

Audited Financial Statements
CITY OF ALAMEDA
HEALTH CARE DISTRICT
DbA ALAMEDA HOSPITAL
June 30, 2009

Audited Financial Statements

CITY OF ALAMEDA HEALTH CARE DISTRICT

June 30, 2009

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Management's Discussion and Analysis

CITY OF ALAMEDA HEALTH CARE DISTRICT

June 30, 2009

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, 2009 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, 2009 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 11,787 for fiscal year 2009 as compared to 11,276 for the prior year. Discharges were 2,812 for the current year versus 2,885 for the prior year resulting in lengths of stay of 4.19 for 2009 as compared to 3.91 for 2008.
- Sub-acute and skilled nursing days were 18,676 for fiscal year 2009 as compared to 11,411 for fiscal year 2008, equaling an average daily census of 51.17 for 2009 versus 31.18 for 2008. The significant increase in volume in this category was the result of the acquisition of a 26-bed skilled nursing facility on August 16, 2008 as well as increasing the number of certified sub-acute beds from 30 to 35 during fiscal year 2008.
- Overall combined occupancy for the Hospital, including the sub-acute and skilled nursing programs, was 52.94% for the year ended June 30, 2009 versus 45.92% for the year ended June 30, 2008.
- Surgery cases for the fiscal year 2009 were higher than the prior year. There were 5,885 cases (690 inpatient and 5,195 outpatient) as compared to 5,410 cases for the prior fiscal year (706 inpatient and 4,704 outpatient). Kaiser cases were 4,009 in 2009 versus 3,382 in 2008.
- Outpatient registrations decreased by 995 registrations over the prior year (29,948 for 2009 versus 30,943 for 2008).
- Emergency room visits were 17,337 in the fiscal year 2009 as compared to 17,922 for the prior year.
- FTE's per adjusted occupied bed were 2.93 for 2009 versus 3.69 for the prior year.

Management's Discussion and Analysis (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

Financial Highlights

During our last fiscal year 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 current economic conditions have also added challenges to the health care market. As the economy has weakened during this past fiscal year, there have been inflationary pressures on medical supplies, devices and pharmaceuticals. The expectation by labor for increased wages and benefits continues to exceed the rate of inflationary growth. Employers have reduced healthcare coverage for employees and increased deductibles. Unemployment across the nation has increased significantly and, with an increase in unemployment, there is a corresponding increase in uncompensated care and bad debt.

Despite these challenges, the Hospital was able to continue to improve its financial performance overall. Some of the factors that contributed to the Hospital's improved financial performance include:

- The acquisition of a 26-bed skilled nursing facility in August, 2008 that added to the Hospital's continuum of care for residents of Alameda.
- The opening of the Alameda Hospital Physicians Community Clinic at the Alameda Town Center in January, 2009. The Clinic will provide additional primary care and specialty physician care services to the community.
- The increase in the number of certified sub-acute beds from 30 to 35 during fiscal year 2008.
- Continued focus on ensuring that Hospital operating expenses are maintained at optimal levels while ensuring that each department delivers the highest quality of care to our patients.
- Modifications to the employee health care plan design that requires greater employee participation, including employee contributions for dependant coverage.

Those factors resulted in the following highlights:

- Net assets increased by \$730,000 in 2009 as compared to a decrease in 2008 of \$2,350,000
- Net patient service revenues increased by \$6,825,000 while total operating expenses increased by \$3,742,000 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 \$5,414,000 for fiscal year 2009 as compared to \$8,537,000 for fiscal year 2008.
- Current assets decreased by \$516,000 while current liabilities decreased by \$3,574,000 over the prior fiscal year. The current ratio at June 30, 2009 was 1.15 as compared to 0.98 for the prior year.
- Total assets decreased by \$1,201,000 over the prior fiscal year. Total operating cash and cash equivalents decreased by \$2,656,000 over the prior year (see the *Statements of Cash Flows* for changes). In addition, net patient accounts receivable increased by \$2,125,000. Net days in patient accounts receivable were 57.26 at June 30, 2009 as compared to 51.70 at June 30, 2008.

The Hospital's financial statements consist of three statements: balance sheet; statement of revenues, expenses, and changes 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, 2009, the Hospital's total unrestricted and restricted cash and investments totaled \$2.5 million as compared to \$5.3 million in the prior fiscal year. At June 30, 2009, days cash on hand was 13.56 as compared to 30.61 for the prior year. The Hospital's goal is to maintain sufficient cash and cash equivalent balances to pay all short-term liabilities.

During the year, the Hospital added \$862,000 in capital assets. The development of a new community clinic at the Alameda Town Center made up the largest of the construction projects at \$189,000 of the total construction in progress accounts of \$533,000. Additionally, the Hospital purchased \$349,000 of various medical equipment items with the largest item in this category being a \$128,000 surgical sterilization unit.

Management's Discussion and Analysis (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

Balance Sheet - Liabilities

As previously noted, current liabilities of the Hospital decreased by \$3.6 million from the prior year. This was due mainly to decreases in current maturities of debt borrowings by \$2,297,000, decreases in trade payables by \$856,000, decreases in deferred revenues by \$827,000, decreases in third party payor settlements by \$135,000, decreases in health insurance claims by \$91,000. Offsetting these decreases was an increase in accrued payroll and related liabilities of \$632,000.

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 nonoperating 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.

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 \$10.2 million or 8.2% mainly due the volume increases as previously stated and a mid-year price increase. Subacute and skilled nursing unit charges increased by \$8.2 million or 46% as a result of the addition of the 26-bed unit and the mid-year price increase.

Outpatient gross charges increased by \$14.2 million or 13.2%. due to the mid-year price increase, increases in surgical volumes and continued revenue cycle enhancements to ensure that all services provided are captured as other outpatient volumes decreased slightly from the prior year.

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 and Kaiser.

The provision for bad debts for fiscal year 2009 and fiscal year 2008 were \$7.6 million and \$6.1 million, respectively. As a percentage of gross patient charges, the allowance has increased from 2.4% in fiscal year 2008 to 2.7% in fiscal year 2009.

Contractual allowances and the provision for bad debts (as a percentage of gross patient charges) were 77.7% for fiscal year 2009 as compared to 77.5% for fiscal year 2008. The increase in contractual allowances was due primarily to the price increase implemented during fiscal year 2009, offset by increases in reimbursement from third party contracts and slight increases from government based programs.

Net Patient Service Revenues

Net patient service revenues is the difference between gross patient charges and the deductions from revenue. Net patient service revenues increased by \$6,825,000 or 12.1% as a result of increased inpatient acute census levels, the newly added 26-bed distinct part skilled nursing unit, increased sub-acute unit capacity, a mid-year price increase and improved reimbursement from third-party payors.

Management's Discussion and Analysis (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

Operating Expenses

Total operating expenses were \$68.67 million for fiscal year 2009 compared to \$64.92 million for fiscal year 2008. The 5.8% increase is due primarily to:

- A \$3.8 million or 8.8% increase in salaries, wages, registry and benefits. Total full time equivalents (FTE's) were 430.99 in 2009 versus 400.47 in 2008, a 7.4% increase over the prior year. Of this increase, approximately \$1.0 million and 19.7 FTE's were the result of the new 26-bed skilled nursing unit that was added in August, 2008.
- Other variable expenses (generally volume driven) such as professional fees, supplies and purchased services increased slightly during the year by approximately \$343,000 while other somewhat fixed expenses decreased. The most significant item in this category was insurance, which decreased by \$187,000 as a result of the Hospital's continued ability to minimize exposure to malpractice claims. Depreciation expense decreased by \$372,000 due to certain assets becoming fully depreciated during the year.

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 approved operating and capital budgets for fiscal year ending June 30, 2010 at the June 2009 Board meeting. For fiscal year 2010, the Hospital is budgeted to increase its net assets by \$359,000. The increase is due to several assumptions:

- A conservative increase in volumes for fiscal year 2010 was budgeted, with consideration given to increased expectations within inpatient services resulting from a full year of the skilled nursing unit and increased outpatient services resulting from the formation of a community clinic.
- Gross revenues and net revenues are budgeted to increase due to a combination of volume increases, a mid-year price increase, and continuing improvements in third party payor contracts.
- Operating expenses are expected to increase by 7.0% or \$4.8 million over 2009. The cost for labor (salaries and registry) is projected to increase by \$2.8 million. Consumer price index (CPI) increases of 3% were applied to the cost of supplies and purchased services.

Management believes that the 2010 budget is obtainable despite the many challenges that will confront the Hospital in the upcoming year. Management's goals are to continue to build community support and enthusiasm for the services provided by the Hospital to ensure the provision of quality health care services to the residents of the City of Alameda Health Care District.

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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, 2009 and 2008, 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2009 and 2008, 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

September 9, 2009

Balance Sheets

CITY OF ALAMEDA HEALTH CARE DISTRICT

	June 30	
	<u>2009</u>	<u>2008</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,034,709	\$ 4,690,518
Patient accounts receivable, net of allowances	10,069,536	7,944,522
Other receivables	6,206,763	6,682,339
Estimated third party payor settlements	351,648	245,115
Inventories	1,291,072	1,048,503
Prepaid expenses and deposits	<u>729,301</u>	<u>587,777</u>
Total current assets	20,683,029	21,198,774
Assets limited as to use	468,209	602,817
Capital assets, net of accumulated depreciation	<u>7,237,461</u>	<u>7,789,004</u>
Total assets	<u>\$ 28,388,699</u>	<u>\$ 29,590,595</u>
Liabilities and Net Assets		
Current liabilities:		
Current maturities of debt borrowings	\$ 447,948	\$ 2,744,870
Accounts payable and accrued expenses	6,200,897	7,057,073
Accrued payroll and related liabilities	3,765,683	3,133,574
Deferred revenues	6,524,800	7,351,860
Estimated third party payor settlements	306,588	441,409
Health insurance claims payable (IBNR)	<u>747,912</u>	<u>838,670</u>
Total current liabilities	17,993,828	21,567,456
Debt borrowings, net of current maturities	<u>1,722,417</u>	<u>80,992</u>
Total liabilities	19,716,245	21,648,448
Net assets:		
Invested in capital assets, net of related debt	7,195,316	7,468,754
Restricted, by contributors	468,209	602,817
Unrestricted	<u>1,008,929</u>	<u>(129,424)</u>
Total net assets	<u>8,672,454</u>	<u>7,942,147</u>
Total liabilities and net assets	<u>\$ 28,388,699</u>	<u>\$ 29,590,595</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>2009</u>	<u>2008</u>
Operating revenues		
Net patient service revenue	\$ 63,066,682	\$ 56,241,823
Other operating revenue	<u>185,056</u>	<u>144,451</u>
Total operating revenues	63,251,738	56,386,274
Operating expenses		
Salaries and wages	35,025,781	32,022,845
Registry	2,685,554	1,864,163
Employee benefits	10,102,828	10,079,998
Professional fees	3,270,038	4,030,212
Supplies	9,106,288	8,483,048
Purchased services	4,132,484	3,651,663
Building and equipment rent	662,854	581,198
Utilities and phone	840,808	865,943
Insurance	533,366	720,305
Depreciation and amortization	1,415,682	1,787,352
Other operating expenses	<u>890,175</u>	<u>836,768</u>
Total operating expenses	<u>68,665,858</u>	<u>64,923,495</u>
Operating income (loss)	(5,414,120)	(8,537,221)
Nonoperating revenues (expenses)		
District tax revenues	5,764,021	5,745,308
Investment income	48,073	122,247
Interest expense	(143,167)	(156,562)
Rent and other income	234,037	340,921
Grants and contributions	<u>241,463</u>	<u>134,859</u>
Total nonoperating revenues (expenses)	<u>6,144,427</u>	<u>6,186,773</u>
Increase (decrease) in net assets	730,307	(2,350,448)
Net assets at beginning of the year	<u>7,942,147</u>	<u>10,292,595</u>
Net assets at end of the year	<u>\$ 8,672,454</u>	<u>\$ 7,942,147</u>

See accompanying notes and auditor's report