

ADDENDUM J

PALOMAR POMERADO HEALTH

A California Health Care District

BOARD FINANCIAL REPORT

January 2006

(UNAUDITED)

**PREPARED BY THE FINANCE DEPARTMENT
15255 INNOVATION DRIVE, SUITE 202
SAN DIEGO, CA 92128
(858) 675-5223**

PALOMAR POMERADO HEALTH

A California Health Care District

BOARD FINANCIAL REPORT

TABLE OF CONTENTS	
Financial Report Narrative	<u>PAGE</u> 1
Balanced Scorecard Comparisons	3
Consolidated Balance Sheet	4
Consolidated – YTD 2006 Actual vs. Budget Analysis	5
Consolidated – January 2006 Actual vs. Budget Analysis	6
Consolidated – Cash Flow Statement	7
Bond Covenant Ratios	8

**PALOMAR POMERADO HEALTH
JANUARY 2006 and YTD FY 2006 FINANCIAL RESULTS
EXECUTIVE SUMMARY and HIGHLIGHTS**

Statistics:

Consolidated acute patient days increased 298 days (3%) to 10,258 in January compared to December's 9,960. YTD acute patient days of 66,187 are slightly (3%) above budget of 64,152. The acute Average Daily Census (ADC) was 331 in January compared to 321 in December. Acute admissions for January YTD were 16,626 compared to budget of 16,312 (2% higher than budget). YTD January SNF patient days were 44,790 compared to budget of 44,533 (.6% variance).

Palomar's YTD acute patient days of 50,164 are above budget at 48,688 (1,476 or 3% higher); however, PMC is experiencing 23% less trauma cases than budget. Palomar's cardiovascular surgery cases are also down by 16% (from budget and prior year) and total surgery cases were down 6% from budget.

Pomerado's acute patient days are 559 days (3.6%) greater than budget (actual = 16,023, budget = 15,464), and almost all of this variance occurred in December & January. The YTD mental health patient days are up 305, medical acute patient days are up 366 and labor/delivery patient days are down 112 from budget.

Balance Sheet:

Current Cash & Cash Equivalents increased \$3.6 million to \$109.9 million in January from \$106.1 million in December. The increase is due to 1) increased patient account collections and 2) receipt of prior period settlements from Medicare. Total Cash and Investments are \$134 million, compared to \$131 million at June 30, 2005. Days cash on hand are 144 compared to 148 at June 30, 2005, still within "A" rated guidelines. Additional amounts paid from working capital for Facility Master Plan usage remaining to be reimbursed of approximately \$20 million dollars or 22 days of cash on hand

Net Accounts Receivable increased approximately \$1 million to \$72.5 million in January as compared to December. Gross A/R days were 52.2 in January, down significantly from December's 56.8 days. June 2005 and 2004 gross A/R days were 70 and 40, respectively. January patient account collections (excluding Capitation) were \$25.3 million, compared to budget of \$26.1 million. YTD patient account collections (excluding capitation) are \$11 million below budget at \$172 million (budget was \$183 million).

Other Assets decreased \$2.1 million to \$4.9 million, mainly due to property tax receipts.

Accounts Payable increased \$2.6 million in January due to the timing of vendor in payments.

Estimated 3rd Party liability increased by \$1.5 million due to the receipt of Medicare prior year settlements.

Income Statement:

Gross Patient Revenue for YTD January reflects a favorable budget variance of \$27 million. This favorable variance is composed of an \$18.4 million favorable volume variance and an \$8.9 million favorable rate variance.

Routine revenue (inpatient room and board) reflects an unfavorable \$1.4 million budget variance. PPH North reflects a favorable variance of \$417 thousand, and PPH South reflects a favorable variance of \$967 thousand, despite the 1,008 patient day increase as a result of the change in mix of business previously noted.

Inpatient Ancillary gross revenue represents a YTD \$21 million favorable budget variance at January. PPH North reflects a favorable variance of \$20.3 million, and PPH South reflected \$626 thousand favorable variance. The main contributors to Palomar's favorable variance were

reflected in the Emergency Room, Cat Scanner, Pharmacy and Patient Supply departments, totaling \$15.6 million higher than budget.

Outpatient revenue reflects a YTD favorable budget variance of \$4.9 million. The majority of this favorable variance is reflected at PPH North at \$6 million, and the majority of this variance is in the Emergency (\$3.6 million) and Pharmacy (\$1.2 million.) Departments.

Deductions from Revenue reflects a YTD unfavorable variance of \$28.6 million. This variance is due to: 1) Disproportional IP Ancillary revenue compared to routine nursing revenue (which results in additional contractual adjustments of approximately \$20 million and is the result of most payer payments being based upon case rate or per diem reimbursement for inpatient services) at Palomar; and, 2) An increase in uninsured patients resulting in charity, undocumented and bad debt write-offs. Total Deductions from Revenue is 68.9% of gross revenue, compared to a budget of 67%.

Deductions from Revenue (excluding Capitation revenue and Bad Debt/Charity/Undocumented expenses) was 64% of Gross Revenue for January YTD, compared to budget of 63%.

The Capitation monies retained by PPH are reflecting a YTD \$3.3 million favorable variance as of January.

Bad debt, charity & undocumented care write-offs reflected a YTD unfavorable \$4.4 million budget variance (\$2.2 million of this variance occurred in January). PPH North is experiencing a higher proportion of uninsured patients than we have experienced in previous years. Bad debt, charity and undocumented write-offs as a percentage of gross revenue are 5.2%, compared to budget of 4.7%. The .5% variance approximates \$3.2 million.

Other Operating Revenue reflects an unfavorable budget variance of \$819 thousand. A large portion of this variance, \$611 thousand, is related to laboratory services that were budgeted in Other Operating Revenue but are being recognized in OP Revenue.

Salaries, Wages & Contract Labor reflects a YTD unfavorable variance of \$2.2 million (January reflected an unfavorable variance of \$817 thousand). This YTD unfavorable variance is composed of: 1) Salaries and Wages – \$259,000 (actual \$92 million); and, 2) Contract Labor – (\$1,970,000) (actual \$7.3 million). PPH North reflects an unfavorable \$2.3 million; PPH South reflects an unfavorable \$649 thousand; and Central Office reflects a favorable \$542 thousand. Nursing educations for new hires is a key contributor to the variance.

Benefits Expense is reflecting a YTD favorable budget variance of \$17 thousand.

Supplies Expense is reflecting a YTD unfavorable budget variance of \$1.7 million. January reflected an unfavorable \$929 thousand budget variance (the majority of the variance was \$475 thousand in prosthesis—notably AICDs – and \$337 thousand in pharmacy). PPH North reflected an unfavorable \$1.9 million variance from budget. The majority of PPH North's variance is in Pharmacy (\$828 thousand), Prosthesis (\$682 thousand) and Surgery General (\$558 thousand).

Prof Fees & Purch Services reflected a favorable budget variance of \$1.4 million, primarily the result of having been budgeted evenly throughout the year.

Non-Operating Income reflects a YTD favorable variance of \$547 thousand in January, including a \$290 thousand favorable investment income variance. Investment income reflects a 2.6% investment rate of return, compared to budget of 2.5%.

Ratios & Margins:

All required bond covenant ratios were achieved in January 2006.

YTD OEBITDA Margin is 7.9%, and Net Income Margin is 3%.

Palomar Pomerado Health
Balanced Scorecard
Financial Indicators
January 31, 2006

October		November		December		January		% Actual to Bud/PY	
Actual	Actual	Actual	Actual	Actual	Actual	Bud/PY	Variance	Bud/PY	% Actual to Bud/PY
PPH Indicators:									
7.6%	8.6%	5.8%	9.6%	9.9%	-0.3%	97.0%			
\$ 2,403.66	\$ 2,495.98	\$ 2,365.25	\$ 2,332.54	\$ 2,432.74	\$ 100.20				
\$ 1,407.71	\$ 1,449.94	\$ 1,361.76	\$ 1,346.58	\$ 1,416.75	\$ 70.17				
6.50	5.83	5.88	6.08	6.17	\$ 0.09				
12,214	12,331	13,089	13,278	13,117	161				
PPH North Indicators:									
5.3%	7.2%	5.6%	12.3%	11.9%	0.4%	103.4%			
\$ 2,323.64	\$ 2,354.93	\$ 2,243.09	\$ 2,250.84	\$ 2,306.47	\$ 55.63				
\$ 1,222.66	\$ 1,210.68	\$ 1,144.45	\$ 1,122.55	\$ 1,180.75	\$ 58.20				
5.61	5.00	4.94	5.07	5.09	\$ 0.02				
8,414	8,796	9,269	9,345	9,414	(69)				
PPH South Indicators:									
10.3%	8.9%	3.1%	2.2%	1.4%	0.8%	157.1%			
\$ 2,315.48	\$ 2,510.15	\$ 2,359.30	\$ 2,247.26	\$ 2,443.48	\$ 196.22				
\$ 1,212.00	\$ 1,303.76	\$ 1,230.71	\$ 1,156.12	\$ 1,261.88	\$ 105.76				
5.90	5.59	5.73	5.53	5.87	\$ 0.34				
3,573	3,390	3,606	3,772	3,518	254				
YTD 2006									
Actual		Bud/PY		Variance		% Actual to Bud/PY			
PPH Indicators:									
7.9%		9.8%		-1.9%		98.6%			
2,396.51		\$ 2,435.68		\$ 39.17		98.4%			
1,401.49		\$ 1,417.05		\$ 15.56		98.9%			
6.05		6.17		0.12		98.1%			
87,933		86,049		1,884		102.2%			
PPH North Indicators:									
8.1%		11.8%		-3.7%		98.9%			
2,283.36		\$ 2,308.77		\$ 25.41		98.9%			
1,181.08		\$ 1,181.02		\$ (0.06)		100.0%			
5.10		5.10		-		100.0%			
62,229		61,199		1,030		101.7%			
PPH South Indicators:									
4.9%		1.3%		3.6%		376.9%			
2,373.58		\$ 2,446.70		\$ 73.12		97.0%			
1,235.38		\$ 1,262.12		\$ 26.74		97.9%			
5.69		5.88		0.19		96.8%			
24,436		23,348		1,088		104.7%			

Palomar Pomerado Health
Consolidated Balance Sheet
As of January 31, 2006

	Current Month	Prior Month	Prior Fiscal Year End
Assets			
Current Assets			
Cash on Hand	\$2,794,335	\$375,736	\$12,663,073
Cash Marketable Securities	107,077,258	105,821,946	96,380,135
Total Cash & Cash Equivalents	109,871,593	106,197,682	109,043,208
Patient Accounts Receivable	163,295,758	171,063,386	190,388,774
Allowance on Accounts	-90,712,543	-99,450,430	-120,586,401
Net Accounts Receivable	72,583,215	71,612,956	69,802,373
Inventories	6,537,498	6,315,113	6,320,951
Prepaid Expenses	2,335,889	2,593,069	2,383,903
Other	4,963,469	7,101,865	828,210
Total Current Assets	196,291,664	193,820,685	188,378,645
Non-Current Assets			
Restricted Assets	87,696,165	85,424,880	12,026,055
Restricted by Donor	284,918	284,224	281,473
Board Designated	24,082,848	26,040,134	22,388,648
Total Restricted Assets	112,063,931	111,749,238	34,696,176
Property Plant & Equipment	329,044,444	330,630,007	337,484,770
Accumulated Depreciation	-217,767,576	-218,275,014	-218,491,576
Construction in Process	44,687,516	41,281,479	28,023,698
Net Property Plant & Equipment	155,964,384	153,636,472	147,016,892
Investment in Related Companies	6,332,625	6,321,473	6,175,837
Deferred Financing Costs	3,327,904	3,333,047	2,311,702
Other Non-Current Assets	1,195,733	1,209,168	1,274,318
Total Non-Current Assets	278,884,577	276,249,398	191,474,925
Total Assets	\$475,176,241	\$470,070,083	\$379,853,570

	Current Month	Prior Month	Prior Fiscal Year End
Liabilities			
Current Liabilities			
Accounts Payable	\$14,488,384	\$11,881,665	\$18,090,054
Accrued Payroll	16,472,527	17,315,838	19,511,491
Accrued PTO	10,026,370	10,269,871	10,212,195
Accrued Interest Payable	3,364,271	2,753,690	708,785
Current Portion of Bonds	12,745,000	12,745,000	6,125,000
Est Third Party Settlements	-613,342	-2,114,526	-4,522,051
Other Current Liabilities	12,917,358	13,783,929	6,642,463
Total Current Liabilities	69,400,569	66,635,467	56,767,937
Long Term Liabilities			
Bonds & Contracts Payable	151,221,989	151,196,908	79,819,688
Fund Balance			
Unrestricted	230,185,920	225,913,348	220,595,825
Restricted for Other Purpose	284,918	284,224	281,473
Board Designated	24,082,848	26,040,134	22,388,648
Total Long Term Liabilities	254,553,686	252,237,706	243,265,946
Total Liabilities / Fund Balance	\$475,176,241	\$470,070,083	\$379,853,570

PALOMAR POMERADO HEALTH
CONSOLIDATED
FYTD 2006
JAN 06

	Month Activity			Variance		Variance		\$/Wtg Pt Day	
	Actual	Budget	Variance	Volume	Rate/Eff	Actual	Budget	Variance	
Statistics:									
Admissions - Acute	16,626	16,312	314						
Admissions - SNF	708	799	(91)						
Patient Days - Acute	66,187	64,152	2,035						
Patient Days - SNF	44,790	44,533	257						
LOS - Acute	3.97	4.00	(0.03)						
LOS - SNF	40.28	37.96	2.32						
Weighted Pt Days	87,933	85,407	2,526						
Revenue:									
Gross Revenue	\$ 649,708,469	\$ 622,421,479	\$ 27,286,990	F	\$ 18,408,756	\$ 8,878,234	\$ 7,388.68	\$ 7,287.71	\$ 100.97
Deductions from Rev	(446,108,062)	(417,516,792)	(28,591,270)	U	(12,348,489)	(16,242,781)	(5,073.27)	(4,888.55)	(184.72)
Net Patient Revenue	203,600,407	204,904,687	(1,304,280)	U	6,060,267	(7,364,547)	2,315.40	2,399.16	(83.75)
Other Oper Revenue	5,119,811	5,939,353	(819,542)	U	175,662	(995,204)	58.22	69.54	(11.32)
Total Net Revenue	208,720,218	210,844,040	(2,123,822)	U	6,235,930	(8,359,752)	2,373.63	2,468.70	(95.07)
Expenses:									
Salaries, Wages & Contr Labor	99,292,045	97,063,223	(2,228,822)	U	(2,870,745)	641,923	1,129.18	1,136.48	7.30
Benefits	23,945,036	23,962,498	17,462	F	(708,716)	726,178	272.31	280.57	8.26
Supplies	36,514,707	34,788,828	(1,725,879)	U	(1,028,915)	(696,964)	415.26	407.33	(7.93)
Prof Fees & Purch Svc	26,094,224	27,495,399	1,401,175	F	(813,205)	2,214,380	296.75	321.93	25.18
Depreciation	10,241,295	10,009,214	(232,081)	U	(296,033)	63,952	116.47	117.19	0.73
Other	11,719,729	11,803,189	83,460	F	(349,091)	432,551	133.28	138.20	4.92
PPH Allocation	-	3	3	F	(0)	3	-	0.00	0.00
Total Expenses	207,807,036	205,122,354	(2,684,685)	U	(6,066,705)	3,382,023	2,363.24	2,401.70	38.46
Net Inc Before Non-Oper Income	913,182	5,721,686	(4,808,506)	U	169,225	(4,977,729)	10.38	66.99	(56.61)
Property Tax Revenue	6,358,331	6,358,331	-	-	188,054	(188,054)	72.31	74.45	(2.14)
Non-Operating Income	(630,360)	(1,178,149)	547,789	F	(34,845)	582,634	(7.17)	(13.79)	6.63
Net Income (Loss)	\$ 6,641,153	\$ 10,901,868	\$ (4,260,717)	U	\$ 322,434	\$ (4,583,149)	\$ 75.53	\$ 127.65	\$ (52.12)
Net Income Margin	3.0%	4.9%	-1.9%						
OEBITDA Margin w/o Prop Tax	5.0%	7.0%	-2.0%						
OEBITDA Margin with Prop Tax	7.9%	9.8%	-1.9%						

F= Favorable variance
U= Unfavorable variance

PALOMAR POMERADO HEALTH
CONSOLIDATED
MTD 2006
JAN 2006

	Month Activity			Variance			\$/Wtg Pt Day		
	Actual	Budget	Variance	Volume	Rate/Eff	Actual	Budget	Variance	
Statistics:									
Admissions - Acute	2,380	2,352	28						
Admissions - SNF	99	115	(16)						
Patient Days - Acute	10,258	9,250	1,008						
Patient Days - SNF	6,482	6,421	61						
LOS - Acute	3.97	4.00	(0.03)						
LOS - SNF	40.26	37.95	2.31						
Weighted Pt Days	13,278	12,315	963						
Revenue:									
Gross Revenue	\$ 101,036,758	\$ 89,738,729	\$ 11,298,029	F	\$ 7,017,328	\$ 4,280,701	\$ 7,609.34	\$ 7,286.95	
Deductions from Rev	(70,137,875)	(60,196,380)	(9,941,495)	U	(4,707,196)	(5,234,299)	(5,282.26)	(4,888.05)	
Net Patient Revenue	30,898,883	29,542,349	1,356,534	F	2,310,133	(953,599)	2,327.07	2,398.89	
Other Oper Revenue	487,382	848,479	(361,097)	U	66,349	(427,446)	36.71	68.90	
Total Net Revenue	31,386,265	30,390,828	995,437	F	2,376,481	(1,381,044)	2,363.78	2,467.79	
Expenses:									
Salaries, Wages & Contr Labor	14,810,465	13,992,843	(817,622)	U	(1,094,203)	276,581	1,115.41	1,136.24	
Benefits	3,069,404	3,454,472	385,068	F	(270,130)	655,198	231.16	280.51	
Supplies	5,945,923	5,016,992	(928,931)	U	(392,315)	(536,616)	447.80	407.39	
Prof Fees & Purch Svc	3,875,056	3,950,029	74,973	F	(308,882)	383,855	291.84	320.75	
Depreciation	1,532,681	1,435,958	(96,723)	U	(112,288)	15,565	115.43	116.60	
Other	1,319,203	1,694,297	375,094	F	(132,489)	507,583	99.35	137.58	
PPH Allocation	-	1	1	F	(0)	1	-	0.00	
Total Expenses	30,552,732	29,544,592	(1,008,140)	U	(2,310,308)	1,302,168	2,301.00	2,399.07	
Net Inc Before Non-Oper Income									
	833,533	846,236	(12,703)	U	66,173	(78,876)	62.78	68.72	
Property Tax Revenue									
	908,333	908,333	-	-	71,029	(71,029)	68.41	73.76	
Non-Operating Income									
	(89,686)	(168,307)	78,621	F	(13,161)	91,782	(6.75)	(13.67)	
Net Income (Loss)									
	\$ 1,652,180	\$ 1,586,262	\$ 65,918	F	\$ 124,041	\$ (58,123)	\$ 124.43	\$ 128.81	
								\$ (4.38)	

F= Favorable variance
U= Unfavorable variance

Palomar Pomerado Health
STATEMENTS OF CASH FLOWS
Fiscal Year 2006

	<u>January</u>	<u>YTD</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income (Loss from operations)	\$ 833,533	\$ 913,180
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation Expense	1,532,681	10,241,294
Provision for bad debts	3,069,712	17,949,503
Changes in operating assets and liabilities		
Patient accounts receivable	(4,039,971)	(20,730,345)
Property Tax and other receivables	(51,411)	(10,738,759)
Inventories	(222,385)	(216,547)
Prepaid expenses and Other Non-Current assets	246,028	(534,977)
Accounts payable	2,606,719	(2,779,920)
Accrued comp	(1,086,812)	(3,224,789)
Estimated settlement amounts due third-party payor	1,501,184	3,908,709
Other current liabilities	41,762	12,633,226
Net cash provided by operating activities	<u>4,431,040</u>	<u>7,420,579</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (purchases) sales on investments	(1,570,005)	(88,064,880)
Interest (Loss) received on investment	340,226	1,983,372
Investment in affiliates	13,435	306,791
Net cash used in investing activities	<u>(1,216,344)</u>	<u>(85,774,717)</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:		
Other	0	0
Receipt of G.O. Bond Taxes	1,321,573	4,877,911
Receipt of district taxes	1,532,031	6,576,238
Net cash used in activities	<u>2,853,604</u>	<u>11,454,149</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of property plant and equipmen	(3,649,702)	(17,684,637)
Proceeds from sale of asset	0	781,634
Interest paid	0	(2,126,354)
Proceeds from issuance of deb	0	82,185,607
Payments of LT Debt	0	(6,125,000)
Net cash used in activities	<u>(3,649,702)</u>	<u>57,031,250</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,418,598	(9,868,739)
CASH AND CASH EQUIVALENTS - Beginning of period	375,736	12,663,073
CASH AND CASH EQUIVALENTS - End of period	<u>\$ 2,794,334</u>	<u>\$ 2,794,334</u>

PALOMAR POMERADO HEALTH BOND COVENANT RATIOS

CUSHION RATIO	Jun-04	Jun-05	Jan-06
Cash and Cash Equivalents	140,057,417	109,043,208	109,871,593
Board Designated Reserves	27,374,261	22,388,648	24,082,848
Trustee-held Funds	11,853,970	12,026,055	9,517,306
Total	179,285,648	143,457,911	143,471,747
Divided by:			
Max Annual Debt Service	10,697,594	10,697,594	10,697,594
(Bond Year 2012)			

CUSHION RATIO	16.8	13.4	13.4
REQUIREMENT	1.5	1.5	1.5
	Achieved	Achieved	Achieved

DAYS CASH ON HAND	Jun-04	Jun-05	Jan-06
Cash and Cash Equivalents	140,057,417	109,043,208	109,871,593
Board Designated Reserves	27,374,261	22,388,648	24,082,848
Total	167,431,678	131,431,856	133,954,441
Divide Total by Average Adjusted Expenses per Day			
Total Expenses	311,614,910	340,338,156	207,807,036
Less: Depreciation	14,546,550	16,394,985	10,241,295
Adjusted Expenses	297,068,360	323,943,171	197,565,741
Number of days in period	366	365	215
Average Adjusted Expenses per Day	811,662	887,516	918,910

DAYS CASH ON HAND	206	148	146
REQUIREMENT	90	90	90
	Achieved	Achieved	Achieved

Net Income Available for Debt Service	Jun-04	Jun-05	Jan-06
Excess of revenue over expenses Cur Mo.	2,905,196	1,490,930	1,652,180
Excess of revenues over expenses YTD (General Funds)	16,053,177	17,052,649	6,641,153
ADD:			
Depreciation and Amortization	14,546,550	16,394,985	10,241,295
Interest Expense	5,581,454	5,272,031	2,924,947
Net Income Available for Debt Service	36,181,181	38,719,665	19,807,395

Aggregate Debt Service

1993 Insured Refunding Revenue Bonds	6,017,132	6,020,301	2,619,527
1999 Insured Refunding Revenue Bonds	4,357,728	4,356,844	3,513,851
Aggregate Debt Service	10,374,860	10,377,145	6,133,378

Net Income Available for Debt Service	3.49	3.73	3.23
Required Coverage	1.15	1.15	1.15
	Achieved	Achieved	Achieved