Arbor Hospice

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ARBOR HOSPICE Inc.

CONSOLIDATED STATEMENT OF REVENUES AND EXPENSES
AND CAPITAL BUDGET
FINAL PASS
FISCAL 2012

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ARBOR HOSPICE, INC.
FINAL PASS BUDGET 2012
CONSOLIDATED
OPERATING AND CAPITAL BUDGETS

I. Key Assumptions

1. **Volumes:** In the Major Assumptions document Management had identified a likely range of increase based on trended data from 4.7% to 8.6%.

Average Daily Census	*Budget 2011*	*Projected 2011*	*First Pass Budget 2012*	*Change Proj '11 to Budget '12*	*Percentage Change P'11 to B'12*
Routine Care - IPU	21.0	19.2	20.3	1.1	5.7%
GIP	3.0	3.9	3.7	(0.2)	-5.1%
Total	24.0	23.1	24.0	0.9	3.9%
Ann Arbor Branch Care	144.4	146.8	155.5	8.7	5.9%
Wayne Branch Care	56.6	56.9	65.0	8.1	14.2%
Total Field	201.0	203.7	220.5	16.8	8.2%
Agency Total	**225.0**	**226.8**	**244.5**	**17.7**	**7.8%**

2. **Medicare Reimbursement**: The Budget assumes a net increase of 0.75%. Increases from the Market Basket are reduced by the continued implementation of reductions caused by the Budget Neutrality Adjustment Factor.

3. **Wage Program Increases**: An increase based on market data has been budgeted for positions in the amount of $181,000 which approximates 2% of current base wages.

4. **Loss from Operations** – The proposed Budget has a Loss from Operations of ($178,894) and this shows an increase as compared to the Annualized March Loss of ($59,308). The increased Loss is ($119,586).

5. **Net Foundation** – The Foundation Revenues are projected to increase by $356,000 or 33.6% and the Foundation Expenses will also increase by $45,574. The Net Foundation will be $946,032, an increase of $310,426 or 48.8% over the projected Fiscal 2011.

II. Budget Narrative

1. **Growth in the ADC** – We are budgeting for the ADC to grow, in total, by 7.8% from our Projected FY 2011 levels.

   a. ***Wayne Branch*** – The branch has the largest increase of 8.1 ADC or 14% to a FY 2012 Average of 65. The actual ADC over the past 3 months has been 61.1 and 59.4 over the last 6 months. [redacted] well as focused marketing efforts in the region. The rate of increase when compared to the actual for the last 3 months decreases to 6.4% which we believe to be a very reasonable goal.

   b. ***Ann Arbor Branch*** – This branch is budgeted to increase by 5.9% from our projection for Fiscal 2011.

   c. ***IPU*** – The Inpatient Unit shows a net gain of 0.9 ADC or 3.9% from the projection for Fiscal 2011. We have increased the ADC for the General Inpatient (GIP) level of care from the previous Budget 2011. Budget 2012 shows GIP ADC at 3.7 which is a slight decrease from our current levels and an increase of 1.1 ADC for our Routine Care provided in the IPU.

2. **Total Revenues** – We are budgeting an increase of $1,323,172 or 9.1% due to the increased ADC and Medicare Reimbursement assumptions. The Room and Board Charge for the IPU is budgeted to increase by 4% (A $10 per day increase) to $260 per day on January 1, 2012. This will be the first increase in two years.

3. **Total Personnel Costs** – These are increasing by $1,028,199 or 9.8%. Salaries are increasing by $875,496. Of this, $181,000 has been reserved for wage adjustments, another $163,000 is for new programs and the remaining $531,000 is associated with increased volumes in the budget and the annualized impact of some current positions.

   [redacted] Management believes that this area is important as a patient satisfier and to remain competitive with other hospice providers. Another program is the establishment of an Education Coordinator, a 1.0 FTE position, which will be responsible for both internal and external professional clinical education activities.

   Productivity in the Field is projected to increase as the budgeted model reflects an actual staffing pattern that has consistently exceeded the standard.

4. **Administrative Expenses** – These are showing an increase of $259,607 or 19.6%. This is a combination of increases for Employee Inservice Expenses +$56,300 as we implement a Customer Service Program; Marketing +$61,000; increased use of Triage/Oncall Telephone coverage and Contingency of $100,000.

5. **Facility Costs**—These expenses are increasing by $52,903 or 6.4%. The largest increase is in our Interest Expense. We have projected an interest rate of 1.7% as compared to our current rate of 0.3%. The created an increase in Interest costs of $53,988.

6. **Patient Care Costs** – These are increasing by $102,049 or 5.0%. The overall increase is less that the incremental volume due to anticipated savings from our new Pharmacy contract. These expenses are budgeted to increase by only 2.9%. We were able to negotiate a 20 month price freeze in our last contract.

III. The Arbor Hospice Foundation

The Foundation numbers shown should be viewed as still under consideration. The Revenues are dependent upon a Capital and Endowment Campaign which is targeted to raise $400,000 in Fiscal 2012 and will continue on into FY 2013.

The campaign will be tested by a feasibility study whose goals, cost and timing will be determined by a sub-committee of the Foundation Board.

IV. Capital Spending

The attached schedule shows the Budgeted Capital at $500,000. As in past practice, we included a "contingency" in the budgeted total of $60,000. This contingency is important in the calculation of our current Comerica Debt Service Coverage ratio. If Net Income targets are not being met then capital spending would be deferred as a mechanism to assist in meeting the Debt Service Coverage Ratio.

The majority of spending is in two areas. The first is the continuation of the renovations and improvements to the Residence (both upstairs and downstairs). These renovations have a Fiscal 2012 cost of $278,849. The next significant area is for Information Technology at $130,000 for items such as, Replacement Equipment $39,000; New Server $25,000, Fax Server $29,000 and an interface for the Pharmacy System $25,100.

V. Debt Service Coverage Ratio (DSC)

The attached schedule shows the calculation of the DSC ratio based upon the Budgeted Net Income and the Budgeted Capital Spending. The budgeted ratio is 2.76 times and will be greater that the required 1.25 times. This would translate to being $339,567 above the required amount not including the $60,000 of capital contingency.

	Arbor Hospice, Inc Consolidated				
	Statement of Revenues and Expenses				
	Final Pass Budget 2012				
		Final Pass Budget 2012	Annualized Mar 2011	Change	Percent Change
1	**REVENUES**				
2	Routine Hospice Care	$ 13,333,469	$ 12,121,253	$ 1,212,216	10.0%
3	GIP	952,144	945,083	7,061	0.7%
4	Room and Board	1,637,699	1,520,353	117,346	7.7%
5	Other	75,000	97,431	(22,431)	-23.0%
6	Total Patient Revenue	15,998,312	14,684,120	1,314,192	8.9%
7					
8	Nursing Home Charges	2,052,263	2,055,257	(2,994)	-0.1%
9	Nursing Home Expenses	(2,132,269)	(2,137,811)	5,542	-0.3%
10	Net Nursing Home Expense	(80,006)	(82,553)	2,547	-3.1%
11					
12	Other Revenue	25,000	18,567	6,433	34.6%
13					
14	**Total Revenues**	$ 15,943,306	$ 14,620,134	$ 1,323,172	9.1%
15					
16	**EXPENSES**				
17	Salaries	$ 9,328,440	$ 8,452,944	$ 875,496	10.4%
18	Payroll Taxes	695,811	677,515	18,296	2.7%
19	Fringe Benefits	1,043,435	974,992	68,443	7.0%
20	Mileage	444,232	378,268	65,964	17.4%
21	Total Personnel Costs	11,511,918	10,483,719	1,028,199	9.8%
22					
23	Administrative Costs	1,582,138	1,322,531	259,607	19.6%
24	Facility Costs	881,695	828,792	52,903	6.4%
25	Patient Care Costs	2,146,449	2,044,400	102,049	5.0%
26					
27	**Total Expense**	$ 16,122,200	$ 14,679,441	$ 1,442,759	9.8%
28					
29	**Gain or (Loss) from Operations**	$ (178,894)	$ (59,308)	$ (119,586)	-201.6%
30					
31	[redacted]	$ [redacted]	$ [redacted]	$ [redacted]	[redacted]
32	[redacted]	$ [redacted]	$ [redacted]	$ [redacted]	[redacted]
33	Net Foundation	$ 946,032	$ 635,606	$ 310,426	48.8%
34					
35	Investment Income	$ -	$ 350,000	$ (350,000)	-100.0%
36					
37	**Net Income (Loss)**	$ 767,138	$ 926,298	$ (159,160)	-17.2%
38					
39	Note Well -- The budget does not assume any Investment Income				

Arbor Hospice, Inc Consolidated
Statement of Revenues and Expenses
Final Pass Budget 2012
Percent of Revenues Comparison

		First Pass Budget 2012	Percent of Revenues	Annualized Mar 2011	Percent of Revenues
1	REVENUES				
2	Routine Hospice Care	$ 13,333,469	83.6%	$ 12,121,253	82.9%
3	GIP	952,144	6.0%	945,083	6.5%
4	Room and Board	1,637,699	10.3%	1,520,353	10.4%
5	Other	75,000	0.5%	97,431	0.7%
6	Total Patient Revenue	15,998,312	100.3%	14,684,120	100.4%
7					
8	Nursing Home Charges	2,052,263	12.9%	2,055,257	14.1%
9	Nursing Home Expenses	(2,132,269)	-13.4%	(2,137,811)	-14.6%
10	Net Nursing Home Expense	(80,006)	-0.5%	(82,553)	-0.6%
11					
12	Other Revenue	25,000	0.2%	18,567	0.1%
13					
14	Total Revenues	$ 15,943,306	100.0%	$ 14,620,134	100.0%
15					
16	EXPENSES				
17	Salaries	$ 9,328,440	58.5%	$ 8,452,944	57.8%
18	Payroll Taxes	695,811	4.4%	677,515	4.6%
19	Fringe Benefits	1,043,435	6.5%	974,992	6.7%
20	Mileage	444,232	2.8%	378,268	2.6%
21	Total Personnel Costs	$ 11,511,918	72.2%	$ 10,483,719	71.7%
22					
23	Administrative Costs	$ 1,582,138	9.9%	$ 1,322,531	9.0%
24	Facility Costs	$ 881,695	5.5%	$ 828,792	5.7%
25	Patient Care Costs	$ 2,146,449	13.5%	$ 2,044,400	14.0%
26					
27	Total Expense	$ 16,122,200	101.1%	$ 14,679,441	100.4%
28					
29	Gain or (Loss) from Operations	$ (178,894)	-1.1%	$ (59,308)	-0.4%

1. Capital Spending Budget 2012

· IT	$ 130,000
· Downstairs Renovations	$ 78,849
· Upstairs Renovations	$ 200,000
· IPU	$ 13,700
· Foundation	$ 3,800
· Access	$ 900
· Dietary	$ 5,700
· Facilities	$ 2,300
· Marketing	$ 3,800
· Wayne	$ 900
. Contingency	$ 60,051
· Total	$ 500,000

2. Debt Service Coverage Calculation

Net Income		$ 765,767
Add	Depreciation	$ 315,000
	Interest Expense	$ 39,800
Less	Capital	$ (500,000)
Equals	Cash Generated to Meet Debt Payments	$ 620,567
Debt Payments		
	Interest	$ 39,800
	Scheduled Principal Payments	$ 185,000
	Total Debt Service for Fiscal 2012	$ 224,800
	Budgeted Debt Service Coverage Ratio	**2.76**
	Required DSC ratio	**1.25**

Conclusion: Arbor will meet the DSC ratio requirement with aproximately $340,000 of room to spare

[redacted]