

Subject to the noted contingencies, it appears that the applicant has demonstrated the capability to proceed in a financially feasible manner.

## Recommendations

Health Systems Agency  
There will be no HSA review of this project.

Office of Health Systems Management

**Approval contingent upon:**

1. Submission of a check for the amount enumerated in the approval letter, payable to the New York State Department of Health. Public Health Law Section 2802.7 states that all construction applications requiring review by the Public Health and Health Planning Council shall pay an additional fee of fifty-five hundredths of one percent of the total capital value of the project, exclusive of CON fees. [PMU]
2. Submission of an executed ground lease that is acceptable to the Department of Health. [BFA]
3. Submission of an executed lease agreement that is acceptable to the Department of Health. [BFA]

**Approval conditional upon:**

1. The staff of the facility must be separate and distinct from staff of other entities.[HSP]
2. The signage must clearly denote the facility is separate and distinct from other adjacent entities. [HSP]
3. The entrance to the facility must not disrupt or be disrupted by any other entity's clinical program space. [HSP]
4. The clinical space must be used exclusively for the approved purpose. .[HSP]
5. The submission of Final Construction Documents, signed and sealed by the project architect, as described in BAEFP Drawing Submission Guidelines DSG-01, prior to the applicant's start of construction [AER].
6. The applicant shall complete construction by August 1, 2014 in accordance with 10 NYCRR Part 710.2(b)(5) and 710.10(a), if construction is not completed on or before that date, this may constitute abandonment of the approval and this approval shall be deemed cancelled, withdrawn and annulled without further action by the Commissioner. [AER]

Council Action Date  
**June 6, 2013.**

## Programmatic Analysis

### Program Description

Northern Dutchess Hospital requests approval for a new building, to be connected to the existing building, to house medical surgical beds, operating rooms and surgery prep/recovery space, and staff and support space. The building is to be constructed by a developer. The first floor of the building will be leased out by the developer and will not include any hospital services, but is intended to be leased to private physician practices.

This proposal does not include any additional beds or services but will update space to best serve patients under current medical practice. However, the hospital anticipates staffing will increase by 16 FTEs after the first year of occupancy.

### Compliance with Applicable Codes, Rules and Regulations

This facility has no outstanding Article 28 surveillance or enforcement actions and, based on the most recent surveillance information, is deemed to be currently operating in substantial compliance with all applicable State and Federal codes, rules and regulations. This determination was made based on a review of the files of the Department of Health, including all pertinent records and reports regarding the facility's enforcement history and the results of routine Article 28 surveys as well as investigations of reported incidents and complaints.

Based on the results of this review, a favorable recommendation can be made regarding the facility's current compliance pursuant to 2802-(3)(e) of the New York State Public Health Law.

### Recommendation

**From a programmatic perspective, approval is recommended.**

## Financial Analysis

### Ground Lease

The applicant has submitted a proposed ground lease agreement, the terms of which are summarized below:

Premises: Land located at Montgomery Street and Springbrook Ave., Rhinebeck, New York 12571  
Landlord: Northern Dutchess Hospital  
Tenant: Kirchhoff Medical Properties, LLC  
Rental: Years 1-5, \$100,000 annually with 10% escalation each five year increments.  
Term: 35 Year Lease  
Provisions: Tenant is responsible for taxes and general liability insurance.

### Lease Agreement

The applicant has submitted a proposed lease agreement, the terms of which are summarized below:

Premises: Building to be constructed on land located at Montgomery Street and Springbrook Ave., Rhinebeck, New York 12571  
Landlord: Kirchhoff Medical Properties, LLC  
Tenant: Northern Dutchess Hospital  
Rental: Years 1-5, \$1,800,000 annually with 10% escalation each five year increments.  
Term: 35 Year Lease  
Provisions: Tenant is responsible for maintenance, insurance and utilities.

### Total Project Cost And Financing

Total project cost for the new construction and moveable equipment is estimated at \$40,383,894, broken down as follows:

New Construction	\$21,295,539
Site Development	2,045,728
Design Contingency	2,334,125
Construction Contingency	1,889,751
Planning Consultant Fees	40,000
Architect/Engineering Fees	1,816,500
Construction Manager Fees	1,121,077
Other Fees	2,327,161
Moveable Equipment	5,791,640
Telecommunications	400,000
Financing Costs	642,763
Interim Interest Expense	490,000
CON Application Fee	2,000
CON Additional Processing Fee	<u>187,610</u>
Total Project Costs	\$40,383,894

The Bureau of Architectural and Engineering Facility Planning has determined that this project includes non-Article 28 space costs for physician medical offices of \$6,083,451. As a result, the total approved project cost for reimbursement purposes shall be limited to \$34,300,443.

Project cost is based on construction start and completion dates of June 1, 2013 and August 1, 2014, respectively.

The applicant's financing plan is as follows:

Equity-Northern Dutchess Hospital	\$9,100,000
Equity-Developer	\$6,283,894
Developer's Financing (3%, 1.5 years)	\$25,000,000

The financing of this project will be through Kirchhoff Medical Properties, LLC (KMP), a developer company that will lease the underlying land from the Hospital and construct the new building. The Hospital will lease the ground, second and third floors from the developer/ owner of the building. Both leases will have a 35 year period. Beginning in year 26 of the lease term and over a 10 year period, Kirchhoff Medical properties, LLC will gift the entire entity to NDH at 10% per year and at the end of the 35 year term, will be owned by NDH.

The developer has submitted current bank statements attesting to sufficient equity funds and has provided a certified public accountants' statement for net worth purposes to back-up the financing. A letter of interest from M&T bank has been submitted for a construction loan and the financing will then be converted to a term loan or taxable 30 year bonds @ 5.5% interest.

#### Operating Budget

The applicant has submitted an operating budget, in 2013 dollars, for the first and third years of operation. The budget is summarized below:

	<u>Year One</u>	<u>Year Three</u>
Revenues:		
Patient Revenues	\$74,003,508	\$74,304,552
Other Revenues*	<u>2,379,139</u>	<u>2,379,139</u>
Total Revenues	\$76,382,647	\$76,683,691
Expenses:		
Operating	\$64,786,911	\$64,818,523
Capital	<u>7,549,858</u>	<u>7,549,858</u>
Total Expenses:	\$72,336,769	\$72,368,381
Excess Revenues:	\$4,045,878	\$4,315,310

Utilization: Discharges	16,029	16,049
Outpatient Visits	71,772	71,852

\*Other Revenues represent Cafeteria Sales, rental Income from Wellness Center and Affiliate revenues.

Utilization by payor source for the first and third year of operation is anticipated as follows:

	<u>Inpatient Services</u>	<u>Outpatient Services</u>
Commercial Fee-for-Service	15.6	23.0
Commercial Managed Care	20.5	22.6
Medicare Fee-for-Service	46.7	25.3
Medicare Managed Care	6.0	5.0
Medicaid Fee-for-Service	1.4	2.7
Medicaid managed Care	7.0	9.0
Private Pay/Other	2.8	12.4

Expense and utilization assumptions are based on the historical experience of the Hospital.

#### Capability and Feasibility

Total project cost will be funded by \$25,000,000 financing by the developer and the remainder, \$15,383,894 will be provided as equity from the hospital and the developer. Health Quest has stated that they will help provide the \$9,100,000 equity portion for this project. Presented as BFA Attachment B, is a financial summary of Health Quest and Northern Dutchess Hospital, which indicates the availability of sufficient resources for this project.

Excess revenues for year one and year three are projected at \$4,045,878 and \$4,315,310, respectfully. DOH staff has sensitized third year budgets to reflect lease payment based on a 3% present value, therefore increasing net income by an additional \$111,938. Revenues reflect current payment rates, adjusted for volume increases. Presented as BFA Attachment D, is the summary of the detailed budgets. The budget appears reasonable.

As shown on BFA Attachment A and B, the hospital has maintained positive working capital and net asset positions, and generated an average annual net operating revenue excess of \$8,978,000 in 2011 and \$4,565,000 as of September 30, 2012.

Subject to the noted contingencies, it appears the applicant has demonstrated the capability to proceed in a financially feasible manner, and contingent approval is recommended.

#### Recommendation

**From a financial perspective, contingent approval is recommended.**

## Attachments

BFA Attachment A	Financial Summary – Northern Dutchess Hospital-2011
BFA Attachment B	Financial Summary – Northern Dutchess Hospital-Health Quest, September 30,2012
BFA Attachment C	Financial Summary- Health Quest- 2011
BFA Attachment D	Summary of Detailed Budgets



# Public Health and Health Planning Council

## Project # 122303-C Northern Dutchess Hospital

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#### DOH Recommendation

Contingent approval.

#### Need Summary

Because this project will involve no change in the hospital's beds or services, no Need recommendation is required.

#### Program Summary

From a programmatic perspective, approval is recommended.

#### Financial Summary

The project costs of \$40,383,894 associated with this application will be met with \$9,100,000 equity from Health Quest, \$6,283,894 equity from Kirchhoff Medical Properties, LLC, the developer, and a \$25,000,000 developer loan that Kirchhoff Medical Properties, LLC will incur.

Budget:	\$76,683,691
	<u>72,368,381</u>
	\$4,315,310

Subject to the noted contingencies, it appears that the applicant has demonstrated the capability to proceed in a financially feasible manner.

**Northern Dutchess Hospital**  
**Balance Sheets**  
**December 31, 2011 and 2010**

(in thousands)

	2011	2010
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,669	\$ 1,335
Investments	3,368	2,970
Assets whose use is limited	717	717
Patient accounts receivable, less allowances for uncollectible accounts of \$1,870 in 2011 and \$2,072 in 2010	7,704	5,072
Supplies and prepaid expenses	1,752	1,453
Other assets	35	234
Estimated amounts due from third-party payors	287	-
Interest in NDH Foundation	348	485
Due from affiliates	6,431	6,148
Total current assets	22,311	18,414
Interest in NDH Foundation	1,721	1,840
Assets whose use is limited, net of current portion	1,771	1,961
Property, plant and equipment, net	34,535	36,253
Due from affiliates, net of current portion	5,081	-
Other assets	1,668	1,983
Total assets	\$ 67,087	\$ 60,451
<b>Liabilities and Net Assets</b>		
Current liabilities		
Current portion of long-term debt	\$ 1,224	\$ 1,882
Accounts payable and accrued expenses	6,062	7,069
Estimated amounts due to third-party payors	242	265
Due to affiliates	1,031	3,235
Total current liabilities	8,559	12,451
Long-term debt, net of current portion	12,869	13,747
Estimated amounts due to third-party payors and other liabilities	7,968	3,033
Due to affiliates, net of current portion	179	157
Total liabilities	29,575	29,388
Net assets		
Unrestricted	33,665	26,998
Temporarily restricted	2,352	2,570
Permanently restricted	1,495	1,495
Total net assets	37,512	31,063
Total liabilities and net assets	\$ 67,087	\$ 60,451

The accompanying notes are an integral part of these financial statements.

**Northern Dutchess Hospital**  
**Statements of Operations**  
**Years Ended December 31, 2011 and 2010**

(in thousands)

	2011	2010
<b>Operating revenue</b>		
Net patient service revenue	\$ 70,063	\$ 63,792
Other revenue	1,336	1,261
Total operating revenue	<u>71,399</u>	<u>65,053</u>
<b>Operating expenses</b>		
Salaries and fees	21,463	20,509
Employee benefits	6,602	6,437
Supplies	11,534	11,823
Other expenses	16,784	15,772
Provision for bad debts	1,322	1,330
Interest	707	786
Depreciation and amortization	4,009	3,704
Total operating expenses	<u>62,421</u>	<u>60,361</u>
Operating gain	8,978	4,692
Gain/(Loss) on disposal	(43)	7
Investment and other income/(loss)	(22)	338
Excess of revenue over expenses	<u>8,913</u>	<u>5,037</u>
Net assets released from restrictions used for capital expenditures	483	1,209
Grant income for capital	224	366
Transfer of equity	(2,953)	(3,430)
Increase in unrestricted net assets	<u>\$ 6,667</u>	<u>\$ 3,182</u>

The accompanying notes are an integral part of these financial statements.



Health Quest  
2012 Actual  
Balance Sheet  
September 2012

	<u>VBMC</u> <u>(includes</u> <u>Healthserve)</u>	<u>PHC</u>	<u>NDH</u>	<u>HQ</u>	<u>Eliminations</u>	<u>Total HQ</u> <u>Obligated</u> <u>Group</u>
<b>Assets</b>						
<b>Current Assets -</b>						
Cash and Cash Equivalents	\$ 8,426	\$ 3,536	\$ 2,627	\$ 2,778		\$ 17,367
Restricted Cash	0	633	0	0		633
Investments	101,812	20,213	3,705	0		125,730
Assets whose use is limited and required for current liabilities						
Externally Restricted	3,019	245	358	0		3,622
Investments held by captive	0	0	0	0		0
Patient accounts receivable, net	52,501	20,331	7,718	0		80,550
Supplies and prepaid expenses	7,531	2,453	1,367	5,920		17,271
Other current assets	175	70	1	67		313
Estimated third party payor adjustments	1,365	678	287	0		2,330
Interest In Foundation, current	1,736	927	348	0		3,011
Due from Affiliates, current portion	11,337	10,989	11,145	20,482	(15,758)	38,195
<b>Total current assets</b>	<b>187,902</b>	<b>60,075</b>	<b>27,556</b>	<b>29,247</b>	<b>(15,758)</b>	<b>289,022</b>
Interest in Foundation	11,386	9,729	1,668	0		22,783
Assets whose use is limited						
Externally Restricted	14,188	7,628	1,772	0		23,588
Long Term Investments	6,517	0	0	0		6,517
Property, plant and equipment, less accum depreciation and amortization	204,538	71,115	32,995	22,071		330,719
Intangible asset	0	172	0	0		172
Due from Affiliates	19,580	7,352	5,081	18,208	28,406	78,627
Other non-current assets	9,529	1,268	1,628	17,515		29,938
<b>Total Assets</b>	<b>\$ 453,640</b>	<b>\$ 157,339</b>	<b>\$ 70,698</b>	<b>\$ 87,041</b>	<b>\$ 12,648</b>	<b>\$ 781,366</b>
<b>Liabilities and Net Assets</b>						
<b>Current Liabilities -</b>						
Current portion of long-term debt	\$ 9,004	\$ 1,455	\$ 1,270	\$ 3,606		\$ 15,335
Current portion of postretirement	56	0	0	0		56
Accounts payable and accrued expenses	36,603	16,126	6,506	22,709		81,944
Accrued salaries, fees and vacation pay	0	0	0	0		0
Estimated third party payor adjustments	4,933	836	477	0		6,246
Estimated insurance loss reserve payable	0	0	0	0		0
Due to Affiliates, current portion	18,547	2,242	1,961	12,373	(15,758)	19,365
<b>Total current liabilities</b>	<b>69,143</b>	<b>20,659</b>	<b>10,214</b>	<b>38,688</b>	<b>(15,758)</b>	<b>122,946</b>
Long-term debt, net of current portion	111,563	36,439	11,974	3,472		163,448
Post retirement benefit obligations	47,330	18,628	0	0		65,958
Estimated third party payor adjustments and other liabilities	44,160	13,642	8,135	14,242		80,179
Due to Affiliates, net of current portion	1,368	9,749	179	30,644	28,406	61,346
<b>Total liabilities</b>	<b>273,564</b>	<b>90,117</b>	<b>30,502</b>	<b>87,046</b>	<b>12,648</b>	<b>493,877</b>
<b>Net Assets</b>						
Unrestricted	160,502	60,558	36,410	(5)	0	257,465
Temporarily restricted	17,383	5,841	2,291	0		25,515
Permanently restricted	2,191	823	1,495	0		4,509
<b>Total Net Assets</b>	<b>180,076</b>	<b>67,222</b>	<b>40,196</b>	<b>(5)</b>	<b>0</b>	<b>287,489</b>
<b>Total Liabilities and Net Assets</b>	<b>\$453,640</b>	<b>\$157,339</b>	<b>\$70,698</b>	<b>\$87,041</b>	<b>\$12,648</b>	<b>\$781,366</b>

Health Quest  
2012 Actual  
Balance Sheet  
September 2012

	<u>Total HQ</u> <u>Obligated</u> <u>Group</u>	<u>Foundations</u>	<u>Affiliates</u>	<u>Eliminations</u>	<u>Total</u>
<b>Assets</b>					
<b>Current Assets -</b>					
Cash and Cash Equivalents	\$ 17,367	\$ 8,022	\$ 4,321	\$ 0	\$ 29,710
Restricted Cash	633	27	46	0	706
Investments	125,730	27,498	-	0	153,228
Assets whose use is limited and required for current liabilities					
Externally Restricted	3,622	0	34	0	3,656
Investments held by captive	0	0	20,406	0	20,406
Patient accounts receivable, net	80,550	0	7,686	0	88,236
Supplies and prepaid expenses	17,271	21	1,809	0	19,101
Other current assets	313	2,419	4,224	(4,153)	2,803
Estimated third party payor adjustments	2,330	0	-	0	2,330
Interest in Foundation, current	3,011	0	-	(3,011)	0
Due from Affiliates, current portion	38,195	2,000	6,364	(46,559)	0
<b>Total current assets</b>	<b>289,022</b>	<b>39,987</b>	<b>44,890</b>	<b>(53,723)</b>	<b>320,176</b>
Interest in Foundation	22,783	0	-	(22,783)	0
Assets whose use is limited					
Externally Restricted	23,588	0	-	0	23,588
Long Term Investments	6,517	313	-	0	6,830
Property, plant and equipment, less accum deprec and amortization	330,719	37	10,727	0	341,483
Intangible asset	172	0	862	0	1,054
Due from Affiliates	78,627	0	179	(78,806)	0
Other non-current assets	29,938	9,931	15,586	0	55,455
<b>Total Assets</b>	<b>\$ 781,366</b>	<b>\$ 50,268</b>	<b>\$ 72,264</b>	<b>\$ (155,312)</b>	<b>\$ 748,586</b>
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities -</b>					
Current portion of long-term debt	\$ 15,335	\$ 0	\$ 84	\$ -	\$ 15,419
Current portion of postretirement	56	0	-	0	56
Accounts payable and accrued expenses	81,944	204	6,598	(7,155)	81,591
Accrued salaries, fees and vacation pay	0	0	-	0	0
Estimated third party payor adjustments	6,246	0	894	0	7,140
Estimated insurance loss reserve payable	0	0	16,253	0	16,253
Due to Affiliates, current portion	19,365	2,947	26,492	(48,804)	0
<b>Total current liabilities</b>	<b>122,946</b>	<b>3,151</b>	<b>60,321</b>	<b>(55,959)</b>	<b>120,459</b>
Long-term debt, net of current portion	163,448	0	2,241	0	165,689
Post retirement benefit obligations	65,958	0	-	0	65,958
Estimated third party payor adjustments and other liabilities	80,179	51	18,953	(14,918)	84,265
Due to Affiliates, net of current portion	61,346	0	1,054	(62,400)	0
<b>Total liabilities</b>	<b>493,877</b>	<b>3,202</b>	<b>72,569</b>	<b>(133,277)</b>	<b>436,371</b>
<b>Net Assets</b>					
Unrestricted	257,465	23,957	(621)	(1,299)	279,502
Temporarily restricted	25,515	21,402	316	(19,913)	27,320
Permanently restricted	4,509	1,707	-	(823)	5,393
<b>Total Net Assets</b>	<b>287,489</b>	<b>47,066</b>	<b>(305)</b>	<b>(22,035)</b>	<b>312,215</b>
<b>Total Liabilities and Net Assets</b>	<b>\$781,366</b>	<b>\$50,268</b>	<b>\$72,264</b>	<b>(\$155,312)</b>	<b>\$748,586</b>

**Health Quest**  
**2012 Actual YTD**  
**September 2012**

	<b>ACTUAL</b>					
	<u>VBMC</u> <u>(includes</u> <u>Healthserve)</u>	<u>PHC</u>	<u>NDH</u>	<u>HQ/HQ</u> <u>Lab</u>	<u>Eliminations</u>	<u>Total HQ</u> <u>Obligated</u> <u>Group</u>
<b>Revenue</b>						
Inpatient Revenue	195,377	65,738	28,897	0	0	290,012
Outpatient Revenue	101,568	52,129	24,572	0	0	178,269
Other Patient Revenue	0	79	0	0	0	79
Less Provision for bad debts	(12,727)	(3,610)	(1,540)	0	0	(17,877)
Net Patient Revenue	284,218	114,336	51,929	0	0	450,483
Other Operating Revenue	3,077	2,385	644	252	0	6,358
Affiliate Revenue	1,215	245	629	92,104	(81,952)	12,241
<b>Total Revenue</b>	<b>288,510</b>	<b>116,966</b>	<b>53,202</b>	<b>92,356</b>	<b>(81,952)</b>	<b>469,082</b>
<b>Operating Expenses</b>						
Salaries	87,652	37,570	16,372	44,431	0	186,025
Fringe Benefits	34,964	15,249	5,288	10,400	0	65,901
Agency Fees	13	206	66	758	0	1,043
Sub Total	122,629	53,025	21,726	55,589	0	252,969
Supplies	46,273	19,798	9,191	2,477	0	77,739
Interest	4,209	1,427	492	275	0	6,403
Depreciation	17,768	6,684	3,224	2,304	0	29,978
Other Expenses	94,671	32,371	14,004	31,716	(81,952)	90,810
Sub Total	162,919	60,280	26,911	36,772	(81,952)	204,930
<b>Total Operating Expenses</b>	<b>285,548</b>	<b>113,305</b>	<b>48,637</b>	<b>92,361</b>	<b>(81,952)</b>	<b>457,899</b>
Gain/(Loss) from Operations	2,962	3,661	4,565	(5)	0	11,183
Investment Income	2,262	1,242	58	0	0	3,562
Change in net unrealized gains and losses	8,065	950	290	0	0	9,305
Gain on Disposal	26	0	0	0	0	26
Excess (deficiency) of revenue over expenses	13,315	5,853	4,913	(5)	0	24,076
Transfer of Equity	(7,103)	(548)	(2,377)	0	0	(10,028)
Pension related changes other than net periodic	0	0	0	0	0	0
Grant Income for Capital	10	0	86	0	0	96
Change in Foundation Interest	0	351	0	0	0	351
Prior Period Adjustments	0	0	0	0	0	0
Net Assets Released from Restrictions	0	625	125	0	0	750
<b>Increase/(Decrease) in Net Assets</b>	<b>6,222</b>	<b>6,281</b>	<b>2,747</b>	<b>(5)</b>	<b>0</b>	<b>15,245</b>

Health Quest  
2012 Actual YTD  
September 2012

ACTUAL

	<u>Total HQ Obligated</u>	<u>Foundations</u>	<u>Affiliates</u>	<u>Eliminations</u>	<u>Total</u>
	<u>Group</u>				
<b>Revenue</b>					
Inpatient Revenue	290,012	0	6,997	0	297,009
Outpatient Revenue	178,269	0	0	0	178,269
Other Patient Revenue	79	0	44,705	0	44,784
Less Provision for bad debts	(17,877)	0	(5,717)	0	(23,594)
Net Patient Revenue	450,483	0	45,985	0	496,468
Other Operating Revenue	6,358	2,121	5,470	0	13,949
Affiliate Revenue	12,241	59	15,732	(28,033)	(1)
Total Revenue	469,082	2,180	67,187	(28,033)	510,416
<b>Operating Expenses</b>					
Salaries	186,025	192	43,253	0	229,470
Fringe Benefits	65,901	45	6,897	0	72,843
Agency Fees	1,043	0	871	0	1,914
Sub Total	252,969	237	51,021	0	304,227
Supplies	77,739	6	1,715	0	79,460
Interest	6,403	0	193	0	6,596
Depreciation	29,978	1	1,676	0	31,655
Other Expenses	90,810	1,446	24,662	(28,033)	88,885
Sub Total	204,930	1,453	28,245	(28,033)	206,596
Total Operating Expenses	457,899	1,690	79,266	(28,033)	510,823
Gain/(Loss) from Operations	11,183	490	(12,079)	0	(406)
Investment Income	3,562	0	985	0	4,547
Change in net unrealized gains and losses	9,305	1,687	603	0	11,595
Gain on Disposal	26	0	7	0	33
Excess (deficiency) of revenue over expenses	24,076	2,177	(10,484)	0	15,769
Transfer of Equity	(10,028)	0	9,366	662	0
Pension related changes other than net pr	0	0	0	0	0
Grant Income for Capital	96	0	0	0	96
Change in Foundation Interest	351	0	0	(351)	0
Prior Period Adjustments	0	0	0	0	0
Net Assets Released from Restrictions	750	0	0	0	750
Increase/(Decrease) in Net Assets	15,245	2,177	(1,118)	311	16,615

**Health Quest Systems, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
**December 31, 2011 and 2010**

(in thousands)

	2011	2010
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 40,613	\$ 32,653
Restricted cash	705	709
Investments	138,649	140,854
Assets whose use is limited, required for current liabilities		
Externally restricted	4,764	4,618
Investments held by captive	19,329	18,516
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$29,798 and \$25,772 in 2011 and 2010, respectively	81,441	82,745
Supplies and prepaid expenses	19,012	16,094
Other current assets	3,543	4,856
Estimated amounts due from third-party payors	287	-
Total current assets	<u>308,343</u>	<u>301,045</u>
Assets whose use is limited, net of current portion		
Externally restricted	39,859	76,983
Long-term investments	6,155	6,287
Property, plant and equipment, net	318,896	300,219
Intangible assets, net	1,277	1,661
Other assets	55,562	25,100
Total assets	<u>\$ 730,092</u>	<u>\$ 711,295</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Current portion of long-term debt	\$ 15,238	\$ 26,610
Accounts payable and accrued expenses	80,704	80,420
Estimated amounts due to third-party payors	3,535	3,607
Estimated insurance loss reserve payable	14,918	12,266
Total current liabilities	<u>114,395</u>	<u>122,903</u>
Long-term debt, net of current portion	177,072	195,313
Post-retirement benefit obligations, net of current portion	65,393	48,486
Estimated amounts due to third-party payors and other liabilities	79,723	50,291
Total liabilities	<u>436,583</u>	<u>416,993</u>
Net assets		
Unrestricted	262,887	267,432
Temporarily restricted	25,231	21,488
Permanently restricted	5,391	5,382
Total net assets	<u>293,509</u>	<u>294,302</u>
Total liabilities and net assets	<u>\$ 730,092</u>	<u>\$ 711,295</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Health Quest Systems, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**  
**Years Ended December 31, 2011 and 2010**

(in thousands)

	2011	2010
<b>Operating revenue</b>		
Net patient service revenue	\$ 683,279	\$ 642,944
Other revenue	16,175	14,897
Net assets released from restrictions used for operations	264	75
Total operating revenue	<u>699,718</u>	<u>657,916</u>
<b>Operating expenses</b>		
Salaries and fees	302,354	289,562
Employee benefits	93,126	88,975
Supplies	97,124	99,732
Other expenses	112,773	112,900
Provision for bad debts	28,130	22,150
Interest	8,939	8,274
Depreciation and amortization	40,321	36,907
Loss on extinguishment of debt	560	839
Total operating expenses	<u>683,327</u>	<u>659,339</u>
Operating income (loss)	16,391	(1,423)
Investment (loss) income and other	(3,918)	19,585
Gain on sale of property plant and equipment	77	195
Excess of revenue over expenses	12,550	18,357
Pension related changes other than net periodic pension costs	(20,722)	(448)
Grant income for capital	414	883
Net assets released from restrictions for capital expenditures	3,213	4,968
(Decrease) increase in unrestricted net assets	<u>\$ (4,545)</u>	<u>\$ 23,760</u>

The accompanying notes are an integral part of these consolidated financial statements.

COST ANALYSIS  
Northern Dutchess Hospital 40 Medical Surgical Bed replacement/six replacement Operating Rooms-Expenses

<u>Current Year</u>	<u>Inpatient</u>	<u>Discharges</u>	<u>Cost per Discharge</u>	<u>Outpatient</u>	<u>Visits</u>	<u>Cost per visit</u>	<u>Total Costs</u>
Operating	\$24,805,438		\$1,572.35	\$38,183,573		\$542.23	
Capital	<u>1,749,455</u>		<u>\$110.89</u>	<u>\$2,692,974</u>		<u>\$38.24</u>	
Total	\$26,554,893	15,776	\$1,683.25	\$40,876,547	70,420	\$580.47	\$67,431,440
<b>First Year Budgets</b>							
Operating	\$25,606,939		\$1,597.54	\$39,179,972		\$545.89	
Capital	<u>3,152,455</u>		<u>\$196.67</u>	<u>\$4,397,403</u>		<u>\$61.27</u>	
Total	\$28,759,394	16,029	\$1,794.21	\$43,577,375	71,772	\$607.16	\$72,336,769
<b>Third Year Budgets</b>							
Operating	\$25,628,689		\$1,596.90	\$39,189,834		\$545.43	
Capital	<u>\$3,152,455</u>		<u>\$196.43</u>	<u>\$4,397,403</u>		<u>\$61.20</u>	
Total	\$28,781,144	16,049	\$1,793.33	\$43,587,237	71,851	\$606.63	\$72,368,381