Financial Statements

	2015
Income Statement	
Patient Revenue	
Inpatient Services	$94,519
Outpatient Services	120,366
Gross Patient Revenue	214,885
Deductions from Patient Revenue	
Contractual Discounts	165,752
Bad Debt	2,000
Provision for Charity	300
Total Deductions from Revenue	168,052
Net Patient Revenue	46,833
Other Operating Revenue	3,615
Total Operating Revenue	**50,448**
Operating Expenses	
Salaries and Wages	23,036
Employee Benefits	9,107
Contract Labor	841
Professional fees	3,661
Supplies	5,698
Drugs and Pharmaceuticals	0
Purchased Services	3,986
Depreciation & Amortization	3,266
Interest	1,028
Other	3,023
Bad Debt	0
Total Operating Expenses	53,646
Excess of Revenue over Expenses from Operations	**(3,198)**
Nonoperating Revenue	
Investment Income	55
Interest Expense	0
Unrestricted Contributions	120
Other	4,331
Net Nonoperating Revenue	4,506
Excess of Revenue over Expenses Before Extraordinary Items	1,308
Extraordinary Items	0
Excess of Revenue over Expenses	**$1,308**

To: SVH Finance Committee
From: David Cox, Acting CFO
Date: May 28, 2014
Subject: Fiscal 2015 Operating Budget

The 2015 Operating Budget is presented within the context of a rapidly changing healthcare environment, with reduction in inpatient utilization being offset somewhat by increased outpatient activity. The recent opening of our new wing will add additional cost to the organization, but will also present opportunities for growth. Also, management is reacting to these challenges through the implementation of significant cost reductions, which are reflected in the attached draft budget.

The objectives of the budget include:

- Stabilization of operating performance.
- Funding of ongoing capital needs of approximately $1.0 million per year.
- Improvement in our liquidity position as measured by Days Cash on Hand.
- Reduction of vendor payable to a reasonable level of 45 to 60 days outstanding.

We are proposing a budget with a positive Net Income of $153,750 and EBIDA of $4.4 million, which are margins of 0.5% and 8.8%, respectively. This is an aggressive target and would represent a very significant improvement in operating performance, but is necessary to accomplish our objectives, including providing capital for growth and improved liquidity. In addition to the budget, we have attached a three year financial forecast, based on the budget, which includes a projected income statement, balance sheet, and statement of cash flow through the projection period.

Discussion

Patient Volumes – The only area where we are budgeting growth is in our Home Care Program, due to expansion, and Physical Therapy. All outpatient departments have plans to grow by 2% over prior year and we have a strong marketing program, with each leader being assigned a target to be reviewed monthly.

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Gross Charges – We are including a 5% increase in gross charges to be implemented July 1, 2014. We are currently in the process of evaluating SVH's pricing structure to ensure that we have reasonable rates in relation to the market.

Contractual Allowances – We are still in the process of evaluating net revenues and the allowances, but believe that 21.8% overall collections can be achieved through recent improvements in the revenue cycle. Also, we are evaluating contracts to determine inequities that should be addressed to improve our performance in this area.

Wages and Benefits – We have accomplished a reduction in paid FTEs to 301.6 from the current level of 315.0, but are including a 3.0% average increase in wage rates in order to maintain market equity. We are expecting an increase in benefit costs, although this may be conservative.

Medical and Professional Fees – We are able to budget a 27% reduction in this area through the commitment of our Chief Medical Officer and the entire Medical Staff. This is a very significant achievement for SVH and evidence of very strong commitment to the success of the hospital.

Supply Costs – are expected to be reduced by about 7% due to renegotiation of agreements and improved utilization.

Purchased Services are budgeted at a 15% reduction and is one of the primary areas benefitting from the recent cost reduction program. Notwithstanding the overall reduction, IT expenses continue to increase and this is an area where we are providing additional resources. We have reduced non-essential patient care expenditures significantly, including patient satisfaction vendors, MGH management fees, the Studer program, and hospital association dues.

Depreciation – we will see an approximate $1.3 million non-cash increase in depreciation expense now that the Project has come on line.

Utilities are budgeted at only a 2.6% increase.

Insurance Costs are under review with our broker but, given current information, we are expecting a 5.9% increase in these costs to $240,000 annually.

Interest expense will increase based on the draw of the additional $2 million on our Line of Credit with Union Bank. However, we intend to pay down the LOC as philanthropic commitments are received.

In total, we are budgeting a 1% reduction in total operating expenses, to $53.6 million. However, the reduction in controllable costs (excludes depreciation and interest) is $2.5 million, or 5%, which is quite significant.

The loss from operations is budgeted to decrease from $4.9 to $3.2 million and Net Income, as mentioned above, is slightly positive. We are very pleased to note that the subsidy for our Prima operations has been reduced to $450,000, per agreement with Prima management (we are budgeting $480,000).

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Long Term Financial Plan – As mentioned, we have attached a preliminary long-term financial plan including a projected income statement, balance sheet, and statement of cash flow. The plan needs additional work, and greater detail in certain areas, and should be reviewed by the Finance Committee at a future meeting.