AGENDA
FINANCE COMMITTEE MEETING
OF THE EL CAMINO HOSPITAL BOARD
Monday July 30, 2018 – 5:30 pm
El Camino Hospital | Conference Rooms A & B (ground floor)
2500 Grant Road, Mountain View, CA 94040

MISSION: To provide oversight, information sharing and financial reviews related to budgeting, capital budgeting, long-range financial planning and forecasting, and monthly financial reporting for the El Camino Hospital Board of Directors. In carrying out its review, advisory and oversight responsibilities, the Committee shall remain flexible in order to best define financial strategies that react to changing conditions.

<table>
<thead>
<tr>
<th>AGENDA ITEM</th>
<th>PRESENTED BY</th>
<th>ESTIMATED TIMES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. CALL TO ORDER / ROLL CALL</strong></td>
<td>John Zoglin, Chair</td>
<td>5:30 – 5:31pm</td>
</tr>
<tr>
<td><strong>2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</strong></td>
<td>John Zoglin, Chair</td>
<td>5:31 – 5:32</td>
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<tr>
<td><strong>3. PUBLIC COMMUNICATION</strong></td>
<td>John Zoglin, Chair</td>
<td>information 5:32 – 5:36</td>
</tr>
<tr>
<td>a. Oral Comments</td>
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<tr>
<td><em>This opportunity is provided for persons in the audience to make a brief statement, not to exceed 3 minutes on issues or concerns not covered by the agenda.</em></td>
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<tr>
<td>b. Written Correspondence</td>
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<tr>
<td><strong>4. CONSENT CALENDAR</strong></td>
<td>John Zoglin, Chair</td>
<td>public comment 5:36 – 5:38</td>
</tr>
<tr>
<td>Any Committee Member or member of the public may remove an item for discussion before a motion is made.</td>
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<tr>
<td>Approval</td>
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<tr>
<td>a. Minutes of the Open Session Finance Committee (April 26, 2018)</td>
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<tr>
<td>b. Minutes of the Joint Open Session ECH Board and Finance Committee (May 29, 2018)</td>
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<tr>
<td>c. Minutes of the Open Session Finance Committee (May 29, 2018)</td>
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<tr>
<td>d. FY18 Period 10 Financials</td>
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<tr>
<td>Information</td>
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<tr>
<td>e. Progress Against Goals</td>
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<tr>
<td>f. Article of Interest</td>
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<tr>
<td>g. Update on Major Capital Project</td>
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<tr>
<td>h. FY18 Period 11 Financials</td>
<td></td>
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<tr>
<td><strong>5. APPOINTMENT OF VICE CHAIR TO THE FINANCE COMMITTEE</strong></td>
<td>John Zoglin, Chair</td>
<td>information 5:38 – 5:40</td>
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<tr>
<td><strong>6. DELEGATION OF AUTHORITY TO THE COMMITTEE</strong></td>
<td>Cindy Murphy, Director of Governance Services Iftikhar Hussain, CFO</td>
<td>possible motion 5:40 – 5:55</td>
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<tr>
<td>ATTACHMENT 6</td>
<td></td>
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<tr>
<td><strong>7. REPORT ON BOARD ACTIONS</strong></td>
<td>John Zoglin, Chair</td>
<td>information 5:55 – 6:00</td>
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<tr>
<td>ATTACHMENT 7</td>
<td></td>
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<tr>
<td><strong>8. FY18 YEAR END FINANCIALS</strong></td>
<td>Iftikhar Hussain, CFO</td>
<td>public comment 6:00 – 6:15</td>
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<tr>
<td>ATTACHMENT 8</td>
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</tbody>
</table>

A copy of the agenda for the Regular Meeting will be posted and distributed at least seventy-two (72) hours prior to the meeting. In observance of the Americans with Disabilities Act, please notify us at (650) 988-7504 prior to the meeting so that we may provide the agenda in alternative formats or make disability-related modifications and accommodations.
<table>
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<tr>
<td>9. PHYSICIAN TRANSACTION COMPLIANCE EDUCATION ATTACHMENT 9</td>
<td>Diane Wigglesworth, Director of Corporate Compliance, Mary Rotunno, General Counsel</td>
<td>information 6:15 – 6:30</td>
</tr>
<tr>
<td>10. FINANCIAL INSTITUTIONS ATTACHMENT 10</td>
<td>Matt Harris, Controller</td>
<td>Discussion 6:30 – 6:45</td>
</tr>
<tr>
<td>11. ADJOURN TO CLOSED SESSION</td>
<td>John Zoglin, Chair</td>
<td>motion required 6:45 – 6:46</td>
</tr>
<tr>
<td>12. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</td>
<td>John Zoglin, Chair</td>
<td>6:46 – 6:47</td>
</tr>
<tr>
<td>13. CONSENT CALENDAR</td>
<td>John Zoglin, Chair</td>
<td>motion required 6:47 – 6:50</td>
</tr>
<tr>
<td>Any Committee Member may remove an item for discussion before a motion is made.</td>
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<tr>
<td>Approval</td>
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<tr>
<td>Gov’t Code Section 54957.2</td>
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<tr>
<td>a. Minutes of the Closed Session of the Finance Committee Meeting (April 26, 2018)</td>
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<td>c. Minutes of the Closed Session of the Finance Committee Meeting (May 29, 2018)</td>
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<tr>
<td>Informational</td>
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<tr>
<td>Health &amp; Safety Code 32106(b)</td>
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<tr>
<td>d. Palliative Care Director Agreement</td>
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<tr>
<td>e. Medical Oncology – Outpatient Department Medical Director Agreement Renewal – MV</td>
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<tr>
<td>- El Camino Ambulatory Surgery Center</td>
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<td>- Committee Education: Medicare Loss &amp; Inpatient / OP Margins</td>
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<tr>
<td>16. ADJOURN TO OPEN SESSION</td>
<td>John Zoglin, Chair</td>
<td>motion required 7:25 – 7:26</td>
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<tr>
<td>17. RECONVENE OPEN SESSION/REPORT OUT</td>
<td>John Zoglin, Chair</td>
<td>7:26 – 7:27</td>
</tr>
<tr>
<td>To report any required disclosures regarding permissible actions taken during Closed Session.</td>
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<tr>
<td>18. MEDICAL DIRECTOR AGREEMENT RENEWALS</td>
<td>David Clark, Interim COO</td>
<td>public comment motion required 7:27 – 7:29</td>
</tr>
<tr>
<td>a. Palliative Care Director Agreement</td>
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<tr>
<td>b. Medical Oncology – Outpatient Department Medical Director Agreement Renewal – MV</td>
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<tr>
<td>19. FY19 COMMITTEE PACING PLAN ATTACHMENT 19</td>
<td>John Zoglin, Chair</td>
<td>public comment possible motion 7:29 – 7:31</td>
</tr>
<tr>
<td>20. CLOSING COMMENTS</td>
<td>John Zoglin, Chair</td>
<td>information 7:31 – 7:32</td>
</tr>
<tr>
<td>21. ADJOURNMENT</td>
<td>John Zoglin, Chair</td>
<td>motion required 7:32 – 7:33</td>
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</tbody>
</table>
Upcoming Meetings

- September 24, 2018
- November 26, 2018
- January 28, 2019 (*Joint meeting w/ Investment Committee*)
- March 25, 2019
- April 22, 2019
- May 28, 2019 (*Joint meeting w/Hospital Board*)

Board/Committee Educational Gatherings

- October 24, 2018
- April 24, 2018
# Minutes of the Open Session of the Finance Committee

**Thursday, April 26, 2018**

El Camino Hospital | Conference Rooms Med Staff (Administration Area)  
2500 Grant Road, Mountain View, CA 94040

## Members Present
- Joseph Chow  
- Boyd Faust  
- Richard Juelis  
- David Reeder  
- John Zoglin, Chair

## Members Absent
- William Hobbs

## Others Present
- None

### Agenda Item

#### 1. CALL TO ORDER/ ROLL CALL

The open session meeting of the Finance Committee of El Camino Hospital (the “Committee”) was called to order at 5:30pm by Chair John Zoglin. Mr. Faust and Mr. Chow were absent.

#### 2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES

Chair Zoglin asked if any Committee members may have a conflict of interest with any of the items on the agenda. No conflicts were noted.

#### 3. PUBLIC COMMUNICATION

There were no comments from the public.

#### 4. CONSENT CALENDAR

Chair Zoglin asked if any member of the Committee or the public wished to remove an item from the consent calendar.

**Motion:** To approve the consent calendar: Minutes of the Minutes of the Open Session of the Finance Committee (March 12, 2018)

**Movant:** Faust  
**Second:** Juelis  
**Ayes:** Chow, Faust, Juelis, Reeder, Zoglin  
**Noes:** None  
**Abstentions:** None  
**Absent:** Hobbs  
**Recused:** None

**Consent calendar approved**

#### 5. REPORT ON BOARD ACTIONS

Chair Zoglin briefly reviewed the Report on Board Actions as further detailed in the packet. The Committee expressed the Board and Committee Educational Gathering meeting held on April 25th was a good strategic meeting, and they enjoyed meeting the Interim CMO Dr. Mark Adams.

*The Committee is inquiring if they can receive a copy of the CEO presentation that was presented at the Educational Gathering.*

#### 6. FY18 PERIOD 8 FINANCIALS

Ifikhar Hussain, CFO, reviewed the FY18 Period 9 Financials with the Committee members. FY18 for the year, overall volume, measured in adjusted discharges is 5.7% higher than budget. IP cases are 4.0% over budget, specifically Neurosciences, HVI, BHS, Oncology and General Medicine. Deliveries are slightly lower than prior year and 4.2% below budget. OP cases are higher than budget in General Surgery, General Medicine, Emergency, Lab, Imaging Services, MCH, Rehab, Outpatient Clinics and Urology.

March operating income is $5M over budget. For the year op margin is $46M ahead of target. Investments had a $3.2 million loss during the month but for the year, investment earnings are $32 million ahead of target. Commercial insurance is 3.6% less of the Payor Mix in March than budget where Medicare has increased 2.1%. Prod Hrs/APD for March is 30.9 unfavorable vs target due to lower volume. YTD productivity we are ahead of budget. The overall balance sheet reflects the AR is 48.1 vs target of 48.

**Motion:** To approve the FY18 Period 9 Financials.

**FY 18 Period 9 Financials approved**
<table>
<thead>
<tr>
<th>7. ADJOURN TO CLOSED SESSION</th>
<th>Motion: To adjourn to closed session at 5:54pm pursuant to Gov’t Code Section 54957.2 for approval of the Minutes of the Closed Session of the Finance Committee (March 12, 2018).</th>
<th>Adjourned to closed session at 5:54 pm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Movant: Juelis</td>
<td>Second: Boyd</td>
<td></td>
</tr>
<tr>
<td>Ayes: Chow, Faust, Juelis, Reeder, Zoglin</td>
<td>Noes: None</td>
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<tr>
<td>Abstentions: None</td>
<td>Absent: Hobbs</td>
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<tr>
<td>Recused: None</td>
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<tr>
<th>8. AGENDA ITEM 13: RECONVENE OPEN SESSION/REPORT OUT</th>
<th>Open session was reconvened at 7:24 pm. Agenda items 9-11 were covered in closed session. During the closed session the committee approved the Minutes of the Closed Session of the Finance Committee (March 12, 2018); Pathology Medical Directorship Renewal (Enterprise) – Dr. Lombard – El Camino Pathology Medical; Sheridan ICU Nighttime Coverage Agreement; PAMF ICU Daytime Coverage Agreement Renewal By a unanimous vote in favor by all present committee members (Chow, Faust, Juelis, Reeder and Zoglin). Hobbs was absent.</th>
<th>FY19 Committee Goals &amp; Pacing Plan approved</th>
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<tr>
<th>9. AGENDA ITEM 14: FY19 COMMITTEE GOALS &amp; AGENDA ITEM 15: FY19 COMMITTEE PACING PLAN</th>
<th>Chair Zoglin and The Committee agreed to add <em>Post Implantation Review</em> throughout each quarter for FY19 Goals instead of just in Q2 which is currently listed. Chair Zoglin reviewed the FY19 Committee Pacing Plan as further detailed in the packet. He requested feedback and a brief discussion ensued. The Committee agreed no changes to the FY19 Committee Pacing Plan</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To recommend that the Board approve the FY19 Committee Goals &amp; Pacing Plan simultaneously.</td>
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<tr>
<td>Movant: Juelis</td>
<td>Second: Chow</td>
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<tr>
<td>Ayes: Chow, Faust, Juelis, Reeder, Zoglin</td>
<td>Noes: None</td>
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<tr>
<td>Abstentions: None</td>
<td>Absent: Hobbs</td>
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<tr>
<td>Recused: None</td>
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| 10. AGENDA ITEM 18: CLOSING COMMENTS | None |                                      |

<table>
<thead>
<tr>
<th>11. AGENDA ITEM 19: ADJOURNMENT</th>
<th>Motion: To adjourn at 7:34pm</th>
<th>Meeting adjourned at 7:34 pm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Movant: Faust</td>
<td>Second: Chow</td>
<td></td>
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<tr>
<td>Ayes: Chow, Faust, Juelis, Reeder, Zoglin</td>
<td>Noes: None</td>
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<tr>
<td>Abstentions: None</td>
<td>Absent: Hobbs</td>
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<tr>
<td>Recused: None</td>
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Attest as to the approval of the foregoing minutes by the Finance Committee of El Camino Hospital:
Minutes of the Joint Open Session of the Finance Committee and the El Camino Hospital Board of Directors Tuesday, May 29, 2018 2500 Grant Road, Mountain View, CA 94040 Conference Rooms EF&G (ground floor)

<table>
<thead>
<tr>
<th>Board Members Present</th>
<th>Board Members Absent</th>
<th>Members Absent</th>
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<tbody>
<tr>
<td>Jeffrey Davis, MD</td>
<td>Lanhee Chen, Chair</td>
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<tr>
<td>Neysa Fligor</td>
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<tr>
<td>Peter C. Fung, MD</td>
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<tr>
<td>Gary Kalbach</td>
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<tr>
<td>Julie Kliger, RN</td>
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<tr>
<td>Julia E. Miller, Secretary/Treasurer</td>
<td>Joseph Chow</td>
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<tr>
<td>Bob Rebitzer</td>
<td></td>
<td></td>
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<tr>
<td>David Reeder</td>
<td></td>
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<tr>
<td>John Zoglin, Vice Chair</td>
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<thead>
<tr>
<th>Committee Members Present</th>
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<thead>
<tr>
<th>Agenda Item</th>
<th>Comments/Discussion</th>
<th>Approvals/Action</th>
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</thead>
<tbody>
<tr>
<td>1. CALL TO ORDER/ ROLL CALL</td>
<td>The open session of the Joint Meeting of the Finance Committee (the “Committee”) and the El Camino Hospital Board of Directors (the “Board”) was called to order by Vice Chair Zoglin at 5:30pm. A verbal roll call was taken. Chair Chen, Director Rebitzer and Mr. Richard Juelis were absent. All other Board and Committee members were present. Director Rebitzer joined the meeting at 5:39pm during Agenda Item 4: FY19 Operating and Capital Budget.</td>
<td></td>
</tr>
<tr>
<td>2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</td>
<td>Vice Chair Zoglin asked if any Board or Committee members may have a conflict of interest with any of the items on the agenda. No conflicts were reported.</td>
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<tr>
<td>3. PUBLIC COMMUNICATION</td>
<td>There were no comments from the public.</td>
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<tr>
<td>4. FY19 OPERATING AND CAPITAL BUDGET</td>
<td>Dan Woods, CEO, reviewed the Hospital’s Strategic Framework with the Board and Committee Members, highlighting FY19 initiatives associated with the three strategic themes: High Performing Operating Model; Consumer, Payer &amp; Employer Alignment; and Physician Integration. He also described the Draft FY19 Organizational Goals and reported that they have been reviewed by the Executive Compensation Committee and will be reviewed by the Quality Committee on June 4th. Iftikhar Hussain, CFO, reported that the FY17 and FY18 operating margins have been favorable compared to history and to budget, and explained that the variance in FY17 was primarily due to better charge capture following EPIC implementation and in FY18 was primarily due to higher volumes than expected. Mr. Hussain explained the FY19 revenue, volume, and expense assumptions. He reviewed the proposed budget with the Board and Committee Members, noting that budgeting operating margin is lower for FY19. Mr. Hussain reviewed the proposed FY19 Capital Spending Plan and reported that $900,000 from the Board designated Community Benefit Endowment Fund will be available in FY19, up from $500,000 in FY18. In response to questions from the Board and Committee members, Mr. Hussain reported the following:</td>
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</table>
expected due exceptional growth of the HVI, Oncology, and Neuroscience service lines.
- CONCERN revenue is down due to the loss of one large client that received a lower bid from a competitor. ECH could not provide the level of service this client demands at that price, but has a good track record of growth and continues to attract new clients.
- The supplies savings initiative will be achieved through a value analysis process. ECH continues to work with Adventist to get volume pricing and may need to change some of the supplies we use.
- $500,000 is budgeted for the Alexa pilot (hospital room of the future). Following the pilot, management will consider deployment throughout the hospital.
- The major construction projects are proceeding and expected to be completed within the approved budgets.
- Pharmacy and supply cost projections are obtained through ECH’s GPO.
- ECH’s contract rates for deliveries are mid-market.

<table>
<thead>
<tr>
<th>5. ADJOURN TO CLOSED SESSION</th>
<th>Motion: To adjourn to closed session at 6:20pm pursuant to Health and Safety Code Section 32106(b) for a report and discussion involving health care facility trade secrets.</th>
<th>Adjourned to closed session at 6:20pm</th>
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</thead>
<tbody>
<tr>
<td>Movant: Miller</td>
<td>Second: Kalbach</td>
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</tr>
<tr>
<td>Ayes: Chow, Davis, Faust, Fligor, Fung, Hobbs, Kliger, Miller, Rebitzer, Reeder, Zoglin</td>
<td>Noes: None</td>
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<tr>
<td>Abstentions: None</td>
<td>Absent: Chen, Juelis</td>
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<tr>
<td>Recused: None</td>
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| 6. AGENDA ITEM 9: RECONVENE OPEN SESSION/ REPORT OUT | Open session was reconvened at 6:55 pm by Vice Chair Zoglin. Agenda items 6-8 were addressed in closed session. There were no actions taken in closed session. Director Reeder was not present when open session reconvened. Mr. Juelis joined the meeting during the closed session. | Meeting adjourned at 6:56pm |

<table>
<thead>
<tr>
<th>7. AGENDA ITEM 10: ADJOURNMENT</th>
<th>Motion: To adjourn at 6:56 pm.</th>
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</thead>
<tbody>
<tr>
<td>Movant: Miller</td>
<td>Second: Kalbach</td>
<td></td>
</tr>
<tr>
<td>Ayes: Chow, Davis, Faust Fligor, Fung, Hobbs, Juelis, Kliger, Miller, Rebitzer, Zoglin</td>
<td>Noes: None</td>
<td></td>
</tr>
<tr>
<td>Abstentions: None</td>
<td>Absent: Chen, Reeder</td>
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<tr>
<td>Recused: None</td>
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Attest as to the approval of the foregoing minutes by the Finance Committee and the Board of Directors of El Camino Hospital:

______________________________  ________________________________
Lanhee Chen                        Julia E. Miller
Chair, ECH Board of Directors      Secretary, ECH Board of Directors

______________________________
John Zoglin
Chair, Finance Committee

Prepared by: Cindy Murphy, Director of Governance Services
Minutes of the Open Session of the Finance Committee  
Tuesday, May 29, 2018  
El Camino Hospital | Conference Rooms E, F, & G  
2500 Grant Road, Mountain View, CA 94040

<table>
<thead>
<tr>
<th>Members Present</th>
<th>Members Absent</th>
<th>Others Present</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joseph Chow</td>
<td>David Reeder</td>
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<tr>
<td>Boyd Faust</td>
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<tr>
<td>William Hobbs</td>
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<tr>
<td>(Via Phone)</td>
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<tr>
<td>Richard Juelis</td>
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<tr>
<td>(Via Phone)</td>
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<tr>
<td>John Zoglin, Chair</td>
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### Agenda Item

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<th>Approvals/Action</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. CALL TO ORDER/ ROLL CALL</strong></td>
<td>Committee Chair John Zoglin called the open session of the Finance Committee to order at 6:56 pm. Mr. Reeder was absent. All other Committee members were present. There were not enough committee members within the district to meet quorum.</td>
<td></td>
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<tr>
<td><strong>2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</strong></td>
<td>Chair Zoglin asked if any Committee members may have a conflict of interest with any of the items on the agenda. No conflicts were noted.</td>
<td></td>
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<tr>
<td><strong>3. PUBLIC COMMUNICATION</strong></td>
<td>There were no comments from the public.</td>
<td></td>
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<tr>
<td><strong>4. CONSENT CALENDAR</strong></td>
<td>Chair Zoglin explained that because there was not a quorum present, the items within the consent calendar (FY19 Pacing Plan and Financial Assistance, Charity Care &amp; Discounts Policy) will be forwarded to the Hospital Board for approval indicating that there were no questions or objections from the Committee Members present. The approval of the Minutes for the Open Session Finance Committee (April 26, 2018) was deferred to the next Committee meeting in July.</td>
<td><strong>The Open Session Finance Committee (April 26, 2018) minutes were deferred to the July 30th Committee meeting.</strong></td>
</tr>
<tr>
<td><strong>5. REPORT ON BOARD ACTIONS</strong></td>
<td>Chair Zoglin briefly reviewed the Report on Board Actions as further detailed in the packet. The committee had no comments or concerns.</td>
<td></td>
</tr>
<tr>
<td><strong>6. ENTERPRISE RESOURCE PLANNING PROJECT (ERP) UPGRADE</strong></td>
<td>Iftikhar Hussain, CFO, Kathryn Fisk, CHRO and Deb Muro, CIO are part of the ERP Steering Committee. The Steering Committee presented the importance of the ERP upgrade which was detailed in the packet. The Steering Committee request that the Finance Committee recommend Board approval for the purchase and installation of the hardware, software and services necessary to replace the existing Enterprise Resource Planning (ERP) System, at a one-time capital cost not to exceed $9.65 million. While there were not enough committee members present to meet quorum, there were no questions or objections noted from the Committee Members present.</td>
<td><strong>The ERP Project forwarded for Hospital Board review and approval</strong></td>
</tr>
<tr>
<td><strong>7. FY18 PERIOD 10 FINANCIALS</strong></td>
<td>Iftikhar Hussain, CFO, reviewed the FY18 Period 10 Financials with the Committee members. FY18 for the year, overall volume, measured in adjusted discharges is 5.3% higher than budget. IP cases are 3.5% over budget, specifically Neurosciences, HVI, BHS, Oncology and General Medicine. Deliveries are lower to prior year and 4.5% below budget. OP cases are higher than budget in General Surgery, General Medicine, Lab, Imaging Services, MCH, Rehab, Outpatient Clinics and Emergency. April Operating income is $871K under budget. For the year operating margin is $45.6M ahead of target. Investments rebounded slightly during the month and for the year, investment earnings remain $31M ahead of target. Commercial insurance is a 3.6% decrease of the Payor Mix in April than budget where Medicare has increased 2.1%. Prod Hrs/APD for April is unfavorable vs target due, to lower volume. YTD we are slightly ahead of budget. The overall balance sheet reflects AR is 47.7 which is .3 days better than budget.</td>
<td><strong>The FY18 Period 10 Financial approval will be deferred to the July 30th Committee Meeting.</strong></td>
</tr>
</tbody>
</table>
The Committee stated the draw schedule needs to be updated more often to them within the fiscal year.

While there were not enough committee members present to meet quorum, there were no questions or objections noted from the Committee Members present.

### 8. FY19 OPERATING AND CAPITAL BUDGET

Iftikhar Hussain, CFO, reviewed the FY19 Operating & Capital Budget with the Finance Committee members. Iftikhar Hussain, CFO, reported that the FY17 and FY18 operating margins have been favorable compared to history and to budget, and explained that the variance in FY17 was primarily due to better charge capture following EPIC implementation and in FY18 was primarily due to higher volumes than expected. Mr. Hussain explained the FY19 revenue, volume, and expense assumptions. He reviewed the proposed budget with the Finance Committee Members and noting that the budgeting operating margin is lower for FY19.

In response to questions from the Finance Committee members, Mr. Hussain reported the following:

- FY18 ED and Med/Surg volumes were higher than expected due to an unusually severe flu season and other volumes were higher than expected due exceptional growth of the HVI, Oncology, and Neuroscience service lines.
- CONCERN revenue is down due to the loss of one large client that received a lower bid from a competitor. ECH could not provide the level of service this client demands at that price, but has a good track record of growth and continues to attract new clients.
- The supplies savings initiative will be achieved through a value analysis process. ECH continues to work with Adventist to get volume pricing and may need to change some of the supplies we use.
- $500,000 is budgeted for the Alexa pilot (hospital room of the future). Following the pilot, management will consider deployment throughout the hospital.
- The major construction projects are proceeding and expected to be completed within the approved budgets.
- Pharmacy and supply cost projections are obtained through ECH’s GPO.
- ECH’s contract rates for deliveries are mid-market.

### 9. ADJOURN TO CLOSED SESSION

Motion: To adjourn to closed session at 7:39 pm pursuant to Gov’t Code Section 54957.2 for approval of the Minutes of the Closed Session of the Finance Committee (April 26, 2018)

Movant: Faust
Second: Chow
Ayes: Chow, Faust, Hobbs, Juelis, Zoglin
Noes: None
Abstentions: None
Absent: Reeder
Recused: None

Adjourned to closed session at 7:39 pm

### 10. AGENDA ITEM 14: RECONVENE OPEN SESSION/REPORT OUT

Open session was reconvened at 8:19 pm. Agenda items 11 – 13 were covered in closed session; however there were no quorum, so no actions were taken by the Committee. The approval of the Minutes of the Closed Session Finance Committee (April 26, 2018) was deferred to the next Committee meeting in July.
11. AGENDA ITEM 16: MEDICAL DIRECTOR AGREEMENT RENEWALS
   Chair Zoglin and reviewed the Medical Director Agreement Renewal as further detailed in the packet. He requested feedback and a brief discussion ensued.
   Chair Zoglin reviewed the FY19 Operating and Capital Budget as further detailed in the packet. He requested feedback and a brief discussion ensued.

   While there were not enough committee members present to meet quorum, there were no questions or objections noted from the Committee Members present on the Medical Director Agreement Renewal & FY19 Operating and Capital Budget simultaneously.

12. AGENDA ITEM 18: CLOSING COMMENTS
   None

13. AGENDA ITEM 19: ADJOURNMENT
   Motion: To adjourn at 8:28pm
   Movant: Faust
   Second: Chow
   Ayes: Chow, Faust, Hobbs, Juelis, Zoglin
   Noes: None
   Abstentions: None
   Absent: Reeder
   Recused: None

Attest as to the approval of the foregoing minutes by the Finance Committee of El Camino Hospital:

John Zoglin
Chair, Finance Committee
Summary of Financial Operations

Fiscal Year 2018 – Period 10
7/1/2017 to 04/30/2018
Financial Overview

Volume:
- For the year, overall volume, measured in adjusted discharges is 5.3% higher than budget.
- IP cases are 3.5% over budget, specifically Neurosciences, HVI, BHS, Oncology and General Medicine. Deliveries are lower to prior year and 4.5% below budget.
- OP cases are higher than budget in General Surgery, General Medicine, Lab, Imaging Services, MCH, Rehab, Outpatient Clinics and Emergency.

Financial Performance:
- Operating income is $871K under budget. For the year operating margin is $45.6M ahead of target.
- Investments rebounded slightly during the month and for the year, investment earnings remain $31 million ahead of target.

Payor Mix:
- Commercial insurance is a 3.6% decrease of the Payor Mix in April than budget where Medicare has increased 2.1%.

Cost:
- Prod Hrs/APD for April is unfavorable vs target due to lower volume. YTD we are slightly ahead of budget.

Balance Sheet:
- Net days in AR is 47.7 which is .3 days better than budget.
### Dashboard - ECH combined as of April 30, 2018

<table>
<thead>
<tr>
<th>Month</th>
<th>PY</th>
<th>CY</th>
<th>Bud/Target</th>
<th>Variance</th>
<th>CY vs Bud</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licenced Beds</td>
<td>443</td>
<td>443</td>
<td>443</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>ADC</td>
<td>241</td>
<td>226</td>
<td>242 (16)</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Utilization MV</td>
<td>68%</td>
<td>62%</td>
<td>67%</td>
<td>66%</td>
<td>67%</td>
</tr>
<tr>
<td>Utilization LG</td>
<td>26%</td>
<td>28%</td>
<td>29%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Utilization Combined</td>
<td>54%</td>
<td>51%</td>
<td>55%</td>
<td>54%</td>
<td>55%</td>
</tr>
<tr>
<td>Adjusted Discharges</td>
<td>2,772</td>
<td>2,826</td>
<td>2,771</td>
<td>56</td>
<td>27,990</td>
</tr>
<tr>
<td>Total Discharges (Excl NNB)</td>
<td>1,642</td>
<td>1,581</td>
<td>1,603</td>
<td>(22)</td>
<td>16,300</td>
</tr>
<tr>
<td>Total Discharges</td>
<td>1,971</td>
<td>1,878</td>
<td>1,889</td>
<td></td>
<td>19,522</td>
</tr>
<tr>
<td>Inpatient Cases</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MS Discharges</td>
<td>1,141</td>
<td>1,100</td>
<td>1,110 (10)</td>
<td></td>
<td>11,269</td>
</tr>
<tr>
<td>Deliveries</td>
<td>387</td>
<td>359</td>
<td>377 (18)</td>
<td>3,891</td>
<td>3,782</td>
</tr>
<tr>
<td>BHS</td>
<td>79</td>
<td>86</td>
<td>75</td>
<td>11</td>
<td>749</td>
</tr>
<tr>
<td>Rehab</td>
<td>35</td>
<td>36</td>
<td>41 (5)</td>
<td>391</td>
<td>362</td>
</tr>
<tr>
<td>Outpatient Cases</td>
<td>11,902</td>
<td>12,082</td>
<td>12,096 (14)</td>
<td>120,742</td>
<td>124,609</td>
</tr>
<tr>
<td>ED</td>
<td>4,140</td>
<td>3,944</td>
<td>4,018 (74)</td>
<td>40,283</td>
<td>41,391</td>
</tr>
<tr>
<td>Procedural Cases</td>
<td>367</td>
<td>368</td>
<td>377 (9)</td>
<td>3,743</td>
<td>3,895</td>
</tr>
<tr>
<td>Endo</td>
<td>159</td>
<td>182</td>
<td>175</td>
<td>1,972</td>
<td>1,988</td>
</tr>
<tr>
<td>Interventional</td>
<td>158</td>
<td>165</td>
<td>174 (9)</td>
<td>1,799</td>
<td>1,753</td>
</tr>
<tr>
<td>All Other</td>
<td>7,078</td>
<td>7,423</td>
<td>7,352</td>
<td>72,945</td>
<td>75,582</td>
</tr>
<tr>
<td>Financial Perf.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Patient Revenues</td>
<td>64,140</td>
<td>67,804</td>
<td>68,908</td>
<td>(1,104)</td>
<td>674,253</td>
</tr>
<tr>
<td>Total Operating Revenue</td>
<td>65,772</td>
<td>69,537</td>
<td>70,773</td>
<td>(1,236)</td>
<td>694,698</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>61,685</td>
<td>64,428</td>
<td>64,793</td>
<td>(366)</td>
<td>615,679</td>
</tr>
<tr>
<td>Operating Income $</td>
<td>4,086</td>
<td>5,109</td>
<td>5,980 (871)</td>
<td>79,019</td>
<td>111,150</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>6.2%</td>
<td>7.3%</td>
<td>8.4%</td>
<td>-1.1%</td>
<td>11.4%</td>
</tr>
<tr>
<td>EBITDA $</td>
<td>7,889</td>
<td>9,875</td>
<td>11,398 (1,523)</td>
<td>122,682</td>
<td>157,079</td>
</tr>
<tr>
<td>EBITDA %</td>
<td>12.0%</td>
<td>14.2%</td>
<td>16.1%</td>
<td>-1.9%</td>
<td>17.7%</td>
</tr>
<tr>
<td>IP Margin</td>
<td>5.8%</td>
<td>4.5%</td>
<td>-10.2%</td>
<td>14.7%</td>
<td>5.8%</td>
</tr>
<tr>
<td>OP Margin</td>
<td>37.0%</td>
<td>38.9%</td>
<td>31.7%</td>
<td>7.2%</td>
<td>37.0%</td>
</tr>
<tr>
<td>Payor Mix</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicare</td>
<td>47.3%</td>
<td>49.7%</td>
<td>47.4%</td>
<td>2.3%</td>
<td>47.7%</td>
</tr>
<tr>
<td>Medi-Cal</td>
<td>7.5%</td>
<td>6.9%</td>
<td>7.2%</td>
<td>-0.3%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Commercial IP</td>
<td>22.4%</td>
<td>21.5%</td>
<td>22.6%</td>
<td>-1.1%</td>
<td>22.3%</td>
</tr>
<tr>
<td>Commercial OP</td>
<td>20.3%</td>
<td>19.2%</td>
<td>20.3%</td>
<td>-1.1%</td>
<td>20.2%</td>
</tr>
<tr>
<td>Total Commercial</td>
<td>42.7%</td>
<td>40.7%</td>
<td>42.9%</td>
<td>-2.2%</td>
<td>42.5%</td>
</tr>
<tr>
<td>Other</td>
<td>2.5%</td>
<td>2.7%</td>
<td>2.5%</td>
<td>0.2%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total FTE</td>
<td>2,542.4</td>
<td>2,588.1</td>
<td>2,536.7</td>
<td>51</td>
<td>2,496.7</td>
</tr>
<tr>
<td>Productive Hrs/APD</td>
<td>31.5</td>
<td>32.2</td>
<td>30.4</td>
<td>2</td>
<td>30.3</td>
</tr>
<tr>
<td>Balance Sheet</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Days in AR</td>
<td>44.8</td>
<td>47.7</td>
<td>48.0</td>
<td>(0)</td>
<td>44.8</td>
</tr>
<tr>
<td>Days Cash</td>
<td>444</td>
<td>487</td>
<td>266</td>
<td>221</td>
<td>444</td>
</tr>
<tr>
<td>Affiliates - Net Income ($000s)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hosp</td>
<td>11,619</td>
<td>4,713</td>
<td>6,205</td>
<td>(1,492)</td>
<td>125,946</td>
</tr>
<tr>
<td>Concern</td>
<td>304</td>
<td>(66)</td>
<td>130</td>
<td>(196)</td>
<td>1,358</td>
</tr>
<tr>
<td>ECSC</td>
<td>(11)</td>
<td>(20)</td>
<td>0</td>
<td>(20)</td>
<td>(83)</td>
</tr>
<tr>
<td>Foundation</td>
<td>51</td>
<td>196</td>
<td>(52)</td>
<td>249</td>
<td>2,140</td>
</tr>
<tr>
<td>SVMH</td>
<td>(27)</td>
<td>494</td>
<td>(16)</td>
<td>510</td>
<td>91</td>
</tr>
</tbody>
</table>

**Note:** YTD stands for Year-To-Date.
## Budget Variances

### Year to Date (YTD)

<table>
<thead>
<tr>
<th>Category</th>
<th>Net Income Impact</th>
<th>% Net Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgeted Hospital Operations FY2018</td>
<td>65,534</td>
<td>9.2%</td>
</tr>
<tr>
<td><strong>Net Revenue</strong> - Favorable due higher volume, revenue cycle operations and $14 million unusual items</td>
<td>49,953</td>
<td>6.6%</td>
</tr>
<tr>
<td>Labor and Benefit Expense Change - Labor favorable vs budget after adjusting for volume</td>
<td>(1,583)</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Professional Fees &amp; Purchased Services - Recruiting costs for several key positions in the organization and backfill for vacant positions, repairs for survey readiness</td>
<td>(5,639)</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Supplies - unfavorable due to increase in surgical and other general supplies, offset by savings in Spine supplies as well as Drugs. Higher volumes also driving increase and net positive to volume adjusted budget</td>
<td>(3,496)</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Other Expenses - primarily due strategic fund expenses not spent</td>
<td>1,325</td>
<td>0.2%</td>
</tr>
<tr>
<td>Depreciation &amp; Interest - Favorable due to delay in Parking Structure as well as LG projects</td>
<td>5,056</td>
<td>0.7%</td>
</tr>
<tr>
<td>Actual Hospital Operations FY2018</td>
<td>111,150</td>
<td>14.6%</td>
</tr>
</tbody>
</table>
## El Camino Hospital ($000s)

10 months ending 04/30/2018

<table>
<thead>
<tr>
<th>Period 10 FY 2017</th>
<th>Period 10 FY 2018</th>
<th>Period 10 Budget 2018</th>
<th>Variance Fav (Unfav)</th>
<th>Var%</th>
<th>$000s YTD FY 2017</th>
<th>YTD FY 2018</th>
<th>Budget 2018</th>
<th>Variance Fav (Unfav)</th>
<th>Var%</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPERATING REVENUE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>FY 2017</td>
<td>FY 2018</td>
<td>Budget 2018</td>
<td>Fav (Unfav)</td>
<td>Var%</td>
</tr>
<tr>
<td>Gross Revenue</td>
<td>243,934</td>
<td>255,113</td>
<td>262,362</td>
<td>(7,249)</td>
<td>-2.8%</td>
<td>2,490,436</td>
<td>2,749,518</td>
<td>2,653,163</td>
<td>96,355</td>
</tr>
<tr>
<td>Deductions</td>
<td>(179,795)</td>
<td>(187,308)</td>
<td>(193,453)</td>
<td>6,145</td>
<td>1.0%</td>
<td>(1,816,183)</td>
<td>(2,011,455)</td>
<td>(1,960,649)</td>
<td>(50,807)</td>
</tr>
<tr>
<td>Net Patient Revenue</td>
<td>64,140</td>
<td>67,804</td>
<td>68,908</td>
<td>(1,104)</td>
<td>-1.6%</td>
<td>674,253</td>
<td>738,063</td>
<td>692,514</td>
<td>45,548</td>
</tr>
<tr>
<td>Other Operating Revenue</td>
<td>1,632</td>
<td>1,732</td>
<td>1,865</td>
<td>(132)</td>
<td>-7.1%</td>
<td>20,445</td>
<td>23,802</td>
<td>19,397</td>
<td>4,405</td>
</tr>
<tr>
<td>Total Operating Revenue</td>
<td>65,772</td>
<td>69,537</td>
<td>70,773</td>
<td>(1,236)</td>
<td>-1.7%</td>
<td>694,698</td>
<td>761,864</td>
<td>711,911</td>
<td>49,953</td>
</tr>
<tr>
<td>OPERATING EXPENSE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>38,255</td>
<td>38,208</td>
<td>39,211</td>
<td>1,002</td>
<td>2.6%</td>
<td>372,313</td>
<td>391,777</td>
<td>390,194</td>
<td>(1,583)</td>
</tr>
<tr>
<td>Supplies</td>
<td>10,015</td>
<td>10,262</td>
<td>10,075</td>
<td>(186)</td>
<td>-1.9%</td>
<td>96,798</td>
<td>105,215</td>
<td>101,720</td>
<td>(3,496)</td>
</tr>
<tr>
<td>Fees &amp; Purchased Services</td>
<td>7,569</td>
<td>8,924</td>
<td>7,787</td>
<td>(1,136)</td>
<td>-14.6%</td>
<td>80,108</td>
<td>84,895</td>
<td>79,256</td>
<td>(5,639)</td>
</tr>
<tr>
<td>Other Operating Expense</td>
<td>2,044</td>
<td>2,268</td>
<td>2,302</td>
<td>34</td>
<td>1.5%</td>
<td>22,797</td>
<td>22,897</td>
<td>24,222</td>
<td>1,325</td>
</tr>
<tr>
<td>Interest</td>
<td>(129)</td>
<td>567</td>
<td>725</td>
<td>159</td>
<td>21.9%</td>
<td>3,558</td>
<td>4,859</td>
<td>7,254</td>
<td>2,395</td>
</tr>
<tr>
<td>Depreciation</td>
<td>3,932</td>
<td>4,199</td>
<td>4,693</td>
<td>493</td>
<td>10.5%</td>
<td>40,104</td>
<td>41,070</td>
<td>43,731</td>
<td>2,661</td>
</tr>
<tr>
<td>Total Operating Expense</td>
<td>61,685</td>
<td>64,428</td>
<td>64,793</td>
<td>366</td>
<td>0.6%</td>
<td>615,679</td>
<td>650,715</td>
<td>646,378</td>
<td>(4,337)</td>
</tr>
<tr>
<td>Net Operating Income/(Loss)</td>
<td>4,086</td>
<td>5,109</td>
<td>5,980</td>
<td>(871)</td>
<td>-14.6%</td>
<td>79,019</td>
<td>111,150</td>
<td>65,534</td>
<td>45,616</td>
</tr>
<tr>
<td>Non Operating Income</td>
<td>7,532</td>
<td>(396)</td>
<td>225</td>
<td>(621)</td>
<td>-275.8%</td>
<td>46,927</td>
<td>43,322</td>
<td>2,253</td>
<td>41,069</td>
</tr>
<tr>
<td>Total Net Income/(Loss)</td>
<td>11,619</td>
<td>4,713</td>
<td>6,205</td>
<td>(1,492)</td>
<td>-24.0%</td>
<td>125,946</td>
<td>154,471</td>
<td>67,786</td>
<td>86,685</td>
</tr>
</tbody>
</table>

| EBITDA | 17.7% | 20.6% | 16.4% | 4.3% |
| Operating Margin | 11.4% | 14.6% | 9.2% | 5.4% |
| Net Margin | 18.1% | 20.3% | 9.5% | 10.8% |
## Non Operating Items and Net Income by Affiliate

$ in thousands

<table>
<thead>
<tr>
<th>Period 10 - Month</th>
<th>Period 10 - FYTD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
</tr>
<tr>
<td>El Camino Hospital Income (Loss) from Operations</td>
<td></td>
</tr>
<tr>
<td>Mountain View</td>
<td>4,311</td>
</tr>
<tr>
<td>Los Gatos</td>
<td>799</td>
</tr>
<tr>
<td>Sub Total - El Camino Hospital, excl. Affiliates</td>
<td>5,109</td>
</tr>
<tr>
<td>Operating Margin %</td>
<td>7.3%</td>
</tr>
<tr>
<td>El Camino Hospital Non Operating Income</td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>660</td>
</tr>
<tr>
<td>Swap Adjustments</td>
<td>519</td>
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<tr>
<td>Community Benefit</td>
<td>(31)</td>
</tr>
<tr>
<td>Pathways</td>
<td>67</td>
</tr>
<tr>
<td>Satellite Dialysis</td>
<td>0</td>
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<tr>
<td>Community Connect</td>
<td>0</td>
</tr>
<tr>
<td>SVMD Funding¹</td>
<td>(376)</td>
</tr>
<tr>
<td>Premier Investment²</td>
<td>(833)</td>
</tr>
<tr>
<td>Other</td>
<td>(402)</td>
</tr>
<tr>
<td>Sub Total - Non Operating Income</td>
<td>(396)</td>
</tr>
<tr>
<td>El Camino Hospital Net Income (Loss)</td>
<td>4,713</td>
</tr>
<tr>
<td>ECH Net Margin %</td>
<td>6.8%</td>
</tr>
<tr>
<td>Concern</td>
<td>(66)</td>
</tr>
<tr>
<td>ECSC</td>
<td>(20)</td>
</tr>
<tr>
<td>Foundation</td>
<td>196</td>
</tr>
<tr>
<td>Silicon Valley Medical Development</td>
<td>494</td>
</tr>
<tr>
<td>Net Income Hospital Affiliates</td>
<td>605</td>
</tr>
<tr>
<td>Total Net Income Hospital &amp; Affiliates</td>
<td>5,318</td>
</tr>
</tbody>
</table>

¹Favorable variances for SVMD and Community Connect are due to delayed implementation
²Gain on Premier stock sale of shares eligible were sold with proceeds going to pooled investments. No impact on vendor relationships.
Monthly Financial Trends

Volume is lower than budget for the month and higher for the year. High inpatient volume is in Inpatient Behavioral Health, HVI, Neurosciences, Oncology and General Medicine. High Outpatient volume is General Medicine, Imaging Services, MCH, Lab, Outpatient Clinics, General Surgery and Rehab.
Productivity and Medicare Length of Stay

Work hours per adjusted patient day in April is over budget by 1.8. Overall the month of April is 32.2 worked hours per adjusted patient day.

• General Medicine, HVI, Behavioral Health, and Neuroscience display an increasing trend.
• Conversely, Rehab Services, MCH and GYN show a decreasing trend.
• The remaining service lines are staying flat.
El Camino Hospital Volume Annual Trends – Outpatient
FY 2018 is annualized

- Comparing year-over-year Oncology, MCH, Rehab Services, Emergency and Outpatient Clinics are all increasing in volume. All others are remaining flat or decreasing.

Medicare data excludes Medicare HMOs
ECH Operating Margin

Run rate is booked operating income adjusted for material non-recurring transactions

FY 2018 Actual Run Rate Adjustments (in thousands) - FAV / <UNFAV>

<table>
<thead>
<tr>
<th>Revenue Adjustments</th>
<th>J</th>
<th>A</th>
<th>S</th>
<th>O</th>
<th>N</th>
<th>D</th>
<th>J</th>
<th>F</th>
<th>M</th>
<th>A</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance (Payment Variance)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>611</td>
<td>-</td>
<td>669</td>
<td>28</td>
<td>-</td>
<td>-</td>
<td>603</td>
<td>1,912</td>
</tr>
<tr>
<td>Mcare Settlmt/Appeal/Tent Settlmt/PIP</td>
<td>54</td>
<td>155</td>
<td>905</td>
<td>54</td>
<td>184</td>
<td>81</td>
<td>396</td>
<td>92</td>
<td>92</td>
<td>(224)</td>
<td>1,789</td>
</tr>
<tr>
<td>AB 915</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>103</td>
<td>926</td>
<td>-</td>
<td>1,029</td>
</tr>
<tr>
<td>Hospital Fee</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>712</td>
<td>1,024</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,736</td>
</tr>
<tr>
<td>PRIME Incentive</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,902</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,902</td>
</tr>
<tr>
<td>Credit Balance Quarterly Review</td>
<td>-</td>
<td>-</td>
<td>2,201</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,201</td>
</tr>
<tr>
<td>Late Charge Accrual</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,283</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,283</td>
</tr>
<tr>
<td>Various Adjustments under $250k</td>
<td>9</td>
<td>36</td>
<td>27</td>
<td>6</td>
<td>16</td>
<td>8</td>
<td>(878)</td>
<td>10</td>
<td>17</td>
<td>56</td>
<td>(694)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>63</strong></td>
<td><strong>191</strong></td>
<td><strong>3,134</strong></td>
<td><strong>4,667</strong></td>
<td><strong>4,126</strong></td>
<td><strong>757</strong></td>
<td><strong>(453)</strong></td>
<td><strong>205</strong></td>
<td><strong>1,638</strong></td>
<td><strong>(169)</strong></td>
<td><strong>14,158</strong></td>
</tr>
</tbody>
</table>
# El Camino Hospital Investment Committee Scorecard

**March 31, 2018**

<table>
<thead>
<tr>
<th>Key Performance Indicator</th>
<th>Status</th>
<th>El Camino</th>
<th>Benchmark</th>
<th>El Camino</th>
<th>Benchmark</th>
<th>FY18 Year-end Budget</th>
<th>Expectation Per Asset Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Performance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus cash balance*</td>
<td>1Q 2018</td>
<td>$875.2</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>$926.1</td>
<td>--</td>
</tr>
<tr>
<td>Surplus cash return</td>
<td>1Q 2018</td>
<td>0.1%</td>
<td>-0.6%</td>
<td>5.5%</td>
<td>4.9%</td>
<td>5.7%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Cash balance plan balance (millions)</td>
<td>1Q 2018</td>
<td>$260.0</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>$257.1</td>
<td>--</td>
</tr>
<tr>
<td>Cash balance plan return</td>
<td>1Q 2018</td>
<td>0.4%</td>
<td>-0.7%</td>
<td>6.7%</td>
<td>6.0%</td>
<td>8.1%</td>
<td>7.4%</td>
</tr>
<tr>
<td>403(b) plan balance (millions)</td>
<td>1Q 2018</td>
<td>$455.1</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>Risk vs. Return</strong></td>
<td>3-year</td>
<td>0.93</td>
<td>0.91</td>
<td>--</td>
<td>--</td>
<td>1.29</td>
<td>1.26</td>
</tr>
<tr>
<td>Surplus cash Sharpe ratio</td>
<td>3-year</td>
<td>4.9%</td>
<td>4.7%</td>
<td>--</td>
<td>--</td>
<td>5.7%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Net of fee return</td>
<td>3-year</td>
<td>4.8%</td>
<td>4.7%</td>
<td>--</td>
<td>--</td>
<td>4.1%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>3-year</td>
<td>0.95</td>
<td>0.92</td>
<td>--</td>
<td>--</td>
<td>1.39</td>
<td>1.32</td>
</tr>
<tr>
<td>Cash balance Sharpe ratio</td>
<td>3-year</td>
<td>6.0%</td>
<td>5.6%</td>
<td>--</td>
<td>--</td>
<td>8.1%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Net of fee return</td>
<td>3-year</td>
<td>5.9%</td>
<td>5.6%</td>
<td>--</td>
<td>--</td>
<td>5.5%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>3-year</td>
<td>4.9%</td>
<td>4.7%</td>
<td>--</td>
<td>--</td>
<td>4.1%</td>
<td>4.1%</td>
</tr>
<tr>
<td><strong>Asset Allocation</strong></td>
<td>1Q 2018</td>
<td>6.4%</td>
<td>&lt; 10%</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Surplus cash absolute variances to target</td>
<td>1Q 2018</td>
<td>4.9%</td>
<td>&lt; 10%</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Cash balance absolute variances to target</td>
<td>1Q 2018</td>
<td>4.9%</td>
<td>&lt; 10%</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>Manager Compliance</strong></td>
<td>1Q 2018</td>
<td>29</td>
<td>&lt; 24 Green</td>
<td>&lt; 30 Yellow</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Surplus cash manager flags</td>
<td>1Q 2018</td>
<td>32</td>
<td>&lt; 27 Green</td>
<td>&lt; 34 Yellow</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Cash balance plan manager flags</td>
<td>1Q 2018</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

*Excludes debt reserve funds (~$223 mm), District assets (~$13 mm), and balance sheet cash not in investable portfolio (~$133 mm).
Includes Foundation (~$26 mm) and Concern (~$13 mm) assets. Budget adds back in current Foundation and Concern assets and backs out current debt reserve funds.
## El Camino Hospital
### Capital Spending (in millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>Detail</th>
<th>Total Estimated Cost of Project</th>
<th>Total Authorized Active</th>
<th>Spent from Inception</th>
<th>2018 Current Proj Spend</th>
<th>FY18 Orig Proj Spend</th>
<th>FY18 YTD Spent</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIP</td>
<td>EPIC Upgrade</td>
<td>1.9</td>
<td>1.0</td>
<td>1.9</td>
<td>1.9</td>
<td>0.0</td>
<td>1.0</td>
</tr>
<tr>
<td>IT Hardware, Software, Equipment &amp; Imaging*</td>
<td></td>
<td>12.2</td>
<td>1.2</td>
<td>12.2</td>
<td>12.2</td>
<td>0.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Medical &amp; Non Medical Equipment FY 17**</td>
<td></td>
<td>14.0</td>
<td>12.9</td>
<td>8.6</td>
<td>0.0</td>
<td>8.6</td>
<td>2</td>
</tr>
<tr>
<td>Medical &amp; Non Medical Equipment FY 18***</td>
<td></td>
<td>5.6</td>
<td>4.5</td>
<td>5.6</td>
<td>5.6</td>
<td>0.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Facility Projects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1245 Behavioral Health Bldg</td>
<td>FY16</td>
<td>96.1</td>
<td>96.1</td>
<td>37.5</td>
<td>37.5</td>
<td>51.4</td>
<td>19.9</td>
</tr>
<tr>
<td>1413 North Drive Parking Expansion</td>
<td>FY15</td>
<td>24.5</td>
<td>24.5</td>
<td>23.9</td>
<td>2.6</td>
<td>3.4</td>
<td>4.1</td>
</tr>
<tr>
<td>1414 Integrated MOB</td>
<td>FY15</td>
<td>302.1</td>
<td>302.1</td>
<td>95.1</td>
<td>72.0</td>
<td>130.1</td>
<td>49.2</td>
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<tr>
<td>1422 CUP Upgrade</td>
<td>FY16</td>
<td>9.0</td>
<td>9.0</td>
<td>6.4</td>
<td>5.5</td>
<td>4.0</td>
<td>4.2</td>
</tr>
<tr>
<td>1430 Women's Hospital Expansion</td>
<td>FY16</td>
<td>120.0</td>
<td>6.0</td>
<td>3.0</td>
<td>3.6</td>
<td>7.0</td>
<td>2.5</td>
</tr>
<tr>
<td>1425 IMOB Preparation Project - Old Main</td>
<td>FY16</td>
<td>20.0</td>
<td>0.0</td>
<td>2.8</td>
<td>0.0</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td>1502 Cabling &amp; Wireless Upgrades</td>
<td>FY16</td>
<td>0.0</td>
<td>0.0</td>
<td>2.6</td>
<td>0.0</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td>1525 New Main Lab Upgrades</td>
<td>FY16</td>
<td>3.1</td>
<td>3.1</td>
<td>2.2</td>
<td>2.5</td>
<td>0.0</td>
<td>1.7</td>
</tr>
<tr>
<td>1515 ED Remodel Triage/Psych Observation</td>
<td>FY16</td>
<td>5.0</td>
<td>0.3</td>
<td>0.0</td>
<td>0.4</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>1503 Willow Pavilion Tomosynthesis</td>
<td>FY16</td>
<td>0.8</td>
<td>0.0</td>
<td>0.3</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>1602 JW House (Patient Family Residence)</td>
<td></td>
<td>6.5</td>
<td>0.5</td>
<td>0.2</td>
<td>0.5</td>
<td>0.5</td>
<td>0.0</td>
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<tr>
<td>Site Signage and Other Improvements</td>
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<td>1.0</td>
<td>0.0</td>
<td>0.3</td>
<td>0.3</td>
<td>1.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Nurse Call System Upgrades</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
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<tr>
<td>1707 Imaging Equipment Replacement (5 or 6 rooms)</td>
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<td>20.7</td>
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<td>0.0</td>
<td>0.3</td>
<td>1.0</td>
<td>0.2</td>
</tr>
<tr>
<td>1708 IR/ Cath Lab Equipment Replacement</td>
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<td>19.4</td>
<td>0.0</td>
<td>0.0</td>
<td>0.3</td>
<td>2.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Flooring Replacement</td>
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<td>0.0</td>
</tr>
<tr>
<td>1219 LG Spine OR</td>
<td>FY13</td>
<td>0.0</td>
<td>0.0</td>
<td>3.8</td>
<td>0.0</td>
<td>0.0</td>
<td>0.4</td>
</tr>
<tr>
<td>1313 LG Rehab HVAC System &amp; Structural</td>
<td>FY16</td>
<td>0.0</td>
<td>0.0</td>
<td>4.1</td>
<td>0.0</td>
<td>0.0</td>
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</tr>
<tr>
<td>1248 LG Imaging Phase II (CT &amp; Gen Rad)</td>
<td>FY16</td>
<td>8.8</td>
<td>8.8</td>
<td>8.9</td>
<td>0.6</td>
<td>0.7</td>
<td>1.6</td>
</tr>
<tr>
<td>1307 LG Upgrades</td>
<td>FY13</td>
<td>19.3</td>
<td>19.3</td>
<td>17.5</td>
<td>4.9</td>
<td>5.0</td>
<td>3.7</td>
</tr>
<tr>
<td>1508 LG NICU 4 Bed Expansion</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>1507 LG IR Upgrades</td>
<td></td>
<td>1.3</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>1603 LG MOB Improvements (17)</td>
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<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>3.5</td>
<td>3.5</td>
<td>4.7</td>
</tr>
<tr>
<td>1711 Emergency Sanitary &amp; Water Storage</td>
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<td>1.4</td>
<td>0.3</td>
<td>0.1</td>
<td>0.2</td>
<td>3.2</td>
<td>3.0</td>
</tr>
<tr>
<td>LG Modular MRI &amp; Awning</td>
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<td>3.9</td>
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<td>0.4</td>
<td>0.0</td>
<td>0.4</td>
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<tr>
<td>LG Nurse Call System Upgrade</td>
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<tr>
<td>LG Observation Unit (Conversion of ICU 2)</td>
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<td>0.0</td>
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<tr>
<td>1712 LG Cancer Center</td>
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<td>0.2</td>
<td>0.4</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td>All Other Projects under $1M</td>
<td></td>
<td>5.6</td>
<td>0.4</td>
<td>57.1</td>
<td>1.8</td>
<td>0.0</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td></td>
<td>684.4</td>
<td>479.6</td>
<td>270.7</td>
<td>128.0</td>
<td>211.9</td>
<td>-83.9</td>
</tr>
</tbody>
</table>

* Excluding EPIC
** Unspent Prior Year routine used as contingency
*** Includes 2 robot purchases

1 Variance due to delay in MV campus plan
2 Initial assumption was to spend all FY17 in FY17
## Balance Sheet (in thousands)

### ASSETS

<table>
<thead>
<tr>
<th>CURRENT ASSETS</th>
<th>April 30, 2018</th>
<th>Audited</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>115,213</td>
<td>125,551</td>
<td></td>
</tr>
<tr>
<td>Short Term Investments</td>
<td>151,944</td>
<td>140,284</td>
<td></td>
</tr>
<tr>
<td>Patient Accounts Receivable, net</td>
<td>115,311</td>
<td>109,089</td>
<td></td>
</tr>
<tr>
<td>Other Accounts and Notes Receivable</td>
<td>2,713</td>
<td>2,628</td>
<td></td>
</tr>
<tr>
<td>Intercompany Receivables</td>
<td>1,654</td>
<td>1,495</td>
<td></td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>440,174</strong></td>
<td><strong>429,705</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BOARD DESIGNATED ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>(2) Plant &amp; Equipment Fund</td>
</tr>
<tr>
<td>(3) Operational Reserve Fund</td>
</tr>
<tr>
<td>(4) Community Benefit Fund</td>
</tr>
<tr>
<td>(5) FUNDS HELD BY TRUSTEE</td>
</tr>
<tr>
<td><strong>Total Board Designated Assets</strong></td>
</tr>
</tbody>
</table>

| LONG TERM INVESTMENTS | 314,542        | 256,652 |

<table>
<thead>
<tr>
<th>PROPERTY AND EQUIPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>(6) Fixed Assets at Cost</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
</tr>
<tr>
<td>Construction in Progress</td>
</tr>
<tr>
<td><strong>Property, Plant &amp; Equipment - Net</strong></td>
</tr>
</tbody>
</table>

| DEFERRED OUTFLOWS | 28,460 | 28,960 |
| RESTRICTED ASSETS - CASH | 0 | 0 |
| **TOTAL ASSETS** | **2,292,009** | **2,166,825** |

### LIABILITIES AND FUND BALANCE

<table>
<thead>
<tr>
<th>CURRENT LIABILITIES</th>
<th>April 30, 2018</th>
<th>Audited</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>(7) Accounts Payable</td>
<td>25,747</td>
<td>38,457</td>
<td></td>
</tr>
<tr>
<td>(8) Salaries and Related Liabilities</td>
<td>19,708</td>
<td>25,109</td>
<td></td>
</tr>
<tr>
<td>Accrued PTO</td>
<td>24,428</td>
<td>23,409</td>
<td></td>
</tr>
<tr>
<td>Worker's Comp Reserve</td>
<td>2,300</td>
<td>2,300</td>
<td></td>
</tr>
<tr>
<td>Third Party Settlements</td>
<td>9,501</td>
<td>10,438</td>
<td></td>
</tr>
<tr>
<td>Intercompany Payables</td>
<td>63</td>
<td>84</td>
<td></td>
</tr>
<tr>
<td>Malpractice Reserves</td>
<td>1,634</td>
<td>1,634</td>
<td></td>
</tr>
<tr>
<td>Bonds Payable - Current</td>
<td>3,850</td>
<td>3,735</td>
<td></td>
</tr>
<tr>
<td>(9) Bond Interest Payable</td>
<td>6,477</td>
<td>11,245</td>
<td></td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td><strong>101,554</strong></td>
<td><strong>121,299</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LONG TERM LIABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post Retirement Benefits</td>
</tr>
<tr>
<td>Worker's Comp Reserve</td>
</tr>
<tr>
<td>Other L/T Obligation (Asbestos)</td>
</tr>
<tr>
<td>Other L/T Liabilities (IT/Medi Leases)</td>
</tr>
<tr>
<td>Bond Payable</td>
</tr>
<tr>
<td><strong>Total Long Term Liabilities</strong></td>
</tr>
</tbody>
</table>

| DEFERRED REVENUE-UNRESTRICTED | 218 | 567 |

| DEFERRED INFLOW OF RESOURCES | 10,666 | 10,666 |

<table>
<thead>
<tr>
<th>FUND BALANCE/CAPITAL ACCOUNTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
</tr>
<tr>
<td>Board Designated</td>
</tr>
<tr>
<td>Restricted</td>
</tr>
<tr>
<td><strong>Total Fund Bal &amp; Capital Accts</strong></td>
</tr>
</tbody>
</table>

| TOTAL LIABILITIES AND FUND BALANCE | **2,292,009** | **2,166,825** |
(1) The increase is due to two quarterly pension fundings of $2.6M in October and January.
(2) The increase is due to 10 months of funded depreciation contributions (130% of straight depreciation expense. Note this amount also contains $14M reserved for BHS replacement building currently under construction, in conjunction with bond proceeds, item (5).
(3) The increase here is to reset the Operational Reserve (to cover 60 days of operating expenses) for FY2018. The prior year balance hadn’t been reset in a couple of years.
(4) The increase is due to an approved addition of $5 million to the Community Benefit Board Designated Endowment as an outcome of the FY2018 budget process to generate additional investment income for the Community Benefits program.
(5) The decrease is due to additional draws from the 2017 bond financing Project Funds in support of monthly payments to contractors involved with the construction projects at the Mountain View campus. As these projects are now in full progress greater amounts will be withdrawn in future periods.
(6) The increase is due to the capitalization of the Parking Structure expansion in August and CT upgrades at LG in September.
(7) The decrease is due to the significant General Contractor construction payments being accrued at year end, along with associated retentions and other general accounts payable activity that were subsequently relieved in this first quarter of fiscal year 2018.
(8) This decrease is primarily due to the annual 403B match funding that occurred in January.
(9) The significant decrease is due to semi-annual 2015A and 2017 Bond interest payments having been paid in January.
(10) The increase is mostly attributable to the first ten periods of financial performance producing an operating income of $111 million and non-operating of $43 million (mostly from unrealized gains on investments).
Plant & Equipment Fund – originally established by the District Board in the early 1960’s to fund new capital expansion projects of building facilities or equipment (new or replacements). The funds came from the M&O property taxes being received and the funding depreciation expense at 100%. When at the end of 1992, the 501(c)(3) Hospital was performed by the District, the property tax receipts remained with the District. The newly formed Hospital entity continued on with funding depreciation expense, but did that funding at 130% of the depreciation expense to account for an expected replacement cost of current plant and property assets. It is to be noted that within this fund is an itemized amount of $14 million for the Behavioral Health Service building replacement project. This amount came from the District’s Capital Appropriation Fund (excess Gann Limit property taxes) of the fiscal years of 2010 thru 2013 by various District board actions.

Women’s Hospital Expansion – established June 2016 by the District authorizing the amounts accumulated in its Capital Appropriation Fund (excess Gann Limit property taxes) for the fiscal years of 2014 and 2015 to be allocated for the renovation of the Women’s Hospital upon the completion of Integrated Medical Office Building currently under construction.

Operational Reserve Fund – originally established by the District in May 1992 to establish a fund equal to sixty (60) days of operational expenses (based on projected budget) and only be used in the event of a major business interruption event and/or cash flow.

Community Benefit Fund – following in the footsteps of the District in 2008 of forming its Community Benefit Fund using Gann Limit tax receipts, the Hospital in 2010 after opening its campus outside of District boundaries in Los Gatos formed its own Community Benefit Fund to provide grants/sponsorships in Los Gatos and surrounding areas. The funds come from the Hospital reserving $1.5M a year from its operations, the entity of CONCERN contributing 40% of its annual income each year (an amount it would have paid in corporate taxes if it wasn’t granted tax exempt status), that generates an amount of $800,000 or more a year. $15 million within this fund is a board designated endowment fund formed in 2015 with a $10 million contribution, and added to at the end of the 2017 fiscal year end with another $5 million contribution, to generate investment income to be used for grants and sponsorships, currently anticipated to generate $500,000 a year in investment income for the program.
Workers Compensation Reserve Fund – as the Hospital is self-insured for its workers compensation program (since 1978) this fund was originally formed in early 2000’s by management to reserve cash equal to the yearly actuarially determined Workers Compensation amount. The thought being if the business was to terminate for some reason this is the amount in cash that would be needed to pay out claims over the next few years.

Postretirement Health/Life Reserve Fund – following the same formula as the Workers Compensation Reserve Fund this fund was formed in the early 2000’s by management to reserve cash equal to the yearly actuarially determined amount to fund the Hospital’s postretirement health and life insurance program. Note this program was frozen in 1995 for all new hires after that date.

PTO (Paid Time Off) Liability Fund – originally formed in 1993 as the new 501(c)(3) Hospital began operations, management thought as a business requirement of this vested benefit program that monies should be set aside to extinguish this employee liability should such a circumstance arise. This balance is equal to the PTO Liability on the Balance Sheet.

Malpractice Reserve Fund – originally established in 1989 by the then District’s Finance Committee and continued by the Hospital. The amount is actuarially determined each year as part of the annual audit to fund potential claims less than $50,000. Above $50,000 our policy with the BETA Healthcare Group kicks in to a $30 million limit per claim/$40 million in the aggregate.

Catastrophic Loss Fund – was established in 1999 by the Hospital Board to be a “self-insurance” reserve fund for potential non-major earthquake repairs. Initially funded by the District transferring $5 million and has been added to by the last major payment from FEMA for the damage caused the Hospital by the October 1989 earthquake. It is to be noted that it took 10 years to receive final settlement from FEMA grants that totaled $6.8 million that did mostly cover all the necessary repairs.
APPENDIX
### El Camino Hospital – Mountain View ($000s)

#### 10 months ending 04/30/2018

<table>
<thead>
<tr>
<th>Period 10 FY 2017</th>
<th>Period 10 FY 2018</th>
<th>Period 10 Budget 2018</th>
<th>Variance</th>
<th>Var%</th>
<th>$000s FY 2017</th>
<th>$000s FY 2018</th>
<th>$000s Budget 2018</th>
<th>Variance</th>
<th>Favorable (Unfavorable)</th>
<th>Var%</th>
</tr>
</thead>
<tbody>
<tr>
<td>202,246</td>
<td>208,733</td>
<td>215,033</td>
<td>(6,300)</td>
<td>-2.9%</td>
<td>2,041,384</td>
<td>2,255,835</td>
<td>2,178,808</td>
<td>77,026</td>
<td>3.5%</td>
<td></td>
</tr>
<tr>
<td>(148,592)</td>
<td>(153,115)</td>
<td>(159,082)</td>
<td>5,967</td>
<td>-3.8%</td>
<td>(1,485,712)</td>
<td>(1,647,073)</td>
<td>(1,616,157)</td>
<td>(30,916)</td>
<td>1.9%</td>
<td></td>
</tr>
<tr>
<td>53,654</td>
<td>55,618</td>
<td>55,951</td>
<td>(333)</td>
<td>-0.6%</td>
<td>555,672</td>
<td>608,762</td>
<td>562,651</td>
<td>46,111</td>
<td>8.2%</td>
<td></td>
</tr>
<tr>
<td>1,463</td>
<td>1,511</td>
<td>1,651</td>
<td>(140)</td>
<td>-8.5%</td>
<td>18,774</td>
<td>21,988</td>
<td>17,257</td>
<td>4,731</td>
<td>27.4%</td>
<td></td>
</tr>
<tr>
<td>55,116</td>
<td>57,130</td>
<td>57,602</td>
<td>(473)</td>
<td>-0.8%</td>
<td>574,446</td>
<td>630,749</td>
<td>579,908</td>
<td>50,841</td>
<td>8.8%</td>
<td></td>
</tr>
<tr>
<td>31,881</td>
<td>31,710</td>
<td>32,773</td>
<td>1,063</td>
<td>3.2%</td>
<td>309,269</td>
<td>326,053</td>
<td>326,542</td>
<td>489</td>
<td>0.1%</td>
<td></td>
</tr>
<tr>
<td>8,307</td>
<td>8,704</td>
<td>8,109</td>
<td>(595)</td>
<td>-7.3%</td>
<td>78,581</td>
<td>85,714</td>
<td>81,949</td>
<td>(3,765)</td>
<td>-4.6%</td>
<td></td>
</tr>
<tr>
<td>6,291</td>
<td>7,584</td>
<td>6,519</td>
<td>(1,065)</td>
<td>-16.3%</td>
<td>66,570</td>
<td>71,576</td>
<td>66,461</td>
<td>(115)</td>
<td>-1.7%</td>
<td></td>
</tr>
<tr>
<td>502</td>
<td>749</td>
<td>766</td>
<td>17</td>
<td>2.2%</td>
<td>6,473</td>
<td>7,305</td>
<td>8,693</td>
<td>1,388</td>
<td>16.0%</td>
<td></td>
</tr>
<tr>
<td>(129)</td>
<td>567</td>
<td>725</td>
<td>159</td>
<td>21.9%</td>
<td>3,558</td>
<td>4,859</td>
<td>7,254</td>
<td>2,395</td>
<td>33.0%</td>
<td></td>
</tr>
<tr>
<td>3,446</td>
<td>3,507</td>
<td>3,849</td>
<td>342</td>
<td>8.9%</td>
<td>34,966</td>
<td>34,970</td>
<td>36,286</td>
<td>1,316</td>
<td>3.6%</td>
<td></td>
</tr>
<tr>
<td>50,299</td>
<td>52,819</td>
<td>52,740</td>
<td>(79)</td>
<td>-0.2%</td>
<td>499,687</td>
<td>530,477</td>
<td>527,185</td>
<td>(3,292)</td>
<td>-0.6%</td>
<td></td>
</tr>
<tr>
<td>4,817</td>
<td>4,311</td>
<td>4,862</td>
<td>(552)</td>
<td>-11.3%</td>
<td>74,759</td>
<td>100,272</td>
<td>52,723</td>
<td>47,549</td>
<td>90.2%</td>
<td></td>
</tr>
<tr>
<td>7,532</td>
<td>(396)</td>
<td>225</td>
<td>(621)</td>
<td>-275.8%</td>
<td>46,938</td>
<td>43,366</td>
<td>2,253</td>
<td>41,113</td>
<td>1824.9%</td>
<td></td>
</tr>
<tr>
<td>12,349</td>
<td>3,914</td>
<td>5,088</td>
<td>(1,173)</td>
<td>-23.1%</td>
<td>121,697</td>
<td>143,638</td>
<td>54,976</td>
<td>88,663</td>
<td>161.3%</td>
<td></td>
</tr>
</tbody>
</table>

### OPERATING REVENUE

- **Gross Revenue**
  - FY 2017: 2,041,384
  - FY 2018: 2,255,835
  - Budget 2018: 2,178,808
  - Variance: 77,026 (3.5%)

- **Deductions**
  - FY 2017: 1,485,712
  - FY 2018: 1,647,073
  - Budget 2018: 1,616,157
  - Variance: (30,916) (1.9%)

- **Net Patient Revenue**
  - FY 2017: 555,672
  - FY 2018: 608,762
  - Budget 2018: 562,651
  - Variance: 46,111 (8.2%)

- **Other Operating Revenue**
  - FY 2017: 18,774
  - FY 2018: 21,988
  - Budget 2018: 17,257
  - Variance: 4,731 (27.4%)

### OPERATING EXPENSE

- **Salaries & Wages**
  - FY 2017: 309,269
  - FY 2018: 326,053
  - Budget 2018: 326,542
  - Variance: 489 (0.1%)

- **Supplies**
  - FY 2017: 78,581
  - FY 2018: 85,714
  - Budget 2018: 81,949
  - Variance: 3,765 (4.6%)

- **Fees & Purchased Services**
  - FY 2017: 66,570
  - FY 2018: 71,576
  - Budget 2018: 66,461
  - Variance: 1,115 (7.7%)

- **Interest**
  - FY 2017: 3,558
  - FY 2018: 4,859
  - Budget 2018: 7,254
  - Variance: 2,395 (33.0%)

- **Depreciation**
  - FY 2017: 34,966
  - FY 2018: 34,970
  - Budget 2018: 36,286
  - Variance: 1,316 (3.6%)

### Total Operating Expense

- FY 2017: 499,687
- FY 2018: 530,477
- Budget 2018: 527,185
- Variance: (3,292) (0.6%)

### Net Operating Income/(Loss)

- FY 2017: 74,759
- FY 2018: 100,272
- Budget 2018: 52,723
- Variance: 47,549 (90.2%)

### EBITDA

- FY 2017: 19.7%
- FY 2018: 22.2%
- Budget 2018: 16.6%
- Variance: 5.6%

### Operating Margin

- FY 2017: 22.4%
- FY 2018: 15.9%
- Budget 2018: 9.1%
- Variance: 6.8%

### Net Margin

- FY 2017: 21.2%
- FY 2018: 22.8%
- Budget 2018: 9.5%
- Variance: 13.3%
Month and YTD unfav variance due to loss of surgical volume due to MD shift and unexpected retirements. Plan in place to replace lost volume by June.
### Capital Spend Trend & FY 18 Budget

<table>
<thead>
<tr>
<th>Capital Spending (in 000's)</th>
<th>Actual FY2015</th>
<th>Actual FY2016</th>
<th>Actual FY2017</th>
<th>Projected FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPIC</td>
<td>29,849</td>
<td>20,798</td>
<td>2,755</td>
<td>1,922</td>
</tr>
<tr>
<td>IT Hardware / Software Equipment</td>
<td>4,660</td>
<td>6,483</td>
<td>2,659</td>
<td>12,238</td>
</tr>
<tr>
<td>Medical / Non Medical Equipment*</td>
<td>13,340</td>
<td>17,133</td>
<td>9,556</td>
<td>14,275</td>
</tr>
<tr>
<td>Non CIP Land, Land I, BLDG, Additions</td>
<td>-</td>
<td>4,189</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Facilities</td>
<td>38,940</td>
<td>48,137</td>
<td>82,953</td>
<td>128,030</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td><strong>86,789</strong></td>
<td><strong>96,740</strong></td>
<td><strong>97,923</strong></td>
<td><strong>156,465</strong></td>
</tr>
</tbody>
</table>

*Includes 2 robot purchases in FY2017
<table>
<thead>
<tr>
<th>Category</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPIC</td>
<td>0</td>
<td>6,838</td>
<td>29,849</td>
<td>20,798</td>
<td>2,755</td>
</tr>
<tr>
<td>IT Hardware/Software Equipment</td>
<td>8,019</td>
<td>2,788</td>
<td>4,660</td>
<td>6,483</td>
<td>2,659</td>
</tr>
<tr>
<td>Medical/Non Medical Equipment</td>
<td>10,284</td>
<td>12,891</td>
<td>13,340</td>
<td>17,133</td>
<td>9,556</td>
</tr>
<tr>
<td>Non CIP Land, Land I, BLDG, Additions</td>
<td>0</td>
<td>22,292</td>
<td>0</td>
<td>4,189</td>
<td>0</td>
</tr>
<tr>
<td>Land Acquisition (1550)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>24,007</td>
<td>0</td>
</tr>
<tr>
<td>828 S Winchester Clinic TI (1701)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>145</td>
<td>0</td>
</tr>
</tbody>
</table>

**Facilities Projects CIP**

**Mountain View Campus Master Plan Projects**
- 1245 - Behavioral Health Bldg Replace
- 1413 - North Drive Parking Structure Exp
- 1414 - Integrated MOB
- 1422 - CUP Upgrade

**Los Gatos Capital Projects**
- 0800 - Unassigned Costs
- 1108 - Cooling Towers
- 1120 - BHS Out Patient TI’s
- 1129 - Old Main Card Rehab
- 0817 - Womens Hos Upgrds
- 0906 - Slot Build-Out
- 1109 - New Main Upgrades
- 1111 - Mom/Baby Overflow
- 1204 - Elevator Upgrades
- 0800 - Womens L&D Expansion
- 1131 - MV Equipment Replace
- 1208 - Willow Pav. High Risk
- 1213 - LG Sterilizers
- 1225 - Rehab BLDG Roofing
- 1227 - New Main eICU
- 1230 - Fog Shop
- 1315 - 205 So. Drive TI’s
- 0908 - NPCR3 Seismic Upgrds
- 1125 - Will Pav Fire Sprinkler
- 1211 - SIS Monitor Install
- 1216 - New Main Process Imp Office
- 1217 - MV Campus MEP Upgrades FY13
- 1224 - Rehab Bldg HVAC Upgrades
- 1301 - Desktop Virtual
- 1304 - Rehab Wander Mgmt
- 1310 - Melchior Cancer Center Expansion
- 1318 - Women’s TI
- 1327 - Rehab Building Upgrades
- 1320 - 2500 Hosp Dr Roofing
- 1340 - New Main ED Exam Room TVs
- 1341 - New Main Admin
- 1344 - New Main AV Upgrd
- 1400 - Oak Pav Cancer Center

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1403 - Hosp Drive BLDG 11 TI’s</td>
<td>0</td>
<td>86</td>
<td>103</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1404 - Park Pav HVAC</td>
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<td>1429 - 2500 Hospital Dr Bldg 8 TI</td>
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<td>1430 - Women’s Hospital Expansion</td>
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<td>0</td>
<td>0</td>
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<tr>
<td>1432 - 205 South Dr BHS TI</td>
<td>0</td>
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<td>1525 - New Main Lab Upgrades</td>
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<td>1526 - CONCERN TI</td>
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**Mountain View Capital Projects**
- 9900 - Unassigned Costs
- 1108 - Cooling Towers
- 1120 - BHS Out Patient TI’s
- 1129 - Old Main Card Rehab
- 0817 - Womens Hos Upgrds
- 0906 - Slot Build-Out
- 1109 - New Main Upgrades
- 1111 - Mom/Baby Overflow
- 1204 - Elevator Upgrades
- 0800 - Womens L&D Expansion
- 1131 - MV Equipment Replace
- 1230 - Fog Shop
- 1315 - 205 So. Drive TI’s
- 0908 - NPCR3 Seismic Upgrds
- 1125 - Will Pav Fire Sprinkler
- 1211 - SIS Monitor Install
- 1216 - New Main Process Imp Office
- 1217 - MV Campus MEP Upgrades FY13
- 1224 - Rehab Bldg HVAC Upgrades
- 1301 - Desktop Virtual
- 1304 - Rehab Wander Mgmt
- 1310 - Melchior Cancer Center Expansion
- 1318 - Women’s TI
- 1327 - Rehab Building Upgrades
- 1320 - 2500 Hosp Dr Roofing
- 1340 - New Main ED Exam Room TVs
- 1341 - New Main Admin
- 1344 - New Main AV Upgrd
- 1400 - Oak Pav Cancer Center

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<tr>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tr>
<td>70,503</td>
<td>20,037</td>
<td>101,607</td>
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**Grand Total**
- Forecast at Beginning of year

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<td>27,598</td>
<td>58,561</td>
<td>86,789</td>
<td>96,740</td>
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PROGRESS AGAINST FY19 COMMITTEE GOALS
Finance Committee

PURPOSE
The purpose of the Finance Committee is to provide oversight, information sharing, and financial reviews related to budgeting, capital budgeting, long-range financial planning and forecasting, and monthly financial reporting for El Camino Hospital (ECH) Board of Directors ("Board"). In carrying out its review, advisory and oversight responsibilities, the Finance Committee shall remain flexible in order to best define financial strategies that react to changing conditions.

STAFF: Iftikhar Hussain, Chief Financial Officer
The CFO shall serve as the primary staff to support the Committee and is responsible for drafting the Committee meeting agenda for the Committee Chair’s consideration. Additional members of the Executive Team may participate in the meetings upon the recommendation of the CFO and at the discretion of the Committee Chair. The CEO is an ex-officio member of this Committee.

<table>
<thead>
<tr>
<th>GOALS</th>
<th>TIMELINE by Fiscal Year</th>
<th>METRICS</th>
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<tbody>
<tr>
<td>1. Review major capital projects</td>
<td>Each regular meeting</td>
<td>• Update on major capital projects in progress</td>
</tr>
<tr>
<td>2. Education Topics:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Medicare Loss</td>
<td>Q1</td>
<td>• Presentation at the July meeting</td>
</tr>
<tr>
<td>b. Inpatient and OP margins</td>
<td></td>
<td></td>
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<tr>
<td>3. Post implementation Review</td>
<td>Q2</td>
<td>• Review results major investments after first year of implementation</td>
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<tr>
<td>4. Review top three service lines:</td>
<td></td>
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<tr>
<td>a. HVI</td>
<td>• Q1 September – HVI</td>
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<td>b. Oncology</td>
<td>• Q2 – Oncology</td>
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<td>c. BHS</td>
<td>• Q3 – BHS</td>
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<tr>
<td></td>
<td></td>
<td>• Presentations in September, November and January.</td>
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John Zoglin  
Chair, Finance Committee

Iftikhar Hussain  
Executive Sponsor, Finance Committee
Leaders at El Camino Hospital, located in California's Silicon Valley, wanted to make it easy for tech-savvy consumers to shop online for personalized, reliable price estimates for its medical services.

The independent not-for-profit hospital launched a consumer self-service tool in May 2017, after about a year of development work with Experian Health, which previously helped El Camino set up an internal price-estimator tool for its billing staff.

Since then, more than 3,000 people have visited the hospital's website, selected one or more of about 90 medical or surgical services they were interested in, entered their insurance information, and received an instant out-of-pocket cost estimate the hospital claims is 95% to 99% accurate.

Over the past two years, a growing number of hospitals have worked with vendors such as Experian and Recondo to offer online price estimates directly to consumers.
for common, less complex services. Previous tools allowed hospital staff to generate estimates for patients when they called or came in for a service.

Now, more providers want to offer self-service cost estimators on their websites. That's because they're experiencing strong demand from patients in high-deductible health plans who want to shop around and know their financial exposure in advance. When patients understand how much they'll owe, that can improve the collection process and reduce uncompensated care, hospital leaders say.

"A lot of people don't have time to make phone calls or wait for a callback, they want an answer right away," said Terri Manifesto, El Camino's senior director of revenue cycle. "They expect this kind of information online. It's a great thing to offer patients."

The hospital spends about $18,000 a year to provide the service, which currently offers estimates for 35 lab tests, 25 imaging or radiological procedures and about 30 surgical or other medical services.

Providers face mounting pressure from regulators and consumers to be transparent about costs, especially given increasing public anger about unexpected large bills. The CMS recently proposed a rule (http://www.modernhealthcare.com/article/20180425/NEWS/180429939) requiring hospitals to publish online a list of their standard charges in a machine-readable format and update the information at least once a year.

Still, experts note there are limits to the types of services for which consumers are able to price-shop. There is a risk they can get confused about more complex services and blame providers for underestimating the final cost. Vendors are still working on improving the reliability of the estimates, particularly for surgical procedures involving more cost variables.

Up to now, many hospital leaders have contended that insurers are better equipped to
tell patients what they'll owe for particular services, claiming there's no infrastructure in place giving providers access to the necessary information. But that argument may be losing credibility as more hospitals partner with vendors to offer patients out-of-pocket cost estimates.

"There are enough examples now that show if providers want to offer better information to consumers, they can build the capacity to do it," said Suzanne Delbanco, executive director of Catalyst for Payment Reform, which monitors healthcare transparency efforts. "It clearly can be done, and symbolically it's the right thing for providers to do."

Online patient price-estimator tools for hospitals and healthcare providers represent a growing market for vendors. "This is an absolute area of interest based on regulation, high-deductible plans and increased patient responsibility for bills," said John Yount, vice president of healthcare solutions at TransUnion, which hopes to have a patient self-service tool on the market by the end of this year.

Franklin, Tenn.-based Experian, which offered its first price-estimator tool for hospitals' internal use in 2008, now has about 10 customers—including hospitals, physician groups, and outpatient and imaging centers—that have gone live with the company's online tool for consumers. It tested the product at St. Clair Hospital in Pittsburgh, which in 2016 became the first hospital to offer it to patients.

Experian's product calculates patients' out-of-pocket cost based on the hospital's chargemaster price, its claims history for providing that service, its contract terms with the patient's insurer, and the patient's benefit structure and deductible status. It also estimates out-of-pocket costs for self-pay patients. The estimate currently covers just the facility fee, though El Camino wants to add professional fees into calculations available through the tool.

In addition to having the option of including facility fees alone in the estimate or including professional fees, providers have the option to present only the patient's out-of-pocket cost, or they can also disclose their actual charges and insurance payment rates. Vendors say providers in more competitive markets typically choose to display only the patient's out-of-pocket responsibility to avoid letting rivals see proprietary rate information.
"Offering an online price estimator is a marketing advantage for hospitals and medical groups that want to be transparent with patients," said Merideth Wilson, a senior vice president at Experian, which charges clients a one-time implementation fee and a monthly maintenance fee based on patient visit volume. "Our customers say it helps with consumer satisfaction, bringing patients back, and bringing more patients in."

Denver-based Recondo released its online cost estimator, called MySurePayHealth, three years ago, and now has about a dozen hospital systems, including Baylor Scott & White Health and ProMedica, using it. The accuracy of its estimates ranges from 75% to nearly 90%, depending on the complexity of the medical or surgical service, said Heather Kawamoto, vice president of products for Recondo, which charges clients a monthly subscription fee based on patient visit volume.

Some Recondo hospital clients, particularly those that own sizable physician practices, include professional fees in the estimate, which makes it much more useful to patients, she said. The tool also asks users if they want a hospital financial counselor to call to discuss a possible loan or charity-care arrangement.

"If the patient has concerns about ability to pay, our clients want to proactively engage in that conversation and put the patient in the best position to pay for that care," Kawamoto said.

**Quality indicators absent**

These price-estimator tools currently do not offer any type of quality of care, outcomes, or patient satisfaction information to allow consumers to factor those into their shopping decision, though El Camino officials say they hope to build that in.

Delbanco said the lack of quality data is one problem with these tools. Another is that the estimate consumers receive may not reflect the full cost of the care because the professional fees are missing and an episode of care may include unanticipated additional services. A hospital's online price estimator "is not the optimal choice for consumers but it's certainly better than nothing," she said.
El Camino's Manifesto is trying to figure out whether offering the online cost estimator has boosted her hospital's revenue. "We're pretty excited that more than 3,000 consumers ran price estimates in one year's time," she said. "Now it would be great to know if they actually came in for services."

Tags: Costs, Finance, Healthcare Economics, Hospitals, Price transparency, Provider Revenue-Cycle, Providers, Technology

Recommended for You

The healthcare industry has largely been unable to meet consumers' expectations. These health systems are discussing how they plan to change that.

Rick Pollack: Hospitals and health systems know that they can't remain an analog service in a digital environment. Providers have heard the call and are working to meet this demand.

Sponsored Content from Deloitte: Strategies for stemming the opioid epidemic
El Camino Hospital, California; General Obligation; Hospital; Joint Criteria

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Suzie R Desai, Chicago (1) 312-233-7046; suzie.desai@spglobal.com

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Enterprise Profile: Strong
Financial Profile: Very Strong
Credit Snapshot:
El Camino Hospital, California; General Obligation; Hospital; Joint Criteria

Credit Profile

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<tr>
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<td>Upgraded</td>
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<td>El Camino Hospital District GO</td>
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<td>Affirmed</td>
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<tr>
<td>California Hlth Fincg Auth, California</td>
<td>AA/BBB+/Stable</td>
<td>Affirmed</td>
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<td>El Camino Hosp, California</td>
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<td>County of Santa Clara, California</td>
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<td>Series 2009A</td>
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Rationale

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) two notches to 'AA' from 'A+' on El Camino Hospital (ECH), Calif.’s series 2017A and series 2015A revenue bonds. In addition, S&P Global Ratings affirmed its 'AA+/A-1' joint criteria rating on Santa Clara County, Calif.’s series 2009A variable-rate demand bonds (VRDBs), issued on behalf of ECH. Finally, S&P Global Ratings affirmed its 'AA' long-term rating and SPUR on ECH's series 2017 and 2006 general obligation (GO) bonds. The outlook, where applicable, is stable.

The joint criteria rating is based on a low correlation between El Camino Hospital and the letter of credit (LOC) provider, Wells Fargo Bank N.A. El Camino Hospital is a component of the El Camino Hospital District, which also includes the El Camino Hospital Foundation. The GO bonds are a general obligation of the district, payable from an unlimited ad valorem tax levied within the district's boundaries, and collected by Santa Clara County.

The raised rating on ECH's revenue bonds is based on application of the U.S. and Canadian Not-for-Profit Acute Care Health Care Organizations criteria, published on March 19, 2018. We view ECH's underlying credit quality as stable.

The 'AA' rating further reflects our view of ECH’s superior and improving financial performance and exceptional days' cash on hand. The rating is also based on our view of ECH's stable market position in a highly competitive market that includes larger integrated systems, favorable service area, and excellent economic characteristics resulting in a healthy payor mix. Furthermore, our rating incorporates the strength of the district's proven and ongoing tax-support, exemplified by the district's diverse tax base and growing assessed value (AV).
ECH has $749 million in capital plans covering the fiscal years of 2018-2022 that will be funded with a mix of cash flow, unrestricted reserves and 2017 debt with ongoing capital plans likely extending beyond that time period as management has indicated it has preliminary plans to replace ECH's Los Gatos campus due to seismic needs. As a result, we anticipate that ECH's liquidity and financial flexibility may weaken in the coming years as capital spending escalates although we expect management will utilize the remaining $191.6 million of its series 2017 bond proceeds (as of April 30, 2018) to support future capital spending. Thus, the upcoming capital spending's effect on ECH's balance sheet will depend, to an extent, on the organization's ability to navigate the challenges of the current health care operating environment while maintaining healthy cash flow to support capital spending.

Nevertheless, we believe that ECH is starting from a position of very healthy financial strength, and anticipate that it will be able to continue to absorb the cost of its capital plans and maintain a financial profile that is in line with the 'AA' rating. However, since the projects result in elevated spending that extends for several years, we will continue to assess their effect, if any, on ECH's credit profile as spending escalates and financing options are determined.

The rating further reflects our view of ECH's:

- Exceptional operating margins, resulting in actual debt service coverage of 6.00x in 2017;
- Abundant unrestricted reserves for the rating as calculated by 475 days' cash on hand;
- Considerable tax support through levies for GO bonds and operations; and
- Favorable economic fundamentals with above-average wealth and income indicators, resulting in a favorable payor mix as well as growing assessed valuations (AV) to cover future debt service payments.

Partly offsetting credit risks include:

- ECH's plans for significant capital expenditures over the next five years (and potentially longer depending on other project start times);
- Location in a highly competitive operating environment containing significantly larger health care providers and systems; and
- Moderate debt levels.

**Outlook**

The stable outlook reflects our view of ECH's currently very strong financial profile, as well as its favorable service-area characteristics. We expect ECH's management team will maintain stable operations for the next several years. Furthermore, we believe there is capacity for additional debt or a drawdown of internal reserves at the current rating level, although we will assess capital spending and debt plans as they are finalized.

**Upside scenario**

Given ECH's highly competitive operating environment and significant capital plans, we do not expect further upward movement in the rating during the two-year outlook period. Over the longer term and outside of the outlook period, we could consider such an action if the organization is able to successfully implement strategic initiatives, demonstrate
success under changing sector dynamics, and absorb its higher capital spending while maintaining a very strong financial profile.

**Downside scenario**
We think that ECH has ample cushion at the current ratings, so a lower rating is not anticipated during the outlook period. However, while not anticipated, a material deterioration in operations, an overly aggressive additional debt issuance, or an erosion of the balance sheet (including unrestricted reserves below 250 unrestricted days’ cash on hand) may lead to a negative outlook or lowered rating.

**Enterprise Profile: Strong**

**Robust economic fundamentals and district tax support**
ECH's two campuses are located in the heart of Silicon Valley. The district operates in Santa Clara County, where its taxing boundaries, and primary service area, include the cities of Mountain View, Los Altos, Los Altos Hills Sunnyvale, Cupertino, Campbell, and Los Gatos, as well as portions of San Jose, Saratoga, and Santa Clara.

We consider the economic fundamentals to be robust, with 1.27 million people in the primary service area (PSA) and projected growth in the county that exceeds national averages. Income indicators are also much stronger than national levels, and property values are significantly higher, in our opinion. The projected per capita personal income for the county is 175% of the nation, which we consider very strong and reflective of the deep and stable economic base. Furthermore, the local economy is a technology center. Technology employers within the district's boundaries include Google, Apple, Hewlett-Packard, Intel, and Facebook. The unemployment rate is also lower than both national and state averages.

The amount of ad valorem tax levied by the county to repay the district's GO bonds is based on the AV of taxable property in the district and the amount of debt service due on its GO funds. Total tax revenue received by ECH remain modest at just below 3%.

Overall, while the dependency on tax revenue is not significant, we view the area's growing AV and diversity of the taxpayer base to be supportive of the rating and we expect that this trend will continue. In 2017, the district refunded part of its outstanding series 2006 bonds, which resulted in increased assessed property values and reduced the tax rate from $12.90 per $100,000 of AV to $10.00 per $100,000 of current AV. The district's tax base encompasses most of the county and has been growing; district AV totaled $77 billion for fiscal 2017, which we consider extremely strong. The district estimates its AV will continue to increase in fiscal 2018. The taxpayer base is diverse in our view, as the top 10 taxpayers account for around 12% of total AV.

**Market position and partnerships**
Although ECH's PSA is broad and covers a sizeable population base, we consider it fragmented because of several prominent providers, including Kaiser Permanente, Good Samaritan Hospital, Stanford & Stanford Children's Hospital, Santa Clara Valley Medical Center, and O'Connor Hospital. Based on fiscal 2016 data, El Camino Hospital has 17.8% market share. Although the service area is highly competitive, ECH's market share has remained relatively stable for the past couple of years, and we believe with its investments, ECH is well positioned in Santa Clara County and the
surrounding areas.

ECH has an affiliation agreement with Palo Alto Medical Foundation (PAMF), a Sutter Health System medical group with a presence throughout the peninsula. The affiliation strengthens ECH’s business position, in our opinion, by building clinical programs, managing the risks associated with various programs, increasing physician integration, monitoring quality, and reducing redundancy. Moreover, ECH is also collaborating with PAMF to complete a market needs assessment with a goal to more efficiently serve the community and take advantage of market opportunities. In addition, ECH and PAMF have agreed to jointly develop new facilities in Silicon Valley’s southern region.

Lastly, ECH has joint ventures with Pathways, which provides home care and hospice services to patients throughout the San Francisco Bay Area, and Satellite Dialysis, which manages dialysis-related assets.

Management and governance

Despite recent management turnover in the past several years, the chief financial officer has been with the organization for several years. Following the departure of ECH’s chief executive officer (CEO) in 2016, a new CEO was hired in 2017. In addition, management indicates that they are looking to hire a new chief medical officer and chief operating officer. Overall, we view the management team as strategic in that they are making the appropriate investments to maintain and also grow ECH’s business position.

The hospital district is governed by a five-member board, each of whom is elected to staggered, four-year terms. Elections are held every two years, alternating between two and three available positions. Any unplanned vacancies are filled by appointment.

Table 1

<table>
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<th>El Camino Hospital District, Calif.: Enterprise Statistics</th>
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<td></td>
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<tr>
<td>PSA population</td>
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<tr>
<td>PSA market share (%)</td>
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<tr>
<td>Inpatient admissions</td>
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<tr>
<td>Equivalent inpatient admissions</td>
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<tr>
<td>Emergency visits</td>
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<td>Inpatient surgeries</td>
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</tr>
<tr>
<td>FTE employees</td>
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<td>Active physicians</td>
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Based on net/gross revenues

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<th></th>
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<td>Medicare (%)</td>
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<td>Commercial/Blues (%)</td>
<td>71.60</td>
<td>72.40</td>
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</tbody>
</table>

N/A—Not applicable. N.A.—Not available. Inpatient admissions exclude normal newborn, psychiatric, rehabilitation, and long-term care facility admissions.
Financial Profile: Very Strong

Very strong financial performance
ECH has a multi-year history of producing stable financial margins and cash flow and we expect this to continue.
ECH's operating margins and net patient revenue increased in fiscal 2017 due to program development and an increase in utilization across various service lines, coupled with maintenance of an extremely healthy payor mix of over 70% commercial payors.

During the past few years, management has made considerable improvements in the revenue cycle, third-party negotiations, labor productivity, supply costs, and documentation. In addition, ECH benefitted from tax revenue of $25 million in fiscal 2017.

Cash flow, as measured by the EBIDA margin, is remarkable at 19%. Because of ECH's healthy EBIDA margins, actual debt service coverage is robust at nearly 6x in fiscal 2017, based on S&P Global Ratings’ calculation method, which includes the current debt service for both GO and revenue bonds. Our actual debt service figure assumes $29.3 million, consisting of $24.3 million associated with revenue bonds and $5.0 million associated with GO bonds. The revenue bond debt service is level at about $30.9 million through final maturity in 2047. The GO bonds are capital appreciation bonds, so debt service increases each year, starting at $5.0 million in 2018, and then increasing to $18.2 million in fiscal 2037. We expect that, over time, the area's AV will continue to grow and that additional tax revenue will support ECH's debt service over time.

Management expects to finish fiscal 2018 with operating margins above budgeted expectations around 13%. We view this as achievable, given ECH's consistent operating performance, history of meeting operational goals, prudent expense management, and revenue growth initiatives.

Strong balance sheet, although metrics may diminish due to potential sizable capital plans
Despite heightened spending in recent years, ECH has continued to strengthen its balance sheet, which we already considered healthy. ECH has seen solid growth in its unrestricted liquidity on a days' cash on hand basis and attributes the growth in unrestricted reserves to the use of bond proceeds to support some of the capital spending coupled with strong operating results and cash flow.

Management has indicated that it has plans for significant capital spending ($749 million total investment) over the next five years, at both the Mountain View and Los Gatos campuses. Following the recently expanded North Drive parking garage project at the Mountain View campus, ECH's key projects at that campus (included in the above totals) include replacing its behavioral office building, demolishing the main tower of its replaced hospital building, and expanding its Women's Hospital. In addition, ECH will continue to construct, expand, remodel, renovate, and upgrade its Los Gatos campus. We expect these projects will result in considerable spending in the coming years that may reduce ECH's currently outstanding metrics depending on overall cash flow and project details as some of the above projects are still being finalized and sized.
Debt and liabilities
ECH maintains moderate debt levels following 2017's GO and revenue bond issuances. At this time, management does not plan to issue debt over the next two years; however, we will continue to monitor ECH's debt plans as capital spending will likely remain heightened for a number of years. ECH had $649 million in total long-term debt as of June 30, 2017. ECH's long-term debt includes: $131 million of GO bonds (series 2006 and series 2017 Capital Appreciation Bonds (CABs) and Current Interest Bonds (CIBs), and $494 million of revenue bonds (series 2009, series 2015A and series 2017A). ECH's GO bonds are secured by an unlimited ad valorem tax levied within the district's boundaries and collected by Santa Clara County. The series 2009 VRDBs are backed by a LOC provided by Wells Fargo Bank N.A. that is scheduled to expire in October 2019. ECH has one outstanding swap related to the series 2007 bonds on a $50 million notional value; the swap had a $7.6 million fair value liability as of June 30, 2017.

Table 2
El Camino Hospital District, Calif.: Financial Statistics

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net patient revenue ($000s)</td>
<td>832,573</td>
<td>772,173</td>
<td>746,645</td>
<td></td>
<td>1,508,559</td>
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<tr>
<td>Total operating revenue ($000s)</td>
<td>896,029</td>
<td>834,851</td>
<td>797,572</td>
<td></td>
<td>MNR</td>
</tr>
<tr>
<td>Total operating expenses ($000s)</td>
<td>791,328</td>
<td>769,975</td>
<td>720,547</td>
<td></td>
<td>MNR</td>
</tr>
<tr>
<td>Operating income ($000s)</td>
<td>104,701</td>
<td>64,876</td>
<td>77,025</td>
<td></td>
<td>MNR</td>
</tr>
<tr>
<td>Operating margin (%)</td>
<td>11.69</td>
<td>7.77</td>
<td>9.66</td>
<td></td>
<td>7.10</td>
</tr>
<tr>
<td>Net nonoperating income ($000s)</td>
<td>16,688</td>
<td>10,078</td>
<td>16,416</td>
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<td>MNR</td>
</tr>
<tr>
<td>Excess income ($000s)</td>
<td>121,389</td>
<td>74,954</td>
<td>93,441</td>
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<td>MNR</td>
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<tr>
<td>Excess margin (%)</td>
<td>13.30</td>
<td>8.87</td>
<td>11.48</td>
<td></td>
<td>9.40</td>
</tr>
<tr>
<td>Operating EBIDA margin (%)</td>
<td>17.81</td>
<td>14.95</td>
<td>16.53</td>
<td></td>
<td>13.50</td>
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<tr>
<td>EBIDA margin (%)</td>
<td>19.31</td>
<td>15.97</td>
<td>18.21</td>
<td></td>
<td>15.30</td>
</tr>
<tr>
<td>Net available for debt service ($000s)</td>
<td>176,265</td>
<td>134,896</td>
<td>148,216</td>
<td></td>
<td>291,930</td>
</tr>
<tr>
<td>Maximum annual debt service ($000s)</td>
<td>29,310</td>
<td>29,310</td>
<td>29,310</td>
<td></td>
<td>MNR</td>
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<tr>
<td>Maximum annual debt service coverage (x)</td>
<td>6.01</td>
<td>4.60</td>
<td>5.06</td>
<td></td>
<td>7.30</td>
</tr>
<tr>
<td>Operating lease-adjusted coverage (x)</td>
<td>5.17</td>
<td>4.02</td>
<td>4.84</td>
<td></td>
<td>6.10</td>
</tr>
</tbody>
</table>

Liquidity and financial flexibility

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted reserves ($000s)</td>
<td>919,065</td>
<td>698,042</td>
<td>704,265</td>
<td>1,214,670</td>
</tr>
<tr>
<td>Unrestricted days' cash on hand</td>
<td>451.40</td>
<td>353.40</td>
<td>380.50</td>
<td>372.90</td>
</tr>
<tr>
<td>Unrestricted reserves/total long-term debt (%)</td>
<td>141.50</td>
<td>199.80</td>
<td>196.20</td>
<td>327.90</td>
</tr>
<tr>
<td>Unrestricted reserves/contingent liabilities (%)</td>
<td>1,838.10</td>
<td>1,396.10</td>
<td>1,408.50</td>
<td>719.80</td>
</tr>
<tr>
<td>Average age of plant (years)</td>
<td>11.20</td>
<td>10.00</td>
<td>10.70</td>
<td>10.80</td>
</tr>
<tr>
<td>Capital expenditures/depreciation and amortization (%)</td>
<td>233.50</td>
<td>178.10</td>
<td>180.50</td>
<td>164.90</td>
</tr>
</tbody>
</table>

Debt and liabilities

<table>
<thead>
<tr>
<th>Financial performance</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total long-term debt ($000s)</td>
<td>649,395</td>
<td>349,336</td>
<td>358,906</td>
</tr>
<tr>
<td>Long-term debt/capitalization (%)</td>
<td>31.40</td>
<td>21.90</td>
<td>23.20</td>
</tr>
<tr>
<td>Contingent liabilities ($000s)</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Contingent liabilities/total long-term debt (%)</td>
<td>7.70</td>
<td>14.30</td>
<td>13.90</td>
</tr>
<tr>
<td>Debt burden (%)</td>
<td>3.21</td>
<td>3.47</td>
<td>3.60</td>
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</table>
### Table 2

#### El Camino Hospital District, Calif.: Financial Statistics (cont.)

<table>
<thead>
<tr>
<th>Pro forma ratios</th>
<th>116.73</th>
<th>111.67</th>
<th>112.88</th>
<th>81.80</th>
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</thead>
<tbody>
<tr>
<td>Defined-benefit plan funded status (%)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Unrestricted reserves ($000s)</td>
<td>N/A</td>
<td>674,156</td>
<td>N/A</td>
<td>MNR</td>
</tr>
<tr>
<td>Total long-term debt ($000s)</td>
<td>N/A</td>
<td>615,551</td>
<td>N/A</td>
<td>MNR</td>
</tr>
<tr>
<td>Unrestricted days' cash on hand</td>
<td>N/A</td>
<td>341.30</td>
<td>N/A</td>
<td>MNR</td>
</tr>
<tr>
<td>Unrestricted reserves/total long-term debt (%)</td>
<td>N/A</td>
<td>109.50</td>
<td>N/A</td>
<td>MNR</td>
</tr>
<tr>
<td>Long-term debt/capitalization (%)</td>
<td>N/A</td>
<td>33.10</td>
<td>N/A</td>
<td>MNR</td>
</tr>
</tbody>
</table>

N/A--Not applicable. N.A.--Not available. MNR--Median not reported.

### Credit Snapshot:

- **Security:** ECH's revenue bonds are secured by a pledge of gross revenue from the hospital, the sole member of the obligated group. The GO bonds are a general obligation of the district, payable from an unlimited ad valorem tax levied within the district's boundaries, and collected by Santa Clara County.

- **Group rating methodology:** The ratings are based on our view of ECH's group credit profile (GCP) and the obligated group's core status. Accordingly, we rate the bonds at the same level as the GCP. The analysis reflects the system as a whole.

- **Organizational description:** El Camino Hospital is a component of El Camino Hospital District, which also includes El Camino Hospital Foundation, CONCERN: Employee Assistance Program, El Camino Surgery Center LLC, and Silicon Valley Medical Development LLC. El Camino Hospital is a separate 501 (c)(3) that operates the district's health care assets, which include 443 beds in service on two campuses: Mountain View (300 licensed beds) and Los Gatos (143 licensed beds), which was acquired in 2009. Substantially, all of the consolidated assets are held at the hospital. The hospital generates most of the consolidated operating surplus.

### Ratings Detail (As Of June 1, 2018)

<table>
<thead>
<tr>
<th>El Camino Hosp Dist GO rfdg bnds</th>
<th>AA/ Stable</th>
<th>Affirmed</th>
</tr>
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<tbody>
<tr>
<td>Long Term Rating</td>
<td></td>
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Many issues are enhanced by bond insurance.
<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Aaa</td>
<td>P-1</td>
<td>AAA</td>
<td>A-1+</td>
<td>AAA</td>
<td>F1+</td>
<td>Prime</td>
</tr>
<tr>
<td>Aa1</td>
<td></td>
<td>AA+</td>
<td>A+</td>
<td>AA+</td>
<td></td>
<td>High grade</td>
</tr>
<tr>
<td>Aa2</td>
<td></td>
<td>AA</td>
<td>A+</td>
<td>AA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aa3</td>
<td></td>
<td>AA-</td>
<td>A+</td>
<td>AA-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A1</td>
<td></td>
<td>A+</td>
<td>A-1</td>
<td>A+</td>
<td>F1</td>
<td>Upper medium grade</td>
</tr>
<tr>
<td>A2</td>
<td></td>
<td>A</td>
<td></td>
<td>A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A3</td>
<td>P-2</td>
<td>A-</td>
<td>A-2</td>
<td>A</td>
<td>F2</td>
<td>Lower medium grade</td>
</tr>
<tr>
<td>Baa1</td>
<td></td>
<td>BBB+</td>
<td>A-2</td>
<td>BBB+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Baa2</td>
<td>P-3</td>
<td>BBB</td>
<td>A-3</td>
<td>BBB</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Baa3</td>
<td></td>
<td>BBB-</td>
<td></td>
<td>BBB-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ba1</td>
<td></td>
<td>BB+</td>
<td>B</td>
<td>BB+</td>
<td></td>
<td>Non-investment grade speculative</td>
</tr>
<tr>
<td>Ba2</td>
<td></td>
<td>BB</td>
<td>B</td>
<td>BB</td>
<td></td>
<td>Highly speculative</td>
</tr>
<tr>
<td>Ba3</td>
<td></td>
<td>BB-</td>
<td>B</td>
<td>BB-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B1</td>
<td></td>
<td>B+</td>
<td>B-</td>
<td>B+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B2</td>
<td></td>
<td>B</td>
<td></td>
<td>B</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B3</td>
<td></td>
<td>B-</td>
<td></td>
<td>B-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Caa1</td>
<td>Not prime</td>
<td>CCC+</td>
<td></td>
<td></td>
<td></td>
<td>Substantial risks</td>
</tr>
</tbody>
</table>

Non-investment grade AKA high-yield bonds
Major Capital Projects Update
Finance Committee
For Information

July 30, 2018
Ken King
Chief Administrative Services Officer
# Mountain View Campus Plan – Project List

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Current Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1</td>
<td></td>
</tr>
<tr>
<td>• North Parking Garage Expansion -</td>
<td>Complete</td>
</tr>
<tr>
<td>• Behavioral Health Services (BHS) Building -</td>
<td>Construction</td>
</tr>
<tr>
<td>• Integrated Medical Office (IMOB) Building -</td>
<td>Construction</td>
</tr>
<tr>
<td>• Central Utility Plant (CUP) Upgrades -</td>
<td>Construction</td>
</tr>
<tr>
<td>Step 2</td>
<td></td>
</tr>
<tr>
<td>• Women’s Hospital Expansion -</td>
<td>Design</td>
</tr>
<tr>
<td>• Demo Old Main Hospital &amp; Related Site Work -</td>
<td>Assessment</td>
</tr>
</tbody>
</table>
MV Campus Development Projects Status Update
May 21, 2018

- **Behavioral Health Services (BHS) Building**
  - Interior and Exterior wall framing is 85% complete and MEP rough in is 55% complete. Construction is progressing as scheduled with a target completion in March 2019 and the project is forecasted to be within the approved budget.

- **Integrated Medical Office Building (IMOB) & Garage**
  - Fireproofing of structure is 85% complete. Interior framing and overhead MEP installation is 50% complete. Exterior GFRC and window walls are 90% complete on the upper floors. Construction is progressing as scheduled with a target completion in May 2019 and the project is forecasted to be within the approved budget.

- **Central Utility Plant (CUP) Upgrade**
  - Construction and equipment installation is substantially complete, with only commissioning and close out activities remaining. The project is forecasted to be within the approved budget.

- **Women’s Hospital Expansion**
  - The development of the project plan is being adjusted to accommodate the temporary relocation of Labor & Delivery and NICU. A detail accounting of the costs schedule and operational implications are still be evaluated and will be presented at a future meeting of the Finance Committee.
Behavioral Health Services Building – Construction Contract Summary

Dollars (000's Omitted)

<table>
<thead>
<tr>
<th>Category</th>
<th>GMP Value</th>
<th>Committed $</th>
<th>% of GMP Value, Committed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Construction Cost</td>
<td>61,533</td>
<td>61,533</td>
<td>100%</td>
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<tr>
<td>Allowances</td>
<td>6,604</td>
<td>1,081</td>
<td>16%</td>
</tr>
<tr>
<td>Contingency</td>
<td>1,985</td>
<td>224</td>
<td>11%</td>
</tr>
<tr>
<td>TOTAL BASE CONTRACT</td>
<td>70,122</td>
<td>62,818</td>
<td>90%</td>
</tr>
<tr>
<td>GMP Change Orders</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Owner Change Orders</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>TOTAL CONTRACT To Date</td>
<td>70,122</td>
<td>62,818</td>
<td>90%</td>
</tr>
</tbody>
</table>

BHS Contract Cost Categories

% of Committed $, Expended 46%
Behavioral Health Services Building – Project Cost Summary

BHS Project

Dollars (000's Omitted)

<table>
<thead>
<tr>
<th></th>
<th>Total Project</th>
<th>Construction</th>
<th>Soft Costs</th>
<th>FF&amp;E</th>
<th>Contingencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Approved Funding</td>
<td>96,100</td>
<td>71,260</td>
<td>16,910</td>
<td>4,378</td>
<td>3,552</td>
</tr>
<tr>
<td>Costs Committed to Date</td>
<td>86,101</td>
<td>71,088</td>
<td>14,630</td>
<td>382</td>
<td>0</td>
</tr>
<tr>
<td>% of Funding Committed</td>
<td>90%</td>
<td>100%</td>
<td>87%</td>
<td>9%</td>
<td>0</td>
</tr>
<tr>
<td>Paid to Date</td>
<td>43,092</td>
<td>29,742</td>
<td>13,246</td>
<td>104</td>
<td>0</td>
</tr>
<tr>
<td>% of Committed Paid</td>
<td>50%</td>
<td>42%</td>
<td>91%</td>
<td>27%</td>
<td>0</td>
</tr>
<tr>
<td>Forecast of Final Cost</td>
<td>92,678</td>
<td>71,288</td>
<td>16,512</td>
<td>4,878</td>
<td>130</td>
</tr>
<tr>
<td>% of Board Approved Funding</td>
<td>96%</td>
<td>100%</td>
<td>98%</td>
<td>111%</td>
<td>4%</td>
</tr>
</tbody>
</table>
## Integrated Medical Office Building - Project Cost Summary

### IMOB Project

<table>
<thead>
<tr>
<th></th>
<th>Total Project</th>
<th>Construction</th>
<th>Soft Costs</th>
<th>FF&amp;E</th>
<th>Contingencies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board Approved Funding</strong></td>
<td>302,100</td>
<td>246,109</td>
<td>32,350</td>
<td>17,141</td>
<td>6,500</td>
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<tr>
<td><strong>Costs Committed to Date</strong></td>
<td>219,042</td>
<td>164,897</td>
<td>33,201</td>
<td>944</td>
<td></td>
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<tr>
<td><strong>% of Funding Committed</strong></td>
<td>73%</td>
<td>75%</td>
<td>103%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td><strong>Paid to Date</strong></td>
<td>125,145</td>
<td>95,389</td>
<td>29,617</td>
<td>138</td>
<td></td>
</tr>
<tr>
<td><strong>% of Committed Paid</strong></td>
<td>57%</td>
<td>52%</td>
<td>89%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td><strong>Forecast of Final Cost</strong></td>
<td>297,858</td>
<td>245,879</td>
<td>34,838</td>
<td>17,141</td>
<td>2,258</td>
</tr>
<tr>
<td><strong>% of Board Approved Funding</strong></td>
<td>99%</td>
<td>100%</td>
<td>108%</td>
<td>100%</td>
<td>35%</td>
</tr>
</tbody>
</table>
Overall Project Cost Projections – July 19, 2018

Mountain View Master Plan Projects - Financial Summary & Forecasted Cost

<table>
<thead>
<tr>
<th>Through July 19, 2018</th>
<th>Approved Funding</th>
<th>Total Obligated</th>
<th>Paid to Date</th>
<th>Forecasted Cost</th>
<th>Forcasted to Budget Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Drive Parking Structure Expansion</td>
<td>$24,500,000</td>
<td>23,753,044.88</td>
<td>23,498,503.76</td>
<td>$24,043,045</td>
<td>$456,955</td>
</tr>
<tr>
<td>Behavioral Health Services Building</td>
<td>$96,100,000</td>
<td>86,350,657.41</td>
<td>42,978,934.70</td>
<td>$92,678,108</td>
<td>$3,421,892</td>
</tr>
<tr>
<td>Integrated Medical Office Building &amp; Parking Structure</td>
<td>$302,100,000</td>
<td>219,041,816.54</td>
<td>122,640,988.35</td>
<td>$298,397,376</td>
<td>$3,702,624</td>
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<tr>
<td>Central Utility Plant Upgrade</td>
<td>$9,000,000</td>
<td>8,996,852.74</td>
<td>7,062,753.10</td>
<td>$8,996,853</td>
<td>$3,147</td>
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<tr>
<td>Women’s Hospital Expansion</td>
<td>$6,000,000</td>
<td>5,861,624.01</td>
<td>3,578,474.16</td>
<td>$6,000,000</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total All Projects</strong></td>
<td><strong>$437,700,000</strong></td>
<td><strong>$344,003,996</strong></td>
<td><strong>$199,759,654</strong></td>
<td><strong>$430,115,381</strong></td>
<td><strong>$7,584,619</strong></td>
</tr>
</tbody>
</table>

- To date we have obligated by contract 79% of the Total Project Budgets and paid 58% of the obligated amount.
- The Forecasted Cost for the IMOB & Parking Structure includes the following assumptions.
  - $500,000 in savings from the Phase I construction contract.
  - $2,000,000 in tenant contributions to be credited to TI construction costs.
- The Forecasted Cost is based on where we expect to complete the project with everything we know today. This essentially will track our use of the project contingency.
- The Women’s Hospital Expansion cost estimate has been differed until September.
Summary of Financial Operations

Fiscal Year 2018 – Period 11
7/1/2017 to 05/31/2018
Financial Overview

Volume:
- For the year, overall volume, measured in adjusted discharges is 5.3% higher than budget. Medical and ER cases were high due to the flu season. Strong service line growth in Neurosciences, HVI, BHS, Oncology. Deliveries are lower than prior year and 4.6% below budget primarily due to the decline in birth rate.
- OP cases also show strong service line growth in General Surgery, General Medicine, Orthopedics, Imaging Services, MCH and Rehab.

Financial Performance:
- For the month, operating income is $2.2M better than budget due to $1.3 million in Medic-Cal outpatient supplemental funding(AB915) and $1.1 million in PRIME funding. For the year operating margin is $47.8M ahead of target due to higher volume, $17 million in unusual items and strong revenue cycle operations.
- Strong investment results for the month and the year

Payor Mix:
- Medicare Mix is higher due to growth in HVI and general medicine which have a high Medicare mix.

Cost:
- YTD productivity is ahead of budget but recent months show a decline as volume has eased.

Balance Sheet:
- Net days in AR is 47.4 which is .6 days better than budget.
Dashboard - ECH combined as of May 31, 2018

### Volume

<table>
<thead>
<tr>
<th></th>
<th>PY</th>
<th>CY</th>
<th>Bud/Target</th>
<th>Variance CY vs Bud</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licenced Beds</td>
<td>443</td>
<td>443</td>
<td>443</td>
<td>-</td>
</tr>
<tr>
<td>ADC</td>
<td>235</td>
<td>219</td>
<td>241</td>
<td>(22)</td>
</tr>
<tr>
<td>Utilization MV</td>
<td>66%</td>
<td>60%</td>
<td>66%</td>
<td>-6%</td>
</tr>
<tr>
<td>Utilization LG</td>
<td>25%</td>
<td>26%</td>
<td>29%</td>
<td>-3%</td>
</tr>
<tr>
<td>Utilization Combined</td>
<td>53%</td>
<td>49%</td>
<td>54%</td>
<td>-5%</td>
</tr>
<tr>
<td>Adjusted Discharges</td>
<td>2,893</td>
<td>3,124</td>
<td>2,937</td>
<td>187</td>
</tr>
<tr>
<td>Total Discharges (Excl NNBl</td>
<td>1,664</td>
<td>1,683</td>
<td>1,682</td>
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</table>

### Inpatient Cases

<table>
<thead>
<tr>
<th></th>
<th>PY</th>
<th>CY</th>
<th>Bud/Target</th>
<th>Variance CY vs Bud</th>
</tr>
</thead>
<tbody>
<tr>
<td>MS Discharges</td>
<td>1,175</td>
<td>1,160</td>
<td>1,158</td>
<td>2</td>
</tr>
<tr>
<td>Deliveries</td>
<td>377</td>
<td>380</td>
<td>403</td>
<td>(23)</td>
</tr>
<tr>
<td>BHS</td>
<td>82</td>
<td>102</td>
<td>78</td>
<td>24</td>
</tr>
<tr>
<td>Rehab</td>
<td>30</td>
<td>41</td>
<td>43</td>
<td>(2)</td>
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</tbody>
</table>

### Outpatient Cases

<table>
<thead>
<tr>
<th></th>
<th>PY</th>
<th>CY</th>
<th>Bud/Target</th>
<th>Variance CY vs Bud</th>
</tr>
</thead>
<tbody>
<tr>
<td>ED</td>
<td>4,273</td>
<td>4,089</td>
<td>4,279</td>
<td>(190)</td>
</tr>
<tr>
<td>Procedural Cases</td>
<td>363</td>
<td>427</td>
<td>402</td>
<td>25</td>
</tr>
<tr>
<td>OP Surg</td>
<td>176</td>
<td>214</td>
<td>186</td>
<td>28</td>
</tr>
<tr>
<td>Interventional</td>
<td>183</td>
<td>188</td>
<td>187</td>
<td>1</td>
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</tbody>
</table>

### Financial Perf.

<table>
<thead>
<tr>
<th></th>
<th>PY</th>
<th>CY</th>
<th>Bud/Target</th>
<th>Variance CY vs Bud</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Patient Revenues</td>
<td>70,653</td>
<td>74,092</td>
<td>71,197</td>
<td>2,895</td>
</tr>
<tr>
<td>Total Operating Revenue</td>
<td>74,454</td>
<td>77,398</td>
<td>73,068</td>
<td>4,329</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>65,507</td>
<td>68,832</td>
<td>66,681</td>
<td>2,151</td>
</tr>
<tr>
<td>Operating Income $</td>
<td>8,947</td>
<td>8,566</td>
<td>6,388</td>
<td>2,178</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>12.0%</td>
<td>11.1%</td>
<td>8.7%</td>
<td>2.3%</td>
</tr>
<tr>
<td>EBITDA $</td>
<td>13,183</td>
<td>13,185</td>
<td>11,792</td>
<td>1,392</td>
</tr>
<tr>
<td>EBITDA %</td>
<td>17.7%</td>
<td>17.0%</td>
<td>16.1%</td>
<td>0.9%</td>
</tr>
<tr>
<td>IP Margin</td>
<td>5.8%</td>
<td>4.5%</td>
<td>-10.2%</td>
<td>14.7%</td>
</tr>
<tr>
<td>OP Margin</td>
<td>37.0%</td>
<td>39.3%</td>
<td>31.7%</td>
<td>7.6%</td>
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</table>

### Payor Mix

<table>
<thead>
<tr>
<th></th>
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<th>CY</th>
<th>Bud/Target</th>
<th>Variance CY vs Bud</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>47.8%</td>
<td>48.6%</td>
<td>47.4%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Medi-Cal</td>
<td>8.0%</td>
<td>7.6%</td>
<td>7.2%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Commercial IP</td>
<td>22.2%</td>
<td>20.5%</td>
<td>22.6%</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Commercial OP</td>
<td>19.8%</td>
<td>20.7%</td>
<td>20.3%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Total Commercial</td>
<td>42.0%</td>
<td>41.1%</td>
<td>42.9%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Other</td>
<td>2.3%</td>
<td>2.6%</td>
<td>2.5%</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

### Cost

<table>
<thead>
<tr>
<th></th>
<th>PY</th>
<th>CY</th>
<th>Bud/Target</th>
<th>Variance CY vs Bud</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total FTE</td>
<td>2,534.9</td>
<td>2,564.2</td>
<td>2,539.3</td>
<td>25</td>
</tr>
<tr>
<td>Productive Hrs/APD</td>
<td>31.0</td>
<td>31.3</td>
<td>30.1</td>
<td>1</td>
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</table>

### Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>PY</th>
<th>CY</th>
<th>Bud/Target</th>
<th>Variance CY vs Bud</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Days in AR</td>
<td>44.8</td>
<td>47.4</td>
<td>48.0</td>
<td>(1)</td>
</tr>
<tr>
<td>Days Cash</td>
<td>444</td>
<td>500</td>
<td>266</td>
<td>234</td>
</tr>
</tbody>
</table>

### Affiliates - Net Income ($000s)

<table>
<thead>
<tr>
<th></th>
<th>PY</th>
<th>CY</th>
<th>Bud/Target</th>
<th>Variance CY vs Bud</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hosp</td>
<td>18,137</td>
<td>17,733</td>
<td>6,613</td>
<td>11,120</td>
</tr>
<tr>
<td>Concern</td>
<td>(108)</td>
<td>(139)</td>
<td>115</td>
<td>(254)</td>
</tr>
<tr>
<td>ECSC</td>
<td>(9)</td>
<td>(31)</td>
<td>0</td>
<td>(31)</td>
</tr>
<tr>
<td>Foundation</td>
<td>37</td>
<td>22</td>
<td>105</td>
<td>(83)</td>
</tr>
<tr>
<td>SVMH</td>
<td>(85)</td>
<td>557</td>
<td>(23)</td>
<td>581</td>
</tr>
</tbody>
</table>
### Budget Variances

#### Fiscal Year 2018 YTD (7/1/2017-05/31/2018) Waterfall

<table>
<thead>
<tr>
<th>(in thousands; $000s)</th>
<th>Year to Date (YTD)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net Income Impact</td>
</tr>
<tr>
<td><strong>Budgeted Hospital Operations FY2018</strong></td>
<td>71,921</td>
</tr>
<tr>
<td><strong>Net Revenue</strong></td>
<td>71,921</td>
</tr>
<tr>
<td>- Favorable due higher volume, revenue cycle operations and $14 million unusual items</td>
<td>54,283</td>
</tr>
<tr>
<td><strong>Labor and Benefit Expense Change</strong></td>
<td>(1,836)</td>
</tr>
<tr>
<td>- Labor favorable vs budget after adjusting for volume</td>
<td>(7,228)</td>
</tr>
<tr>
<td><strong>Professional Fees &amp; Purchased Services</strong></td>
<td>(7,228)</td>
</tr>
<tr>
<td>- Recruiting costs for several key positions in the organization and backfill for vacant positions, repairs for survey readiness</td>
<td>(1,836)</td>
</tr>
<tr>
<td><strong>Supplies</strong></td>
<td>(4,615)</td>
</tr>
<tr>
<td>- unfavorable due to increase in surgical and other general supplies, offset by savings in Spine supplies as well as Drugs. Higher volumes also driving increase and net positive to volume adjusted budget</td>
<td>(1,349)</td>
</tr>
<tr>
<td><strong>Other Expenses</strong></td>
<td>1,349</td>
</tr>
<tr>
<td>- primarily due strategic fund expenses not spent</td>
<td>5,842</td>
</tr>
<tr>
<td><strong>Depreciation &amp; Interest</strong></td>
<td>5,842</td>
</tr>
<tr>
<td>- Favorable due to delay in Parking Structure as well as LG projects</td>
<td>119,715</td>
</tr>
<tr>
<td><strong>Actual Hospital Operations FY2018</strong></td>
<td>119,715</td>
</tr>
</tbody>
</table>
El Camino Hospital ($000s)
11 months ending 05/31/2018

<table>
<thead>
<tr>
<th>Period 11</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2017</td>
</tr>
<tr>
<td>FY 2018</td>
</tr>
<tr>
<td>Budget 2018</td>
</tr>
<tr>
<td>Variance</td>
</tr>
<tr>
<td>Fav (Unfav)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPERATING REVENUE</th>
<th>YTD FY 2017</th>
<th>YTD FY 2018</th>
<th>YTD Budget 2018</th>
<th>Variance</th>
<th>Fav (Unfav)</th>
<th>Var%</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>OPERATIONAL EXPENSE</th>
<th>YTD FY 2017</th>
<th>YTD FY 2018</th>
<th>YTD Budget 2018</th>
<th>Variance</th>
<th>Fav (Unfav)</th>
<th>Var%</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Non Operating Income</th>
<th>YTD FY 2017</th>
<th>YTD FY 2018</th>
<th>YTD Budget 2018</th>
<th>Variance</th>
<th>Fav (Unfav)</th>
<th>Var%</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Net Income (Loss)</th>
<th>YTD FY 2017</th>
<th>YTD FY 2018</th>
<th>YTD Budget 2018</th>
<th>Variance</th>
<th>Fav (Unfav)</th>
<th>Var%</th>
</tr>
</thead>
</table>
## Non Operating Items and Net Income by Affiliate

$ in thousands

<table>
<thead>
<tr>
<th>Period 11 - Month</th>
<th>El Camino Hospital Income (Loss) from Operations</th>
<th>El Camino Hospital Non Operating Income</th>
<th>El Camino Hospital Net Income (Loss)</th>
<th>ECH Net Margin %</th>
<th>Concern</th>
<th>ECSC</th>
<th>Foundation</th>
<th>Silicon Valley Medical Development</th>
<th>Net Income Hospital Affiliates</th>
<th>Total Net Income Hospital &amp; Affiliates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Budget</td>
<td>Variance</td>
<td>Actual</td>
<td>Budget</td>
<td>Variance</td>
<td>Actual</td>
<td>Budget</td>
<td>Variance</td>
<td>Actual</td>
</tr>
<tr>
<td>Mountain View</td>
<td>7,127</td>
<td>4,653</td>
<td>2,473</td>
<td>107,398</td>
<td>57,376</td>
<td>50,023</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Los Gatos</td>
<td>1,439</td>
<td>1,734</td>
<td>(295)</td>
<td>12,317</td>
<td>14,545</td>
<td>(2,229)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub Total - El Camino Hospital, excl. Affiliates</td>
<td>8,566</td>
<td>6,388</td>
<td>2,178</td>
<td>119,715</td>
<td>71,921</td>
<td>47,794</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Margin %</td>
<td>11.1%</td>
<td>8.7%</td>
<td>14.3%</td>
<td>9.2%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>10,314</td>
<td>1,516</td>
<td>8,798</td>
<td>56,523</td>
<td>16,671</td>
<td>39,853</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swap Adjustments</td>
<td>(982)</td>
<td>0</td>
<td>(982)</td>
<td>1,087</td>
<td>0</td>
<td>1,087</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community Benefit</td>
<td>(27)</td>
<td>(283)</td>
<td>256</td>
<td>(3,121)</td>
<td>(3,117)</td>
<td>(4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pathways</td>
<td>(202)</td>
<td>42</td>
<td>(243)</td>
<td>(345)</td>
<td>458</td>
<td>(803)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Satellite Dialysis</td>
<td>7</td>
<td>(35)</td>
<td>42</td>
<td>183</td>
<td>(390)</td>
<td>573</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community Connect</td>
<td>0</td>
<td>(141)</td>
<td>141</td>
<td>0</td>
<td>(1,546)</td>
<td>1,546</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>SVMD Funding¹</td>
<td>(506)</td>
<td>(448)</td>
<td>(58)</td>
<td>(2,247)</td>
<td>(4,932)</td>
<td>2,684</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premier Investment²</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3,695</td>
<td>0</td>
<td>3,695</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>563</td>
<td>(424)</td>
<td>987</td>
<td>(3,287)</td>
<td>(4,667)</td>
<td>1,380</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub Total - Non Operating Income</td>
<td>9,167</td>
<td>225</td>
<td>8,942</td>
<td>52,489</td>
<td>2,478</td>
<td>50,011</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>El Camino Hospital Net Income (Loss)</td>
<td>17,733</td>
<td>6,613</td>
<td>11,120</td>
<td>172,204</td>
<td>74,399</td>
<td>97,805</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ECH Net Margin %</td>
<td>22.9%</td>
<td>9.1%</td>
<td>20.5%</td>
<td>9.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹Favorable variances for SVMD and Community Connect are due to delayed implementation

²Gain on Premier stock sale of shares eligible were sold with proceeds going to pooled investments. No impact on vendor relationships.
Monthly Financial Trends

Higher inpatient volume occurring in Inpatient Behavioral Health, HVI, Neurosciences, Oncology and General Medicine. High Outpatient volume is General Medicine, Imaging Services, MCH, Orthopedics, Outpatient Clinics, General Surgery and Rehab.
Productivity and Medicare Length of Stay

Work hours per adjusted patient day in May is over budget by 1.2. Overall the month of May is 31.3 worked hours per adjusted patient day

ALOS vs Milliman well-managed benchmark. Trend shows remarkable and steady improvement with FY 2018 at benchmark. Increase in benchmark beginning in FY 2017 due to Clinical Documentation Improvement (CDI)
El Camino Hospital Volume Annual Trends – Inpatient
FY 2018 is annualized

- General Medicine, HVI, Behavioral Health, and Neuroscience display an increasing trend.
- Conversely, Rehab Services, MCH and GYN show a decreasing trend.
- The remaining service lines are staying flat.
El Camino Hospital Volume Annual Trends – Outpatient
FY 2018 is annualized

- Comparing year-over-year Oncology, MCH, Rehab Services, Emergency and Outpatient Clinics are all increasing in volume. All others are remaining flat or decreasing.

Medicare data excludes Medicare HMOs
ECH Operating Margin

Run rate is booked operating income adjusted for material non-recurring transactions

<table>
<thead>
<tr>
<th>Monthly Adjustments</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance (Payment Variance)</td>
<td>-</td>
<td>-</td>
<td>611</td>
<td>-</td>
<td>669</td>
<td>28</td>
<td>-</td>
<td>603</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,912</td>
</tr>
<tr>
<td>Medicare Settlemt/Appeal/Tent Settlemt/PIP</td>
<td>54</td>
<td>155</td>
<td>905</td>
<td>54</td>
<td>184</td>
<td>81</td>
<td>396</td>
<td>92</td>
<td>92</td>
<td>224</td>
<td>92</td>
<td>2,328</td>
</tr>
<tr>
<td>BPCI Settlement</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Medi-Cal Supplemental</td>
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<td>-</td>
<td>-</td>
<td>-</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>IGT Supplemental</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>AB 915</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>103</td>
<td>926</td>
<td>-</td>
<td>1,302</td>
<td>2,332</td>
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<tr>
<td>Hospital Fee</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>712</td>
<td>1,024</td>
<td>-</td>
<td>-</td>
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<tr>
<td>PRIME Incentive</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,902</td>
<td>-</td>
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<td>1,108</td>
<td>4,010</td>
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<td>Credit Balance Quarterly Review</td>
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<td>2,201</td>
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<td>-</td>
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<td>2,201</td>
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<tr>
<td>Late Charge Accrual</td>
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<td>-</td>
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<td>3,283</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Various Adjustments under $250k</td>
<td>9</td>
<td>35</td>
<td>27</td>
<td>6</td>
<td>16</td>
<td>8</td>
<td>(878)</td>
<td>10</td>
<td>17</td>
<td>(56)</td>
<td>9</td>
<td>(797)</td>
</tr>
<tr>
<td>Total</td>
<td>63</td>
<td>190</td>
<td>3,134</td>
<td>4,667</td>
<td>4,126</td>
<td>757</td>
<td>(453)</td>
<td>205</td>
<td>1,638</td>
<td>169</td>
<td>2,511</td>
<td>17,005</td>
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</table>
# El Camino Hospital Investment Committee Scorecard

**March 31, 2018**

## Key Performance Indicator

<table>
<thead>
<tr>
<th>Key Performance Indicator</th>
<th>Status</th>
<th>El Camino</th>
<th>Benchmark</th>
<th>El Camino</th>
<th>Benchmark</th>
<th>FY18 Year-end</th>
<th>Expectation Per Asset Allocation</th>
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<tbody>
<tr>
<td><strong>Investment Performance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus cash balance*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus cash return</td>
<td>0.1%</td>
<td>-0.6%</td>
<td>5.5%</td>
<td>4.9%</td>
<td>5.7%</td>
<td>5.5%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Cash balance plan balance (millions)</td>
<td>$260.0</td>
<td>-</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td></td>
<td>$257.1</td>
</tr>
<tr>
<td>Cash balance plan return</td>
<td>0.4%</td>
<td>-0.7%</td>
<td>6.7%</td>
<td>6.0%</td>
<td>8.1%</td>
<td>7.4%</td>
<td>6.0%</td>
</tr>
<tr>
<td>403(b) plan balance (millions)</td>
<td>$455.1</td>
<td>-</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td></td>
<td></td>
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<tr>
<td><strong>Risk vs. Return</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Surplus cash Sharpe ratio</td>
<td>0.93</td>
<td>0.91</td>
<td>--</td>
<td>--</td>
<td>1.29</td>
<td>1.26</td>
<td>0.43</td>
</tr>
<tr>
<td>Net of fee return</td>
<td>4.9%</td>
<td>4.7%</td>
<td>--</td>
<td>--</td>
<td>5.7%</td>
<td>5.5%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>4.8%</td>
<td>4.7%</td>
<td>--</td>
<td>--</td>
<td>4.1%</td>
<td>4.1%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Cash balance Sharpe ratio</td>
<td>0.95</td>
<td>0.92</td>
<td>--</td>
<td>--</td>
<td>1.39</td>
<td>1.32</td>
<td>0.40</td>
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<tr>
<td>Net of fee return</td>
<td>6.0%</td>
<td>5.6%</td>
<td>--</td>
<td>--</td>
<td>8.1%</td>
<td>7.4%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>5.9%</td>
<td>5.6%</td>
<td>--</td>
<td>--</td>
<td>5.5%</td>
<td>5.3%</td>
<td>8.1%</td>
</tr>
<tr>
<td><strong>Asset Allocation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus cash absolute variances to target</td>
<td>6.4%</td>
<td>&lt; 10%</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Cash balance absolute variances to target</td>
<td>4.9%</td>
<td>&lt; 10%</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>Manager Compliance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus cash manager flags</td>
<td>29</td>
<td>&lt; 24 Green</td>
<td>&lt; 30 Yellow</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Cash balance plan manager flags</td>
<td>32</td>
<td>&lt; 27 Green</td>
<td>&lt; 34 Yellow</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

*Excludes debt reserve funds (~$223 mm), District assets (~$133 mm), and balance sheet cash not in investable portfolio (~$133 mm).
Includes Foundation (~$26 mm) and Concern (~$13 mm) assets. Budget adds back in current Foundation and Concern assets and backs out current debt reserve funds.
## El Camino Hospital
### Capital Spending (in millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>Detail</th>
<th>Total Estimated Cost of Project</th>
<th>Total Authorized Active</th>
<th>Spent from Inception 2018 Current Proj Spend</th>
<th>FY18 Orig Proj Spend</th>
<th>FY 18 YTD Spent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CIP</strong></td>
<td>EPIC Upgrade</td>
<td>1.9</td>
<td>1.0</td>
<td>1.9</td>
<td>1.9</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>IT Hardware, Software, Equipment &amp; Imaging</strong>*</td>
<td></td>
<td>12.2</td>
<td>1.2</td>
<td>12.2</td>
<td>12.2</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Medical &amp; Non Medical Equipment FY 17</strong></td>
<td></td>
<td>14.0</td>
<td>12.9</td>
<td>8.6</td>
<td>0.0</td>
<td>8.6</td>
</tr>
<tr>
<td><strong>Medical &amp; Non Medical Equipment FY 18</strong>*</td>
<td></td>
<td>5.6</td>
<td>4.2</td>
<td>5.6</td>
<td>5.6</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Facility Projects</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1245 Behavioral Health Bldg FY16</td>
<td>96.1</td>
<td>96.1</td>
<td>39.4</td>
<td>27.0</td>
<td>51.4</td>
<td>-24.4</td>
</tr>
<tr>
<td>1409 Women’s Hospital Expansion FY16</td>
<td>120.0</td>
<td>6.0</td>
<td>3.2</td>
<td>0.0</td>
<td>7.0</td>
<td>-3.4</td>
</tr>
<tr>
<td>1425 iMOB Preparation Project - Old Main FY16</td>
<td>20.0</td>
<td>0.0</td>
<td>2.8</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>1502 Cabling &amp; Wireless Upgrades FY16</td>
<td>0.0</td>
<td>0.0</td>
<td>2.6</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>1525 New Main Lab Upgrades FY16</td>
<td>3.1</td>
<td>3.1</td>
<td>2.2</td>
<td>2.5</td>
<td>0.0</td>
<td>2.5</td>
</tr>
<tr>
<td>1515 ED Remodel Triage/Psych Observation FY16</td>
<td>5.0</td>
<td>0.3</td>
<td>0.0</td>
<td>0.4</td>
<td>0.0</td>
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<tr>
<td>1503 Willow Pavilion Tomosynthesis FY16</td>
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<td>0.0</td>
<td>0.3</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>1602 JW House (Patient Family Residence) FY16</td>
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<td>0.5</td>
<td>0.2</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Site Signage and Other Improvements FY16</td>
<td>1.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.3</td>
<td>1.0</td>
<td>-0.8</td>
</tr>
<tr>
<td>Nurse Call System Upgrades FY16</td>
<td>2.4</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
<td>0.1</td>
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<tr>
<td>1707 Imaging Equipment Replacement (5 or 6 rooms) FY16</td>
<td>20.7</td>
<td>0.0</td>
<td>0.0</td>
<td>0.3</td>
<td>0.1</td>
<td>0.2</td>
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<tr>
<td>1708 IR/ Cath Lab Equipment Replacement FY16</td>
<td>19.4</td>
<td>0.0</td>
<td>0.0</td>
<td>0.3</td>
<td>2.0</td>
<td>-1.8</td>
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<tr>
<td>Flooring Replacement FY16</td>
<td>1.6</td>
<td>0.3</td>
<td>0.0</td>
<td>0.4</td>
<td>0.0</td>
<td>0.4</td>
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<tr>
<td>1219 LG Spine OR FY13</td>
<td>0.0</td>
<td>0.0</td>
<td>3.8</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>1313 LG Rehab HVAC System &amp; Structural FY16</td>
<td>0.0</td>
<td>0.0</td>
<td>4.1</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>1248 LG Imaging Phase II (CT &amp; Gen Rad) FY16</td>
<td>8.8</td>
<td>9.0</td>
<td>8.9</td>
<td>0.6</td>
<td>0.7</td>
<td>-0.1</td>
</tr>
<tr>
<td>1307 LG Upgrades FY13</td>
<td>19.3</td>
<td>19.3</td>
<td>17.8</td>
<td>4.9</td>
<td>5.0</td>
<td>-0.1</td>
</tr>
<tr>
<td>1508 LG NICU 4 Bed Expansion FY16</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>1507 LG IR Upgrades FY13</td>
<td>1.3</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>1603 LG MOB Improvements (17) FY16</td>
<td>5.0</td>
<td>5.0</td>
<td>4.9</td>
<td>3.5</td>
<td>3.5</td>
<td>0.0</td>
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<tr>
<td>1711 Emergency Sanitary &amp; Water Storage FY16</td>
<td>1.4</td>
<td>0.3</td>
<td>0.1</td>
<td>0.2</td>
<td>3.2</td>
<td>-3.0</td>
</tr>
<tr>
<td>LG Modular MRI &amp; Awning FY16</td>
<td>3.9</td>
<td>3.9</td>
<td>0.0</td>
<td>0.4</td>
<td>0.0</td>
<td>0.4</td>
</tr>
<tr>
<td>LG Nurse Call System Upgrade FY16</td>
<td>2.8</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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</tr>
<tr>
<td>LG Observation Unit (Conversion of ICU 2) FY16</td>
<td>1.8</td>
<td>0.0</td>
<td>0.0</td>
<td>0.8</td>
<td>0.0</td>
<td>0.8</td>
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<tr>
<td>1712 LG Cancer Center FY16</td>
<td>2.4</td>
<td>0.3</td>
<td>0.2</td>
<td>0.4</td>
<td>0.0</td>
<td>0.4</td>
</tr>
<tr>
<td>All Other Projects under $1M FY16</td>
<td>5.6</td>
<td>0.1</td>
<td>69.1</td>
<td>1.8</td>
<td>0.0</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td></td>
<td><strong>684.4</strong></td>
<td><strong>479.6</strong></td>
<td><strong>294.6</strong></td>
<td><strong>128.0</strong></td>
<td><strong>211.9</strong></td>
</tr>
</tbody>
</table>

* Excluding EPIC
** Unspent Prior Year routine used as contingency
*** Includes 2 robot purchases
1 Variance due to delay in MV campus plan
2 Initial assumption was to spend all FY17 in FY17
# Balance Sheet (in thousands)

## ASSETS

<table>
<thead>
<tr>
<th>CURRENT ASSETS</th>
<th>May 31, 2018</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>134,334</td>
<td>125,551</td>
</tr>
<tr>
<td>Short Term Investments</td>
<td>155,866</td>
<td>140,284</td>
</tr>
<tr>
<td>Patient Accounts Receivable, net</td>
<td>114,340</td>
<td>109,089</td>
</tr>
<tr>
<td>Other Accounts and Notes Receivable</td>
<td>2,926</td>
<td>2,628</td>
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<tr>
<td>Intercompany Receivables</td>
<td>1,829</td>
<td>1,495</td>
</tr>
<tr>
<td>Inventories and Prepaid</td>
<td>54,990</td>
<td>50,657</td>
</tr>
</tbody>
</table>

**Total Current Assets**: 464,285

<table>
<thead>
<tr>
<th>BOARD DESIGNATED ASSETS</th>
<th>May 31, 2018</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant &amp; Equipment Fund</td>
<td>154,352</td>
<td>131,153</td>
</tr>
<tr>
<td>Women's Hospital Expansion</td>
<td>9,298</td>
<td>9,298</td>
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<tr>
<td>Operational Reserve Fund</td>
<td>127,908</td>
<td>100,196</td>
</tr>
<tr>
<td>Community Benefit Fund</td>
<td>18,656</td>
<td>12,237</td>
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<tr>
<td>Workers Compensation Reserve Fund</td>
<td>21,949</td>
<td>20,007</td>
</tr>
<tr>
<td>Postretirement Health/Life Reserve Fund</td>
<td>19,736</td>
<td>19,218</td>
</tr>
<tr>
<td>PTO Liability Fund</td>
<td>23,916</td>
<td>23,409</td>
</tr>
<tr>
<td>Malpractice Reserve Fund</td>
<td>1,634</td>
<td>1,634</td>
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<tr>
<td>Catastrophic Reserves Fund</td>
<td>18,105</td>
<td>16,575</td>
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**Total Board Designated Assets**: 395,554

<table>
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<tr>
<th>FUNDS HELD BY TRUSTEE</th>
<th>May 31, 2018</th>
<th>June 30, 2017</th>
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<tr>
<td>204,759</td>
<td>287,052</td>
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<table>
<thead>
<tr>
<th>LONG TERM INVESTMENTS</th>
<th>May 31, 2018</th>
<th>June 30, 2017</th>
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<tbody>
<tr>
<td>319,741</td>
<td>256,652</td>
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<table>
<thead>
<tr>
<th>INVESTMENTS IN AFFILIATES</th>
<th>May 31, 2018</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>32,956</td>
<td>32,451</td>
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</table>

<table>
<thead>
<tr>
<th>PROPERTY AND EQUIPMENT</th>
<th>May 31, 2018</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Assets at Cost</td>
<td>1,259,134</td>
<td>1,192,047</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>(573,741)</td>
<td>(531,785)</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>189,276</td>
<td>138,017</td>
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</table>

**Property, Plant & Equipment - Net**: 874,669

<table>
<thead>
<tr>
<th>DEFERRED OUTFLOWS</th>
<th>May 31, 2018</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>28,410</td>
<td>28,960</td>
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</tbody>
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<table>
<thead>
<tr>
<th>RESTRICTED ASSETS - CASH</th>
<th>May 31, 2018</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
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</table>

**TOTAL ASSETS**: 2,320,372

## LIABILITIES AND FUND BALANCE

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<th>CURRENT LIABILITIES</th>
<th>May 31, 2018</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>(7) Accounts Payable</td>
<td>30,048</td>
<td>38,457</td>
</tr>
<tr>
<td>Salaries and Related Liabilities</td>
<td>28,191</td>
<td>25,109</td>
</tr>
<tr>
<td>Accrued PTO</td>
<td>23,916</td>
<td>23,409</td>
</tr>
<tr>
<td>Worker's Comp Reserve</td>
<td>2,300</td>
<td>2,300</td>
</tr>
<tr>
<td>Third Party Settlements</td>
<td>9,522</td>
<td>10,438</td>
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<tr>
<td>Intercompany Payables</td>
<td>125</td>
<td>84</td>
</tr>
<tr>
<td>Malpractice Reserves</td>
<td>1,634</td>
<td>1,634</td>
</tr>
<tr>
<td>Bonds Payable - Current</td>
<td>3,850</td>
<td>3,735</td>
</tr>
<tr>
<td>(8) Bond Interest Payable</td>
<td>7,896</td>
<td>11,245</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>7,702</td>
<td>4,889</td>
</tr>
</tbody>
</table>

**Total Current Liabilities**: 115,184

<table>
<thead>
<tr>
<th>LONG TERM LIABILITIES</th>
<th>May 31, 2018</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post Retirement Benefits</td>
<td>19,736</td>
<td>19,218</td>
</tr>
<tr>
<td>Worker's Comp Reserve</td>
<td>19,649</td>
<td>17,707</td>
</tr>
<tr>
<td>Other L/T Obligation (Asbestos)</td>
<td>3,849</td>
<td>3,746</td>
</tr>
<tr>
<td>Other L/T Liabilities (IT/Medl Leases)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bond Payable</td>
<td>521,631</td>
<td>527,371</td>
</tr>
</tbody>
</table>

**Total Long Term Liabilities**: 564,865

<table>
<thead>
<tr>
<th>DEFERRED REVENUE-UNRESTRICTED</th>
<th>May 31, 2018</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>552</td>
<td>567</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DEFERRED INFLOW OF RESOURCES</th>
<th>May 31, 2018</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,666</td>
<td>10,666</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FUND BALANCE/CAPITAL ACCOUNTS</th>
<th>May 31, 2018</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>1,233,552</td>
<td>1,132,525</td>
</tr>
<tr>
<td>Board Designated</td>
<td>395,554</td>
<td>333,726</td>
</tr>
<tr>
<td>Restricted</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Total Fund Bal & Capital Accts**: 1,629,106

<table>
<thead>
<tr>
<th>TOTAL LIABILITIES AND FUND BALANCE</th>
<th>May 31, 2018</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,320,372</td>
<td>2,166,825</td>
<td></td>
</tr>
</tbody>
</table>
May 2018 El Camino Hospital Comparative Balance Sheet Variances and Footnotes

(1) The increase is due to two quarterly pension fundings of $2.6M in October and January.
(2) The increase is due to 11 months of funded depreciation contributions (130% of straight depreciation expense. Note this amount also contains $14M reserved for BHS replacement building currently under construction, in conjunction with bond proceeds, item (5).
(3) The increase here is to reset the Operational Reserve (to cover 60 days of operating expenses) for FY2018. The prior year balance hadn’t been reset in a couple of years.
(4) The increase is due to an approved addition of $5 million to the Community Benefit Board Designated Endowment as an outcome of the FY2018 budget process to generate additional investment income for the Community Benefits program.
(5) The decrease is due to additional draws from the 2017 bond financing Project Funds in support of monthly payments to contractors involved with the construction projects at the Mountain View campus. As these projects are now in full progress greater amounts will be withdrawn in future periods.
(6) The increase is due to the capitalization of the Parking Structure expansion in August, CT upgrades at LG in September and the MOB upgrades also at LG.
(7) The decrease is due to the significant General Contractor construction payments being accrued at year end, along with associated retentions and other general accounts payable activity that were subsequently relieved in this first quarter of fiscal year 2018.
(8) The significant decrease is due to semi-annual 2015A and 2017 Bond interest payments having been paid in January.
(9) The increase is mostly attributable to the first eleven periods of financial performance producing an operating income of $120 million and non-operating of $52 million (mostly from unrealized gains on investments).
Plant & Equipment Fund – original established by the District Board in the early 1960’s to fund new capital expansion projects of building facilities or equipment (new or replacements). The funds came from the M&O property taxes being received and the funding depreciation expense at 100%. When at the end of 1992, the 501(c)(3) Hospital was performed by the District, the property tax receipts remained with the District. The newly formed Hospital entity continued on with funding depreciation expense, but did that funding at 130% of the depreciation expense to account for an expected replacement cost of current plant and property assets. It is to be noted that within this fund is an itemized amount of $14 million for the Behavioral Health Service building replacement project. This amount came from the District’s Capital Appropriation Fund (excess Gann Limit property taxes) of the fiscal years of 2010 thru 2013 by various District board actions.

Women’s Hospital Expansion – established June 2016 by the District authorizing the amounts accumulated in its Capital Appropriation Fund (excess Gann Limit property taxes) for the fiscal years of 2014 and 2015 to be allocated for the renovation of the Women’s Hospital upon the completion of Integrated Medical Office Building currently under construction.

Operational Reserve Fund – originally established by the District in May 1992 to establish a fund equal to sixty (60) days of operational expenses (based on projected budget) and only be used in the event of a major business interruption event and/or cash flow.

Community Benefit Fund – following in the footsteps of the District in 2008 of forming its Community Benefit Fund using Gann Limit tax receipts, the Hospital in 2010 after opening its campus outside of District boundaries in Los Gatos formed its own Community Benefit Fund to provide grants/sponsorships in Los Gatos and surrounding areas. The funds come from the Hospital reserving $1.5M a year from its operations, the entity of CONCERN contributing 40% of its annual income each year (an amount it would have paid in corporate taxes if it wasn’t granted tax exempt status), that generates an amount of $800,000 or more a year. $15 million within this fund is a board designated endowment fund formed in 2015 with a $10 million contribution, and added to at the end of the 2017 fiscal year end with another $5 million contribution, to generate investment income to be used for grants and sponsorships, currently anticipated to generate $500,000 a year in investment income for the program.
Workers Compensation Reserve Fund – as the Hospital is self-insured for its workers compensation program (since 1978) this fund was originally formed in early 2000’s by management to reserve cash equal to the yearly actuarially determined Workers Compensation amount. The thought being if the business was to terminate for some reason this is the amount in cash that would be needed to pay out claims over the next few years.

Postretirement Health/Life Reserve Fund – following the same formula as the Workers Compensation Reserve Fund this fund was formed in the early 2000’s by management to reserve cash equal to the yearly actuarially determined amount to fund the Hospital’s postretirement health and life insurance program. Note this program was frozen in 1995 for all new hires after that date.

PTO (Paid Time Off) Liability Fund – originally formed in 1993 as the new 501(c)(3) Hospital began operations, management thought as a business requirement of this vested benefit program that monies should be set aside to extinguish this employee liability should such a circumstance arise. This balance is equal to the PTO Liability on the Balance Sheet.

Malpractice Reserve Fund – originally established in 1989 by the then District’s Finance Committee and continued by the Hospital. The amount is actuarially determined each year as part of the annual audit to fund potential claims less than $50,000. Above $50,000 our policy with the BETA Healthcare Group kicks in to a $30 million limit per claim/$40 million in the aggregate.

Catastrophic Loss Fund – was established in 1999 by the Hospital Board to be a “self-insurance” reserve fund for potential non-major earthquake repairs. Initially funded by the District transferring $5 million and has been added to by the last major payment from FEMA for the damage caused the Hospital by the October 1989 earthquake. It is to be noted that it took 10 years to receive final settlement from FEMA grants that totaled $6.8 million that did mostly cover all the necessary repairs.
APPENDIX
# El Camino Hospital – Mountain View ($000s)

11 months ending 05/31/2018

## OPERATING REVENUE

<table>
<thead>
<tr>
<th></th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>Budget 2018</th>
<th>Variance</th>
<th>$000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Revenue</td>
<td>2,262,281</td>
<td>2,483,199</td>
<td>2,403,144</td>
<td>80,055</td>
<td>3.3%</td>
</tr>
<tr>
<td>Deductions</td>
<td>(1,646,517)</td>
<td>(1,814,077)</td>
<td>(1,783,361)</td>
<td>(30,716)</td>
<td>1.7%</td>
</tr>
<tr>
<td>Other Patient Revenue</td>
<td>615,764</td>
<td>669,122</td>
<td>619,783</td>
<td>49,339</td>
<td>8.0%</td>
</tr>
<tr>
<td>Total Operating Revenue</td>
<td>22,404</td>
<td>25,071</td>
<td>18,913</td>
<td>6,158</td>
<td>32.6%</td>
</tr>
</tbody>
</table>

## OPERATING EXPENSE

<table>
<thead>
<tr>
<th></th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>Budget 2018</th>
<th>Variance</th>
<th>$000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>341,891</td>
<td>360,079</td>
<td>360,450</td>
<td>371</td>
<td>0.1%</td>
</tr>
<tr>
<td>Supplies</td>
<td>88,091</td>
<td>95,287</td>
<td>90,319</td>
<td>(4,968)</td>
<td>-5.5%</td>
</tr>
<tr>
<td>Fees &amp; Purchased Services</td>
<td>73,975</td>
<td>79,538</td>
<td>72,975</td>
<td>(6,563)</td>
<td>-9.0%</td>
</tr>
<tr>
<td>Other Operating Expense</td>
<td>7,488</td>
<td>8,135</td>
<td>9,473</td>
<td>1,338</td>
<td>14.1%</td>
</tr>
<tr>
<td>Interest</td>
<td>3,851</td>
<td>5,290</td>
<td>7,980</td>
<td>2,689</td>
<td>33.7%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>31,270</td>
<td>38,029</td>
<td>38,466</td>
<td>4,196</td>
<td>11.2%</td>
</tr>
<tr>
<td>Total Operating Expense</td>
<td>553,715</td>
<td>586,795</td>
<td>581,320</td>
<td>(5,475)</td>
<td>-0.9%</td>
</tr>
</tbody>
</table>

## Net Operating Income/(Loss)

<table>
<thead>
<tr>
<th></th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>Budget 2018</th>
<th>Variance</th>
<th>$000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Operating Income</td>
<td>56,129</td>
<td>52,534</td>
<td>2,478</td>
<td>50,056</td>
<td>2019.8%</td>
</tr>
</tbody>
</table>

## Net Income/(Loss)

<table>
<thead>
<tr>
<th></th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>Budget 2018</th>
<th>Variance</th>
<th>$000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>19.9%</td>
<td>21.8%</td>
<td>16.5%</td>
<td>5.3%</td>
<td></td>
</tr>
<tr>
<td>Operating Margin</td>
<td>13.2%</td>
<td>15.5%</td>
<td>9.0%</td>
<td>6.5%</td>
<td></td>
</tr>
<tr>
<td>Net Margin</td>
<td>22.0%</td>
<td>23.0%</td>
<td>9.4%</td>
<td>13.7%</td>
<td></td>
</tr>
</tbody>
</table>
El Camino Hospital – Los Gatos($000s)
11 months ending 05/31/2018

LG margin improved from prior year and favorable compared to benchmarks. However performance is lower than budget due to MD turnover.

<table>
<thead>
<tr>
<th>Period 11 FY 2017</th>
<th>Period 11 FY 2018</th>
<th>Period 11 Budget 2018</th>
<th>Variance</th>
<th>$000s YTD FY 2017</th>
<th>YTD FY 2018</th>
<th>YTD Budget 2018</th>
<th>Variance</th>
<th>Fav (Unfav)</th>
<th>Var%</th>
</tr>
</thead>
<tbody>
<tr>
<td>43,198</td>
<td>50,489</td>
<td>51,377</td>
<td>(888)</td>
<td>-1.7%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(32,637)</td>
<td>(36,757)</td>
<td>(37,312)</td>
<td>554</td>
<td>-1.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10,562</td>
<td>13,732</td>
<td>14,065</td>
<td>(334)</td>
<td>-2.4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>170</td>
<td>222</td>
<td>215</td>
<td>7</td>
<td>3.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10,732</td>
<td>13,953</td>
<td>14,280</td>
<td>(327)</td>
<td>-2.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6,280</td>
<td>6,858</td>
<td>6,723</td>
<td>(135)</td>
<td>-2.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,945</td>
<td>1,983</td>
<td>2,067</td>
<td>84</td>
<td>4.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,359</td>
<td>1,442</td>
<td>1,301</td>
<td>(142)</td>
<td>-10.9%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,404</td>
<td>1,538</td>
<td>1,612</td>
<td>75</td>
<td>4.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>491</td>
<td>693</td>
<td>843</td>
<td>150</td>
<td>17.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11,480</td>
<td>12,514</td>
<td>12,545</td>
<td>31</td>
<td>0.2%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(748)</td>
<td>1,439</td>
<td>1,734</td>
<td>(295)</td>
<td>-17.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(748)</td>
<td>1,439</td>
<td>1,734</td>
<td>(295)</td>
<td>-17.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPERATING EXPENSE</th>
<th>Salaries &amp; Wages</th>
<th>69,324</th>
<th>72,582</th>
<th>70,375</th>
<th>(2,207)</th>
<th>-3.1%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Supplies</td>
<td>20,163</td>
<td>21,485</td>
<td>21,838</td>
<td>353</td>
<td>1.6%</td>
</tr>
<tr>
<td></td>
<td>Fees &amp; Purchased Services</td>
<td>14,897</td>
<td>14,761</td>
<td>14,096</td>
<td>(665)</td>
<td>-4.7%</td>
</tr>
<tr>
<td></td>
<td>Other Operating Expense</td>
<td>17,458</td>
<td>17,130</td>
<td>17,141</td>
<td>11</td>
<td>0.1%</td>
</tr>
<tr>
<td></td>
<td>Interest</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>Depreciation</td>
<td>5,629</td>
<td>6,793</td>
<td>8,288</td>
<td>1,495</td>
<td>18.0%</td>
</tr>
<tr>
<td></td>
<td>Total Operating Expense</td>
<td>127,471</td>
<td>132,752</td>
<td>131,738</td>
<td>(1,014)</td>
<td>-0.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPERATING REVENUE</th>
<th>Gross Revenue</th>
<th>492,251</th>
<th>544,172</th>
<th>525,731</th>
<th>18,441</th>
<th>3.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductions</td>
<td></td>
<td>(363,108)</td>
<td>(401,140)</td>
<td>(381,803)</td>
<td>(19,337)</td>
<td>5.1%</td>
</tr>
<tr>
<td></td>
<td>Net Patient Revenue</td>
<td>129,143</td>
<td>143,033</td>
<td>143,929</td>
<td>(896)</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Other Operating Revenue</td>
<td>1,841</td>
<td>2,036</td>
<td>2,355</td>
<td>(319)</td>
<td>-13.5%</td>
<td></td>
</tr>
<tr>
<td>Total Operating Revenue</td>
<td>130,984</td>
<td>145,069</td>
<td>146,283</td>
<td>(1,215)</td>
<td>-0.8%</td>
<td></td>
</tr>
</tbody>
</table>

| Net Operating Income/(Loss) | 3,512 | 12,317 | 14,545 | (2,229) | -15.3% |
| Non Operating Income | (10) | (45) | 0 | (45) | 0.0% |
| Net Income/(Loss) | 3,502 | 12,272 | 14,545 | (2,273) | -15.6% |

| EBITDA | 7.0% | 13.2% | 15.6% | -2.4% |
| Operating Margin | 2.7% | 8.5% | 9.9% | -1.5% |
| Net Margin | 2.7% | 8.5% | 9.9% | -1.5% |
## Capital Spend Trend & FY 18 Budget

<table>
<thead>
<tr>
<th>Capital Spending (in 000's)</th>
<th>Actual FY2015</th>
<th>Actual FY2016</th>
<th>Actual FY2017</th>
<th>Projected FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPIC</td>
<td>29,849</td>
<td>20,798</td>
<td>2,755</td>
<td>1,922</td>
</tr>
<tr>
<td>IT Hardware / Software Equipment</td>
<td>4,660</td>
<td>6,483</td>
<td>2,659</td>
<td>12,238</td>
</tr>
<tr>
<td>Medical / Non Medical Equipment*</td>
<td>13,340</td>
<td>17,133</td>
<td>9,556</td>
<td>14,275</td>
</tr>
<tr>
<td>Non CIP Land, Land I, BLDG, Additions</td>
<td>-</td>
<td>4,189</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Facilities</td>
<td>38,940</td>
<td>48,137</td>
<td>82,953</td>
<td>128,030</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td><strong>86,789</strong></td>
<td><strong>96,740</strong></td>
<td><strong>97,923</strong></td>
<td><strong>156,465</strong></td>
</tr>
</tbody>
</table>

*Includes 2 robot purchases in FY2017*
## El Camino Hospital Capital Spending (in thousands) FY 2012 – FY 2017

<table>
<thead>
<tr>
<th>Category</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPIC</td>
<td>0</td>
<td>6,838</td>
<td>29,849</td>
<td>20,798</td>
<td>2,755</td>
</tr>
<tr>
<td>IT Hardware/Software Equipment</td>
<td>8,019</td>
<td>2,788</td>
<td>4,660</td>
<td>6,483</td>
<td>2,659</td>
</tr>
<tr>
<td>Medical/Non Medical Equipment</td>
<td>10,284</td>
<td>12,891</td>
<td>13,340</td>
<td>17,133</td>
<td>9,556</td>
</tr>
<tr>
<td>Non CIP Land, Land I, BLDG, Additions</td>
<td>0</td>
<td>22,292</td>
<td>0</td>
<td>4,189</td>
<td>0</td>
</tr>
<tr>
<td>Land Acquisition (1550)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>24,007</td>
<td>0</td>
</tr>
<tr>
<td>828 S Winchester Clinic (1701)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>145</td>
<td>0</td>
</tr>
<tr>
<td><strong>Sub-Total Facilities Projects</strong></td>
<td>1,257</td>
<td>5,950</td>
<td>12,426</td>
<td>62,493</td>
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<tr>
<td><strong>Sub-Total Mountain View Campus Master Plan</strong></td>
<td></td>
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<tr>
<td><strong>Mountain View Capital Projects</strong></td>
<td>2013</td>
<td>2014</td>
<td>2015</td>
<td>2016</td>
<td>2017</td>
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<td>9900 - Unassigned Costs</td>
<td>734</td>
<td>470</td>
<td>3,717</td>
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<td>1108 - Cooling Towers</td>
<td>450</td>
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<td>1120 - BHS Out Patient TI’s</td>
<td>66</td>
<td>0</td>
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<tr>
<td>1129 - Old Main Card Rehab</td>
<td>9</td>
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<td>0817 - Womens Hosp Upgrds</td>
<td>645</td>
<td>0</td>
<td>0</td>
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<tr>
<td>0906 - Slot Build-Out</td>
<td>1,003</td>
<td>1,576</td>
<td>15,101</td>
<td>1,251</td>
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<td>1109 - New Main Upgrades</td>
<td>423</td>
<td>393</td>
<td>2</td>
<td>0</td>
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<td>1111 - Mom/Baby Overflow</td>
<td>212</td>
<td>29</td>
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<td>1204 - Elevator Upgrades</td>
<td>25</td>
<td>30</td>
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<td>0800 - Womens L&amp;D Expansion</td>
<td>2,104</td>
<td>1,531</td>
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<td>1131 - MV Equipment Replace</td>
<td>216</td>
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<td>1208 - Willow Pav. High Risk</td>
<td>110</td>
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<td>1213 - LG Sterilizers</td>
<td>102</td>
<td>0</td>
<td>0</td>
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<tr>
<td>1225 - Rehab BLDG Roofing</td>
<td>7</td>
<td>241</td>
<td>4</td>
<td>0</td>
<td>0</td>
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<tr>
<td>1227 - New Main eICU</td>
<td>96</td>
<td>21</td>
<td>0</td>
<td>0</td>
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<tr>
<td>1230 - Fog Shop</td>
<td>339</td>
<td>80</td>
<td>0</td>
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<td>1315 - 205 So. Drive TI’s</td>
<td>0</td>
<td>500</td>
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<tr>
<td>0908 - NPCR3 Seismic Upgrds</td>
<td>1,302</td>
<td>1,224</td>
<td>1,328</td>
<td>240</td>
<td>342</td>
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<td>1125 - Will Pav Fire Sprinkler</td>
<td>57</td>
<td>39</td>
<td>0</td>
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<tr>
<td>1211 - SIS Monitor Install</td>
<td>215</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>1216 - New Main Process Imp Office</td>
<td>19</td>
<td>1</td>
<td>16</td>
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<td>0</td>
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<tr>
<td>1217 - MV Campus MEP Upgrades FY13</td>
<td>0</td>
<td>181</td>
<td>274</td>
<td>28</td>
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<td>1224 - Rehab Bldg HVAC Upgrades</td>
<td>11</td>
<td>202</td>
<td>81</td>
<td>14</td>
<td>6</td>
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<tr>
<td>1301 - Desktop Virtual</td>
<td>0</td>
<td>13</td>
<td>0</td>
<td>0</td>
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<tr>
<td>1304 - Rehab Wander Mgmt</td>
<td>0</td>
<td>87</td>
<td>0</td>
<td>0</td>
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<tr>
<td>1310 - Melchor Cancer Center Expansion</td>
<td>0</td>
<td>44</td>
<td>13</td>
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<tr>
<td>1318 - Women’s TI</td>
<td>0</td>
<td>48</td>
<td>48</td>
<td>29</td>
<td>2</td>
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<tr>
<td>1327 - Rehab Building Upgrades</td>
<td>0</td>
<td>0</td>
<td>15</td>
<td>20</td>
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<tr>
<td>1320 - 2500 Hosp Dr Roofing</td>
<td>0</td>
<td>75</td>
<td>81</td>
<td>0</td>
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<tr>
<td>1340 - New Main ED Exam Room TVs</td>
<td>0</td>
<td>8</td>
<td>193</td>
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<tr>
<td>1341 - New Main Admin</td>
<td>0</td>
<td>32</td>
<td>103</td>
<td>0</td>
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<tr>
<td>1344 - New Main AV Upgrd</td>
<td>0</td>
<td>243</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>1400 - Oak Pav Cancer Center</td>
<td>0</td>
<td>0</td>
<td>5,208</td>
<td>666</td>
<td>52</td>
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<tr>
<td><strong>Grand Total</strong></td>
<td>27,598</td>
<td>58,561</td>
<td>86,789</td>
<td>96,740</td>
<td>97,923</td>
</tr>
<tr>
<td><strong>Forecast at Beginning of year</strong></td>
<td>70,503</td>
<td>101,607</td>
<td>114,025</td>
<td>212,000</td>
<td></td>
</tr>
</tbody>
</table>
**ECH BOARD COMMITTEE MEETING AGENDA ITEM COVER SHEET**

| Item: | Delegation of Authority to the Advisory Committees  
Finance Committee  
July 30, 2018 |
|---|---|
| Responsible party: | Cindy Murphy, Director of Governance Services  
Iftikhar Hussain, CFO |
| Action requested: | For Discussion and Possible Motion |

**Background:** At its May 2018 meeting, the Board delegated authority to the Executive Compensation Committee to make final decisions regarding some executive (non-CEO) compensation matters. Subsequently, to achieve the purpose of reducing Board administrative review and freeing up Board time for strategic work, the Governance Committee recommended that the Board consider delegating authority to its other Committees. The Board directed staff to suggest areas of possible delegation of authority to the Board’s other committees. If the Committees accept those suggestions, or have others, they will be taken to the Governance Committee for review and possible recommendation to the Board.

1. **Physician Contracts** – The Physician Financial Arrangements Policy requires Board approval of any physician financial arrangement that exceeds the 75th percentile of fair market value. The policy also requires Board approval of any physician financial arrangement that exceeds $250,000 annually, or is increased by more than 10% on renewal. An exception to the $250,000/10% criteria exists for Professional Services Agreements with ECMA as long as the total cash compensation to each physician employed by ECMA does not exceed the 75th percentile of fair market value or $1,000,000 annually. Currently, the Finance Committee reviews these physician financial arrangements prior to Board review and approval.
   a. Number of FY17 Approvals = 15 (includes 2 ECMA physician arrangements that no longer require Board approval)
   b. Number of FY18 Approvals = 24

2. **Funding Requests** – The Signature Authority Policy requires Board approval of operational or capital spending requests (budgeted or unbudgeted) in excess of $1 million. In FY17, there were ten such requests and approvals between $1 million and $5 million and 1 such request in FY18. Ken King, CASO, reports that there were an unusually low number of requests in FY18 due to prioritization of major construction project activity and predicts an average of 6 – 10 such requests for approval annually going forward.
   a. FY17 Approvals
      i. Da Vinci Robots - $3.94 million
      ii. Winchester TI’s - $3.6 million
      iii. LG MRI - $3.9 million
      iv. New Main Hospital Lab Upgrades - $3.1 million
      v. LG MOB Improvements - $5 million
**ECH BOARD COMMITTEE MEETING AGENDA ITEM COVER SHEET**

<table>
<thead>
<tr>
<th>vi.</th>
<th>Stryker Laparoscopic Platform - $1.5 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>vii.</td>
<td>Ventilator Replacements - $1.1 million</td>
</tr>
<tr>
<td>viii.</td>
<td>Women’s Hospital incremental Funding - $5 million</td>
</tr>
<tr>
<td>ix.</td>
<td>LG Facility Improvements - $2 million</td>
</tr>
<tr>
<td></td>
<td>b. FY18 Approval - $2.2 million PACS Imaging and Archive System</td>
</tr>
</tbody>
</table>

**Other Board Advisory Committees that reviewed the issue and recommendation, if any:** N/A

**Summary and session objectives:**

1. To consider recommending that the Board delegate the following:
   a. Authority to approve funding requests not to exceed $5 million.
   b. The same authority to approve physician financial arrangements that is currently reserved to the Board in accordance with The Physician Financial Arrangements Policy but that do not exceed the 75th percentile of market value.

2. To consider whether the Finance Committee is the appropriate committee for delegation of authority for Physician Contract exceptions under the Physician Financial Arrangements Policy or whether the Compliance and Audit Committee may be more appropriate.

3. To discuss any other matters within the Finance Committee’s Charter the Board should consider delegating to the Committee for approval.

**Suggested discussion questions:**

1. Assuming the Board would be informed of the approvals, is there any reason the Board should not make the suggested delegations?

2. Would the proposed delegations take appropriate advantage of the Committee’s expertise and have substantial impact on the Board’s time spent reviewing and approving these matters?

3. Would it be more appropriate to delegate authority for approval of physician contract exceptions to the Compliance and Audit Committee since the exception approval process is intended to ensure compliance with Stark and anti-kickback compliance?

**Proposed Committee motion, if any:**

To recommend that the Governance Committee recommend the Board delegate the following authority to the Finance (or Compliance and Audit?) Committee:

1. ________________________________
2. ________________________________
3. ________________________________

**LIST OF ATTACHMENTS:** None.
| Item: | Report on ECH and ECHD Board Actions  
Finance Committee  
July 30, 2018 |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible party:</td>
<td>Cindy Murphy, Director of Governance Services</td>
</tr>
<tr>
<td>Action requested:</td>
<td>For Information</td>
</tr>
<tr>
<td>Background:</td>
<td>In FY16, we added this item to each Board Committee agenda to keep Committee members informed about Board actions via a verbal report by the Committee Chair. This written report is intended to supplement a verbal report by the Chair of the Committee and/or Board members who also serve on the Committee.</td>
</tr>
<tr>
<td>Other Board Advisory Committees that reviewed the issue and recommendation, if any:</td>
<td>None.</td>
</tr>
<tr>
<td>Summary and session objectives:</td>
<td>To inform the Committee about recent Board actions.</td>
</tr>
<tr>
<td>Suggested discussion questions:</td>
<td>None.</td>
</tr>
<tr>
<td>Proposed Committee motion, if any:</td>
<td>None. This is an informational item.</td>
</tr>
<tr>
<td>LIST OF ATTACHMENTS:</td>
<td></td>
</tr>
</tbody>
</table>
1. Report on June 2018 ECH and ECHD Board Actions |
**ECH Board Actions**

1. June 13, 2018
   a. Approved the following Finance Committee Recommendations:
      i. FY 18 Period 9 and 10 Financials
      ii. Proposed FY19 ECH Capital and Operating Budget
      iii. $9.6 million Purchase of Enterprise Resource Planning System
      iv. Revised Charity Care Policy
      v. Medical Director Agreement Renewals
   b. Approved the following Governance Committee Recommendations:
      i. Guidelines for Communication with Staff
      ii. FY19 Board Goals
      iii. FY19 Master Calendar
      iv. FY19 Advisory Committee Goals
      v. Revised Governance, Compliance and Audit, and Executive Compensation Committee Charters
      vi. FY19 Slate of Advisory Committee Chairs and Members
   c. Approved the FY19 ECH Community Benefit Plan awarding a total of $3,565,000 in funding to 49 grantees
   d. Approved Revised Executive Compensation Policies in accordance with previously approved delegation of authority to the Executive Compensation Committee
   e. Approved FY19 Auxiliary Slate of Officers

**ECHD Board Actions**

1. June 19, 2018
   a. Approved Proposed FY19 ECH Capital and Operating Budget, Consolidated, and ECHD Stand Alone Budget
   b. Approved ECHD FY 18 YTD Financials
   c. Allocated $6,174, 000 to the ECH Women’s Hospital Expansion Project
   d. Approved the ECHD FY19 Community Benefit Plan – awarding $7,499,335 including awards to 54 grantees as well as sponsorships
   e. Approved Guidelines for Communication with Staff
   f. Appointed Neysa Fligor as the District Board’s Liaison to the Community Benefit Advisory Council
   g. Appointed Julie Kiger as an advisor to the FY19 El Camino Hospital Board Member Election and Re-Election Ad Hoc Committee.
   h. Approved a District Director Vacancy Policy (identified as Alternative A in the Board materials)

*This list is not meant to be exhaustive, but includes agenda items the Board voted on that are most likely to be of interest to or pertinent to the work of El Camino Hospital’s Board Advisory Committees.*
Summary of Financial Operations

Fiscal Year 2018 – Period 12
7/1/2017 to 6/30/2018
Financial Overview

Volume:
- For the year, overall volume, measured in adjusted discharges is 5.4% higher than budget. Medical and ER cases were high due to the flu season. Strong service line growth in Neurosciences, HVI, BHS, Oncology. Deliveries are lower than prior year and 4.4% below budget primarily due to the decline in birth rate.
- OP cases also show strong service line growth in General Surgery, General Medicine, Orthopedics, Imaging Services, MCH and Rehab.

Financial Performance:
- For the month, operating income is $15.5 million better than budget of $5.2 million due to $8.4 million in Inter Governmental Transfer (IGT) revenue $2.3 million in revenue due to reversal of Medicare RAC audit reserve. For the year operating margin is $63.3 million ahead of target due to higher volume, $29 million in unusual items and strong revenue cycle operations.
- Strong investment during the month and the year, investment earnings are $40.5 million ahead of target.

Payor Mix:
- Medicare Mix is higher due to growth in HVI, oncology and general medicine which have a high Medicare mix.

Cost:
- Productive Hours/APD for June is unfavorable vs target. YTD we are on budget.

Balance Sheet:
- Net days in AR is 46.8 which is 1.2 days better than budget.
### Dashboard - ECH combined as of June 30, 2018

#### Volume

<table>
<thead>
<tr>
<th></th>
<th>PY</th>
<th>CY</th>
<th>Bud/Target</th>
<th>Variance CY vs Bud</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Licensed Beds</strong></td>
<td>443</td>
<td>443</td>
<td>443</td>
<td>-</td>
</tr>
<tr>
<td><strong>ADC</strong></td>
<td>245</td>
<td>227</td>
<td>237 (-10)</td>
<td>239 239 240 (1)</td>
</tr>
<tr>
<td><strong>Utilization MV</strong></td>
<td>67%</td>
<td>63%</td>
<td>65% -3%</td>
<td>66% 66% 66% -1%</td>
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<tr>
<td><strong>Utilization LG</strong></td>
<td>31%</td>
<td>28%</td>
<td>29% -1%</td>
<td>29% 29% 29% 0%</td>
</tr>
<tr>
<td><strong>Utilization Combined</strong></td>
<td>55%</td>
<td>51%</td>
<td>54% -2%</td>
<td>54% 54% 54% 0%</td>
</tr>
<tr>
<td><strong>Adjusted Discharges</strong></td>
<td>2,947</td>
<td>3,019</td>
<td>2,824 195</td>
<td>33,831 35,936 34,080 1,856</td>
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<tr>
<td><strong>Total Discharges (Excl NNB)</strong></td>
<td>1,682</td>
<td>1,664</td>
<td>1,607 57</td>
<td>19,646 20,313 19,695 618</td>
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#### Inpatient Cases

<table>
<thead>
<tr>
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<th>Bud/Target</th>
<th>Variance CY vs Bud</th>
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</thead>
<tbody>
<tr>
<td><strong>MS Discharges</strong></td>
<td>1,177</td>
<td>1,171</td>
<td>1,105 66</td>
<td>13,621 14,262 13,544 718</td>
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<tr>
<td><strong>Deliveries</strong></td>
<td>388</td>
<td>378</td>
<td>388 (10)</td>
<td>4,656 4,542 4,752 (210)</td>
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<tr>
<td><strong>BHS</strong></td>
<td>77</td>
<td>75</td>
<td>73 2</td>
<td>908 1,067 902 (165)</td>
</tr>
<tr>
<td><strong>Rehab</strong></td>
<td>40</td>
<td>40</td>
<td>40 0</td>
<td>461 442 497 (55)</td>
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</tbody>
</table>

#### Outpatient Cases

<table>
<thead>
<tr>
<th></th>
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<th>Bud/Target</th>
<th>Variance CY vs Bud</th>
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</thead>
<tbody>
<tr>
<td><strong>ED</strong></td>
<td>4,069</td>
<td>3,961</td>
<td>4,144 183</td>
<td>48,625 49,443 48,975 468</td>
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<tr>
<td><strong>Procedural Cases</strong></td>
<td>381</td>
<td>384</td>
<td>388 (4)</td>
<td>4,487 4,711 4,595 116</td>
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<tr>
<td><strong>OP Surg</strong></td>
<td>216</td>
<td>210</td>
<td>181 29</td>
<td>2,364 2,410 2,134 276</td>
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<tr>
<td><strong>Interventional</strong></td>
<td>155</td>
<td>163</td>
<td>180 (17)</td>
<td>2,137 2,111 2,130 (19)</td>
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<tr>
<td><strong>All Other</strong></td>
<td>7,645</td>
<td>7,523</td>
<td>7,588 (65)</td>
<td>88,336 90,853 89,651 1,202</td>
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</table>

#### Financial Perf.

<table>
<thead>
<tr>
<th></th>
<th>YTD</th>
<th>Variance CY vs Bud</th>
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<tbody>
<tr>
<td><strong>Net Patient Revenues</strong></td>
<td>87,356</td>
<td>84,329 68,354 15,975</td>
</tr>
<tr>
<td><strong>Total Operating Revenue</strong></td>
<td>89,196</td>
<td>86,554 70,215 16,318</td>
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<tr>
<td><strong>Operating Expenses</strong></td>
<td>64,985</td>
<td>64,861 65,047 815</td>
</tr>
<tr>
<td><strong>Operating Income $</strong></td>
<td>24,211</td>
<td>22,693 15,242 7,959</td>
</tr>
<tr>
<td><strong>EBITDA $</strong></td>
<td>25,946</td>
<td>25,151 10,550 14,602</td>
</tr>
<tr>
<td><strong>EBITDA %</strong></td>
<td>27.1%</td>
<td>23.9% 23.7% 3.4%</td>
</tr>
<tr>
<td><strong>IP Margin</strong></td>
<td>37.0%</td>
<td>40.2% 31.7% 8.5%</td>
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</table>

#### Payor Mix

<table>
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<th>CY</th>
<th>Bud/Target</th>
<th>Variance CY vs Bud</th>
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</thead>
<tbody>
<tr>
<td><strong>Medicare</strong></td>
<td>47.7%</td>
<td>46.3%</td>
<td>47.4% -1.1%</td>
<td>47.7% 47.6% 47.4% 0.2%</td>
</tr>
<tr>
<td><strong>Medi-Cal</strong></td>
<td>7.0%</td>
<td>8.5%</td>
<td>7.2% 1.3%</td>
<td>7.0% 7.8% 7.2% 0.6%</td>
</tr>
<tr>
<td><strong>Commercial IP</strong></td>
<td>22.4%</td>
<td>23.1%</td>
<td>22.6% 0.5%</td>
<td>22.3% 22.0% 22.6% -0.6%</td>
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<tr>
<td><strong>Commercial OP</strong></td>
<td>20.6%</td>
<td>20.4%</td>
<td>20.3% 0.1%</td>
<td>20.3% 20.2% 20.3% -0.1%</td>
</tr>
<tr>
<td><strong>Total Commercial</strong></td>
<td>43.0%</td>
<td>43.5%</td>
<td>42.9% 0.6%</td>
<td>42.5% 42.1% 42.9% -0.8%</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>2.4%</td>
<td>1.6%</td>
<td>2.5% -0.9%</td>
<td>2.5% 2.5% 2.5% 0.0%</td>
</tr>
</tbody>
</table>

#### Cost

<table>
<thead>
<tr>
<th></th>
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<th>CY</th>
<th>Bud/Target</th>
<th>Variance CY vs Bud</th>
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</thead>
<tbody>
<tr>
<td><strong>Total FTE</strong></td>
<td>2,578.6</td>
<td>2,585.2</td>
<td>2,525.6 60</td>
<td>2,506.7 2,578.7 2,529.6 49</td>
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<tr>
<td><strong>Productive Hrs/APD</strong></td>
<td>30.0</td>
<td>31.4</td>
<td>30.3 1</td>
<td>30.3 30.4 30.4 0</td>
</tr>
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</table>

#### Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>PY</th>
<th>CY</th>
<th>Bud/Target</th>
<th>Variance CY vs Bud</th>
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</thead>
<tbody>
<tr>
<td><strong>Net Days in AR</strong></td>
<td>44.8</td>
<td>46.8</td>
<td>48.0 (1)</td>
<td>44.8 46.8 48.0 (1)</td>
</tr>
<tr>
<td><strong>Days Cash</strong></td>
<td>444</td>
<td>504</td>
<td>266 238</td>
<td>444 504 266 238</td>
</tr>
</tbody>
</table>

#### Affiliates - Net Income ($000s)

<table>
<thead>
<tr>
<th></th>
<th>PY</th>
<th>CY</th>
<th>Bud/Target</th>
<th>Variance CY vs Bud</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Concern</strong></td>
<td>307</td>
<td>126 (220)</td>
<td>1,556 707 1,430 (723)</td>
<td></td>
</tr>
<tr>
<td><strong>ECSC</strong></td>
<td>14</td>
<td>0 (5)</td>
<td>105 (96) 0 (96)</td>
<td></td>
</tr>
<tr>
<td><strong>Foundation</strong></td>
<td>243</td>
<td>173 135 38</td>
<td>2,420 1,911 737 1,175</td>
<td></td>
</tr>
<tr>
<td><strong>SVMD</strong></td>
<td>204 (270)</td>
<td>7 (263)</td>
<td>209 1,127 0 (1,127)</td>
<td></td>
</tr>
</tbody>
</table>
### Budget Variances

#### Fiscal Year 2018 YTD (7/1/2017-06/30/2018) Waterfall

<table>
<thead>
<tr>
<th>(in thousands; $000s)</th>
<th>Year to Date (YTD)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net Income</td>
</tr>
<tr>
<td>Budgeted Hospital Operations FY2018</td>
<td>77,090</td>
</tr>
<tr>
<td>Net Revenue - Favorable due higher volume, revenue cycle operations and $25 million unusual items</td>
<td>70,621</td>
</tr>
<tr>
<td>Labor and Benefit Expense Change - Labor favorable vs budget after adjusting for volume, GASB credit in P12</td>
<td>2,091</td>
</tr>
<tr>
<td>Professional Fees &amp; Purchased Services - Recruiting costs for several key positions in the organization and backfill for vacant positions, repairs for survey readiness</td>
<td>(11,068)</td>
</tr>
<tr>
<td>Supplies - unfavorable due to increase in surgical and other general supplies, offset by savings in Spine supplies as well as Drugs. Higher volumes also driving increase and net positive to volume adjusted budget</td>
<td>(6,027)</td>
</tr>
<tr>
<td>Other Expenses - primarily due strategic fund expenses not spent</td>
<td>937</td>
</tr>
<tr>
<td>Depreciation &amp; Interest - Favorable due to delay in Parking Structure as well as LG projects</td>
<td>6,764</td>
</tr>
<tr>
<td>Actual Hospital Operations FY2018</td>
<td>140,408</td>
</tr>
</tbody>
</table>
# El Camino Hospital ($000s)

12 months ending 06/30/2018

<table>
<thead>
<tr>
<th>Period 12</th>
<th>Period 12</th>
<th>Period 12</th>
<th>Variance</th>
<th>$000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2017</td>
<td>FY 2018</td>
<td>Budget 2018</td>
<td>Fav (Unfav)</td>
<td>Var%</td>
</tr>
<tr>
<td>------------</td>
<td>------------</td>
<td>-------------</td>
<td>-----------</td>
<td>------</td>
</tr>
<tr>
<td>264,551</td>
<td>268,471</td>
<td>264,630</td>
<td>3,841</td>
<td>1.5%</td>
</tr>
<tr>
<td>(177,195)</td>
<td>(184,142)</td>
<td>(196,276)</td>
<td>12,134</td>
<td>1.0%</td>
</tr>
<tr>
<td>87,356</td>
<td>84,329</td>
<td>68,354</td>
<td>15,975</td>
<td>23.4%</td>
</tr>
<tr>
<td>1,840</td>
<td>2,224</td>
<td>1,861</td>
<td>363</td>
<td>19.5%</td>
</tr>
<tr>
<td><strong>89,196</strong></td>
<td><strong>86,554</strong></td>
<td><strong>70,215</strong></td>
<td><strong>16,338</strong></td>
<td><strong>23.3%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPERATING REVENUE</th>
<th>YTD FY 2017</th>
<th>YTD FY 2018</th>
<th>YTD Budget 2018</th>
<th>Variance</th>
<th>Var%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Revenue</td>
<td>3,019,083</td>
<td>3,295,842</td>
<td>3,193,505</td>
<td>102,337</td>
<td>3.2%</td>
</tr>
<tr>
<td>Deductions</td>
<td>(2,186,820)</td>
<td>(2,399,358)</td>
<td>(2,361,440)</td>
<td>(37,918)</td>
<td>1.6%</td>
</tr>
<tr>
<td>Net Patient Revenue</td>
<td>832,263</td>
<td>896,484</td>
<td>832,066</td>
<td>64,418</td>
<td>7.7%</td>
</tr>
<tr>
<td>Other Operating Revenue</td>
<td>26,085</td>
<td>29,332</td>
<td>23,129</td>
<td>6,202</td>
<td>26.8%</td>
</tr>
<tr>
<td><strong>Total Operating Revenue</strong></td>
<td><strong>858,347</strong></td>
<td><strong>925,816</strong></td>
<td><strong>855,195</strong></td>
<td><strong>70,621</strong></td>
<td><strong>8.3%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPERATING EXPENSE</th>
<th>YTD FY 2017</th>
<th>YTD FY 2018</th>
<th>YTD Budget 2018</th>
<th>Variance</th>
<th>Var%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>446,085</td>
<td>468,265</td>
<td>470,357</td>
<td>2,091</td>
<td>0.4%</td>
</tr>
<tr>
<td>Supplies</td>
<td>121,826</td>
<td>128,179</td>
<td>122,151</td>
<td>(6,027)</td>
<td>-4.9%</td>
</tr>
<tr>
<td>Fees &amp; Purchased Services</td>
<td>101,123</td>
<td>105,970</td>
<td>94,901</td>
<td>(11,068)</td>
<td>-11.7%</td>
</tr>
<tr>
<td>Other Operating Expense</td>
<td>27,503</td>
<td>27,986</td>
<td>28,924</td>
<td>937</td>
<td>3.2%</td>
</tr>
<tr>
<td>Interest</td>
<td>1,709</td>
<td>5,531</td>
<td>8,705</td>
<td>3,174</td>
<td>36.5%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>47,925</td>
<td>49,477</td>
<td>53,067</td>
<td>3,590</td>
<td>6.8%</td>
</tr>
<tr>
<td><strong>Total Operating Expense</strong></td>
<td><strong>746,171</strong></td>
<td><strong>785,408</strong></td>
<td><strong>778,105</strong></td>
<td><strong>(7,303)</strong></td>
<td><strong>-0.9%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Operating Income/(Loss)</th>
<th>YTD FY 2017</th>
<th>YTD FY 2018</th>
<th>YTD Budget 2018</th>
<th>Variance</th>
<th>Var%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non Operating Income</td>
<td>112,176</td>
<td>140,408</td>
<td>77,090</td>
<td>63,318</td>
<td>82.1%</td>
</tr>
<tr>
<td><strong>Net Income/(Loss)</strong></td>
<td><strong>169,576</strong></td>
<td><strong>194,220</strong></td>
<td><strong>79,793</strong></td>
<td><strong>114,427</strong></td>
<td><strong>143.4%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EBITDA</th>
<th>Operating Margin</th>
<th>Net Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>18.9%</td>
<td>13.1%</td>
<td>19.8%</td>
</tr>
<tr>
<td>21.1%</td>
<td>15.2%</td>
<td>21.0%</td>
</tr>
<tr>
<td>16.2%</td>
<td>9.0%</td>
<td>9.3%</td>
</tr>
<tr>
<td>4.9%</td>
<td>6.2%</td>
<td>11.6%</td>
</tr>
</tbody>
</table>
## Non Operating Items and Net Income by Affiliate

### $ in thousands

<table>
<thead>
<tr>
<th>Period 12 - Month</th>
<th>Period 12 - FYTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>Budget</td>
</tr>
<tr>
<td>El Camino Hospital Income (Loss) from Operations</td>
<td></td>
</tr>
<tr>
<td>Mountain View</td>
<td>19,453</td>
</tr>
<tr>
<td>Los Gatos</td>
<td>1,239</td>
</tr>
<tr>
<td><strong>Sub Total - El Camino Hospital, excl. Affiliates</strong></td>
<td>20,692</td>
</tr>
<tr>
<td><strong>Operating Margin %</strong></td>
<td>23.9%</td>
</tr>
<tr>
<td>El Camino Hospital Non Operating Income</td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>2,144</td>
</tr>
<tr>
<td>Swap Adjustments</td>
<td>64</td>
</tr>
<tr>
<td>Community Benefit</td>
<td>(33)</td>
</tr>
<tr>
<td>Pathways</td>
<td>(289)</td>
</tr>
<tr>
<td>Satellite Dialysis</td>
<td>56</td>
</tr>
<tr>
<td>Community Connect</td>
<td>0</td>
</tr>
<tr>
<td>SVMD Funding(^1)</td>
<td>(448)</td>
</tr>
<tr>
<td>Premier Investment(^2)</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>(172)</td>
</tr>
<tr>
<td><strong>Sub Total - Non Operating Income</strong></td>
<td>1,323</td>
</tr>
<tr>
<td>El Camino Hospital Net Income (Loss)</td>
<td>22,015</td>
</tr>
<tr>
<td>ECH Net Margin %</td>
<td>25.4%</td>
</tr>
<tr>
<td>Concern</td>
<td>(94)</td>
</tr>
<tr>
<td>ECSC</td>
<td>(5)</td>
</tr>
<tr>
<td>Foundation</td>
<td>173</td>
</tr>
<tr>
<td>Silicon Valley Medical Development</td>
<td>(270)</td>
</tr>
<tr>
<td><strong>Net Income Hospital Affiliates</strong></td>
<td>(196)</td>
</tr>
<tr>
<td><strong>Total Net Income Hospital &amp; Affiliates</strong></td>
<td>21,819</td>
</tr>
</tbody>
</table>

\(^1\) Favorable variances for SVMD and Community Connect are due to delayed implementation

\(^2\) Gain on Premier stock sale of shares eligible were sold with proceeds going to pooled investments. No impact on vendor relationships.
Higher inpatient volume occurring in Inpatient Behavioral Health, HVI, Neurosciences and General Medicine. High Outpatient volume is General Medicine, Imaging Services, MCH, Lab, Outpatient Clinics, General Surgery and Rehab.
Productivity and Medicare Length of Stay

Work hours per adjusted patient day in June is over budget by 1.1. Overall the month of June is 31.4 worked hours per adjusted patient day

ALOS vs Milliman well-managed benchmark. Trend shows remarkable and steady improvement with FY 2018 at benchmark. Increase in benchmark beginning in FY 2017 due to Clinical Documentation Improvement (CDI)
El Camino Hospital Volume Annual Trends – Inpatient
FY 2018 is annualized

- General Medicine, HVI, Behavioral Health, and Neuroscience display an increasing trend.
- Conversely, Rehab Services, MCH and GYN show a decreasing trend.
- The remaining service lines are staying flat.
Medicare data excludes Medicare HMOs

- Comparing year-over-year Oncology, MCH, Rehab Services, Emergency and Outpatient Clinics are all increasing in volume. All others are remaining flat or decreasing.
ECH Operating Margin

Run rate is booked operating income adjusted for material non-recurring transactions

FY 2018 Actual Run Rate Adjustments (in thousands) - FAV / <UNFAV>

<table>
<thead>
<tr>
<th>Revenue Adjustments</th>
<th>J</th>
<th>A</th>
<th>S</th>
<th>O</th>
<th>N</th>
<th>D</th>
<th>J</th>
<th>F</th>
<th>M</th>
<th>A</th>
<th>M</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance (Payment Variance)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>611</td>
<td>-</td>
<td>669</td>
<td>28</td>
<td>-</td>
<td>603</td>
<td>-</td>
<td>-</td>
<td>204</td>
</tr>
<tr>
<td>Mcare Settlnt/Appeal/Tent Settlnt/PIP</td>
<td>54</td>
<td>155</td>
<td>905</td>
<td>54</td>
<td>184</td>
<td>81</td>
<td>396</td>
<td>92</td>
<td>92</td>
<td>224</td>
<td>92</td>
<td>(16)</td>
</tr>
<tr>
<td>BPCI Settlement</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>331</td>
</tr>
<tr>
<td>Medi-Cal Supplemental</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>899</td>
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<tr>
<td>IG Supplemental</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8,410</td>
</tr>
<tr>
<td>AB 915</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,302</td>
<td>-</td>
</tr>
<tr>
<td>RAC Release</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(894)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(63)</td>
<td>2,348</td>
</tr>
<tr>
<td>Hospital Fee</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>712</td>
<td>1,024</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,391</td>
</tr>
<tr>
<td>PRIME Incentive</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,902</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,108</td>
<td>-</td>
</tr>
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<td>Credit Balance Quarterly Review</td>
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<td>-</td>
<td>2,201</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,620</td>
</tr>
<tr>
<td>Late Charge Accrual</td>
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<td>-</td>
<td>3,283</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,283</td>
</tr>
<tr>
<td>Various Adjustments under $250k</td>
<td>9</td>
<td>35</td>
<td>27</td>
<td>6</td>
<td>16</td>
<td>8</td>
<td>(878)</td>
<td>10</td>
<td>17</td>
<td>(56)</td>
<td>9</td>
<td>218</td>
</tr>
<tr>
<td>Total</td>
<td>63</td>
<td>190</td>
<td>3,134</td>
<td>4,667</td>
<td>4,126</td>
<td>757</td>
<td>(453)</td>
<td>205</td>
<td>1,638</td>
<td>169</td>
<td>2,511</td>
<td>11,814</td>
</tr>
</tbody>
</table>

Note: FY 2018 Actual Run Rate Adjustments (in thousands) - FAV / <UNFAV>
## El Camino Hospital Investment Committee Scorecard
### June 30, 2018

### Key Performance Indicator

<table>
<thead>
<tr>
<th>Status</th>
<th>El Camino</th>
<th>Benchmark</th>
<th>El Camino</th>
<th>Benchmark</th>
<th>El Camino</th>
<th>Benchmark</th>
<th>FY 18 Year-end Budget</th>
<th>Expectation Per Asset Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5y &amp; 8m Since Inception (annualized)</td>
<td>2018</td>
</tr>
<tr>
<td><strong>Investment Performance</strong></td>
<td>2Q 2018</td>
<td>Fiscal Year-to-date</td>
<td>5y &amp; 8m Since Inception (annualized)</td>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus cash balance*</td>
<td>$942.9</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>$926.1</td>
<td>--</td>
</tr>
<tr>
<td>Surplus cash return</td>
<td>1.3%</td>
<td>0.8%</td>
<td>6.9%</td>
<td>5.8%</td>
<td>5.7%</td>
<td>5.4%</td>
<td>1.9%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Cash balance plan balance (millions)</td>
<td>$264.4</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>$257.1</td>
<td>--</td>
</tr>
<tr>
<td>Cash balance plan return</td>
<td>2.0%</td>
<td>0.9%</td>
<td>8.9%</td>
<td>7.0%</td>
<td>8.1%</td>
<td>7.2%</td>
<td>6.0%</td>
<td>5.7%</td>
</tr>
<tr>
<td>403(b) plan balance (millions)</td>
<td>$464.6</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>Risk vs. Return</strong></td>
<td>3-year</td>
<td>5y &amp; 8m Since Inception (annualized)</td>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus cash Sharpe ratio</td>
<td>0.99</td>
<td>0.96</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>1.30</td>
<td>1.24</td>
</tr>
<tr>
<td>Net of fee return</td>
<td>5.3%</td>
<td>5.0%</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>5.7%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>4.7%</td>
<td>4.6%</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>4.1%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Cash balance Sharpe ratio</td>
<td>1.02</td>
<td>0.96</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>1.41</td>
<td>1.31</td>
</tr>
<tr>
<td>Net of fee return</td>
<td>6.6%</td>
<td>5.9%</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>8.1%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>5.8%</td>
<td>5.5%</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>5.4%</td>
<td>5.2%</td>
</tr>
<tr>
<td><strong>Asset Allocation</strong></td>
<td>2Q 2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Surplus cash absolute variances to target</td>
<td>7.2%</td>
<td>&lt; 10%</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
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</tr>
<tr>
<td>Cash balance absolute variances to target</td>
<td>6.1%</td>
<td>&lt; 10%</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>Manager Compliance</strong></td>
<td>2Q 2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus cash manager flags</td>
<td>20</td>
<td>&lt; 24 Green</td>
<td>&lt; 30 Yellow</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
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<tr>
<td>Cash balance plan manager flags</td>
<td>22</td>
<td>&lt; 27 Green</td>
<td>&lt; 34 Yellow</td>
<td>--</td>
<td>--</td>
<td>--</td>
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<td>--</td>
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</tbody>
</table>

*Excludes debt reserve funds (~$223 mm), District assets (~$33 mm), and balance sheet cash not in investable portfolio (~$133 mm).

Includes Foundation (~$26 mm) and Concera (~$13 mm) assets. Budget adds back in current Foundation and Concera assets and backs out current debt reserve funds.
**El Camino Hospital**  
**Capital Spending (in millions)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Detail</th>
<th>Total Estimated Cost of Project</th>
<th>Total Authorized</th>
<th>2018 Current Proj Spend</th>
<th>FY18 Orig Proj Spend</th>
<th>Variance Between Current Proj Spend and Orig Proj Spend</th>
<th>FY 18 YTD Spent</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIP</td>
<td>EPIC Upgrade</td>
<td>1.9</td>
<td>1.1</td>
<td>1.9</td>
<td>1.9</td>
<td>0.0</td>
<td>1.1</td>
</tr>
<tr>
<td>IT Hardware, Software, Equipment &amp; Imaging*</td>
<td></td>
<td>12.2</td>
<td>1.2</td>
<td>12.2</td>
<td>12.2</td>
<td>0.0</td>
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</tr>
<tr>
<td>Medical &amp; Non Medical Equipment FY 17**</td>
<td></td>
<td>14.0</td>
<td>13.0</td>
<td>8.6</td>
<td>0.0</td>
<td>8.6 ²</td>
<td>7.6</td>
</tr>
<tr>
<td>Medical &amp; Non Medical Equipment FY 18***</td>
<td></td>
<td>5.6</td>
<td>6.3</td>
<td>5.6</td>
<td>5.6</td>
<td>0.0</td>
<td>6.3</td>
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</table>

**Facility Projects**

<table>
<thead>
<tr>
<th>Category</th>
<th>Detail</th>
<th>Total Estimated Cost of Project</th>
<th>Total Authorized</th>
<th>2018 Current Proj Spend</th>
<th>FY18 Orig Proj Spend</th>
<th>Variance Between Current Proj Spend and Orig Proj Spend</th>
<th>FY 18 YTD Spent</th>
</tr>
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<tbody>
<tr>
<td>1245 Behavioral Health Bldg</td>
<td>FY16</td>
<td>96.1</td>
<td>96.1</td>
<td>45.4</td>
<td>27.0</td>
<td>51.4</td>
<td>-24.4 ¹</td>
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<tr>
<td>1413 North Drive Parking Expansion</td>
<td>FY15</td>
<td>24.5</td>
<td>24.5</td>
<td>24.2</td>
<td>2.6</td>
<td>3.4</td>
<td>-0.8</td>
</tr>
<tr>
<td>1414 Integrated MOB</td>
<td>FY15</td>
<td>302.1</td>
<td>302.1</td>
<td>119.0</td>
<td>72.0</td>
<td>130.1</td>
<td>-58.1 ¹</td>
</tr>
<tr>
<td>1422 CUP Upgrade</td>
<td>FY16</td>
<td>9.0</td>
<td>9.0</td>
<td>7.6</td>
<td>5.5</td>
<td>1.5</td>
<td>4.5</td>
</tr>
<tr>
<td>1430 Women's Hospital Expansion</td>
<td>FY16</td>
<td>120.0</td>
<td>6.0</td>
<td>3.2</td>
<td>3.6</td>
<td>7.0</td>
<td>-3.4</td>
</tr>
<tr>
<td>1425 IMOB Preparation Project - Old Main</td>
<td>FY16</td>
<td>20.0</td>
<td>0.0</td>
<td>2.8</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>1502 Cabling &amp; Wireless Upgrades</td>
<td>FY16</td>
<td>0.0</td>
<td>0.0</td>
<td>2.6</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>1525 New Main Lab Upgrades</td>
<td>FY16</td>
<td>3.1</td>
<td>3.1</td>
<td>2.2</td>
<td>2.5</td>
<td>0.0</td>
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<tr>
<td>1515 ED Remodel Triage/Psych Observation</td>
<td>FY16</td>
<td>5.0</td>
<td>0.3</td>
<td>0.2</td>
<td>0.1</td>
<td>0.2</td>
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<tr>
<td>1503 Willow Pavilion Tomosynthesis</td>
<td>FY16</td>
<td>0.8</td>
<td>0.0</td>
<td>0.3</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>1602 JW House (Patient Family Residence)</td>
<td></td>
<td>6.5</td>
<td>0.5</td>
<td>0.2</td>
<td>0.5</td>
<td>0.5</td>
<td>0.0</td>
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<tr>
<td>Site Signage and Other Improvements</td>
<td></td>
<td>1.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.3</td>
<td>1.0</td>
<td>-0.8</td>
</tr>
<tr>
<td>Nurse Call System Upgrades</td>
<td></td>
<td>2.4</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
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<tr>
<td>1707 Imaging Equipment Replacement (5 or 6 rooms)</td>
<td></td>
<td>20.7</td>
<td>0.0</td>
<td>0.0</td>
<td>0.3</td>
<td>0.1</td>
<td>0.2</td>
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<tr>
<td>1708 IR/Cath Lab Equipment Replacement</td>
<td></td>
<td>19.4</td>
<td>0.0</td>
<td>0.0</td>
<td>0.3</td>
<td>2.0</td>
<td>-1.8</td>
</tr>
<tr>
<td>Flooring Replacement</td>
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<td>1.6</td>
<td>0.3</td>
<td>0.0</td>
<td>0.4</td>
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<tr>
<td>1219 LG Spine OR</td>
<td>FY13</td>
<td>0.0</td>
<td>0.0</td>
<td>3.8</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>1313 LG Rehab HVAC System &amp; Structural</td>
<td>FY16</td>
<td>0.0</td>
<td>0.0</td>
<td>4.1</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>1248 LG Imaging Phase II (CT &amp; Gen Rad)</td>
<td>FY16</td>
<td>8.8</td>
<td>9.6</td>
<td>8.9</td>
<td>0.7</td>
<td>-0.1</td>
<td>1.6</td>
</tr>
<tr>
<td>1307 LG Upgrades</td>
<td>FY13</td>
<td>19.3</td>
<td>19.3</td>
<td>17.8</td>
<td>5.0</td>
<td>-1.1</td>
<td>3.9</td>
</tr>
<tr>
<td>1508 LG NICU 4 Bed Expansion</td>
<td>FY16</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>1507 LG IR Upgrades</td>
<td></td>
<td>1.3</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>1603 LG MOB Improvements (17)</td>
<td></td>
<td>5.0</td>
<td>0.0</td>
<td>4.9</td>
<td>3.5</td>
<td>3.5</td>
<td>0.0</td>
</tr>
<tr>
<td>1711 Emergency Sanitary &amp; Water Storage</td>
<td></td>
<td>1.4</td>
<td>0.3</td>
<td>0.1</td>
<td>0.2</td>
<td>3.2</td>
<td>-3.0</td>
</tr>
<tr>
<td>LG Modular MRI &amp; Awning</td>
<td></td>
<td>3.9</td>
<td>3.9</td>
<td>0.0</td>
<td>0.4</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>LG Nurse Call System Upgrade</td>
<td></td>
<td>2.8</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>LG Observation Unit (Conversion of ICU 2)</td>
<td></td>
<td>1.8</td>
<td>0.0</td>
<td>0.0</td>
<td>0.8</td>
<td>0.0</td>
<td>0.8</td>
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<tr>
<td>1712 LG Cancer Center</td>
<td></td>
<td>2.4</td>
<td>0.3</td>
<td>0.2</td>
<td>0.4</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>All Other Projects under $1M</td>
<td></td>
<td>5.6</td>
<td>0.1</td>
<td>90.9</td>
<td>1.8</td>
<td>0.0</td>
<td>1.8</td>
</tr>
</tbody>
</table>

**GRAND TOTAL**  
| | 684.4 | 479.6 | 338.3 | 128.0 | 211.9 | -83.9 | 131.2 |
| | 499.4 | 360.0 | 156.5 | 231.7 | -75.2 | 147.4 |
## Balance Sheet (in thousands)

### ASSETS

<table>
<thead>
<tr>
<th>Category</th>
<th>June 30, 2018</th>
<th>Audited</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>118,976</td>
<td>125,551</td>
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<tr>
<td>Short Term Investments</td>
<td>158,582</td>
<td>140,284</td>
</tr>
<tr>
<td>Patient Accounts Receivable, net</td>
<td>116,372</td>
<td>109,089</td>
</tr>
<tr>
<td>Other Accounts and Notes Receivable</td>
<td>3,117</td>
<td>2,628</td>
</tr>
<tr>
<td>Intercompany Receivables</td>
<td>2,052</td>
<td>1,495</td>
</tr>
<tr>
<td>(1) Inventories and Prepaid</td>
<td>75,421</td>
<td>50,657</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>474,520</td>
<td>429,705</td>
</tr>
<tr>
<td><strong>BOARD DESIGNATED ASSETS</strong></td>
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<td></td>
</tr>
<tr>
<td>(2) Plant &amp; Equipment Fund</td>
<td>153,784</td>
<td>131,153</td>
</tr>
<tr>
<td>Women’s Hospital Expansion</td>
<td>9,298</td>
<td>9,298</td>
</tr>
<tr>
<td>(3) Operational Reserve Fund</td>
<td>127,908</td>
<td>100,196</td>
</tr>
<tr>
<td>(4) Community Benefit Fund</td>
<td>18,675</td>
<td>12,237</td>
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<tr>
<td>Workers Compensation Reserve Fund</td>
<td>22,261</td>
<td>20,007</td>
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<tr>
<td>Postretirement Health/Life Reserve Fund</td>
<td>19,787</td>
<td>19,218</td>
</tr>
<tr>
<td>PTO Liability Fund</td>
<td>24,532</td>
<td>23,409</td>
</tr>
<tr>
<td>Malpractice Reserve Fund</td>
<td>1,634</td>
<td>1,634</td>
</tr>
<tr>
<td>Catastrophic Reserve Fund</td>
<td>18,322</td>
<td>16,575</td>
</tr>
<tr>
<td><strong>Total Board Designated Assets</strong></td>
<td>396,202</td>
<td>333,727</td>
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<tr>
<td>(5) FUNDS HELD BY TRUSTEE</td>
<td>197,269</td>
<td>287,052</td>
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<td><strong>LONG TERM INVESTMENTS</strong></td>
<td>343,409</td>
<td>256,652</td>
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<tr>
<td><strong>INVESTMENTS IN AFFILIATES</strong></td>
<td>32,775</td>
<td>32,451</td>
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<td><strong>PROPERTY AND EQUIPMENT</strong></td>
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<td></td>
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<tr>
<td>(6) Fixed Assets at Cost</td>
<td>1,261,854</td>
<td>1,192,047</td>
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<tr>
<td>Less: Accumulated Depreciation</td>
<td>(577,959)</td>
<td>(531,785)</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>204,623</td>
<td>138,017</td>
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<tr>
<td><strong>Property, Plant &amp; Equipment - Net</strong></td>
<td>888,518</td>
<td>798,279</td>
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<tr>
<td><strong>DEFERRED OUTFLOWS</strong></td>
<td>21,177</td>
<td>28,960</td>
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<tr>
<td><strong>RESTRICTED ASSETS - CASH</strong></td>
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<td>0</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>2,353,871</td>
<td>2,166,825</td>
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</table>

### LIABILITIES AND FUND BALANCE

<table>
<thead>
<tr>
<th>Category</th>
<th>June 30, 2018</th>
<th>Audited</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>30,474</td>
<td>38,457</td>
</tr>
<tr>
<td>Salaries and Related Liabilities</td>
<td>27,476</td>
<td>25,109</td>
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<tr>
<td>Accrued PTO</td>
<td>24,532</td>
<td>23,409</td>
</tr>
<tr>
<td>Worker’s Comp Reserve</td>
<td>2,300</td>
<td>2,300</td>
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<tr>
<td>Third Party Settlements</td>
<td>7,000</td>
<td>10,438</td>
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<td>Intercompany Payables</td>
<td>124</td>
<td>84</td>
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<tr>
<td>Malpractice Reserves</td>
<td>1,634</td>
<td>1,634</td>
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<tr>
<td>Bonds Payable - Current</td>
<td>3,850</td>
<td>3,735</td>
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<tr>
<td>Bond Interest Payable</td>
<td>13,031</td>
<td>11,245</td>
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<tr>
<td>Other Liabilities</td>
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<td>4,889</td>
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<td><strong>Total Current Liabilities</strong></td>
<td>119,500</td>
<td>121,299</td>
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<td><strong>LONG TERM LIABILITIES</strong></td>
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<tr>
<td>Post Retirement Benefits</td>
<td>19,787</td>
<td>19,218</td>
</tr>
<tr>
<td>Worker’s Comp Reserve</td>
<td>19,961</td>
<td>17,707</td>
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<td>Other L/T Obligation (Asbestos)</td>
<td>3,859</td>
<td>3,746</td>
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<tr>
<td>Other L/T Liabilities (IT/Medl Leases)</td>
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<td>-</td>
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<td>Bond Payable</td>
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<td>527,371</td>
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<td><strong>Total Long Term Liabilities</strong></td>
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<td>568,042</td>
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<td><strong>DEFERRED REVENUE-UNRESTRICTED</strong></td>
<td>528</td>
<td>567</td>
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<td><strong>DEFERRED INFLOW OF RESOURCES</strong></td>
<td>21,333</td>
<td>10,666</td>
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<td><strong>FUND BALANCE/CAPITAL ACCOUNTS</strong></td>
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<tr>
<td>Unrestricted</td>
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<tr>
<td>Board Designated</td>
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<td>333,726</td>
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<td>Restricted</td>
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<td><strong>Total Fund Bal &amp; Capital Accts</strong></td>
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<td>1,466,251</td>
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<td><strong>TOTAL LIABILITIES AND FUND BALANCE</strong></td>
<td>2,353,871</td>
<td>2,166,825</td>
</tr>
</tbody>
</table>
June 2018 El Camino Hospital Comparative Balance Sheet Variances and Footnotes

(1) The significant increase is due to the actuarially determined (GASB 68) prepaid funding of the Cash Balance Plan just completed by Conduent, as given the investment performance in calendar 2017 the value of prepaid funding grew by approximately $20M. Note there is about a 50% offset on the Liability side of the Balance Sheet – see Deferred Inflow of Resources.

(2) The increase is due to funded depreciation contributions (130% of straight depreciation expense. Note this amount also contains $14M reserved for BHS replacement building currently under construction, in conjunction with bond proceeds, item (5).

(3) The increase here is to reset the Operational Reserve (to cover 60 days of operating expenses) for FY2018. The prior year balance hadn’t been reset in a couple of years.

(4) The increase is due to an approved addition of $5 million to the Community Benefit Board Designated Endowment as an outcome of the FY2018 budget process to generate additional investment income for the Community Benefits program.

(5) The decrease is due to additional draws from the 2017 bond financing Project Funds in support of monthly payments to contractors involved with the construction projects at the Mountain View campus. As these projects are now in full progress greater amounts will be withdrawn in future periods.

(6) The increase is due to the capitalization of the Parking Structure expansion in August, CT upgrades at LG in September and the MOB upgrades also at LG.

(7) Increase related to Cash Balance adjust this year (GASB 68) – see footnote #1

(8) The increase is mostly attributable to the year's financial performance producing an operating income of $140 million and non-operating of $54 million (mostly from unrealized gains on investments).

(1) Hospital entity only, excludes controlled affiliates
EL CAMINO HOSPITAL - BOARD DESIGNATED FUND DESCRIPTIONS/HISTORY (1 OF 2)

**Plant & Equipment Fund** — original established by the District Board in the early 1960’s to fund new capital expansion projects of building facilities or equipment (new or replacements). The funds came from the M&O property taxes being received and the funding depreciation expense at 100%. When at the end of 1992, the 501(c)(3) Hospital was performed by the District, the property tax receipts remained with the District. The newly formed Hospital entity continued on with funding depreciation expense, but did that funding at 130% of the depreciation expense to account for an expected replacement cost of current plant and property assets. It is to be noted that within this fund is an itemized amount of $14 million for the Behavioral Health Service building replacement project. This amount came from the District’s Capital Appropriation Fund (excess Gann Limit property taxes) of the fiscal years of 2010 thru 2013 by various District board actions.

**Women’s Hospital Expansion** — established June 2016 by the District authorizing the amounts accumulated in its Capital Appropriation Fund (excess Gann Limit property taxes) for the fiscal years of 2014 and 2015 to be allocated for the renovation of the Women’s Hospital upon the completion of Integrated Medical Office Building currently under construction.

**Operational Reserve Fund** — originally established by the District in May 1992 to establish a fund equal to sixty (60) days of operational expenses (based on projected budget) and only be used in the event of a major business interruption event and/or cash flow.

**Community Benefit Fund** — following in the footsteps of the District in 2008 of forming its Community Benefit Fund using Gann Limit tax receipts, the Hospital in 2010 after opening its campus outside of District boundaries in Los Gatos formed its own Community Benefit Fund to provide grants/sponsorships in Los Gatos and surrounding areas. The funds come from the Hospital reserving $1.5M a year from its operations, the entity of CONCERN contributing 40% of its annual income each year (an amount it would have paid in corporate taxes if it wasn’t granted tax exempt status), that generates an amount of $800,000 or more a year. $15 million within this fund is a board designated endowment fund formed in 2015 with a $10 million contribution, and added to at the end of the 2017 fiscal year end with another $5 million contribution, to generate investment income to be used for grants and sponsorships, currently anticipated to generate $500,000 a year in investment income for the program.
Workers Compensation Reserve Fund – as the Hospital is self-insured for its workers compensation program (since 1978) this fund was originally formed in early 2000’s by management to reserve cash equal to the yearly actuarially determined Workers Compensation amount. The thought being if the business was to terminate for some reason this is the amount in cash that would be needed to pay out claims over the next few years.

Postretirement Health/Life Reserve Fund – following the same formula as the Workers Compensation Reserve Fund this fund was formed in the early 2000’s by management to reserve cash equal to the yearly actuarially determined amount to fund the Hospital’s postretirement health and life insurance program. Note this program was frozen in 1995 for all new hires after that date.

PTO (Paid Time Off) Liability Fund – originally formed in 1993 as the new 501(c)(3) Hospital began operations, management thought as a business requirement of this vested benefit program that monies should be set aside to extinguish this employee liability should such a circumstance arise. This balance is equal to the PTO Liability on the Balance Sheet.

Malpractice Reserve Fund – originally established in 1989 by the then District’s Finance Committee and continued by the Hospital. The amount is actuarially determined each year as part of the annual audit to fund potential claims less than $50,000. Above $50,000 our policy with the BETA Healthcare Group kicks in to a $30 million limit per claim/$40 million in the aggregate.

Catastrophic Loss Fund – was established in 1999 by the Hospital Board to be a “self-insurance” reserve fund for potential non-major earthquake repairs. Initially funded by the District transferring $5 million and has been added to by the last major payment from FEMA for the damage caused the Hospital by the October 1989 earthquake. It is to be noted that it took 10 years to receive final settlement from FEMA grants that totaled $6.8 million that did mostly cover all the necessary repairs.
APPENDIX
El Camino Hospital – Mountain View ($000s)
12 months ending 06/30/2018

<table>
<thead>
<tr>
<th>Period 12</th>
<th>Period 12</th>
<th>Period 12</th>
<th>Variance</th>
<th>$000s</th>
<th>YTD</th>
<th>YTD</th>
<th>YTD</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2017</td>
<td>FY 2018</td>
<td>Budget 2018</td>
<td>Fav (Unfav)</td>
<td>Var%</td>
<td>FY 2017</td>
<td>FY 2018</td>
<td>Budget 2018</td>
<td>Fav (Unfav)</td>
</tr>
<tr>
<td>OPERATING REVENUE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Revenue</td>
<td>2,477,932</td>
<td>2,703,886</td>
<td>2,617,727</td>
<td>86,159</td>
<td>3.3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deductions</td>
<td>(1,789,652)</td>
<td>(1,963,531)</td>
<td>(1,943,291)</td>
<td>(20,239)</td>
<td>1.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Patient Revenue</td>
<td>688,281</td>
<td>740,355</td>
<td>674,436</td>
<td>65,919</td>
<td>9.8%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Operating Revenue</td>
<td>24,080</td>
<td>26,804</td>
<td>20,561</td>
<td>6,243</td>
<td>30.4%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Operating Revenue</td>
<td>712,360</td>
<td>767,159</td>
<td>694,997</td>
<td>72,162</td>
<td>10.4%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OPERATING EXPENSE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>370,202</td>
<td>389,302</td>
<td>393,466</td>
<td>4,165</td>
<td>1.1%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>99,717</td>
<td>104,625</td>
<td>98,332</td>
<td>(1,325)</td>
<td>-16.5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees &amp; Purchased Services</td>
<td>84,598</td>
<td>89,542</td>
<td>79,535</td>
<td>(10,007)</td>
<td>-12.6%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Operating Expense</td>
<td>8,406</td>
<td>9,349</td>
<td>8,013</td>
<td>(1,325)</td>
<td>-16.5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>1,709</td>
<td>5,531</td>
<td>8,705</td>
<td>3,176</td>
<td>36.5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>41,806</td>
<td>41,959</td>
<td>43,943</td>
<td>1,164</td>
<td>2.8%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Operating Expense</td>
<td>606,434</td>
<td>640,307</td>
<td>634,227</td>
<td>(6,080)</td>
<td>-1.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Operating Income/(Loss)</td>
<td>106,926</td>
<td>126,852</td>
<td>60,769</td>
<td>66,082</td>
<td>108.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non Operating Income</td>
<td>57,410</td>
<td>53,857</td>
<td>2,704</td>
<td>51,153</td>
<td>1892.1%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Income(Loss)</td>
<td>163,337</td>
<td>180,709</td>
<td>63,473</td>
<td>117,236</td>
<td>184.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| | 30.6% | 31.8% | 14.1% | 17.7% | | | | | |
| | 28.9% | 26.7% | 6.0% | 20.6% | | | | | |
| | 30.7% | 28.5% | 6.4% | 22.0% | | | | | |

EBITDA | 21.0% | 22.7% | 16.3% | 6.4% | | | | | |
Operating Margin | 14.9% | 16.5% | 8.7% | 7.8% | | | | | |
Net Margin | 22.9% | 23.6% | 9.1% | 14.4% | | | | | |
El Camino Hospital – Los Gatos ($000s)
12 months ending 06/30/2018

<table>
<thead>
<tr>
<th></th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>Budget 2018</th>
<th>Variance</th>
<th>Var%</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPERATING REVENUE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Revenue</td>
<td>541,151</td>
<td>591,956</td>
<td>575,778</td>
<td>16,178</td>
<td>2.8%</td>
</tr>
<tr>
<td>Deductions</td>
<td>(397,168)</td>
<td>(435,827)</td>
<td>(418,148)</td>
<td>(17,679)</td>
<td>4.2%</td>
</tr>
<tr>
<td>Net Patient Revenue</td>
<td>143,982</td>
<td>156,129</td>
<td>157,630</td>
<td>(1,501)</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Other Operating Revenue</td>
<td>2,005</td>
<td>2,528</td>
<td>2,568</td>
<td>(40)</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Total Operating Revenue</td>
<td>145,987</td>
<td>158,657</td>
<td>160,198</td>
<td>(1,541)</td>
<td>-1.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>Budget 2018</th>
<th>Variance</th>
<th>Var%</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPERATING EXPENSE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>75,883</td>
<td>78,963</td>
<td>76,890</td>
<td>(2,073)</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Supplies</td>
<td>22,109</td>
<td>23,553</td>
<td>23,819</td>
<td>(266)</td>
<td>1.1%</td>
</tr>
<tr>
<td>Fees &amp; Purchased Services</td>
<td>16,524</td>
<td>16,427</td>
<td>15,366</td>
<td>(1,061)</td>
<td>-6.9%</td>
</tr>
<tr>
<td>Other Operating Expense</td>
<td>19,098</td>
<td>18,639</td>
<td>18,678</td>
<td>39</td>
<td>0.2%</td>
</tr>
<tr>
<td>Interest</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>6,124</td>
<td>7,518</td>
<td>9,125</td>
<td>1,607</td>
<td>17.6%</td>
</tr>
<tr>
<td>Total Operating Expense</td>
<td>139,737</td>
<td>145,101</td>
<td>143,878</td>
<td>(1,223)</td>
<td>-0.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>Budget 2018</th>
<th>Variance</th>
<th>Var%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Operating Income/(Loss)</td>
<td>6,250</td>
<td>13,556</td>
<td>16,320</td>
<td>(2,764)</td>
<td>-16.9%</td>
</tr>
<tr>
<td>Non Operating Income</td>
<td>(10)</td>
<td>(45)</td>
<td>0</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Net Income(Loss)</td>
<td>6,240</td>
<td>13,511</td>
<td>16,320</td>
<td>(2,809)</td>
<td>-17.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>Budget 2018</th>
<th>Variance</th>
<th>Var%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Margin</td>
<td>4.3%</td>
<td>8.5%</td>
<td>10.2%</td>
<td>-1.6%</td>
<td></td>
</tr>
<tr>
<td>Net Margin</td>
<td>4.3%</td>
<td>8.5%</td>
<td>10.2%</td>
<td>-1.7%</td>
<td></td>
</tr>
</tbody>
</table>

LG margin improved from prior year and favorable compared to benchmarks. However performance is lower than budget due to MD turnover.
### Capital Spend Trend & FY 18 Budget

<table>
<thead>
<tr>
<th>Capital Spending (in 000's)</th>
<th>Actual FY2015</th>
<th>Actual FY2016</th>
<th>Actual FY2017</th>
<th>Projected FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPIC</td>
<td>29,849</td>
<td>20,798</td>
<td>2,755</td>
<td>1,922</td>
</tr>
<tr>
<td>IT Hardware / Software Equipment</td>
<td>4,660</td>
<td>6,483</td>
<td>2,659</td>
<td>12,238</td>
</tr>
<tr>
<td>Medical / Non Medical Equipment*</td>
<td>13,340</td>
<td>17,133</td>
<td>9,556</td>
<td>14,275</td>
</tr>
<tr>
<td>Non CIP Land, Land I, BLDG, Additions</td>
<td>-</td>
<td>4,189</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Facilities</td>
<td>38,940</td>
<td>48,137</td>
<td>82,953</td>
<td>128,030</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td><strong>86,789</strong></td>
<td><strong>96,740</strong></td>
<td><strong>97,923</strong></td>
<td><strong>156,465</strong></td>
</tr>
</tbody>
</table>

*Includes 2 robot purchases in FY2017*
## El Camino Hospital Capital Spending (in thousands) FY 2012 – FY 2017

<table>
<thead>
<tr>
<th>Category</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPIC</td>
<td>0</td>
<td>6,838</td>
<td>29,849</td>
<td>20,798</td>
<td>2,755</td>
<td></td>
</tr>
<tr>
<td>IT Hardware/Software Equipment</td>
<td>8,019</td>
<td>2,788</td>
<td>4,660</td>
<td>6,483</td>
<td>2,659</td>
<td></td>
</tr>
<tr>
<td>Medical/Non Medical Equipment</td>
<td>10,284</td>
<td>12,891</td>
<td>13,340</td>
<td>17,133</td>
<td>9,556</td>
<td></td>
</tr>
<tr>
<td>Non CIP Land, Land I, BLDG, Additions</td>
<td>0</td>
<td>22,292</td>
<td>0</td>
<td>4,189</td>
<td>0</td>
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</tr>
<tr>
<td>Land Acquisition (1550)</td>
<td>0</td>
<td>0</td>
<td>24,007</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>828 S Winchester Clinic TI (1701)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>145</td>
<td></td>
</tr>
<tr>
<td><strong>Facilities Projects CIP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Mountain View Campus Master Plan Projects</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1245 - Behavioral Health Bldg Replace</td>
<td>0</td>
<td>1,257</td>
<td>3,775</td>
<td>1,389</td>
<td>10,323</td>
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<tr>
<td>1413 - North Drive Parking Structure Exp</td>
<td>0</td>
<td>0</td>
<td>167</td>
<td>1,266</td>
<td>18,120</td>
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<tr>
<td>1414 - Integrated MOB</td>
<td>0</td>
<td>2,009</td>
<td>8,875</td>
<td>32,805</td>
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<tr>
<td>1422 - CUP Upgrade</td>
<td>0</td>
<td>0</td>
<td>896</td>
<td>1,245</td>
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<tr>
<td><strong>Sub-Total Mountain View Campus Master Plan</strong></td>
<td>0</td>
<td>1,257</td>
<td>5,950</td>
<td>12,426</td>
<td>62,493</td>
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<tr>
<td><strong>Mountain View Capital Projects</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>9900 - Unassigned Costs</td>
<td>734</td>
<td>470</td>
<td>3,717</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>1108 - Cooling Towers</td>
<td>450</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>1120 - BHS Out Patient TI's</td>
<td>66</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>1129 - Old Main Card Rehab</td>
<td>9</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>0817 - Womens Hos Upgrds</td>
<td>645</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>0906 - Slot Build-Out</td>
<td>1,003</td>
<td>1,576</td>
<td>15,101</td>
<td>1,251</td>
<td>294</td>
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<tr>
<td>1109 - New Main Upgrades</td>
<td>423</td>
<td>393</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>1111 - Mom/Baby Overflow</td>
<td>212</td>
<td>29</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1204 - Elevator Upgrades</td>
<td>25</td>
<td>30</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>0800 - Womens L&amp;D Expansion</td>
<td>2,104</td>
<td>1,531</td>
<td>269</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>1131 - MV Equipment Replace</td>
<td>216</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1208 - Willow Pav. High Risk</td>
<td>110</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1213 - LG Sterilizers</td>
<td>102</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>1225 - Rehab BLDG Roofing</td>
<td>7</td>
<td>241</td>
<td>4</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1227 - New Main eICU</td>
<td>96</td>
<td>21</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>1230 - Fog Shop</td>
<td>339</td>
<td>80</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1315 - 205 So. Drive TI’s</td>
<td>0</td>
<td>500</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>0908 - NPCR3 Seismic Upgrds</td>
<td>1,302</td>
<td>1,224</td>
<td>1,328</td>
<td>240</td>
<td>342</td>
<td>0</td>
</tr>
<tr>
<td>1125 - Will Pav Fire Sprinkler</td>
<td>57</td>
<td>39</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1211 - SIS Monitor Install</td>
<td>215</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1216 - New Main Process Imp Office</td>
<td>19</td>
<td>1</td>
<td>16</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1217 - MV Campus MEP Upgrades FY13</td>
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### Grand Total
27,598 58,561 86,789 96,740 97,923

Forecast at Beginning of year
70,503 70,037 101,607 114,025 212,000
**ECH BOARD COMMITTEE MEETING AGENDA ITEM COVER SHEET**

| Item:          | Physician Transaction Compliance Education  |
|               | Finance Committee                          |
|               | July 30, 2018                              |
| Responsible party: | Mary Rotunno, General Counsel; Diane Wigglesworth, Sr. Director, Corporate Compliance |
| Action requested: | For Information                          |

**Background:**
The Office of the Inspector General of the US Department of Health and Human Services recommends that healthcare organization boards receive annual compliance training to promote an effective compliance program. This training was provided to the Hospital Board at its March 14, 2018 meeting and to the Compliance and Audit Committee at its May 17, 2018 meeting.

This presentation is provided for the Finance Committee’s information, as the Committee is responsible under Hospital Policy 51.00 for reviewing and recommending for approval any physician contracts 1) over $250,000, 2) over the 75th percentile of fair market value, and/or 3) with a 10% or more increase. Physician financial arrangements are a significant compliance risk to El Camino Hospital.

**Other Board Advisory Committees that reviewed the issue and recommendation, if any:** N/A, this is an informational item.

**Summary and session objectives:**
This education session will focus on: 1) the Committee’s responsibility under Policy 51.00 (Physician Financial Arrangements – Review and Approval); and 2) a discussion of evaluating commercial reasonableness to be used in evaluating physician financial arrangements under Policy 51.00.

**Suggested discussion questions:**
When reviewing 10-Steps for physician contracts:
1. Is the **business justification** to pay over 75% clearly documented in the 10-Step? *(e.g., bona fide negotiations with physician or other physicians, RFP process)*
2. Is the business need for the arrangement **clearly defined and commercially reasonable**? *(Does the 10-Step address the questions on the Commercial Reasonableness Checklist? Are there similar agreements already in place? Are there more cost-effective alternatives available to the Hospital?)*

**Proposed Committee motion, if any:** None.

**LIST OF ATTACHMENTS:**
1. Policy 51.00 (Physician Financial Arrangements – Review and Approval)
2. Stark/CMS Definitions of FMV and Commercial Reasonableness
3. Commercial Reasonableness Checklist
4. **Appendix:** Compliance Training presentation (provided to the Board 3/14/2018)
5. **Appendix:** OIG Report: Practical Guidance for Health Care Governing Boards on Compliance Oversight
POLICY/PROCEDURE TITLE: Corporate Compliance: Physician Financial Arrangements - Review and Approval

CATEGORY: Administration
LAST APPROVAL DATE: 1/2018

☑ Policy ☐ Procedure ☐ Protocol ☐ Standardized Procedure ☐ Scope of Service/ADT
☐ Practice Guideline

SUB-CATEGORY:
ORIGINAL DATE: 6/08

COVERAGE:

All El Camino Hospital staff, Contract Personnel, Physicians, Healthcare Providers, and the Governing Board.

PURPOSE:

The purpose of this policy is to comply with the Stark law, Anti-Kickback, HIPAA and all other Federal and State Laws.

STATEMENT:

This policy implements the overall compliance goals of the Hospital with respect to Physician financial arrangements.

This policy establishes administrative principles and guidelines, Board delegation of authority and oversight, and review processes and approvals that must be followed before the Hospital enters into a direct or indirect financial arrangement with an individual physician, a physician group, other organizations representing a physician, or a member of immediate family of a physician (“Physician”). Physician financial arrangements that involve any transfer of value, including monetary compensation, are subject to this and the following policies: 1) Signature Authority policy, 2) Reimbursement of Business Expenses policy, and 3) Physician Recruitment policy.

All financial arrangements of any kind involving Physician, including but not limited to, medical director, consulting, on-call arrangements, professional service agreements, education and training, conference reimbursement or real estate leases, will comply with the Stark law, Anti-Kickback, HIPAA and all other Federal and State Laws. All Physician financial arrangements are prohibited except those Physician financial arrangements that are approved and documented as provided in this Policy.

Physician financial arrangements may be entered into only where they are needed and serve the strategic goals (including quality and value) of the Hospital. Each Physician financial arrangement must meet or exceed the complex and stringent legal requirements that regulate Physician financial relationships with the Hospital. All Physician financial arrangements
between a physician and the Hospital must be in writing and meet fair market value, commercial reasonableness and the following requirements as applicable.

**PROCEDURE:**

A. **Administrative Standards:**

When creating or renewing a Physician financial arrangement, the following principles must be followed. This Policy applies to any Physician financial arrangement including, but not limit to: Medical Directorships, ED Call Panels, Professional Services, Panel Professional Services, Consulting, Lease, Education and Training, Conference Payment, and Physician Recruitment.

1. **All Physician Financial Arrangements:**

   a) Each Physician financial arrangement (except Physician Lease Contracts) must provide a service that is needed for at least one of the following reasons: 1) it is required by applicable law, 2) required administrative or clinical oversight can only be provided by a qualified physician, 3) the administrative services to be provided support an articulated strategic goal of the Hospital, such as patient safety, and 4) the arrangement must solve, prevent or mitigate an identified operational problem for the Hospital.

   b) The terms of the Physician financial arrangement must be fair market value and commercially reasonable and must not take into account the volume or value of any referrals or other business generated between the parties. All of the terms of the Physician financial arrangement must be in a written contract that details the work or activities to be performed and all compensation of any kind or the lease terms (“Physician Contracts”). The services contracted for may not exceed those that are reasonable and necessary for the legitimate business purposes of the Physician financial arrangement. If there is more than one Physician Contract with a Physician, the Physician Contracts must cross-reference one another (or be identified on a list of Physician Contracts) and be reviewed for potential overlapping commitments prior to negotiating additional agreements.

   The process for determining Physician compensation for each Physician financial arrangement must be set forth in the Physician Contract file and identified in sufficient detail so that it can be objectively verified as meeting fair market value standards. Any compensation paid to or remuneration received by a Physician shall not vary based on the volume or value of services referred or business
otherwise generated by the Physician and must reflect fair market value. Compensation cannot exceed the seventy-fifth percentile of fair market value without prior Board approval. All Physician contracts should use local or regional market data, when available, to determine the seventy-fifth percentile of FMV.

In order to support reasonableness of compensation or remuneration, written fair market data must accompany the Physician Contract and show compensation paid by similar situated organizations and/or independent compensation surveys by nationally recognized independent firms.

c) Compensation cannot be revised or modified during the first twelve (12) months of any Physician financial arrangement. If the compensation is revised thereafter, it must be evidenced by a written amendment to the Physician Contract, signed by both parties before the increase in compensation takes effect. For example, if the increase in compensation is to take effect on April 1, the amendment must be signed by both parties on or before April 1 and the original Physician Contract must have been effective on or before March 31 of the prior year. The compensation cannot be changed for twelve (12) months after the effective date of such amendment.

d) All Physician Contract renewals must be signed before the expiration of the term of the existing Physician Contract.

e) Physician Contracts must be in writing and executed by the parties before commencement. Only the CEO of Hospital or designee by CEO in his or her absence may execute a Physician Contract, except Physicians Contracts that are real estate or equipment leases with Physicians may be signed by the Chief Administrative Services Officer (“CASO”). Physicians cannot be compensated for work performed, nor may a lease commence, prior to execution by both parties.

f) The Physician financial arrangement must not violate the Stark law, the anti-kickback statute (section 1128B(b) of the Act) or any Federal or State law or regulations.

g) The Physician Contract will permit the Hospital to suspend performance under the Physician Contract if there is a compliance concern. Concerns about compliance should be directed to Compliance, Legal, or the office of the Chief Medical Officer (“CMO”). Performance under Physician Contracts deemed to not meet
the administrative guidelines shall be suspended until the Physician Contract can be remedied.

h) Physician Contracts must contain termination without cause provisions (except for real estate and equipment leases). Physician Contracts which grant an exclusive right to Hospital-based physicians to perform services may not exceed five years. If a Physician Contract is terminated, then the Hospital may not enter into a new financial arrangement with the same Physician covering the same arrangement on different terms within twelve (12) months of the effective date of the terminated Physician Contract.

i) Physicians with potential conflicts of interest must complete a conflict of interest form that must be reviewed by the Compliance Officer prior to entering into a Physician Contract. The conflict must be addressed and referenced in the Physician Contract. A conflict may prevent entry into a Physician Contract.

j) All Physician Contracts must be prepared using the appropriate Hospital contract template prepared by Legal Services. All Physician Contracts must be drafted by personnel designated by Legal Services.

k) Attached to the final version of a Physician Contract prior to execution by Hospital must be a completed “Contract Cover Sheet and Summary of Terms” and a signed “Certification of Necessity and Fair Market Value” (Appendix A) (a Physician Lease Contract must also include a signed “Contract Certification” (Appendix B) and “Lease Contract Review Checklist” (Appendix C) to be reviewed and approved by Legal Services and Compliance.

l) All executed Physician Contracts must be scanned into the Meditract system.

m) Payments may not be made to a Physician unless there is adherence with all of the requirements of this Policy.

n) Each Physician Contract shall comply with all applicable laws.

2. **Medical Director Contracts:** In addition to the criteria set forth above (D.1) for *All Physician Financial Arrangements*, the following must be met prior to creating, renewing or amending a Medical Directorship:

   a) A Medical Directorship may not be intended or used as a means to recruit a Physician to practice at the Hospital.
b) A Medical Directorship must fit within a rational management framework that optimizes coordination of the Medical Director’s knowledge and work efforts with Hospital needs and resources. To meet this requirement, the Medical Director must work with, and be accountable to, a supporting Hospital manager-partner who is a Hospital supervisor, manager or executive director who verifies the Medical Director’s work and efforts. The Designated Manager shall participate in the negotiation of the Medical Director Contract, including setting duties and goals, and will be familiar with the details of the Medical Director contract. The CMO will evaluate and approve all Medical Director contracts.

c) The number of hours assigned to the Medical Directorship must be appropriate considering the work required. Medical Director contracts are typically a two-year term and upon renewal, an evaluation shall be conducted by the CMO and the Designated Manager to evaluate whether all such services are needed in any new or renewal term, whether new services are needed and if the hours are still reasonable and necessary for the legitimate business purpose of the Medical Directorship arrangement. The proposed services may not duplicate work that is provided to the Hospital by other Physicians unless the total work under all arrangements is needed.

d) Medical Director Contracts must require Physician completion and submission of a physician time study reports each month, and each such report must be approved by the Designated Manager and the Compliance Department before any compensation is paid. There must be one or more internal review processes to verify that the Medical Director is performing the expected duties and tasks, of which the required time report is one example.

e) All Medical Director Contracts providing for total compensation of $30,000 or more shall include two (2) annual quality incentive goals that support the Hospital’s strategic initiatives, one of which shall be related to an outcome quality metric and the other shall be related to a process metric or milestone for service to patients, unless an exception is approved by the CMO for two (2) process goals. For Medical Director Contracts greater than $100,000 in compensation per year, 20% of the total compensation will be held at risk based on the completion of the quality incentive goals. For Medical Director Contracts between $50,000 to $99,999 per year, 10% of the total compensation will be held at risk based on the completion of the goals. For Medical Director Contracts between $30,000 to $49,999 per year, 5% of the total compensation will be held at risk based on the completion of the goals.
f) Medical Director Contracts must include a Hospital-approved HIPAA Business Associate Agreement.

3. **Physician Consulting Contracts:**
   In addition to the criteria set forth in the *All Physician Financial Arrangements* section (D.1) above, the following criteria must be met before creating or renewing a Physician Consulting Contract:
   
   a) Physician Consulting Contracts must require concise deliverables and due dates and require completion of a physician time study report. The deliverables and due dates must be set for the duration of the Physician Consulting Contract before the services begin and the Physician Consulting Contract is signed.
   
   b) The number of hours assigned to the Physician Consulting Contract must be appropriate in light of the work required.
   
   c) Physician Consulting Contracts must include a Hospital-approved HIPAA Business Associate Agreement.

4. **Physician Lease Contracts:**
   In addition to the criteria set forth in the *All Physician Financial Arrangements* section above (D.1), the following criteria must be met before creating, amending, or renewing a Physician Lease Contract:
   
   a) Attached to the final version of a Physician Lease Contract, and prior to execution, must be a completed “Lease Contract Review Checklist” (Appendix C) and an executed “Contract Certification” (Appendix B).
   
   b) The Physician Lease Contract shall confirm total measurement of the space to be utilized by Physician under the lease.
   
   c) The Physician Lease Contract must be supported by fair market value documentation from a property appraiser or brokers opinion of value.
   
   d) Tenant Improvements must be incorporated into the Physician Lease Contract as a Tenant expense.
   
   e) Physician must not use the space and the Hospital must not make the space available for use prior to the execution of the Physician Lease Contract by both parties.
f) The Physician Lease Contract shall require that all property taxes are to be paid by the Tenant for Triple Net leases.

g) Physician Lease Contracts are executed by the CEO or the CASO.

5. **Physician Education, Training and Conference Payment Contracts:**
   In addition to the criteria set forth in the *All Physician Financial Arrangements* section above (D.1), the following criteria must be met *before* creating a new Education, Training and Conference Reimbursement Contracts and prior to attendance:

   a) Physician Education, Training and Conference Payment Contracts must be created and reimbursed in accordance with Hospital Policy Reimbursement of Business, Education and Travel Expenses.

   b) The Hospital’s need for this training to be provided to the Physician shall be documented as part of the approval process.

6. **Physician Recruitment Contracts:**
   In addition to the criteria set forth in the *All Physician Financial Arrangements* section above (D.1), the following criteria must be met *before* creating a new Physician Recruitment Contract:

   a) Physician Recruitment Contracts must be created in accordance with the Physician Recruitment Policy Program, and must be presented to the Board for review before the recruitment proposal is developed.

B. **Approval of Physician Contracts:**

   1. Attached to the final version of a Physician Contract *before* CEO execution must be a completed “Contract Cover Sheet and Summary of Terms” and “Certification of Necessity and Fair Market Value” (Appendix A).

   2. Attached to the final version of a Physician Lease Contract, *prior* to execution by the CEO or the CASO, must be a completed “Lease Contract Review Checklist” (Appendix C) and signed “Contract Certification” (Appendix B).

   3. Corporate Compliance and the General Counsel will verify the checklist, certification, and documentation accompanying all Physician Contracts (including FMV) prior to execution by the CEO or the CASO. Incomplete or missing checklist and certifications will be returned to the originator for completion.

**NOTE:** Printed copies of this document are uncontrolled. In the case of a conflict between printed and electronic versions of this document, the electronic version prevails.
4. All proposed Physician Contracts lacking the appropriate documentation will be returned to the originator for completion. No services may be performed under the Physician Contract or leases implemented until the Physician Contract is fully executed.

5. **CEO Approval**: The CEO will have authority to execute new, renewal and amended Physician Contracts (up to $250,000.00 in total possible compensation annually), except as set forth in Section 6(c) below.

   If a new arrangement is over $250,000.00; or a renewal or ment related to compensation is over $250,000; or the annual increase is greater than ten percent (10%), the Board must approve prior to CEO execution, except as set forth in Section 6(c) below. All recruitment proposals must be approved prior to the CEO executing.

6. **Board Approval**: If a new arrangement is over $250,000.00; or a renewal or amended agreement is over $250,000; or the annual increase is greater than ten percent (10%), the Board must approve prior to CEO execution of the Physician Contract.

   a) All Physician financial arrangements that exceed $250,000 annually should be presented to the appropriate Board Committees for review and recommendation to the Board of Directors prior to being placed on the Board of Directors’ agenda and prior to execution.

   b) A memo prepared by Designated Manager that justifies the Hospital’s needs shall be provided to the appropriate Board Committees and Board of Directors as part of the approval documents.

   c) Notwithstanding Section 6(a), the CEO may execute without Board approval a new renewal or amended Professional Services Agreement with El Camino Medical Associates (ECMA) so long as the total cash compensation to each individual physician employed by SVPMG does not exceed 75% percentile of fair market value or $1,000,000 annually.

C. **Board Oversight and Internal Review Process**:

   During the third quarter of each Hospital fiscal year, management and staff will prepare a summary report for all Physician financial arrangements describing: 1) the names of all such arrangements and associated physicians, 2) the organizational need that justifies each arrangement, 3) the total amounts paid to each physician and/or group for each Physician Contract annually (and in total for duration on of contract term), 4) current and
prior year annual financial comparison, and 5) any recommendations for changes to the Policy or any procedure.

For Medical Directorships, the summary report will also include: 1) the goals set forth for each Medical Directorship, 2) the contracted rate and hours, and 3) assessment of the performance goals of Medical Directors over the past year.

The CFO, COO & CMO will review the information and prepare recommendations if any regarding specific actions or changes that will be implemented.

The report will then be reviewed by the CEO and presented to the Compliance and Finance committees of the Board of Directors for review and submission to the Board of Directors no later than the end of the following quarter.

D. Exceptions:

There are no exceptions to this Policy unless approved by the Board of Directors in advance.

E. Review and/or Validate:

The CEO and the Corporate Compliance Officer shall be responsible for reviewing the policy and guidelines as conditions warrant but at a minimum at least annually to assure consistency with Board expectations. The Compliance department will annually monitor organizations adherence to the policy and report to the Board.

F. Policy Enforcement

El Camino Hospital’s Compliance Officer is responsible for monitoring enforcement of this policy. Any workforce member found to have violated this policy may be subject to disciplinary action, up to and including termination of employment.

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<tr>
<th>APPROVAL</th>
<th>APPROVAL DATES</th>
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<tr>
<td>Finance Committee:</td>
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</tr>
<tr>
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<td>1/2018</td>
</tr>
<tr>
<td>ePolicy Committee:</td>
<td>1/2018</td>
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<tr>
<td>Medical Executive Committee:</td>
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<td>Board of Directors:</td>
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NOTE: Printed copies of this document are uncontrolled. In the case of a conflict between printed and electronic versions of this document, the electronic version prevails.
POLICY/PROCEDURE TITLE: Corporate Compliance: Physician Financial Arrangements - Review and Approval

Historical Approvals:

New 6/08, 06/09; 8/12, 10/12, 11/13, 1/14, 5/14, 6/17
### APPENDIX A
ECH Contract Cover Sheet and Summary of Terms

<table>
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<tr>
<th>Physician/Physician Group Name Party to Agreement:</th>
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<td>Type of Agreement:</td>
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<td>___ Medical Director ___ Consulting Services ___</td>
</tr>
<tr>
<td>Professional Services ___ ED Call ___ Hospital-Based Physician Services ___ Other:</td>
</tr>
<tr>
<td>Agreement is: ___ New ___ Amendment ___ Extension ___ Renewal</td>
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<td>Campus:</td>
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<tr>
<td>Designated ECH Manager:</td>
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<td>Effective Date:</td>
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<tr>
<td>Expiration Date:</td>
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<tr>
<td>Need for Agreement:</td>
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<tr>
<td>Reason Physician or Physician group was chosen for the position:</td>
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<tr>
<td>Number of Hours to be Worked:</td>
</tr>
<tr>
<td>Hourly/PerDiem Rate to Physician/Physician Group:</td>
</tr>
<tr>
<td>Does Agreement include two Quality Goals for Medical Directorships, if Total Annual Compensation is greater than $30,000.00 annually:</td>
</tr>
<tr>
<td>Total Annual Amount:</td>
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<tr>
<td>Finance Committee Review and Board approval required under Policy 51.00:</td>
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<tr>
<td>___ No ___ Yes (if yes, attach approval documentation)</td>
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**Approvals**

**NOTE:** Printed copies of this document are uncontrolled. In the case of a conflict between printed and electronic versions of this document, the electronic version prevails.
CERTIFICATION OF NECESSITY AND FAIR MARKET VALUE:

I certify that: (1) the services to be provided by Physician/Medical Group are reasonable and necessary because

__________________________________________________________________________________________;

and (2) the compensation proposed for this arrangement is fair market value because (check one):

___ MD Ranger Data attached hereto, is at or below the 75th percentile, or

___ I have a FMV opinion, attached hereto, which demonstrates fair market value.

Signature: ____________________________

Designated ECH Manager
POLICY/PROCEDURE TITLE: Corporate Compliance: Physician Financial Arrangements - Review and Approval

APPENDIX B

Contract Certification

I, ________________________ of El Camino Hospital hereby certify that to the best of my knowledge, (responsible party negotiating)
the following matters are true for the attached contract by and between El Camino Hospital and ________________________
(Physician) dated _________________ (the “Arrangement”).

1) There are no other arrangements, written or oral with the physician except set forth in the Arrangement;

2) No payment has been or will be made to the physician referenced herein outside of the terms and condition of the arrangement unless such outside payment is also consistent with El Camino Hospital’s policies;

3) The contract is in compliance with Administrative Policy 51.00 guidelines.

4) All of the statements above and in the Compliance Checklist are complete and correct.

Date: ____________________      Signature: __________________________________________
(Hospital responsible party negotiating)
APPENDIX C

Lease Contract Review Checklist

Yes __ No ___  1. Is the term of the Physician Lease Contract for at least one year?
Yes __ No ___  2. Does the Physician Lease Contract describe what is being leased and all services that will be included?
Yes __ No ___  3. Are the costs of Tenant Improvements incorporated into the Physician Lease Contract?
Yes __ No ___  4. Have fair-market value (FMV) rates been determined based at time of signing? [The Physician Lease Contract
Yes __ No ___  5. Does the lease rate include an inflator value for future FMV?
Yes __ No ___  6. Is Physician using the space now?
Yes __ No ___  7. Will all applicable property taxes be paid by the Physician under the Physician Lease Contract?
Yes __ No ___  8. Were any loans or loan guarantees made to the Physician?
Yes __ No ___  9. Was the Hospital template used to create this Physician Lease Contract?
Yes __ No ___ 10. Were any of the terms modified? If yes, attach a copy marked to show changes.
Yes __ No ___ 11. Within 5 days after final execution, the Physician Lease Contract must be forwarded for scanning into Meditract.
How does the Government define FMV and Commercial Reasonableness?

**Stark defines FMV as:**

“Price that an asset would bring as the result of **bona fide bargaining** between well-informed buyers and sellers who are not otherwise in a position to generate business for the other party, or the compensation that would be included in a service agreement as the result of bona fide bargaining between well-informed parties to the agreement who are not otherwise in a position to generate business for the other party, on the date of acquisition of the asset or at the time of the service agreement”

- FMV cannot be determined by taking into account the volume or value or referrals to the entity

**CMS defines Commercial Reasonableness as:** An Arrangement that is a sensible, prudent business arrangement, from the perspective of both parties involved, even in the absence of potential referrals
# Commercial Reasonableness Checklist

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<thead>
<tr>
<th>CATEGORY</th>
<th>CRITERIA</th>
<th>IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Alignment with Mission and Goals</td>
<td>Does the arrangement align with and facilitate achievement of the organization’s mission and goals?</td>
<td>If not, it may not be commercially reasonable.</td>
</tr>
<tr>
<td>2. Industry Practice</td>
<td>Is the arrangement reasonably prevalent in similar organizations (size, type) or are there legitimate reasons for an atypical arrangement?</td>
<td>The more uncommon, the less likely it is to be commercially reasonable.</td>
</tr>
<tr>
<td>3. Frequency and Intensity of Need</td>
<td>How often is the service needed? How intense is the workload?</td>
<td>If frequency or intensity of service is low, commercial reasonableness may be questionable.</td>
</tr>
<tr>
<td>4. Alternatives</td>
<td>Are there less costly alternatives that are equivalent or better with respect to quality of care?</td>
<td>If yes, the arrangement may not be commercially reasonable.</td>
</tr>
<tr>
<td>5. Duplication</td>
<td>Is there a duplication of service arrangements?</td>
<td>If yes, the arrangement may not be commercially reasonable.</td>
</tr>
<tr>
<td>6. Financial Performance</td>
<td>Does the cost of the arrangement justify identifiable benefits?</td>
<td>If the associated service results or contributes to economic losses, it may not be commercially reasonable.</td>
</tr>
<tr>
<td>7. Qualifications</td>
<td>Is the physician qualified to provide the services?</td>
<td>If not, the arrangement may not be commercially reasonable.</td>
</tr>
<tr>
<td>8. Evaluation Metrics</td>
<td>Are there well defined and objective measures of performance? Is the evaluation process defined?</td>
<td>If not, the arrangement may not be commercially reasonable.</td>
</tr>
<tr>
<td>9. Payment Terms</td>
<td>Is there a defined payment amount, with a defined maximum payout?</td>
<td>If not, the arrangement may not be commercially reasonable.</td>
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APPENDIX
Finance Committee
Compliance Training

Mary Rotunno, General Counsel
Diane Wigglesworth,
Sr. Director, Corporate Compliance

July 30, 2018
Education Objectives

• Understand the fiduciary responsibilities of corporate directors as they relate to corporate compliance.
• Identify the most relevant legal parameters and compliance risks to the Company’s business.
• Highlight what directors can do to hold management accountable for an effective compliance program that minimizes organizational risk.
Fiduciary Responsibilities As A Corporate Director

Understand, Lead and Monitor
Corporate Leadership Responsibility

• Corporate directors have an obligation to act as fiduciaries for the organization.

• This duty includes an obligation to **actively monitor organizational performance, processes and systems**.

• Failure to monitor organizational performance may result in liability for the corporation and corporate officers and directors.
Your Obligations

• As a Board member, you have ultimate oversight responsibility for the Company’s Compliance Program.
• Fiduciary duties cannot be avoided by lack of knowledge.
• Increased funding, better use of technology, and enhanced cooperation and coordination among Government agencies have resulted in more effective and efficient enforcement.
Fiduciary Duties of Directors

- Directors have fiduciary duties to the company
- Directors’ fiduciary duties are:
  - Duty of Care
  - Duty of Loyalty
Duty of Care

• Act in good faith with the care an ordinarily prudent person would exercise in similar circumstances.
• Directors must act on an informed basis after due consideration and appropriate deliberation.
• The Board may rely – so long as doing so is reasonable – on:
  - The records of the corporation; and
  - Other information presented by any person if the board reasonably believes:
    • Topics are within the competence of such persons, and
    • Such persons were selected with reasonable care.
• Board may NOT delegate basic duty of care to management or outside advisors.
Duty of Loyalty

- Directors must put the interests of the Company above any personal interests that they may have.
- Directors must disclose the existence and nature of any conflict of interest and any other facts that are material to transactions or other matters before the Board.
  - Where the Board’s compliance responsibilities are concerned, this includes disclosure of information regarding potential compliance violations, even if such information might implicate an individual with whom they have a close personal or business relationship.
Overview of Director Responsibilities Under Common Law

• Act in good faith (e.g., disclose any conflict of interest).
• Investigate transactions and other matters within their purview through management and advisors.
• Be satisfied on all key points.
• Ask questions if any point is not clear.
• Exercise independent judgment.
Business Judgment Rule

- State law presumes that, in making a decision, directors acted:
  - On an informed basis;
  - In good faith; and
  - With the honest belief that the action is in best interests of company.
- Courts will defer to directors unless plaintiff overcomes this presumption.
- Courts generally review the process, not the ultimate outcome.
- Where the Board’s compliance oversight duties are concerned, it is essential that the Board, through its Committees receive sufficient information about the Compliance function to act on an informed basis.
Corporate Governance Guidelines and Committee Roles
Corporate Governance Guidelines

- The Board’s core responsibilities include, but are not limited to, the following:
  - Select, monitor, evaluate and compensate senior management
  - Review the Company’s financial controls, reporting systems and enterprise risk management program.
  - Review and monitor:
    - The Company’s ethical standards and compliance with applicable healthcare laws, regulations, policies, professional standards and industry guidelines, and
    - The Company’s programs, policies and procedures that support and enhance the quality of care provided by the Company
  - The Board is authorized to delegate these core responsibilities to one or more Board committees.
Corporate Compliance / Privacy & Internal Audit Committee Role and Responsibilities

• It is the Committee’s responsibility to assist the Board in monitoring the Company’s compliance with legal and regulatory requirements, including:
  - Review the adequacy and effectiveness of the Company's internal regulatory, corporate compliance and risk management controls, and elicit recommendations for improvement.
  - Review management’s response to any such recommendations.
  - Obtain and review reports regarding legal or compliance matters that may have a material effect on the Company’s business, financial statements or compliance policies.
  - Review issues reported through the compliance hotline or other channels and the results of any internal investigations regarding any regulatory issues that may have a material effect on the Company’s business, financial statements or compliance policies.
It is the Committee’s responsibility to assist the Board in evaluating and monitoring the Company’s compliance with applicable healthcare laws, regulations, policies, professional standards and industry guidelines and the Company’s Code of Conduct. Specific duties include:

- Evaluate management’s appointment, termination or replacement of the Compliance Officer.
- Review policies and procedures designed to comply with all applicable health care laws, regulations, professional standards and industry guidelines, as well as the Company’s policies and Code of Conduct.
- Review internal systems and controls to carry out the Company’s policies and procedures relating to clinical compliance matters and ethics.
- Review the steps the Company is taking to educate its employees regarding its Code of Conduct and compliance issues.
- Review procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding compliance related matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding compliance and ethical issues.
- Review issues reported through the compliance hotline or other channels and the results of any internal investigations pertaining to clinical outcomes or quality of care-related compliance issues.
- Apprise the Board on the Company’s clinical compliance and performance improvement efforts with appropriate internal and external sources.
Board Oversight of the Company Compliance Program: Key Questions to Ask of Leadership and Compliance Teams
Board Oversight Function: Duty of Inquiry

• Board oversight of the compliance function as it relates to hospital operations is mandatory. The Board, through the Compliance Committee, must ask the right questions to hold Management accountable for an effective compliance program.
• Does the Company leadership team foster a culture that values and even rewards the prevention, detection and resolution of compliance issues?
• Do compensation structures place undue pressure to pursue profit over compliance?
• Does the Company have clear policies and internal controls addressing major risk areas?

Bottom Line: Board should hold the management team accountable for setting the proper “tone at the top” and the Compliance Officer accountable for appropriate policies and internal controls to address risk areas.
Board Oversight Function: Compliance Infrastructure

• Does the Compliance Officer report directly to the Board and CEO on the “state of compliance” at the Company?
• Does the Compliance Officer ensure effective compliance, education, auditing/monitoring of risk areas, investigations and corrective actions?
• Does the Compliance Officer have sufficient authority and resources to perform his/her responsibilities effectively?
• Is there an appropriately configured compliance committee that meets on a regular basis?

Bottom Line: The Board should ensure that Compliance has adequate resources and infrastructure to effectuate an effective compliance program.
Oversight Function: Compliance Education

• Do all the Company employees complete annual compliance training?
• Is compliance training scenario-based and geared to risk areas?
• Are compliance training programs evaluated and updated to maximize effectiveness and reflect regulatory developments?
• Does the Company track attendance and have procedures for follow up with employees who have not satisfied requirements as deadlines approach?

Bottom Line: The Board should be advised of the compliance education curriculum, completion rates and evaluation results.
Board Oversight Function: Effective Lines of Communication

• Does the Company maintain multiple, well-publicized channels for reporting compliance concerns?
• Does the Company maintain and enforce a well-publicized, non-retaliation policy to encourage candid reporting?
• Are there clearly defined channels for employees to seek guidance on the legal/compliance ramifications of potential actions before they are taken?
• Are significant legal and regulatory developments monitored and communicated to the business and the Board?
• Is the Board actively engaged in discussions regarding appropriate remedies to systemic or material compliance problems?

**Bottom Line:** The Board should receive statistics regarding reports of suspected non-compliance through various channels and specific information about material risks confronting the Company.
Board Oversight Function: Auditing and Monitoring

• Is there a robust audit plan to test/monitor major risk areas?
• Does the Company adhere to this plan in practice?
• Are audit trends tracked, reported and appropriately addressed?
• When audits reveal issues, are appropriate corrective action plans developed and implemented?
• When audits identify overpayments, are timely reports and refunds made in accordance with regulatory/payor requirements?
• Does the Company conduct periodic compliance program effectiveness reviews?

Bottom Line: The Board should be apprised of the audit plan, audit statistics, audit trends, overpayment refunds and material/systemic risks.
Board Oversight Function: Prompt Response to Suspected Non-Compliance

- Does the Company have an appropriate investigations policy/SOP in place?
- Are reports of suspected non-compliance in fact promptly investigated?
- Does the Company have an appropriate system to log reports of suspected non-compliance, investigation steps, findings and follow up?
- When violations are identified, is a root cause analysis performed and corrective action implemented to appropriately redress issues and prevent recurrence?
- Are investigators appropriately trained and subject to competency testing?
- Are investigation results tracked and trended to identify systemic issues that may pose a material risk to the Company?

Bottom Line: The Board should receive reports with aggregated information regarding investigations and results, as well as more granular information regarding investigation outcomes that pose a material risk to the Company.
Board Oversight Function: Effective Enforcement

• Does the Company establish and disseminate disciplinary policies identifying the consequences of compliance violations?
  - Does the Company have progressive disciplinary procedures while imposing serious sanctions for serious violations and intentional or reckless noncompliance?
• Are disciplinary standards consistently applied and enforced?
• Is the executive/management team held accountable for their own compliance failures, as well as for the foreseeable failures of their subordinates?
• Are there concrete compliance performance review criteria and bonus prerequisites to drive compliance?

Bottom Line: The Board should hold the management team, HR and Compliance accountable for appropriate, consistently enforced disciplinary standards.
The Importance of Director Vigilance in Mitigating Personal and Organizational Compliance Risks
Corporate Leadership Responsibility

- An effective compliance program minimizes organizational and personal risks in three important ways:
  - Reduces risk that violations will occur
  - When violations do occur, ensures that appropriate corrective actions are implemented to appropriately remediate in accordance with law and prevent recurrence
  - Results in more lenient sanctions under a variety of Governmental guidance detailed later in this presentation:
    - Reduced penalties
    - Reduced risk of corporate integrity agreement ("CIA")
OIG Guidance: Importance of Culture and Leadership

• The U.S. Department of Health and Human Services (“HHS”) Office of Inspector General (“OIG”) website notes that “because of their oversight responsibilities, boards of directors have a unique opportunity to promote quality of care and embrace compliance with law.”

• The OIG Guidance emphasize the importance of leadership and culture:
  - “Leadership should foster an organizational culture that values, and even rewards, the prevention, detection, and resolution of quality of care and compliance problems.”
  - “The organization should endeavor to develop a culture that values compliance from the top down and fosters compliance from the bottom up. Such an organizational culture is the foundation of an effective compliance program.”
Practical Guidance for Health Care Governing Boards on Compliance Oversight

Office of Inspector General, U.S. Department of Health and Human Services
Association of Healthcare Internal Auditors
American Health Lawyers Association
Health Care Compliance Association
About the Organizations

This educational resource was developed in collaboration between the Association of Healthcare Internal Auditors (AHIA), the American Health Lawyers Association (AHLA), the Health Care Compliance Association (HCCA), and the Office of Inspector General (OIG) of the U.S. Department of Health and Human Services (HHS).

AHIA is an international organization dedicated to the advancement of the health care internal auditing profession. The AHLA is the Nation’s largest nonpartisan, educational organization devoted to legal issues in the health care field. HCCA is a member-based, nonprofit organization serving compliance professionals throughout the health care field. OIG’s mission is to protect the integrity of more than 100 HHS programs, including Medicare and Medicaid, as well as the health and welfare of program beneficiaries.

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*This document is intended to assist governing boards of health care organizations (Boards) to responsibly carry out their compliance plan oversight obligations under applicable laws. This document is intended as guidance and should not be interpreted as setting any particular standards of conduct. The authors recognize that each health care entity can, and should, take the necessary steps to ensure compliance with applicable Federal, State, and local law. At the same time, the authors also recognize that there is no uniform approach to compliance. No part of this document should be taken as the opinion of, or as legal or professional advice from, any of the authors or their respective agencies or organizations.*
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Introduction

Previous guidance has consistently emphasized the need for Boards to be fully engaged in their oversight responsibility. A critical element of effective oversight is the process of asking the right questions of management to determine the adequacy and effectiveness of the organization’s compliance program, as well as the performance of those who develop and execute that program, and to make compliance a responsibility for all levels of management. Given heightened industry and professional interest in governance and transparency issues, this document seeks to provide practical tips for Boards as they work to effectuate their oversight role of their organizations’ compliance with State and Federal laws that regulate the health care industry. Specifically, this document addresses issues relating to a Board’s oversight and review of compliance program functions, including the: (1) roles of, and relationships between, the organization’s audit, compliance, and legal departments; (2) mechanism and process for issue-reporting within an organization; (3) approach to identifying regulatory risk; and (4) methods of encouraging enterprise-wide accountability for achievement of compliance goals and objectives.

A critical element of effective oversight is the process of asking the right questions....
Expectations for Board Oversight of Compliance Program Functions

A Board must act in good faith in the exercise of its oversight responsibility for its organization, including making inquiries to ensure: (1) a corporate information and reporting system exists and (2) the reporting system is adequate to assure the Board that appropriate information relating to compliance with applicable laws will come to its attention timely and as a matter of course.\(^2\) The existence of a corporate reporting system is a key compliance program element, which not only keeps the Board informed of the activities of the organization, but also enables an organization to evaluate and respond to issues of potentially illegal or otherwise inappropriate activity.

Boards are encouraged to use widely recognized public compliance resources as benchmarks for their organizations. The Federal Sentencing Guidelines (Guidelines),\(^3\) OIG’s voluntary compliance program guidance documents,\(^4\) and OIG Corporate Integrity Agreements (CIAs) can be used as baseline assessment tools for Boards and management in determining what specific functions may be necessary to meet the requirements of an effective compliance program. The Guidelines "offer incentives to organizations to reduce and ultimately eliminate criminal conduct by providing a structural foundation from which an organization may self-police its own conduct through an effective compliance and ethics program."\(^5\) The compliance program guidance documents were developed by OIG to encourage the development and use of internal controls to monitor adherence to applicable statutes, regulations, and program requirements. CIAs impose specific structural and reporting requirements to

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5 USSG Ch. 8, Intro. Comment.
promote compliance with Federal health care program standards at entities that have resolved fraud allegations.

Basic CIA elements mirror those in the Guidelines, but a CIA also includes obligations tailored to the organization and its compliance risks. Existing CIAs may be helpful resources for Boards seeking to evaluate their organizations’ compliance programs. OIG has required some settling entities, such as health systems and hospitals, to agree to Board-level requirements, including annual resolutions. These resolutions are signed by each member of the Board, or the designated Board committee, and detail the activities that have been undertaken to review and oversee the organization’s compliance with Federal health care program and CIA requirements. OIG has not required this level of Board involvement in every case, but these provisions demonstrate the importance placed on Board oversight in cases OIG believes reflect serious compliance failures.

Although compliance program design is not a “one size fits all” issue, Boards are expected to put forth a meaningful effort to review the adequacy of existing compliance systems and functions. Ensuring that management is aware of the Guidelines, compliance program guidance, and relevant CIAs is a good first step.

One area of inquiry for Board members of health care organizations should be the scope and adequacy of the compliance program in light of the size and complexity of their organizations. The Guidelines allow for variation according to “the size of the organization.”\textsuperscript{6} In accordance with the Guidelines,

\textsuperscript{6} USSG § 8B2.1, comment. (n. 2).
OIG recognizes that the design of a compliance program will depend on the size and resources of the organization. Additionally, the complexity of the organization will likely dictate the nature and magnitude of regulatory impact and thereby the nature and skill set of resources needed to manage and monitor compliance.

While smaller or less complex organizations must demonstrate the same degree of commitment to ethical conduct and compliance as larger organizations, the Government recognizes that they may meet the Guidelines requirements with less formality and fewer resources than would be expected of larger and more complex organizations. Smaller organizations may meet their compliance responsibility by “using available personnel, rather than employing separate staff, to carry out the compliance and ethics program.” Board members of such organizations may wish to evaluate whether the organization is “modeling its own compliance and ethics programs on existing, well-regarded compliance and ethics programs and best practices of other similar organizations.” The Guidelines also foresee that Boards of smaller organizations may need to become more involved in the organizations’ compliance and ethics efforts than their larger counterparts.

Boards should develop a formal plan to stay abreast of the ever-changing regulatory landscape and operating environment. The plan may involve periodic updates from informed staff or review of regulatory resources made available to them by staff. With an understanding of the dynamic regulatory environment, Boards will be in a position to ask more pertinent questions of management.

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7 Compliance Program for Individual and Small Group Physician Practices, 65 Fed. Reg. 59434, 59436 (Oct. 5, 2000) (“The extent of implementation [of the seven components of a voluntary compliance program] will depend on the size and resources of the practice. Smaller physician practices may incorporate each of the components in a manner that best suits the practice. By contrast, larger physician practices often have the means to incorporate the components in a more systematic manner.”); Compliance Program Guidance for Nursing Facilities, 65 Fed. Reg. 14,289 (Mar. 16, 2000) (recognizing that smaller providers may not be able to outsource their screening process or afford to maintain a telephone hotline).

8 USSG § 8B2.1, comment. (n. 2).

9 Id.

10 Id.
and make informed strategic decisions regarding the organizations’ compliance programs, including matters that relate to funding and resource allocation. For instance, new standards and reporting requirements, as required by law, may, but do not necessarily, result in increased compliance costs for an organization. Board members may also wish to take advantage of outside educational programs that provide them with opportunities to develop a better understanding of industry risks, regulatory requirements, and how effective compliance and ethics programs operate. In addition, Boards may want management to create a formal education calendar that ensures that Board members are periodically educated on the organizations’ highest risks.

Finally, a Board can raise its level of substantive expertise with respect to regulatory and compliance matters by adding to the Board, or periodically consulting with, an experienced regulatory, compliance, or legal professional. The presence of a professional with health care compliance expertise on the Board sends a strong message about the organization’s commitment to compliance, provides a valuable resource to other Board members, and helps the Board better fulfill its oversight obligations. Board members are generally entitled to rely on the advice of experts in fulfilling their duties.\(^\text{11}\) OIG sometimes requires entities under a CIA to retain an expert in compliance or governance issues to assist the Board in fulfilling its responsibilities under the CIA.\(^\text{12}\) Experts can assist Boards and management in a variety of ways, including the identification of risk areas, provision of insight into best practices in governance, or consultation on other substantive or investigative matters.

\(^{11}\) See Del Code Ann. tit. 8, § 141(e) (2010); ABA Revised Model Business Corporation Act, §§ 8.30(e), (f)(2) Standards of Conduct for Directors.

\(^{12}\) See Corporate Integrity Agreements between OIG and Halifax Hospital Medical Center and Halifax Staffing, Inc. (2014, compliance and governance); Johnson & Johnson (2013); Dallas County Hospital District d/b/a Parkland Health and Hospital System (2013, compliance and governance); Forest Laboratories, Inc. (2010); Novartis Pharmaceuticals Corporation (2010); Ortho-McNeil-Janssen Pharmaceuticals, Inc. (2010); Synthes, Inc. (2010, compliance expert retained by Audit Committee); The University of Medicine and Dentistry of New Jersey (2009, compliance expert retained by Audit Committee); Quest Diagnostics Incorporated (2009); Amerigroup Corporation (2008); Bayer HealthCare LLC (2008); and Tenet Healthcare Corporation (2006; retained by the Quality, Compliance, and Ethics Committee of the Board).
Roles and Relationships

Organizations should define the interrelationship of the audit, compliance, and legal functions in charters or other organizational documents. The structure, reporting relationships, and interaction of these and other functions (e.g., quality, risk management, and human resources) should be included as departmental roles and responsibilities are defined. One approach is for the charters to draw functional boundaries while also setting an expectation of cooperation and collaboration among those functions. One illustration is the following, recognizing that not all entities may possess sufficient resources to support this structure:

The compliance function promotes the prevention, detection, and resolution of actions that do not conform to legal, policy, or business standards. This responsibility includes the obligation to develop policies and procedures that provide employees guidance, the creation of incentives to promote employee compliance, the development of plans to improve or sustain compliance, the development of metrics to measure execution (particularly by management) of the program and implementation of corrective actions, and the development of reports and dashboards that help management and the Board evaluate the effectiveness of the program.

The legal function advises the organization on the legal and regulatory risks of its business strategies, providing advice and counsel to management and the Board about relevant laws and regulations that govern, relate to, or impact the organization. The function also defends the organization in legal proceedings and initiates legal proceedings against other parties if such action is warranted.

The internal audit function provides an objective evaluation of the existing risk and internal control systems and framework within an organization. Internal audits ensure monitoring functions are working as intended and identify where management monitoring and/or additional
Board oversight may be required. Internal audit helps management (and the compliance function) develop actions to enhance internal controls, reduce risk to the organization, and promote more effective and efficient use of resources. Internal audit can fulfill the auditing requirements of the Guidelines.

**The human resources function** manages the recruiting, screening, and hiring of employees; coordinates employee benefits; and provides employee training and development opportunities.

**The quality improvement function** promotes consistent, safe, and high quality practices within health care organizations. This function improves efficiency and health outcomes by measuring and reporting on quality outcomes and recommends necessary changes to clinical processes to management and the Board. Quality improvement is critical to maintaining patient-centered care and helping the organization minimize risk of patient harm.

Boards should be aware of, and evaluate, the adequacy, independence, and performance of different functions within an organization on a periodic basis. OIG believes an organization’s Compliance Officer should neither be counsel for the provider, nor be subordinate in function or position to counsel or the legal department, in any manner. While independent, an organization’s counsel and compliance officer should collaborate to further the interests of the organization. OIG’s position on separate compliance and legal functions reflects the independent roles and professional obligations of each function;

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13 Evaluation of independence typically includes assessing whether the function has uninhibited access to the relevant Board committees, is free from organizational bias through an appropriate administrative reporting relationship, and receives fair compensation adjustments based on input from any relevant Board committee.


15 See, generally, id.
the same is true for internal audit.\textsuperscript{16} To operate effectively, the compliance, legal, and internal audit functions should have access to appropriate and relevant corporate information and resources. As part of this effort, organizations will need to balance any existing attorney-client privilege with the goal of providing such access to key individuals who are charged with the responsibility for ensuring compliance, as well as properly reporting and remediating any violations of civil, criminal, or administrative law.

The Board should have a process to ensure appropriate access to information; this process may be set forth in a formal charter document approved by the Audit Committee of the Board or in other appropriate documents. Organizations that do not separate these functions (and some organizations may not have the resources to make this complete separation) should recognize the potential risks of such an arrangement. To partially mitigate these potential risks, organizations should provide individuals serving in multiple roles the capability to execute each function in an independent manner when necessary, including through reporting opportunities with the Board and executive management.

Boards should also evaluate and discuss how management works together to address risk, including the role of each in:

1. identifying compliance risks,
2. investigating compliance risks and avoiding duplication of effort,
3. identifying and implementing appropriate corrective actions and decision-making, and
4. communicating between the various functions throughout the process.

Boards should understand how management approaches conflicts or disagreements with respect to the resolution of compliance issues and how it decides on the appropriate course of action. The audit, compliance, and legal functions should speak a common language, at least to the Board and management, with respect to governance concepts, such as accountability, risk, compliance, auditing, and monitoring. Agreeing on the adoption of certain frameworks and definitions can help to develop such a common language.

**Reporting to the Board**

The Board should set and enforce expectations for receiving particular types of compliance-related information from various members of management. The Board should receive regular reports regarding the organization’s risk mitigation and compliance efforts—separately and independently—from a variety of key players, including those responsible for audit, compliance, human resources, legal, quality, and information technology. By engaging the leadership team and others deeper in the organization, the Board can identify who can provide relevant information about operations and operational risks. It may be helpful and productive for the Board to establish clear expectations for members of the management team and to hold them accountable for performing and informing the Board in accordance with those expectations. The Board may request the development of objective scorecards that measure how well management is executing the compliance program, mitigating risks, and implementing corrective action plans. Expectations could also include reporting information on internal and external investigations, serious issues raised in internal and external audits, hotline call activity, all allegations of material fraud or senior management misconduct, and all management exceptions to the organization’s
code of conduct and/or expense reimbursement policy. In addition, the Board should expect that management will address significant regulatory changes and enforcement events relevant to the organization’s business.

Boards of health care organizations should receive compliance and risk-related information in a format sufficient to satisfy the interests or concerns of their members and to fit their capacity to review that information. Some Boards use tools such as dashboards—containing key financial, operational and compliance indicators to assess risk, performance against budgets, strategic plans, policies and procedures, or other goals and objectives—in order to strike a balance between too much and too little information. For instance, Board quality committees can work with management to create the content of the dashboards with a goal of identifying and responding to risks and improving quality of care. Boards should also consider establishing a risk-based reporting system, in which those responsible for the compliance function provide reports to the Board when certain risk-based criteria are met. The Board should be assured that there are mechanisms in place to ensure timely reporting of suspected violations and to evaluate and implement remedial measures. These tools may also be used to track and identify trends in organizational performance against corrective action plans developed in response to compliance concerns. Regular internal reviews that provide a Board with a snapshot of where the organization is, and where it may be going, in terms of compliance and quality improvement, should produce better compliance results and higher quality services.

As part of its oversight responsibilities, the Board may want to consider conducting regular “executive sessions” (i.e., excluding senior management) with leadership from the compliance, legal, internal audit, and quality functions to encourage more open communication. Scheduling regular executive sessions creates a continuous expectation of open dialogue, rather than calling such a session only when a problem arises, and is helpful to avoid suspicion among management about why a special executive session is being called.
Identifying and Auditing Potential Risk Areas

Some regulatory risk areas are common to all health care providers. Compliance in health care requires monitoring of activities that are highly vulnerable to fraud or other violations. Areas of particular interest include referral relationships and arrangements, billing problems (e.g., upcoding, submitting claims for services not rendered and/or medically unnecessary services), privacy breaches, and quality-related events.

The Board should ensure that management and the Board have strong processes for identifying risk areas. Risk areas may be identified from internal or external information sources. For instance, Boards and management may identify regulatory risks from internal sources, such as employee reports to an internal compliance hotline or internal audits. External sources that may be used to identify regulatory risks might include professional organization publications, OIG-issued guidance, consultants, competitors, or news media. When failures or problems in similar organizations are publicized, Board members should ask their own management teams whether there are controls and processes in place to reduce the risk of, and to identify, similar misconduct or issues within their organizations.

The Board should ensure that management consistently reviews and audits risk areas, as well as develops, implements, and monitors corrective action plans. One of the reasonable steps an organization is expected to take
under the Guidelines is “monitoring and auditing to detect criminal conduct.”  

Audits can pinpoint potential risk factors, identify regulatory or compliance problems, or confirm the effectiveness of compliance controls. Audit results that reflect compliance issues or control deficiencies should be accompanied by corrective action plans.  

Recent industry trends should also be considered when designing risk assessment plans. Compliance functions tasked with monitoring new areas of risk should take into account the increasing emphasis on quality, industry consolidation, and changes in insurance coverage and reimbursement. New forms of reimbursement (e.g., value-based purchasing, bundling of services for a single payment, and global payments for maintaining and improving the health of individual patients and even entire populations) lead to new incentives and compliance risks. Payment policies that align payment with quality care have placed increasing pressure to conform to recommended quality guidelines and improve quality outcomes. New payment models have also incentivized consolidation among health care providers and more employment and contractual relationships (e.g., between hospitals and physicians). In light of the fact that statutes applicable to provider-physician relationships are very broad, Boards of entities that have financial relationships with referral sources or recipients should ask how their organizations are reviewing these arrangements for compliance with the physician self-referral (Stark) and anti-kickback laws. There should also be a clear understanding between the Board and management as to how the entity will approach and implement those relationships and what level of risk is acceptable in such arrangements.  

Emerging trends in the health care industry to increase transparency can present health care organizations with opportunities and risks. For example, the Government is collecting and publishing data on health outcomes and quality measures (e.g., Centers for Medicare & Medicaid Services (CMS) Quality Compare Measures), Medicare payment data are now publicly available (e.g.,

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17 See USSG § 8B2.1(b)(5).
18 See USSG § 8B2.1(c).
CMS physician payment data), and the Sunshine Rule\textsuperscript{19} offers public access to data on payments from the pharmaceutical and device industries to physicians. Boards should consider all beneficial use of this newly available information. For example, Boards may choose to compare accessible data against organizational peers and incorporate national benchmarks when assessing organizational risk and compliance. Also, Boards of organizations that employ physicians should be cognizant of the relationships that exist between their employees and other health care entities and whether those relationships could have an impact on such matters as clinical and research decision-making. Because so much more information is becoming public, Boards may be asked significant compliance-oriented questions by various stakeholders, including patients, employees, government officials, donors, the media, and whistleblowers.

**Encouraging Accountability and Compliance**

Compliance is an enterprise-wide responsibility. While audit, compliance, and legal functions serve as advisors, evaluators, identifiers, and monitors of risk and compliance, it is the responsibility of the entire organization to execute the compliance program.

In an effort to support the concept that compliance is “a way of life,” a Board may assess employee performance in promoting and adhering to compliance.\textsuperscript{20} An organization may assess individual, department, or facility-level performance or consistency in executing the compliance program. These assessments can then be used to either withhold incentives or to provide bonuses.


based on compliance and quality outcomes. Some companies have made participation in annual incentive programs contingent on satisfactorily meeting annual compliance goals. Others have instituted employee and executive compensation claw-back/recoupment provisions if compliance metrics are not met. Such approaches mirror Government trends. For example, OIG is increasingly requiring certifications of compliance from managers outside the compliance department. Through a system of defined compliance goals and objectives against which performance may be measured and incentivized, organizations can effectively communicate the message that everyone is ultimately responsible for compliance.

Governing Boards have multiple incentives to build compliance programs that encourage self-identification of compliance failures and to voluntarily disclose such failures to the Government. For instance, providers enrolled in Medicare or Medicaid are required by statute to report and refund any overpayments under what is called the 60 Day Rule. The 60-Day Rule requires all Medicare and Medicaid participating providers and suppliers to report and refund known overpayments within 60 days from the date the overpayment is “identified” or within 60 days of the date when any corresponding cost report is due. Failure to follow the 60-Day Rule can result in False Claims Act or civil monetary penalty liability. The final regulations, when released, should provide additional guidance and clarity as to what it means to “identify” an overpayment. However, as an example, a Board would be well served by asking management about its efforts to develop policies for identifying and returning overpayments. Such an inquiry would inform the Board about how proactive the organization’s compliance program may be in correcting and remediating compliance issues.

21 42 U.S.C. § 1320a-7k.

22 Medicare Program; Reporting and Returning of Overpayments, 77 Fed. Reg. 9179, 9182 (Feb. 16, 2012) (Under the proposed regulations interpreting this statutory requirement, an overpayment is “identified” when a person “has actual knowledge of the existence of the overpayment or acts in reckless disregard or deliberate ignorance of the overpayment.”) disregard or deliberate ignorance of the overpayment.”); Medicare Program; Reporting and Returning of Overpayments; Extensions of Timeline for Publication of the Final Rule, 80 Fed. Reg. 8247 (Feb. 17, 2015).
Organizations that discover a violation of law often engage in an internal analysis of the benefits and costs of disclosing—and risks of failing to disclose—such violation to OIG and/or another governmental agency. Organizations that are proactive in self-disclosing issues under OIG’s Self-Disclosure Protocol realize certain benefits, such as (1) faster resolution of the case—the average OIG self-disclosure is resolved in less than one year; (2) lower payment—OIG settles most self-disclosure cases for 1.5 times damages rather than for double or treble damages and penalties available under the False Claims Act; and (3) exclusion release as part of settlement with no CIA or other compliance obligations.\(^{23}\) OIG believes that providers have legal and ethical obligations to disclose known violations of law occurring within their organizations.\(^{24}\) Boards should ask management how it handles the identification of probable violations of law, including voluntary self-disclosure of such issues to the Government.

As an extension of their oversight of reporting mechanisms and structures, Boards would also be well served by evaluating whether compliance systems and processes encourage effective communication across the organizations and whether employees feel confident that raising compliance concerns, questions, or complaints will result in meaningful inquiry without retaliation or retribution. Further, the Board should request and receive sufficient information to evaluate the appropriateness of management’s responses to identified violations of the organization’s policies or Federal or State laws.

**Conclusion**

A health care governing Board should make efforts to increase its knowledge of relevant and emerging regulatory risks, the role and functioning of the organization’s compliance program in the face of those risks, and the flow and elevation of reporting of potential issues and problems to

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\(^{24}\) See id., at 2 (“we believe that using the [Self-Disclosure Protocol] may mitigate potential exposure under section 1128J(d) of the Act, 42 U.S.C. 1320a-7k(d).”)
senior management. A Board should also encourage a level of compliance accountability across the organization. A Board may find that not every measure addressed in this document is appropriate for its organization, but every Board is responsible for ensuring that its organization complies with relevant Federal, State, and local laws. The recommendations presented in this document are intended to assist Boards with the performance of those activities that are key to their compliance program oversight responsibilities. Ultimately, compliance efforts are necessary to protect patients and public funds, but the form and manner of such efforts will always be dependent on the organization’s individual situation.

Bibliography


Tracy E. Miller, Board Fiduciary Duty to Oversee Quality: New Challenges, Rising Expectations, 3 NYSBA Health L.J. (Summer/Fall 2012).

El Camino Hospital Financial Vendors
El Camino Hospital Finance Committee
July 30, 2018
Matt Harris, Controller
## El Camino Hospital
### Financial Vendors

<table>
<thead>
<tr>
<th>Operations</th>
<th>Amex</th>
<th>BLX</th>
<th>CitiGroup</th>
<th>Comdata</th>
<th>Conduent</th>
<th>Fidelity</th>
<th>Garland</th>
<th>Actuarial</th>
<th>Pavillion</th>
<th>Ponder</th>
<th>WFB</th>
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<tbody>
<tr>
<td>Disbursements and deposits</td>
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| Investments                    |       |     |           |         |          |          |         |           |           |        |     |
| Investment trust (surplus cash)|       |     |           |         |          |          |         |           |           |        |     |
| Bond Fund Investments          |       |     |           |         |          |          |         |           |           |        |     |
| Advisor                        |       |     |           |         |          |          |         |           |           |        |     |
| Pension Trust                  |       |     |           |         |          |          |         |           |           |        |     |
| 403(b) Trustee                |       |     |           |         |          |          |         |           |           |        |     |

| Bonds                          |       |     |           |         |          |          |         |           |           |        |     |
| Trustee                        |       |     |           |         |          |          |         |           |           |        |     |
| Notification / Disclosure      |       |     |           |         |          |          |         |           |           |        |     |
| Underwriter                    |       |     |           |         |          |          |         |           |           |        |     |
| Advisor                        |       |     |           |         |          |          |         |           |           |        |     |

| Actuary                        |       |     |           |         |          |          |         |           |           |        |     |
| Pension                        |       |     |           |         |          |          |         |           |           |        |     |
| Workers Comp Reserves          |       |     |           |         |          |          |         |           |           |        | X   |
| Malpractice Reserves           |       |     |           |         |          |          |         |           |           |        | X   |
Background of Financial Vendors

**AMEX**

In 2011 partnered with American Express Global Commercial Services wanting to improve business process automation, better efficiency, and enhanced cash flow management. We had been with a Wells Fargo similar product but could only muster vendor enrollment to $8 million in nightly electronic payments with a very small rebate return to El Camino Hospital (“ECH”). ECH selected American Expresses’ Buyer Initiated Payments (BIP) to get more vendors enrolled in such a program gaining more in rebates. BIP is web-based that integrated smoothly with PeopleSoft’s ERP system and offered nightly electronic payments to the vendors. Upon selecting the BIP program ECH received $150,000 as a new costumer, and every year since the program has been in place received rebates in the range of $130,000 to $170,000 and have approximately $35 million in payables processing a year through their payables solution.

**BLX (Bond Logistix)**

Founded in 1989 as a subsidiary of Orrick, Herrington & Sutcliffe, LLP. BLX’s relationship started with the District’s issuance of its $148M G.O. Bonds in December 2006 in assist in funding of the replacement hospital tower in Mountain View. Services provided arbitrage compliance calculations and filings, bond post-issuance compliance, continuing disclosures and private use examination of tax-exempt bond-financed facilities. BLX assisted in a review by IRS in 2013 of Hospital’s 2007 $150M bond compliance, with the outcome of no findings. BLX continues to provide these services for the G.O. 2017 Refunding Bonds, the Hospital’s 2015A and 2017 bond issues. ECH completes the initial quarterly/annual filings that are then reviewed and filed by BLX.

**CitiGroup**

Citi continues to be the number one underwriter of not for profit healthcare bonds since the late 1990’s. Citi has worked with El Camino Healthcare District and the Hospital since the G.O. 2006 bond issuance. In 2015 underwrote the Hospital’s $160M issue and the defeasance of its original 2007 issue. In March 2017 it underwrote the $99M of District’s G.O. Bonds to reduce the cost of capital to the District, and did the Hospital’s $292.4M Revenue Bonds needed for the IMOB, BHS, and addition to the Parking Structure. In total, Citi has underwrote 6 bond deals totaling over 890M in debt.
Background of Financial Vendors

Comdata

In spring 2018, the Hospital partnered with Comdata (a division of Fleetcor) to expand our payment automation footprint beyond AMEX and our internal processes to leverage our A/P spend to achieve greater rebates. In this program, weekly payment files are sent to Comdata from PeopleSoft for those vendors enrolled in this program. In turn, Comdata issues a single-use MasterCard number that are provided to each vendor included in the payment file, along with the remittance information for each individual payment. To date, ECH has enrolled approximately 600 vendors in the program with an estimated spend of $30 million. We are continuing to enroll vendors and expect an annual spend to reach $40 – 50 million. The Hospital will receive 185 bps on most dollars processed through the Comdata system. Depending on the growth we hope to hit in the next few months, ECH should expect annual rebates in the range of $550k to $800k. These rebates are calculated and paid on a monthly basis, based on the payments made to the vendors in the previous month.

Conduent

The relationship with Conduent (formerly under a number of firm names – starting with Coopers & Lybrand, to PWC, to Buck Consultants, now to Conduent) goes back well over 25 years. Conduent provides numerous services to El Camino some of which are:

Retirement Services
- IRS actuarial valuation annual reports
- Annual funding notices to employees
- GASB 68 pension expense report
- GASB yearend disclosure information for annual audit
- Annual employee benefit statements
- IRS Form 5500 with all schedules and attachments
- PBGC premium filings
- Provides a call center to aid employees with retirement questions and requests for benefit calculations and packages
- Initiate benefit payments with the Trustee (WFB)
- Maintain all benefit payment election information
- Respond to auditor’s request for pension information
Background of Financial Vendors

Conduent (continued)

Postretirement Medical Services

- GASB expense report under GASB No. 75
- GASB yearend disclosure information for audit under GASB 75 requirements

Fidelity

ECH’s deferred compensation stand-alone 403(b) provider. Up to about 7 or 8 years ago, ECH had three vendors (Fidelity, Lincoln National, and Valic), and decided to consolidate under one vendor, thus went through a RFP process with three (3) vendors and selected Fidelity as its vendor of our choice for the 403(b) program. ECH retained the services of the Multnomah Group at that point to provide oversight of Fidelity’s array of investment programs that employees can select and be the “watch dog” if certain investments are under performing and make recommendations to Retirement Plan Administrative Committee to consider in closing certain funds and/or opening other funds. Multnomah also provides feedback on the fees being paid to Fidelity for their investment services.

Garland Actuarial, LLC

Relationship started back with Arthur Andersen (“AA”), CPA’s as Roberta Garland was then working as an actuarial for AA. With the demise of AA, she went on her own and since she was familiar with ECH was retained as our actuarial for our self-funded Workers Compensation reserves, malpractice/general liability reserves (BETA Healthcare Group), and performing IBNR (Incurred, But Not Reported) outside provider claims for the CONCERN: EAP program that is especially needed as part of the annual audit filings with the Department of Managed Health Care. Roberta’s work is reviewed by the annual auditors in order to get comfortable with the corresponding amounts recorded on our Balance Sheet for these reserves.
Background of Financial Vendors

Pavilion Advisory Group

As outcome of the Hospital wanting become more diversified in its investments of both surplus cash and pension cash, it went through a RFP process in 2011 for an investment consulting firm and Pavilion was the selected firm, which over time had the Hospital go from two (2) money managers in 2011 to approximately 27 money managers currently. Pavilion provides a due diligence process for the asset managers of the Hospital investments and quarterly investment performance reports to the Investment Committee and the committee assesses Pavilion’s performance and interaction with the committee on a quarterly basis.

Ponder Company

Ponder provides market expertise in the analysis and application of debt structures, interest rate swaps, and other derivative products for not-for-profit hospitals and healthcare systems for approximately the last forty years. Ponder began working with the Hospital in 2006 for advice beginning with Hospital’s 2007 $150 million Revenue Bond issue. Ponder provided education for the Board and Finance Committee on the structure on the anticipated deal. The relationship has continued since then with the following transactions:

- Interest rate swap pricing and transaction management for the 2007 series
- Series 2008 of fixed rate bonds (conversion of the 2007 series after the credit crisis of 2008)
- Series 2009 (RFP for bank products and implementation of the 2009 $50 million Variable Rate Demand Bonds
- Series 2015A fixed rate bonds (defeasance of the 2007 and $42 million of new capital proceeds (being used at the Los Gatos campus)
- Series 2017 fixed rate bonds (used for the IMOB, BHS, and Parking Structure expansion)
- 2017 G.O. Refunding of its 2006 issue reducing interest rates
- Ponder’s Investment Company is currently managing the remaining 2015A Project Funds (market value $10.5) and the 2017 issue (market value $178.3 million).
Background of Financial Vendors

Wells Fargo Bank

As an outcome of a RFP process circa late 1980’s we move our banking relationship to Wells for the “retail banking” side of the business and investment trustee, as well as credit card processing. The retail banking services covers all the bank accounts we have for all the District’s entities and most related entities, automated bank reconciliation on our larger check writing systems, ACH Direct Deposit transactions, trustee accounts for all bond, surplus cash, and pension assets, letter of credit, corporate credit cards.

On the Corporate Trust side Wells Fargo provides:

Cash Balance Plan

Wells Fargo Institution Retirement and Trust acts as trustee for the Hospital’s Cash Balance Plan acting as the fiduciary of the Plan. Wells Fargo IRT safekeeps all assets of the plan providing investment accounting reports of all holdings of the Plan. Also provides benefit payment services for the Plan’s Retirees.

Surplus Cash and Bond Proceeds

Wells Institutional Trust much like as the pension services safekeeps all assets in the Surplus Cash accounts and supplies investment accounting reports, especially needed for audit. When Pavilion was selected as our Investment Consultant, a RFP was send to various banks for a possible new selection of a Trustee that confirmed that Wells Fargo services and pricing for those services was indeed the best. Wells Fargo also the Trustee for our G.O. and Revenue Bonds which both the District and the Hospital must submit continuing disclosure and compliance reports.
## FY19 FC Pacing Plan – Q1

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<tr>
<th>July 30, 2018</th>
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<th>September 24, 2018</th>
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<td>- Meeting Minutes (May 2018), any policies</td>
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<td>- Meeting Minutes (July 2018), any policies</td>
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<td>- Financial Report (FY18 Period 11, 12)</td>
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<td>- Financial Report (FY19 Period 1, 2)</td>
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<td>- Physician Contracts</td>
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<td>- Capital Funding Requests</td>
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<td>- Physician Transaction Compliance Education</td>
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<td>- Payor Update</td>
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<td>- Service Line Review – HVI</td>
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<td>- Delegation of Authority to the Committee</td>
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<td>- Medical Staff Development Plan</td>
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## FY19 FC Pacing Plan – Q2

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<td>- Proposed Summary Financial Report to the Board</td>
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<td>- Post implementation Review</td>
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<td>- October 24, 2018 – Board and Committee Educational Session</td>
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| PREPARED FOR: Finance Committee  
| UPDATED June 14, 2018 |

**FY19 FC Pacing Plan – Q3**

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<tr>
<th>January 28, 2019</th>
<th>February 2019</th>
<th>March 25, 2019</th>
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</table>
| **Joint Meeting with the Investment Committee**  
| - Long Term Forecast  
- Meeting Minutes (November 2018), any policies  
- Financial Report (FY19 Period 5,6)  
- Physician Contracts  
- Capital Funding Requests  
- Review Major Capital Projects in progress  
- Info: Progress Against Goals, Pacing Plan, Article, Report on Board Actions  
- Service Line Review – BHS | No scheduled meeting | - Meeting Minutes (January 2019), any policies  
- Financial Report (FY19 Period 7,8)  
- Physician Contracts  
- Capital Funding Requests  
- Review Major Capital Projects in progress  
- Info: Progress Against Goals, Pacing Plan, Article, Report on Board Actions  
- Preview FY20 Budget Part # 1  
- Discuss and recommend FY19 Committee Goals  
- Discuss FY20 Committee Dates  
- Payor Update  
- SVMD “Strategies and Execution” |

**FY19 FC Pacing Plan – Q4**

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<thead>
<tr>
<th>April 22, 2019</th>
<th>May 28, 2019</th>
<th>June 2019</th>
</tr>
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| - Fy20 Budget Review – Part 2 | **Joint Meeting with the Hospital Board on the Operating & Capital Budget**  
- Meeting Minutes (March 2019), any policies  
- Financial Report (FY19 Period 9,10)  
- Physician Contracts  
- Capital Funding Requests  
- Review Major Capital Projects in progress  
- Info: Progress Against Goals, Pacing Plan, Article, Report on Board Actions  
- Review and recommend FY20 Budget  
- Review and recommend FY20 Organizational Goals | No scheduled meeting |