

# ADDENDUM A



**Palomar Pomerado Health  
FINANCE COMMITTEE  
(BOARD MEETING WITH RESPECT TO BOARD MEMBERS ON THE COMMITTEE)**

Palomar Medical Center, 555 East Valley Parkway, Escondido, CA

Graybill Auditorium

Tuesday, March 28, 2006 Meeting Minutes

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
<b>NOTICE OF MEETING</b>	The notice of meeting was mailed before close of business on Friday, March 24, 2006, which is consistent with legal requirements		
<b>MEETING CALLED TO ORDER</b>	6:02 p.m. by Chairman Ted Kleiter		
<b>ESTABLISHMENT OF QUORUM</b>	<p>Present: Directors Marcelo Rivera, M.D., Ted Kleiter and Linda Greer, R.N. Finance Committee Member Robert Trifunovic, M.D.</p> <p>Absent: Director Nancy Bassett, R.N. and Finance Committee Members Michael Covert and Paul Tornambe, M.D. (NOTE: <i>Dr. Tornambe joined the meeting after the closed session had adjourned</i>)</p>		
<b>ATTENDANCE</b>	Also in attendance were: Bob Hemker, Gerald Bracht and Assistant Tanya Howell		
<b>ADJOURNMENT TO CLOSED SESSION</b>	<p>After the establishment of a quorum, the meeting adjourned to Closed Session at 6:03 p.m.:</p> <p><b>~ PURSUANT TO CALIFORNIA GOVERNMENT CODE §54956.8</b></p> <p><i>PROPERTY: 2227 ENTERPRISE, ESCONDIDO, CA A 19,401 sq ft building, exact legal description to be provided in escrow</i></p> <p><i>AGENCY NEGOTIATOR: ROBERT HEMKER, CFO, PPH</i></p> <p><i>NEGOTIATING PARTIES: PETER ASHER, SELLER; BARRY HENDLER, SELLER'S AGENT; AND ROBERT HEMKER</i></p> <p><i>UNDER NEGOTIATION: INSTRUCTION TO NEGOTIATOR WILL CONCERN AGENCY'S INTEREST IN LAND, BUILDING, PRICE AND TERMS OF PAYMENT</i></p> <p><i>ESTIMATED DATE OF PUBLIC DISCLOSURE: JUNE 2006</i></p> <p><i>~ Anticipated Action</i></p>		
<b>MEETING CALLED TO ORDER</b>	6:25 p.m. by Chairman Ted Kleiter		
<b>ACTION RESULTING FROM CLOSED SESSION DISCUSSION</b>	There was no action resulting from the closed session discussions with regard to the above-referenced property.		
<b>PUBLIC COMMENTS</b>	There were no public comments.		
<b>INFORMATION ITEM(S)</b>	<ul style="list-style-type: none"> <li>• Bob Hemker reported that the bi-annual meeting of the PPH Independent Citizens' Oversight Committee (ICOC) was held this afternoon. <ul style="list-style-type: none"> <li>o The ICOC meeting was an educational session</li> </ul> </li> </ul>		<b>A1</b>

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
	<ul style="list-style-type: none"> <li>o The ICOC will actually begin as a working committee this fall, after they have been provided with an Annual Report on the expenditure distributions from the proceeds of the General Obligation (GO) Bonds <ul style="list-style-type: none"> <li>■ The Annual Report to the ICOC will be prepared following receipt of the FY2006 Audited Financials</li> </ul> </li> <li>• Mr. Hemker provided a broad verbal overview of the current status of the GO Bonds issued in July 2005 <ul style="list-style-type: none"> <li>o \$80M issued in July 2005</li> <li>o \$45M draw-down against that amount to date <ul style="list-style-type: none"> <li>■ \$34M for land</li> <li>■ \$9M for Architect, Costing, Engineering &amp; Consulting</li> <li>■ \$1M for legal fees</li> </ul> </li> <li>o \$1.7M in interest income <ul style="list-style-type: none"> <li>■ Federal arbitrage rules provide limitations on the amount of interest income that can be derived from tax-exempt bonds</li> </ul> </li> <li>o About \$36.7M remains of the first tranche of GO Bonds issued</li> </ul> </li> </ul>		
<b>MINUTES</b> <b>FEBRUARY 23, 2006</b>	<p>Dr. Rivera questioned a second "Meeting Called to Order" section bearing his name and a different time. Assistant Tanya Howell apologized for having missed that when editing from the minutes template and will delete the extra row.</p> <p>Ted Kleiter requested that the spelling of his name be corrected under the Conclusion/Action column regarding the Financial Report.</p> <p>No further discussion.</p>	<p><b>MOTION:</b> By Director Greer, seconded by Director Rivera and carried to approve the Minutes from the February 23, 2006, Finance Committee meeting with requested corrections.</p>	<p>Assistant Tanya Howell to make requested corrections and forward amended copy to Chairman Kleiter for signature.</p>
<b>UPDATED PLAN OF FINANCE &amp; DEBT POLICY</b>	<p>Bob Hemker stated that Ellen Riley of Kaufman Hall sent her regrets that she was unable to attend. He then introduced the members of the Financing Team who would be making the presentation [<i>Attachment A</i>] this evening, after which Mr. Reilly began the discussion:</p> <ul style="list-style-type: none"> <li>o Eric Jordahl from Kaufman Hall's Chicago office, who works closely with Ms. Riley on the PPH account and is, therefore, familiar with our Plan of Finance</li> <li>o Andy Suppo from the Los Angeles offices of Citigroup, specializing in credit and financial products</li> <li>o Robert Barna from the Los Angeles offices of Citigroup, a General Obligation (GO) Bond expert</li> <li>o Peter Reilly from the San Francisco offices of Citigroup, a Revenue Bond expert</li> <li>• First tranche of GO Bonds was \$80M</li> <li>• Revenue Bonds are anticipated as the next issuance, and we are assessing the size of the Revenue Bond issue due to the favorable environment for interest rates and our positive creditworthiness <ul style="list-style-type: none"> <li>o There are spend-down issues with Revenue Bonds similar to those of GO Bonds, so the amount of issue and timing of uses will be critical</li> </ul> </li> </ul>	<p><b>INFORMATION ONLY</b></p>	<p>Forwarded to the April 10, 2006, Board of Directors meeting for information.</p> <p style="text-align: right;"><b>A2</b></p>

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
	<ul style="list-style-type: none"> <li>• Bond insurers have expressed an active interest in insuring our upcoming Revenue Bond issue, including: <ul style="list-style-type: none"> <li>o MBIA, FGIC and FSA</li> <li>o The insurers will be coming to San Diego to spend the day with management the first week of April</li> </ul> </li> <li>• Forward Lock/Hedge – evaluating the merits and value in utilizing this approach <ul style="list-style-type: none"> <li>o Currently, cost of a 6-month Forward Premium is only 0.003%</li> <li>o Risks associated with Hedge Strategy <ul style="list-style-type: none"> <li>■ Slight risk that rates might fall and a lower rate could be available in the future</li> <li>■ Market Access Risk – downgraded credit position such that credit enhancement might not be available</li> </ul> </li> <li>(1) Having bond insurance lessens this risk</li> <li>(2) PPH has a “cushion”, and it would take a large deterioration of our credit rating to cause such a downgrade</li> </ul> </li> <li>• Revenue Bond Financing Tree (<i>pages 4&amp;5</i>) <ul style="list-style-type: none"> <li>o If pursuing straight variable rate, no reason to hedge</li> <li>o Do You <b>Expect</b> Credit Enhancement to be Available? <ul style="list-style-type: none"> <li>■ Expectation rather than certainty as there is a lengthy process between the current date and when the answer will be known</li> </ul> </li> <li>o Do You Want a Long Term Swap? <ul style="list-style-type: none"> <li>■ Assumes confident with a Synthetic Fixed Rate</li> </ul> </li> <li>o Issuing Variable Rate Bonds and Swapping to Fixed Rate has a lower cost of capital than Issuing Uninsured Fixed Rate Bonds</li> </ul> </li> <li>• Fixed/Variable Liabilities (<i>page 6</i>) <ul style="list-style-type: none"> <li>o Options 1 &amp; 3 meet PPH’s adopted policy, with a variable rate between 30% &amp; 50%</li> </ul> </li> <li>• Flattened yield curve <ul style="list-style-type: none"> <li>o Currently, very low differential between short-term and long-term rates</li> <li>o Forward Premiums (the cost of entering a transaction prior to the date of the transaction) are at historical lows</li> </ul> </li> <li>• Plan of Finance Sequencing <ul style="list-style-type: none"> <li>o Insurers will be meeting with Management April 5<sup>th</sup> &amp; 6<sup>th</sup></li> <li>o Determination will be made regarding availability/acceptability of Credit Enhancement (i.e., Bond Insurance)</li> <li>o Final Plan of Finance to be determined, to include Fixed/Variable Rate Exposure; the Type of Debt to be Issued; and Interest Rate Hedge</li> <li>o Recommendation on Final Plan of Finance at April 25<sup>th</sup> Finance Committee meeting</li> </ul> </li> </ul> <p>Chairman Kleiter thanked the Financing Team for the presentation.</p>		<p><b>A3</b></p>

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
<b>JANUARY 2006 &amp; YTD FY2006 FINANCIAL REPORT</b>	<p>Bob Hemker reported that the quarterly Back-to-Budget presentation would be made at the meeting in April. As Back-to-Budget and the Final Plan of Finance are agenda items for the April Finance Committee meeting, there was discussion of inviting the full Board for a joint meeting, but the issue was not resolved at this meeting. Utilizing the attached presentation (<i>Attachment B</i>), Mr. Hemker discussed the financial statements:</p> <ul style="list-style-type: none"> <li>• Admissions show a positive variance on both campuses year-on-year <ul style="list-style-type: none"> <li>o PMC admissions are up against budget</li> <li>o POM admissions show a slight negative variance against budget</li> </ul> </li> <li>• Positive variance on both campuses in weighted patient days due to volume <ul style="list-style-type: none"> <li>o There was discussion of moving patients through the continuum of care from PMC to PCCC to free up acute beds on the hospital campus</li> <li>o Sharon Andrews was commended for swinging beds between non-acute and acute as needs arose</li> </ul> </li> <li>• Patient days have a positive variance against budget and year-on-year on both campuses <ul style="list-style-type: none"> <li>o Dr. Rivera stated that effective use of the wound care clinic would help shorten LOS</li> </ul> </li> <li>• Surgeries on both campuses show a negative variance to budget but are up slightly year-on-year</li> <li>• Births on both campuses have negative variances, both against budget and year-on-year</li> <li>• A new slide titled "Recap of Key Statistics" was introduced as part of the presentation, which shows comparisons of <ul style="list-style-type: none"> <li>o Key statistics from FY2002 through present</li> <li>o FY YTD for FY2005 &amp; FY2006</li> </ul> </li> <li>• Bottom bottom line has a slight positive variance to budget <ul style="list-style-type: none"> <li>o We're beginning to see a return from the Back-to-Budget strategies for adjustment that were implemented in mid-January</li> <li>o January and February performance is about budget, reflecting a significant positive improvement from the first six months</li> </ul> </li> <li>• There is a negative expense variance due to volumes and types of supplies <ul style="list-style-type: none"> <li>o Factor VII has been used on 2 patients, and usage is now at the total annual budget</li> <li>o Still confident in the methodology used to budget for supplies</li> </ul> </li> <li>• Total net revenues show a favorable \$2.8M variance for the month</li> <li>• Non-operating income has a positive variance both MTD and YTD <ul style="list-style-type: none"> <li>o Trend should continue</li> </ul> </li> <li>• Volume <ul style="list-style-type: none"> <li>o Indicators at POM are driving numbers down</li> <li>o Payor mix key at PMC</li> </ul> </li> </ul>	<p><b>MOTION:</b> By Director Rivera, seconded by Director Greer and carried to approve the February 2006 &amp; YTD FY2006 Financial Report as presented.</p>	<p>Forwarded to the April 10, 2006, Board of Directors meeting with a recommendation for approval.</p>

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
	<ul style="list-style-type: none"> <li>• New revenue cycle strategy               <ul style="list-style-type: none"> <li>o Kick-off in March</li> <li>o Focus is on clinical and business aspects of the strategy</li> <li>o FY07 strategic focus on operational process flow</li> <li>o “Pre-door” to “post-home” cycle</li> </ul> </li> <li>• Discussion regarding benchmarks               <ul style="list-style-type: none"> <li>o Managers &amp; directors should be focused on the bottom line, even if above average against national benchmark</li> <li>o Benchmarks don’t mean a lot to the public</li> <li>o New 30-minute rule implemented on bed assignments, with through-put coordination to get the patients in the right beds as appropriate &amp; timely</li> <li>o The goal is to be the best                   <ul style="list-style-type: none"> <li>■ Benchmarks are just measuring sticks</li> <li>■ Team process, with overlap, not just hand-off</li> </ul> </li> </ul> </li> </ul>		
<b>ADJOURNMENT</b>	There being no further business, the meeting was adjourned at 9:00 p.m.		
<b>SIGNATURES:</b> <ul style="list-style-type: none"> <li>• <b>COMMITTEE CHAIR</b> _____ T.E. Kleiter</li> <li>• <b>COMMITTEE SECRETARY</b> _____ Tanya Howell</li> </ul>			

# ATTACHMENT A





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**PRESENTATION MATERIALS FOR THE BOARD**  
***HEDGING DISCUSSION***

March 28, 2006

These materials are an integral part of the Citigroup presentations dated August 22<sup>nd</sup> 2005 and March 14<sup>th</sup>, 2006.

**Executive Summary**

- PPH is beginning the next phase of the integrated plan of finance which is the issuance of Revenue Bonds
- PPH is meeting with Bond Insurance companies on April 5<sup>th</sup> and 6<sup>th</sup>, the outcome of which will help shape the plan of finance
- Through the use of various financial products, PPH can lock in today's low fixed rates for future new money or refunding needs.
  - ↓ Locking in today's low fixed rate provides a degree of certainty around the debt service stream PPH will be paying on the Revenue Bonds
- The cost of locking in today's rates for future transactions is very attractive and at historical lows.
- This presentation/discussion addresses some of the various options, benefits, and risks under consideration

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**A7**

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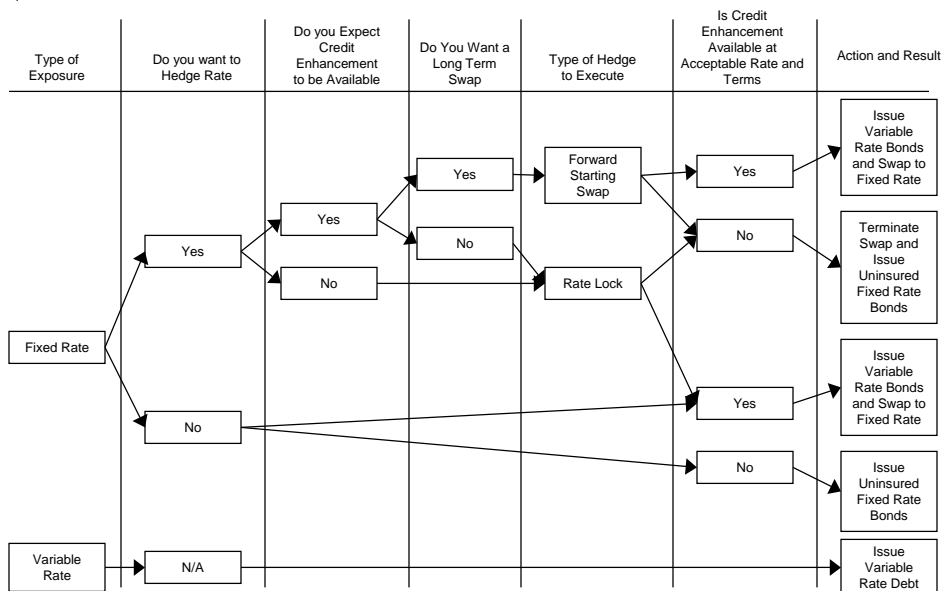
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## Executive Summary

- At previous meetings from 2004 to 2005, we have discussed the various pieces of the Plan of Finance, including,
  - ↓ The use of credit enhancement
  - ↓ The implementation of a Debt and Swap Policy, addressing
    - Variable rate debt instruments
    - Interest rate swap agreements
  - ↓ Asset and Liability analysis to determine mix of fixed and variable rate debt
  - ↓ Possible refunding opportunities
  - ↓ Locking interest rates

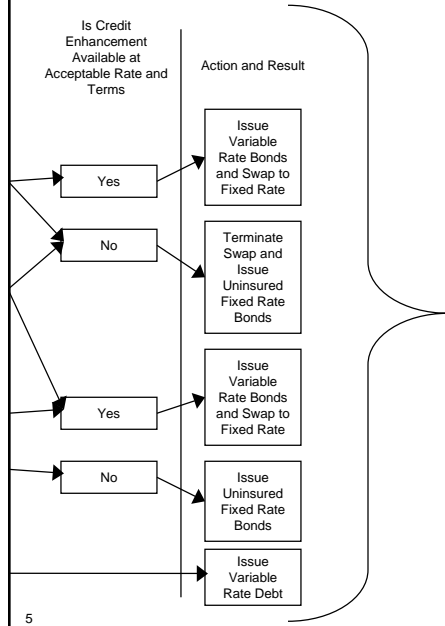
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## Revenue Bond Financing Decision Tree



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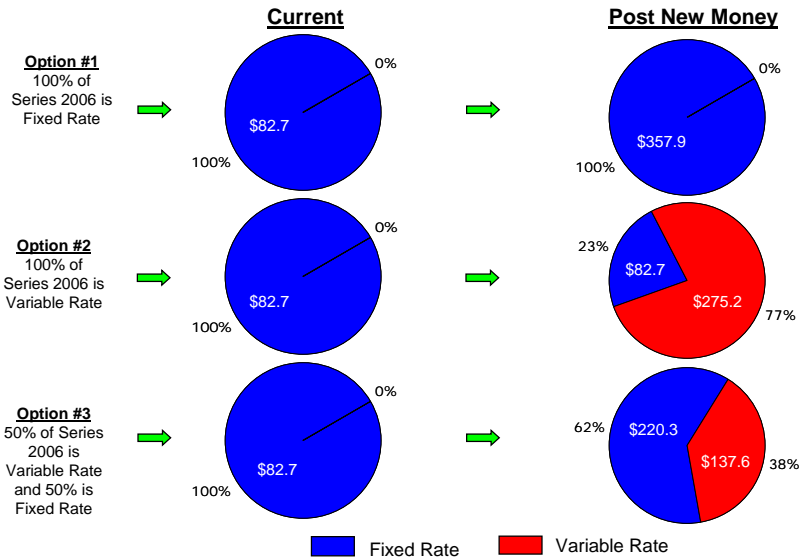
## Revenue Bond Financing – Additional Decision Items



- If Credit Enhancement is available, do we use?
  - ↓ Insurance
  - ↓ Letter of Credit
- If Synthetic Fixed rate debt is used, do we use?
  - ↓ LIBOR based index
  - ↓ BMA based index
- If Variable Rate Debt is used, do we employ?
  - ↓ Auction Rate Securities
  - ↓ Variable Rate Demand Bonds

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## Fixed/Variable Liabilities (\$ in Millions)



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Note: The current debt of \$82.7 million includes the Series 1993 and 1999 Bonds to be refunded as of 2006  
 Note: New Money assumes a borrowing of \$275.2 million. Also assumes any refunding of the 1993 and 1999 Bonds is done as fixed rate.  
 Note: For illustration purposes only. Actual results may vary.

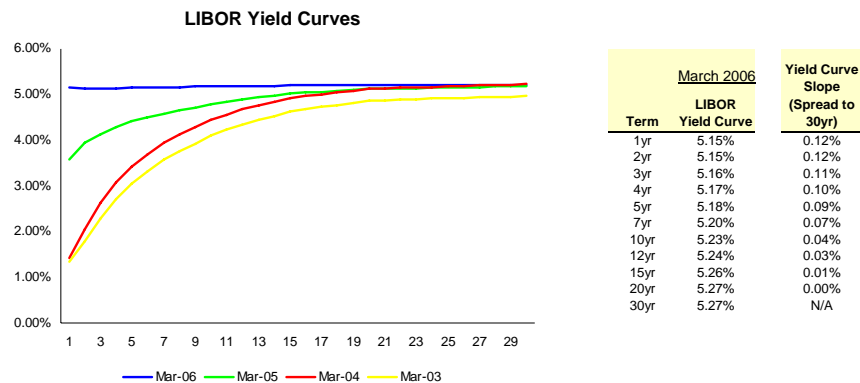
## Revenue Bond Financing – Additional Decision Items

- Key Goals in arriving at decision
  - ↓ Mitigation of certain risks
  - ↓ Lowering cost of debt
  - ↓ Enhancing flexibility of financing
  - ↓ Achieving a relatively certain debt service stream
- Key Risks involved with decision
  - ↓ Interest rate risk
  - ↓ Market access risk
  - ↓ Project construction risk

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## There has Been Recent Flattening of the Yield Curve

- Long-term interest rates remain historically low
- As short-term interest rates have risen, the yield curve has flattened significantly causing forward premiums to fall to historically low levels
  - ↓ The cost of hedging (forward premium) is directly proportional to the slope of the yield curve (spread between long and short-term rates)

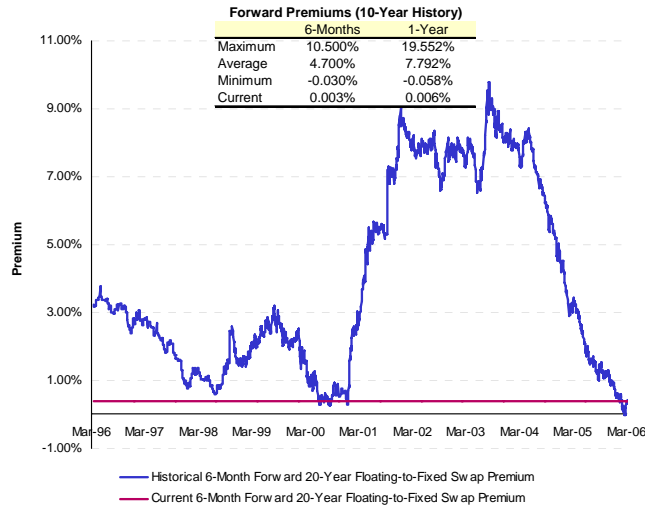


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For illustration purposes only. Past performance may not indicate future results.

## Forward Premiums are at Historical Lows...

- Over the past 10-years, historical forward premiums have been **higher** than the current forward premiums **99.8% of the time**

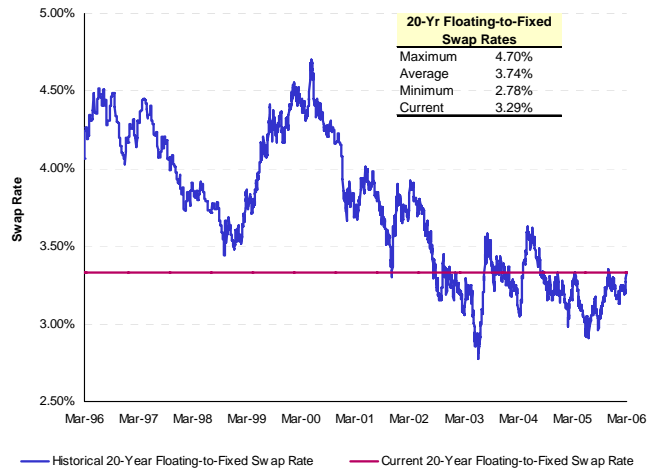


9 Rates as of 3/21/06. Subject to credit approval, documentation and market conditions.  
 Forward premiums for floating-to-fixed swaps for 6-months forward 20-year term from delivery date where PPH pays fixed rate and receives 54% of LIBOR + 0.35%.  
 For illustration purposes only. Past performance may not indicate future results.



## ...while Current Swap Rates are near Historical Lows

- Over the past 10-years, historical swap rates have been **higher** than the current swap rate **72% of the time**

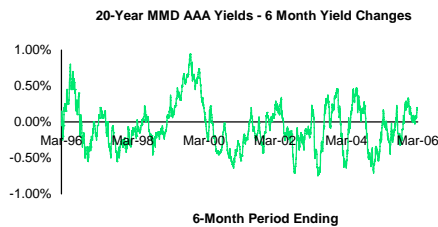
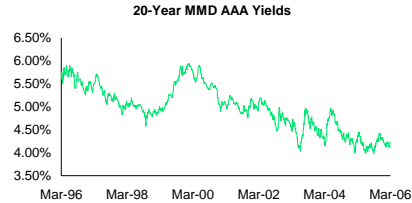


10 Rates as of 3/21/06. Subject to credit approval, documentation and market conditions.  
 Rates for floating-to-fixed swaps where PPH pays fixed rate and receives 54% of LIBOR + 0.35%.  
 For illustration purposes only. Past performance may not indicate future results.



## PPH Bears Significant Risk of Higher Rates Prior to its Bond Issue

- 20-year rates<sup>1</sup> have risen as much as 0.94% in a 6-month period since 1996
- A 0.94% increase in rates would increase PV Debt Service by \$25,850,000 (per \$200 million) over the life of the deal
- Each 10 basis point (0.10%) increase in rates increases debt service (per \$200 million)
  - ↓ \$200,000 per year
  - ↓ \$4.7 million over the life of the deal
  - ↓ \$2.75 million present valued over the life of the deal



Past performance may not indicate future results. Actual results will depend on future market conditions and transaction structure.  
<sup>1</sup> Rates are Municipal Market Data ("MMD") rates

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## PPH Could Borrow Close to Today's Rate on a Forward, Fixed Basis

- Current Synthetic Fixed Rate 3.550%
- 6-Month Forward premium 0.003%
- Locked Synthetic Fixed Rate 3.553%

Action	Rate Paid (Received)
PPH Issues Variable Rate Bonds and Pays Variable Rate	Variable Rate
PPH Receives Variable Rate Swap Payment from Citibank	(Variable Rate)
PPH Pays Citibank Synthetic Fixed Swap Rate	3.290%
PPH Pays Ongoing Variable Bond Support Cost	0.260%
<b>Resulting Current Synthetic Fixed Rate Cost of Capital</b>	<b>3.550%</b>

Note: Rates for floating-to-fixed swaps where PPH pays fixed rate and receives 54% of LIBOR + 0.35%.  
 Note: Assumes floating rate from Citibank equals floating rate paid on bonds, actual results may vary.  
 Note: Includes 26 bps for underlying bond fees.

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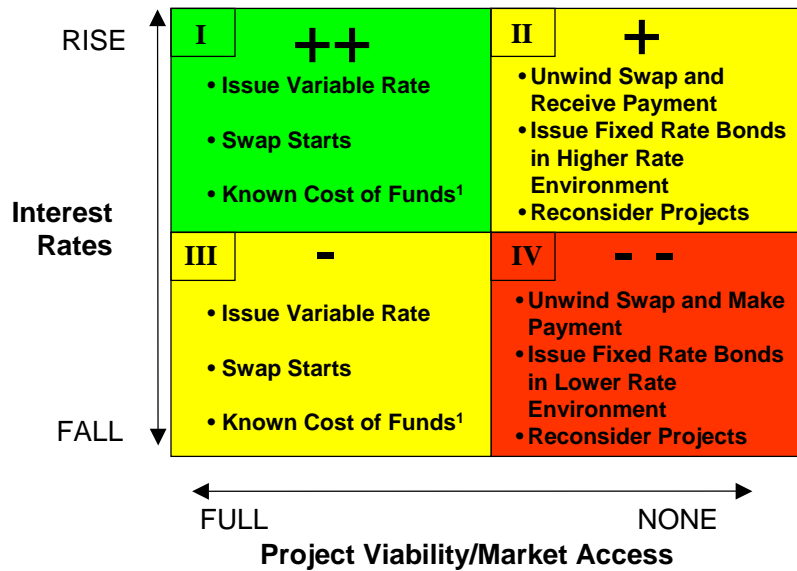
## Risks Associated with Exercising Hedge Strategy

- ✓ **Interest Rate Risk** = Rates fall (PPH can lock in lower cost in future)
- ✓ **Market Access Risk** = Health industry and/or PPH credit position deteriorates (i.e., PPH is downgraded several times or credit enhancement not available)
  - ✓ **Construction Risk** = PPH decides not to move forward with the construction of the project

Please refer to complete list of benefits and considerations at the end of the presentation.

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## Risk Matrix



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<sup>1</sup> Assumes floating rate from Citibank equals floating rate paid on bonds, actual results may vary.

## Potential Scenarios

Market Access In Fall 2006:	Credit Enhancement is Available:	Credit Enhancement is NOT Available:	No Market Access/ No Project to be Financed:
	<ul style="list-style-type: none"> <li>- Today: Lock rate at 3.553%</li> <li>- Fall 2006:                             <ul style="list-style-type: none"> <li>a) Swap starts</li> <li>b) Issue Underlying Variable Rate bonds</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Today: Lock rate at 3.553%</li> <li>- Fall 2006:                             <ul style="list-style-type: none"> <li>a) Cancel swap</li> <li>b) Issue Fixed Rate bonds</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Today: Lock rate at 3.553%</li> <li>- Fall 2006:                             <ul style="list-style-type: none"> <li>a) Cancel swap</li> <li>b) No bonds issued</li> </ul> </li> </ul>
Potential cause(s)	<ul style="list-style-type: none"> <li>➢ PPH credit, as well as bond and insurance markets, remains stable</li> <li>➢ Management's expected outcome</li> </ul>	<ul style="list-style-type: none"> <li>➢ PPH credit weakens; unfavorable insurance and/or variable rate market(s)</li> <li>➢ PPH still has market access to sell uninsured fixed rate bonds</li> </ul>	<ul style="list-style-type: none"> <li>➢ PPH credit deteriorates to the point of having no market access; or</li> <li>➢ PPH has no eligible tax-exempt projects to finance</li> </ul>
Benefit / risk	<ul style="list-style-type: none"> <li>➢ A synthetic fixed rate is locked in at 3.553% for the future borrowing</li> </ul>	<ul style="list-style-type: none"> <li>➢ If rates rise, PPH receives payment from Citigroup</li> <li>➢ If rates fall, PPH makes payment to Citigroup</li> </ul>	<ul style="list-style-type: none"> <li>➢ If rates rise, PPH receives payment; use of proceeds is unrestricted</li> <li>➢ If rates fall, PPH makes payment to Citibank with unrestricted cash</li> </ul>

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Rates as of 3/21/06. Subject to market conditions, documentation, and credit approval.

## Benefits and Considerations

### Hedging

#### Benefits

- Hedges future funding costs in historically low rate environments
- "Make-whole" call flexibility -- swap may be terminated for market value and the bonds redeemed for par prior to maturity

#### Considerations

- PPH has the obligation to fulfil its commitment under the swap agreement even if it does not issue debt
- Relinquishes the benefit of lower rates on the swap effective date
- Basis between PPH's fixed rate bonds and index use in hedging
- Swap is economically non-callable
- Potential make-whole payment or receipt upon optional or mandatory early termination

### Synthetic Fixed Forward Swap

#### Benefits

- Same as above, plus
- Lower, long term fixed rate than "natural" fixed rate bonds
- Hedges future funding costs in historically low rate environments
- Embedded options can increase savings or flexibility
- Diversifies investor universe

#### Considerations

- Same as above, plus
- Credit support required for variable rate bonds
- Liquidity renewal and remarketing risk (mitigated by insurance and/or long-term liquidity facility, if available)
- Use of LIBOR entails basis and tax risk, BMA entails basis risk
- Failed auction risk for ARS (mitigated by insurance, if available)
- Credit risk to Citibank
- Consult auditors regarding accounting treatment

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## Summary

- PPH could lock-in rates for future capital needs today at attractive levels
  - ↓ Interest rates are at historical lows (+)
  - ↓ Cost of Hedging is at historical lows (+)
- Forward hedge should be balanced against risks
  - ↓ Lower future rates (-)
  - ↓ Limited or no market access (-)
- PPH always has the option to access capital the historical way
  - ↓ If projects exist, access market at that time (+ or -)
  - ↓ Subject to prevailing interest rates (+ or -)

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## Next Steps

- Hold insurer meetings April 5<sup>th</sup> and 6<sup>th</sup>
- Determine if Credit Enhancement is available/acceptable
- Determine final Plan of Finance, including
  - ↓ Fixed/variable rate exposure
  - ↓ Type of debt to be issued
  - ↓ Interest rate hedge
- Update and make recommendation to Finance Committee April 25<sup>th</sup>
- Receive Board Approval for Plan of Finance May 8<sup>th</sup>
- Lock Interest Rates (if appropriate)
- Proceed with Revenue Bond financing
- Issue and close Revenue Bond financing

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**ADDITIONAL MATERIALS**

**Mark-to-Market Analysis: \$200 Million 6-Month Forward, 20-Year Floating-to-Fixed LIBOR Swap <sup>1</sup>**

**\$200 Million, 6-Month Forward 20-Year Average Life Floating-to-Fixed Swap, PPH receives 54% of LIBOR + 0.35%, and pays 3.29%**

	Mark-to-Market in Years	0.5 (Delivery Date)	1
Taxable Rates	-100 bps	(17,397,000)	(17,137,000)
	-50 bps	(9,868,000)	(9,740,000)
	50 bps	3,463,000	3,389,000
	100 bps	9,362,000	9,214,000

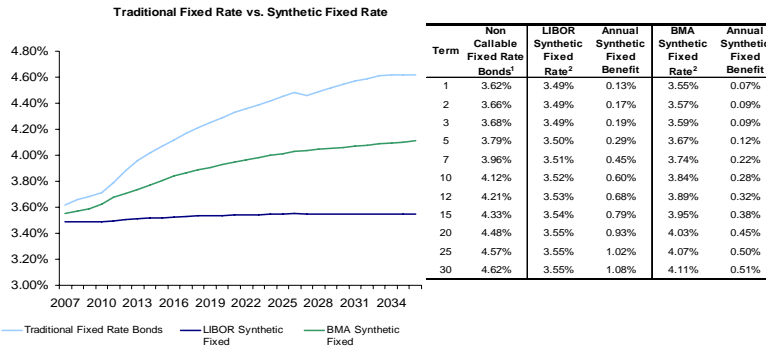
Rates as of 3/21/06, subject to market conditions, documentation, and credit approval.  
<sup>1</sup> This analysis has been prepared for informational purposes only. The mark-to-market (Loss)/Gain figures provided are ESTIMATES, and subject to prevailing market conditions. Market movements represent parallel shifts in the taxable yield curve. No representation is made that the mark-to-market (Payments)/Receipts described herein would be the result of the termination of the proposed Swap Transaction. Such (Payments)/Receipts would be based on actual quotations obtained or given at the time of any termination. Actual interest rate may be more or less than those indicated. Results will vary for alternative structures and assumptions.

## Synthetic Fixed Rate Bonds Can Generate Substantial Savings

- Current starting 20-year **LIBOR synthetic fixed rates** are 0.93% below traditional (non-callable) 20-year tax exempt yields
- Current starting 20-year **BMA synthetic fixed rates** are 0.45% below traditional (non-callable) 20-year tax exempt yields
- Current starting synthetic fixed rate swaps offer lower expected interest cost after 2007

Traditional fixed rate bonds are increasingly inefficient in the longer maturities. This reflects the liquidity, credit and tax event risks borne by investors in long-term tax-exempt bonds

In increase of 10 basis points on \$100 million translates into \$2.35 million of additional debt service paid over the life of a thirty year deal.



Rates as of 3/21/06, subject to market conditions, documentation, and credit approval.

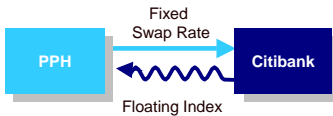
<sup>1</sup> Traditional fixed rate scale is for insured non-callable bonds.

<sup>2</sup> Synthetic fixed rates where PPH pays fixed rate and receives 54% of LIBOR + 0.35% for the LIBOR structure and 88.8% of BMA + 0.02% for the BMA structure. Includes 0.26% for underlying variable rate bond fees which are estimates and are subject to change over the life of the transaction, which may impact total debt service cost. For illustration purposes only; actual results will depend on future market conditions.

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## Hedging With Synthetic Fixed Rate Swaps

- Today, PPH can hedge its interest rate risk by entering into a forward starting floating-to-fixed interest rate swap
- PPH agrees to make fixed rate payments and receive floating rate payments beginning on a future date
- On the bond pricing date, PPH can leave the swap outstanding and issue variable rate bonds (Scenario 1 on the following page), or PPH can terminate the swap and issue fixed rate bonds (Scenario 2 on the following page)



All-in LIBOR Synthetic Fixed Rate <sup>1</sup>	
Current 20-Year	3.550%
3-Month Forward	3.552%
6-Month Forward	3.553%
9-Month Forward	3.555%
1-Year Forward	3.556%

Rates as of 3/21/06, subject to market conditions, documentation, and credit approval.

<sup>1</sup> Synthetic fixed rates where PPH pays fixed rate and receives 54% of LIBOR + 0.35% for the LIBOR structure and 88.8% of BMA + 0.02% for the BMA structure. Includes 0.26% for underlying variable rate bond fees which are estimates and are subject to change over the life of the transaction, which may impact total debt service cost. For illustration purposes only; actual results will depend on future market conditions.

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## Decision Points – BMA Rate Lock

### Benefits

- Locks in historically low interest rates
- Results in plain-vanilla fixed rate bonds
- Hedge cost may be included in the arbitrage yield<sup>1</sup>
- Settlement payment may be borrowed tax-exempt<sup>1</sup>
- Tax event risk protection
- Simple documentation may be executed quickly

### Considerations

- 0.11% break even increase in BMA swap rates<sup>2</sup>
- Basis risk between BMA and PPH's fixed rate bonds
- Early termination may result in cost or benefit depending on market conditions
- Credit risk to Aa1/AA/AA+ rated Citibank, N.A.
- PPH is exposed to interest rate risk between rate lock effective date and actual pricing date of Bonds

Rates as of 3/21/06, subject to market conditions, documentation, and credit approval.  
<sup>1</sup> Subject to review by tax counsel.  
<sup>2</sup> Assumes a 6-month rate lock, 20-year average life.  
For illustration purposes only; actual results will depend on future market conditions.

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# ATTACHMENT B

# Financial Statements

*FEBRUARY 2006*

Melanie Van Winkle  
**Corporate Controller**  
 March 28, 2006

PALOMAR POMERADO HEALTH



PALOMAR POMERADO HEALTH  
 SUMMARY OF KEY INDICATORS AND RESULTS  
 FISCAL YEAR TO DATE - FEBRUARY 2006

	ACTUAL	BUDGET	VARIANCE	FY 2005
<b>ADMISSIONS - Acute:</b>				
Palomar Medical Center	14,330	13,848	482	13,953
Pomerado Hospital	4,553	4,588	(35)	4,504
<b>Total:</b>	<b>18,883</b>	<b>18,436</b>	<b>447</b>	<b>18,457</b>
<b>ADMISSIONS - SNF:</b>				
Palomar Medical Center	407	354	53	339
Pomerado Hospital	392	550	(158)	459
<b>Total:</b>	<b>799</b>	<b>904</b>	<b>(105)</b>	<b>798</b>
<b>PATIENT DAYS - Acute:</b>				
Palomar Medical Center	56,854	55,027	1,827	55,139
Pomerado Hospital	18,468	17,478	990	16,773
<b>Total:</b>	<b>75,322</b>	<b>72,505</b>	<b>2,817</b>	<b>71,912</b>
<b>PATIENT DAYS - SNF:</b>				
Palomar Medical Center	20,449	21,659	(1,210)	21,282
Pomerado Hospital	30,068	28,674	1,394	28,164
<b>Total:</b>	<b>50,517</b>	<b>50,333</b>	<b>184</b>	<b>49,446</b>

Palomar Pomerado Health



PALOMAR POMERDO HEALTH SUMMARY OF KEY INDICATORS AND RESULTS FISCAL YEAR TO DATE - FEBRUARY 2006				
	ACTUAL	BUDGET	VARIANCE	FY 2005
<b>WEIGHTED PATIENT DAYS:</b>				
Palomar Medical Center	70,490	68,172	2,318	69,734
Pomerado Hospital	28,094	26,456	1,638	26,260
Other Activities	1,434	1,899	(465)	1,792
<b>Total:</b>	<b>100,018</b>	<b>96,527</b>	<b>3,491</b>	<b>97,786</b>
<b>AVERAGE LENGTH OF STAY- Acute:</b>				
Palomar Medical Center	4.05	4.07	(0.02)	4.04
Pomerado Hospital	3.72	3.81	(0.09)	3.72
<b>Total:</b>	<b>3.97</b>	<b>4.00</b>	<b>(0.03)</b>	<b>3.96</b>
<b>AVERAGE LENGTH OF STAY - SNF:</b>				
Palomar Medical Center	50.44	50.44	-	49.38
Pomerado Hospital	28.78	29.55	(0.77)	27.89
<b>Total:</b>	<b>40.09</b>	<b>37.96</b>	<b>2.13</b>	<b>36.94</b>
<b>CASE MIX INDEX - Acute:</b>				

Palomar Pomerado Health



PALOMAR POMERDO HEALTH SUMMARY OF KEY INDICATORS AND RESULTS FISCAL YEAR TO DATE - FEBRUARY 2006				
	ACTUAL	BUDGET	VARIANCE	FY 2005
<b>EMERGENCY ROOM VISITS &amp; TRAUMA CASES:</b>				
Palomar Medical Center	28,219	27,373	846	27,285
Pomerado Hospital	14,696	13,938	758	13,844
<b>Total:</b>	<b>42,915</b>	<b>41,311</b>	<b>1,604</b>	<b>41,129</b>
<b>EMERGENCY &amp; TRAUMA ADMISSIONS:</b>				
Palomar Medical Center	7,268	6,757	511	6,709
Pomerado Hospital	2,582	2,180	402	2,229
<b>Total:</b>	<b>9,850</b>	<b>8,937</b>	<b>913</b>	<b>8,938</b>
<b>SURGERIES:</b>				
Palomar Medical Center	5,183	5,502	(319)	5,359
Pomerado Hospital	2,555	2,705	(150)	2,480
<b>Total:</b>	<b>7,738</b>	<b>8,207</b>	<b>(469)</b>	<b>7,839</b>
<b>BIRTHS:</b>				
Palomar Medical Center	2,867	3,027	(160)	2,939
Pomerado Hospital	733	808	(75)	796
<b>Total:</b>	<b>3,600</b>	<b>3,835</b>	<b>(235)</b>	<b>3,735</b>

Palomar Pomerado Health



Palomar Pomerado Health - Recap of Key Statistics						
	FY 2002	FY2003	FY2004	FY2005	FY YTD - Feb	
					FY2005	FY2006
Acute Patient Days	99,669	104,021	108,452	108,987	71,912	75,322
SNF Patient Days	73,324	69,755	75,851	74,875	49,446	50,517
Acute Admissions / Dschg	26,442	26,276	27,257	27,801	18,457	18,883
Acute Occupancy %	64.40%	66.53%	69.18%	69.28%	68.67%	71.92%
SNF Occupancy %	89.28%	84.94%	92.11%	91.17%	90.19%	92.14%
ALOS - Acute	4.07	4.04	3.98	3.96	3.96	3.97
Deliveries	5,104	5,339	5,417	5,612	3,735	3,600
E/R Visits	67,193	69,981	75,675	75,972	41,129	42,915
Inpatient Surgeries	7,714	7,716	7,914	8,637	5,604	5,417
Outpatient Surgeries	5,864	6,269	5,294	5,837	4,050	4,386
Total Surgeries	13,578	13,985	13,208	14,474	9,654	9,803

Palomar Pomerado Health



PALOMAR POMERADO HEALTH CONSOLIDATED MTD 2006 FEB 2006								
	Month Activity			Variance		\$/Wtg Pt Day		
	Actual	Budget	Variance	Volume	Rate/Eff	Actual	Budget	Variance
<b>Statistics:</b>								
Admissions - Acute	2,257	2,124	133					
Admissions - SNF	91	105	(14)					
Patient Days - Acute	9,135	8,353	782					
Patient Days - SNF	5,727	5,800	(73)					
LOS - Acute	3.97	4.00	(0.03)					
LOS - SNF	38.69	37.95	0.74					
Weighted Pt Days	12,083	11,121	962					
<b>Revenue:</b>								
Gross Revenue	\$ 85,868,709	\$ 81,089,570	\$ 4,779,139 F	\$ 7,014,492	\$ (2,235,353)	\$ 7,106.57	\$ 7,291.57	\$ (185.00)
Deductions from Rev	(55,085,860)	(54,394,437)	(1,691,363) U	(4,705,288)	3,013,925	(4,641.72)	(4,891.15)	249.44
Net Patient Revenue	29,782,849	26,695,073	3,087,776 F	2,309,204	778,572	2,464.86	2,400.42	64.44
Other Oper Revenue	597,938	848,479	(260,541) U	73,396	(333,937)	48.66	76.30	(27.64)
<b>Total Net Revenue</b>	<b>30,370,787</b>	<b>27,543,552</b>	<b>2,827,235 F</b>	<b>2,382,600</b>	<b>444,635</b>	<b>2,513.51</b>	<b>2,476.72</b>	<b>36.80</b>
<b>Expenses:</b>								
Salaries, Wages & Contr Labor	14,344,581	12,662,596	(1,681,985) U	(1,095,353)	(586,632)	1,187.17	1,138.62	(48.55)
Benefits	3,423,858	3,126,263	(297,595) U	(270,431)	(27,164)	283.36	281.11	(2.25)
Supplies	5,050,659	4,537,526	(513,133) U	(392,510)	(120,623)	418.00	408.01	(9.98)
Prof Fees & Purch Svc	3,990,109	3,717,820	(272,289) U	(321,603)	49,314	330.23	334.31	4.08
Depreciation	1,441,896	1,435,958	(5,928) U	(124,215)	118,287	119.33	129.12	9.79
Other	1,628,675	1,608,954	(19,721) U	(139,179)	119,458	134.79	144.68	9.89
PPH Allocation	-	(1)	(1) U	0	(1)	-	(0.00)	(0.00)
<b>Total Expenses</b>	<b>29,879,768</b>	<b>27,089,116</b>	<b>(2,790,652) U</b>	<b>(2,343,290)</b>	<b>(447,362)</b>	<b>2,472.88</b>	<b>2,435.85</b>	<b>(37.02)</b>
<b>Net Inc Before Non-Oper Income</b>	<b>491,019</b>	<b>454,436</b>	<b>36,583 F</b>	<b>39,310</b>	<b>(2,727)</b>	<b>40.64</b>	<b>40.86</b>	<b>(0.23)</b>
Property Tax Revenue	908,333	908,333	-	78,574	(78,574)	75.17	81.68	(6.50)
Non-Operating Income	(159,953)	(168,307)	8,354 F	(14,559)	22,913	(13.24)	(15.13)	1.90
<b>Net Income (Loss)</b>	<b>\$ 1,239,399</b>	<b>\$ 1,194,462</b>	<b>\$ 44,937 F</b>	<b>\$ 103,325</b>	<b>\$ (58,388)</b>	<b>\$ 102.57</b>	<b>\$ 107.41</b>	<b>\$ (4.83)</b>
Net Income Margin	3.9%	4.1%	-0.2%					
OEBITDA Margin w/o Prop Tax	6.1%	6.5%	-0.4%					
OEBITDA Margin with Prop Tax	9.0%	9.6%	-0.6%					

Palomar Pomerado Health





PALOMAR POMERADO HEALTH CONSOLIDATED FYTD 2006 FEB 06									
Statistics:	Month Activity			Variance			\$/Wtg Pt Day		
	Actual	Budget	Variance	Volume	Rate/Eff	Actual	Budget	Variance	
Admissions - Acute	18,883	18,436	447						
Admissions - SNF	799	904	(105)						
Patient Days - Acute	75,322	72,505	2,817						
Patient Days - SNF	50,517	50,333	184						
LOS - Acute	3.97	4.00	(0.03)						
LOS - SNF	40.09	37.96	2.13						
Weighted Pt Days	100,018	96,527	3,491						
<b>Revenue:</b>									
Gross Revenue	\$ 735,577,178	\$ 703,511,049	\$ 32,066,129 F	\$ 25,443,214	\$ 6,622,915	\$ 7,354.45	\$ 7,288.23	\$ 66.22	
Deductions from Rev	(502,193,920)	(471,911,289)	(30,282,631) U	(17,067,166)	(13,215,465)	(6,021.04)	(4,888.90)	(132.13)	
Net Patient Revenue	233,383,258	231,599,760	1,783,498 F	8,376,048	(6,592,550)	2,333.41	2,399.33	(66.91)	
Other Oper Revenue	5,707,749	6,787,832	(1,080,083) U	245,489	(1,325,572)	57.07	70.32	(13.25)	
<b>Total Net Revenue</b>	<b>239,091,007</b>	<b>238,387,592</b>	<b>703,415 F</b>	<b>8,621,537</b>	<b>(7,918,122)</b>	<b>2,390.48</b>	<b>2,469.65</b>	<b>(79.17)</b>	
<b>Expenses:</b>									
Salaries, Wages & Contr Labor	113,636,626	109,725,819	(3,910,807) U	(3,968,349)	57,542	1,136.16	1,136.74	0.58	
Benefits	27,368,894	27,088,761	(280,133) U	(979,693)	699,560	273.64	280.63	6.99	
Supplies	41,565,365	39,326,354	(2,239,011) U	(1,422,279)	(816,732)	415.58	407.41	(8.17)	
Prof Fees & Purch Svc	30,084,334	31,213,219	1,128,885 F	(1,128,859)	2,257,744	300.79	323.36	22.57	
Depreciation	11,683,181	11,445,172	(238,009) U	(413,327)	175,916	116.81	118.57	1.76	
Other	13,348,404	13,417,143	63,739 F	(485,064)	548,803	133.46	138.95	5.49	
PPH Allocation	-	2	2 F	(0)	2	-	0.00	0.00	
<b>Total Expenses</b>	<b>237,686,804</b>	<b>232,211,470</b>	<b>(5,475,336) U</b>	<b>(8,398,171)</b>	<b>2,922,837</b>	<b>2,376.44</b>	<b>2,405.66</b>	<b>29.22</b>	
<b>Net Inc Before Non-Oper Income</b>	<b>1,404,203</b>	<b>6,176,122</b>	<b>(4,771,920) U</b>	<b>223,366</b>	<b>(4,995,285)</b>	<b>14.04</b>	<b>63.98</b>	<b>(49.94)</b>	
Property Tax Revenue	7,266,664	7,266,664	-	262,807	(262,807)	72.65	75.28	(2.63)	
Non-Operating Income	(790,313)	(1,346,456)	556,143 F	(48,696)	604,839	(7.90)	(13.95)	6.05	
<b>Net Income (Loss)</b>	<b>\$ 7,880,554</b>	<b>\$ 12,096,330</b>	<b>\$ (4,215,777) U</b>	<b>\$ 437,476</b>	<b>\$ (4,653,252)</b>	<b>\$ 78.79</b>	<b>\$ 125.32</b>	<b>\$ (46.52)</b>	
Net Income Margin	3.1%	4.8%	-1.7%						
OEBITDA Margin w/o Prop Tax	5.2%	6.3%	-1.7%						
OEBITDA Margin with Prop Tax	8.0%	9.8%	-1.8%						

F= Favorable variance  
U= Unfavorable variance

Palomar Pomerado Health

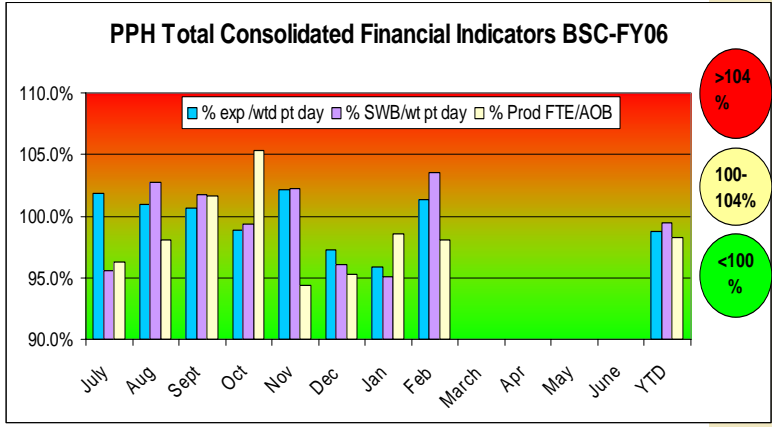


PALOMAR POMERADO HEALTH CONSOLIDATED Actual Feb 06 YTD + 4 Month Budget FY06 Projection									
Statistics:	Month Activity			Variance			\$/Wtg Pt Day		
	Actual	Budget	Variance	Volume	Rate/Eff	Actual	Budget	Variance	
Admissions - Acute	28,133	27,686	447						
Admissions - SNF	1,253	1,358	(105)						
Patient Days - Acute	111,720	108,903	2,817						
Patient Days - SNF	75,783	75,599	184						
Weighted Pt Days	148,476	144,985	3,491						
<b>Revenue:</b>									
Gross Revenue	\$ 1,088,853,560	\$ 1,056,787,431	\$ 32,066,129 F	\$ 25,445,701	\$ 6,620,428	\$ 7,333.53	\$ 7,288.94	\$ 44.59	
Deductions from Rev	(739,168,805)	(708,886,173)	(30,282,632) U	(17,068,811)	(13,213,821)	(4,978.37)	(4,889.38)	(89.00)	
Net Patient Revenue	349,684,755	347,901,258	1,783,497 F	8,376,889	(6,593,392)	2,355.16	2,399.57	(44.41)	
Other Oper Revenue	9,101,665	10,181,748	(1,080,083) U	245,160	(1,325,243)	61.30	70.23	(8.93)	
<b>Total Net Revenue</b>	<b>358,786,420</b>	<b>358,983,006</b>	<b>703,414 F</b>	<b>8,622,049</b>	<b>(7,918,535)</b>	<b>2,416.46</b>	<b>2,463.79</b>	<b>(53.33)</b>	
<b>Expenses:</b>									
Salaries, Wages & Contr Labor	168,717,629	164,806,821	(3,910,808) U	(3,968,277)	57,469	1,136.33	1,136.72	0.39	
Benefits	40,967,334	40,687,200	(280,134) U	(979,681)	699,547	275.92	280.63	4.71	
Supplies	61,312,852	59,073,841	(2,239,011) U	(1,422,401)	(816,610)	412.95	407.45	(5.50)	
Prof Fees & Purch Svc	45,729,646	46,858,531	1,128,885 F	(1,128,276)	2,257,161	307.99	323.20	15.20	
Depreciation	17,427,013	17,189,004	(238,009) U	(413,883)	175,874	117.37	118.56	1.18	
Other	20,068,701	20,132,441	63,740 F	(484,756)	548,496	135.16	138.86	3.69	
PPH Allocation	-	2	2 F	(0)	2	-	0.00	0.00	
<b>Total Expenses</b>	<b>354,223,175</b>	<b>348,747,840</b>	<b>(5,475,337) U</b>	<b>(8,397,274)</b>	<b>2,921,939</b>	<b>2,385.73</b>	<b>2,405.41</b>	<b>19.68</b>	
<b>Net Inc Before Non-Oper Income</b>	<b>4,563,245</b>	<b>9,335,166</b>	<b>(4,771,922) U</b>	<b>224,775</b>	<b>(4,996,696)</b>	<b>30.73</b>	<b>64.39</b>	<b>(33.65)</b>	
Property Tax Revenue	10,899,996	10,899,996	-	262,454	(262,454)	73.41	75.18	(1.77)	
Non-Operating Income	(1,463,539)	(2,019,684)	556,145 F	(48,631)	604,776	(9.86)	(13.93)	4.07	
<b>Net Income (Loss)</b>	<b>\$ 13,999,702</b>	<b>\$ 18,215,478</b>	<b>\$ (4,215,777) U</b>	<b>\$ 438,599</b>	<b>\$ (4,654,375)</b>	<b>\$ 94.29</b>	<b>\$ 125.64</b>	<b>\$ (31.35)</b>	
Net Income Margin	3.7%	4.8%	-1.1%						
OEBITDA Margin w/o Prop Tax	5.8%	7.0%	-1.2%						
OEBITDA Margin with Prop Tax	8.6%	9.8%	-1.2%						

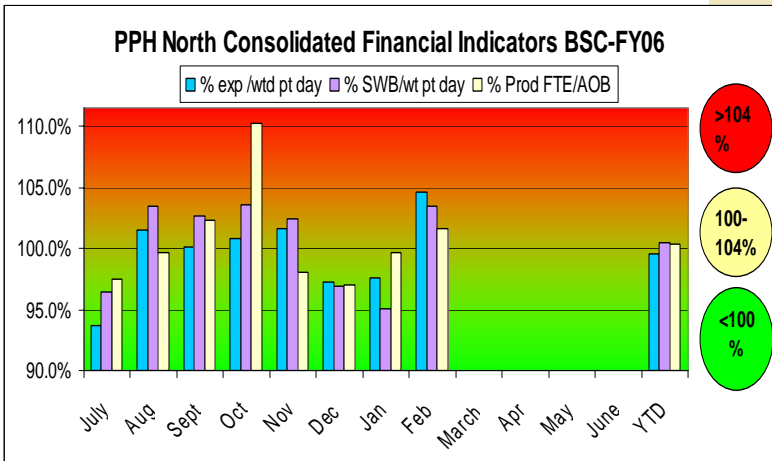
F= Favorable variance  
U= Unfavorable variance

Palomar Pomerado Health



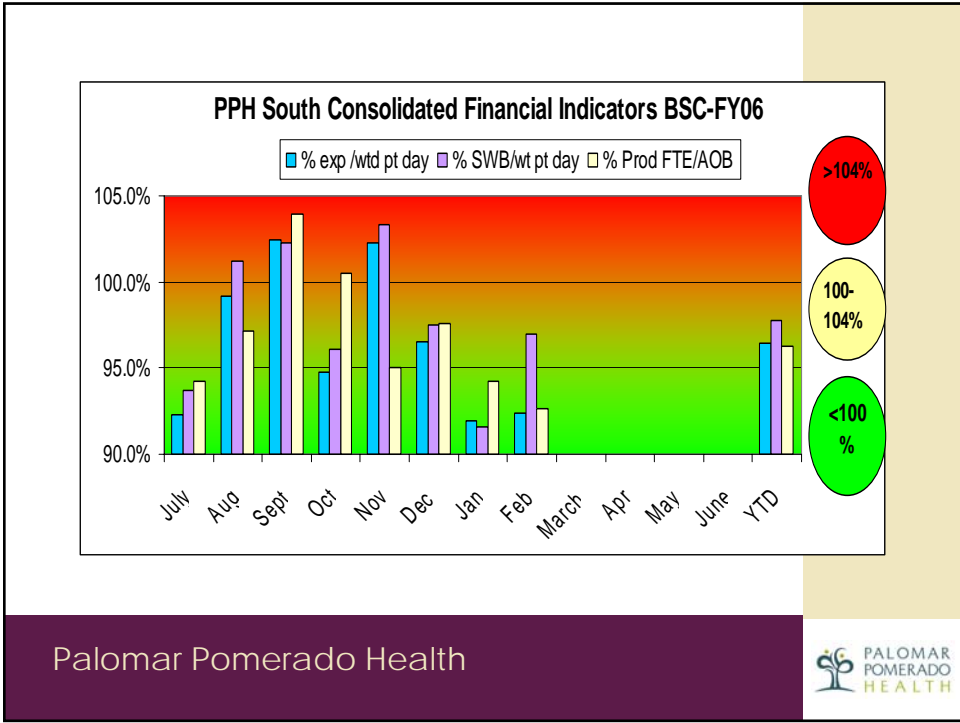


Palomar Pomerado Health



Palomar Pomerado Health





### Palomar Pomerado Health Balanced Scorecard Financial Indicators February 28, 2006

November	December	January	February		% Actual		YTD 2006			% Actual	
Actual	Actual	Actual	Actual	Bud/PY	Variance	to Bud/PY	Actual	Bud/PY	Variance	to Bud/PY	
<b>PPH Indicators:</b>											
8.6%	5.8%	9.6%	9.0%	9.6%	-0.6%	93.8%	OEBITDA Margin w/Prop Tax	8.0%	9.8%	-1.8%	81.6%
\$2,495.98	\$2,365.25	\$2,332.54	\$2,507.56	\$2,473.13	\$(34.43)	101.4%	Expenses/Wtd Day	2,409.87	\$2,440.02	\$30.15	98.8%
\$1,449.94	\$1,361.76	\$1,346.58	\$1,470.53	\$1,419.73	\$(50.80)	103.6%	SWB/Wtd Day	1,409.80	\$1,417.37	\$7.57	99.5%
5.83	5.88	6.08	6.06	6.18	0.12	98.1%	Prod FTE's/Adj Occupied Bed	6.06	6.17	0.11	98.2%
12,331	13,089	13,278	12,083	11,737	346	102.9%	Weighted Patient Days	100,018	97,786	2,232	102.3%
<b>PPH North Indicators:</b>											
7.2%	5.6%	12.3%	10.2%	11.4%	-1.2%	89.5%	OEBITDA Margin w/Prop Tax	8.4%	11.8%	-3.4%	71.2%
\$2,354.93	\$2,243.09	\$2,250.84	\$2,452.12	\$2,343.69	\$(108.43)	104.6%	Expenses/Wtd Day	2,303.13	\$2,312.79	\$9.66	99.6%
\$1,210.68	\$1,144.45	\$1,122.55	\$1,225.03	\$1,183.75	\$(41.28)	103.5%	SWB/Wtd Day	1,186.23	\$1,181.33	\$(4.90)	100.4%
5.00	4.94	5.07	5.20	5.12	(0.08)	101.6%	Prod FTE's/Adj Occupied Bed	5.12	5.10	(0.02)	100.4%
8,796	9,269	9,345	8,261	8,531	(270)	96.6%	Weighted Patient Days	70,490	69,734	756	101.1%
<b>PPH South Indicators:</b>											
8.9%	3.1%	2.2%	7.0%	1.0%	6.0%	700.0%	OEBITDA Margin w/Prop Tax	5.2%	1.3%	3.9%	400.0%
\$2,510.15	\$2,359.30	\$2,247.26	\$2,289.05	\$2,477.88	\$188.83	92.4%	Expenses/Wtd Day	2,362.23	\$2,450.29	\$88.06	96.4%
\$1,303.76	\$1,230.71	\$1,156.12	\$1,225.33	\$1,264.05	\$38.72	96.9%	SWB/Wtd Day	1,233.89	\$1,262.34	\$28.45	97.7%
5.59	5.73	5.53	5.45	5.88	0.43	92.7%	Prod FTE's/Adj Occupied Bed	5.66	5.88	0.22	96.3%
3,390	3,606	3,772	3,653	2,925	728	124.9%	Weighted Patient Days	28,094	26,260	1,834	107.0%

Palomar Pomerado Health

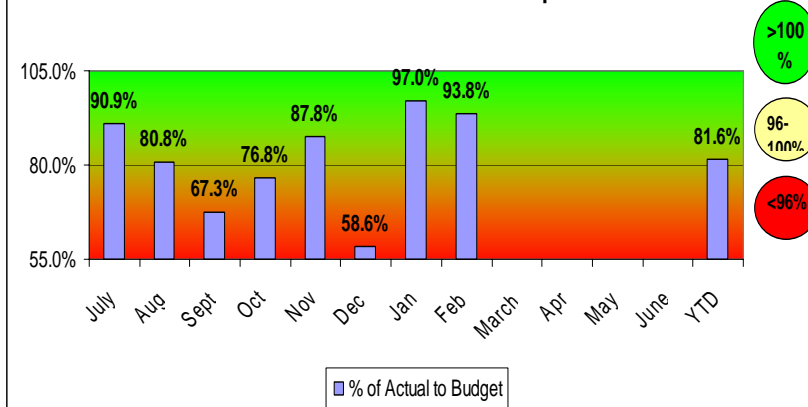
Palomar Pomerado Health  
Consolidated Balance Sheet  
As of February 28, 2006

	Current Month	Prior Month	Prior Fiscal Year End		Current Month	Prior Month	Prior Fiscal Year End
<b>Assets</b>				<b>Liabilities</b>			
<b>Current Assets</b>				<b>Current Liabilities</b>			
Cash on Hand	\$2,853,592	\$2,794,335	\$12,663,073	Accounts Payable	\$14,356,612	\$14,488,384	\$18,090,054
Cash Marketable Securities	109,197,573	107,977,258	96,390,135	Accrued Payroll	17,143,475	16,472,527	19,511,491
<b>Total Cash &amp; Cash Equivalents</b>	<b>112,051,165</b>	<b>109,871,593</b>	<b>109,043,208</b>	Accrued PTO	10,531,081	10,026,370	10,212,195
<b>Patient Accounts Receivable</b>	<b>160,591,606</b>	<b>163,295,758</b>	<b>190,388,774</b>	Accrued Interest Payable	1,891,233	3,364,271	708,785
Allowance on Accounts	-89,362,541	-90,712,543	-120,586,401	Current Portion of Bonds	12,745,000	12,745,000	6,125,000
<b>Net Accounts Receivable</b>	<b>71,229,065</b>	<b>72,583,215</b>	<b>69,802,373</b>	Est Third Party Settlements	-1,377,406	-613,342	-4,522,051
Inventories	6,559,174	6,537,498	6,320,951	Other Current Liabilities	11,612,106	12,917,358	6,642,463
Prepaid Expenses	2,172,152	2,335,889	2,383,903	<b>Total Current Liabilities</b>	<b>66,902,101</b>	<b>69,400,569</b>	<b>56,767,937</b>
Other	5,294,367	4,963,469	828,210	<b>Long Term Liabilities</b>			
<b>Total Current Assets</b>	<b>197,305,923</b>	<b>196,291,664</b>	<b>188,378,645</b>	Bonds & Contracts Payable	151,247,070	151,221,989	79,819,688
<b>Non-Current Assets</b>				<b>General Fund Balance</b>			
Restricted Assets	86,930,158	87,696,165	12,026,055	Unrestricted	233,466,899	230,185,920	220,595,825
Restricted by Donor	285,594	284,918	281,473	Restricted for Other Purpose	285,594	284,918	281,473
Board Designated	22,704,392	24,082,848	22,388,648	Board Designated	22,704,392	24,082,848	22,388,648
<b>Total Restricted Assets</b>	<b>109,920,144</b>	<b>112,063,931</b>	<b>34,696,176</b>	<b>Total Fund Balance</b>	<b>256,456,885</b>	<b>254,553,686</b>	<b>243,265,946</b>
Property Plant & Equipment	327,318,264	329,044,444	337,484,770	<b>Total Liabilities / Fund Balance</b>			
Accumulated Depreciation	-217,113,247	-217,767,576	-218,491,576	<b>\$474,608,535</b>	<b>\$475,176,241</b>	<b>\$379,853,570</b>	
Construction in Process	46,304,657	44,687,516	28,023,698				
<b>Net Property Plant &amp; Equipment</b>	<b>156,509,674</b>	<b>155,964,384</b>	<b>147,016,892</b>				
Investment in Related Company	6,364,360	6,332,625	6,175,837				
Deferred Financing Costs	3,326,206	3,327,904	2,311,702				
Other Non-Current Assets	1,182,228	1,195,733	1,274,318				
<b>Total Non-Current Assets</b>	<b>277,302,613</b>	<b>278,884,577</b>	<b>191,474,925</b>				
<b>Total Assets</b>	<b>\$474,608,535</b>	<b>\$475,176,241</b>	<b>\$379,853,570</b>				

Palomar Pomerado Health

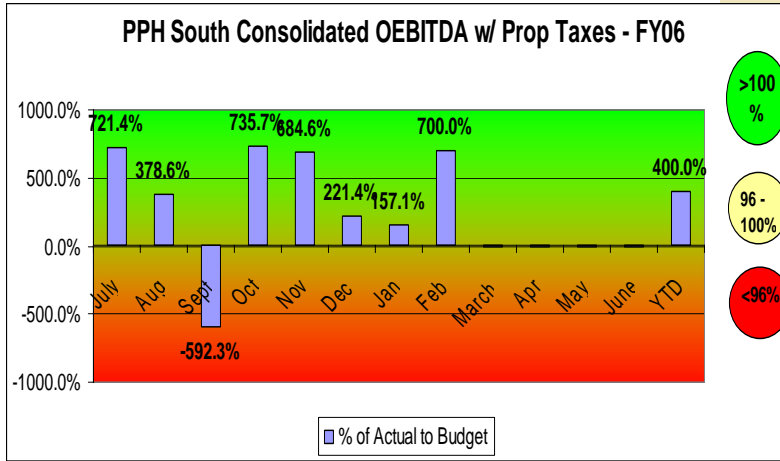


PPH Total Consolidated OEBITDA w/ Prop Taxes - FY06

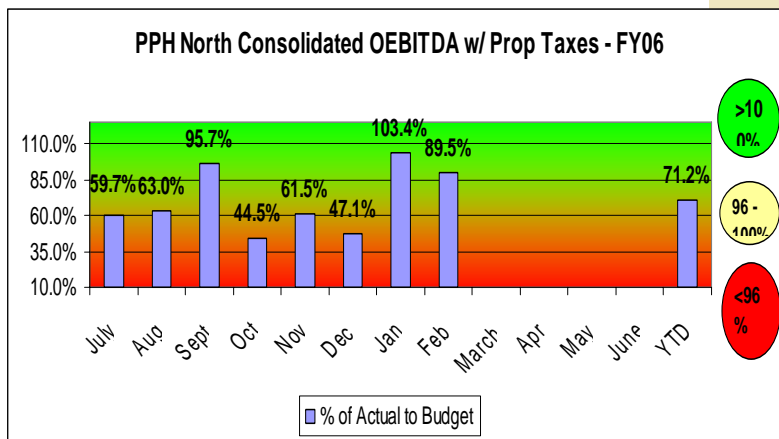


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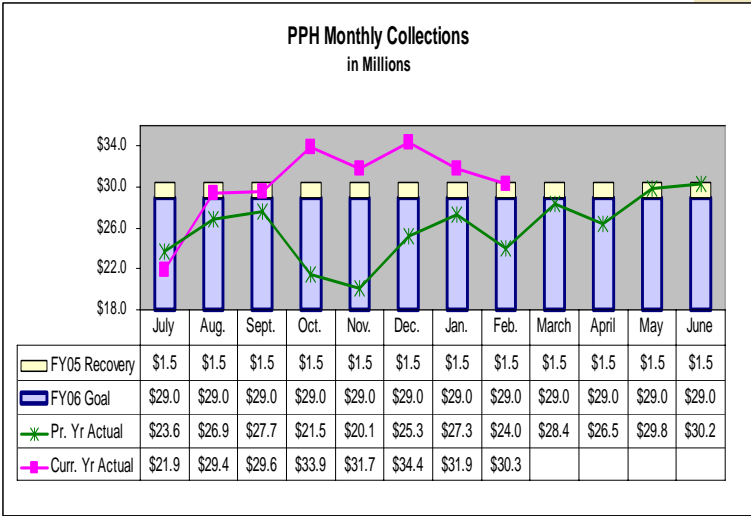


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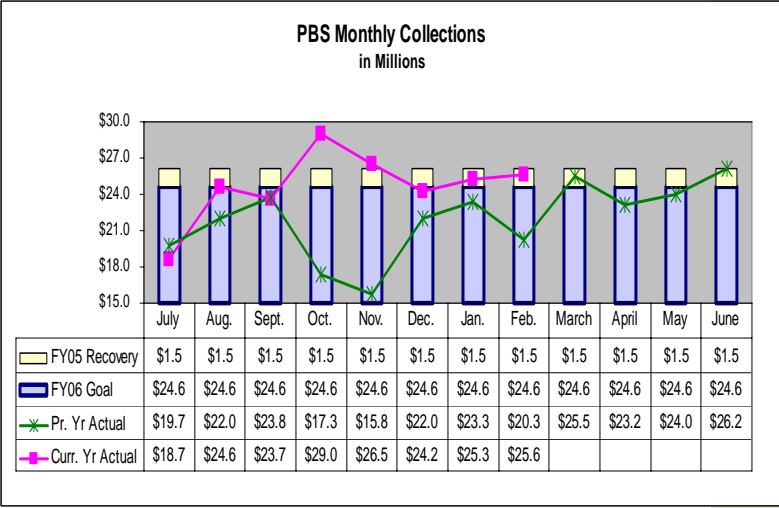


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**Palomar Pomerado Health  
STATEMENTS OF CASH FLOWS  
Fiscal Year 2006**

	February	YTD
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income (Loss) from operations	\$ 491,019	\$ 1,404,199
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation Expense	1,441,885	11,683,179
Provision for bad debts	1,717,522	19,667,025
Changes in operating assets and liabilities:		
Patient accounts receivable	(363,373)	(21,093,718)
Property Tax and other receivables	(143,926)	(10,882,685)
Inventories	(21,676)	(238,223)
Prepaid expenses and Other Non-Current assets	163,737	(371,240)
Accounts payable	(131,772)	(291,169)
Accrued comp	1,175,659	(2,049,130)
Estimated settlement amounts due third-party payors	(764,064)	3,144,645
Other current liabilities	(396,919)	12,236,307
Net cash provided by operating activities	<u>3,168,092</u>	<u>10,588,671</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net (purchases) sales on investments	23,472	(88,041,408)
Interest (Loss) received on investments	294,330	2,277,702
Investment in affiliates	(67,495)	198,796
Net cash used in investing activities	<u>259,307</u>	<u>(85,564,910)</u>
<b>CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:</b>		
Other	-	0
Receipt of G.O. Bond Taxes	243,307	5,121,218
Receipt of District Taxes	233,520	6,809,738
Net cash used in activities	<u>476,827</u>	<u>11,930,976</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of property plant and equipment	(1,752,349)	(19,396,486)
Proceeds from sale of asset	-	781,634
G.O. Bond Interest paid	(2,083,619)	(2,083,619)
Revenue Bond Interest paid	-	(2,126,354)
Proceeds from issuance of debt	-	82,185,607
Payments of LT Debt	-	(6,125,000)
Net cash used in activities	<u>(3,835,968)</u>	<u>5,235,782</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>59,258</u>	<u>(9,809,481)</u>
<b>CASH AND CASH EQUIVALENTS - Beginning of period</b>	<u>2,794,334</u>	<u>12,663,073</u>
<b>CASH AND CASH EQUIVALENTS - End of period</b>	<u>\$ 2,853,592</u>	<u>\$ 2,853,592</u>

Palomar Pomerado Health

