

**Audited Financial Statements**  
**CITY OF ALAMEDA**  
**HEALTH CARE DISTRICT**  
*DbA ALAMEDA HOSPITAL*  
**June 30, 2011**

Audited Financial Statements

CITY OF ALAMEDA HEALTH CARE DISTRICT

June 30, 2011

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## Management's Discussion and Analysis

### CITY OF ALAMEDA HEALTH CARE DISTRICT

June 30, 2011

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, 2011 in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financials Statements; Management's Discussion and Analysis for State and Local Governments*. The intent of this document is to provide additional information on the Hospital's 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, 2011 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 10,443 for fiscal year 2011 as compared to 10,579 for the prior year. Discharges were 2,527 for the current year versus 2,802 for the prior year resulting in lengths of stay of 4.13 for 2011 as compared to 3.78 for 2010.
- Sub-acute and skilled nursing days were 19,827 for fiscal year 2011 as compared to 20,028 for fiscal year 2010, equaling an average daily census of 54.3 for 2011 versus 54.9 for 2010.
- Overall combined occupancy for the Hospital, including the sub-acute and skilled nursing programs, was 51.5% for the year ended June 30, 2011 versus 52.1% for the year ended June 30, 2010.
- There were 2,232 surgery cases during fiscal year 2011 (502 inpatient and 1,730 outpatient cases) as compared to 4,912 surgery cases for the prior fiscal year (683 inpatient and 4,229 outpatient cases). However, it is important to note that prior year included nine months of outpatient surgery associated with the Kaiser contract. Alameda surgery cases for the prior year, excluding Kaiser, were 1,943. Therefore the Hospital experienced a 15% increase in non-Kaiser surgery cases between 2010 and 2011.
- Outpatient registrations decreased by 5,283 registrations over the prior year (23,796 for 2011 versus 29,079 for 2010).
- Emergency room visits were 16,816 in the fiscal year 2011 as compared to 17,624 for the prior year.
- FTE's per adjusted occupied bed were 3.41 for 2011 versus 3.11 for the prior year.

Management's Discussion and Analysis (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

***Financial Highlights***

During fiscal year 2011, 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. Despite this, there were some factors that contributed to the Hospital's financial performance:

- The steady utilization of the 26-bed skilled nursing facility which opened in August, 2008 continues to add to the Hospital's continuum of care for residents of Alameda.
- The disproportionate share/intergovernmental transfer program added approximately \$775,000 to fiscal year 2011 net patient revenue.
- The State's Quality Assurance program added approximately \$600,000 to net patient revenue for the year 2011. These disproportionate share programs have been approved to continue through December, 2013.
- While net patient revenues decreased approximately \$10 million, the Hospital was able to counter these decreases by flexing operating expenses \$5.1 million in order to help reduce costs due to the loss of volumes and revenues.
- The Hospital realized an extraordinary gain of \$1,451,597 to reverse a liability that had been carried on the records of the Hospital for a substantial period of time. Significant and concerted efforts had been made for several years by the Hospital to resolve the issue and several contacts to the vendor had been made with no response by them. It was assumed that any future efforts would be met with the same silence. This statutory forgiveness of debt results from the fact that any attempt at collection by the vendor would be barred by the four-year statute of limitations applicable to claims that arise with respect to contracts in California. Therefore, given the passing of the four-year statute of limitations and following discussions with Hospital legal council on this matter, the Hospital has written off the debt from its financial statements.

These financial factors resulted in the following:

- Net assets decreased by \$1,429,000 in 2011 as compared to an increase of \$2,017,000 in 2010
- Net patient service revenues decreased by \$10,021,000 or 15% while total operating expenses decreased by \$5,070,000 or 7% 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 \$9,108,000 for fiscal year 2011 as compared to \$4,127,000 for fiscal year 2010.
- Current assets decreased by \$2,927,000 while current liabilities decreased by \$47,000 over the prior fiscal year. This resulted in a reduction of the current ratio at June 30, 2011 to 1.11 as compared to 1.23 for the prior year.
- Net days in patient accounts receivable improved to 45.2 at June 30, 2011 as compared to 51.5 at June 30, 2010.
- Total assets decreased by \$1,602,000 over the prior fiscal year. Total operating cash and cash equivalents decreased by \$1,661,000 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. Net 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, 2011, the Hospital's unrestricted and restricted cash and investments totaled \$2.5 million as compared to \$4.2 million in the prior fiscal year. At June 30, 2011, day's cash on hand was 14.1 as compared to 21.6 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 \$2,279,000 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 additions during the fiscal year were seismic planning work (\$1,024,000) and Electronic Health Record (EHR) implementation (\$1,569,000).

***Balance Sheet - Liabilities***

As previously discussed, the Hospital's current liabilities decreased by \$47,000 from the prior year. Changes were comprised of increases in trade payables by \$799,000, increases in current maturities of debt borrowings by \$327,000 due to the reclassification of the FY09 Medi-Cal settlement payable, decreases in deferred revenues by \$12,000, decreases in third party payor settlements by \$500,000, decreases in health insurance claims by \$302,000 and decreases in accrued payroll and related liabilities of \$360,000.

***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 decreased by \$760,000 from fiscal year 2010 due to a combination of price increases and a decrease in acute care patient days of 136 days in fiscal year 2011. The subacute and skilled nursing unit charges decreased in fiscal year 2011 by only \$29,700 as patient day decreased by only 201 days.

Outpatient gross charges continued to decrease by \$33.9 million as a result of a full years record of affect of the loss of the Kaiser Outpatient Surgery Services contract as previously discussed.

***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 2011 and fiscal year 2010 were \$8.0 million and \$6.3 million, respectively. As a percentage of gross patient charges, the allowance has increased from 2.3% in fiscal year 2010 to 3.3% in fiscal year 2011.

Contractual allowances and the provision for bad debts (as a percentage of gross patient charges) were 76.4% for fiscal year 2011 as compared to 75.7% for fiscal year 2010. The slight increase in contractual allowances was due primarily to programs such as the disproportionate share program as previously discussed ( a positive impact) 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 decreased by \$10.0 million as a result primarily of contract losses and volume changes as previously noted.

Management's Discussion and Analysis (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

***Operating Expenses***

Total operating expenses were \$66.9 million for fiscal year 2011 compared to \$72.1 million for fiscal year 2010. This 7.6% decrease is due primarily to:

- A \$2.9 million or 6.1% decrease in salaries, wages, registry and benefits from the prior year. Total full time equivalents (FTE's) were 420.8 in 2011 versus 442.3 in 2010, a 5% decrease over the prior year. The decrease was primarily due to the reduction to direct and indirect staffing levels that previously supported the Kaiser Outpatient Surgery Services contract.
- Other variable expenses such as professional fees, supplies and purchased services decreased during the year by approximately \$1.9 million while other expenses (rent, insurance, utilities, depreciation and other operating expenses) decreased slightly by approximately \$263,000.

***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, 2012. For fiscal year 2012, the Hospital is budgeted to increase its net assets by approximately \$540,000. The increase is due to several assumptions:

- The Hospital has factored in a "worst case" projected Medi-Cal reimbursement reduction of approximately \$2.1 million in long-term care reimbursement as a result of AB 97. It is still not clear how AB 97 will impact the Hospital as there exists a potential CMS rejection.
- The Hospital's average daily census is projected to increase by over 4% over 2011 due to the implementation of a physician advisory program and the addition of the Wound Care Center, expected to open in January, 2012.
- The South Shore Skilled Nursing Unit and the 35-bed Sub Acute Unit are both projected to perform at levels consistent with prior years.
- The outpatient registrations are expected to increase by 2.1% over 2011 levels due to changes in radiology and other services while observation visits are projected to decrease by 29% due to the physician advisory program previously mentioned.
- Operating expenses are expected to approximate \$66,486,000, a slight decrease from the 2011 levels due to continued monitoring of FTE levels and variable expenses.

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

# TCA Partners, LLP

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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, 2011 and 2010, 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, 2011 and 2010, 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 16, 2011

Balance Sheets

CITY OF ALAMEDA HEALTH CARE DISTRICT

	June 30	
	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,064,823	\$ 3,725,769
Patient accounts receivable, net of allowances	7,249,185	9,558,147
Other receivables	8,090,457	6,669,235
Estimated third party payor settlements	153,930	374,557
Inventories	1,183,358	1,149,706
Prepaid expenses and deposits	<u>262,359</u>	<u>453,871</u>
Total current assets	19,004,112	21,931,285
Assets limited as to use	483,716	476,630
Capital assets, net of accumulated depreciation	<u>8,632,791</u>	<u>7,314,870</u>
Total assets	<u>\$ 28,120,619</u>	<u>\$ 29,722,785</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current maturities of debt borrowings	\$ 777,897	\$ 450,831
Accounts payable and accrued expenses	6,911,766	6,112,296
Accrued payroll and related liabilities	3,991,254	4,351,133
Deferred revenues	5,725,900	5,736,951
Estimated third party payor settlements		500,000
Health insurance claims payable (IBNR)	<u>343,382</u>	<u>645,750</u>
Total current liabilities	17,750,199	17,796,961
Debt borrowings, net of current maturities	<u>1,110,286</u>	<u>1,236,831</u>
Total liabilities	18,860,485	19,033,792
Net assets:		
Invested in capital assets, net of related debt	8,321,570	7,314,870
Restricted, by contributors	483,716	476,630
Unrestricted	<u>454,848</u>	<u>2,897,493</u>
Total net assets	<u>9,260,134</u>	<u>10,688,993</u>
Total liabilities and net assets	<u>\$ 28,120,619</u>	<u>\$ 29,722,785</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>2011</u>	<u>2010</u>
<b>Operating revenues</b>		
Net patient service revenue	\$ 57,757,879	\$ 67,778,668
Other operating revenue	<u>127,017</u>	<u>157,493</u>
Total operating revenues	57,884,896	67,936,161
<b>Operating expenses</b>		
Salaries and wages	35,233,864	37,493,274
Registry	2,385,110	2,029,651
Employee benefits	9,147,660	10,115,302
Professional fees	3,666,706	3,447,118
Supplies	8,180,393	10,002,904
Purchased services	4,317,577	4,650,202
Building and equipment rent	837,899	843,137
Utilities and phone	769,760	836,617
Insurance	383,797	496,418
Depreciation and amortization	961,544	1,163,436
Other operating expenses	<u>1,108,797</u>	<u>984,815</u>
Total operating expenses	<u>66,993,107</u>	<u>72,062,874</u>
Operating income (loss)	(9,108,211)	(4,126,713)
<b>Nonoperating revenues (expenses)</b>		
District tax revenues	5,775,241	5,762,661
Investment income	19,303	28,988
Interest expense	(122,255)	(97,191)
Rent and other income	264,070	255,108
Grants and contributions	<u>291,396</u>	<u>193,686</u>
Total nonoperating revenues (expenses)	<u>6,227,755</u>	<u>6,143,253</u>
Increase (decrease) in net assets before extraordinary gain	(2,880,456)	2,016,539
Extraordinary gain on extinguishment of debt	<u>1,451,597</u>	<u>                    </u>
Increase (decrease) in net assets	(1,428,859)	2,016,539
Net assets at beginning of the year	<u>10,688,993</u>	<u>8,672,454</u>
Net assets at end of the year	<u>\$ 9,260,134</u>	<u>\$ 10,688,993</u>

*See accompanying notes and auditor's report*

Statements of Cash Flows

CITY OF ALAMEDA HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities:</b>		
Cash received from patients and third-parties on behalf of patients	\$ 57,901,250	\$ 68,460,560
Cash received from operations, other than patient services	580,962	107,172
Cash payments to suppliers and contractors	(19,543,480)	(24,264,829)
Cash payments to employees and benefit programs	<u>(44,741,403)</u>	<u>(47,023,126)</u>
Net cash provided by operating activities	(5,802,671)	(2,720,223)
<b>Cash flows from noncapital financing activities:</b>		
District tax revenues	5,775,241	5,762,661
Grants, contributions and other nonoperating revenues	<u>555,466</u>	<u>448,794</u>
Net cash provided by noncapital financing activities	6,330,707	6,211,455
<b>Cash flows from capital financing activities:</b>		
Purchase and donations of capital assets, net of loss on disposals	(2,279,465)	(1,240,845)
Proceeds from debt borrowings	641,823	
Principal payments on debt borrowings	(441,302)	(482,703)
Interest payments on debt borrowings	<u>(122,255)</u>	<u>(97,191)</u>
Net cash provided by (used in) capital financing activities	(2,201,199)	(1,820,739)
<b>Cash flows from investing activities:</b>		
Net change in assets limited as to use	(7,086)	(8,421)
Investment income	<u>19,303</u>	<u>28,988</u>
Net cash provided by (used in) investing activities	<u>12,217</u>	<u>20,567</u>
Net increase (decrease) in cash and cash equivalents	(1,660,946)	1,691,060
Cash and cash equivalents at beginning of year	<u>3,725,769</u>	<u>2,034,709</u>
Cash and cash equivalents at end of year	<u>\$ 2,064,823</u>	<u>\$ 3,725,769</u>

*See accompanying notes and auditor's report*

Statements of Cash Flows (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2011</u>	<u>2010</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income (loss)	\$ (9,108,211)	\$ (4,126,713)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	961,544	1,163,436
Provision for bad debts	8,020,061	6,338,492
Extraordinary gain on extinguishment of debt	1,451,597	
Changes in operating assets and liabilities:		
Patient accounts receivables	(5,711,099)	(5,827,103)
Other receivables	(1,421,222)	(462,472)
Inventories	(33,652)	141,366
Prepaid expenses and deposits	191,512	275,430
Accounts payable and accrued expenses	799,470	(88,601)
Accrued payroll and related liabilities	(359,879)	585,450
Estimated third party payor settlements	(279,373)	170,503
Deferred revenues	(11,051)	(787,849)
Health insurance claims payable (IBNR)	<u>(302,368)</u>	<u>(102,162)</u>
Net cash provided by operating activities	<u>\$ (5,802,671)</u>	<u>\$ (2,720,223)</u>

*See accompanying notes and auditor's report*

CITY OF ALAMEDA HEALTH CARE DISTRICT

June 30, 2011

**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, 2011 and 2010, 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, 2011 and 2010 are \$2,644,177 and \$2,646,428, 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, 2011 and 2010, the Hospital had deposits invested in various financial institutions in the form of cash and cash equivalents in the amounts of \$2,547,338 and \$4,201,199 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, 2011, 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. At June 30, 2011, cost reports through June 30, 2009, 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>2011</u>	<u>2010</u>
Inpatient acute and inpatient ancillary services	\$135,629,202	\$136,389,616
Long-term care routine services	27,952,591	27,982,345
Outpatient acute services	<u>80,609,704</u>	<u>114,502,502</u>
Gross patient service revenues	244,191,497	278,874,463
Less deductions from revenue and related allowances	<u>(186,433,618)</u>	<u>(211,095,795)</u>
Net patient service revenues	<u>\$ 57,757,879</u>	<u>\$ 67,778,668</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, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 8,230,964	\$ 12,868,587
Medi-Cal	6,867,312	10,226,623
Other third party payors	12,159,619	10,358,059
Self pay and other	<u>8,188,321</u>	<u>10,051,064</u>
Gross patient accounts receivable	35,446,216	43,504,333
Less allowances for contractual adjustments and bad debts	<u>(28,197,031)</u>	<u>(33,946,186)</u>
Net patient accounts receivable	<u>\$ 7,249,185</u>	<u>\$ 9,558,147</u>

Notes to Financial Statements (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE E - OTHER RECEIVABLES**

Other receivables as of June 30, 2011 and 2010 were comprised of the following:

	<u>2011</u>	<u>2010</u>
Alameda County property taxes	\$ 6,011,855	\$ 6,027,398
Kaiser contract receivable	141,183	141,183
Various managed care programs	109,520	
Pension plan forfeitures	180,778	165,579
Intergovernmental Transfer program from the State	1,476,698	
Rents receivable	1,850	5,342
Other various receivables, net of reserves	<u>168,573</u>	<u>329,733</u>
	<u>\$ 8,090,457</u>	<u>\$ 6,669,235</u>

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

Assets limited as to use as of June 30, 2011 and 2010 were comprised of the following:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents restricted by contributors	<u>\$ 483,716</u>	<u>\$ 476,630</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 \$1,089,667 and \$1,149,625 at June 30, 2011 and 2010, respectively.

Notes to Financial Statements (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

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

Capital assets as of June 30, 2011 and 2010 were comprised of the following:

	<u>Balance at June 30, 2010</u>	<u>Transfers &amp; Additions</u>	<u>Reclasses &amp; Retirements</u>	<u>Balance at 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>                    </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>                    </u>	<u>(17,321,238)</u>
Total accumulated depreciation	<u>(37,934,678)</u>	<u>(961,544)</u>	<u>                    </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>

	<u>Balance at June 30, 2009</u>	<u>Transfers &amp; Additions</u>	<u>Reclasses &amp; Retirements</u>	<u>Balance at June 30, 2010</u>
Land and land improvements	\$ 1,376,954			\$ 1,376,954
Buildings and improvements	23,657,283	\$ 323,053		23,980,336
Equipment	18,449,576	615,032		19,064,608
Construction-in-progress	<u>533,294</u>	<u>294,356</u>	<u>                    </u>	<u>827,650</u>
Totals at historical cost	44,017,107	1,232,441		45,249,548
Accumulated depreciation for:				
Land and land improvements	(258,275)	(4,509)		(262,784)
Buildings and improvements	(20,530,813)	(382,946)		(20,913,759)
Equipment	<u>(15,990,558)</u>	<u>(767,577)</u>	<u>                    </u>	<u>(16,758,135)</u>
Total accumulated depreciation	<u>(36,779,646)</u>	<u>(1,155,032)</u>	<u>                    </u>	<u>(37,934,678)</u>
Capital assets, net	<u>\$ 7,237,461</u>	<u>\$ 77,409</u>	<u>\$                    </u>	<u>\$ 7,314,870</u>

Notes to Financial Statements (continued)

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE H - DEBT BORROWINGS**

As of June 30, 2011 and 2010, debt borrowings were as follows:

	<u>2011</u>	<u>2010</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:	\$ 1,273,005	\$ 1,672,867
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:	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:		14,795
Other	<u>1,888,183</u>	<u>1,687,662</u>
Less current maturities of debt borrowings	<u>(777,897)</u>	<u>(450,831)</u>
	<u>\$ 1,110,286</u>	<u>\$ 1,236,831</u>

Future principal maturities for debt borrowings for the next succeeding years are: \$777,897 in 2012; \$775,396 in 2013; and \$334,890 in 2014.

**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 is due and payable monthly. There were no borrowings under this line of credit agreement as of June 30, 2011.

**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 \$162,576 and \$165,000 for the years ended June 30, 2011 and 2010 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, 2011 and 2010 were approximately \$1,857,000 and \$1,775,000, 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, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 92,599	\$ 118,361
Interest on net pension asset	(9,638)	(5,818)
Adjustment to net pension obligation	<u>17,118</u>	<u>11,196</u>
Annual pension cost	100,079	123,739
Contributions made	<u>(140,000)</u>	<u>(168,000)</u>
Increase (decrease) in net pension obligation	(39,921)	(44,261)
Net pension (asset) liability at the beginning of the year	<u>(160,630)</u>	<u>(116,369)</u>
Net pension (asset) liability at the end of the year	<u>\$ (200,551)</u>	<u>\$ (160,630)</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>
2009	\$ 133,220	96.2%	\$ (116,369)
2010	\$ 123,739	135.8%	\$ (160,630)
2011	\$ 100,079	139.9%	\$ (200,551)

**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>
7/1/08	\$ 2,700,503	\$ 1,370,353	\$ 1,330,150	50.7%	N/A	N/A
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

CITY OF ALAMEDA HEALTH CARE DISTRICT

**NOTE K - COMMITMENTS AND CONTINGENCIES**

**Construction-in-Progress:** As of June 30, 2011 and 2010, the Hospital had recorded \$2,921,049 and \$827,650, 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, 2011 and 2010. Estimated cost to complete these projects as of June 30, 2011 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, 2011 and 2010, were \$837,899 and \$843,137, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2011, 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, 2011 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, 2011 and 2010.

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, 2011 and 2010 of these component units are included within the financial statements of the Hospital. Net assets of these units were \$669,402 for 2011 and \$581,436 for 2010. Net increase in assets for these units were \$87,865 for 2011 and \$23,041 for 2010. The financial impact of these component units on the Hospitals'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, 2011:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Money market securities	\$ 94,290	\$ 94,290	_____	_____
Totals of financial instruments	<u>\$ 94,290</u>	<u>\$ 94,290</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, 2010:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Money market securities	\$ 593,848	\$ 593,848	_____	_____
Totals of financial instruments	<u>\$ 593,848</u>	<u>\$ 593,848</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, 2011 and 2010, in terms of services to the poor and benefits to the broader community:

	<u>2011</u>	<u>2010</u>
Benefits for the poor:		
Traditional charity care	\$ 1,768,460	\$ 1,294,078
Unpaid Medi-Cal and other public aid programs	<u>7,716,363</u>	<u>7,348,917</u>
Total quantifiable benefits for the poor	9,484,823	8,642,995
Benefits for the broader community:		
Unpaid Medicare program charges	<u>80,192,749</u>	<u>76,043,551</u>
Total quantifiable benefits for the broader community	<u>80,192,749</u>	<u>76,043,551</u>
Total quantifiable community benefits	<u>\$ 89,677,572</u>	<u>\$ 84,686,546</u>