



**PUBLIC NOTICE**

**Finance and Management Committee**

**Wednesday, October 31, 2012**

**7:30 a.m.**

**Location:** Alameda Hospital (Dal Cielo Conference Room)  
2070 Clinton Avenue, Alameda, CA 94501  
**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.

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.

- I. Call To Order Michael McCormick
- II. Action Items
  - A. Acceptance of August 29, 2012 Minutes [enclosure] Michael McCormick
  - B. Recommendation to Accept the FYE 2012 Audited Financial Statements [enclosure] Kerry Easthope  
Rick Jackson  
TCA Partners
  - C. Recommendation to Accept September 2012 Unaudited Financial Statements [enclosure] Kerry Easthope
- III. Chief Financial Officer Report Kerry Easthope
  - A. Revenue Cycle Update
  - B. Follow-up and Response to Board /Committee Member (Gorelick) Inquiries
- IV. Chief Executive Officer Report Deborah E. Stebbins
- V. Board / Committee / Staff Comments
- VI. Adjournment

NEXT MEETING SCHEDULED: November 28, 2012



**Finance and Management Committee Minutes**

September 26, 2012

|                                  |  |                                   |                                    |
|----------------------------------|--|-----------------------------------|------------------------------------|
| <b>Members Present: (Voting)</b> | Mike McCormick                           | Ed Kofman                         |                                    |
| <b>Management Present:</b>       | Deborah E. Stebbins<br>Kerry J. Easthope | Richard Espinoza<br>Mary Bond, RN | Katy Silverman                     |
| <b>Ex Officio/Guests:</b>        | Robert Deutsch, MD                       |                                   |                                    |
| <b>Absent:</b>                   | Elliott Gorelick<br>Ann Evans            | James Oddie                       | William Sellman, MD<br>Jim Yeh, DO |
| <b>Submitted by:</b>             | Kristen Thorson                          |                                   |                                    |

| TOPIC                               | DISCUSSION  |  | ACTION   FOLLOW-UP                               |
|-------------------------------------|---|--|--|
| I. Call to Order                    | Director McCormick called the meeting to order at 7:40 a.m. without a quorum. |  |  |
| II. Action Items                    | A.  | Acceptance of August 29, 2012 Minutes  | No action was taken as a quorum was not present. |
|                                     | B.  | Recommendation to Accept July 2012 Unaudited Financial Statements<br><br>Kerry Easthope presented the financial statements as referenced in the packet and financial statements.   | No action was taken as a quorum was not present. |
| III. Chief Financial Officer Report | A.  | FY 2012 Audit Update<br><br>Mr. Easthope informed the committee that the audit would be presented at the October committee meeting.  |  |
|                                     | B.  | Revenue Cycle Update<br><br>Mr. Easthope provided an update to the committee on reimbursement rates relating to AB97, noting that the hospital continues to accrue at the \$316 level and that a hearing is scheduled for October 10, 2012 regarding the injunction of AB97. He informed the committee that contract renewals had been completed for Blue Shield and Cigna with Negotiations continuing with |  |

|                                       |   |   |  |
|---------------------------------------|---|---|--|
|                                       |   | Healthnet. Mr. Easthope also noted that a new pharmacy director had been hired, thus reducing consulting and management fees by approximately \$50,000/year and that management continue to recruit for a Business Office Manager.  |  |
| IV. Chief Executive Officer Report    | A.  | <p>Federal and State Reimbursement Updates</p> <p>There was discussion on a new reimbursement model for uncompensated care that is being developed. It was noted that there was no more IGT funding available. Further discussion focused on the increase of the newly insured beginning in 2014 as a result of health care reform.</p>   |  |
|                                       | B.  | <p>PIMMS Contract</p> <p>Mr. Easthope informed the committee that the hospital entered into a new agreement with Pacific International Maritime Medical Services to utilize hospital services for maritime personnel that come to the Port of Oakland as needed with a good reimbursement rate.</p>   |  |
|                                       | C.  | <p>Blue Cross / Long Term Care Beds</p> <p>Ms. Stebbins stated that management continues to look at long term care contracting with health plans, including Blue Cross and Kaiser.</p> <p>She also updated the committee on physician recruitment noting that urologists were establishing a presence on the island as well as potential surgical volume through University of Pacific oral surgeons and max/facial work.</p> |  |
| V. Board / Committee / Staff Comments | No Board, Committee or Staff comments.                            |   |  |
| VI. Adjournment                       | Being no further business, the meeting was adjourned at 8:40 a.m. |   |  |

**Audited Financial Statements**  
**CITY OF ALAMEDA**  
**HEALTH CARE DISTRICT**  
*Dbā ALAMEDA HOSPITAL*  
**June 30, 2012**

Audited Financial Statements

CITY OF ALAMEDA HEALTH CARE DISTRICT

June 30, 2012

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Audited Financial Statements

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## Management's Discussion and Analysis

### CITY OF ALAMEDA HEALTH CARE DISTRICT

June 30, 2012

The management of the City of Alameda Health Care District (the Hospital) has prepared this annual discussion and analysis in order to provide an overview of the Hospital's performance for the fiscal year ended June 30, 2012 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 historical financial performance as a whole in addition to providing a prospective look at revenue growth, operating expenses, and capital development plans. This discussion should be reviewed in conjunction with the audited financial statements for the fiscal year ended June 30, 2012 and accompanying notes to the financial statements to enhance one's understanding of the Hospital's financial performance.

#### *Volumes and Statistics*

- Acute care patient days were 10,880 for fiscal year 2012 as compared to 10,443 for the prior year. Discharges were 2,799 for the current year versus 2,527 for the prior year resulting in lengths of stay of 3.89 for 2012 as compared to 4.13 for 2011.
- Sub-acute and skilled nursing days were 19,568 for fiscal year 2012 as compared to 19,827 for fiscal year 2011, equaling an average daily census of 53.5 for 2012 versus 54.3 for 2011.
- Overall combined occupancy for the Hospital, including the sub-acute and skilled nursing programs, was 51.7% for the year ended June 30, 2012 versus 51.5% for the year ended June 30, 2011.
- There were 2,189 surgery cases during fiscal year 2012 (485 inpatient and 1,704 outpatient cases) as compared to 2,232 surgery cases for the prior fiscal year (502 inpatient and 1,730 outpatient cases).
- Outpatient registrations decreased by 1,552 registrations over the prior year (22,244 for 2012 versus 23,796 for 2011).
- Emergency room visits were 16,969 in the fiscal year 2012 as compared to 16,816 for the prior year.
- FTE's per adjusted occupied bed were 3.25 for 2012 versus 3.41 for the prior year.

***Financial Highlights***

During fiscal year 2012, the health care industry continued to face operational and financial challenges. At the local, regional and national levels, health care institutions continue to experience serious cost and payment pressures dictated by federal and state health care reforms, and from both governmental payors (Medicare and Medi-Cal) and private insurance carriers. The continued uncertainty surrounding current economic conditions continues to place challenges on the health care market.

Specific challenges to the Hospital were the continued affects of the loss of the Kaiser contract which has negatively impacted the financial performance of the Hospital in fiscal year 2010. However, during fiscal year 2012, management made significant progress, not only to stabilize and improve on the existing operations, but ot develop and implement new programs and services that will provide the growth and revenue needed to secure financial stability for the Hospital. Some of the key factors that contributed to the Hospital's financial performance include:

- Termination of the inpatient Medi-Cal contract in October, 2011 and a return to cost-based reimbursement program for these same inpatient Medi-Cal services provided by the Hospital. This change contributed about \$550,000 to the Hospital's net revenue during the fiscal year 2012.
- The Hospital Fee/Intergovernmental Transfer program contributed approximately \$680,000 to fiscal year 2012 net patient revenue. This program will be discontinued in fiscal year 2013 when district hospitals convert to the Certified Public Expenditures reimbursement model under the State's 2013 budget proposal.
- Total operating expenses only increased by approximately \$98,000 from fiscal year 2011 to fiscal year 2012. This is discussed in more detail later in this report.
- Net patient revenues increased by approximately \$2.6 million primarily due to the result of price increases, improvement with managed care contract rates, and cancellation of the Medi-Cal inpatient contract (as previously mentioned).
- During the fiscal year, there was much focus on improving the Hospital's revenue cycle processes, including business office performance. Key areas that were addressed included the review of the Chargemaster, emergency department revenue cycle processes, outsourcing the billing function to an outside firm to assist with better collection rates and improving the timeliness and process for the Hospital's long-term care billing.

These financial factors resulted in the following:

- Net assets decreased by \$1,493,000 in 2012 as compared to a decrease of \$1,429,000 in 2011
- Net patient service revenues increased by \$2,435,000 or 4% while total operating expenses increased by \$98,000, less than 1% over the prior fiscal year.

Management's Discussion and Analysis (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

- The Hospital's operating loss, before parcel tax revenue, was \$6,596,000 for fiscal year 2012 as compared to \$9,108,000 for fiscal year 2011.
- Current assets increased by \$1,121,000 while current liabilities increased by \$2,999,000 over the prior fiscal year. This resulted in a current ratio at June 30, 2012 to 0.97 as compared to 1.11 for the prior year.
- Net days in patient accounts receivable increased to 53.7 at June 30, 2012 as compared to 45.8 at June 30, 2011.
- Total assets increased by \$1,153,000 over the prior fiscal year. Total operating cash and cash equivalents increased by \$1,275,000 over the prior year (see the *Statements of Cash Flows* for changes).

The Hospital's financial statements consist of three statements: balance sheet; statement of revenues, expenses, and changes in net assets; and statement of cash flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

The balance sheet includes all of the Hospital's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be used for general purposes and which are designated for a specific purpose.

The statement of revenues, expenses and changes in net assets reports all of the revenues earned and expenses incurred during the time period indicated. Nets assets (the difference between total assets and total liabilities) is one way to measure the financial health of the Hospital.

The statement of cash flows reports the cash provided by and used by the Hospital's operating activities, as well as other cash sources such as investment income and cash payments for capital additions and improvements. This statement provides meaningful information on how the Hospital's cash was generated and how it was used during the fiscal year.

***Balance Sheet - Assets***

For the fiscal year ended June 30, 2012, the Hospital's unrestricted and restricted cash and investments totaled \$3.4 million as compared to \$2.5 million in the prior fiscal year. At June 30, 2012, day's cash on hand was 18.8 as compared to 14.1 for the prior year. The Hospital's goal is to maintain sufficient cash and cash equivalent balances to pay all short-term liabilities and to be able to expand services available to the community.



Management's Discussion and Analysis (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

During the year, the Hospital added \$1,475,000 in capital assets for major moveable equipment and various minor construction and improvement projects on the Hospital's campus. The Hospital has several projects in process at year end for various renovations and equipment improvements. The significant addition during the fiscal year was costs in progress towards the wound care project of approximately \$795,000.

***Balance Sheet - Liabilities***

As previously discussed, the Hospital's current liabilities increased by \$2,799,000 from the prior year. Changes were comprised of increases in trade payables by \$770,000, increases in current maturities of debt borrowings by \$946,000, increases in third party payor settlements by \$755,000, increases in health insurance claims by \$349,000 and increases in accrued payroll and related liabilities of \$333,000.

***Balance Sheet - Net Assets***

The Hospital reports its net assets in three categories:

- ***Invested in capital assets net of related debt:*** Total investment in Hospital property and equipment (capital assets) net of accumulated depreciation and outstanding debt borrowings related towards the purchase of those capital assets.
- ***Restricted by contributors:*** Resources the Hospital is legally or contractually obligated to spend in accordance with restrictions placed by donors and/or external third parties that have placed a time limit or purpose restriction on the use of the asset.
- ***Unrestricted net assets:*** All other funds available for use by the Hospital to meet general obligations and to fund current operating expenses.

***Statement of Revenues, Expenses and Changes in Net Assets***

The statement of revenues, expenses and changes in net assets presents the operating results of the Hospital, as well as the non-operating revenues and expenses. Activities are reported as either operating or nonoperating. The use of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of the asset over its expected useful life.

Management's Discussion and Analysis (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

***Gross Patient Charges***

The Hospital charges all patients equally based on its established pricing structure for the services rendered.

Acute inpatient gross charges increased by \$9,246,000 from fiscal year 2011 due to a combination of price increases and an increase in acute care patient days of 437 days in fiscal year 2012. The subacute and skilled nursing unit charges increased in fiscal year 2012 by \$1,230,700 as patient day decreased by 259 days.

Outpatient gross charges increased by \$3.5 million as a result of price increases and volume changes.

***Deductions From Revenue***

Deductions from revenue are comprised of contractual allowances and provisions for bad debts. Contractual allowances are computed deductions based on the difference between gross charges and the contractually agreed upon rates of reimbursement with third party government-based programs such as Medicare and Medi-Cal and other third party payors such as Blue Cross.

The provision for bad debts for fiscal year 2012 and fiscal year 2011 were \$8.1 million and \$8.0 million, respectively. As a percentage of gross patient charges, the allowance has decreased from 3.3% in fiscal year 2011 to 3.1% in fiscal year 2012.

Contractual allowances and the provision for bad debts (as a percentage of gross patient charges) were 76.7% for fiscal year 2012 as compared to 76.4% for fiscal year 2011. The slight increase in contractual allowances was due primarily to programs such as the hospital fee program and by price increases in the Hospital's pricing structure.

***Net Patient Service Revenues***

Net patient service revenues are the difference between gross patient charges and deductions from revenue. Net patient service revenues increased by \$2.4 million as a result primarily of price increases, supplemental programs and volume changes as previously noted.

Management's Discussion and Analysis (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

*Operating Expenses*

Total operating expenses were \$67.1 million for fiscal year 2012 compared to \$66.9 million for fiscal year 2011. This slight increase of approximately \$98,000 is due primarily to:

- A \$963,000 decrease in salaries, wages, registry and benefits from the prior year. Total full time equivalents (FTE's) were 399.6 in 2012 versus 420.8 in 2011 over the prior year. The decrease was primarily due to the reduction to direct and indirect staffing levels in efforts to remain cost effective.
- Other variable expenses such as professional fees, supplies and purchased services increased slightly during the year by approximately \$591,000 while other expenses (rent, insurance, utilities, depreciation and other operating expenses) increased slightly by approximately \$471,000.

*Statement of Cash Flows*

The statement of cash flows presents the information related to cash inflows and outflows summarized by operating capital, and noncapital financing and investing activities. It also summarizes information about cash receipts and cash payments during the year and is presented in various categories. The statement also helps users assess the Hospital's ability to: (1) generate net cash flows; (2) meet its obligations as they become due; and (3) meet its need for external financing.

The main sections of the statement of cash flows include:

- ***Operating activities:*** This section reflects operating cash flows and the net cash provided or used by the operating activities of the Hospital.
- ***Noncapital financing activities:*** This section shows the cash received and spent for non-operating, non investing, and non capital purposes.
- ***Capital and related financing activities:*** This section reflects the sources and uses of cash for the acquisition of capital related items and other debt borrowings.
- ***Investing activities:*** This section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities.

Management's Discussion and Analysis (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

*Economic Factors and Next Fiscal Year's Budget*

The Hospital's board has approved operating and capital budgets for fiscal year ending June 30, 2013. For fiscal year 2013, the Hospital is budgeted to increase its net assets by approximately \$613,000. The increase is due to several assumptions:

- Incorporation of the 120-bed "Water's Edge" skilled nursing facility effective August 1, 2012. This nursing home is budgeted to contribute approximately \$1.3 million to the Hospital's bottom line in fiscal year 2013.
- In October, 2012, two new orthopedic surgeons will be joining the Hospital. These two new physicians will compliment the orthopedic work already being provided at the Hospital. It is anticipated that their practices will generate increased use of ancillary services such as imaging and rehabilitation services. The fiscal year 2013 budget projects a contribution of approximately \$600,000 from this addition.
- The Hospital opened a "Wound Care Center" in July, 2012 for the treatment of chronic wounds. There is an unmet demand for this specialized service in the Hospital's primary service area and it is expected to ramp up gradually over the course of the year. This new program is expected to contribute approximately \$50,000 to the Hospital's bottom line in fiscal year 2013.
- The core Hospital inpatient and outpatient service areas are budgeted to remain at the same activity levels as in fiscal year 2012.
- For fiscal year 2013, district hospitals in California will be adopting a new reimbursement model for traditional Medi-Cal inpatient services entitled "Certified Public Expenditures (CPE). This CPE model has been used by designated public hospitals (City, County and UC system) for the past several years. This CPE model will also provide some reimbursement for uncompensated care and reimbursement under the "Delivery System Improvements Program" (DSRIP).

Management is confident that, despite the challenges that confront Alameda Hospital, these new programs, together with continued operational improvements, will allow Alameda Hospital to be successful into the future.

# TCA Partners, LLP

A Certified Public Accountancy Limited Liability Partnership

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## *Report of Independent Auditors*

The Board of Directors  
City of Alameda Health Care District  
Alameda, California

We have audited the accompanying balance sheets of the City of Alameda Health Care District (the Hospital) as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included consideration of internal controls over financial reporting as a basis of designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal controls over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Alameda Health Care District at June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*TCA Partners, LLP*

October 4, 2012

Balance Sheets

CITY OF ALAMEDA HEALTH CARE DISTRICT

|   | June 30              |                      |
|---|----------------------|----------------------|
|   | <u>2012</u>          | <u>2011</u>          |
| <b>Assets</b>                                   |                      |                      |
| Current assets:                                 |                      |                      |
| Cash and cash equivalents                       | \$ 3,339,613         | \$ 2,064,823         |
| Patient accounts receivable, net of allowances  | 8,835,256            | 7,249,185            |
| Other receivables                               | 6,488,284            | 8,090,457            |
| Estimated third party payor settlements         |                      | 153,930              |
| Inventories                                     | 1,045,311            | 1,183,358            |
| Prepaid expenses and deposits                   | <u>416,371</u>       | <u>262,359</u>       |
| Total current assets                            | 20,124,835           | 19,004,112           |
| Assets limited as to use                        | 64,183               | 483,716              |
| Capital assets, net of accumulated depreciation | <u>9,084,741</u>     | <u>8,632,791</u>     |
| Total assets                                    | <u>\$ 29,273,759</u> | <u>\$ 28,120,619</u> |
| <b>Liabilities and Net Assets</b>               |                      |                      |
| Current liabilities:                            |                      |                      |
| Current maturities of debt borrowings           | \$ 1,724,249         | \$ 777,897           |
| Accounts payable and accrued expenses           | 7,681,473            | 6,911,766            |
| Accrued payroll and related liabilities         | 4,324,224            | 3,991,254            |
| Deferred revenues                               | 5,726,305            | 5,725,900            |
| Estimated third party payor settlements         | 601,233              |                      |
| Health insurance claims payable (IBNR)          | <u>691,942</u>       | <u>343,382</u>       |
| Total current liabilities                       | 20,749,426           | 17,750,199           |
| Debt borrowings, net of current maturities      | <u>757,152</u>       | <u>1,110,286</u>     |
| Total liabilities                               | 21,506,578           | 18,860,485           |
| Net assets:                                     |                      |                      |
| Invested in capital assets, net of related debt | 7,513,277            | 7,359,786            |
| Restricted, by contributors                     | 64,183               | 483,716              |
| Unrestricted                                    | <u>189,721</u>       | <u>1,416,632</u>     |
| Total net assets                                | <u>7,767,181</u>     | <u>9,260,134</u>     |
| Total liabilities and net assets                | <u>\$ 29,273,759</u> | <u>\$ 28,120,619</u> |

*See accompanying notes and auditor's report*

Statements of Revenues, Expenses and Changes in Net Assets

CITY OF ALAMEDA HEALTH CARE DISTRICT

|  | Year Ended June 30  |                     |
|--|---------------------|---------------------|
|  | <u>2012</u>         | <u>2011</u>         |
| <b>Operating revenues</b>  |                     |                     |
| Net patient service revenue  | \$ 60,192,448       | \$ 57,757,879       |
| Other operating revenue  | <u>302,742</u>      | <u>127,017</u>      |
| Total operating revenues   | 60,495,190          | 57,884,896          |
| <b>Operating expenses</b>  |                     |                     |
| Salaries and wages   | 34,386,027          | 35,233,864          |
| Registry   | 1,446,699           | 2,385,110           |
| Employee benefits  | 9,970,442           | 9,147,660           |
| Professional fees  | 4,458,916           | 3,666,706           |
| Supplies   | 7,664,447           | 8,180,393           |
| Purchased services   | 4,631,834           | 4,317,577           |
| Building and equipment rent  | 1,189,075           | 837,899             |
| Utilities and phone  | 789,826             | 769,760             |
| Insurance  | 332,671             | 383,797             |
| Depreciation and amortization  | 852,728             | 961,544             |
| Other operating expenses   | <u>1,368,136</u>    | <u>1,108,797</u>    |
| Total operating expenses   | <u>67,090,801</u>   | <u>66,993,107</u>   |
| Operating income (loss)  | (6,595,611)         | (9,108,211)         |
| <b>Nonoperating revenues (expenses)</b>                                |                     |                     |
| District tax revenues  | 5,769,173           | 5,775,241           |
| Investment income  | 6,781               | 19,303              |
| Interest expense   | (176,268)           | (122,255)           |
| Rent and other income  | 315,126             | 264,070             |
| Grants and contributions   | <u>370,769</u>      | <u>291,396</u>      |
| Total nonoperating revenues (expenses)                                 | <u>6,285,581</u>    | <u>6,227,755</u>    |
| Increase (decrease) in net assets before other decreases in net assets | (310,030)           | (2,880,456)         |
| Other increases (decreases) in net assets                              | <u>(1,182,923)</u>  | <u>1,451,597</u>    |
| Increase (decrease) in net assets                                      | (1,492,953)         | (1,428,859)         |
| Net assets at beginning of the year                                    | <u>9,260,134</u>    | <u>10,688,993</u>   |
| Net assets at end of the year  | <u>\$ 7,767,181</u> | <u>\$ 9,260,134</u> |

*See accompanying notes and auditor's report*

Statements of Cash Flows

CITY OF ALAMEDA HEALTH CARE DISTRICT

|   | Year Ended June 30  |                     |
|---|---------------------|---------------------|
|   | <u>2012</u>         | <u>2011</u>         |
| <b>Cash flows from operating activities:</b>                        |                     |                     |
| Cash received from patients and third-parties on behalf of patients | \$ 59,361,540       | \$ 57,901,250       |
| Cash received from operations, other than patient services          | 1,905,320           | 580,962             |
| Cash payments to suppliers and contractors                          | (20,779,302)        | (19,543,480)        |
| Cash payments to employees and benefit programs                     | <u>(44,023,499)</u> | <u>(44,741,403)</u> |
| Net cash provided by operating activities                           | (3,535,941)         | (5,802,671)         |
| <b>Cash flows from noncapital financing activities:</b>             |                     |                     |
| District tax revenues   | 5,769,173           | 5,775,241           |
| Grants, contributions and other nonoperating revenues               | <u>685,895</u>      | <u>555,466</u>      |
| Net cash provided by noncapital financing activities                | 6,455,068           | 6,330,707           |
| <b>Cash flows from capital financing activities:</b>                |                     |                     |
| Purchase and donations of capital assets, net of loss on disposals  | (2,487,601)         | (2,279,465)         |
| Proceeds from debt borrowings                                       | 1,350,000           | 641,823             |
| Principal payments on debt borrowings                               | (756,782)           | (441,302)           |
| Interest payments on debt borrowings                                | <u>(176,268)</u>    | <u>(122,255)</u>    |
| Net cash provided by (used in) capital financing activities         | (2,070,651)         | (2,201,199)         |
| <b>Cash flows from investing activities:</b>                        |                     |                     |
| Net change in assets limited as to use                              | 419,533             | (7,086)             |
| Investment income   | <u>6,781</u>        | <u>19,303</u>       |
| Net cash provided by (used in) investing activities                 | <u>426,314</u>      | <u>12,217</u>       |
| Net increase (decrease) in cash and cash equivalents                | 1,274,790           | (1,660,946)         |
| Cash and cash equivalents at beginning of year                      | <u>2,064,823</u>    | <u>3,725,769</u>    |
| Cash and cash equivalents at end of year                            | <u>\$ 3,339,613</u> | <u>\$ 2,064,823</u> |

*See accompanying notes and auditor's report*



Statements of Cash Flows (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

|   | Year Ended June 30    |                       |
|---|-----------------------|-----------------------|
|   | <u>2012</u>           | <u>2011</u>           |
| <b>Reconciliation of operating income to net cash provided by operating activities:</b> |                       |                       |
| Operating income (loss)   | \$ (6,595,611)        | \$ (9,108,211)        |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                       |                       |
| Depreciation and amortization   | 852,728               | 961,544               |
| Provision for bad debts   | 4,525,518             | 8,020,061             |
| Other decreases in net assets   |                       | 1,451,597             |
| Changes in operating assets and liabilities:  |                       |                       |
| Patient accounts receivables  | (6,111,589)           | (5,711,099)           |
| Other receivables   | 1,602,173             | (1,421,222)           |
| Inventories   | 138,047               | (33,652)              |
| Prepaid expenses and deposits   | (154,012)             | 191,512               |
| Accounts payable and accrued expenses   | 769,707               | 799,470               |
| Accrued payroll and related liabilities   | 332,970               | (359,879)             |
| Estimated third party payor settlements   | 755,163               | (279,373)             |
| Deferred revenues   | 405                   | (11,051)              |
| Health insurance claims payable (IBNR)  | <u>348,560</u>        | <u>(302,368)</u>      |
| Net cash provided by operating activities   | <u>\$ (3,535,941)</u> | <u>\$ (5,802,671)</u> |

*See accompanying notes and auditor's report*

CITY OF ALAMEDA HEALTH CARE DISTRICT

June 30, 2012

**NOTE A - ORGANIZATION AND ACCOUNTING POLICIES**

**Reporting Entity:** The City of Alameda Health Care District, (d.b.a. Alameda Hospital), heretofore referred to as (the Hospital) is a public entity organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The Hospital is a political subdivision of the State of California and is generally not subject to federal or state income taxes. The Hospital is governed by a five-member Board of Directors, elected from within the district to specified terms of office. The Hospital is located in Alameda, California. It operates a 100-bed acute care facility, a 35-bed sub acute unit within the Hospital and another 26-bed skilled nursing facility adjacent to the Hospital campus which began operations in August, 2008. The Hospital provides health care services primarily to individuals who reside in the local geographic area.

**Basis of Preparation:** The accounting policies and financial statements of the Hospital generally conform with the recommendations of the audit and accounting guide, *Health Care Organizations*, published by the American Institute of Certified Public Accountants. The financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operational revenues and expenses.

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on GASB Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements as the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

**Management's Discussion and Analysis:** Effective July 1, 2002, the Hospital adopted the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement 34), as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement 38, *Certain Financial Statement Note Disclosures*. Statement 34 established financial reporting standards for all state and local governments and related entities. Statement 34 primarily relates to presentation and disclosure requirements. One of the main components of these new provisions allows the inclusion of a management's discussion and analysis to accompany the financial statement presentation.

The management's discussion and analysis is a narrative introduction and analytical overview of the Hospital's financial activities for the year being presented. This analysis is similar to the analysis provided in the annual reports of organizations in the private sector. As stated in the opinion letter, the management's discussion and analysis is not a required part of the financial statements but is supplementary information and therefore not subject to audit procedures or the expression of an opinion on it by auditors.

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)**

***Use of Estimates:*** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents and Investments:*** The Hospital considers cash and cash equivalents to include certain investments in highly liquid debt instruments, when present, with an original maturity of a short-term nature or subject to withdrawal upon request. Exceptions are for those investments which are intended to be continuously invested. Investments in debt securities are reported at market value. Interest, dividends and both unrealized and realized gains and losses on investments are included as investment income in nonoperating revenues when earned.

***Patient Accounts Receivable:*** Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. The Hospital manages its receivables by regularly reviewing the accounts, inquiring with respective payors as to collectibility and providing for allowances on their accounting records for estimated contractual adjustments and uncollectible accounts. Significant concentrations of patient accounts receivable are discussed further in the footnotes.

***Inventories:*** Inventories are consistently reported from year to year at cost determined by average costs and replacement values which are not in excess of market. The Hospital does not maintain levels of inventory values such as those under a first-in, first out or last-in, first out method.

***Assets Limited as to Use:*** Assets limited as to use include contributor restricted funds, amounts designated by the Board of Directors for replacement or purchases of capital assets, and other specific purposes, and amounts held by trustees under specified agreements. Assets limited as to use consist primarily of deposits on hand with local banking and investment institutions, and bond trustees.

***Capital Assets:*** Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 10 to 40 years for buildings and improvements, and 3 to 10 years for major moveable equipment. The Hospital periodically reviews its capital assets for value impairment. As of June 30, 2012 and 2011, the Hospital has determined that no capital assets are impaired.

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)**

**Compensated Absences:** The Hospital's employees earn vacation benefits at varying rates depending on years of service. Employees also earn sick leave benefits. Both benefits can accumulate up to specified maximum levels. Employees are not paid for accumulated sick leave benefits if they leave either upon termination or before retirement. However, accumulated vacation benefits are paid to an employee upon either termination or retirement. Accrued vacation liabilities as of June 30, 2012 and 2011 are \$2,648,456 and \$2,644,177, respectively.

**Risk Management:** The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. In the case of employee health coverage, the Hospital is self-insured for those claims and is discussed further in the footnotes.

**Net Assets:** Net assets are presented in three categories. The first category is net assets "invested in capital assets, net of related debt". This category of net assets consists of capital assets (both restricted and unrestricted), net of accumulated depreciation and reduced by the outstanding principal balances of any debt borrowings that were attributable to the acquisition, construction, or improvement of those capital assets.

The second category is "restricted" net assets. This category consists of externally designated constraints placed on those net assets by creditors (such as through debt covenants), grantors, contributors, law or regulations of other governments or government agencies, or law or constitutional provisions or enabling legislation.

The third category is "unrestricted" net assets. This category consists of net assets that do not meet the definition or criteria of the previous two categories.

**Net Patient Service Revenues:** Net patient service revenues are reported in the period at the estimated net realized amounts from patients, third-party payors and others including estimated retroactive adjustments under reimbursement agreements with third-party programs. Normal estimation differences between final reimbursement and amounts accrued in previous years are reported as adjustments of current year's net patient service revenues.

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)**

***Charity Care:*** The Hospital accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues. Services provided are recorded as gross patient service revenues and then written off entirely as an adjustment to net patient service revenues.

***District Tax Revenues:*** The Hospital receives approximately 9% of its financial support from property taxes. These funds are used to support operations and meet required debt service agreements. They are classified as non-operating revenue as the revenue is not directly linked to patient care. Property taxes are levied by the County on the Hospital's behalf during the year, and are intended to help finance the Hospital's activities during the same year. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each payment due date.

***Grants and Contributions:*** From time to time, the Hospital receives grants from various governmental agencies and private organizations. The Hospital also receives contributions from related foundation and auxiliary organizations, as well as from individuals and other private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported as components of the statement of revenues, expenses and changes in net assets.

***Operating Revenues and Expenses:*** The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Nonoperating revenues and expenses are those transactions not considered directly linked to providing health care services.

***Reclassifications:*** Certain financial statement amounts as presented in the prior year financial statements have been reclassified in these, the current year financial statements, in order to conform to the current year financial statement presentation.

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE B - CASH AND CASH EQUIVALENTS**

As of June 30, 2012 and 2011, the Hospital had deposits invested in various financial institutions in the form of cash and cash equivalents in the amounts of \$3,402,595 and \$2,547,338 respectively. All of these funds were held in deposits, which are collateralized in accordance with the California Government Code (CGC), except for \$250,000 per account that is federally insured.

The CGC and the Hospital's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risk for deposits. Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Hospital would not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the Hospital's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the Hospital's deposits. California law also allows financial institutions to secure Hospital deposits by pledging first trust deed mortgage notes having a value of 150% of the Hospital's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the Hospital.

**NOTE C - NET PATIENT SERVICE REVENUES**

The Hospital has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare:** Payments for inpatient acute care services rendered to Medicare program beneficiaries are based on prospectively determined rates, which vary accordingly to the patient diagnostic classification system. Outpatient services are paid under an outpatient classification system subject to certain limitations. Certain reimbursement areas are still subject to final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. At June 30, 2012, cost reports through June 30, 2007 have been final settled.

**Medi-Cal:** For traditional Medi-Cal (non-HMO) services, payments for inpatient services rendered to patients were made based on reasonable costs through May 5, 2010. Effective May 6, 2010, the Hospital entered into a contract under the Selective Provider Contracting Program administered by the California Medical Assistance Commission (CMAC), to receive payments for inpatient services based upon an established rate. The Hospital was paid at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by Medi-Cal. Effective October, 2011, the Hospital returned to a cost-based program. At June 30, 2012, cost reports through June 30, 2010, have been final settled. Outpatient payments are based on a pre-determined fee schedule and Medi-Cal HMO services are paid on a pre-determined rate and are not subject to cost reimbursement

Notes to Financial Statements (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE C - NET PATIENT SERVICE REVENUES (continued)**

*Other:* Payments for services rendered to other than Medicare and Medi-Cal patients are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations which provide for various discounts from established rates.

Net patient service revenues summarized by service line are as follows:

|   | <u>2012</u>          | <u>2011</u>          |
|---|----------------------|----------------------|
| Inpatient acute and inpatient ancillary services    | \$144,875,286        | \$135,629,202        |
| Long-term care routine services                     | 29,182,616           | 27,952,591           |
| Outpatient acute services                           | <u>84,071,292</u>    | <u>80,609,704</u>    |
| Gross patient service revenues                      | 258,129,194          | 244,191,497          |
| Less deductions from revenue and related allowances | <u>(197,936,746)</u> | <u>(186,433,618)</u> |
| Net patient service revenues                        | <u>\$ 60,192,448</u> | <u>\$ 57,757,879</u> |

Medicare and Medi-Cal revenue accounts for approximately 40% of the Hospital's net patient revenues for each year. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

**NOTE D - CONCENTRATION OF CREDIT RISK**

The Hospital grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the Hospital and management does not believe that there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the Hospital. Concentration of patient accounts receivable at June 30, 2012 and 2011 were as follows:

|   | <u>2012</u>         | <u>2011</u>         |
|---|---------------------|---------------------|
| Medicare  | \$ 16,471,523       | \$ 8,230,964        |
| Medi-Cal  | 7,655,805           | 6,867,312           |
| Other third party payors                                  | 9,592,621           | 12,159,619          |
| Self pay and other  | <u>18,605,933</u>   | <u>8,188,321</u>    |
| Gross patient accounts receivable                         | 52,325,882          | 35,446,216          |
| Less allowances for contractual adjustments and bad debts | <u>(43,490,626)</u> | <u>(28,197,031)</u> |
| Net patient accounts receivable                           | <u>\$ 8,835,256</u> | <u>\$ 7,249,185</u> |

Notes to Financial Statements (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE E - OTHER RECEIVABLES**

Other receivables as of June 30, 2012 and 2011 were comprised of the following:

|   | <u>2012</u>         | <u>2011</u>         |
|---|---------------------|---------------------|
| Alameda County property taxes                     | \$ 6,014,567        | \$ 6,011,855        |
| Other provider and insurance receivables          | 160,525             | 141,183             |
| Various managed care programs                     |                     | 109,520             |
| Pension plan forfeitures                          | 64,537              | 180,778             |
| Intergovernmental Transfer program from the State | 94,557              | 1,476,698           |
| Rents receivable                                  | 3,000               | 1,850               |
| Other various receivables, net of reserves        | <u>151,098</u>      | <u>168,573</u>      |
|   | <u>\$ 6,488,284</u> | <u>\$ 8,090,457</u> |

**NOTE F - ASSETS LIMITED AS TO USE**

Assets limited as to use as of June 30, 2012 and 2011 were comprised of the following:

|  | <u>2012</u>      | <u>2011</u>       |
|--|------------------|-------------------|
| Cash and cash equivalents restricted by contributors | <u>\$ 64,183</u> | <u>\$ 483,716</u> |

**NOTE G - CAPITAL ASSETS**

The Hospital received two parcels of improved rental-real estate by court order dated December 3, 2003, pursuant to the terms of the Alice M. Jaber 1992 Trust. As successor to the former non-profit Alameda Hospital, the Hospital has agreed to abide by the terms of the Trust Agreement. The Trust Agreement and the will of Alice M. Jaber require the Hospital to account for the property as part of the Abraham Jaber and Mary A. Jaber Memorial Fund. Among other things, the Hospital is prohibited from selling all or any portion of the parcels received until after the death of certain named family members and, if the property is sold, it may not be sold to any descendant, spouse or relative to the third degree of any such descendant of a named family member. The net carrying value of this property is \$1,029,708 and \$1,089,667 at June 30, 2012 and 2011, respectively.



Notes to Financial Statements (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE G - CAPITAL ASSETS (continued)**

Capital assets as of June 30, 2012 and 2011 were comprised of the following:

|                                | <u>Balance at<br/>June 30, 2011</u> | <u>Transfers &amp;<br/>Additions</u> | <u>Reclasses &amp;<br/>Retirements</u> | <u>Balance at<br/>June 30, 2012</u> |
|--------------------------------|-------------------------------------|--------------------------------------|--|-------------------------------------|
| Land and land improvements     | \$ 1,376,954                        |                                      |  | \$ 1,376,954                        |
| Buildings and improvements     | 23,980,336                          |                                      |  | 23,980,336                          |
| Equipment                      | 19,250,674                          | \$ 124,598                           | \$ (37,649)                            | 19,337,623                          |
| Construction-in-progress       | <u>2,921,049</u>                    | <u>1,350,809</u>                     | <u>(169,390)</u>                       | <u>4,102,468</u>                    |
| Totals at historical cost      | 47,529,013                          | 1,475,407                            | (207,039)                              | 48,797,381                          |
| Accumulated depreciation for:  |                                     |                                      |  |                                     |
| Land and land improvements     | (266,878)                           | (2,887)                              |  | (269,765)                           |
| Buildings and improvements     | (21,308,106)                        | (373,818)                            |  | (21,681,924)                        |
| Equipment                      | <u>(17,321,238)</u>                 | <u>(476,023)</u>                     | <u>36,310</u>                          | <u>(17,760,951)</u>                 |
| Total accumulated depreciation | <u>(38,896,222)</u>                 | <u>(852,728)</u>                     | <u>36,310</u>                          | <u>(39,712,640)</u>                 |
| Capital assets, net            | <u>\$ 8,632,791</u>                 | <u>\$ 622,679</u>                    | <u>\$ (170,729)</u>                    | <u>\$ 9,084,741</u>                 |

|                                | <u>Balance at<br/>June 30, 2010</u> | <u>Transfers &amp;<br/>Additions</u> | <u>Reclasses &amp;<br/>Retirements</u> | <u>Balance at<br/>June 30, 2011</u> |
|--------------------------------|-------------------------------------|--------------------------------------|--|-------------------------------------|
| Land and land improvements     | \$ 1,376,954                        |                                      |  | \$ 1,376,954                        |
| Buildings and improvements     | 23,980,336                          |                                      |  | 23,980,336                          |
| Equipment                      | 19,064,608                          | \$ 186,066                           |  | 19,250,674                          |
| Construction-in-progress       | <u>827,650</u>                      | <u>2,093,399</u>                     |  | <u>2,921,049</u>                    |
| Totals at historical cost      | 45,249,548                          | 2,279,465                            |  | 47,529,013                          |
| Accumulated depreciation for:  |                                     |                                      |  |                                     |
| Land and land improvements     | (262,784)                           | (4,094)                              |  | (266,878)                           |
| Buildings and improvements     | (20,913,759)                        | (394,347)                            |  | (21,308,106)                        |
| Equipment                      | <u>(16,758,135)</u>                 | <u>(563,103)</u>                     |  | <u>(17,321,238)</u>                 |
| Total accumulated depreciation | <u>(37,934,678)</u>                 | <u>(961,544)</u>                     |  | <u>(38,896,222)</u>                 |
| Capital assets, net            | <u>\$ 7,314,870</u>                 | <u>\$ 1,317,921</u>                  | <u>\$</u>                              | <u>\$ 8,632,791</u>                 |

Notes to Financial Statements (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE H - DEBT BORROWINGS**

As of June 30, 2012 and 2011, debt borrowings were as follows:

|   | <u>2012</u>        | <u>2011</u>                 |
|---|--------------------|-----------------------------|
| Note payable to a bank; principal and interest at 4.80% due in monthly installments of \$42,460 each 15 <sup>th</sup> of the month through February 15, 2014; collateralized by Hospital receivables:   | \$ 851,365         | \$ 1,273,005                |
| Note payable to the State of California for a cost report settlement; principal and interest at 4.56% due in monthly installments of \$26,869 through May, 2013; collateralized by Hospital future revenues from servicing Medi-Cal patients: | 294,887            | 615,178                     |
| Note payable to a bank; principal and interest at 5.75% due in monthly installments of \$2,146 at month's end through January 31, 2011; collateralized by Hospital property:  | 585,181            |                             |
| Line of credit  | <u>749,968</u>     | <u>                    </u> |
|   | 2,481,401          | 1,888,183                   |
| Less current maturities of debt borrowings  | <u>(1,724,249)</u> | <u>(777,897)</u>            |
|   | <u>\$ 757,152</u>  | <u>\$ 1,110,286</u>         |

Future principal maturities for debt borrowings for the next succeeding years are: \$1,724,249 in 2013; \$504,348 in 2014; \$180,583 in 2015 and \$72,222 in 2015.

*Line of Credit:* The Hospital has a \$1,500,000 bank line of credit available at year end with a variable interest rate. Any advances on this line are due at the time of maturity and interest at 5.5% is due and payable monthly. There were borrowings of \$1,724,249 under this line of credit agreement as of June 30, 2012.

**NOTE I - RELATED PARTY TRANSACTIONS**

The Alameda Hospital Foundation (the Foundation), has been established as a nonprofit public benefit corporation under the Internal Revenue Code Section 501 c (3) to solicit contributions on behalf of the Hospital. Substantially all funds raised except for funds required for operation of the Foundation, are distributed to the Hospital or held for the benefit of the Hospital. The Foundation's funds, which represent the Foundation's unrestricted resources, are distributed to the Hospital in amounts and in period determined by the Foundation's Board of Trustees, who may also restrict the use of funds for Hospital property and equipment replacement or expansion, reimbursement of expenses, or other specific purposes. Donations in this regard were \$292,500 and \$162,576 for the years ended June 30, 2012 and 2011 respectively. The Foundation is not considered a component unit of the Hospital as the Foundation, in the absence of donor restrictions, has complete and discretionary control over the amounts, the timing, and the use of its donations to the Hospital.

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE J - RETIREMENT PLANS**

**Contributions to Retirement Plans:** Total contributions to all of the retirement plans for the years ended June 30, 2012 and 2011 were approximately \$1,861,000 and \$1,857,000, respectively.

**Defined Contribution Plan:** Effective January 1, 2005, the Hospital established and began to administer a noncontributory defined contribution retirement plan covering employees who have completed one year of service in which they worked at least 1,000 hours and are not covered under a collective bargaining agreement. Benefit provisions are contained in plan documents and can be amended by the Board of Directors. The Hospital contributes 6% of eligible employee earnings to this plan. The Hospital also contributes to four union-sponsored defined contribution retirement plans as required under collective bargaining agreements with the Hospital.

**Defined Benefit Plan:** The Hospital provides retirement benefits under a noncontributory, single-employer defined benefit pension plan (the Plan) for employees not covered under collective bargaining agreements and who have completed one year of continuous service during which they worked at least 1,000 hours. The Plan, administered by the Hospital, provides benefits based on each employee's years of service and annual compensation through December 31, 2004. The Plan's annual pension cost and net pension assets for the years ended June 30, 2012 and 2011 are as follows:

|  | <u>2012</u>         | <u>2011</u>         |
|--|---------------------|---------------------|
| Annual required contribution                               | \$ 56,833           | \$ 92,599           |
| Interest on net pension asset                              | (12,033)            | (9,638)             |
| Adjustment to net pension obligation                       | <u>22,567</u>       | <u>17,118</u>       |
| Annual pension cost  | 67,367              | 100,079             |
| Contributions made   | <u>(60,000)</u>     | <u>(140,000)</u>    |
| Increase (decrease) in net pension obligation              | 7,367               | (39,921)            |
| Net pension (asset) liability at the beginning of the year | <u>(200,551)</u>    | <u>(160,630)</u>    |
| Net pension (asset) liability at the end of the year       | <u>\$ (193,184)</u> | <u>\$ (200,551)</u> |

Benefits under the Plan vest 100% upon five years of service. Upon normal retirement at age 65, participants are entitled to monthly retirement benefits based upon their average compensation and years of credited service. Participants, who have attained the age the latter of age 55 or the date upon which the employee's age and years of service add up to 65, may elect early retirement with benefits determined as of the early retirement date, actuarially reduced. Participants may elect to receive their benefits as a lump sum, life annuity, or joint and survivor annuity upon retirement.

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE J - RETIREMENT PLANS (continued)**

Pursuant to the Hospital's right to amend, terminate or discontinue making contributions to the Plan, the Hospital's Board of Directors resolved to freeze participation in and benefit obligations under the Plan as of December 31, 2004 and then established a new defined contribution plan in lieu thereof. Retirement benefits earned through December 31, 2004 will be paid as required by the Plan.

The Hospital is required to contribute the actuarially determined amounts necessary to fund benefits for its participants. The actuarial methods and assumptions used are those adopted by the Hospital. The Hospital's required employer contribution rates for 2011 and 2010 do not apply as the Plan has been frozen and has no covered payroll.

The required contribution for the year ended June 30, 2011, was determined as part of the July 1, 2009 actuarial valuation using the unit credit actuarial cost method. The actuarial valuation method was changed from the entry age normal method in 2005 because benefit accruals under the Plan were frozen at December 31, 2004. The actuarial assumptions include an investment rate of return of 8% and no salary increases in the future. The actuarial value of the Plan's assets was equal to the fair value of the assets. The Plan's unfunded actuarial accrued liability is being amortized as a level dollar using a fixed amortization period of 15 years. The remaining amortization period at July 1, 2009 was 13 years. Below is three-year trend information followed by a schedule of funding progress:

**Three-Year Trend Information:**

| <u>Year Ended June 30</u> | <u>Annual Pension Cost (APC) in \$</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation (Asset) in \$</u> |
|---------------------------|--|--------------------------------------|---|
| 2010                      | \$ 123,739                             | 135.8%                               | \$ (160,630)                                |
| 2011                      | \$ 100,079                             | 139.9%                               | \$ (200,551)                                |
| 2012                      | \$ 67,367                              | 89.1%                                | \$ (193,184)                                |

**Schedule of Funding Progress:**

| <u>Valuation Date</u> | <u>Accrued Liability in \$</u> | <u>Actuarial Value of Assets in \$</u> | <u>Unfunded Accrued Liability (UAAL) in \$</u> | <u>Funded Ratio Percentage</u> | <u>Annual Covered Payroll</u> | <u>UAAL as a % of Payroll</u> |
|-----------------------|--------------------------------|--|--|--------------------------------|-------------------------------|-------------------------------|
| 7/1/09                | \$ 2,671,515                   | \$ 1,499,904                           | \$ 1,171,611                                   | 56.1%                          | N/A                           | N/A                           |
| 7/1/10                | \$ 2,324,034                   | \$ 1,504,276                           | \$ 819,758                                     | 64.7%                          | N/A                           | N/A                           |
| 7/1/11                | \$ 2,375,790                   | \$ 1,899,309                           | \$ 476,481                                     | 79.9%                          | N/A                           | N/A                           |

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE K - COMMITMENTS AND CONTINGENCIES**

**Construction-in-Progress:** As of June 30, 2012 and 2011, the Hospital had recorded \$4,102,468 and \$2,921,049, respectively, as construction-in-progress representing cost capitalized for various remodeling, major repair, and expansion projects on the Hospital's premises. No interest was capitalized under FAS 62 during the years ended June 30, 2012 and 2011. Estimated cost to complete these projects as of June 30, 2012 are considered minor.

**Operating Leases:** The Hospital leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the years ended June 30, 2012 and 2011, were \$1,189,075 and \$837,899, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2012, that have initial or remaining lease terms in excess of one year are not considered material.

**Litigation:** The Hospital may from time-to-time be involved in litigation and regulatory investigations which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2012 will be resolved without material adverse effect on the Hospital's future financial position, results from operations or cash flows.

**Risk Management Insurance Programs:** The Hospital self-insures medical and dental costs up to \$100,000 per employee per year under a noncontributory plan. The Hospital also maintains claims-made insurance coverage for its medical malpractice and general liability risks up to \$20 million per claim and \$20 million in the annual aggregate. Deductible levels are at \$10,000 per medical malpractice claim and \$25,000 per general liability claim.

The reserves for self-insured risk include provisions for estimated medical and dental, a former self-insured workers' compensation plan and medical malpractice and general liability costs for both uninsured reported claims and for claims incurred but not reported (IBNR), in accordance with projections based upon several factors including past experience. While such claims reserves are based upon these factors, there is a possibility that a material change will occur in the near term. Such estimates are continually monitored, reviewed, and adjusted accordingly with differences reported in the current year operations. While the ultimate amount of medical, dental, workers' compensation and medical and general liability claims is dependent upon future developments, management believes that the associated liabilities recognized in the financial statements are adequate to cover such claims.

**Health Insurance Portability and Accountability Act:** The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996, to ensure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Management believes the Hospital is in compliance with HIPAA as of June 30, 2012 and 2011.

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE K - COMMITMENTS AND CONTINGENCIES (continued)**

**Health Care Regulation:** The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

**RAC Audits:** Hospitals in California are subject to nationwide Medicare claim audits by Recovery Audit Contractors (RAC's). In March, 2007, RAC auditors examined certain Medicare claims for services provided to Medicare beneficiaries during the years end June 30, 2003, and thereafter. Pursuant to this review, RAC auditors reviewed medical records and compared them to billing records for "perceived" discrepancies. This audit resulted in a recovery process of Medicare payments which to date have been approximately \$350,000. It is anticipated that additional recoveries may be collected in the future however any amount is undeterminable at this time. The Hospital does have appeal rights for RAC audit findings.

**Seismic Retrofit:** The California Hospital Facilities Seismic Safety Act (SB 1953) specifies certain requirements that must be met at various dates in order to increase the probability that a California hospital can maintain uninterrupted operations following a major earthquake. By January 1, 2013, all general acute care buildings must be life-safe. Management is in process of developing a plan to bring the Hospital into compliance by the required deadlines.

**NOTE L - HOSPITAL COMPONENT UNITS**

The City of Alameda Health Care District (District) owns and operates Alameda Hospital (the Hospital). In addition to the Hospital, the District operates CW&S Investment Company, LLC (CW&S), a wholly-owned for-profit subsidiary. The District also controls the City of Alameda Health Care Corporation (AHCC), a charitable, non-profit corporation for which the District is the sole voting member. CW&S owns a skilled nursing facility located on the property adjacent to the Hospital that is leased to the Hospital. AHCC has no operating activities. The financial results for the years ended June 30, 2012 and 2011 of these component units are included within the financial statements of the Hospital. Net assets of these units were \$731,936 for 2012 and \$669,402 for 2011. Net increase in assets for these units were \$62,534 for 2011 and \$87,865 for 2011. The financial impact of these component units on the Hospital's combined financial statements is not considered material and therefore further disclosure of financial detail is not considered necessary.

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE M - FAIR VALUE OF ASSETS AND LIABILITIES**

The Hospital adopted Statement of Financial Accounting standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 fair value establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. FAS 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

*Level 1:* Quoted prices in active markets for identical assets or liabilities;

*Level 2:* Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;

*Level 3:* Unobservable inputs for the assets or liabilities that are supported by little or no market activity and that are significant to the fair value of the underlying assets or liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the Hospital's balance sheets, as well as the classification pursuant to the valuation hierarchy.

**Financial Instruments:** Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 instruments include a variety of financial instruments as listed below. There are no Level 2 or Level 3 types within the balance sheet of the Hospital. The following table summarizes the financial instruments measured at fair value on a recurring basis in accordance with FAS 157 as of June 30, 2012:

|                                 | <u>Fair Value</u> | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Other<br>Unobservable<br>Inputs<br>(Level 3) |
|---------------------------------|-------------------|--|---|---|
| Money market securities         | \$ -0-            | \$ -0-   | _____   | _____   |
| Totals of financial instruments | <u>\$ -0-</u>     | <u>\$ -0-</u>  | =====   | =====   |

Notes to Financial Statements (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE M - FAIR VALUE OF ASSETS AND LIABILITIES (continued)**

The following table summarizes the financial instruments measured at fair value on a recurring basis in accordance with FAS 157 as of June 30, 2011:

|                                 | <u>Fair Value</u> | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Other<br>Unobservable<br>Inputs<br>(Level 3) |
|---------------------------------|-------------------|--|---|---|
| Money market securities         | \$ 94,290         | \$ 94,290  | _____   | _____   |
| Totals of financial instruments | <u>\$ 94,290</u>  | <u>\$ 94,290</u>   | =====   | =====   |

**NOTE N - CHARITY CARE AND COMMUNITY BENEFIT SERVICES**

The Hospital maintains records to identify and monitor the level of charity care and community service it provides. These records include the amount of collections foregone, (based on established rates), for services and supplies furnished under its charity care and community service policies. In addition, the Hospital provides services to other medically indigent patients under certain government public aid reimbursement programs. The following is a summary of the Hospital's charity care and community benefit foregone collections for the years ended June 30, 2012 and 2011, in terms of services to the poor and benefits to the broader community:

|   | <u>2012</u>          | <u>2011</u>          |
|---|----------------------|----------------------|
| Benefits for the poor:                                |                      |                      |
| Traditional charity care                              | \$ 1,663,392         | \$ 1,768,460         |
| Unpaid Medi-Cal and other public aid programs         | <u>7,834,988</u>     | <u>7,716,363</u>     |
| Total quantifiable benefits for the poor              | 9,498,380            | 9,484,823            |
| Benefits for the broader community:                   |                      |                      |
| Unpaid Medicare program charges                       | <u>83,689,312</u>    | <u>80,192,749</u>    |
| Total quantifiable benefits for the broader community | <u>83,689,312</u>    | <u>80,192,749</u>    |
| Total quantifiable community benefits                 | <u>\$ 93,187,692</u> | <u>\$ 89,677,572</u> |



# THE CITY OF ALAMEDA HEALTH CARE DISTRICT

## ALAMEDA HOSPITAL

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### UNAUDITED FINANCIAL STATEMENTS

FOR THE PERIOD ENDING SEPTEMBER 30, 2012

**CITY OF ALAMEDA HEALTH CARE DISTRICT  
ALAMEDA HOSPITAL  
SEPTEMBER 30, 2012**

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# ALAMEDA HOSPITAL MANAGEMENT DISCUSSION AND ANALYSIS SEPTEMBER, 2012

The management of 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 September 30, 2012 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.

## *Highlights*

Overall for the month of September, the hospital experienced a combined net operating loss of \$190,000 against a budgeted loss of \$136,000.

Waters Edge which came on board as of August 1, 2012 as part of the Hospital operations, showed another strong month with a positive net contribution of \$276,000 and a year to date contribution of \$403,952.

Wound Care had strong revenue in September as the number of visits and HBO treatments have increased. The program exceeded budget by \$10,000 in September as well as YTD. In August, we missed the Accelecare management fee accrual of \$16,000, which has been recorded in September. Otherwise, September would have had about a \$6,000 positive contribution margin in for the month.

Overall, September discharges were very close to budget and total patient days were greater than budget by 1.8%. Total patient days for inpatient acute services were down 2.7%, Subacute days were up 3.2%, skilled nursing days were up with South Shore up by 9.5% and Waters Edge up by 1.1%.

Overall outpatient activity was mixed this month. Outpatient registrations were down 9.0% while emergency room visits were 5 above budget or 0.4% and outpatient surgeries were below budget for the month by 52 or 30.2%.

The Wound Care program started operations in the mid July and has ramped up quickly. In September there were 173 visits, compared to a budget of 100, or 73% above budget. In September there were 54 hyperbaric oxygen (HBO) treatments. As this number increases it will also contribute to greater gross and net revenue for the program.

Total gross revenue in September was generally in line with activity. Overall gross revenues were close to budget, with the overall inpatient component up 0.6% and outpatient up 0.2%. Acute gross revenues were under budget by 4.3%.

The overall Case Mix Index (CMI) in September was 1.30; lower than last month's of 1.42, and close to the FY 2012 average of 1.32.

Overall expenses were \$6.6 million in September, \$102,000 or 1.6% above the budget of \$6.5 million. Benefits, temporary agency fees, professional fees, supplies and rents/leases were over budget while salaries and purchased services were below budget. These variances will be discussed in more detail later in the narrative. As previously discussed, the FY2012 temporary agency budget was understated by about \$40,000 per month and we will need to overcome this variance with positive revenue and/or expense reductions as the year progresses.

It is important to note that for the first two months of Waters Edge operation, we have accrued a little over \$100,000 in other operating expenses while we become more familiar with the actual expected operating expenses of the facility. Now that we have two months experience of actual expenditures, we will reduce this additional accrual over the next couple of months to reflect actual year to date operating expenses.

Cash and cash equivalents were \$950,000 at the end of September down from \$2 million at prior month end.

Cash collections in September were \$3.7 million. Net accounts receivable increased by about \$2.5 million from prior month due to a problem with our billing vendor (Emdeon) which delayed Medi-Cal payments. This was finally resolved in October and the retroactive claims have been paid. In addition, about \$1.8 million of the A/R increase was for Waters Edge patient accounts. We are finally now able to bill for Waters Edge Medi-Cal patients so the A/R will be coming down as payments come in during October and November.

Accounts payable and other accrued expenses increased by \$740,000 from \$9.7 million to \$10.4 million.

Lastly, the current ratio has dipped to .94, below the required 1.0 of our bank covenants. This ratio went lower in September as the result of the short term cash advance from Emdeon which was paid back in October. The Bank of Alameda has agreed to waive these covenants until the end of 2<sup>nd</sup> quarter of FY 2013 as has previously been discussed and the Bank is aware of the short term Emdeon cash advance.

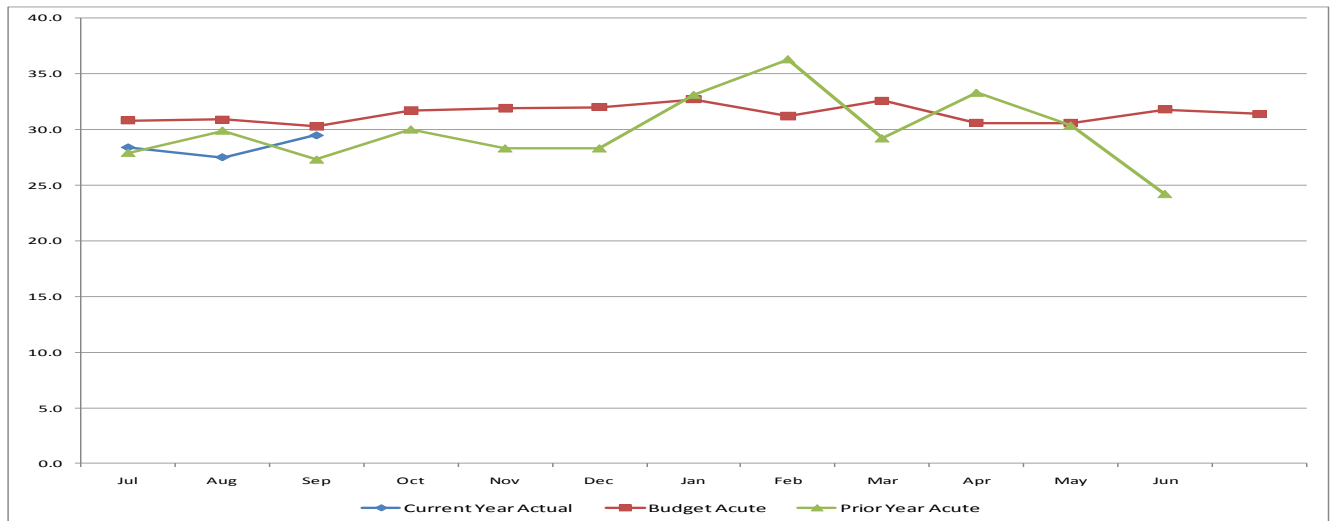
## *ACTIVITY*

### ACUTE, SUBACUTE AND SNF SERVICES

Overall patient days were 1.8% above budget for the month and above September of last year. This month's acute days were below budget by 2.7%, Subacute was up 3.2%, South Shore was up 9.5% and Waters Edge was up 1.1%.

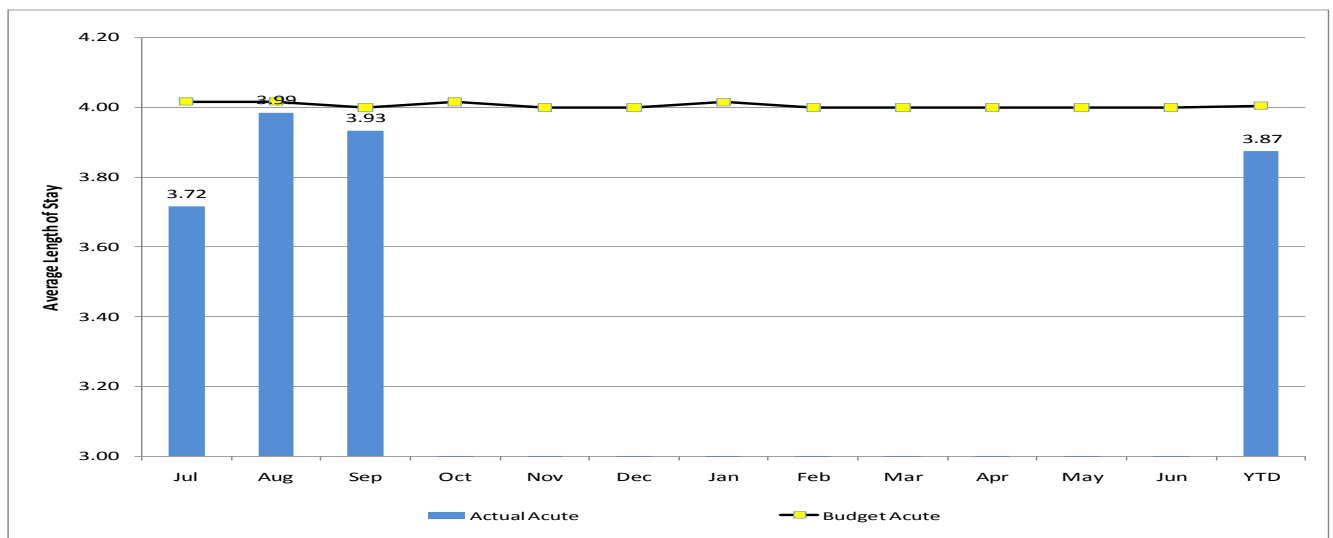
September's acute patient days were 25 days (2.7%) lower than budget for the month but 9.3% higher than September 2011. The acute care program is comprised of the Critical Care Unit (4.8 ADC, 2.9% above budget), Telemetry / Definitive Observation Unit (10.7 ADC, 2.2% above budget) and Med/Surg Unit (14.0 ADC, 7.9% below budget).

**Acute Average Daily Census**



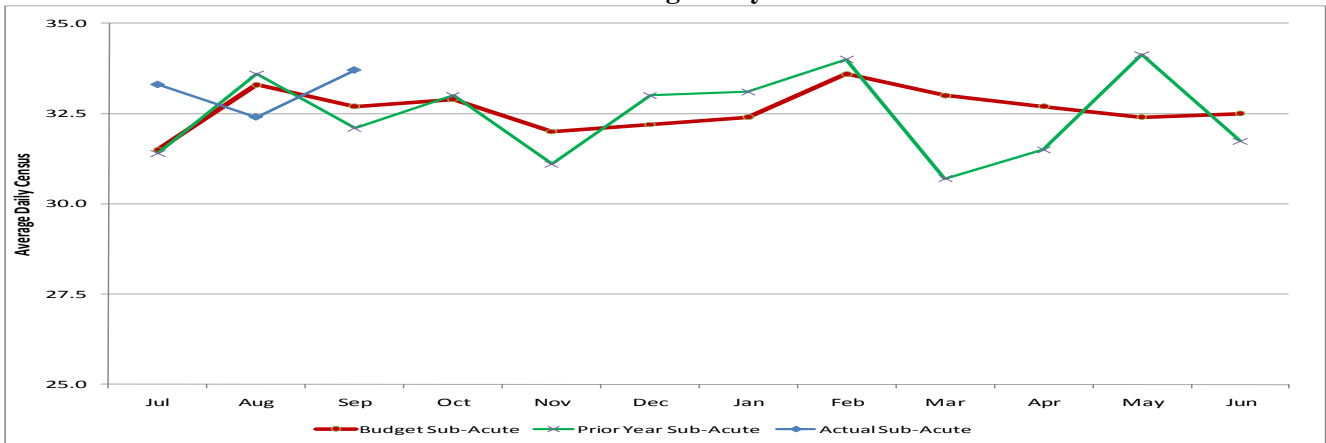
The acute Average Length of Stay (ALOS) decreased from 3.99 in August to 3.93 in September and is below the budget of 4.00. The YTD acute ALOS for FY 2013 is 3.87. The graph below shows the ALOS by month compared to the budget.

**Acute Average Length of Stay**



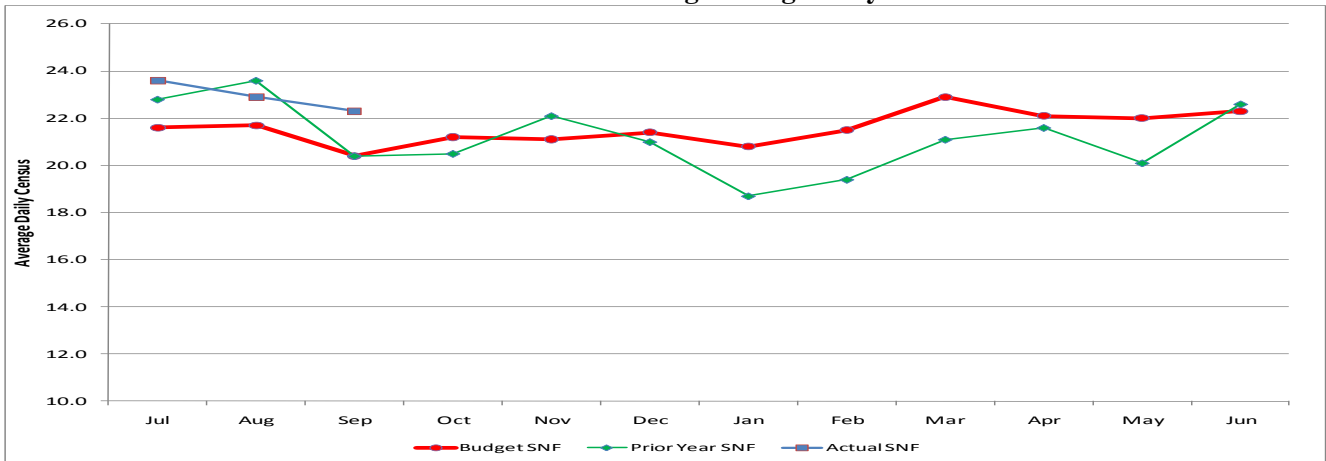
The Subacute program ADC of 33.7 was above budgeted projections by 1.03 ADC or 3.2%. The graph below shows the Subacute programs ADC for the current fiscal year as compared to budget and the prior year.

**Subacute Average Daily Census**



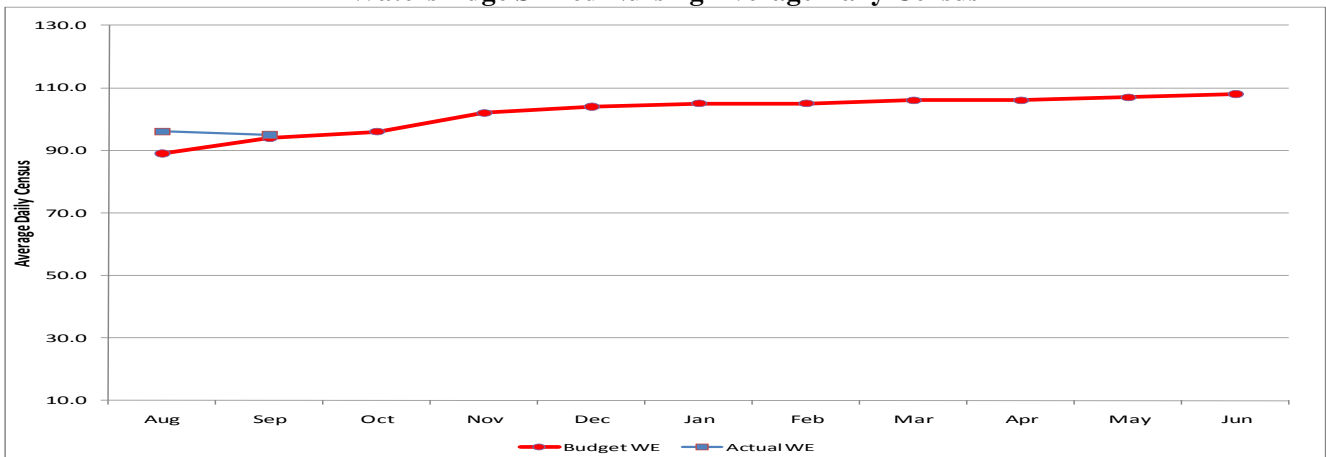
The South Shore ADC was higher than budget by 1.93 or 9.5% for the month of September. The graph below shows the South Shore monthly ADC as compared to budget and the prior year. In September the number of Medicare A skilled patients were 2.9 ADC down from 4.6 ADC in August and lower than budget of 4.0

**South Shore Skilled Nursing Average Daily Census**



Waters Edge census was 30 days (.97 ADC) or 1.1% above budget in September. The Medicare census was 9.1 ADC up from 8.9 ADC in the prior month.

**Waters Edge Skilled Nursing Average Daily Census**

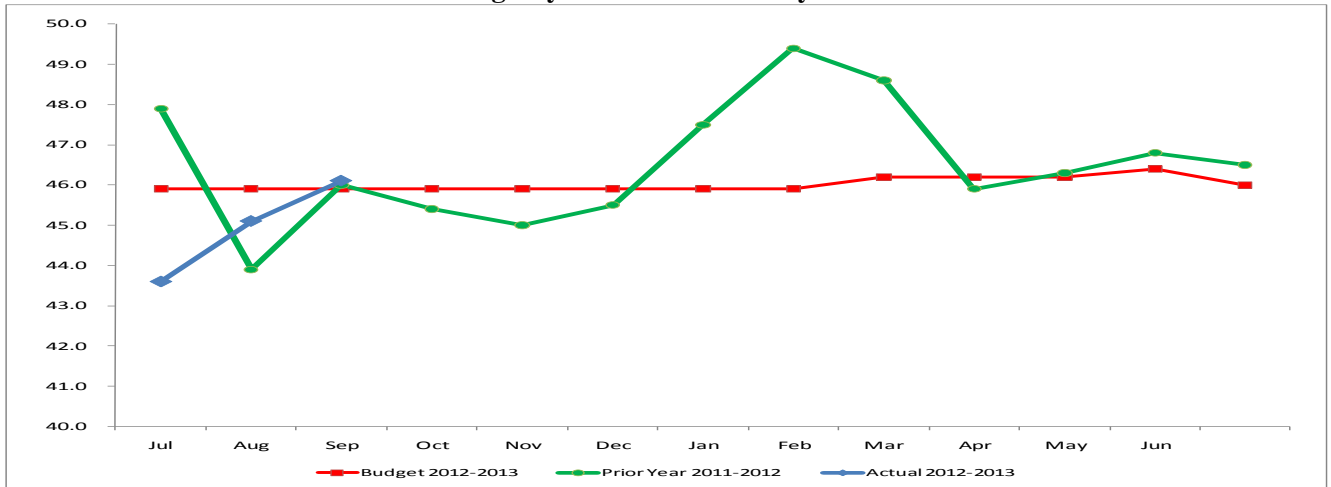


## *ANCILLARY SERVICES*

### Outpatient Services

Emergency Care Center (ECC) visits in September were 1,382, just 5 visits (0.4%) over the budget of 1,377. The inpatient admission rate from the ECC was 17.0% up from 14.4% in August. On a per day basis, the total visits represent an increase of 2.2% from the prior month daily average. In September, there were 279 ambulance arrivals versus 289 in the prior month. Of the 279 ambulance arrivals in the current month, 192 or 68.8% were from Alameda Fire Department (AFD).

**Emergency Care Visits Per Day**



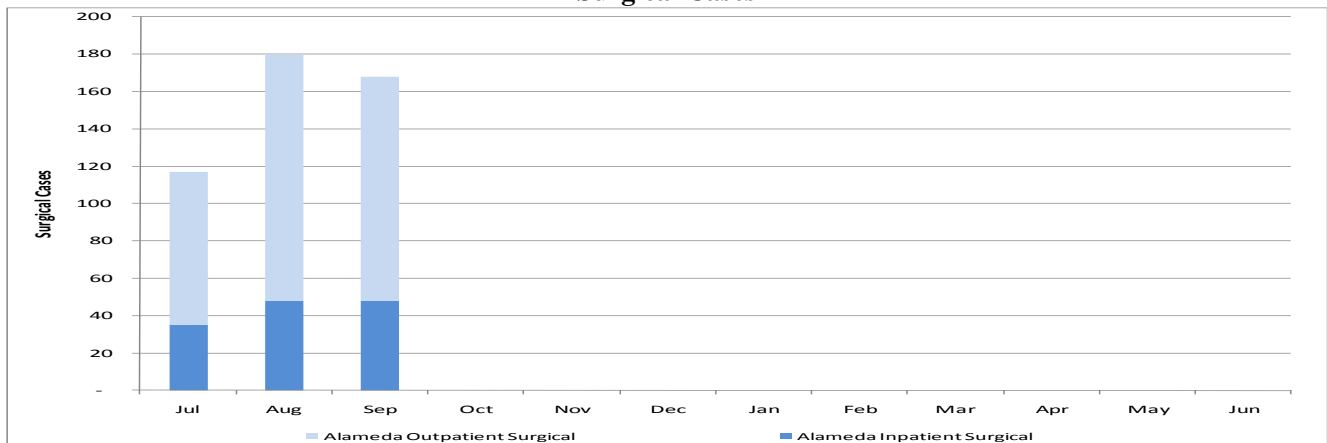
Outpatient registrations were 1,670, or 9.0% below budget. This month visits in Laboratory, Physical Therapy and Ultrasound were down 95, 17 and 25 visits respectively. However, visits were up in Occupational Therapy (34 visits), Radiology (44 visits) and IV Therapy (18 visits).

Wound Care started operation in the middle of July and almost met the budgeted 100 visits in August, just 4 below budget. In September they far exceeded the budget of 100 with 173 visits. Hyperbaric Oxygen treatments were accounted for 54 of those visits.

### Surgery

The surgery cases for September were 168 or 20.0% below the budget of 210 and below last year's case volume of 213. Inpatient cases were above budget by 10 (26.3%) while outpatient cases were 52 (30.2%) below budget. This is consistent with prior month. Inpatient and outpatient cases totaled 48 and 120 respectively versus 48 and 132 during the prior month. Gastroenterology (GI) has been the surgical service area that has seen the most significant decline from budget and prior year but we are eagerly anticipating the new orthopedic surgeons in October.

**Surgical Cases**



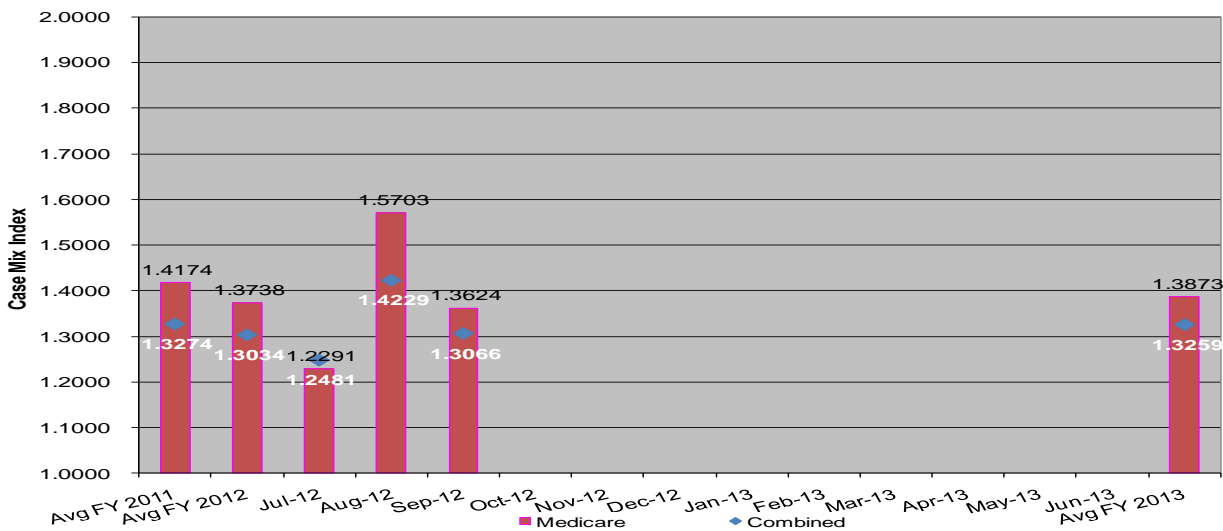
### *Payer Mix*

The Hospital's overall payer mix compared to budget is illustrated below. This is inclusive of the Waters Edge revenue.

|              | <u>Sep Actual</u> | <u>Sep Budget</u> |
|--------------|-------------------|-------------------|
| Medicare     | 44.5%             | 46.2%             |
| Medi-Cal     | 28.7%             | 28.1%             |
| Managed Care | 15.1%             | 15.2%             |
| Other        | 3.8%              | 3.0%              |
| Commerical   | 1.6%              | 3.1%              |
| Self-Pay     | 6.3%              | 4.4%              |
| Total        | 100.0%            | 100.0%            |

### *Case Mix Index*

The Hospital's overall Case Mix Index (CMI) for September was 1.3066, down from the prior month high of 1.4229. The Medicare CMI was 1.3624 in September down from last month's all time high. The graph below shows the Medicare CMI for the Hospital during the current fiscal year as compared to the prior two years.



### *Revenue*

Gross patient charges in September were above budget by \$117,000, or 0.5%. Inpatient revenues were \$106,000 above budget and outpatient revenues were up \$11,000. Acute inpatient days were below budget by 2.7%. Overall inpatient ancillary service charges were stronger than anticipated contributing to the inpatient gross revenue being higher than budget.

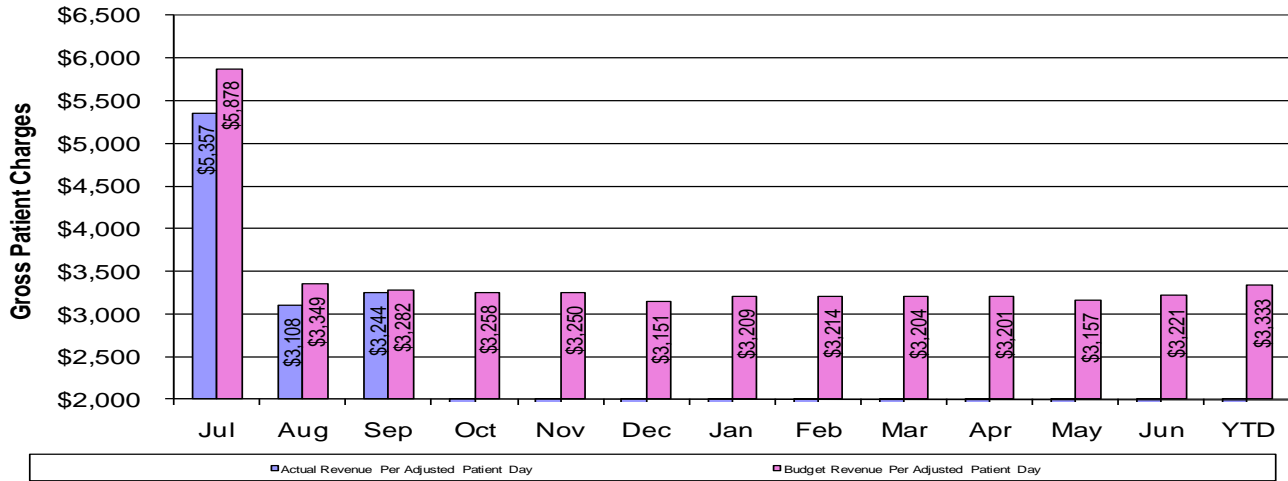
Waters Edge was, once again, strong in September. Although the ancillary revenue was lower than budget, the routine daily room and board revenue and Medicare A RUG reimbursement resulted in net revenue being about \$110,000 higher than budget in September.

Outpatient gross revenues were higher than budget by \$11,000 (0.2%). Imaging, ECC, Wound Care and Pharmacy were the largest contributors to offset the lower surgery revenue. ECC revenue is above budget due to the improvements in the ECC revenue cycle process that went into effect August 1, 2012.

Wound Care volume is above budget with the gross revenue exceeded ing budget by \$143,000 due to the ramp up of higher intensity services such as hyperbaric oxygen treatments. Net revenues were \$33,000 better than budget for the month.

On an adjusted patient day basis, total patient revenue was \$3,244 just below the budget of \$3,282 for the month of September. The table below shows the Hospital's monthly gross revenue per adjusted patient day by month and year-to-date for Fiscal Year 2013 compared to budget. Note the overall revenue per day dropped in August with the addition of Waters Edge days and revenue in the mix. Waters Edge provides a significant amount of days (almost double) yet these patients have primarily room and board charges and very little ancillary services compared to acute patients.

### Gross Charges per Adjusted Patient



### Contractual Allowances

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 payers such as Blue Cross. A collection ratio of 23.6% was budgeted and 24.0% was realized. Medi-Cal reimbursement at both South Shore and Waters Edge were calculated at a per diem rate of \$316 which is consistent with budget and the anticipated rate if AB97 were to become effective. The average RUG score of Medicare A patients at both Waters Edge and South Shore was higher than budget resulting in approximately \$13,000 additional net revenue. Other reimbursement rates are consistent with prior months.

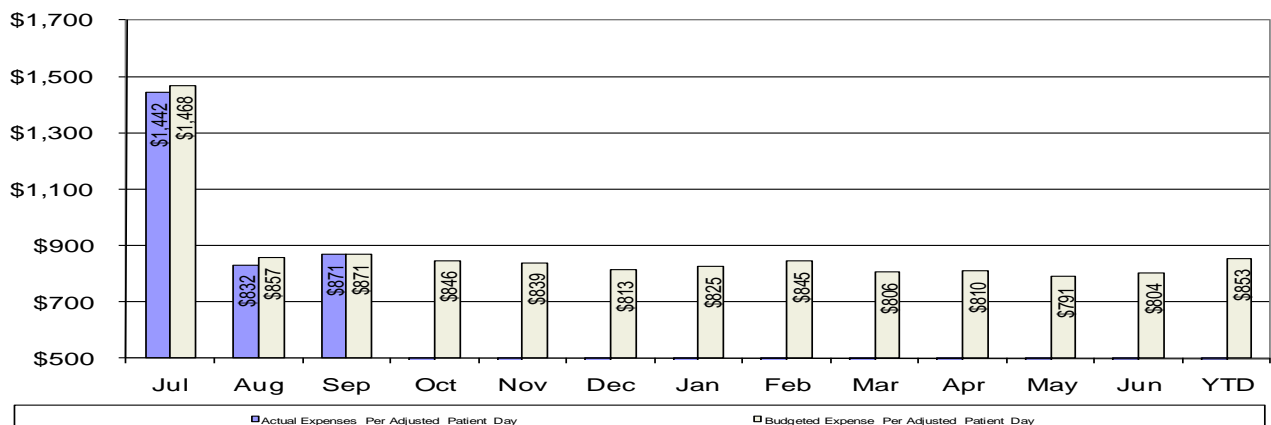
## Expenses

### Total Operating Expenses

Total operating expenses were \$6.6 million and higher than the fixed budget by \$102,000 or 1.6%. Benefits, temporary agency fees, professional fees, supplies and rents/leases were above budget while salaries and purchased services were below budget. All other expense categories were reasonably close to budget. As mentioned at the July meeting the temporary agency budget is understated by \$40,000 per month.

The graph below shows the actual Hospital operating expenses on an adjusted patient day basis for the fiscal year by month as compared to budget. Note that expenses per patient day were at budget this month.

### Expenses per Adjusted Patient Day





Following are 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 unfavorable to the fixed budget by \$19,000. While the temporary agency expenses were budgeted lower than they should have been, there are still several areas using temporary staff to replace vacant positions. The departments utilizing temporary staff to replace budgeted vacant positions are Nursing Administration, Respiratory Therapy, Laboratory and General Accounting.

We have had ongoing meetings with C.N.A regarding implementation of a skill-mix change in Subacute. The change would decrease the utilization of RN's and increase the use of LVN's which is the industry standard for subacute services. This skill mix change is part of our FY 2013 budget and would equate to about a \$20,000 decrease in monthly payroll expense once implemented. This change is expected to be finalized by early November.

### **Benefits**

Benefits were unfavorable to the fixed budget by \$28,000 or 3.2%. This was significantly lower than last month and year-to-date is still below budget. Driving this expense were higher health claims experience.

### **Professional Fees**

Professional fees which had been running under budget this year were above budget by \$47,000 or 12.1% due to some prior month clinic physician fees (\$7,000), a missed accrual in August for Wound Care management fees (\$16,000). In addition the Interim Director in Information Systems, which was unanticipated, is included in professional fees (\$33,000).

### **Supplies**

Supplies expense were \$17,000 greater than budget, again due to IVT pharmaceuticals (\$36,000) as well as prosthetic supplies. (\$36,000). IVT Therapy had 10 more infusion visits in September than was budgeted. The surgery department had higher cost orthopedic cases and an infrequent spinal stimulator case. These higher cost surgical cases do result in higher reimbursement, however, we will be reviewing our authorization and billing processes to ensure that we are getting proper reimbursement for these additional cases/expenses.

### **Purchased Services**

Purchased services were under budget for the month of September, as this area was monitored closely after the significant variance over budget last month. The lower expenses is attributed to South Shore and Waters Edge therapy expenses as well as lower linen and environmental service expenses, offset by higher expenses in collection agency fees and HFS consultants who provide management services to the business office. We are expecting a new business office manager to begin the end of October and the outside consulting expense will be eliminated in November (net expense impact about \$18,000 per month).

### **Rents and Leases**

Rents and leases were over the fixed budget by \$12,000 again this month. A portion of this negative variance was attributable to Central Supply equipment leases and Xerox copier expense for the facility.

### **Other Operating Expense**

Other operating expenses were \$5,000 under the fixed budget in September while depreciation was above budget by \$5,000 primarily due to the Wound Care leasehold improvement expense being over budget and starting in September. We anticipate this variance will continue for the remainder of the year.

## ***Balance Sheet***

Total assets increased by \$803,000 from the prior month. The following items make up the increase in current assets:

- Total unrestricted cash and cash equivalents for September decreased by just over \$1.0 million and days cash on hand including restricted use funds decreased to 4.7 days cash on hand in September from 8.6 days cash on hand in August. Patient collections in August averaged \$123,000 per day, down significantly from the previous months.
- Net patient accounts receivable increased in September by \$2.4 million mostly due to the addition of Waters Edge accounts (\$1.8 million) plus the Emdeon system issues affecting transmission to Medi-Cal claims. In early September we received \$500,000 cash advance from Edmeon to assist with vendor payments while the system issues were being resolved. A second

\$250,000 advance was provided on September 19, 2012. Subsequent to September month end, we did receive \$1.1 million from Medi-Cal associated with the Emdeon system issues. Although there are a couple of accounts that need additional follow-up, the most of the the delayed payments were received on October 9, 2012.

- We have also experienced a delay in collection of Waters Edge receivables due to the State approval to submit claims for Medi-Cal. Medicare is now able to be billed and we did receive our first payments from Medicare on October 1, 2012. We are also now billing for Medi-Cal claims which will help increase cash and reduce the patient receivable balance. We have had challenges with getting these claims properly submitted, however, we believe these will begin to be paid on October 29, 2012.
- Days in outstanding receivables were 69.2 at September month end, an increase from August of 59.2 days. Collections in September were \$3.7 million compared to \$4.5 million in August.
- Prepaids and other decreased by \$30,000.

Overall, total liabilities increased by \$959,000 from prior month. However, there were a couple of changes in accrual and liability activity.

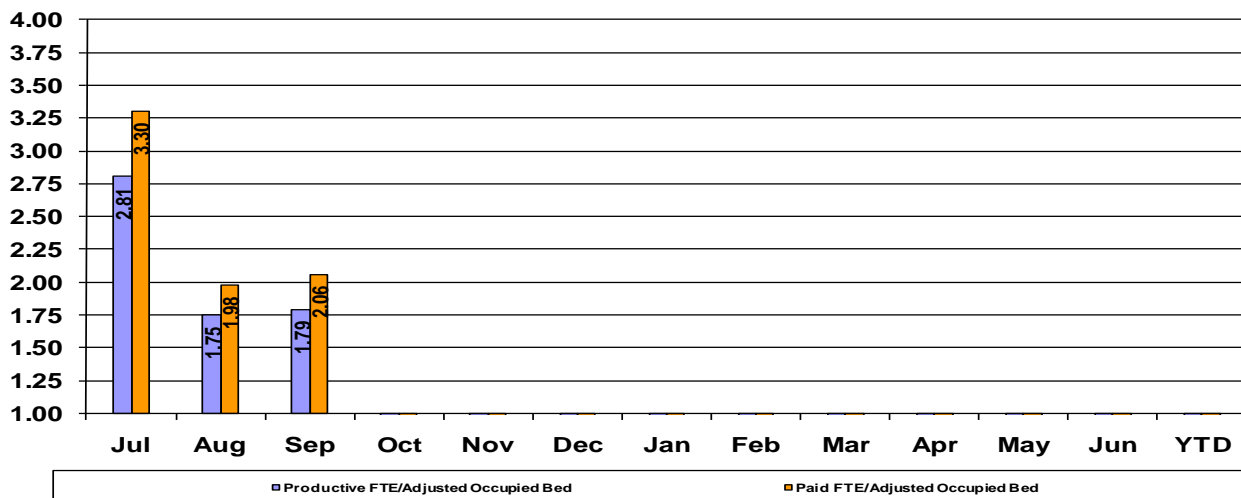
Accounts payable increased by almost \$740,000 in September to almost \$10.5 million which equates to 149 AP Days, up from 141 days in August. AP Days and vendor relations remain one of our top concerns. The cash advances from Emdeon were used in September to help reduce vendor payables. However, once we begin receiving positive cash flow from Waters Edge and other revenue programs, the Hospital will need to reduce our outstanding vendor balances and days in AP as a top priority.

- Payroll related accruals had a net increase of almost \$178,000.
- Deferred revenues decreased by \$477,000 due to the recognition of one-twelfth of the 2012/2013 parcel tax revenues.
- Current Portion of Long Term Debt in the month of September also included the \$750,000 advance from Emdeon that was made in September. This will reverse in October as this advance was paid back.

## *Key Statistics*

### **FTE's Per Adjusted Occupied Bed**

For the month of September Productive FTE's per Adjusted Occupied Bed were 1.78, below the budget of 1.83 FTE's by 2.6%, and paid FTE's were 2.06 or 1.3% below budget. The graph below shows the productive and paid FTE's per Adjusted Occupied Bed for FY 2013 by month.



### **Current Ratio**

The current ratio for September has dropped to 0.94. The current ratio needs to be above 1.0 by the end of the 2<sup>nd</sup> quarter of FY 2013 (December 31, 2012) to be in compliance with our bank covenants. In addition, total net assets need to be greater than \$7.50 million and is currently at \$6.4 million.

The Bank of Alameda loan committee agreed to waive the loan covenants that we have been in non-compliance with until the end of the 2<sup>nd</sup> quarter of FY 2013. We will in turn be providing them with monthly financials to closely monitor our progress in achieving the budget objectives set forth in this new fiscal year.

### **A/R days**

Net days in net accounts receivable are currently at 69.2. This is up from the prior month of 59.2. Net A/R days are up as a result of issues with Emdeon/Medi-Cal billing during the month of September, as well as delays in being authorized to submit claims for Waters Edge. These issues were resolved at the end of September and payments associated with the majority of the Emdeon billing issues were paid on October 9, 2012. Waters Edge claims have been submitted for the months of August and September with payment anticipated on October 29, 2012. We expect the Net A/R to significantly decrease at October month end as these billing and collections processes normalize.

### **Days Cash on Hand**

Days cash on hand for August was 4.7 a decrease from prior month of 8.6. This decrease was anticipated as patient collections were lower to due problems with Emdeon/Medi-Cal billing as well as the slow implementation of our ability to bill for Waters Edge accounts. The result of these issues are reflected in the significant increase in Net A/R balance at the end of September.

The following pages include the detailed financial statements for the first (3) months ended September 30, 2012, of Fiscal Year 2013.

**ALAMEDA HOSPITAL  
KEY STATISTICS  
SEPTEMBER 2012**

|                                     | <u>ACTUAL<br/>SEPTEMBER<br/>2012</u> | <u>CURRENT<br/>FIXED<br/>BUDGET</u> | <u>VARIANCE<br/>(UNDER) OVER</u> | <u>%</u> | <u>SEPTEMBER<br/>2011</u> | <u>YTD<br/>SEPTEMBER<br/>2012</u> | <u>YTD<br/>FIXED<br/>BUDGET</u> | <u>VARIANCE</u> | <u>%</u> | <u>YTD<br/>SEPTEMBER<br/>2011</u> |
|-------------------------------------|--------------------------------------|-------------------------------------|----------------------------------|----------|---------------------------|-----------------------------------|---------------------------------|-----------------|----------|-----------------------------------|
| <b>Discharges:</b>                  |                                      |                                     |                                  |          |                           |                                   |                                 |                 |          |                                   |
| Total Acute                         | 225                                  | 228                                 | (3)                              | -1.3%    | 212                       | 676                               | 705                             | (29)            | -4.0%    | 656                               |
| Total Sub-Acute                     | 3                                    | 3                                   | -                                | 0.0%     | 3                         | 7                                 | 7                               | -               | 0.0%     | 7                                 |
| Total South Shore                   | 9                                    | 8                                   | 1                                | 12.5%    | 8                         | 19                                | 18                              | 1               | 5.6%     | 18                                |
| Total Waters Edge                   | 14                                   | 11                                  | 3                                | 27.3%    | -                         | 24                                | 22                              | 2               | 9.1%     | -                                 |
|                                     | 251                                  | 250                                 | 1                                | 0.4%     | 223                       | 726                               | 752                             | (26)            | -3.4%    | 681                               |
| <b>Patient Days:</b>                |                                      |                                     |                                  |          |                           |                                   |                                 |                 |          |                                   |
| Total Acute                         | 885                                  | 910                                 | (25)                             | -2.7%    | 818                       | 2,619                             | 2,824                           | (205)           | -7.3%    | 2,612                             |
| Total Sub-Acute                     | 1,011                                | 980                                 | 31                               | 3.2%     | 964                       | 3,046                             | 2,991                           | 55              | 1.8%     | 2,979                             |
| Total South Shore                   | 670                                  | 612                                 | 58                               | 9.5%     | 613                       | 2,110                             | 1,956                           | 154             | 7.9%     | 2,050                             |
| Total Waters Edge                   | 2,850                                | 2,820                               | 30                               | 1.1%     | -                         | 5,827                             | 5,579                           | 248             | 4.4%     | -                                 |
|                                     | 5,416                                | 5,322                               | 94                               | 1.8%     | 2,395                     | 13,602                            | 13,350                          | 252             | 1.9%     | 7,641                             |
| <b>Average Length of Stay</b>       |                                      |                                     |                                  |          |                           |                                   |                                 |                 |          |                                   |
| Total Acute                         | 3.93                                 | 3.99                                | (0.06)                           | -1.5%    | 3.86                      | 3.87                              | 4.01                            | (0.13)          | -3.3%    | 3.98                              |
| <b>Average Daily Census</b>         |                                      |                                     |                                  |          |                           |                                   |                                 |                 |          |                                   |
| Total Acute                         | 29.50                                | 30.33                               | (0.83)                           | -2.7%    | 27.27                     | 28.47                             | 30.70                           | (2.23)          | -7.3%    | 28.39                             |
| Total Sub-Acute                     | 33.70                                | 32.67                               | 1.03                             | 3.2%     | 32.13                     | 33.11                             | 32.51                           | 0.60            | 1.8%     | 32.38                             |
| Total South Shore                   | 22.33                                | 20.40                               | 1.93                             | 9.5%     | 20.43                     | 22.93                             | 21.26                           | 1.67            | 7.9%     | 22.28                             |
| Total Waters Edge                   | 95.00                                | 94.00                               | 1.00                             | 1.1%     | -                         | 95.52                             | 91.46                           | 4.07            | 4.4%     | -                                 |
|                                     | 180.53                               | 177.40                              | 3.13                             | 1.8%     | 79.83                     | 180.04                            | 175.93                          | (1.63)          | -0.9%    | 83.05                             |
| <b>Emergency Room Visits</b>        | 1,382                                | 1,377                               | 5                                | 0.4%     | 1,381                     | 4,133                             | 4,223                           | (90)            | -2.1%    | 1,381                             |
| <b>Wound Care Clinic Visits</b>     | 173                                  | 100                                 | 73                               | 73.0%    | -                         | 276                               | 250                             | 26              | 10.4%    | -                                 |
| <b>Outpatient Registrations</b>     | 1,670                                | 1,835                               | (165)                            | -9.0%    | 1,748                     | 5,534                             | 5,599                           | (65)            | -1.2%    | 5,439                             |
| <b>Surgery Cases:</b>               |                                      |                                     |                                  |          |                           |                                   |                                 |                 |          |                                   |
| Inpatient                           | 48                                   | 38                                  | 10                               | 26.3%    | 39                        | 133                               | 111                             | 22              | 19.8%    | 110                               |
| Outpatient                          | 120                                  | 172                                 | (52)                             | -30.2%   | 174                       | 334                               | 521                             | (187)           | -35.9%   | 531                               |
|                                     | 168                                  | 210                                 | (42)                             | -20.0%   | 213                       | 467                               | 632                             | (165)           | -26.1%   | 641                               |
| <b>Adjusted Occupied Bed (AOB)</b>  | 252.98                               | 248.91                              | 4.07                             | 1.6%     | 116.72                    | 193.06                            | 206.17                          | (13.11)         | -6.4%    | 125.52                            |
| <b>Productive FTE</b>               | 451.54                               | 454.55                              | (3.01)                           | -0.7%    | 337.24                    | 405.08                            | 402.07                          | 3.01            | 0.7%     | 341.80                            |
| <b>Total FTE</b>                    | 519.94                               | 518.45                              | 1.49                             | 0.3%     | 392.33                    | 467.53                            | 461.42                          | 6.10            | 1.3%     | 398.31                            |
| <b>Productive FTE/Adj. Occ. Bed</b> | 1.78                                 | 1.83                                | (0.04)                           | -2.3%    | 2.89                      | 2.10                              | 1.95                            | 0.15            | 7.6%     | 2.72                              |
| <b>Total FTE/ Adj. Occ. Bed</b>     | 2.06                                 | 2.08                                | (0.03)                           | -1.3%    | 3.36                      | 2.42                              | 2.24                            | 0.18            | 8.2%     | 3.17                              |

**City of Alameda Health Care District**  
**Statements of Financial Position**  
September 30, 2012

|  | Current Month        | Prior Month          | Prior Year End       |
|--|----------------------|----------------------|----------------------|
| <b>Assets</b>                            |                      |                      |                      |
| Current Assets:                          |                      |                      |                      |
| Cash and Cash Equivalents                | \$ 951,816           | \$ 2,036,664         | \$ 3,327,884         |
| Patient Accounts Receivable, net         | 12,546,572           | 10,091,017           | 8,835,256            |
| Other Receivables                        | 6,044,406            | 6,594,438            | 6,488,283            |
| Third-Party Payer Settlement Receivables | -                    | -                    | -                    |
| Inventories                              | 1,060,171            | 1,044,844            | 1,045,311            |
| Prepays and Other                        | 657,420              | 686,937              | 416,371              |
| Total Current Assets                     | 21,260,385           | 20,453,900           | 20,113,105           |
| Assets Limited as to Use, net            | 95,994               | 84,663               | 64,183               |
| <b>Fixed Assets</b>                      |                      |                      |                      |
| Land                                     | 877,945              | 877,945              | 877,945              |
| Depreciable capital assets               | 44,529,145           | 44,517,954           | 43,470,520           |
| Construction in progress                 | 3,434,702            | 3,387,392            | 4,102,468            |
| Depreciation                             | (39,883,457)         | (39,810,146)         | (39,670,499)         |
| Property, Plant and Equipment, net       | 8,958,335            | 8,973,145            | 8,780,434            |
| <b>Total Assets</b>                      | <b>\$ 30,314,714</b> | <b>\$ 29,511,708</b> | <b>\$ 28,957,722</b> |
| <b>Liabilities and Net Assets</b>        |                      |                      |                      |
| Current Liabilities:                     |                      |                      |                      |
| Current Portion of Long Term Debt        | \$ 2,474,249         | \$ 1,724,249         | \$ 1,724,249         |
| Accounts Payable and Accrued Expenses    | 10,446,088           | 9,708,349            | 7,848,673            |
| Payroll Related Accruals                 | 4,294,265            | 4,116,712            | 4,307,924            |
| Deferred Revenue                         | 4,295,054            | 4,772,138            | 5,726,305            |
| Employee Health Related Accruals         | 658,111              | 644,742              | 691,942              |
| Third-Party Payer Settlement Payable     | 379,233              | 453,233              | 601,233              |
| Total Current Liabilities                | 22,547,000           | 21,419,423           | 20,900,326           |
| Long Term Debt, net                      | 1,353,926            | 1,522,820            | 1,022,152            |
| Total Liabilities                        | 23,900,926           | 22,942,243           | 21,922,478           |
| Net Assets:                              |                      |                      |                      |
| Unrestricted                             | 6,107,795            | 6,286,352            | 6,761,061            |
| Temporarily Restricted                   | 305,994              | 283,113              | 274,183              |
| Total Net Assets                         | 6,413,789            | 6,569,465            | 7,035,244            |
| <b>Total Liabilities and Net Assets</b>  | <b>\$ 30,314,714</b> | <b>\$ 29,511,708</b> | <b>\$ 28,957,722</b> |

**City of Alameda Health Care District**

**Statements of Operations**

September 30, 2012

\$'s in thousands

|   | Current Month   |                 |                |              |                 | Year-to-Date    |                 |                 |              |                 |
|---|-----------------|-----------------|----------------|--------------|-----------------|-----------------|-----------------|-----------------|--------------|-----------------|
|   | Actual          | Budget          | \$ Variance    | % Variance   | Prior Year      | Actual          | Budget          | \$ Variance     | % Variance   | Prior Year      |
| Patient Days                                | 5,416           | 5,322           | 94             | 1.8%         | 2,395           | 13,602          | 13,350          | 252             | 1.9%         | 7,641           |
| Discharges                                  | 251             | 250             | 2              | 0.6%         | 223             | 726             | 752             | (26)            | -3.5%        | 681             |
| ALOS (Average Length of Stay)               | 21.58           | 21.33           | 0.25           | 1.2%         | 10.74           | 18.74           | 17.75           | 0.98            | 5.5%         | 11.22           |
| ADC (Average Daily Census)                  | 180.5           | 177.4           | 3.13           | 1.8%         | 79.8            | 147.8           | 145.1           | 2.74            | 1.9%         | 83.1            |
| CMI (Case Mix Index)                        | 1.3066          |                 |                |              | 1.4031          | 1.3237          |                 |                 |              | 1.3645          |
| <b>Revenues</b>                             |                 |                 |                |              |                 |                 |                 |                 |              |                 |
| Gross Inpatient Revenues                    | \$ 17,570       | \$ 17,465       | \$ 106         | 0.6%         | \$ 13,941       | \$ 48,959       | \$ 50,937       | \$ (1,979)      | -3.9%        | \$ 43,379       |
| Gross Outpatient Revenues                   | 7,051           | 7,040           | 11             | 0.2%         | 6,522           | 21,586          | 21,793          | (207)           | -0.9%        | 21,190          |
| Total Gross Revenues                        | 24,621          | 24,505          | 117            | 0.5%         | 20,463          | 70,545          | 72,731          | (2,186)         | -3.0%        | 64,570          |
| Contractual Deductions                      | 17,932          | 17,889          | (43)           | -0.2%        | 15,260          | 48,910          | 53,621          | 4,711           | 8.8%         | 48,146          |
| Bad Debts                                   | 786             | 679             | (106)          | -15.7%       | 359             | 4,711           | 2,106           | (2,605)         | -123.7%      | 1,577           |
| Charity and Other Adjustments               | -               | 165             | 165            | 100.0%       | 246             | 246             | 511             | 266             | 51.9%        | 760             |
| Net Patient Revenues                        | 5,903           | 5,771           | 132            | 2.3%         | 4,599           | 16,678          | 16,493          | 185             | 1.1%         | 14,087          |
| Net Patient Revenue %                       | 24.0%           | 23.6%           |                |              | 22.5%           | 23.6%           | 22.7%           |                 |              | 21.8%           |
| Net Clinic Revenue                          | 30              | 42              | (12)           | -27.8%       | 31              | 107             | 125             | (18)            | -14.3%       | 98              |
| Other Operating Revenue                     | 6               | 50              | (44)           | -87.8%       | 8               | 21              | 151             | (130)           | -86.3%       | 182             |
| <b>Total Revenues</b>                       | <b>5,939</b>    | <b>5,863</b>    | <b>76</b>      | <b>1.3%</b>  | <b>4,638</b>    | <b>16,806</b>   | <b>16,769</b>   | <b>37</b>       | <b>0.2%</b>  | <b>14,367</b>   |
| <b>Expenses</b>                             |                 |                 |                |              |                 |                 |                 |                 |              |                 |
| Salaries                                    | 3,272           | 3,375           | 104            | 3.1%         | 2,818           | 9,602           | 9,802           | 200             | 2.0%         | 8,556           |
| Temporary Agency                            | 189             | 66              | (123)          | -185.6%      | 94              | 538             | 189             | (349)           | -185.2%      | 327             |
| Benefits                                    | 926             | 897             | (28)           | -3.2%        | 809             | 2,562           | 2,617           | 55              | 2.1%         | 2,626           |
| Professional Fees                           | 433             | 387             | (47)           | -12.1%       | 401             | 1,120           | 1,096           | (24)            | -2.1%        | 997             |
| Supplies                                    | 749             | 732             | (17)           | -2.4%        | 653             | 2,205           | 2,116           | (88)            | -4.2%        | 1,900           |
| Purchased Services                          | 520             | 535             | 15             | 2.8%         | 372             | 1,510           | 1,476           | (35)            | -2.4%        | 1,022           |
| Rents and Leases                            | 215             | 204             | (12)           | -5.8%        | 80              | 545             | 531             | (13)            | -2.5%        | 247             |
| Utilities and Telephone                     | 81              | 87              | 6              | 6.5%         | 64              | 232             | 246             | 14              | 5.9%         | 196             |
| Insurance                                   | 39              | 41              | 2              | 3.7%         | 27              | 119             | 109             | (11)            | -10.0%       | 87              |
| Depreciation and amortization               | 73              | 68              | (5)            | -7.8%        | 73              | 216             | 204             | (12)            | -6.0%        | 226             |
| Other Operating Expenses                    | 109             | 114             | 5              | 4.1%         | 88              | 289             | 318             | 28              | 8.9%         | 231             |
| <b>Total Expenses</b>                       | <b>6,607</b>    | <b>6,506</b>    | <b>(102)</b>   | <b>-1.6%</b> | <b>5,480</b>    | <b>18,937</b>   | <b>18,703</b>   | <b>(234)</b>    | <b>-1.3%</b> | <b>16,415</b>   |
| <b>Operating gain (loss)</b>                | <b>(668)</b>    | <b>(643)</b>    | <b>(25)</b>    | <b>-4.0%</b> | <b>(842)</b>    | <b>(2,131)</b>  | <b>(1,935)</b>  | <b>(197)</b>    | <b>10.2%</b> | <b>(2,049)</b>  |
| <b>Non-Operating Income / (Expense)</b>     |                 |                 |                |              |                 |                 |                 |                 |              |                 |
| Parcel Taxes                                | 477             | 500             | (23)           | -4.6%        | 481             | 1,431           | 1,500           | (68)            | -4.6%        | 1,435           |
| Investment Income                           | 2               | -               | 2              | 0.0%         | 1               | 5               | -               | 5               | 0.0%         | 2               |
| Interest Expense                            | (29)            | (8)             | (21)           | -257.0%      | (14)            | (59)            | (8)             | (51)            | 638.2%       | (45)            |
| Other Income / (Expense)                    | 27              | 15              | 13             | 83.7%        | 25              | 82              | 45              | 37              | 83.1%        | 71              |
| <b>Net Non-Operating Income / (Expense)</b> | <b>478</b>      | <b>507</b>      | <b>(29)</b>    | <b>-5.7%</b> | <b>493</b>      | <b>1,459</b>    | <b>1,536</b>    | <b>(77)</b>     | <b>-5.0%</b> | <b>1,464</b>    |
| <b>Excess of Revenues Over Expenses</b>     | <b>\$ (190)</b> | <b>\$ (136)</b> | <b>\$ (54)</b> | <b>39.9%</b> | <b>\$ (349)</b> | <b>\$ (672)</b> | <b>\$ (398)</b> | <b>\$ (274)</b> | <b>68.8%</b> | <b>\$ (585)</b> |

**City of Alameda Health Care District**  
**Statements of Operations - Per Adjusted Patient Day**  
September 30, 2012

|   | Current Month  |                |               |              |                | Year-to-Date   |                |               |              |                |
|---|----------------|----------------|---------------|--------------|----------------|----------------|----------------|---------------|--------------|----------------|
|   | Actual         | Budget         | \$ Variance   | % Variance   | Prior Year     | Actual         | Budget         | \$ Variance   | % Variance   | Prior Year     |
| <b>Revenues</b>                             |                |                |               |              |                |                |                |               |              |                |
| Gross Inpatient Revenues                    | \$ 2,315       | \$ 2,339       | \$ (24)       | -1.0%        | \$ 3,966       | \$ 2,498       | \$ 2,672       | \$ (174)      | -6.5%        | \$ 3,814       |
| Gross Outpatient Revenues                   | 929            | 943            | (14)          | -1.5%        | 1,855          | 1,101          | 1,143          | (42)          | -3.7%        | 1,863          |
| <b>Total Gross Revenues</b>                 | <b>3,244</b>   | <b>3,282</b>   | <b>(37)</b>   | <b>-1.1%</b> | <b>5,821</b>   | <b>3,599</b>   | <b>3,816</b>   | <b>(216)</b>  | <b>-5.7%</b> | <b>5,677</b>   |
| Contractual Deductions                      | 2,363          | 2,396          | 33            | 1.4%         | 4,341          | 2,496          | 2,813          | 317           | 11.3%        | 4,233          |
| Bad Debts                                   | 104            | 91             | (13)          | -13.8%       | 102            | 240            | 110            | (130)         | -117.6%      | 139            |
| Charity and Other Adjustments               | -              | 22             | 22            | 100.0%       | 70             | 13             | 27             | 14            | 53.3%        | 67             |
| <b>Net Patient Revenues</b>                 | <b>778</b>     | <b>773</b>     | <b>5</b>      | <b>0.6%</b>  | <b>1,308</b>   | <b>851</b>     | <b>865</b>     | <b>(14)</b>   | <b>-1.6%</b> | <b>1,239</b>   |
| <b>Net Patient Revenue %</b>                | <b>24.0%</b>   | <b>23.6%</b>   |               |              | <b>22.5%</b>   | <b>23.6%</b>   | <b>22.7%</b>   |               |              | <b>21.8%</b>   |
| Net Clinic Revenue                          | 4              | 6              | (2)           | -28.9%       | 9              | 5              | 7              | (1)           | -16.6%       | 9              |
| Other Operating Revenue                     | 1              | 7              | (6)           | -88.0%       | 2              | 1              | 8              | (7)           | -86.7%       | 16             |
| <b>Total Revenues</b>                       | <b>783</b>     | <b>785</b>     | <b>(3)</b>    | <b>-0.3%</b> | <b>1,319</b>   | <b>858</b>     | <b>880</b>     | <b>(22)</b>   | <b>-2.5%</b> | <b>1,263</b>   |
| <b>Expenses</b>                             |                |                |               |              |                |                |                |               |              |                |
| Salaries                                    | 431            | 452            | 21            | 4.6%         | 802            | 490            | 514            | 24            | 4.7%         | 752            |
| Temporary Agency                            | 25             | 9              | (16)          | -181.0%      | 27             | 27             | 10             | (18)          | -177.4%      | 29             |
| Benefits                                    | 122            | 120            | (2)           | -1.5%        | 230            | 125            | 137            | 12            | 8.8%         | 231            |
| Professional Fees                           | 57             | 52             | (5)           | -10.3%       | 114            | 57             | 58             | 0             | 0.7%         | 88             |
| Supplies                                    | 99             | 98             | (1)           | -0.7%        | 186            | 112            | 111            | (1)           | -1.3%        | 167            |
| Purchased Services                          | 69             | 72             | 3             | 4.3%         | 106            | 77             | 77             | 0             | 0.4%         | 90             |
| Rents and Leases                            | 28             | 27             | (1)           | -4.1%        | 23             | 28             | 28             | 0             | 0.3%         | 22             |
| Utilities and Telephone                     | 11             | 12             | 1             | 8.0%         | 18             | 12             | 13             | 1             | 8.4%         | 17             |
| Insurance                                   | 5              | 5              | 0             | 5.3%         | 8              | 6              | 6              | (0)           | -7.0%        | 8              |
| Depreciation and Amortization               | 10             | 9              | (1)           | -6.1%        | 21             | 11             | 11             | (0)           | -3.1%        | 20             |
| Other Operating Expenses                    | 14             | 15             | 1             | 5.7%         | 25             | 15             | 17             | 2             | 11.4%        | 20             |
| <b>Total Expenses</b>                       | <b>871</b>     | <b>871</b>     | <b>1</b>      | <b>0.1%</b>  | <b>1,559</b>   | <b>961</b>     | <b>981</b>     | <b>20</b>     | <b>2.1%</b>  | <b>1,443</b>   |
| <b>Operating Gain / (Loss)</b>              | <b>(88)</b>    | <b>(86)</b>    | <b>(2)</b>    | <b>-2.3%</b> | <b>(239)</b>   | <b>(103)</b>   | <b>(101)</b>   | <b>(2)</b>    | <b>1.8%</b>  | <b>(180)</b>   |
| <b>Non-Operating Income / (Expense)</b>     |                |                |               |              |                |                |                |               |              |                |
| Parcel Taxes                                | 63             | 67             | (4)           | -6.1%        | 137            | 73             | 79             | (6)           | -7.2%        | 126            |
| Investment Income                           | 0              | -              | 0             | 0.0%         | 0              | 0              | -              | 0             | 0.0%         | 0              |
| Interest Expense                            | (4)            | (1)            | (3)           | -251.2%      | (4)            | (3)            | (1)            | (2)           | 139.3%       | (4)            |
| Other Income / (Expense)                    | 4              | 2              | 2             | 80.7%        | 7              | 4              | 2              | 2             | 78.1%        | 6              |
| <b>Net Non-Operating Income / (Expense)</b> | <b>63</b>      | <b>68</b>      | <b>(5)</b>    | <b>-7.2%</b> | <b>140</b>     | <b>74</b>      | <b>80</b>      | <b>(5)</b>    | <b>-6.7%</b> | <b>129</b>     |
| <b>Excess of Revenues Over Expenses</b>     | <b>\$ (25)</b> | <b>\$ (18)</b> | <b>\$ (7)</b> | <b>37.6%</b> | <b>\$ (99)</b> | <b>\$ (29)</b> | <b>\$ (22)</b> | <b>\$ (7)</b> | <b>33.2%</b> | <b>\$ (51)</b> |

Wound Care - Statement of Operations  
September 30, 2012

|                                 | Current Month   |                 |                 |         | Year-to-Date    |                 |                 |         |
|---------------------------------|-----------------|-----------------|-----------------|---------|-----------------|-----------------|-----------------|---------|
|                                 | Actual          | Budget          | Variance        | %       | Actual          | Budget          | Variance        | %       |
| Clinic Visits                   | 173             | 100             | 73              | 73.0%   | 276             | 250             | 26              | 10.4%   |
| HBO Treatments                  | 54              |                 |                 |         | 54              |                 |                 |         |
| Revenue                         |                 |                 |                 |         |                 |                 |                 |         |
| Gross Revenue                   | 354,296         | 210,392         | 143,904         | 68.4%   | 448,246         | 525,980         | (77,734)        | -14.8%  |
| Deductions from Revenue         | <u>272,950</u>  | <u>162,086</u>  | <u>110,864</u>  |         | <u>343,876</u>  | <u>405,215</u>  | <u>(61,339)</u> |         |
| Net Revenue                     | <u>81,346</u>   | <u>48,306</u>   | <u>33,040</u>   |         | <u>104,370</u>  | <u>120,765</u>  | <u>(16,395)</u> | -13.6%  |
| Expenses                        |                 |                 |                 |         |                 |                 |                 |         |
| Salaries                        | 13,644          | 14,911          | 1,267           | 8.5%    | 37,310          | 44,733          | 7,423           | 16.6%   |
| Benefits                        | 3,902           | 4,220           | 318             | 7.5%    | 8,860           | 12,660          | 3,800           | 30.0%   |
| Professional Fees               | 49,954          | 26,351          | (23,603)        | -89.6%  | 59,628          | 67,378          | 7,750           | 11.5%   |
| Supplies                        | 7,239           | 7,532           | 293             | 3.9%    | 22,032          | 22,596          | 564             | 2.5%    |
| Purchased Services              | (755)           | -               | 755             | -100.0% | 9,525           | -               | (9,525)         | -100.0% |
| Rents and Leases                | 5,047           | 5,080           | 33              | 0.6%    | 16,164          | 15,240          | (924)           | -6.1%   |
| Depreciation                    | 8,685           | 4,900           | (3,785)         | -77.2%  | 9,165           | 14,700          | 5,535           | 37.7%   |
| Other                           | 4,234           | 5,917           | 1,683           | 28.4%   | 5,003           | 17,751          | 12,748          | 71.8%   |
| Total Expenses                  | <u>91,950</u>   | <u>68,911</u>   | <u>(23,040)</u> | -33.4%  | <u>167,687</u>  | <u>195,058</u>  | <u>27,371</u>   | 14.0%   |
| Excess of Revenue over Expenses | <u>(10,604)</u> | <u>(20,605)</u> | <u>10,001</u>   | 48.5%   | <u>(63,317)</u> | <u>(74,293)</u> | <u>10,975</u>   | 14.8%   |

Note: September Professional Fees includes \$16,000 Acelecare mgt fee missed in August.



City of Alameda Health Care District  
Waters Edge Skilled Nursing - Statement of Operations  
September 30, 2012

|                                 | Current Month    |                  |                  |                | Year-to-Date     |                  |                  |               |
|---------------------------------|------------------|------------------|------------------|----------------|------------------|------------------|------------------|---------------|
|                                 | <u>Actual</u>    | <u>Budget</u>    | <u>Variance</u>  | <u>%</u>       | <u>Actual</u>    | <u>Budget</u>    | <u>Variance</u>  | <u>%</u>      |
| Patient Days                    |                  |                  |                  |                |                  |                  |                  |               |
| Medicare                        | 273              | 300              | (27)             | -9.0%          | 549              | 548              | 1                | 0.2%          |
| Medi-Cal                        | 2,321            | 2,220            | 101              | 4.5%           | 4,711            | 4,483            | 228              | 5.1%          |
| Managed Care                    | 39               | 150              | (111)            | -74.0%         | 65               | 243              | (178)            | -73.3%        |
| Self Pay/Other                  | <u>217</u>       | <u>150</u>       | <u>67</u>        | <u>44.7%</u>   | <u>502</u>       | <u>305</u>       | <u>197</u>       | <u>64.6%</u>  |
| Total                           | 2,850            | 2,820            | 30               | 1.1%           | 5,827            | 5,579            | 248              | 4.4%          |
| Revenue                         |                  |                  |                  |                |                  |                  |                  |               |
| Routine Revenue                 | 2,204,812        | 2,251,600        | (46,788)         | -2.1%          | 4,494,670        | 4,384,048        | 110,622          | 2.5%          |
| Ancillary Revenue               | <u>252,280</u>   | <u>422,663</u>   | <u>(170,383)</u> | <u>-40.3%</u>  | <u>520,119</u>   | <u>859,446</u>   | <u>(339,327)</u> | <u>-39.5%</u> |
| Total Gross Revenue             | 2,457,092        | 2,674,263        | (217,171)        | -8.1%          | 5,014,789        | 5,243,494        | (228,705)        | -4.4%         |
| Deductions from Revenue         | <u>1,410,455</u> | <u>1,738,271</u> | <u>327,816</u>   | <u>18.9%</u>   | <u>2,916,409</u> | <u>3,408,271</u> | <u>491,863</u>   | <u>14.4%</u>  |
| Net Revenue                     | <u>1,046,637</u> | <u>935,992</u>   | <u>110,645</u>   | <u>11.8%</u>   | <u>2,098,380</u> | <u>1,835,223</u> | <u>263,158</u>   | <u>14.3%</u>  |
| Expenses                        |                  |                  |                  |                |                  |                  |                  |               |
| Salaries                        | 410,515          | 461,487          | 50,972           | 11.0%          | 839,847          | 919,371          | 79,524           | 8.6%          |
| Benefits                        | 92,554           | 138,446          | 45,892           | 33.1%          | 184,487          | 275,811          | 91,324           | 33.1%         |
| Professional Fees               | 11,327           | 13,999           | 2,672            | 19.1%          | 29,971           | 27,998           | (1,973)          | -7.0%         |
| Supplies                        | 58,567           | 96,777           | 38,210           | 39.5%          | 155,715          | 194,844          | 39,129           | 20.1%         |
| Purchased Services              | 107,578          | 124,347          | 16,769           | 13.5%          | 241,781          | 246,869          | 5,088            | 2.1%          |
| Rents and Leases                | 77,836           | 76,552           | (1,284)          | -1.7%          | 154,304          | 153,104          | (1,200)          | -0.8%         |
| Utilities                       | 17,784           | 14,999           | (2,785)          | -18.6%         | 42,313           | 29,998           | (12,315)         | -41.1%        |
| Insurance                       | 5,949            | 12,165           | 6,216            | 51.1%          | 16,898           | 24,330           | 7,432            | 30.5%         |
| Other                           | <u>12,251</u>    | <u>21,222</u>    | <u>8,971</u>     | <u>42.3%</u>   | <u>29,113</u>    | <u>42,271</u>    | <u>13,158</u>    | <u>31.1%</u>  |
| Total Expenses                  | 794,361          | 959,994          | 165,633          | 17.3%          | 1,694,429        | 1,914,596        | 220,167          | 11.5%         |
| Excess of Revenue over Expenses | <u>252,276</u>   | <u>(24,002)</u>  | <u>276,278</u>   | <u>1151.1%</u> | <u>403,952</u>   | <u>(79,373)</u>  | <u>483,325</u>   | <u>608.9%</u> |

**City of Alameda Health Care District**  
**Statement of Cash Flows**  
**For the Three Months Ended September 30, 2012**

|  | <u>Current Month</u> | <u>Year-to-Date</u> |
|--|----------------------|---------------------|
| <b>Cash flows from operating activities</b>                        |                      |                     |
| Net Income / (Loss)  | \$ (189,987)         | \$ (672,229)        |
| Items not requiring the use of cash:                               |                      |                     |
| Depreciation and amortization                                      | 73,312               | \$ 216,235          |
| Write-off of Kaiser liability                                      | -                    | \$ -                |
| Changes in certain assets and liabilities:                         |                      |                     |
| Patient accounts receivable, net                                   | (2,455,555)          | (3,711,316)         |
| Other Receivables  | 550,032              | 443,877             |
| Third-Party Payer Settlements Receivable                           | (74,000)             | (222,000)           |
| Inventories  | (15,327)             | (14,860)            |
| Prepays and Other  | 29,517               | (241,049)           |
| Accounts payable and accrued liabilities                           | 737,739              | 2,597,415           |
| Payroll Related Accruals   | 177,553              | (13,659)            |
| Employee Health Plan Accruals                                      | 13,369               | (33,831)            |
| Deferred Revenues  | (477,084)            | (1,431,251)         |
| Cash provided by (used in) operating activities                    | <u>(1,630,431)</u>   | <u>(3,082,668)</u>  |
| <b>Cash flows from investing activities</b>                        |                      |                     |
| (Increase) Decrease in Assets Limited As to Use                    | (11,331)             | (31,811)            |
| Additions to Property, Plant and Equipment                         | (58,502)             | (394,136)           |
| Other  | 11,430               | 18,963              |
| Cash provided by (used in) investing activities                    | <u>(58,403)</u>      | <u>(406,984)</u>    |
| <b>Cash flows from financing activities</b>                        |                      |                     |
| Net Change in Long-Term Debt                                       | 581,106              | 1,081,774           |
| Net Change in Restricted Funds                                     | 22,881               | 31,811              |
| Cash provided by (used in) financing<br>and fundraising activities | <u>603,987</u>       | <u>1,113,585</u>    |
| Net increase (decrease) in cash and cash<br>equivalents            | (1,084,847)          | (2,376,067)         |
| <b>Cash and cash equivalents at beginning of period</b>            | 2,036,664            | 3,327,884           |
| <b>Cash and cash equivalents at end of period</b>                  | <u>\$ 951,817</u>    | <u>\$ 951,818</u>   |

**City of Alameda Health Care District  
Ratio's Comparison**

| <b>Financial Ratios</b>   | <u>Audited Results</u> |                | <u>Unaudited Results</u> |                          | <b>YTD<br/>9/30/2013</b> |
|---|------------------------|----------------|--------------------------|--------------------------|--------------------------|
|   | <b>FY 2009</b>         | <b>FY 2010</b> | <b>FY 2011</b>           | <b>YTD<br/>6/30/2012</b> |                          |
| <b><u>Profitability Ratios</u></b>  |                        |                |                          |                          |                          |
| Net Patient Revenue (%)   | 22.69%                 | 24.16%         | 23.58%                   | 22.73%                   | 23.64%                   |
| Earnings Before Depreciation, Interest,<br>Taxes and Amortization (EBITA) | 3.62%                  | 4.82%          | -1.01%                   | -1.48%                   | -1.48%                   |
| EBIDAP <sup>Note 5</sup>  | -5.49%                 | -3.66%         | -13.41%                  | -11.22%                  | -10.88%                  |
| Total Margin  | 1.03%                  | 2.74%          | -2.61%                   | -3.21%                   | -4.00%                   |
| <b><u>Liquidity Ratios</u></b>  |                        |                |                          |                          |                          |
| Current Ratio   | 1.15                   | 1.23           | 1.05                     | 0.96                     | 0.94                     |
| Days in accounts receivable ,net  | 57.26                  | 51.83          | 46.03                    | 55.21                    | 69.21                    |
| Days cash on hand ( with restricted)                                      | 13.6                   | 21.6           | 14.1                     | 17.7                     | 4.7                      |
| <b><u>Debt Ratios</u></b>   |                        |                |                          |                          |                          |
| Cash to Debt  | 115.3%                 | 249.0%         | 123.3%                   | 123.56%                  | 27.37%                   |
| Average pay period (includes payroll)                                     | 58.03                  | 57.11          | 62.68                    | 72.94                    | 75.43                    |
| Debt service coverage   | 3.87                   | 5.98           | (0.70)                   | (0.53)                   | (0.16)                   |
| Long-term debt to fund balance  | 0.20                   | 0.14           | 0.18                     | 0.28                     | 0.37                     |
| Return on fund balance  | 8.42%                  | 18.87%         | -19.21%                  | -27.35%                  | -10.48%                  |
| Debt to number of beds  | 13,481                 | 10,482         | 11,515                   | 16,978                   | 9,728                    |

**City of Alameda Health Care District  
Ratio's Comparison**

| Financial Ratios                                   | Audited Results |         | Unaudited Results |                  | YTD<br>9/30/2013 |
|--|-----------------|---------|-------------------|------------------|------------------|
|  | FY 2009         | FY 2010 | FY 2011           | YTD<br>6/30/2012 |                  |
| <b>Patient Care Information</b>                    |                 |         |                   |                  |                  |
| Bed Capacity                                       | 161             | 161     | 161               | 161              | 281              |
| Patient days( all services)                        | 30,463          | 30,607  | 30,270            | 30,448           | 13,602           |
| Patient days (acute only)                          | 11,787          | 10,579  | 10,443            | 10,880           | 2,619            |
| Discharges( acute only)                            | 2,812           | 2,802   | 2,527             | 2,799            | 676              |
| Average length of stay ( acute only)               | 4.19            | 3.78    | 4.13              | 3.89             | 3.87             |
| Average daily patients (all sources)               | 83.46           | 83.85   | 82.93             | 83.19            | 147.85           |
| Occupancy rate (all sources)                       | 52.94%          | 52.08%  | 51.51%            | 51.67%           | 52.61%           |
| Average length of stay                             | 4.19            | 3.78    | 4.13              | 3.89             | 3.87             |
| Emergency Visits                                   | 17,337          | 17,624  | 16,816            | 16,964           | 4,133            |
| Emergency visits per day                           | 47.50           | 48.28   | 46.07             | 46.35            | 44.92            |
| Outpatient registrations per day <sup>Note 1</sup> | 82.05           | 79.67   | 65.19             | 60.67            | 60.15            |
| Surgeries per day - Total                          | 16.12           | 13.46   | 6.12              | 6.12             | 5.05             |
| Surgeries per day - excludes Kaiser                | 5.14            | 5.32    | 6.12              | 6.12             | 5.05             |

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 instruments. |
| 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.  |