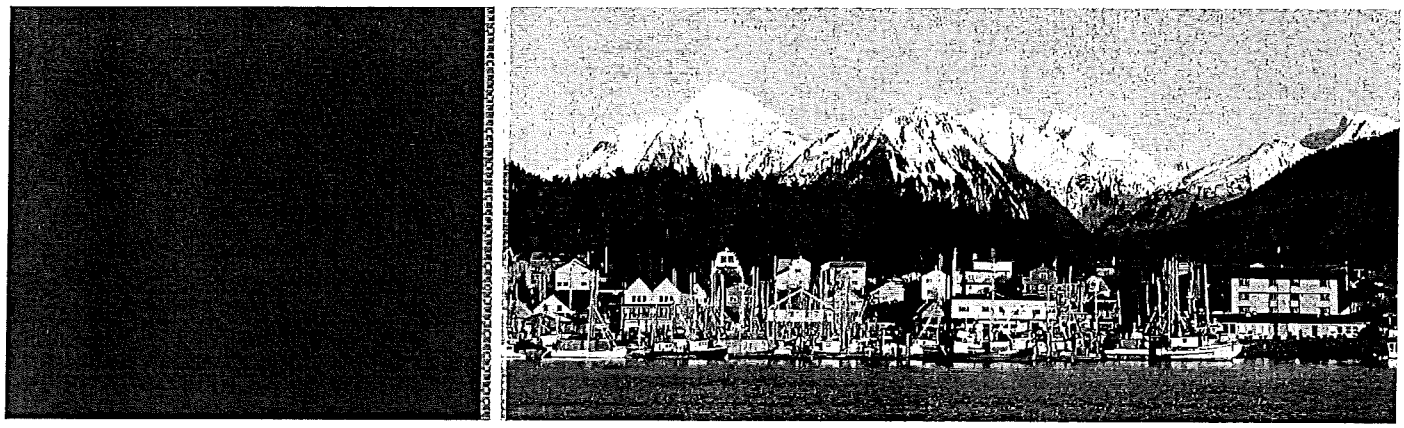


Sitka Community Hospital

FY17 Budget Presentation

SITKA COMMUNITY HOSPITAL

Our Mission

Restore, maintain, and improve the health of those in our community through competent and compassionate delivery of care.

Introduction

A Message from the CEO

On behalf of the team at Sitka Community Hospital, please find enclosed the FY17 Operating and Capital budgets for your review and approval.

When I assumed the role of CEO, among the commitments I made to you were to determine where we are, to understand how we got here and to develop a solid game plan to move forward.

As a result, the FY17 budget process has been an integral part of that strategy requiring us to look more in depth at operations and continue to have the dialogue and perform the analysis that we started in earnest last year – which provides an even more definitive roadmap going forward.

Our strategy was to build a budget for the coming year to include an incremental increase in operating performance over the prior years and positive cash flow. We believe we accomplished that. And while we are not out of the woods by any stretch of the imagination, the opportunity we see for improvement is quite large and we are excited at what lies ahead.

Thank you for your favorable consideration of our FY17 Budget. With your approval, we will get to work on the new fiscal year, always with the vision in mind.... that ***Sitka Community Hospital is an integral part of the community where all individuals reach their highest potential for health.***

Rob Allen, CEO

Sitka Community Hospital – FY17 Budget

Who We Are and Where We Are

Sitka Community Hospital ("the Hospital") is a municipal general hospital governed by a Board of Directors appointed by the Assembly of the City and Borough of Sitka. The Hospital provides acute inpatient and outpatient, long-term care and other community healthcare services. The Hospital is licensed for 12 acute care beds which includes one nursery bed and 15 long-term care beds.

The Hospital is considered to be a component unit of the City and Borough and is designated by Medicare as a Critical Access Hospital ("CAH") which provides for cost based reimbursement from Medicare – a favorable reimbursement methodology that was part of the 1997 Balanced Budget Act to stem the closure of small, rural hospitals that were suffering under the prospective payment system that had been introduced by Medicare.

As is the case with most CAH's, more than half of the Hospital's revenue is generated by outpatient services. In fact, Outpatient Revenue is 67% of Gross Patient Revenue in the FY17 budget with the remainder split fairly evenly between Inpatient and Long-term Care.

The hospital's two largest payors are Medicare and Medicaid. In FY16, 54% of the Hospital's gross revenue was for Care/Caid beneficiaries, followed by Blue Cross with 22%, all other insurances combined at 21% and Self Pay at 3%.

Through February, 2016, the hospital income from operations was tracking better than budget despite a drop off in clinic voumes due to provider vacancies. However, due to unusually low hospital volumes in March, we enter the fourth quarter trailing budget. April's volumes have improved dramatically with acute care days up 51% over the YTD average and swing bed are up 18%. Outpatient volumes are holding and we have 2 possible long-term admits pending which would increase the census over FY16 budget by 2.

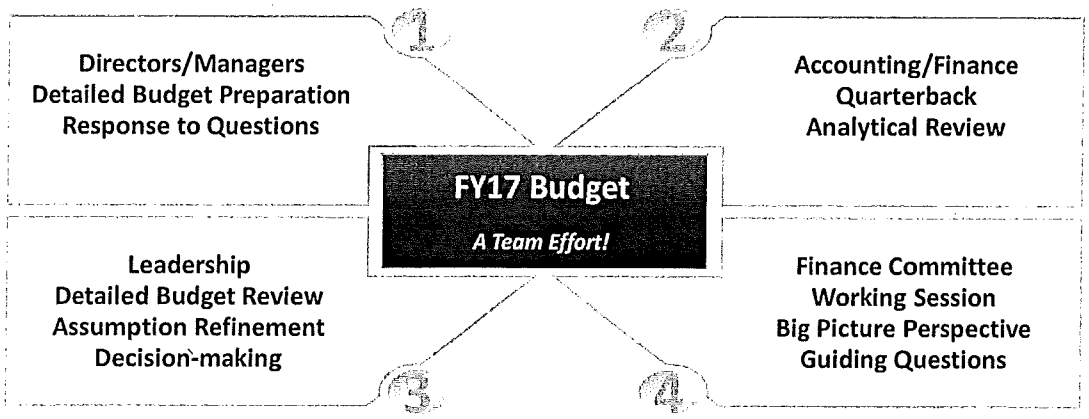
The Hospital is developing strategic and operating improvement plans. Such efforts will drive efficiencies and effectiveness into the organization which will ultimately increase revenues, decrease costs, and increase patient/customer/employee satisfaction. It's the perfect embodiment of the hospital mission to:

Restore, maintain, and improve the health of those in our community through competent and compassionate delivery of care.

Sitka Community Hospital – FY17 Budget

The Budget Process – Our Approach

The budget we are presenting for approval came to fruition through the collective efforts of many within the organization and across all levels. We determined early on that our end result would be a well-documented budget that was developed through a logical and methodical process. The discussions that took place in our review meetings were thoughtful, energetic and determined. And while we have a laundry list of ways in which we can improve on this process for next year, we are excited about how far we traveled in a short period of time.



Sitka Community Hospital – FY17 Budget

Where We are Going – The Operating Budget at a Glance

For FY17, we have budgeted a positive bottom line of $3,245 which is $1.0M better than the FY16 baseline which was developed using FY16 year to date actual results and adjusting for anomalies. This plan produces approximately $820,000 in cash for use in reducing debt, acquiring capital and building cash reserves.

	FY14 Actual	FY15 Actual	FY16 Budget	FY16 Projected	FY17 Budgeted	$ Variance	% Variance
Total Operating Revenue	$ 23,361,035	$ 28,691,225	$ 23,009,552	$ 22,351,582	$ 24,582,171	$ 2,230,589	10.0%
Total Expenses	25,785,651	29,961,016	24,599,310	24,179,068	25,556,008	(1,376,940)	-5.7%
Income (loss) from Operations	(2,424,616)	(1,269,791)	(1,589,758)	(1,827,485)	(973,837)	853,648	46.7%
Non-operating gains (losses)	170,543	142,233	158,942	136,441	140,890	4,449	3.3%
Income (loss) before transfers	(2,254,073)	(1,127,558)	(1,430,816)	(1,691,044)	(832,947)	858,097	50.7%
Transfers in - City Support	747,925	882,221	927,571	667,338	836,192	168,854	25.3%
Total income (loss) after transfers	(1,506,148)	(245,337)	(503,245)	(1,023,706)	3,245	1,026,951	100.3%

Sitka Community Hospital – FY17 Budget

Cash Flow

It is anticipated that Hospital operations will generate approximately $820,000 in positive cash flow in FY17. Of this amount, $400,000 will be used to pay down on the line of credit to the City of Sitka. The remainder will be used to replace property, plant and equipment.

Income (loss) from Operations	$	(973,837)
Add back: Depreciation		816,731
Cash flow from operations		(157,106)
Hospital Non-operating Revenue		140,890
Cash flow before City Support		(16,216)
City Support:		
Capital		156,192
Tobacco		680,000
Total City Support		836,192
Cash Available for Debt Service and Other	$	819,976
Anticipated Uses of Cash		
Line of Credit Repayment		400,000
Capital - City Funded		156,192
Capital - SCH Funded		263,784
	$	819,976

Sitka Community Hospital – FY17 Budget

Budget Assumptions – Revenues

The following provides an outline of the major assumptions used in developing the FY17 budget:

Inpatient Revenue

- Overall inpatient volume has been projected to increase by 10% over FY16 projections but is still less than historical volumes of FY14 and FY15. The projected increase is based upon resolving process issues with admissions planning (particularly for swing bed) which has contributed to a portion of the decrease in FY16.
- As a conservative measure, we did not increase volumes in radiology and lab which typically would follow changes in IP volume.

Outpatient Revenue

- Clinic volumes are projected to increase 23.7% over FY16 projections.
- FY16 projected volumes are historically low due to provider vacancies during the year.
- FY17 volumes were developed specific to physician staffing and productivity measures of visits per day.
- As a conservative measure, we did not increase related hospital volumes such as outpatient lab and radiology.

Long-term Care

- FY17 budget assumes 11 residents which is an increase of 1 over the FY16 YTD census.
- Admit of 1.0 confirmed for 05/16/16.
- Possible that we will start FY17 with 12 residents as we have another admit pending.

All Patient Revenue Categories

- Overall price increase of 6% was included in the budget.

Other and Non-operating Revenue

- Used FY16 projection

Sitka Community Hospital – FY17 Budget

Budget Assumptions – Deductions from Revenue

Deductions from Revenue represent the amount of gross revenue that we do not collect from insurance companies and patients.

Contractual Adjustments

Contractual adjustments represent the amounts that we charge for services that are not reimbursed by insurance companies or other payors such as Medicare or Medicaid.

- Using our own historical experience, we determined a % for each major category of payors and adjusted for the impact of our price increases and known changes to payment rates from our third party payors such as Medicare/Medicaid
- These percentages were applied to the FY17 gross revenue budget assuming the same payor mix in FY17 as we have trended in FY16.

Bad Debt

Bad debt represents the amounts that we write-off because a patient is unwilling to pay their balance. (as opposed to being "unable" to pay. See Charity below)

- Historical percentage of gross revenue

Charity and Other

Charity care represents the amounts that we write-off for services rendered to patients who meet our charity care guidelines and demonstrate that through an application and approval process.

- Historical percentage of gross revenue

Total deductions from Revenue are Budgeted at 10.8% of Gross Revenue in FY17
This means that, on average, we write off $10.80 of every $100.00 we charge.

Sitka Community Hospital – FY17 Budget

Budget Assumptions – Expenses

Salaries and Benefits

Salaries and Benefits represent 69% of total expenses so a signficant amount of budget review time focused on both the amount of staffing and compensation levels.

Major Assumptions :

- 1.5% wage increase
- $100,000 budgeted to address deferred equity issues
- Full staffing (no vacancies) through a combination of employed and contract labor FTE's

Sitka Community Hospital – FY17 Budget

Budget Assumptions – Expenses

Salaries and Benefits

	FY14 Actual	FY15 Actual	FY16 Budget	FY16 Projected	FY17 Budgeted	$ Variance	% Variance
1. Total Expenses	25,785,651	29,961,016	24,599,310	24,179,068	25,556,008	(1,376,940)	-5.7%
2. Salaries	10,833,538	11,272,897	10,966,634	11,043,807	11,684,508	(640,701)	-5.8%
3. Benefits (excl PERS in-kind)	5,218,142	5,610,457	5,527,877	5,463,842	6,064,995	(601,153)	-11.0%
4. Total Salaries & Benefits	16,051,680	16,883,354	16,494,511	16,507,649	17,749,503	(1,241,854)	-7.5%
5. Salaries and Benefits as a% of Total Exps	62.3%	56.4%	67.1%	68.3%	69.5%	-1.2%	-1.7%
FTE's							
6. Regular	153.4	155.6	153.4	154.0	159.6	(5.6)	-3.6%
7. Contract/Travelers	-	-	-	-	-	-	-
8. Total FTE's	153.4	155.6	153.4	154.0	159.6	(5.6)	-3.6%
9. Salaries per FTE	70,623	72,462	71,490	71,708	73,211	(1,503)	-2.1%
10. Employee Benefits as a % of Salaries	48.2%	49.8%	50.4%	49.5%	51.9%	-2.4%	-4.9%

Sitka Community Hospital – FY17 Budget

Budget Assumptions – Expenses

Supplies
- 5% inflation applied to projection.

Depreciation and Amortization
- Projection based on current assets with assumption for capital additions

Insurance
- FY16 projection plus 5.0%

Purchased Services
- Includes HRG, WaineBrandt, Pharmacy, Lab, Grants consulting, etc.

Professional Fees
- ER Physicians
- Anesthesia

All Other Expenses
- Zero-based or FY16 baseline where appropriate

Income (Loss) from Operations

		FY14 Actual	FY15 Actual	FY16 Budget	FY16 Projection	FY17 Budget	$ Variance	% Variance
	Gross Patient Revenue:							
1.	Inpatient revenue	$4,382,325	$4,557,597	$4,363,011	$3,769,379	$4,234,410	$465,031	12.3%
2.	Outpatient revenue	14,334,183	15,385,475	18,366,513	16,210,600	18,122,841	1,912,241	11.8%
3.	Longterm care revenue	4,432,174	4,257,251	4,397,792	4,192,563	4,793,676	601,113	14.3%
4.	**Total gross patient revenue**	23,148,682	24,200,323	27,127,316	24,172,541	27,150,927	2,978,386	12.3%
	Deductions from Revenue:							
5.	Contractual adjustments	716,992	574,851	2,485,625	1,829,989	2,533,625	(703,636)	-38.5%
6.	Prior year settlements	0	0	0	0	0	0	n/a
7.	Bad debt expense	1,541,693	1,204,430	1,476,891	284,945	320,054	(35,109)	-12.3%
8.	Charity and other deductions	359,764	434,169	443,487	73,475	82,528	(9,053)	-12.3%
9.	**Total deductions from revenue**	2,618,449	2,213,450	4,406,003	2,188,409	2,936,207	(747,798)	-34.2%
10.	**Net patient revenue**	20,530,233	21,986,873	22,721,313	21,984,132	24,214,720	2,230,588	10.1%
	Other Revenue							
11.	Inkind Service - PERS/USAC	2,550,983	5,895,556	0	(0)	0	0	-100.0%
12.	Other revenue	279,819	808,796	288,239	367,451	367,451	0	0.0%
13.	**Total other operating revenue**	2,830,802	6,704,352	288,239	367,450	367,451	1	0.0%
14.	**Total operating revenue**	23,361,035	28,691,225	23,009,552	22,351,582	24,582,171	2,230,589	10.0%
	Expenses:							
15.	Salaries and wages	10,833,538	11,272,897	10,966,634	11,043,807	11,684,508	(640,701)	-5.8%
16.	Employee benefits	6,468,181	10,198,049	5,527,877	5,463,842	6,064,995	(601,153)	-11.0%
17.	Supplies	1,443,336	1,480,474	1,718,142	1,469,412	1,542,883	(73,471)	-5.0%
18.	Purchased services	1,246,729	1,234,943	1,708,834	1,432,155	1,428,402	3,753	0.3%
19.	Professional services	859,367	948,654	1,256,402	1,378,264	1,380,000	(1,736)	-0.1%
20.	Depreciation and amortization	780,030	904,542	1,035,363	938,735	816,731	122,004	13.0%
21.	Utilities	1,767,082	1,793,983	515,072	367,108	373,608	(6,500)	-1.8%
22.	Repairs and maintenance	630,597	617,225	684,596	666,097	670,749	(4,652)	-0.7%
23.	Insurance	196,279	217,103	205,995	190,508	200,033	(9,525)	-5.0%
24.	Rentals and leases	121,151	153,680	151,582	165,983	306,000	(140,017)	-84.4%
25.	Traveler service	797,699	714,526	277,399	597,044	605,674	(8,630)	-1.4%
26.	Other expense	129,511	108,722	148,961	117,785	116,365	1,420	1.2%
27.	Minor equipment	232,940	117,213	162,483	76,881	85,250	(8,369)	-10.9%
28.	Training and education	135,237	90,945	133,791	104,745	105,903	(1,158)	-1.1%
29.	Collection fees	39,608	45,262	50,233	62,607	61,522	1,085	1.7%
30.	Advertising	45,941	46,904	50,515	57,716	53,385	4,331	7.5%
31.	Recruitment and relocaton	58,425	15,894	5,431	46,379	60,000	(13,621)	-29.4%
32.	**Total expenses**	25,785,651	29,961,016	24,599,310	24,179,068	25,556,008	(1,376,940)	-5.7%
33.	**Income (loss) from operations**	(2,424,616)	(1,269,791)	(1,589,758)	(1,827,485)	(973,837)	853,648	46.7%

Nonoperating Gains (losses)

		FY14 Actual	FY15 Actual	FY16 Budget	FY16 Projection	FY17 Budget	$ Variance	% Variance
	Nonoperating Gains(Losses):							
34.	Donations	10,741	18,760	25,976	19,456	20,000	544	2.8%
35.	Grant revenue	158,672	145,066	154,595	128,533	130,000	1,467	1.1%
36.	Gain (loss) on disposal of assets	(291)	0	0	(51)	0	51	-100.0%
37.	Interest revenue	19,823	(1,690)	1,000	4,948	5,000	52	1.1%
38.	Interest expense	(18,402)	(19,903)	(22,629)	(16,445)	(14,110)	2,335	-14.2%
39.	**Net nonoperating gains (losses)**	170,543	142,233	158,942	136,441	140,890	4,449	3.3%
40.	**Income (loss) before transfers**	(2,254,073)	(1,127,558)	(1,430,816)	(1,691,044)	(832,947)	858,097	-50.7%
	Transfers In:							
41.	City Support - Capital	245,384	61,472	247,570	247,570	156,192	(91,378)	-36.9%
42.	City Support - Tobacco Tax	502,541	820,749	680,001	419,768	680,000	260,232	62.0%
43.	**Total transfers in**	747,925	882,221	927,571	667,338	836,192	168,854	25.3%
44.	**Total income (loss) after transfers**	($1,506,148)	($245,337)	($503,245)	($1,023,706)	$3,245	$1,026,951	-100.3%

Volumes

	FY14 Actual	FY15 Actual	FY16 Budget	FY16 Projection	FY17 Budget	$ Variance	% Variance
Hospital Inpatient							
1. Patient Days - Acute	848	728	459	577	635	58	10.1%
2. Patient Days - Swing Bed	512	776	664	625	688	63	10.1%
3. Patient Days - Total	1,360	1,504	1,123	1,202	1,323	121	10.1%
4. Average Daily Census - Acute	2.3	2.0	1.3	1.6	1.7	0.2	10.1%
5. Percentage of Occupancy - Acute	19.4%	16.6%	10.5%	13.2%	14.5%	1.3%	10.1%
Newborn							
4.Patient Days	66	54	64	35	38	3	8.6%
5.Deliveries	36	36	41	25	27	2	8.0%
Long Term Care							
6.Resident Days	4,304	3,864	3,660	3,648	4,015	367	10.1%
7.Average Daily Census	11.8	10.6	10.0	10.0	11.0	1.0	9.8%
8.Percentage of Occupancy	78.6%	70.6%	66.7%	66.6%	73.3%	6.7%	10.1%
Surgical Visits							
9.-*Inpatient*	39	30	31	19	19	0	0%
10.-*Outpatient*	350	322	313	292	274	(18)	-6%
11.***Total***	389	352	344	311	293	(18)	-6%
12.Emergency Room Visits	142	129	130	128	130	2	1.6%
13.Outpatient Visits	1,986	2,083	2,059	1,976	1,974	(2)	-0.1%
14.***Total***	2,128	2,212	2,189	2,104	2,104	-	0.0%
15.Pharmacy - IP - All Acute Days	1,360	1,504	1,123	1,203	1,323	120	10.0%
16.Pharmacy - OP - ER & Infusion Visits	2,274	2,362	2,359	2,160	2,158	(2)	-0.1%
17.Radiology Procedures	3,404	3,086	3,353	3,032	3,032	-	0.0%
18.Lab Tests	24,766	21,463	27,744	22,543	22,543	-	0.0%
19.Rehab Services Units	20,577	26,097	26,266	23,033	23,033	0	0.0%
20.Infusion Services	288	279	300	184	184	0	0.0%
21.Home Health Visits	646	769	726	792	1,200	408	51.5%
22.Clinic Visits	10,098	10,404	12,320	9,229	11,414	2,185	23.7%

Financial Indicators

	FY14 Actual	FY15 Actual	FY16 Budget	FY16 Projected	FY17 Budget	$ Variance	% Variance
1.Contractual Adj. as a % of Gross Revenue	3.1%	2.4%	9.2%	7.6%	9.3%	-1.8%	-23.3%
3.Bad Debt as a % of Gross Revenue	6.7%	5.0%	5.4%	1.2%	1.2%	0.0%	0.0%
2.Charity/Other Ded. as a % of Gross Revenue	1.6%	1.8%	1.6%	0.3%	0.3%	0.0%	0.0%
4.Total Deductions as a % of Gross Revenue	11.3%	9.1%	16.2%	9.1%	10.8%	-1.8%	-19.5%
5.Operating Margin	-10.4%	-4.4%	-6.9%	-8.2%	-4.0%	4.2%	51.5%
6.Total Margin before Transfers	-9.6%	-3.9%	-6.2%	-7.5%	-3.4%	4.2%	55.2%

Thank you!

SITKA COMMUNITY HOSPITAL
Creating a healthier tomorrow today.