Tehachapi Valley
Healthcare District

Memo

To: Finance Committee

From: Chet Beedle

CC: Lisa Hughes, Caroline Wasielewski and Bridget Thomason

Date: 6/7/18

Re: Variance Analysis for May 2018

Executive Summary:

The month of May 2018 generated a net profit for the District. We ended May with a net profit of $6,391. This is mainly due to operating expenses being $122,533 under budget including salaries and benefits under budget by $13,806. Also, professional fees were $25,440 under budget due to no physicians' fees nor much in auditors' fees and Medi-Cal collections over budget. There was no supplemental income booked in April, but there were Medi-Cal prior years IGT payments for patient services claims from prior fiscal years of $1,059,958. In that regard, it must be understood that most of the Medicare and Medi-Cal cost reports from prior fiscal years have now been settled. Also, the inter-governmental supplemental payments for Medi-Cal patients program could be cancelled with the current federal Administration's repeal attempts of the provisions of the Affordable Care Act or disallowed due to TVHD no longer operating the Hospital. However, we now have received this amount that carried on for the patients that TVHD had during the first four months of FY 2017. There was no operating revenue generated or adjusted in May. However, as I previously stated, this month did see operating expenses under budget by $122,533. The largest favorable operating variances were the $25,440 in other professional fees already mentioned and $22,410 under budget in licenses and taxes due to Adventist Health now paying for those items. We have worked on the effects of the period of not sending any uncollectible accounts for hard collection, but with the absence of any patient revenue generation and the collection or adjustment of most of our collectible accounts receivable having ended, we are at 68.6% of our outstanding accounts receivables as self-pay, including the installment payment accounts. The goal is to continue to identify and progressively send accounts receivable considered uncollectible to an outside collection agency, as well as first use HRG for soft collections to maintain the self-pay level of total receivables as low as possible as we wind down the collection process. This approach has allowed us to continue to have meaningful collections subsequent to the Adventist take-over of operations.

Cash collections were $1,051,394 over budget due to the receipt of IGT supplemental payments of $1,059,958 covering the cost of claims from FY 2017. The level of collections included Medicare payments being $0 as the budget anticipated no Medicare revenue generated and no Medicare accounts receivable remaining. Medi-Cal collections were $1,057,501 over budget due to a Medi-Cal IGT payment from 2016. Insurance collections were $570 which was ($553) under budget. Private pay collections were $2,918 which was $685 over budget due to maintaining collections from HRG for soft collections efforts and good collections for accounts on payment plans while maintaining the posting and good relations with past patients in the new TVHD office. TVHD collected $0 for Adventist Health Tehachapi claims in May, but paid $595,076 for the AHTV IGT claims from FY 2016 during their operating of the Hospital. Advances from Adventist Health for construction items were $47,557, mostly winding up construction items and bank fees. Of the IGT additional funds from FY 2016, $500,000 was returned to the investment account to replace some of the funds that had been borrowed for IGT federal matching. Total cash disbursements for operations and construction were $600,669 over the amount budgeted for May due to the disbursement of a portion of the IGT funds to AHTV and the budget reflecting no additional construction costs to be paid by Adventist after they have reached the $27,000,000 maximum per affiliation agreement, but that system continuing above that amount.

Cash disbursements for professional fees were over budget by $1,723 due to billings from Wipfli, LLP for the FY 2017 audit and non-construction legal fees. Supplies were under budget by $2,189 due to less residual pharmacy and medical supply invoices than anticipated. Disbursements for labor expenses were under budget by $26,773 due to the departure of the TVHD CEO. At this point, TVHD is not using any on-going billing and collections service by in-house Adventist employees, but is relying on the pre-collection service for self-pay patients by HRG, hard collection by HP Sears and good patient payment posting and relations with prior TVHD patients. Also, due to the small amount of the payroll expense with only 2.75 FTEs paid, we have not been making and reversing an accrual entry for the third payroll in one month happening every six months when using a bi-weekly payroll system. In addition to these operating residuals, supplemental income sources as allowed by the Affordable Care Act (Obamacare), are positively affecting the cash balance as long as TVHD can qualify and they are not sent to Adventist Health Tehachapi who will deposit them in their bank account. Care needs to be taken to integrate some of these funds when received to strengthen emergency funds to meet new service requirements and negative cost reporting settlements, so that cash reserves for District expenses are properly maintained and disbursement of these reserves follow a Board approval of a request for funds, equipment donation to AHTV, or other local charitable healthcare services.

Cash disbursements for construction, equipment and legal settlements was $29,977 in May. The continued use of the prepaid rent system for the new Hospital construction expenses by Adventist Health has allowed the District to transfer funds to the Local Agency Investment Fund (LAIF) with the State Treasurer's office for investment purposes. There was an investment transfers during May of $500,000 to partially repay funds borrowed for the IGT matching. In May, we disbursed $0 for construction related items for the new Hospital project, and there was no payment of collection of AHTV claims due no amounts from the current claims being received. Of the payments made and pending for the new Hospital, $0 was for construction, $9,584 was for major movable equipment and the remainder was for project administration and entitlements. Through June18, we have now spent a total of $95,253,812 with $73,636,873 of that amount being for construction and $8,369,000 being for equipment and furniture. The total replacement project has a total proposed budget of $95,322,000 without phasing and the total available bond funds for the project were $64,851,583 leaving $30,470,417 in additional funds due from grants, operations, borrowing, and/or construction advances from Adventist Health.

The fiscal year to date contractual allowance percentage was 1237.5% of gross revenue vs. a budget of 0.0% and a same month prior year of 63.1%. This zero percentage is due to the discontinuance of any gross revenue generation by TVHD. The provision for bad debts also no longer exists unless there is some adjustment on the remaining self-pay accounts receivable outstanding.

Non-operating revenue was $3,627 under budget due to investment income and property taxes under budget. Prepaid rental income from Adventist Health – Tehachapi was right on budget at $75,000 and the property tax accrual for operations for May was $62,333.

The following is a variance analysis by line item of the balance sheet material changes from the end of the prior month and of the income statement from budget.

Balance Sheet:

1) Cash and cash equivalents increased by $693,117 over the end of the prior month.

This is due to the timing of check write and release of construction advance payments from Adventist Health for the new hospital and a receipt of IGT supplemental funding for FY 2016 Medi-Cal claims of $1,059,958.

2) Gross accounts receivable outstanding were $768,208 under the end of the prior month.

This reflects the absence of gross patient revenue generation for the last eighteen months, collections from HRG soft collections and the collection of bad debt accounts turned to outside collection agencies and internal transfers and adjustments to the general ledger balance to agree with the detail accounts receivable aging.

3) Bad debt and allowance reserves were $762,095 over the end of the prior month.

This is over 100.0% of the outstanding gross accounts receivable versus a prior month end of 76.9% and a prior fiscal year end of 58.6% due to the accounts receivable reconciliation adjustments that were made. The change reflects the mix of patients, the age of the accounts outstanding with no new patient revenue generation, the current collections of self-pay installment accounts, bad debt recoveries, and the impact of cost-based reimbursement for Medicare and Medi-Cal patients. In the financial statement presentation, some of the IGT supplemental income allocation is being booked to the allowance account rather than non-operating causing it to be overstated for the current level of receivables. The net revenue is correct, but the entry should reflect in the Other Receivables account rather than in the Allowance account. We have met with the new auditor for FY 2017, Wipfli, LLP and they will be proposing audit adjusting entries to reconcile the balance sheet accounts once they have their tie in with the previous audit account balances.

4) Net patient accounts receivable decreased by $6,113 under the end of the prior month.

Medicare accounts outstanding over 90 days were at 100% vs. a prior month of 100% and a goal of less than 15% with new revenue generated. Medi-Cal accounts outstanding over 90 days were at 100% vs. a prior month end of 100% and a goal of less than 20% with new revenue generation. Commercial accounts outstanding over 90 days were 100% vs. a prior month of 100% and a goal of less than 20% with new revenue generation. Blues accounts outstanding over 90 days were 100% vs. a prior month of 100% and a goal of less than 20% with new revenue generation. Self-pay accounts outstanding over 120 days were 100% vs. a prior month of 100% and a goal of less than 30% with new revenue generation.

5) Other Receivables increased by $1,508,220 over the end of the prior month.

Other receivables were $1,508,220 over the end of the prior month due to the posting of IGT payments accrued but not yet reconciled to the income statement.

This account balance of $2,439,050 reflects the accrual and payment of property taxes and inter-governmental transfer funds. In the month of May, IGT payment funds were both sent to and received from the Department of Health Care Services which required matching. All IGT payments received in the prior fiscal year were kept by Adventist Health and are being used to offset collection of their accounts going into the TVHD bank account. That balance due to TVHD is at ($251,225) at the end of posting business through May 2018 due to locating some Medi-Cal payments deposited by AHTV in prior months and a positive NPR Medicare payment for FY 2016.

6) Inventories decreased by $121,963 under the end of the prior month.

   No supply items are still running through the District's books during the month. Therefore, there has been an internal adjustment to the balance to book the transfer if the inventories to AHTV.

7) Restricted cash in the construction account is at $54,867 which is $50,000 under the end of the prior month. The bond reserve account/debt retirement fund was the same as the end of the prior month reflecting accruals from the general obligation bonds not yet paid to the bondholders.

This was due to the timing of construction payments from funds advanced by Adventist Health and the semi-annual timing of principal and interest payments due to the bondholders and held in case property tax payments are insufficient to fund the principal and interest due and payable at the amortization time of semi-annual disbursement.

8) Investments increased by $500,000 over the end the prior month.

This change reflects the payback of a portion of the borrowing from the investment account in April to match federal IGT stimulus funds. No receipts or disbursements were set aside for equipment and/or District construction projects less any payments or transfers out for such items and/or projects, investments held for future use and/or payments for other non-guild, foundation, property tax or Adventist funded capital expenditures or required operating disbursement items.

9) Funded Depreciation stayed the same as in the prior month at $50,218.

This includes the board approved donation of $25,000 to the Tehachapi Parks and Recreation department from the restricted funds set aside for use toward philanthropic Board designated purposes. The account was down to a balance of $22, but the depreciation expense for November 2016, March 2017 and January 2018 was funded due to a positive net income generated for those months.

10) Net due to/from Third Party Payers stayed the same as the end of the previous month.

This net balance of $8,369,568 due from reflects an overpayment by Medicare for FY 2014 and 2015 interim payments and the amount due from a FY 2015 Medicare settlement appeal and IGT and Medi-Cal settlement payments not yet taken into income or withheld from current claims payments. A review was done and a decision was made to reimburse the interim overpayments from Medicare plus interest through withholdings. The balance above reflects the actual withholding or payments through May 2018, but only the accrued interest through March 2016. There is also a consideration of the initial audit adjustments for FY 2016 which was revised to reflect additional settlement information. This has reduced the due from balance. This withholding was averaging about $200,000 per month toward the total amount due of originally close to $5,300,000 before the transition to Adventist Health Tehachapi and the Medicare appeal results. A spreadsheet from the Medicare intermediary has been received and updated and a reconciliation is reflected in the FY 2016 audited financial statements.

11) Net Property, Plant & Equipment is $361,994 over the balance at the end of the prior month.

This new balance of $121,749,446 reflects the additions to and/or deletions from the current property, plant and equipment being used at the existing Hospital and Clinics, plus the construction costs associated with the new Hospital, minus the associated depreciation and amortization of currently depreciable asset cost over the useful life to date of the asset.

12) Construction in Progress increased by $47,474 in May and capitalized interest increased by $398,417 over the end of the prior month. Capitalized equipment cost did not change in May.

This reflects the change in the capitalized cost of construction of the new Hospital as well as any other construction projects in progress by the District or purchases of equipment put into service. The balance at the end of May for Construction in Progress was $95,528,256 for building and equipment. The capitalized interest was $21,313,792.

13) Accounts payable increased by $76,977 over the end of the prior month.

The days outstanding for accounts payable are not a consideration because the payables include the construction items still outstanding for the new Hospital. The timing of the cash receipts and disbursements of Construction funds from Adventist Health, the strain on cash availability from the depletion of bond funds requiring use of operating funds for construction of the new Hospital and Medicare withholding from overpayments in FY 2014 and FY 2015 have affected the accounts payable. In recent months, we are seeing the effects of declining operating expenses since the Adventist transition. In addition, there has been a conscientious effort to decrease the accounts payable outstanding to move toward an agency setting rather than one of a hospital operator. Industry standards are that the accounts payable outstanding for hospitals should be at or near 60 days. Also, the accounts payable balance has been progressively decreasing now that the District has no material operating results, except for the timing of the Adventist construction advances flowing through the accounts payable.

Income Statement:

1) No inpatient hospital revenue existed for May 2018.

2) No outpatient revenue existed for May 2018.

3) No emergency department revenue existed for May 2018.

4) No clinic revenue existed for May 2018.

5) No contractual allowance adjustment existed for May 2018.

6) Total operating expenses were under budget by $122,533.

Total labor was $29,882 under budget with contract labor being $3,476 under budget while salaries were $14,081 under and benefits were $12,325 under budget due to the COBRA benefits payments from the departing CEO which he is reimbursing. Also, we have no accrual reversal from prior pay periods to offset the actual third payroll expense every six months. Repairs and maintenance was $2,286 under budget. Depreciation and amortization expense was over budget by $612 due to the capital equipment funding by the Guild and depreciation for the existing Hospital buildings and equipment. Purchased services were $2,831 under budget due to the timing of janitorial expenses for the office, any repairs to the Guild building, collection fees from HRG and fees for the Healthland software applications. Insurance expense was $11,545 over budget due to an allocation of the large prepaid insurance and benefit expenses not departmentalized and an annual payment of liability insurance for the New Hospital. Utilities were $2,825 under budget due to the transfer of Hospital usage to Adventist Health and retention of the utilities for the Guild. Professional fees were $5,000 under budget due to less residual collections for the radiologist billings than was budgeted and less audit fees. Adventist has moved to a new physician group for the emergency department that are billing and collecting themselves for the professional component charges.

Conclusions:

For May, the district had a net profit of $6,391 and for the fiscal year to date a net loss of ($173,070). This is better than the fiscal year to date budget by $824,283 or 82.65%, and over the loss of the prior fiscal year to date by $87,110. Administration now has to work to stay focused on the management and clean-up of outstanding receivables, managing any remaining TVHD side of the new Hospital construction and equipping, and keeping variable expenses down to a reduced agency level. Some new items of focus have also appeared which are to scrutinize the need for any consulting, legal and third-party fees, find ways to minimize unrecorded third-party settlements and other extra-ordinary expenses, as well as maximize the receipt of government reimbursement for the electronic medical records system, Medi-Cal IGT reimbursement, and capital items associated with the new hospital. An additional new focus is to strategically plan for how the affiliation with Adventist Health can assist with future District operations. We also need to carefully plan for the timing of the cash flow requirements, especially insurance payments, withholds by Adventist Health Tehachapi Valley, amounts to pay Adventist Health for deposit of their patient services collections into our bank account and reserve cash for investments and the funding of healthcare related projects within the District's boundaries.

If you have any questions or comments, please let me know.