Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

Finance and Management Committee
Meeting Notice & Agenda

Wednesday, July 27, 2011
7:30 a.m. – 9:00 a.m.
Dal Cielo Conference Room

Office of the Clerk: (510) 814-4001

Members of the public who wish to comment on agenda items will be given an opportunity before or during the consideration of each agenda item. Those wishing to comment must complete a speaker card indicating the agenda item that they wish to address.

I.	Call To Order	Michael McCormick
II.	Action Items	
	A. Acceptance of June 29, 2011 Minutes [enclosure]	Michael McCormick
	B. Recommendation to Accept June 2011 Unaudited Financial Statements [enclosure]	Deborah E. Stebbins Kerry Easthope Diana Surber
	C. Recommendation to Approve Modifications to Bank of Alameda Line of Credit and Wound Care Loan Covenants [enclosure]	Deborah E. Stebbins Kerry Easthope
III.	Chief Executive Officers Report	Deborah E. Stebbins
	A. Reconciliation of FY 2011 Actual to Budget Variances [enclosure]	
	B. Bank of Alameda Line of Credit Update	
	C. AB 97 Update	
	D. IGT Update	
IV.	Finance Report	
	A. HIPAA 5010 Readiness Update PRESENTATION	Dan Dickenson
V.	Board / Committee / Staff Comments	
VI.	Adjournment	

Next Meeting Scheduled for: Wednesday, August 31, 2011

This is being noticed as a Board Meeting as a quorum of Directors may be present. Ex-officio members and non-committee members cannot vote on any item, whether or not a quorum of the Board is present.

DRAFT

Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

Finance and Management Committee Minutes June 29, 2011

Members Present: (Voting)	Mike McCormick, Chair Robert Deutsch, MD	Ann Evans James Oddie	Jim Yeh, DO Ed Kofman
Management Present:	Deborah E. Stebbins David A. Neapolitan	Kerry J. Easthope Mary Bond, RN	
Ex Officio/Guests:	Jordan Battani	Stewart Chen, DC	Elliott Gorelick (by phone)
Absent:	William Sellman, MD		
Submitted by:	Kristen Thorson		

TOPIC		DISCUSSION	ACTION | FOLLOW-UP
I. Call to Order	Director McCormick called the meeting to order at 7:36 a.m.		
II. Action Items	A.	Acceptance of June 1, 2011 Minutes	Director Deutsch made a motion to accept the minutes as presented. Mr. Oddie seconded the motion. The motion carried.
	B.	Recommendation to Accept May 2011 Financial Statements Mr. Neapolitan reviewed the May Financial Statements noting some key performance issues that affected the May financial performance, including the second of three adjustments ($102K) to true up estimated IGT for FY 2011, inpatient revenues were down 15.6% from budget, Case Mix Index consistent with April performance, outpatient revenues down 20.2% from budget. May performance was 6% favorable to projections. ECC visits were 5.8% below budget at 46.2 visits per day versus the budgeted 49.0. Gross patient revenues $3.889 M less than budgeted for May. Net patient revenues were unfavorable to budget by $1.7 M or 31.9%. Expenses were $855,000 favorable to the fixed budget and were $41 favorable on an adjusted patient day basis. Mr. Neapoltian reviewed the financial ratios that have been added to the financial statements in part due the request form the committee and Board. The financial rations now reported include: – Profitability • EBIDA	Ms. Evans made a motion to accept the May 2011 Financial statements as presented. Mr. Oddie seconded the motion. The motion carried.

		• Operating Margin – Liquidity • Current Ratio • Days in accounts receivable, net • Days cash on hand (with restricted) – Debt Ratios • Cash to debt • Average pay period • Debt service coverage • Long-term debt to fund balance The committee asked that industry benchmarks be included in the new ratio comparison reporting.	
	C.	Analysis of Decrease in Outpatient Volume by Cost Center The analysis of the decrease in outpatient volume by cost center was an information update only, no action was required.	
	D.	Recommendation to Allow Access to Bank of Alameda Line of Credit Management requested that the Finance and Management Committee recommend to the Board of Directors that management be authorized to access up to 50% of the $1.5 million Line of Credit with the Bank of Alameda in order to process payments to critical vendors of the hospital. The Committee discussed the request to draw down on the line of credit in detail. There was discussion and inquiries related to the effect that the authorization would have on the Wound Care Loan and loan covenants. Management stated that they would have discussions with the Bank of Alameda prior to the Board meeting on July 11 regarding the loan covenants. Ms. Stebbins stated that a statement of cash flow projections would be presented to the committee and Board on an ongoing basis.	Ms. Evans made a motion to recommend to the Board of Directors to authorize a draw down on the line of credit with a commitment by Management to meet with the Bank of Alameda to discuss the impact on the current loan covenants. In addition, the committee requested that management present a statement cash flow projections to reflect the effect of the drawn down on the line of credit as well as the effect on accounts payable. Mr. Kofman seconded the motion. The motion carried with one abstention (Deutsch).
III. Chief Financial Officer's Report	A.	Workers Compensation Insurance Update Mr. Neapolitan provided an update on the renewal of the workers compensation insurance noting that quotes had been requested from 4 different carriers. ALPHA Fund was one of the 4 carriers and was the	

		lowest cost option. In order to participate in ALPHA Fund, the organization has to belong to the Association of California Healthcare Districts. The cost of membership to ACHD is approximately $27,000 which has been budgeted for FY2012. In addition, there is the potential dividend at the end of the year that could off-set the cost of the ACHD dues. The Hospital will change workers compensation insurance carriers for fiscal year 2012 to ALPHA Fund.	
	B.	IGT Update Mr. Neapolitan provided an update in the IGT (intergovernmental transfer). The transfer of funds will occur after approval of the plan by CMS which is expected in early to mid July.	
IV. Chief Executive Officers Report	A.	AB 97 Update It was reported that CMS has not yet approved AB97 as required.	
V. Board / Committee / Staff Comments	Ms. Battani asked about the Hospital's HIPAA 5010 readiness. Mr. Neapolitan stated that the hospital has been working on compliance and that management would provide an update at the next committee meeting.		
VI. Adjournment	Being no further business, the meeting was adjourned at 9:08 a.m.		

THE CITY OF ALAMEDA HEALTH CARE DISTRICT

ALAMEDA HOSPITAL

UNAUDITED FINANCIAL STATEMENTS

FOR THE PERIOD ENDING JUNE 30, 2011

CITY OF ALAMEDA HEALTH CARE DISTRICT
ALAMEDA HOSPITAL
JUNE 30, 2011

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ALAMEDA HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE, 2011

The management of the Alameda Hospital (the "Hospital") has prepared this discussion and analysis in order to provide an overview of the Hospital's performance for the period ending June 30, 2011 in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financials Statements; Management's Discussion and Analysis for State and Local Governments.* The intent of this document is to provide additional information on the Hospital's financial performance as a whole.

Financial Overview as of June, 2011

- For the month of June 2011, combined expense over revenues (loss) is $206,000 versus a budgeted excess of expense over revenue (loss) of $102,000. This loss was driven by a continued lower than previously experienced inpatient case mix index, which is an indication of lower acuity level patients, lower than expected outpatient volumes and the third of three adjustments to the reduce the amount of accrued intergovernmental transfer receivable (discussed further on page 11).

- For the twelve months ended June 30, 2011, combined expense over revenues (loss) is $3,109,000 before the inclusion of $1,451,000 of other non-operating income. This additional other non-operating income, which was recorded in March 2011, was the result of the elimination of a liability that was established in fiscal year 2006. The liability was the result of a dispute over contractual language related to the amounts due under the terms of an insurance contract. After inclusion of the elimination of this liability the year to date expense over revenue (loss) is $1,658,000 versus budgeted revenue over expenses (profit) of $488,000.

- Gross patient revenue for the month of June was less than budget by $2,644,000 or 12.4%. This unfavorable variance was the result of unfavorable variances of $1,584,000 and $1,060,000 in inpatient and outpatient programs, respectively. On adjusted patient day basis gross patient revenue was 4.8% less than budgeted at $5,118 compared to a budgeted amount of $5,376 for the month of June, which was an improvement from May performance. For the twelve months ended gross revenue per adjusted patient day is 0.3% greater than budgeted at $5,404 versus the budgeted $5,387.

- Total patient days for the month were 2,371 compared to the prior month's total patient days of 2,449 and the prior year's 2,461 total patient days. The average daily acute care census was 24.8 compared to a budget of 28.6 and an actual average daily census of 25.8 in the prior month; the average daily Sub-Acute census was 31.8 versus a budget of 33.5 and 31.9 in the prior month and the Skilled Nursing program had an average daily census of 22.4 versus a budget of 23.0 and prior month census of 21.3, respectively.

- Emergency Care Center (ECC) visits were 1,363 or 7.3% less than the budgeted 1,470 visits and were 33 visits or 2.3% less than the prior year's visits of 1,396.

- Total surgery cases were greater than budgeted expectations for the month at 217 cases versus the budgeted 199 cases. The current month's surgical volume was 16.7% greater than the same month prior year's 186 cases. While both inpatient and outpatient volumes improved from May, the positive variance was due to outpatient cases exceeding budget by 36 or 24.3, offsetting the negative variance to budget for inpatient cases.

- Outpatient registrations were 14.3% below budgeted targets at 1,983; however, at 66.1 visits per day, were 4.7% greater than the prior month's 63.4 visits per day.

Total assets decreased by $4,802,000 from the prior month as a result of. The following items make up the increase in current assets:

- Total unrestricted cash and cash equivalents for June decreased by $286,000 and days cash on hand including restricted use funds decreased to 12.6 days on hand in June from 13.6 days on hand in May. The decrease in cash was primarily the result of the use of one twelfth of the parcel tax funds in June.

- Net patient accounts receivable decreased in June by $1,082,000 compared to a decrease of $1,325,000 in May. Days in outstanding receivables were 55.0 at June 30, 2011, unchanged from at May 31, 2011. Collections in June totaled $5.2 million compared to $4.9 million in May.

- Other receivables increased by $6,159,000 primarily as a result of the accrual of the July parcel tax revenue. of $5.7 million. This was partially offset by a write-off of $103,000 of the remaining Intergovernmental transfer estimate determined to be in excess of the revised amounts to be received under this program.

- Prepaid and other deposits increased by $53,000 due to the payment of annual OSHPD fees ($35,000) and property insurance ($25,000), offset by the monthly amortization of prepaid insurance and service contracts.

Total liabilities increased by $4,995,000 compared to a decrease of $1,055,000 in the prior month. This decrease in the current month was the result of the following:

- The current portion of long term debt increased by $296,000, primarily due to the conversion of the FY 2009 Medi-Cal cost report settlement from a third party liability to a 24-month loan repayable to the Department of Healthcare Services. The liability was related to appeal issues pending the outcome of legal action filed by the California Hospital Association (CHA) on behalf of its member hospitals. CHA agreed to drop the legal action as part of the state FY 2012 budget negotiations, resulting in an immediate demand from the state for payment of the outstanding settlement. One-half of the loan balance of $642,000 was recorded in current portion and the other half was recorded in long term debt.

- Accounts payable and accrued expenses decreased by $37,000 as a result of the payment of additional outstanding trade payables during the month of June.

- Payroll related accruals increased by $32,000 as a result of more days of required accrued payroll liabilities at the end of June due to the timing of paid payrolls at month-end.

- Deferred revenues increased by $5,247,000 due to the accrual of the 2011/2012 parcel tax revenues of $5.7 million offset by the amortization of one-twelfth of the annual parcel tax revenues for the 2011 fiscal year.

- Estimated third party payables decreased by $642,000 in June as a result of the conversion of the FY 2009 Medi-Cal cost report liability to a 24-month loan (see comment above).

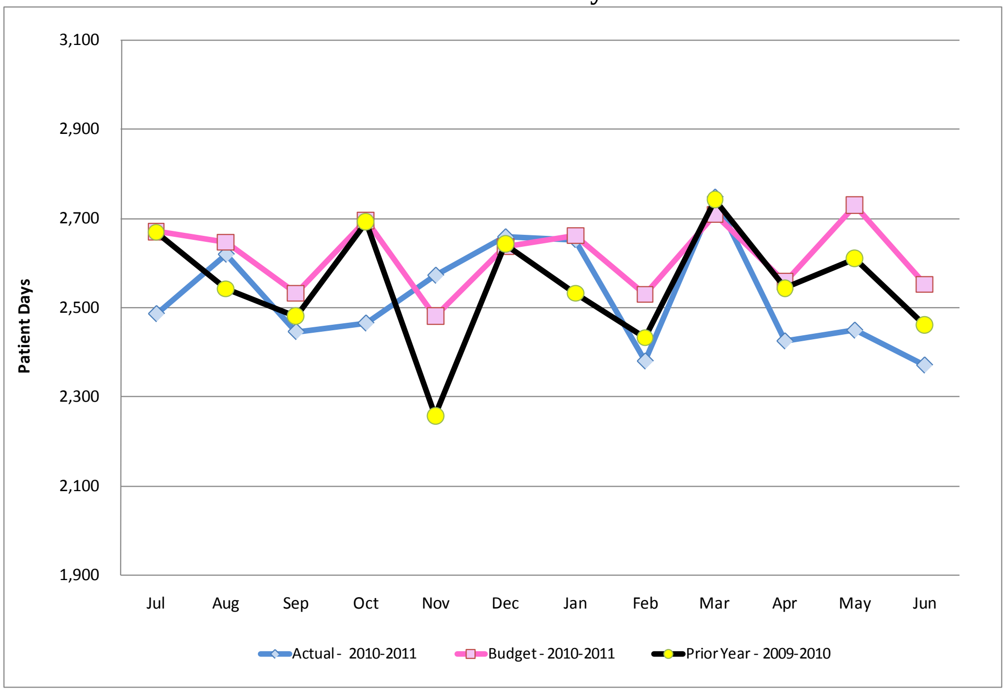
- Long term debt increased by $321,000 for the long term portion of 24 month loan payable to DHCS for the FY 2009 cost report (see comment above). The increase was offset by $37,000 for the monthly payment of the principle portion of the note payable to the Bank of Alameda for a net increase of $285,000.

Volumes

The combined actual daily census was 79.0 versus a budget of 85.07 or an unfavorable variance of 7.1%. The current month's overall unfavorable variance from the budgeted census was the result of average daily census that were unfavorable to budget in the acute care areas by 3.73 patients per day or 13.1%. The Sub-Acute and Skilled Nursing programs were also unfavorable to budgeted expectations with unfavorable variances in average daily census of 1.7 and 0.6, respectively. While unfavorable to budget, June's census represents an improvement from May levels.

The graph on the following page shows the total patient days by month for fiscal year 2011 compared to the operating budget and fiscal year 2010 actual.

Total Patient Days

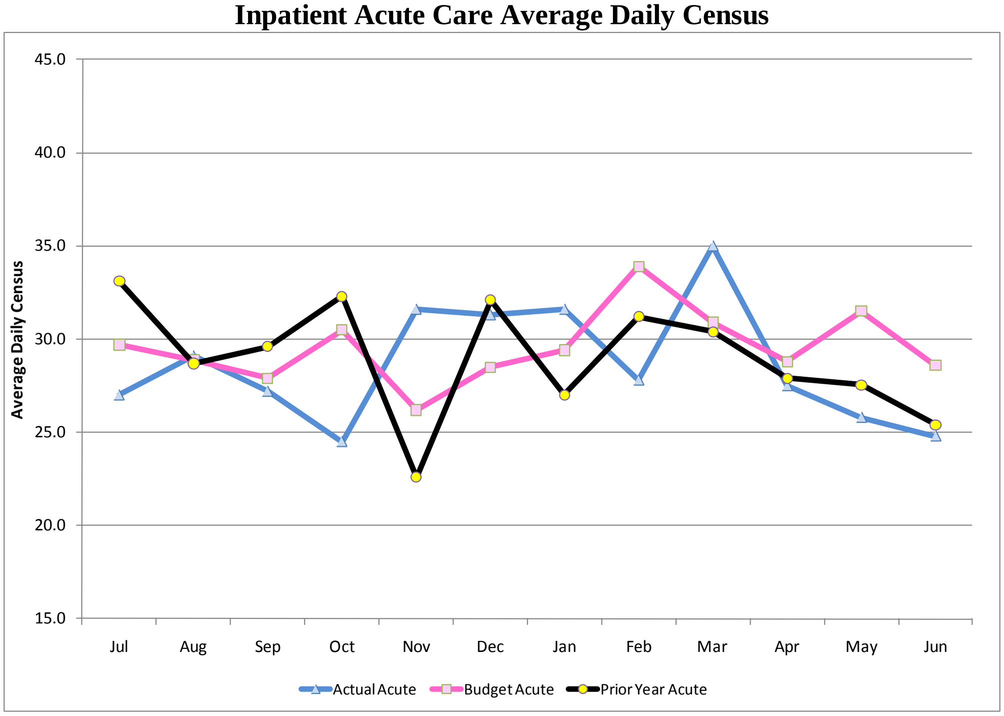


The various components of our inpatient volumes for the month of June are discussed in the following sections.

Acute Care

The acute care patient days were 13.1% (112 days) less than budgeted and were 2.2% less than the prior year's average daily census of 25.4 for June. The acute care program is comprised of the Critical Care Unit (3.8 ADC, 5.0% unfavorable to budget), Definitive Observation Unit (12.9 ADC, right at budget) and Med/Surg Units (8.2 ADC, 31.1% unfavorable to budget). The graph below shows the inpatient acute care census by month for the current fiscal year, the operating budget and prior fiscal year actual.

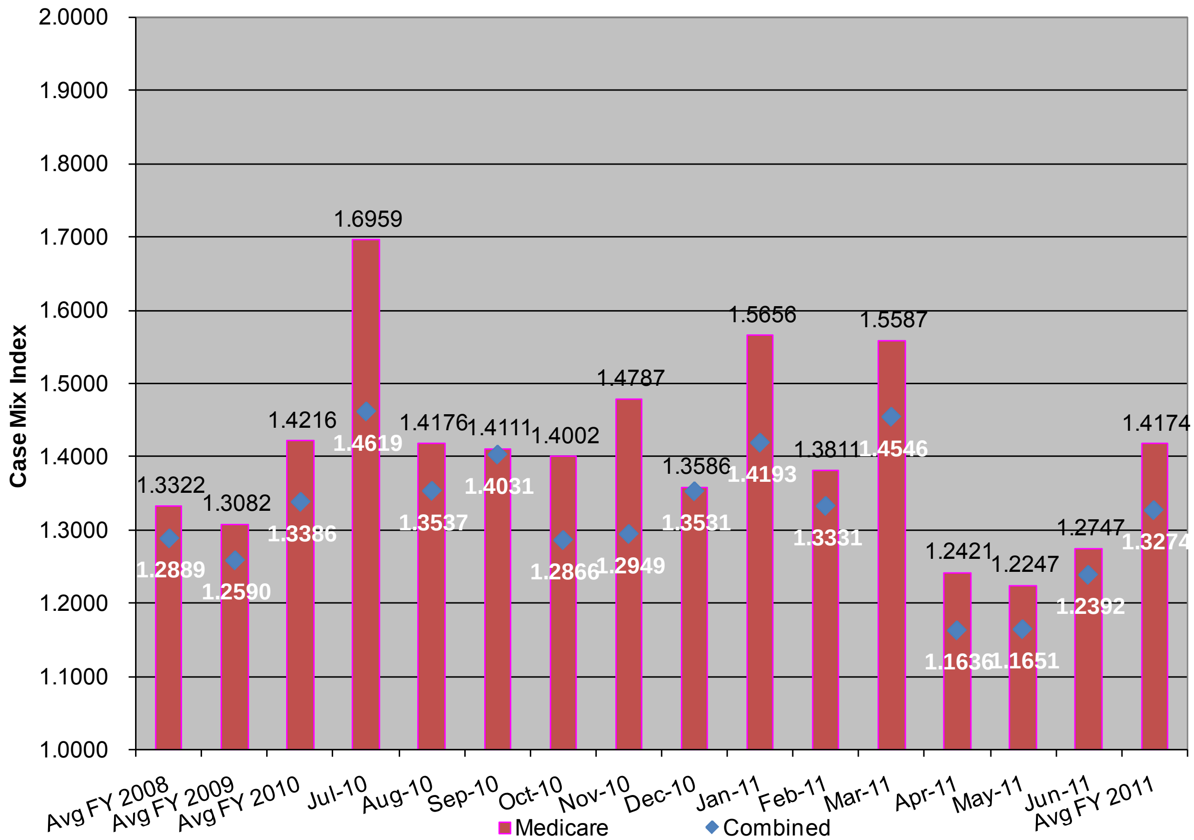
Inpatient Acute Care Average Daily Census



Case Mix Index

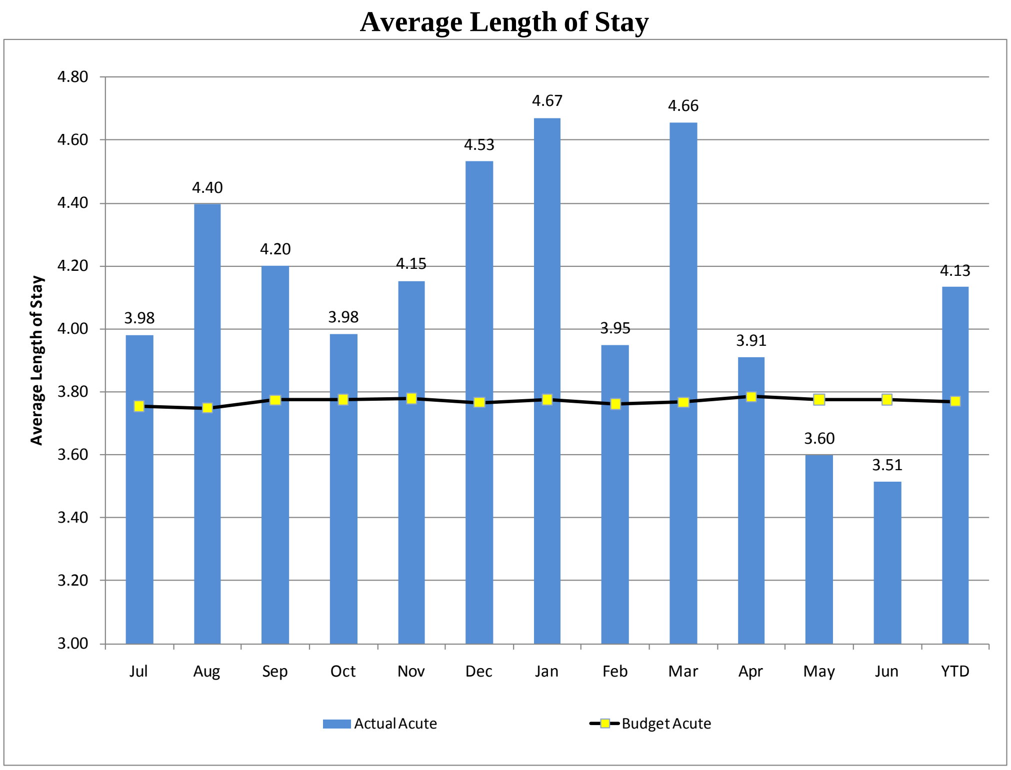
The hospital's overall Case Mix Index (CMI) increased again to 1.2392 from 1.1651 in the prior month but remains substantially below the fiscal year to date average of 1.3264. The Medicare CMI increased slightly over the prior month from 1.2747 in May to 1.2421 in June. In June there was again only one (1) outlier case. The graph below shows the CMI for the hospital during the current fiscal year as compared to the prior three fiscal years.

Case Mix Index Comparison



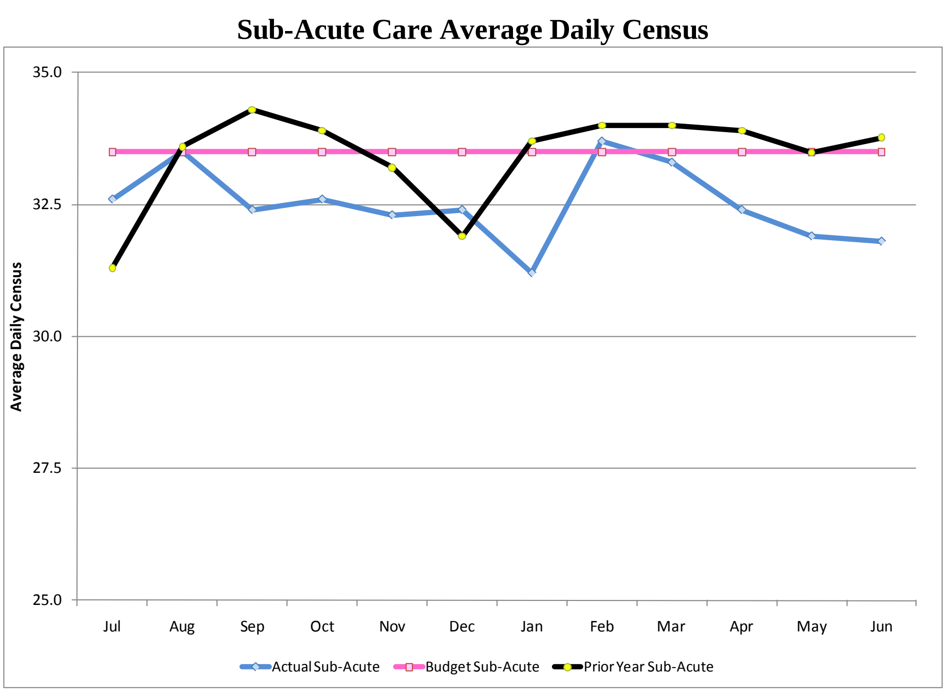
Average Length of Stay

The average length of stay (ALOS) decreased from that of the prior months 3.60 to 3.51 in the month of June. This brings the year-to-date average to 4.13 versus the budgeted FY 2011 average of 3.77. The graph on the following page shows the ALOS by month and the budgeted ALOS for fiscal year 2011.



Sub-Acute Care

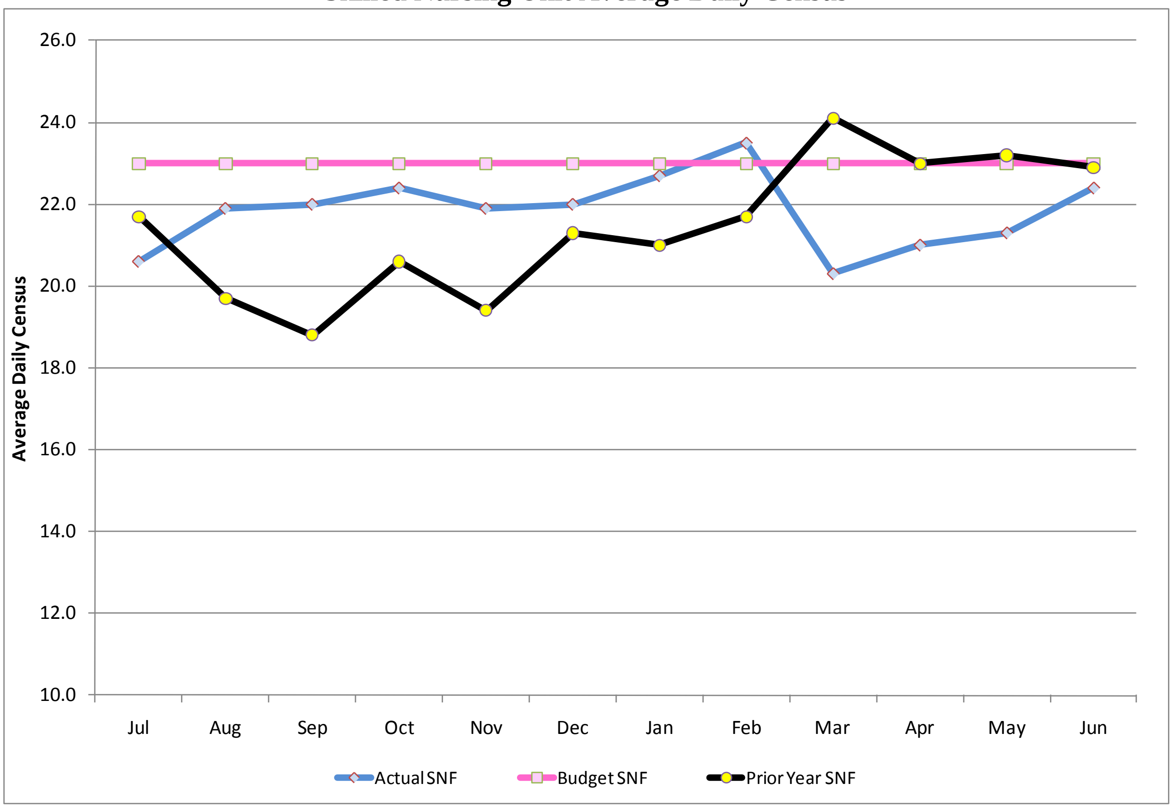
The Sub-Acute program patient days were less than budgeted projections with an average daily census of 31.8 for the month of June which was budgeted for an average daily census of 33.5. The graph below shows the Sub-Acute programs average daily census for the current fiscal year as compared to budget and the prior year.



Skilled Nursing Care

The Skilled Nursing Unit (South Shore) patient days were 2.6% or 18 patient days less than budgeted for the month of June, an improvement from May. Comparing performance to the prior year, this program's volume remains slightly greater than the prior year's performance for the twelve months of fiscal year 2011, with an average daily census of 21.8 versus 21.5 in fiscal year 2010. The following graph shows the Skilled Nursing Unit monthly average daily census as compared to budget and the prior year.

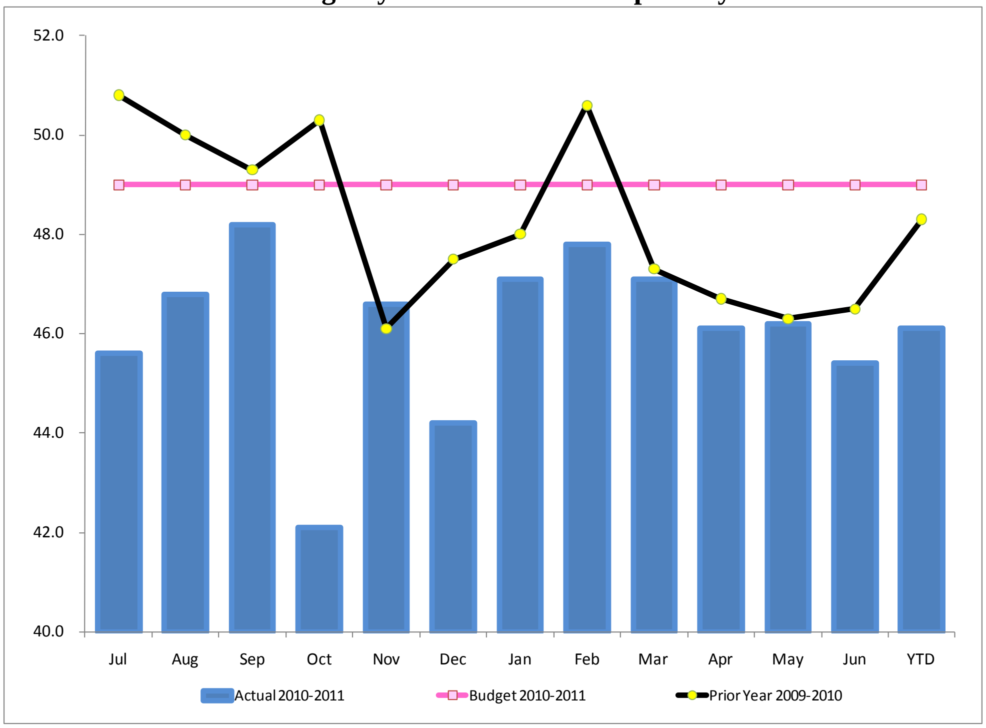
Skilled Nursing Unit Average Daily Census



Emergency Care Center (ECC)

Emergency Care Center visits in June totaled 1,363 and were 7.3% or 107 visits less than budgeted for the month with 15.9% of these visits resulting in inpatient admissions versus 17.2% in May. In June there were 305 ambulance arrivals versus 288 in the prior month, on a per day basis this represents an increase of 9.7% over the prior month daily average. Of the 305 ambulance arrivals in the current month, 180 or 59.0% were from Alameda Fire Department (AFD) ambulances. The graph on the following page shows the Emergency Care Centers average visits per day for fiscal year 2011 as compared to budget and the prior year performance.

Emergency Care Center Visits per Day

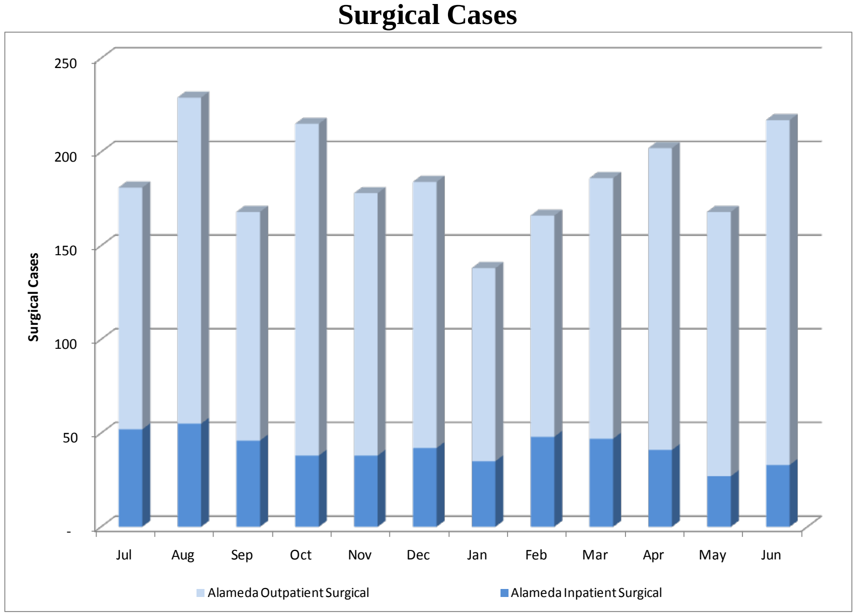


Surgery

Surgery cases were 217 versus the 199 budgeted cases and 186 cases in the prior year. In June, surgery cases increased over the prior month by 29.2%. The increase of 49 cases over the prior month was the result of an increase of 6 and 43 inpatient and outpatient cases, respectively. Inpatient and outpatient cases totaled 33 and 184 versus 27 and 141 in June and May, respectively. The increase in cases from the prior month was driven by increases in Ophthalmology and Orthopedic cases, offset by *decreases* in Gastroenterology, Pain Management and Cardiology cases.

The graph below shows the number of inpatient and outpatient surgical cases by month for fiscal year 2011.

Surgical Cases

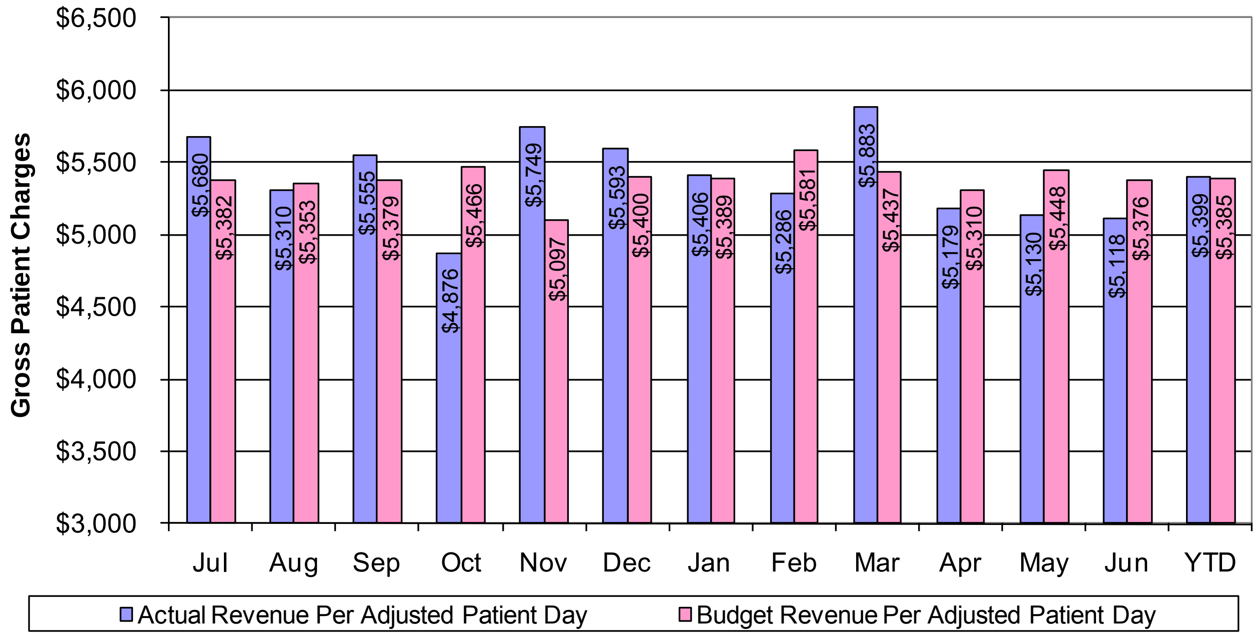


Income Statement

Gross Patient Charges

Gross patient charges in June were less than budgeted by $2,644,000. This unfavorable variance was comprised of unfavorable variances of $1,584,000 and $1,060,000 in inpatient and outpatient revenues, respectively. The decrease in inpatient gross revenues was driven primarily by low volume in the Medical/Surgical unit and below budgeted inpatient surgeries. Outpatient revenues were also lower than budgeted as a result of the delayed opening of the Wound Care program ($558,000), which now has a planned January 2012 opening, as well as lower than expected emergency room visits and other outpatient visits. On an adjusted patient day basis total patient revenue was $5,118 versus the budgeted $5,376 for the month of June. The following table shows the hospital's monthly gross revenue per adjusted patient day by month and year-to-date for fiscal year 2011 compared to budget.

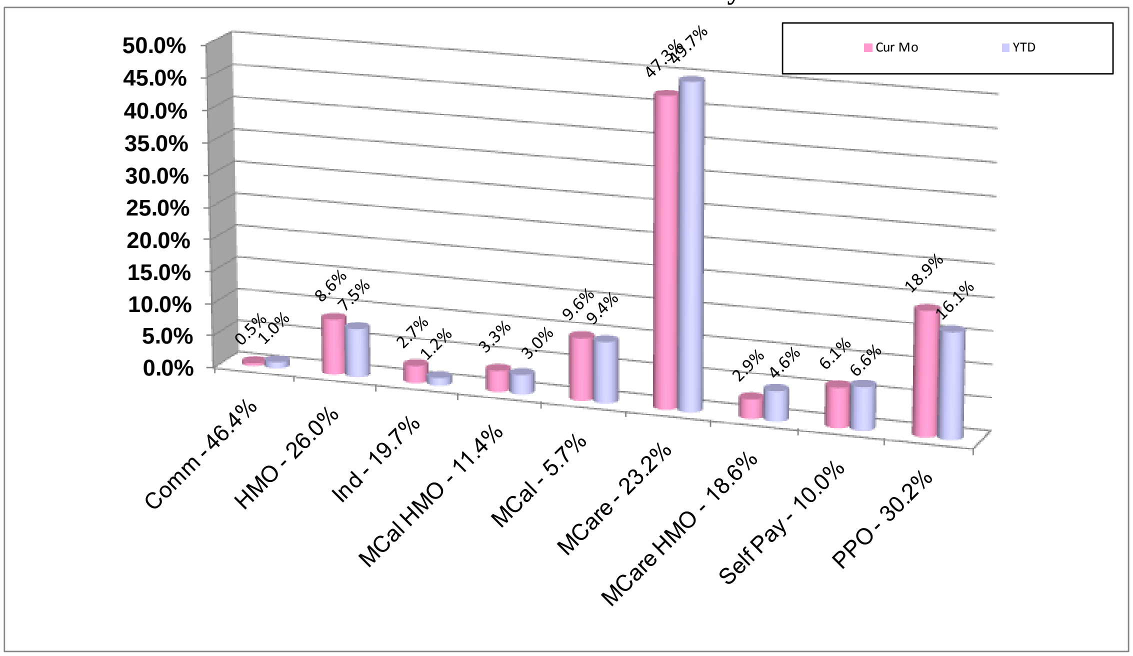
Gross Charges per Adjusted Patient Day



Payor Mix

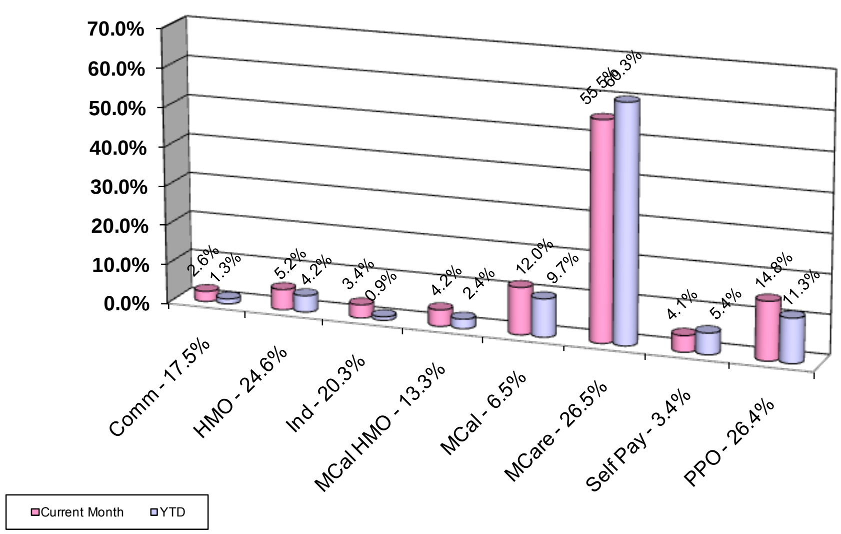
Combined acute care services, inpatient and outpatient, Medicare and Medicare Advantage total gross revenue in June made up 50.3% of the month's total gross patient revenue. Combined Medicare revenue was followed by HMO/PPO utilization at 27.5%, Medi-Cal Traditional and Medi-Cal HMO utilization at 12.9% and self pay at 6.1%. The graph on the following page shows the percentage of gross revenues generated by each of the major payors for the current month and fiscal year to date as well as the current month's estimated reimbursement for each payor for the combined inpatient and outpatient acute care services.

Combined Acute Care Services Payor Mix



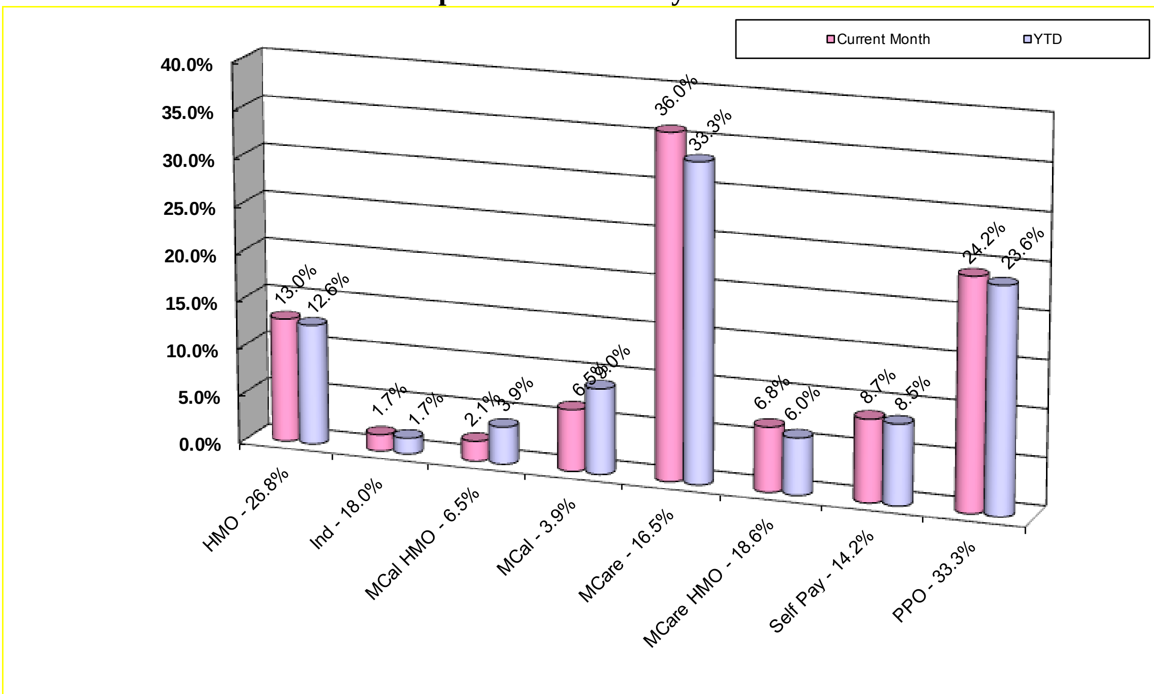
The inpatient acute care current month gross Medicare and Medicare Advantage charges made up 55.5% of our total inpatient acute care gross revenues followed by HMO/PPO at 20.0%, Medi-Cal and Medi-Cal HMO at 16.1% and Self Pay at 4.1% of the inpatient acute care revenue. The graph below shows inpatient acute care current month and year to date payor mix and current month estimated net revenue percentages for fiscal year 2011.

Inpatient Acute Care Payor Mix



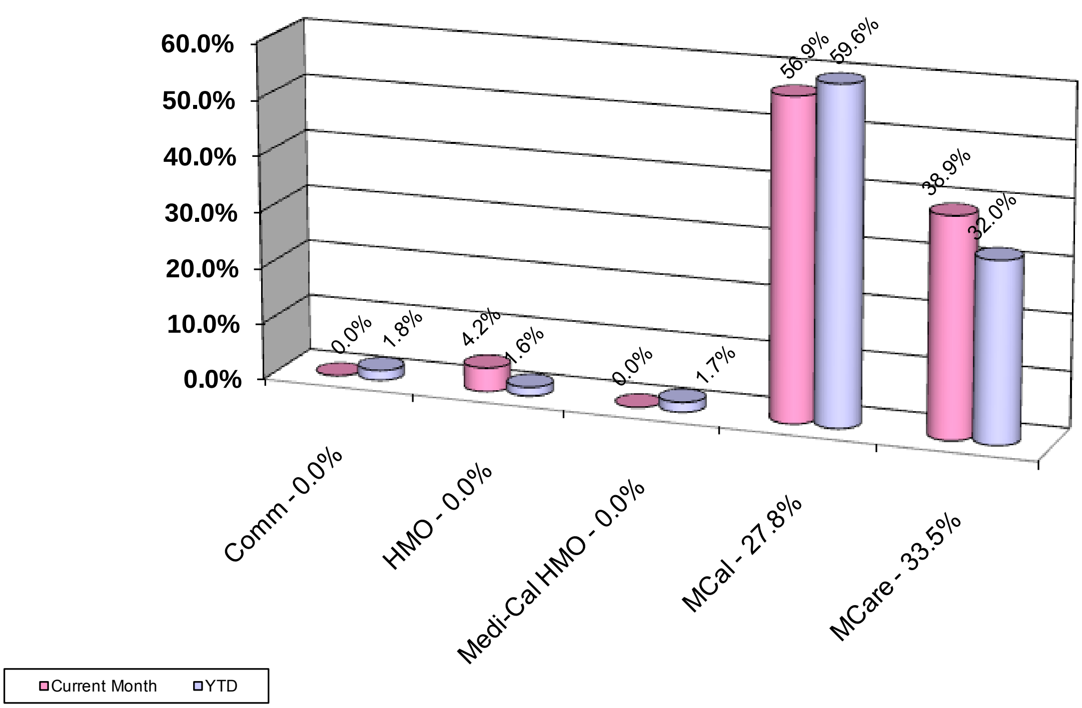
The outpatient gross revenue payor mix for June was comprised of 42.8% Medicare and Medicare Advantage, 37.2% HMO/PPO, 8.6% Medi-Cal and Medi-Cal HMO, and 8.7% self pay. The graph on the following page shows the current month and fiscal year to date outpatient payor mix and the current months estimated level of reimbursement for each payor.

Outpatient Services Payor Mix



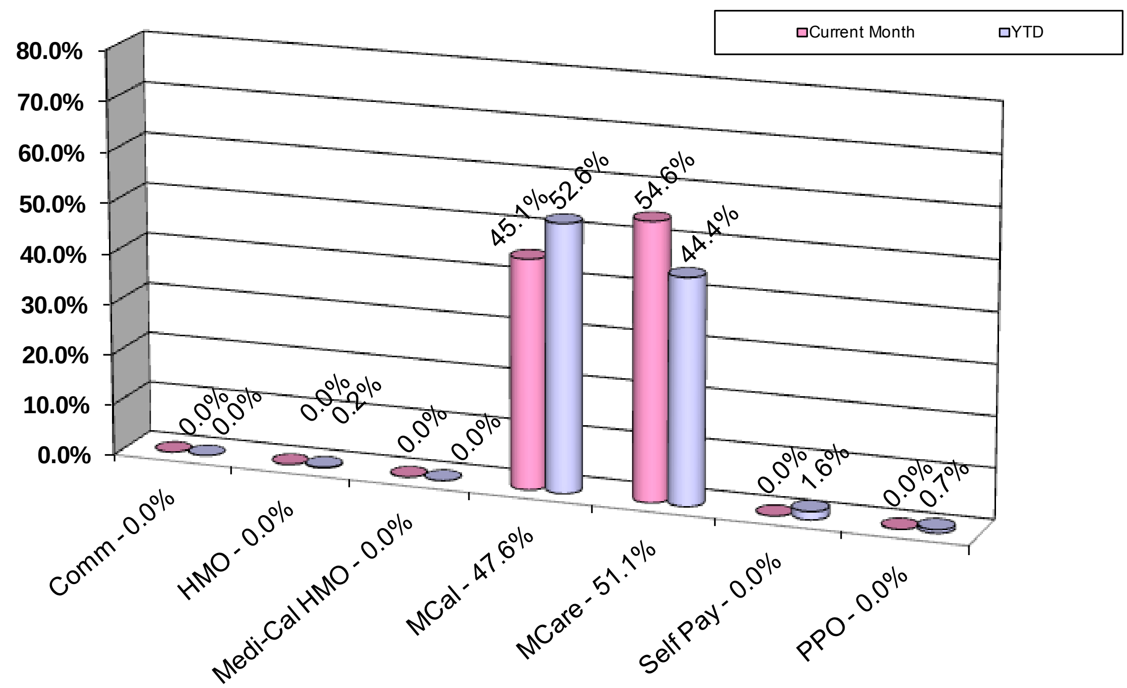
In June, the Sub-Acute care program again was dominated by Medi-Cal utilization of 56.9%, down from 57.8% 54.9% in May. The graph below shows the payor mix for the current month and fiscal year to date and the current months estimated reimbursement rate for each payor.

Inpatient Sub-Acute Care Payor Mix



In June, the Skilled Nursing program gross revenues were comprised primarily of Medicare at 54.6% and Medi-Cal at 45.1%. The graph below shows the current month and fiscal year to date skilled nursing payor mix and the current months estimated level of reimbursement for each payor.

Inpatient Skilled Nursing Payor Mix



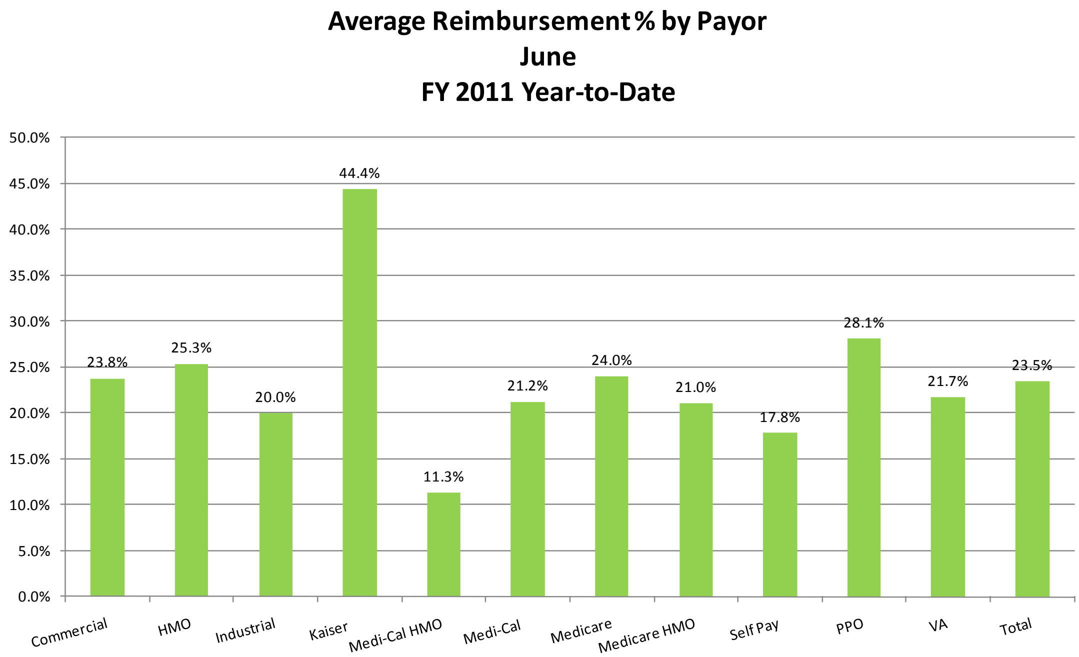
Deductions from Revenue

Contractual allowances are computed as deductions from gross patient revenues based on the difference between gross patient charges and the contractually agreed upon rates of reimbursement with third party government-based programs such as Medicare, Medi-Cal and other third party payors such as Blue Cross. In the month of June contractual allowances, bad debt and charity adjustments (as a percentage of gross patient charges) were 78.0% versus the budgeted 76.2%. A major factor causing the decrease in this percentage in June was the higher case mix index than was experienced in April and May of fiscal year 2011.

Net Patient Service Revenue

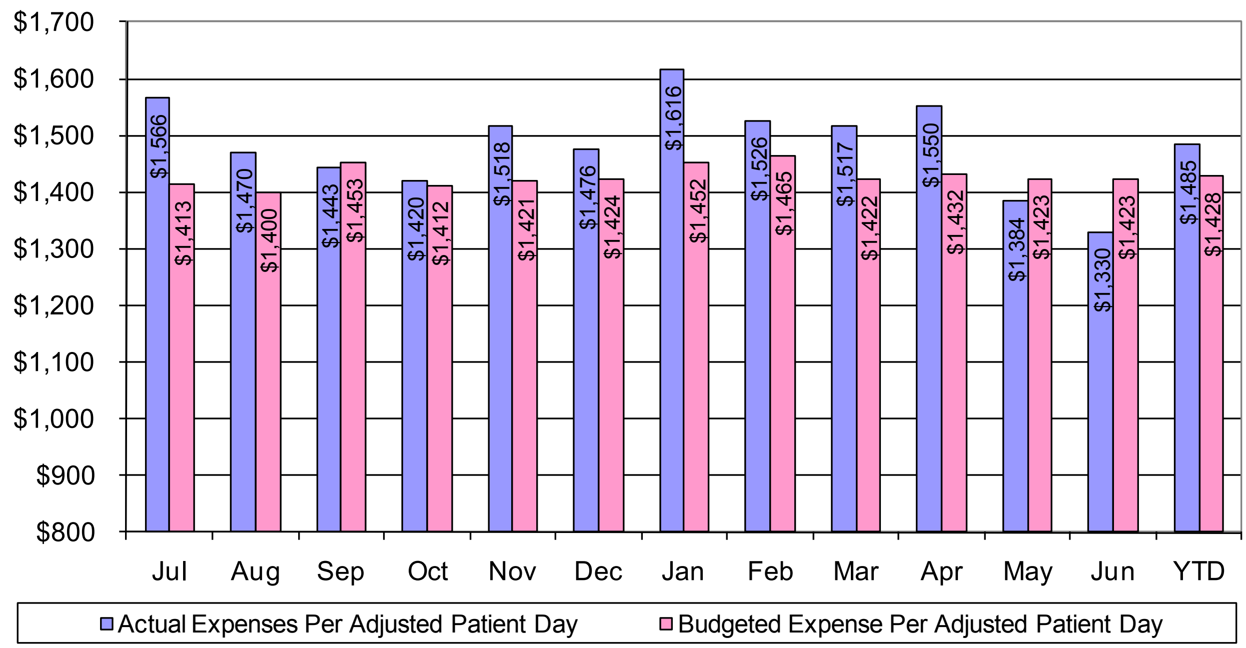
Net patient service revenues are the resulting difference between gross patient charges and the deductions from revenue. This difference reflects what the anticipated cash payments the Hospital is expecting to receive for the services provided. In addition, included in the year to date net patient service revenue are the estimated amounts to be received from participation in the State of California's FY 2011 Intergovernmental Transfer (IGT) Program, $180,000 per month and $1,083,000 for the six month ended December 31, 2010. As a result of the inclusion of all forty-six (46) California district hospitals in the fiscal year 2011 IGT program and finalization of amounts that will be received by each of these Hospitals an additional reduction of $102,000 will be included each month over the remainder of fiscal year 2011. This reduction will result in an estimated adjusted amount to be received of $776,000 for fiscal year 2011. This amount is still receivable as of June 30, 2011.

The graph on the following page shows the level of reimbursement that the Hospital has estimated for fiscal year 2011 by major payor category.



Total Operating Expenses

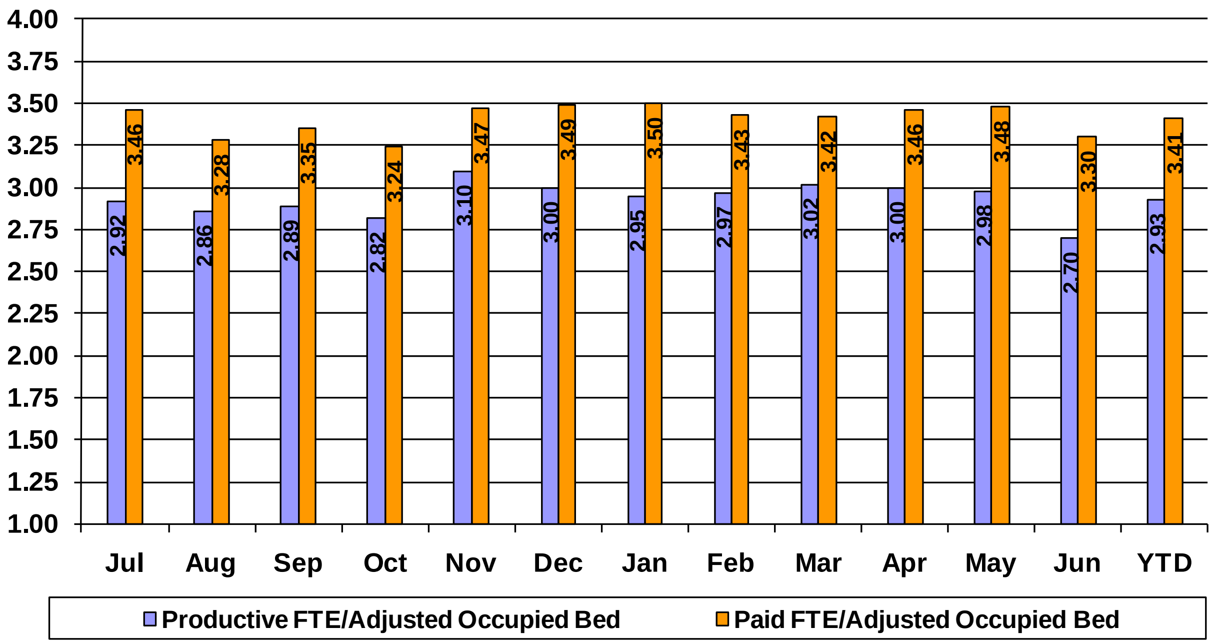
Total operating expenses were less than the fixed budget by $846,000 or 14.8%. On an adjusted patient day basis, our cost per adjusted patient day was $1,330 which was $107 per adjusted patient day favorable to budget and $54 below the prior month. This variance in expenses per adjusted patient day was primarily the result of favorable variances in non salary and benefit costs of $98 per adjusted patient day. The graph below shows the actual hospital operating expenses on an adjusted patient day basis for the 2011 fiscal year by month as compared to budget and is followed by explanations of the significant areas of variance that were experienced in the current month.



Salary and Temporary Agency Expenses

Salary and temporary agency costs combined were favorable to the fixed budget by $81,000 but were unfavorable to budgeted levels on a per adjusted patient day basis by $39 or 5.5%; however, the unfavorable variance was improved from May's 10.9% per adjusted patient day. On an adjusted occupied bed basis, productive FTE's were favorable to budget by 2.8% at 2.7 FTE's versus the budgeted 2.8 FTE's. The graph below shows the productive and paid FTE's per adjusted occupied bed for FY 2011 by month.

FTE's per Adjusted Occupied Bed



Benefits

Benefits were favorable to the fixed budget by $431,000 or 47.7%. This favorable variance was the result of lower than budget expenses related to the self insured group health insurance program ($229,000) due to lower health claims outstanding and lower workers compensation insurance costs ($25,000). In addition, there was a favorable vacation accrual entry of $45,000 due to the increased use of vacation and PTO for furloughs and $119,000 of benefit expenses capitalized for ongoing construction projects.

Professional Fees

Professional fees were favorable to budget by $83,000 in June. This favorable variance was the result primarily of the delay in the start of the Wound Care Program ($64,000).

Supplies

Supplies were favorable to budget by $210,000 or $42 per adjusted patient day in June. This favorable variance was the result of lower than budgeted medical supplies expense of $98,000, due in part to a favorable inventory adjustment for year end. The favorable supplies expense was also the result of lower than budgeted expenses for pharmacy supplies ($51,000) in the infusion therapy program and supply expenses related to the Wound Care program ($67,000) that have been delayed until January 2012.

Purchased Services

Purchased services were favorable to budget by $42,000 or $3 per adjusted patient day for the month.

Rents and Leases

Rents and leases were $27,000 favorable to the fixed budget and $5 per adjusted patient day favorable to budget for the month of June. This favorable variance was primarily the result of lower than budgeted rental expense related to the PACS and Digital Radiology upgrade project ($31,000). This project will not be completed until the end of the third quarter of calendar 2011 due to Office of Statewide Health Planning delays. In addition, there were multiple departments that did not incur equipment rental costs in June.

Action Items

The management team has implemented several initiatives to respond to the unfavorable financial performance. In addition, there are many initiatives that are in process and will be implemented over the next months. Most of these initiatives are also part of the Fiscal Year 2012 budget.

Initiatives that have been implemented include:

- We have implemented mandatory closure of most support departments on eight major holidays as well as two “non-holiday” closure days during the next fiscal year (beginning Memorial Day 2011). Essential support departments will staff at core staffing levels on these days. Productive salary cost savings are estimated to be $59,000 per year for the two days.

- Mandatory furlough days for the months of June, July and August have been implemented. All non nursing employees are required to take one PTO or non paid day off per pay period during this period when patient activity is typically slower. Savings are estimated to be $59,000 per month in productive salary expense during these three months.

- Elimination of outside consulting services from Robert Half and Jacobus who provided support for the EHR implementation and IT department ($68,000 - $80,000 per month). While this will not have an impact on the monthly Statement of Revenues and Expenses this will help with our cash flow.

- Reduction in the use of approximately 9.9 Certified Nursing Assistants (CNA’s) on nursing units resulting in savings of approximately $42,000 per month, while still complying with state staffing guidelines.

- Negotiation of a new service agreement with Alliance Imaging who provides mobile MRI service, resulting in a reduction in fees of $4,000 per month.

- Reduction in scope of service and coverage limits for GE Biomedical Service support, resulting in an expense reduction of about $4,100 per month.

- Reduced stacked parking service to 11:00 am to 4:00 pm. Monthly savings are $3,000 (60 day notice given).

- Reduced security guard coverage to night shift only, seven days a week resulting in savings of $6,250 per month.

- Memberships deemed to not be of a benefit to the ongoing operations of the organization will be cancelled or not renewed. These include memberships with: Aging Services of California, Association of California Hospital Districts, Advisory Board and the Governance Institute for monthly savings of $6,250. Some of the annual fees for these memberships have been prepaid and as such savings will be realized over the next fiscal year.

The annual impact of the above cost reduction initiatives that will affect the Statement of Revenues and Expenses is about $879,000 per year or an average of $73,266 per month, plus $445,000 cash flow savings associated with the discontinuation of the IT consulting firms.

Initiatives that are in process:

- Expansion of the number of sub acute beds by twelve beds. A letter has been sent to representatives at the California Department of Health Services expressing our interest and the need to expand sub acute capacity at Alameda Hospital.
- Management, together with representatives from the California Hospital Association, have spoken with regional and national representatives from CMS to provide information and data to support the rejection of the State's request under AB 97 (Medi-Cal D/P SNF & Sub Acute reimbursement reductions).
- Termination our inpatient Medi-Cal contract, which will become effective mid October 2011.
- Progressive steps to expand our operational presence in skilled nursing within the District.

The following pages include the detailed financial statements for the twelve (12) months ended June 30, 2011, of fiscal year 2011.

ALAMEDA HOSPITAL
KEY STATISTICS
JUNE 2011

	ACTUAL JUNE 2011	CURRENT FIXED BUDGET	VARIANCE (UNDER) OVER	%	JUNE 2010	YTD JUNE 2011	YTD FIXED BUDGET	VARIANCE	%	YTD JUNE 2010
Discharges:										
Total Acute	212	227	(15)	-6.6%	219	2,527	2,860	(333)	-11.6%	2,802
Total Sub-Acute	1	1	-	0.0%	1	24	17	7	41.2%	14
Total Skilled Nursing	11	12	(1)	-8.3%	11	109	146	(37)	-25.3%	127
	224	240	(16)	-6.7%	231	2,660	3,023	(363)	-12.0%	2,943
Patient Days:										
Total Acute	745	857	(112)	-13.1%	762	10,443	10,782	(339)	-3.1%	10,579
Total Sub-Acute	954	1,005	(51)	-5.1%	1,013	11,861	12,228	(367)	-3.0%	12,196
Total Skilled Nursing	672	690	(18)	-2.6%	686	7,966	8,395	(429)	-5.1%	7,832
	2,371	2,552	(181)	-7.1%	2,461	30,270	31,405	(1,135)	-3.6%	30,607
Average Length of Stay										
Total Acute	3.51	3.78	(0.26)	-6.9%	3.48	4.13	3.77	0.36	9.6%	3.78
Average Daily Census										
Total Acute	24.83	28.57	(3.73)	-13.1%	25.40	28.61	29.54	(0.93)	-3.1%	28.98
Total Sub-Acute	31.80	33.50	(1.70)	-5.1%	33.77	32.50	33.50	(1.01)	-3.0%	33.41
Total Skilled Nursing	22.40	23.00	(0.60)	-2.6%	22.87	21.82	23.00	(1.18)	-5.1%	21.46
	79.03	85.07	(6.03)	-7.1%	82.03	82.93	86.04	(1.93)	-2.2%	83.85
Emergency Room Visits	1,363	1,470	(107)	-7.3%	1,396	16,816	17,888	(1,072)	-6.0%	17,624
Outpatient Registrations	1,983	2,313	(330)	-14.3%	2,075	23,796	26,838	(3,042)	-11.3%	29,079
Surgery Cases:										
Inpatient	33	51	(18)	-35.3%	55	502	599	(97)	-16.2%	683
Outpatient	184	148	36	24.3%	131	1,730	1,704	26	1.5%	4,229
	217	199	18	9.0%	186	2,232	2,303	(71)	-3.1%	4,912
Kaiser Inpatient Cases	-	-	-	-	-	-	-	-	-	91
Kaiser Eye Cases	-	-	-	-	-	-	-	-	-	1,461
Kaiser Outpatient Cases	-	-	-	-	-	-	-	-	-	1,417
Total Kaiser Cases	-	-	-	-	-	-	-	-	-	2,969
% Kaiser Cases	0.0%	0.0%			0.0%	0.0%	0.0%			60.4%
Adjusted Occupied Bed	120.86	132.59	(11.73)	-8.8%	127.56	123.35	130.64	(7.29)	-5.6%	142.21
Productive FTE	325.77	367.71	(41.94)	-11.4%	365.64	362.54	368.07	(5.53)	-1.5%	386.60
Total FTE	398.43	418.66	(20.23)	-4.8%	425.78	420.78	418.81	1.97	0.5%	442.28
Productive FTE/Adj. Occ. Bed	2.70	2.77	(0.08)	-2.8%	2.87	2.94	2.82	0.12	4.3%	2.72
Total FTE/ Adj. Occ. Bed	3.30	3.16	0.14	4.4%	3.34	3.41	3.21	0.21	6.4%	3.11

City of Alameda Health Care District
Statements of Financial Position
June 30, 2011

	Current Month	Prior Month	Prior Year End
Assets			
Current Assets:			
Cash and Cash Equivalents	$ 1,802,225	$ 2,037,785	$ 3,480,668
Patient Accounts Receivable, net	7,249,185	8,331,120	9,558,147
Other Receivables	8,216,998	2,058,403	6,654,035
Third-Party Payer Settlement Receivables	278,580	628,100	374,557
Inventories	1,238,762	1,159,933	1,149,706
Prepaids and Other	262,359	208,538	453,872
Total Current Assets	19,048,109	14,423,879	21,670,985
Assets Limited as to Use, net	483,716	471,451	476,630
Property, Plant and Equipment, net	8,321,570	8,155,703	6,993,735
Total Assets	**$ 27,853,395**	**$ 23,051,033**	**$ 29,141,350**
Liabilities and Net Assets			
Current Liabilities:			
Current Portion of Long Term Debt	$ 711,784	$ 416,000	$ 450,831
Accounts Payable and Accrued Expenses	7,025,089	7,061,608	6,112,296
Payroll Related Accruals	4,003,695	3,971,862	4,351,133
Deferred Revenue	5,725,900	478,792	5,736,951
Employee Health Related Accruals	343,382	528,999	645,750
Third-Party Payer Settlement Payable	267,474	909,297	500,000
Total Current Liabilities	18,077,324	13,366,558	17,796,961
Long Term Debt, net	1,142,109	857,005	1,236,831
Total Liabilities	19,219,433	14,223,563	19,033,792
Net Assets:			
Unrestricted	8,022,670	8,228,443	9,560,928
Temporarily Restricted	611,292	599,027	546,630
Total Net Assets	8,633,962	8,827,470	10,107,558
Total Liabilities and Net Assets	**$ 27,853,395**	**$ 23,051,033**	**$ 29,141,350**

City of Alameda Health Care District

Statements of Operations

June 30, 2011

$'s in thousands

	Current Month					Year-to-Date				
	Actual	Budget	$ Variance	% Variance	Prior Year	Actual	Budget	$ Variance	% Variance	Prior Year
Patient Days	2,371	2,552	(181)	-7.1%	2,461	30,270	31,405	(1,135)	-3.6%	30,607
Discharges	224	240	(16)	-6.7%	231	2,660	3,022	(362)	-12.0%	2,942
ALOS (Average Length of Stay)	10.58	10.63	(0.05)	-0.5%	10.65	11.38	10.39	0.99	9.5%	10.40
ADC (Average Daily Census)	79.0	85.1	(6.03)	-7.1%	82.0	83	86.0	(3.11)	-3.6%	83.9
CMI (Case Mix Index)	1.2392				1.3264	1.3274				1.3386
Revenues										
Gross Inpatient Revenues	$ 12,135	$ 13,719	$ (1,584)	-11.5%	$ 12,347	$ 163,582	$ 169,166	$ (5,584)	-3.3%	$ 164,372
Gross Outpatient Revenues	6,575	7,636	(1,060)	-13.9%	6,919	80,180	87,366	(7,187)	-8.2%	114,302
Total Gross Revenues	18,710	21,354	(2,644)	-12.4%	19,265	243,761	256,532	(12,771)	-5.0%	278,674
Contractual Deductions	13,761	15,507	1,747	11.3%	11,925	176,499	184,820	8,320	4.5%	203,724
Bad Debts	718	620	(98)	-15.8%	497	8,015	7,619	(396)	-5.2%	6,338
Charity and Other Adjustments	119	155	36	23.0%	281	1,768	1,905	137	7.2%	1,294
Net Patient Revenues	4,112	5,072	(960)	-18.9%	6,563	57,479	62,189	(4,710)	-7.6%	67,317
Net Patient Revenue %	22.0%	23.8%			34.1%	23.6%	24.2%			24.2%
Net Clinic Revenue	35	28	7	26.3%	46	430	335	95	28.5%	201
Other Operating Revenue	12	14	(2)	-14.8%	8	123	166	(43)	-25.7%	419
Total Revenues	**4,159**	**5,114**	**(955)**	-18.7%	**6,617**	**58,032**	**62,689**	**(4,657)**	-7.4%	**67,936**
Expenses										
Salaries	2,727	2,808	81	2.9%	3,114	35,234	33,952	(1,282)	-3.8%	37,493
Temporary Agency	143	166	23	13.9%	167	2,385	2,060	(325)	-15.8%	2,030
Benefits	473	904	431	47.7%	(193)	9,300	10,735	1,435	13.4%	10,115
Professional Fees	299	382	83	21.6%	234	3,667	4,080	414	10.1%	3,447
Supplies	485	695	210	30.3%	825	8,125	8,388	263	3.1%	9,985
Purchased Services	345	387	42	10.9%	436	4,318	4,665	348	7.5%	4,652
Rents and Leases	83	110	27	24.5%	49	838	1,074	236	22.0%	843
Utilities and Telephone	69	71	2	2.8%	74	770	861	91	10.6%	837
Insurance	37	36	(1)	-2.0%	10	384	430	46	10.7%	496
Depreciation and amortization	77	73	(4)	-5.4%	102	953	877	(77)	-8.7%	1,155
Other Opertaing Expenses	127	77	(49)	-63.6%	95	1,080	973	(107)	-11.0%	985
Total Expenses	**4,863**	**5,709**	**846**	14.8%	**4,913**	**67,053**	**68,096**	**1,043**	1.5%	**72,038**
Operating gain (loss)	**(705)**	**(595)**	**(109)**	-18.3%	**1,704**	**(9,021)**	**(5,407)**	**(3,614)**	66.8%	**(4,102)**
Non-Operating Income / (Expense)										
Parcel Taxes	480	479	1	0.1%	477	5,748	5,754	(5)	-0.1%	5,746
Investment Income	7	-	7	0.0%	6	19	-	19	0.0%	29
Interest Expense	(12)	(8)	(4)	-44.0%	(7)	(121)	(125)	4	-3.5%	(99)
Other Income / (Expense)	23	22	1	5.4%	4	1,716	266	1,449	544.4%	255
Net Non-Operating Income / (Expense)	**499**	**493**	**6**	**1.1%**	**480**	**7,363**	**5,895**	**1,468**	**24.9%**	**5,932**
Excess of Revenues Over Expenses	**$ (206)**	**$ (102)**	**$ (104)**	**101.4%**	**$ 2,183**	**$ (1,658)**	**$ 488**	**$ (2,146)**	**-439.9%**	**$ 1,830**

City of Alameda Health Care District

Statements of Operations - Per Adjusted Patient Day

June 30, 2011

	Current Month					Year-to-Date				
	Actual	Budget	$ Variance	% Variance	Prior Year	Actual	Budget	$ Variance	% Variance	Prior Year
Revenues										
Gross Inpatient Revenues	$ 3,319	$ 3,454	$ (134)	-3.9%	$ 3,215	$ 3,627	$ 3,552	$ 74	2.1%	$ 3,168
Gross Outpatient Revenues	1,799	1,922	(124)	-6.4%	1,802	1,778	1,834	(57)	-3.1%	2,203
Total Gross Revenues	5,118	5,376	(258)	-4.8%	5,017	5,404	5,387	17	0.3%	5,370
Contractual Deductions	3,764	3,904	140	3.6%	3,105	3,913	3,881	(32)	-0.8%	3,926
Bad Debts	197	156	(40)	-25.9%	129	178	160	(18)	-11.1%	122
Charity and Other Adjustments	33	39	6	16.3%	73	39	40	1	2.0%	25
Net Patient Revenues	1,125	1,277	(152)	-11.9%	1,709	1,274	1,306	(32)	-2.4%	1,297
Net Patient Revenue %	22.0%	23.8%			34.1%	23.6%	24.2%			24.2%
Net Clinic Revenue	10	7	3	37.2%	12	10	7	3	35.6%	4
Other Operating Revenue	3	3	(0)	-7.4%	2	3	3	(1)	-21.5%	8
Total Revenues	**1,138**	**1,287**	**(150)**	-11.6%	**1,723**	**1,287**	**1,317**	**(30)**	-2.3%	**1,309**
Expenses										
Salaries	746	707	(39)	-5.5%	811	781	713	(68)	-9.6%	723
Temporary Agency	39	42	3	6.4%	44	53	43	(10)	-22.2%	39
Benefits	129	228	98	43.2%	(50)	206	225	19	8.5%	195
Professional Fees	82	96	14	14.8%	61	81	86	4	5.1%	66
Supplies	133	175	42	24.2%	215	180	176	(4)	-2.3%	192
Purchased Services	94	97	3	3.2%	114	96	98	2	2.3%	90
Rents and Leases	23	28	5	17.9%	13	19	23	4	17.6%	16
Utilities and Telephone	19	18	(1)	-5.6%	19	17	18	1	5.6%	16
Insurance	10	9	(1)	-10.8%	3	9	9	1	5.8%	10
Depreciation and Amortization	21	18	(3)	-14.5%	26	21	18	(3)	-14.8%	22
Other Operating Expenses	35	19	(15)	-77.8%	25	24	20	(4)	-17.2%	19
Total Expenses	**1,330**	**1,437**	**107**	7.4%	**1,279**	**1,487**	**1,430**	**(57)**	-4.0%	**1,388**
Operating Gain / (Loss)	**(193)**	**(150)**	**(43)**	-28.6%	**444**	**(200)**	**(113)**	**(86)**	76.3%	**(79)**
Non-Operating Income / (Expense)										
Parcel Taxes	131	121	11	8.8%	124	127	121	7	5.5%	111
Investment Income	2	-	2	0.0%	2	0	-	0	0.0%	1
Interest Expense	(3)	(2)	(1)	-56.5%	(2)	(3)	(3)	(0)	1.9%	(2)
Other Income / (Expense)	6	6	1	14.6%	1	38	6	32	580.4%	5
Net Non-Operating Income / (Expense)	**136**	**124**	**12**	**9.9%**	**125**	**163**	**124**	**39**	**31.9%**	**114**
Excess of Revenues Over Expenses	**$ (56)**	**$ (26)**	**$ (31)**	118.8%	**$ 568**	**$ (37)**	**$ 10**	**$ (47)**	-448.3%	**$ 36**

City of Alameda Health Care District
Statement of Cash Flows
For the Twelve Months Ended June 30, 2011

	Current Month	Year-to-Date
Cash flows from operating activities		
Net Income / (Loss)	$ (205,773)	$ (1,658,321)
Items not requiring the use of cash:		
Depreciation and amortization	76,619	$ 953,130
Write-off of Kaiser liability	-	$ (1,451,597)
Changes in certain assets and liabilities:		
Patient accounts receivable, net	1,081,935	2,308,962
Other Receivables	(6,158,595)	(1,562,963)
Third-Party Payer Settlements Receivable	(292,303)	(136,549)
Inventories	(78,829)	(89,056)
Prepaids and Other	(53,821)	191,513
Accounts payable and accrued liabilities	(36,519)	2,364,390
Payroll Related Accruals	31,833	(347,438)
Employee Health Plan Accruals	(185,617)	(302,368)
Deferred Revenues	5,247,108	(11,051)
Cash provided by (used in) operating activities	(573,962)	258,652
Cash flows from investing activities		
(Increase) Decrease in Assets Limited As to Use	(12,265)	(7,086)
Additions to Property, Plant and Equipment	(242,486)	(2,280,965)
Other	0	120,063
Cash provided by (used in) investing activities	(254,751)	(2,167,988)
Cash flows from financing activities		
Net Change in Long-Term Debt	580,888	166,231
Net Change in Restricted Funds	12,265	64,662
Cash provided by (used in) financing and fundraising activities	593,153	230,893
Net increase (decrease) in cash and cash equivalents	(235,560)	(1,678,443)
Cash and cash equivalents at beginning of period	2,037,785	3,480,668
Cash and cash equivalents at end of period	$ 1,802,225	$ 1,802,225

City of Alameda Health Care District
Ratio's Comparison

Financial Ratios	Audited Results FY 2008	FY 2009	FY 2010	Unaudited Results Q1 FY 2011	Q2 FY 2011	Q3 FY 2011	YTD 4/30/2011	YTD 5/31/2011	YTD 6/30/2011
Profitability Ratios									
Net Patient Revenue (%)	22.48%	22.69%	24.16%	24.06%	24.56%	24.52%	24.08%	23.71%	23.58%
Earnings Before Depreciation, Interest, Taxes and Amortization (EBITA)	-0.72%	3.62%	4.82%	0.04%	1.59%	3.37%	0.51%	-0.87%	-1.01%
EBIDAP Note 5	-10.91%	-5.49%	-3.66%	-9.40%	-7.72%	-9.06%	-11.93%	-13.34%	-13.41%
Operating Margin	-3.75%	1.03%	2.74%	-1.58%	-0.15%	1.51%	-1.16%	-2.46%	-2.61%
Liquidity Ratios									
Current Ratio	0.98	1.15	1.23	1.19	1.21	1.24	1.13	1.07	1.05
Days in accounts receivable ,net	51.70	57.26	51.83	59.89	64.26	60.17	59.07	51.36	46.03
Days cash on hand (with restricted)	30.61	13.56	21.60	12.38	9.07	14.11	17.72	15.25	14.14
Debt Ratios									
Cash to Debt	187.3%	115.3%	249.0%	143%	93.4%	172.6%	229.2%	197.11%	123.30%
Average pay period	58.93	58.03	57.11	67.10	62.78	67.98	64.70	63.06	62.68
Debt service coverage	(0.14)	3.87	5.98	0.01	1.04	3.15	0.50	(0.89)	(0.70)
Long-term debt to fund balance	0.26	0.20	0.14	0.14	0.13	0.11	0.12	0.13	0.18

City of Alameda Health Care District
Ratio's Comparison

Financial Ratios	FY 2008	FY 2009	FY 2010	Q1 FY 2011	Q2 FY 2011	Q3 FY 2011	YTD 4/30/2011	YTD 5/31/2011	YTD 6/30/2011
	Audited Results			Unaudited Results					
Return on fund balance	-29.59%	8.42%	18.87%	-2.66%	-0.49%	6.92%	-6.61%	-16.45%	-19.21%
Debt to number of beds	20,932	13,481	10,482	9,778	9,065	8,367	8,137	7,907	11,515
Patient Care Information									
Bed Capacity	135	161	161	161	161	161	161	161	161
Patient days(all services)	22,687	30,463	30,607	7,551	15246	23,025	25,450	27,899	30,270
Patient days (acute only)	11,276	11,787	10,579	2,552	5,230	8,074	8,899	9,698	10,443
Discharges(acute only)	2,885	2,812	2,802	609	1,242	1,882	2,093	2,315	2,527
Average length of stay (acute only)	3.91	4.19	3.78	4.19	4.21	4.29	4.25	4.19	4.13
Average daily patients (all sources)	61.99	83.46	83.85	82.08	82.86	84.03	83.72	83.28	82.93
Occupancy rate (all sources)	45.92%	52.94%	52.08%	50.98%	51.47%	52.19%	52.00%	51.73%	51.51%
Average length of stay	3.91	4.19	3.78	4.19	4.21	4.29	4.25	4.19	4.13
Emergency Visits	17,922	17,337	17,624	4,310	8,381	12,640	14,023	15,453	16,816
Emergency visits per day	48.97	47.50	48.28	46.85	45.55	46.13	46.13	46.13	46.07
Outpatient registrations per day[Note 1]	84.54	82.05	79.67	64.54	64.18	65.26	65.37	65.11	65.19

City of Alameda Health Care District
Ratio's Comparison

	Audited Results			Unaudited Results					
Financial Ratios	**FY 2008**	**FY 2009**	**FY 2010**	**Q1 FY 2011**	**Q2 FY 2011**	**Q3 FY 2011**	**YTD 4/30/2011**	**YTD 5/31/2011**	**YTD 6/30/2011**
Surgeries per day[Note 1]	14.78	16.12	13.46	6.28	6.28	6.00	6.11	6.01	6.12

Notes:

1. Includes Kaiser Outpatient Sugercial volume in Fiscal Years 2008, 2009 and through March 31, 2010.
2. In addition to these general requirements a feasibility report will be required.
3. Based upon Moody's FY 2008 preliminary single-state provider medians.
4. EBIDA - Earnings before Interest, Depreciation and Amoritzation
5. EBIDAP - Earnings before Interest, Depreciation and Amortization and Parcel Tax Proceeds

Glossary of Financial Ratios

Term	What is it? Why is it Important?	How is it calculated?
EBIDA	A measure of the organization's cash flow	Earnings before interest, depreciation, and amortization (EBIDA)
Operating Margin	Income derived from patient care operations	Total operating revenue less total operating expense divided by total operating revenue
Current Ratio	The number of dollars held in current assets per dollar of liabilities. A widely used measure of liquidity. An increase in this ratio is a positive trend.	Current assets divided by current liabilities
Days cash on hand	Measures the number of days of average cash expenses that the hospital maintains in cash or marketable securities. It is a measure of total liquidity, both short-term and long-term. An increasing trend is positive.	Cash plus short-term investments plus unrestricted long-term investments over total expenses less depreciation divided by 365.
Cash to debt	Measures the amount of cash available to service debt.	Cash plus investments plus limited use investments divided by the current portion and long-term portion of the organization's debt insruments.
Debt service coverage	Measures total debt service coverage (interest plus principal) against annual funds available to pay debt service. Does not take into account positive or negative cash flow associated with balance sheet changes (e.g. work down of accounts receivable). Higher values indicate better debt repayment ability.	Excess of revenues over expenses plus depreciation plus interest expense over principal payments plus interest expense.
Long-term debt to fund balance	Higher values for this ratio imply a greater reliance on debt financing and may imply a reduced ability to carry additional debt. A declining trend is positive.	Long-term debt divided by long-term debt plus unrestricted net assets.

DATE: July 27, 2011

TO: Finance and Management Committee

FROM: Deborah E. Stebbins, Chief Executive Officer
Kerry Easthope, Associate Administrator

SUBJECT: Recommendation to Approve Modifications to Bank of Alameda Line of Credit and Wound Care Loan Covenants

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Recommendation:

Executive Management is requesting that the Finance and Management Committee recommend to the Board of Directors approval of the modifications and waivers to the Terms and Covenants for the Line of Credit and Wound Care Construction Loan agreed to between the Bank of Alameda and Alameda Hospital.

Additionally, Executive Management is requesting that the District's Chief Executive Officer and Associate Administrator execute the required documents to reflect these modifications on behalf of the District.

Background & Discussion:

On May 9, 2011 the City of Alameda Health Care Board of Directors approved the final Terms and Conditions of the Line of Credit and Wound Care Construction Loan. Since that time, we have informed the Bank of Alameda that the Hospital would be in violation of two of the covenants with respect to our June 30, 2011 financial statements. The specific violations are the required Annual Debt Service Coverage Ratio (DSCR) of 1.20:1.00 and the minimum actual Net Income of $1.00 for year-end June 30, 2011.

Following a series of discussions regarding this matter with representatives from the Bank of Alameda, it was agreed that these two covenants be waived. This waiver request was approved by the Bank's Loan Committee on July 21, 2011.

Furthermore, it was agreed and approved by the Bank of Alameda Loan Committee, that the following Amendments to the Terms and Covenants be adopted for both the Line of Credit and Construction Loan.

- Eliminate and remove all DSCR requirements in their entirety.

- Add: Minimum current ratio of 1:00:1:00 to be tested every quarter-end (next test September 30, 2011).

- Maintain: Minimum Net Income of $1.00 to be tested at fiscal year-end (next test June 30, 2012).

- Add: Minimum Tangible Net Worth of $7.5 million to be tested every quarter-end (next test September 30, 2011.

- To limit the availability of the $900K Wound Care Loan to $700K for costs associated with only construction, construction planning and management, furniture, fixtures and equipment. Any draw exceeding $700K for any other purposes will require the approval of the Bank on a case by case basis.

This Amendment approval is conditioned upon an updated legal opinion from the Bank's legal counsel confirming that the special parcel tax will continue to support all loans from the Bank to the Hospital. It is anticipated that the Bank will charge the Hospital for a portion or all of this review cost. However, we will be able to borrow under the Line of Credit upon execution of the Loan Covenant Violation Waiver.

All other Terms and Covenants of the Loan and Line of Credit would remain in full force and effect.

Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

Date: July 27, 2011

To: Finance and Management Committee

From: Deborah E. Stebbins, CEO

SUBJECT: Reconciliation of FY 2011 Actual to Budget Variances

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At the last meetings of the Finance and Management Committee and the Board of Directors, Management committed to provide a summary of the key favorable and unfavorable variances between actual vs. budget results for the FY 2011 Operating Budget. This memorandum outlines those variances, which are summarized on Attachment A.

The FY 2011 margin (Excess of Revenue over Expense) was budgeted at $488,000. The FY2011 unaudited actual margin (Excess of Revenue over Expense) was a loss of $1,699,000, representing an unfavorable variance of $2,193,000. The following are components of the variance:

Non-Operating Income:
Normally Non-Operating Income is comprised predominantly of the Parcel Tax Revenue plus much smaller amounts for interest and investment income. This year, there was a favorable variance of $1,470,000 in this category as result of a non-reoccurring write off of a third party liability. Although we were aware this write-off might occur during FY 2011, it was not included in the FY 2011 budget until we received appropriate advice from legal counsel and our auditor.

Net Revenue Variances:
There are two parts of the Net Revenue variances which, in total result in an unfavorable Net Revenue of ($4,659K). They include:

1. Two unforeseen and essentially uncontrollable adjustments for the lower IGT payment and the FY 2009 Medi-Cal payment adjustment, totaling ($2,140K). These are both included in the Contractual Deductions line, which is where such items are appropriately booked. At the time of the budget preparation we fully expected our IGT pick up would be closer to $2.2 million instead of the actual amount of $700K. The variance was largely the result of much greater participation in the IGT program by District Hospitals, which diluted the available funds for each participant. The 2009 Medi-Cal payment adjustment was the result of recent budget negotiations at the State level in which an injunction to impede the State implementing a rate reduction during the 2009 fiscal year was removed, allowing the State to collect the reduced amount.

2. There were also significant variances in net operating revenue as a result of a sharp decline in volume and patient acuity, especially in the months of April, May and June. For the year, the unfavorable Net Revenue associated with these variances totaled ($2,518,000) or (4%) from budget. Of this approximately $1,480K is associated with Inpatient volume and acuity and $1,038K is associated with Outpatient volumes. It is important to note that total patient days were also under budget for the year by (3.6%).

3. We have estimated the inpatient net revenue variance based on the product of budgeted net revenue per patient day multiplied by the variance between budgeted and actual inpatient days. ($1,303 / day X 1,135 days variance).

4. The outpatient calculation is essentially done similarly based on $ per registration and includes the lower outpatient registrations and revenue due to the delayed start of Wound Care, which makes up about half of the outpatient net revenue variance. It should be noted that while the net revenue outpatient variance was substantially impacted by the delayed opening of the Wound Care program, expenses for the program were also delayed. The bottom line impact of the delay for Wound Care is minimal (about $50,000). This low margin does not reflect long term contributions for Wound Care since the volume, revenue and expense will ramp up gradually in the first year.

Operating Expenses:

Productive salaries and registry are both negative variances which, in a perfect world should actually been favorable variances given the lower volume and acuity. While there was an attempt to react to that through flexed staffing, unit consolidation and, as of June, a mandatory furlough program, we were not successful in flexing proportionately to the volume and acuity drop. We should have come closer to achieving some favorable variances. A significant portion of the registry and temporary labor expenses related to temporary staff in the Information Technology Department, all of whom have now either completed their assignments or have been placed in open permanent positions.

The larger labor variance is in non-productive salaries. We have done a lot of work to better understand this variance; however, the Alliance system, which is our budgeting tool, has been down for the past several days. From what we have found out, it does appear that the actual expenses for non-productive salaries appears to be accurate and that this pay category may have been understated in the FY 2011 budget. We will continue to work to understand the cause for FY 2011 budget understatement and then ensure that the FY 2012 is properly budgeted. This will be a follow up item.

Offsetting positive variances in Employee Benefits Expenses ($1,435K) are valid (we really have seen about a $1 million decrease in our employee health expenses and workers compensation expense). Other expense categories combined were about $1.368K better than budget. This in part was associated with the lower patient volumes throughout the hospital as well as costs associated with not operating the Wound Care Clinic ($375K), as well as delays associated with completing the PACS and Radiology suite upgrades ($205K).

Attachement A

FY 2011 Actual to Budget Variance Reconciliation
($'s in thousands)

	Financial Statement Information	Variance Reconciliation
2011 Budgeted Excess of Revenue Over Expense	**$488**	
2011 Non-Operating Income Variances	**$1,470**	**$1,468**
Contractual Allowance Variances: *		
IGT Payments below budget		($1,500)
FY 2009 MediCal Payment Adjustments		($640)
Subtotal		**($2,140)**
Operating Net Revenue Variances:		
Inpatient Volume/Acuity Related Variance		($1,480)
Outpatient Volume/Wound Care Variance		($1,038)
Subtotal		**($2,518)**
Total Non-operating and Net Operating Variance	**($4,659)**	**($4,658)**
Expense Variances		
Salaries:		
Productive		($243)
Non-Productive		($1,038)
Subtotal - Salaries		($1,281)
Registry/Temp Labor		($325)
Benefits		$1,435
Pro Fees,Supplies, Purch Svcs,Rents, Insurance		$1,368
Depreciation and Other		($200)
Total Expense Variances	**$1,002**	**$997**
2011 Actual Excess Revenue over Expense/Variance	**($1,699)**	**($2,193)**

Finance and Management Committee
July 27, 2011