

Health Quest Systems, Inc.

Financial Executive Summary

Unaudited Financials for the year ended December 31, 2017

HEALTH QUEST SYSTEMS, INC
FINANCE SUMMARY
Year to Date for the Period Ended December 31, 2017

Financial Overview –

\$ in Millions	2017 YTD Actual		2017 YTD Budget		2016 YTD Actual		Oper Gain/(Loss) %	
	Operating Gain/(Loss)	Operating Margin	Operating Gain/(Loss)	Operating Margin	Operating Gain/(Loss)	Operating Margin	Var to Budget	Var to Prior Year
HQ System	\$68.3	6.3%	\$73.2	6.6%	\$68.1	6.8%	-6.6%	0.3%
VBMC	\$76.9	12.1%	\$86.9	13.5%	\$78.4	13.0%	-11.6%	-1.9%
PHC	\$9.5	5.7%	\$12.0	6.8%	\$7.7	4.7%	-21.0%	22.5%
NDH	\$20.8	16.2%	\$13.6	11.7%	\$16.4	14.9%	52.7%	27.0%
Sharon	\$0.4	2.1%	\$2.0	7.7%	---	---	-77.5%	---
HQMP	-\$21.6	-18.1%	-\$19.5	-15.3%	-\$18.7	-19.8%	-10.8%	-15.4%

Financial Overview

For the year ended December 31, 2017, Health Quest Systems, Inc. (HQ) recognized operating income of \$68.3M and a 6.3% operating margin, compared to budgeted operating income of \$73.2M and an operating margin of 6.6%. The negative variance was largely due to a higher expense structure at VBMC in the first quarter, associated with agency staffing, inclusive of locum coverage, and the delayed recruitment of a chief of cardiothoracic surgery in quarter 4, partially offset by lower expenses due to changes HQ made to its cost structure. While HQ did not hit their budgeted targets, operating income remained consistent with prior year and maintains a strong operating margin.

Operating Revenue

Overall, net patient revenue for the year was unfavorable to budget by \$37.4M. Hospital inpatient and outpatient revenue equated to an unfavorable variance of \$12.9M, as inpatient net revenue was unfavorable by \$7.0M and outpatient was unfavorable by \$5.8M. Only NDH was favorable to budget in both inpatient and outpatient revenue. Provision for bad debts was favorable to budget by \$1.7M. Other patient revenue, inclusive of the physician practices and homecare ended the year \$26.1M unfavorable to budget. This variance is associated with the delayed recruitment of physicians and partially offset by lower corresponding expenses.

The unfavorable variance in inpatient revenue was primarily driven by decreased volume at VBMC (-497 discharges), PHC (-215 discharges) and the one month delay associated with the acquisition of Sharon (-337 discharges), while NDH had a favorable variance (+219 discharges). VBMC, PHC and NDH experienced volume that exceeded FY 2016 (increase of 3.8% excluding Sharon and 6.4% including Sharon); however VBMC and PHC did not meet the budgeted 2017 volumes on the acute side, but exceeded budget including observation patients (see page 13). The primary factor impacting inpatient revenue, specifically at VBMC was a sharp decline in cardiothoracic surgeries. During 2017, one cardiothoracic surgeon left the organization in the third quarter, while another reduced his caseload as he prepared to retire. This resulted in an unfavorable variance of 113 cases and approximately \$8.0M in lost revenue. The second factor influencing inpatient revenue was a decrease in the

case mix index (CMI) in the 1st quarter of 2017. VBMC and PHC were negatively impacted by \$1M due to a lower than budgeted CMI in January alone. This was attributed to a higher census of patients suffering from the flu and general respiratory ailments; which are weighted at the lowest end of the CMI scale. In the preceding months, CMI improved at both VBMC and PHC, however, the January variance was not made up entirely, due to lower than budgeted volumes at both operating units including the continued decline of cardiothoracic surgery cases at VBMC which carry a higher relative value. (HQ's two new cardio-thoracic surgeons started in January and February of 2018.)

Outpatient revenue trailed budget by \$5.8M, due to unfavorable variances at VBMC (\$5.9M) and PHC (\$4.1M). NDH had a favorable variance of \$6.6M. VBMC saw unfavorable volume in radiation oncology, infusion procedures, imaging, outpatient surgery and therapies. PHC saw unfavorable variances in outpatient surgery, radiology, sleep lab, radiation oncology and observation. NDH saw volume increases over budget in ED visits, radiology procedures, cardiac testing and wound care procedures.

Hospital patient revenues were significantly higher than prior year (+8.5%), however, were short to an aggressive budget. Sharon hospital was unfavorable to budget due to the delayed acquisition by one month.

Majority of the variance in other patient revenue was attributed to HQMP. HQMP was below budgeted net patient service revenue by \$23.6M. This variance was spread across all service lines: hospital based (\$5.8M), primary care (\$1M), specialty practices (\$7.8M) and new initiatives (\$9M). Majority of this variance is related to locum expense, delayed recruitment of physicians and lower volume in the specialty areas. HQMP experienced lower volume in general surgery, medical oncology and OB-GYN, compared to budget, but saw an increase from prior year. In addition, certain specialties were budgeted for a full year but were delayed; e.g. radiation oncology and GYN oncology. Primary care practices saw a slight decline in volume as well due to physician transition. Although, HQMP was unfavorable in net patient revenue, they did recognize increased affiliate subsidy and had a lower practice expense structure. The favorable variance in expenses was related to the delayed start-up of physician practices, as noted above. HQMP incurred an operating loss variance of -\$2.1M compared to budget.

HV Cardiovascular physicians were unfavorable to budget by \$1.1M for the year, due to the recruitment of new physicians, expanding our service area to PHC and Sharon hospital. HQ Homecare was unfavorable to budget by \$1M due to the delayed recruitment of physical therapists, resulting in lower volume.

Other Operating Revenue

Other operating revenue was favorable to budget by \$6.1M due to increased rebate revenue, clinical research revenue, CPCI revenue and investment income at the foundations.

Operating Expenses

Total operating expenses for the year were favorable to budget by \$26.5M. HQ/HQ Lab, PHC and HQMP had the largest favorable variances at \$7.8M, \$7.6M and \$5.8M respectively. VBMC was unfavorable to budgeted expenses by \$2.8M while NDH was unfavorable by \$4.6M.

Total salary expenses were on favorable to budget by \$3.6M due to delayed recruitment of new physicians to HQMP, the month delay associated with the acquisition of Sharon Hospital and lower salary expense at HQ Homecare. Agency expense is unfavorable to budget by \$7.8M specific to first quarter agency expenses, associated with RN coverage and locum coverage. Medical supplies were favorable to budget by \$2.8M, due to

decreased pharmacy expense related to lower than expected chemotherapy infusions and cost savings initiatives. Interest expense was unfavorable to budget by \$0.3M, due to additional amortization expense of discounts associated with debt. Depreciation expense was favorable to budget by \$2.9M due to a shift in capital purchases from short-lived assets (information technology) to long-lived assets (building improvements). Other expenses were favorable to budget by \$26.1M due to lower expenses associated management expense initiatives, lower expenses associated with the delay in HQMP on-boarding of new physicians, lower consulting and decreased service contract expense.

Net Gain

Non-operating revenue of \$38.2M was recognized, primarily due to investment income of \$44.7M. Investment results exceeded benchmarks year to date by 91 basis points for all funds. Pension related changes impacted net assets by -\$11.1M, due to the change in the discount rate. HQ recognized \$3.0M in grant income associated with the acquisition of Sharon Hospital. Net assets released from restriction of \$1.5M were recognized.

Total net gain for HQ was \$106.6M year-to-date and HQ recognized EBIDA of \$125.6M.

Balance Sheet Indicators

HQ consistently tracks and monitors debt covenants (among other metrics), which include Days Cash on Hand (minimum 70 days) and Debt Service Coverage Ratio (1.3). For the year ended December 31, 2017, HQ had Days Cash on Hand for the Obligated Group of 160.1 and for the HQ System of 156.5. Days cash on Hand for the year ended December 31, 2016 respectively was 149.4 and 150.7.

For the Debt Service Coverage Ratio, the Obligated Group was 4.4x at December 31, 2017 (versus 4.6x at December 31, 2016).

Health Quest Systems, Inc. and Subsidiaries
Balance Sheet

2017 Actual
December 2017

	<u>2017</u>	<u>2016</u>	<u>Incr/Decr over</u> <u>PY</u>
<u>Assets</u>			
Current Assets -			
Cash and Cash Equivalents	\$106,321	\$98,489	\$7,832
Restricted Cash	708	709	(1)
Investments	297,597	254,310	43,287
Assets whose use is limited and required for current liabilities			
Externally Restricted	1,881	2,272	(391)
Patient accounts receivable, net	167,503	115,671	51,832
Supplies and prepaid expenses	34,657	30,552	4,105
Other current assets	8,190	7,765	425
Estimated third party payor adjustments	2,927	5,845	(2,918)
Interest in Foundation, current	0	0	0
Due from Affiliates, current portion	0	0	0
Total current assets	\$619,784	\$515,613	\$104,171
Interest in Foundation	0	0	0
Assets whose use is limited, net of current portion			
Externally Restricted	305,163	392,733	(87,570)
Investments held by captive	39,285	31,035	8,250
Long Term Investments	11,035	9,588	1,447
Property, plant and equipment, less accum depreciation and amortization	531,516	461,242	70,274
Goodwill	30,587	30,585	2
Due from Affiliates, net of current portion	0	0	0
Other non-current assets	29,248	28,235	1,013
Total Assets	\$1,566,618	\$1,469,031	\$97,587
<u>Liabilities and Net Assets</u>			
Current Liabilities -			
Current portion of long-term debt	\$18,809	\$19,926	(\$1,117)
Accounts payable and accrued expenses	143,523	139,920	3,603
Estimated third party payor adjustments	3,897	8,034	(4,137)
Estimated insurance loss reserve payable	10,015	8,530	1,485
Due to Affiliates, current portion	0	0	0
Total current liabilities	\$176,244	\$176,410	(\$166)
Long-term debt, net of current portion	546,381	564,434	(18,053)
Post retirement benefit obligations	88,486	79,515	8,971
Estimated third party payor adjustments and and other liabilities	117,410	118,065	(655)
Due to Affiliates, net of current portion	0	0	0
Total liabilities	\$928,521	\$938,424	(\$9,903)
Net Assets			
Unrestricted	\$611,007	\$504,368	\$106,639
Temporarily restricted	21,701	20,853	848
Permanently restricted	5,389	5,386	3
Total Net Assets	\$638,097	\$530,607	\$107,490
Total Liabilities and Net Assets	\$1,566,618	\$1,469,031	\$97,587

Health Quest
2017 Actual
Balance Sheet
December 2017

	VBMC	PHC	NDH	HQ	Eliminations	Total HQ Obligated Group	Sharon Hospital	Foundations	Affiliates	Eliminations	Total
Assets											
Current Assets -											
Cash and Cash Equivalents	\$ 26,908	\$ 11,528	\$ 36,007	\$ 9,554		\$ 83,997	\$ 2,779	\$ 13,969	\$ 5,576	\$ -	\$ 106,321
Restricted Cash	0	635	0	0		635	0	27	46	0	708
Investments	189,729	45,904	19,031	0		254,664	0	42,933	0	0	297,597
Assets whose use is limited and required for current liabilities											
Externally Restricted	551	1,132	198	0		1,881	0	0	0	0	1,881
Patient accounts receivable, net	100,037	24,226	18,264	0		142,527	0	0	12,005	0	154,532
Supplies and prepaid expenses	13,499	4,595	2,720	8,232		29,046	12,971	10	4,075	0	46,102
Other current assets	387	251	54	173		865	1,526	1,657	16,044	(10,538)	9,554
Estimated third party payor adjustments	1,851	655	421	0		2,927	162	0	0	0	3,089
Interest in Foundation, current	808	202	649	0		1,657	0	0	0	(1,657)	0
Due from Affiliates, current portion	14,999	31,222	7,599	24,906	(41,624)	37,102	0	96	11,027	(48,225)	0
Total current assets	348,767	120,350	84,943	42,865	(41,624)	555,301	17,438	50,692	48,773	(60,420)	619,784
Interest in Foundation	8,438	11,369	5,411	0		25,218	0	0	0	(25,218)	0
Assets whose use is limited											
Externally Restricted	303,124	1,008	1,031	0		305,163	0	0	0	0	305,163
Investments held by captive	0	0	0	0		0	0	0	39,285	0	39,285
Long Term Investments	10,529	0	0	0		10,529	0	506	0	0	11,035
Property, plant and equipment, less accum depreciation and amortization	355,606	58,583	77,588	18,386		510,173	5,525	69	15,749	0	531,516
Goodwill	25,916	48	0	0		25,962	0	0	4,625	0	30,587
Due from Affiliates	21,318	6,611	5,455	33,719	(29,727)	37,376	0	0	51	(37,427)	0
Other non-current assets	1,029	0	220	6,914		8,163	0	4,558	16,527	0	29,248
Total Assets	\$ 1,074,727	\$ 197,977	\$ 174,648	\$ 101,884	\$ (71,351)	\$ 1,477,885	\$ 22,963	\$ 63,825	\$ 125,010	\$ (123,065)	\$ 1,566,618
Liabilities and Net Assets											
Current Liabilities -											
Current portion of long-term debt	\$ 16,942	\$ 1,390	\$ 330	\$ -		\$ 18,662	\$ -	\$ 0	\$ 147	\$ -	\$ 18,809
Current portion of postretirement	0	0	0	0		0	0	0	0	0	0
Accounts payable and accrued expenses	51,809	14,790	9,800	35,006		111,405	6,920	128	25,586	(516)	143,523
Estimated third party payor adjustments and other liabilities	2,441	1,157	138	0		3,736	0	0	161	0	3,897
Estimated insurance loss reserve payable	0	0	0	0		0	0	0	10,015	0	10,015
Due to Affiliates, current portion	3,725	3,069	2,819	23,787	(41,624)	(8,224)	14,274	5,741	46,509	(58,300)	0
Total current liabilities	74,917	20,426	13,067	58,773	(41,624)	125,578	21,194	5,869	82,418	(58,816)	176,244
Long-term debt, net of current portion	478,512	22,177	44,158	0		544,847	0	0	1,534	0	546,381
Post retirement benefit obligations	70,095	18,391	0	0		88,486	0	0	0	0	88,486
Estimated third party payor adjustments and other liabilities	36,031	16,552	9,473	18,890		80,946	0	0	63,825	(27,361)	117,410
Due to Affiliates, net of current portion	2,331	941	384	33,384	(29,727)	7,313	0	0	2,722	(10,035)	0
Total liabilities	661,886	78,487	67,102	111,047	(71,351)	847,171	21,194	5,869	150,499	(96,212)	928,521
Net Assets											
Unrestricted	399,259	114,930	99,799	(9,163)	0	604,825	1,795	38,012	(25,724)	(7,901)	611,007
Temporarily restricted	11,291	3,741	8,252	0		21,384	0	18,241	235	(18,159)	21,701
Permanently restricted	2,191	819	1,495	0		4,505	0	1,703	0	(819)	5,389
Total Net Assets	412,841	119,490	107,546	(9,163)	0	630,714	1,795	57,956	(25,489)	(26,879)	638,097
Total Liabilities and Net Assets	\$1,074,727	\$197,977	\$174,648	\$101,884	\$(71,351)	\$1,477,885	\$22,989	\$63,825	\$125,010	\$(123,091)	\$1,566,618

Health Quest Systems, Inc. and Subsidiaries
Statement of Operations

2017 Actual
December 2017

	<u>Current Year Actual YTD</u>	<u>Current Year Budget YTD</u>	<u>Variance</u>	<u>Prior Year Actual YTD</u>	<u>PY Variance</u>
<u>Revenue</u>					
Inpatient Revenue	\$569,457	\$576,502	(\$7,045)	\$524,368	\$45,089
Outpatient Revenue	401,425	407,277	(5,852)	370,842	30,583
Other Patient Revenue	110,219	136,409	(26,190)	97,920	12,299
Less Provision for bad debts	(30,563)	(32,246)	1,683	(28,360)	(2,203)
Net Patient Revenue	1,050,538	1,087,942	(37,404)	964,770	85,768
					0
Other Operating Revenue	34,723	28,645	6,078	35,648	(925)
Affiliate Revenue	(0)	0	(0)	(575)	575
					0
Total Revenue	\$1,085,261	\$1,116,587	(\$31,326)	\$999,843	\$85,418
<u>Operating Expenses</u>					
Salaries	479,879	483,467	3,588	423,672	(56,207)
Fringe Benefits	139,515	138,587	(928)	122,332	(17,183)
Agency Fees	12,549	4,788	(7,761)	18,357	5,808
Sub Total	631,943	626,842	(5,101)	564,361	(67,582)
Supplies	162,655	165,466	2,811	151,573	(11,082)
Interest	8,293	7,957	(336)	9,313	1,020
Depreciation	49,032	51,969	2,937	52,232	3,200
Other Expenses	164,995	191,154	26,159	154,237	(10,758)
Sub Total	384,975	416,546	31,571	367,355	(17,620)
Total Operating Expenses	1,016,918	1,043,388	26,470	931,716	(85,202)
Gain/(Loss) from Operations	68,343	73,200	(4,857)	68,127	216
Investment Income	17,520	3,641	13,879	35,283	(17,763)
Change in net unrealized gains/(losses)	27,277	8,659	18,618	(22,075)	49,352
Gain on disposal	87	0	87	51	36
Excess of revenue over expenses	113,227	85,500	27,728	81,386	31,841
Transfer of Equity	0	0	0	0	0
Pension related changes other than net periodic pension costs	(11,157)	0	(11,157)	(853)	(10,304)
Grant Income for capital	3,064	0	3,064	197	2,867
Change in Foundation Interest	0	0	0	0	0
Prior Period Adjustments	0	0	0	0	0
Net Assets Released from Restrictions	1,505	1,981	(476)	4,404	(2,899)
					0
Increase/(Decrease) in Net Assets	\$106,639	\$87,481	\$19,159	\$85,134	\$21,505

Health Quest
2017 Actual YTD
December 2017

ACTUAL

	<u>Vassar</u> <u>Brothers</u> <u>Hospital</u>	<u>Putnam</u> <u>Hospital</u> <u>Center</u>	<u>Northern</u> <u>Dutchess</u> <u>Hospital</u>	<u>HQ/HQ</u> <u>Lab</u>	<u>Eliminations</u>	<u>Total HQ</u> <u>Obligated</u> <u>Group</u>	<u>Sharon</u> <u>Hospital</u>	<u>Foundations</u>	<u>Affiliates</u>	<u>Eliminations</u>	<u>Total</u>
Revenue											
Inpatient Revenue	\$ 390,512	\$ 89,403	\$ 69,396	\$ -	\$ -	\$ 549,311	\$ 9,301	\$ -	\$10,845	\$ -	\$ 569,457
Outpatient Revenue	252,440	77,386	58,613	0	0	388,439	12,986	0	0	0	401,425
Other Patient Revenue	0	0	(18)	0	0	(18)	0	0	110,237	0	110,219
Less Provision for bad debts	(16,950)	(3,825)	(2,287)	0	0	(23,062)	(1,117)	0	(6,384)	0	(30,563)
Net Patient Revenue	626,002	162,964	125,704	0	0	914,670	21,170	0	114,698	0	1,050,538
Other Operating Revenue	8,682	3,434	1,700	1,777	0	15,593	318	3,559	15,253	0	34,723
Affiliate Revenue	3,045	58	643	180,947	(165,107)	19,586	32	114	52,226	(71,959)	(0)
Total Revenue	637,729	166,456	128,047	182,724	(165,107)	949,849	21,520	3,673	182,177	(71,959)	1,085,261
Operating Expenses											
Salaries	158,185	52,427	36,953	86,308	0	333,873	8,134	924	136,948	0	479,879
Fringe Benefits	60,302	19,191	11,051	23,418	0	113,962	1,975	213	23,365	0	139,515
Agency Fees	5,412	1,009	681	1,954	0	9,056	253	0	3,240	0	12,549
Sub Total	223,899	72,627	48,685	111,680	0	456,891	10,362	1,137	163,553	0	631,943
Supplies	101,714	25,412	19,157	8,189	0	154,472	3,446	4	4,733	0	162,655
Interest	4,986	996	2,015	135	0	8,132	0	0	161	0	8,293
Depreciation	27,216	8,163	8,685	4,123	0	48,187	135	12	2,698	0	49,032
Other Expenses	203,063	49,799	30,712	58,141	(165,107)	176,608	7,130	1,150	52,065	(71,959)	164,995
Sub Total	336,979	84,370	58,569	70,588	(165,107)	385,399	10,711	1,166	59,657	(71,959)	384,975
Total Operating Expenses	560,878	156,997	107,254	182,268	(165,107)	842,290	21,073	2,303	223,210	(71,959)	1,016,918
Gain/(Loss) from Operations	76,851	9,459	20,793	456	0	107,559	447	1,370	(41,033)	0	68,343
Investment Income	12,277	2,305	1,050	0	0	15,632	0	0	1,888	0	17,520
Change in net unrealized gains and losses	17,013	3,717	1,417	0	0	22,147	0	3,860	1,270	0	27,277
Gain on Disposal	(20)	107	0	0	0	87	0	0	0	0	87
Excess (deficiency) of revenue over expenses	106,121	15,588	23,260	456	0	145,425	447	5,230	(37,875)	0	113,227
Transfer of Equity	(29,044)	(1,191)	(4,645)	0	0	(34,880)	(1,854)	0	36,534	0	0
Pension related changes other than net periodic	(12,182)	1,025	0	0	0	(11,157)	0	0	0	0	(11,157)
Grant Income for Capital	0	0	64	0	0	64	3,000	0	0	0	3,064
Change in Foundation Interest	0	953	0	0	0	953	0	0	0	(953)	0
Prior Period Adjustments	4,400	(4,050)	0	0	0	350	0	0	(350)	0	0
Net Assets Released from Restrictions	843	135	527	0	0	1,505	0	0	0	0	1,505
Increase/(Decrease) in Net Assets	70,138	12,460	19,206	456	0	102,260	1,793	5,230	(1,691)	(953)	106,639

Health Quest
2017 Actual YTD
December 2017

BUDGET

	<u>Vassar</u> <u>Brothers</u> <u>Hospital</u>	<u>Putnam</u> <u>Hospital</u> <u>Center</u>	<u>Northern</u> <u>Dutchess</u> <u>Hospital</u>	<u>HQ/HQ</u> <u>Lab</u>	<u>Eliminations</u>	<u>Total HQ</u> <u>Obligated</u> <u>Group</u>	<u>Sheron</u> <u>Hospital</u>	<u>Foundations</u>	<u>Affiliates</u>	<u>Eliminations</u>	<u>Total</u>
Revenue											
Inpatient Revenue	\$ 393,815	\$ 96,275	\$ 64,403	\$ -		\$ 554,493	\$11,448	\$ -	\$10,561	\$ -	\$ 576,502
Outpatient Revenue	258,337	81,530	51,983	0		391,850	15,427	0	0	0	407,277
Other Patient Revenue	0	0	0	0		0	0	0	138,409	0	138,409
Less Provision for bad debts	(17,950)	(4,143)	(1,860)	0		(23,953)	(1,475)	0	(6,818)	0	(32,246)
Net Patient Revenue	634,202	173,662	114,526	0	0	922,390	25,400	0	140,152	0	1,087,942
Other Operating Revenue	7,386	2,894	1,137	484		11,901	333	2,352	14,059	0	28,645
Affiliate Revenue	3,437	56	611	186,153	(168,675)	21,582	0	114	37,484	(59,180)	0
Total Revenue	645,025	176,612	116,274	186,637	(168,675)	955,873	25,733	2,466	191,695	(59,180)	1,116,587
Operating Expenses											
Salaries	152,987	53,245	34,250	86,468		326,950	9,184	929	146,404	0	483,467
Fringe Benefits	60,223	22,430	10,055	20,299		113,007	1,869	220	23,491	0	138,587
Agency Fees	1,484	236	619	964		3,303	125	0	1,360	0	4,788
Sub Total	214,694	75,911	44,924	107,731	0	443,260	11,178	1,149	171,255	0	626,842
Supplies	101,879	28,795	18,375	8,529		157,578	2,950	7	4,931	0	165,468
Interest	4,762	895	1,967	163		7,787	10	0	160	0	7,957
Depreciation	30,184	7,991	6,382	4,278		48,835	0	10	3,124	0	51,969
Other Expenses	206,576	51,049	31,007	69,361	(168,675)	189,318	9,611	1,152	50,253	(59,180)	191,154
Sub Total	343,401	88,730	57,731	82,331	(168,675)	403,518	12,571	1,169	58,468	(59,180)	416,546
Total Operating Expenses	558,095	164,641	102,655	190,062	(168,675)	846,778	23,749	2,318	229,723	(59,180)	1,043,388
Gain/(Loss) from Operations	86,930	11,971	13,619	(3,425)	0	109,095	1,984	148	(38,028)	0	73,200
Investment Income	2,901	582	158	0		3,641	0	0	0	0	3,641
Change in net unrealized gains and losses	6,478	841	160	0		7,479	0	1,180	0	0	8,659
Gain on Disposal	0	0	0	0		0	0	0	0	0	0
Excess (deficiency) of revenue over expenses	96,309	13,394	13,937	(3,425)	0	120,215	1,984	1,328	(38,028)	0	85,500
Transfer of Equity	(29,803)	(635)	(5,130)	0		(35,568)	0	0	33,063	2,505	0
Pension related changes other than net pe	0	0	0	0		0	0	0	0	0	0
Grant Income for Capital	0	0	0	0		0	0	0	0	0	0
Change in Foundation Interest	0	134	0	0		134	0	0	0	(134)	0
Prior Period Adjustments	0	0	0	0		0	0	0	0	0	0
Net Assets Released from Restrictions	801	300	880	0		1,981	0	0	0	0	1,981
Increase/(Decrease) in Net Assets	67,307	13,193	9,687	(3,425)	0	86,762	1,984	1,328	(4,965)	2,371	87,481

Health Quest
2017 Actual YTD
December 2017

VARIANCE

	<u>Vassar</u> <u>Brothers</u> <u>Hospital</u>	<u>Putnam</u> <u>Hospital</u> <u>Center</u>	<u>Northern</u> <u>Dutchess</u> <u>Hospital</u>	<u>HQ/HQ</u> <u>Lab</u>		<u>Total HQ</u> <u>Obligated</u> <u>Group</u>	<u>Sharon</u> <u>Hospital</u>	<u>Foundations</u>	<u>Affiliates</u>	<u>Eliminations</u>	<u>Total</u>
Revenue											
Inpatient Revenue	\$ (3,303)	\$ (6,872)	\$ 4,993	\$ -	\$ -	\$ (5,182)	\$ (2,147)	\$ -	\$ 284	\$ -	\$ (7,045)
Outpatient Revenue	(5,897)	(4,144)	6,630	0	0	(3,411)	(2,441)	0	0	0	(5,852)
Other Patient Revenue	0	0	(18)	0	0	(18)	0	0	(26,172)	0	(26,190)
Less Provision for bad debts	1,000	318	(427)	0	0	891	358	0	434	0	1,683
Net Patient Revenue	(8,200)	(10,698)	11,178	0	0	(7,720)	(4,230)	0	(25,454)	0	(37,404)
Other Operating Revenue	1,296	540	563	1,293	0	3,692	(15)	1,207	1,194	0	6,078
Affiliate Revenue	(392)	2	32	(5,206)	3,568	(1,996)	32	0	14,742	(12,779)	(0)
Total Revenue	(7,296)	(10,156)	11,773	(3,913)	3,568	(6,024)	(4,213)	1,207	(9,518)	(12,779)	(31,326)
Operating Expenses											
Salaries	(5,196)	818	(2,703)	160	0	(6,923)	1,050	5	9,456	0	3,588
Fringe Benefits	(79)	3,239	(996)	(3,119)	0	(955)	(106)	7	126	0	(928)
Agency Fees	(3,928)	(773)	(62)	(990)	0	(5,753)	(128)	0	(1,880)	0	(7,761)
Sub Total	(9,205)	3,284	(3,761)	(3,949)	0	(13,631)	816	12	7,702	0	(5,101)
Supplies	165	3,383	(782)	340	0	3,106	(496)	3	198	0	2,811
Interest	(224)	(101)	(48)	28	0	(345)	10	0	(1)	0	(336)
Depreciation	2,968	(172)	(303)	155	0	2,648	(135)	(2)	426	0	2,937
Other Expenses	3,513	1,250	295	11,220	(3,568)	12,710	2,481	2	(1,813)	12,779	26,159
Sub Total	6,422	4,360	(838)	11,743	(3,568)	18,119	1,860	3	(1,190)	12,779	31,571
Total Operating Expenses	(2,783)	7,644	(4,599)	7,794	(3,568)	4,488	2,676	15	6,513	12,779	26,470
Gain/(Loss) from Operations	(10,079)	(2,512)	7,174	3,881	0	(1,536)	(1,537)	1,222	(3,006)	0	(4,857)
Investment Income	9,376	1,723	892	0	0	11,991	0	0	1,888	0	13,879
Change in net unrealized gains and losses	10,535	2,876	1,257	0	0	14,668	0	2,680	1,270	0	18,618
Gain on Disposal	(20)	107	0	0	0	87	0	0	0	0	87
Excess (deficiency) of revenue over expenses	9,812	2,194	9,323	3,881	0	25,210	(1,537)	3,902	153	0	27,728
Transfer of Equity	759	(556)	485	0	0	688	(1,654)	0	3,471	(2,505)	0
Pension related changes other than net pe	(12,182)	1,025	0	0	0	(11,157)	0	0	0	0	(11,157)
Grant Income for Capital	0	0	64	0	0	64	3,000	0	0	0	3,064
Change in Foundation Interest	0	819	0	0	0	819	0	0	0	(819)	0
Prior Period Adjustments	4,400	(4,050)	0	0	0	350	0	0	(350)	0	0
Net Assets Released from Restrictions	42	(165)	(353)	0	0	(476)	0	0	0	0	(476)
Increase/(Decrease) in Net Assets	2,831	(733)	9,519	3,881	0	15,498	(191)	3,902	3,274	(3,324)	19,159

Health Quest
2017 Actual YTD
December 2017

PRIOR YEAR ACTUAL

	<u>Vassar</u> <u>Brothers</u> <u>Hospital</u>	<u>Putnam</u> <u>Hospital</u> <u>Center</u>	<u>Northern</u> <u>Dutchess</u> <u>Hospital</u>	<u>HQ/HQ</u> <u>Lab</u>	<u>Eliminations</u>	<u>Total HQ</u> <u>Obligated</u> <u>Group</u>	<u>Foundations</u>	<u>Affiliates</u>	<u>Eliminations</u>	<u>Total</u>
Revenue										
Inpatient Revenue	\$ 364,340	\$ 89,141	\$ 60,713	\$ -		\$ 514,194	\$ -	\$ 10,174	\$ -	\$ 524,368
Outpatient Revenue	244,698	77,351	48,793	0		370,842	0	0	0	370,842
Other Patient Revenue	0	0	(8)	0		(8)	0	97,928	0	97,920
Less Provision for bad debts	(17,386)	(4,033)	(1,764)	0		(23,183)	0	(5,177)	0	(28,360)
Net Patient Revenue	591,652	162,459	107,734	0	0	861,845	0	102,925	0	964,770
Other Operating Revenue	8,099	3,470	1,694	669		13,932	8,380	13,336	0	35,648
Affiliate Revenue	3,459	57	493	173,609	(153,727)	23,891	123	36,349	(60,939)	(575)
Total Revenue	603,210	165,986	109,921	174,278	(153,727)	899,668	8,503	152,610	(60,939)	999,843
Operating Expenses										
Salaries	146,608	51,524	31,250	83,907		313,289	825	109,558	0	423,672
Fringe Benefits	53,589	20,002	9,046	21,309		103,946	196	18,190	0	122,332
Agency Fees	8,991	856	1,106	2,476		13,429	0	4,928	0	18,357
Sub Total	209,188	72,382	41,402	107,692	0	430,664	1,021	132,676	0	564,361
Supplies	95,591	26,580	17,300	8,004		147,475	3	4,095	0	151,573
Interest	5,346	1,461	2,167	166		9,140	0	173	0	9,313
Depreciation	29,106	10,215	5,990	3,909		49,220	16	2,996	0	52,232
Other Expenses	185,307	47,629	26,688	59,800	(153,727)	165,697	1,107	48,371	(60,939)	154,237
Sub Total	315,350	85,885	52,145	71,879	(153,727)	371,532	1,126	55,635	(60,939)	367,355
Total Operating Expenses	524,538	158,267	93,547	179,571	(153,727)	802,196	2,147	188,311	(60,939)	931,716
Gain/(Loss) from Operations	78,672	7,719	16,374	(5,293)	0	97,472	6,356	(35,701)	0	68,127
Investment Income	25,056	4,324	1,137	0		30,517	0	4,766	0	35,283
Change in net unrealized gains and losses	(12,494)	(2,026)	(522)	0		(15,042)	(3,984)	(3,049)	0	(22,075)
Gain on Disposal	2	0	0	4		6	0	45	0	51
Excess (deficiency) of revenue over expen	91,236	10,017	16,989	(5,289)	0	112,953	2,372	(33,939)	0	81,386
Transfer of Equity	(27,777)	(915)	(3,361)	0		(32,053)	0	32,053	0	0
Pension related changes other than net pe	(2,022)	1,169	0	0		(853)	0	0	0	(853)
Grant Income for Capital	0	0	197	0		197	0	0	0	197
Change in Foundation Interest	0	398	0	0		398	0	0	(398)	0
Prior Period Adjustments	0	0	0	0		0	0	0	0	0
Net Assets Released from Restrictions	1,125	0	3,279	0		4,404	0	0	0	4,404
Increase/(Decrease) in Net Assets	62,562	10,669	17,104	(5,289)	0	85,046	2,372	(1,886)	(398)	85,134

**Health Quest Obligated Group
Year to Date Operating Results
December 2017**

	2017 YTD Actual		2017 YTD Budget		Variance	
	Operating Gain (000's)	Operating Margin	Operating Gain (000's)	Operating Margin	Operating Gain (000's)	Operating Margin
NDH	\$20,793	16.2%	\$13,619	11.7%	\$7,174	4.5%
PHC	\$9,459	5.7%	\$11,971	6.8%	(\$2,512)	-1.1%
VBMC	\$76,851	12.1%	\$86,930	13.5%	(\$10,079)	-1.4%
HQ SYSTEM	\$68,343	6.3%	\$73,200	6.6%	(\$4,857)	-0.3%

Year to Date Net Results

	2017 YTD Actual		2017 YTD Budget		Variance	
	Net Gain (000's)	Net Margin	Net Gain (000's)	Net Margin	Net Gain (000's)	Net Margin
NDH	\$19,206	15.0%	\$9,687	8.3%	\$9,519	6.7%
PHC	\$12,460	7.5%	\$13,193	7.5%	(\$733)	0.0%
VBMC	\$70,138	11.0%	\$67,307	10.4%	\$2,831	0.6%
HQ SYSTEM	\$106,639	9.8%	\$87,481	7.8%	\$19,159	2.0%

Health Quest Obligated Group
YTD Results Compared to Rating Agency Benchmarks
December 2017

	HQ Obligated Group	HQ
Operating Margin	11.3%	6.3%
Days Cash on Hand ¹	160.1	156.5
Debt to Capitalization	47.4%	47.2%
Debt Service Coverage ²	4.4 x	3.6 x

¹ - HQ Obligated Group debt covenant is 70 days cash on hand

² - HQ Obligated Group debt covenant is 1.3

	S&P A- ³	S&P A ³	Moodys A3 ⁴	Moodys A2 ⁴
Operating Margin	2.9%	3.6%	1.9%	3.2%
Days Cash on Hand	156.6	182.5	197.3	209.7
Debt to Capitalization	40.4%	40.6%	36.6%	36.7%
Max Annual Debt Service Coverage	4.1x	4.1x	4.2x	4.9x

³ - Based on S&P U.S. Not-For-Profit Healthcare System 2015 Report

⁴ - Based on Moody's 2016 Report for Freestanding Hospitals, Single State & Multi-State Healthcare Systems

Health Quest Systems, Inc
Volume compared to budget and prior year

	VBMC			PHC			NDH			Sharon*		Health Quest Combined		
	2017 Actual	% Variance		2017 Actual	% Variance		2017 Actual	% Variance		2017 Actual	% Var 2017 Budget	2017 Actual	% Variance	
		2017 Budget	2016 Actual		2017 Budget	2016 Actual		2017 Budget	2016 Actual				2017 Budget	2016 Actual
Acute Discharges	21,500	-2.3%	2.7%	6,743	-2.2%	2.5%	5,001	4.4%	10.9%	842	-28.3%	34,086	-2.3%	6.4%
Discharges & Observations	26,091	5.7%	9.1%	8,363	-2.4%	0.8%	6,001	8.1%	12.5%	1,041	-21.6%	41,496	3.4%	10.6%
Births	2,199	0.9%	4.0%	375	-14.8%	-11.6%	897	1.0%	-1.0%	113	-4.2%	3,584	-1.1%	4.1%
ALOS	4.3	4.2%	9.5%	3.45	9.9%	11.5%	3.5	-0.6%	2.5%	3.1	N/A	4.0	5.0%	9.1%
OP Surgeries (Incl Pain Mgmt)	11,507	-7.5%	-6.4%	8,654	-7.6%	-4.1%	4,488	-2.3%	1.5%	1,195	9.3%	25,844	-6.0%	0.4%
OP ER visits	55,746	4.6%	4.6%	20,687	-4.6%	-1.7%	19,244	1.8%	7.9%	5,577	-2.8%	101,254	1.6%	9.9%
Case Mix Index	1.4659	-0.2%	2.1%	1.3797	-1.7%	-0.8%	1.1692	1.3%	1.2%	1.0450	N/A	1.3956	-1.0%	0.7%

*Sharon Implementation delayed by one month.