

ADDENDUM A1

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Financial and Capital Plan Update – EMT Discussion Draft

PALOMAR
POMERADO
HEALTH
SPECIALIZING IN YOU

San Diego, California / October 30, 2007

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Discussion Outline

- Review updated Plan of Finance / Projections
- Overview of Strategic Capital Assumptions
- Financial Projections and Credit Profile
- Capital Position Analysis
- Sensitivity Analysis
- Next Steps
- Appendix

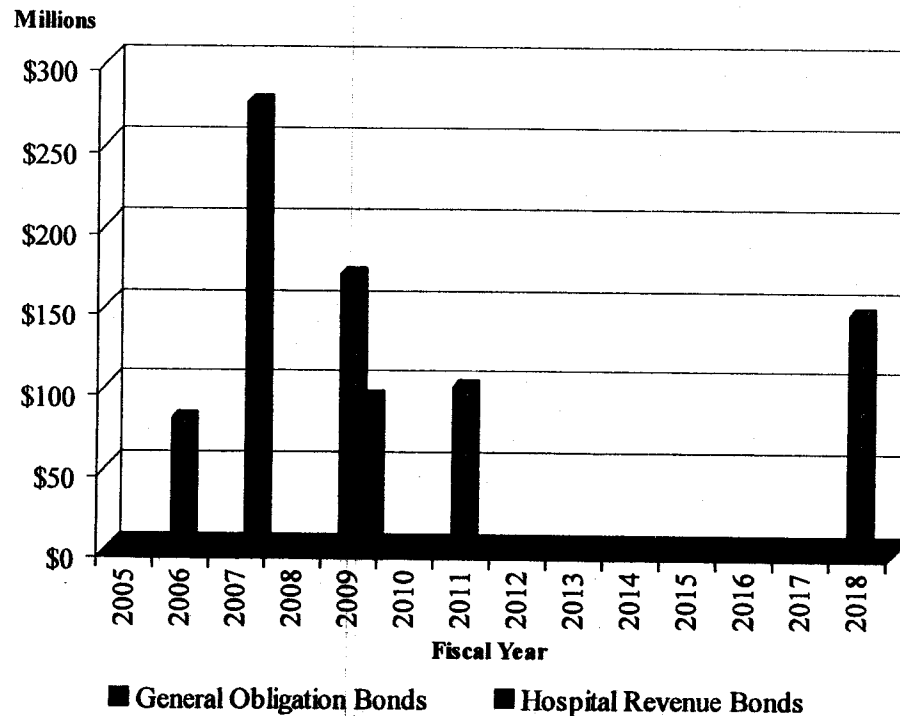
Review of the Plan of Finance

Integrated Plan of Finance (from 2006 Board Update)

- Successful election results
- Restructure existing capital structure (debt) and issue Revenue Bonds (employing a stand alone credit rating)
- Issue GO bonds, Revenue Bonds and BANs; timed to meet construction draw requirements
- At the end of the day....
 - \$496 million of GO's
 - \$375.7 million of Revenue Bonds
 - \$83 million of restructured existing debt
 - \$70 million combination of cash from operations/philanthropy

Phased, Integrated Plan of Finance (as Presented to the Board in 2006)

- Issue Revenue Bonds in conjunction with GO Bonds
 - Meet projected construction draw schedule without undue delay
 - Maintain \$17.75 per \$100,000 tax promised to voters
- Revenue Bonds issued in FY 2007 and FY 2009

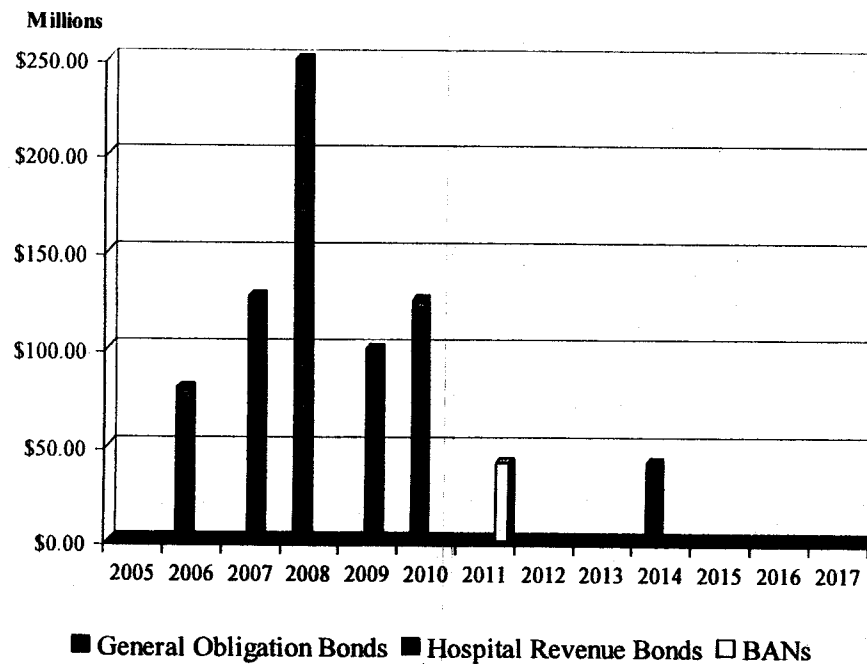


Updated Integrated Plan of Finance

- Issued to date: \$127M revenue bond project proceeds (2006); \$80M GOs (2005)
 - Unspent proceeds of \$127 million (estimated to be spent within 6 months)
- Issue GO bonds, Revenue Bonds and BANs; timed to meet construction draw requirements
 - \$250M GOs in 2008
 - \$100M Revenue Bonds (COPs) in 2009
 - \$125M GOs in 2010
 - \$41M BANs in 2011
 - \$41M GOs in 2014 to take out the 2011 BANs
- At the end of the day....
 - \$496 million of GOs
 - \$399.6 million of Revenue Bonds (including non-project proceeds and \$83 million of restructured existing debt)
 - \$70 million combination of cash from operations / philanthropy

Phased, Integrated Plan of Finance (as of October, 2007)

- Issue Revenue Bonds in conjunction with GO Bonds
 - Meet projected construction draw schedule without undue delay
 - Maintain \$17.75 per \$100,000 tax promised to voters
- Revenue Bonds issued in FY 2007 and FY 2009



2007 Update Financial and Capital Plan Key Strategic Capital Assumptions

Summary of Capital Spending and Borrowing Assumptions

Over the next 10 years, PPH will spend approximately \$1.036 billion in capital for projects including: Expansion / Replacement, Strategic and Routine

Capital Summary Table (\$000s)

Category	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Expansion and Replacement	\$120,672	\$211,005	\$166,433	\$309,985	\$32,246	\$39,443	\$0	\$0	\$0	\$0	\$879,784
Routine and Strategic	\$12,000	\$16,500	\$14,317	\$13,889	\$19,887	\$16,161	\$15,000	\$15,000	\$17,000	\$17,000	\$156,754
TOTAL	\$132,672	\$227,505	\$180,750	\$323,874	\$52,133	\$55,604	\$15,000	\$15,000	\$17,000	\$17,000	\$1,036,538

Note: PPH's Total Facilities Master Plan is \$982 million of which \$102.8 million has been spent prior to FY2008. Routine and Strategic includes capitalized interest.

In order to fund the capital needs of the organization, PPH will need to improve operating margins along with the following consistent with the Plan of Finance; issue GO / Revenue Bonds, realize market share gains as a result of service line specific strategic initiatives and realize projections for the capital campaign.

- GO and Revenue Bond from FY2008 to FY2011 will equal to approximately \$416 million of GO Bonds and \$100 million of Revenue Bonds

Summary of GO and Revenue Bond Proceeds

	2008	2009	2010	2011	Total
Revenue Bonds (\$000s)	\$ -	\$ 100,000	\$ -	\$ -	\$ 100,000
GO Bonds (\$000s)	\$ 250,000	\$ -	\$ 125,000	\$ 41,000	\$ 416,000

Summary of Key Assumptions (continued)

- Based on the current contribution margin and PPH's payor mix the overall contribution of the six service line growth initiatives by FY2016 is approximately \$24.5 million. The total expected operating income contribution from FY2008 to FY2016 is approximate \$107 million based on an estimated investment of approximately \$24.1 million

Service Line	Projection Years									Total Capital Requirement	
	2008	2009	2010	2011	2012	2013	2014	2015	2016		
Cardiovascular											
Operating Income	\$ -	\$ 1,608	\$ 5,010	\$ 6,269	\$ 5,148	\$ 4,983	\$ 5,279	\$ 5,690	\$ 6,234	\$	900
Orthopedics											
Operating Income	\$ 1,361	\$ 889	\$ 1,189	\$ 1,423	\$ 1,555	\$ 4,182	\$ 6,056	\$ 6,112	\$ 6,104	\$	1,300
Cancer											
Operating Income	\$ -	\$ (783)	\$ (187)	\$ 97	\$ 556	\$ 889	\$ 1,271	\$ 1,696	\$ 2,176	\$	6,350
Women's Services											
Operating Income	\$ (861)	\$ (430)	\$ (161)	\$ 23	\$ 60	\$ 104	\$ 151	\$ 205	\$ 266	\$	1,400
General Surgery											
Operating Income	\$ -	\$ (228)	\$ 767	\$ 1,655	\$ 2,195	\$ 2,569	\$ 4,117	\$ 5,204	\$ 6,206	\$	900
Neurosciences											
Operating Income	\$ -	\$ (126)	\$ 817	\$ 1,727	\$ 2,556	\$ 2,822	\$ 3,110	\$ 3,421	\$ 3,900	\$	7,300
Primary Care Impact	\$ (2,000)	\$ (2,000)	\$ (2,000)							\$	6,000
Annual Operating Income	\$ (1,500)	\$ (1,070)	\$ 5,435	\$ 11,194	\$ 12,070	\$ 15,549	\$ 19,984	\$ 22,328	\$ 24,886	\$	24,150

- Total Philanthropy contribution of \$45 million from FY2008 to FY2017

Financial Projections

Palomar Pomerado Health

Most Likely Scenario Financial Projections (\$000s)

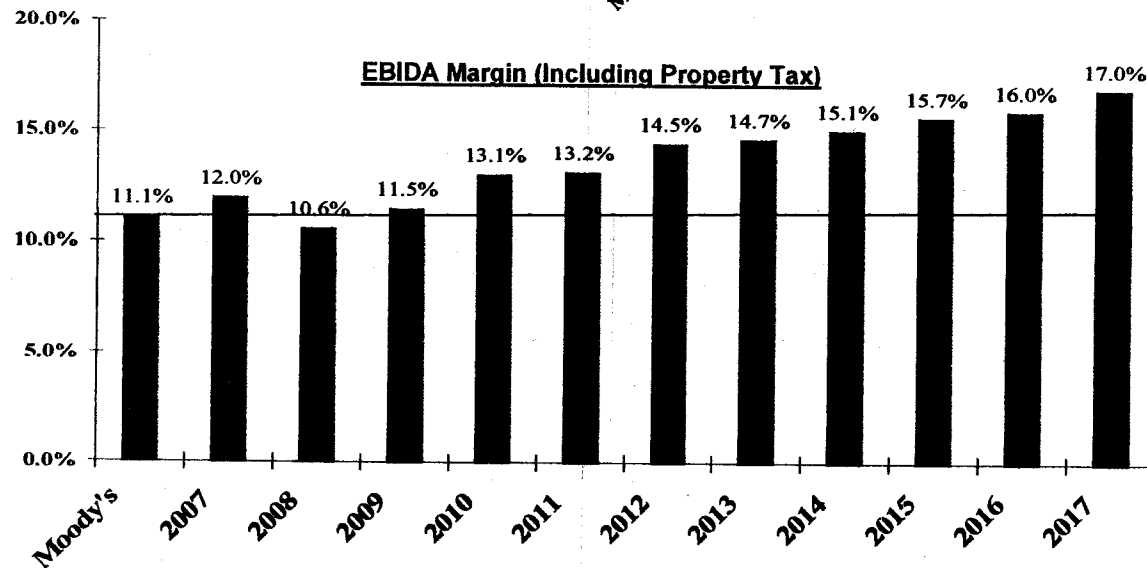
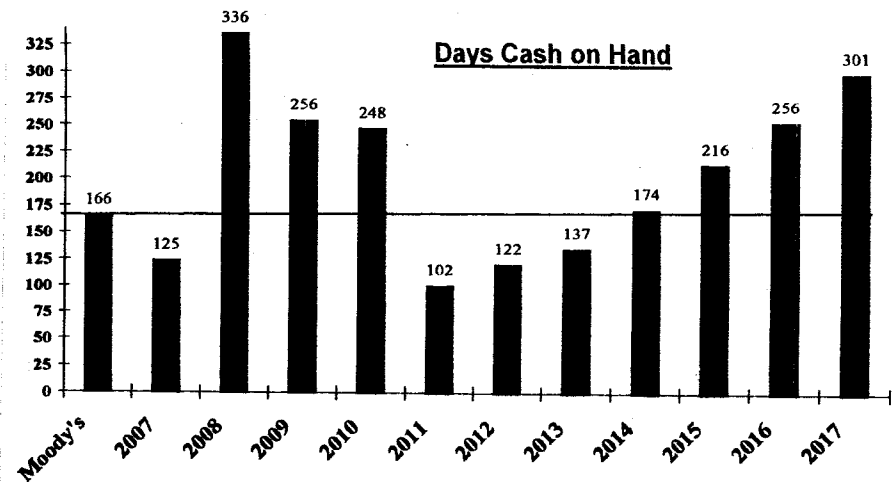
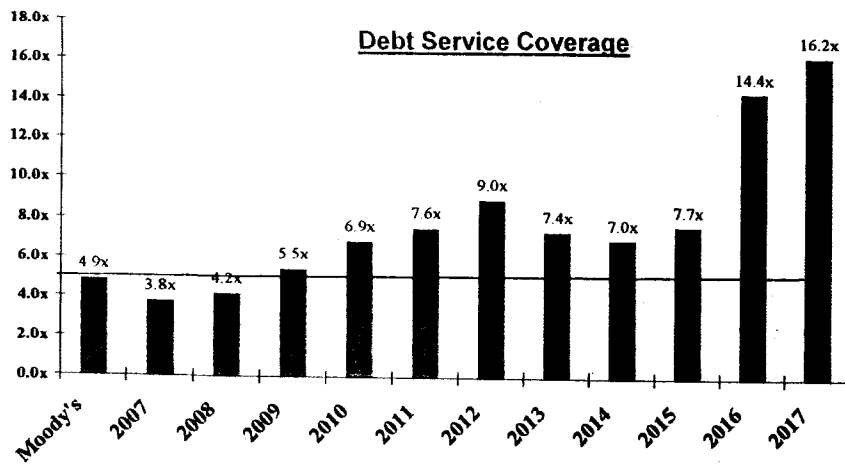
Ratio/Statistic	Moody's "A" Rated Hospitals	Audit	Projected									
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Operating Revenue	\$391,257	\$428,177	\$474,426	\$512,866	\$563,763	\$617,499	\$668,092	\$718,228	\$774,438	\$822,058	\$872,441	\$925,939
Operating Income	\$11,635	(\$2,653)	\$3,589	\$8,527	\$17,923	\$16,650	\$14,834	\$6,668	\$9,915	\$17,090	\$25,167	\$33,920
Net Income	\$21,680	\$32,996	\$23,551	\$31,585	\$43,258	\$42,585	\$40,502	\$33,871	\$39,223	\$49,149	\$60,229	\$78,429
Cash Flow (Net Inc + Depr)	\$36,478	\$52,449	\$45,061	\$55,275	\$70,367	\$78,421	\$94,265	\$100,274	\$109,432	\$121,926	\$133,362	\$151,028
Unrestricted Cash	\$242,406	\$140,696	\$413,495	\$337,534	\$352,075	\$157,277	\$200,379	\$242,636	\$331,380	\$432,834	\$542,383	\$676,086
EBIDA	\$43,259	\$51,412	\$50,252	\$58,802	\$73,558	\$81,223	\$96,647	\$105,860	\$116,870	\$128,876	\$139,830	\$157,497
Long-Term Debt	\$144,003	\$294,723	\$287,873	\$392,350	\$384,845	\$376,955	\$368,645	\$359,890	\$350,675	\$340,970	\$337,700	\$334,430
Profitability												
Operating Margin	3.2%	(0.6%)	0.8%	1.7%	3.2%	2.7%	2.2%	0.9%	1.3%	2.1%	2.9%	3.7%
Operating Margin (Including Property Tax)	3.2%	2.3%	3.6%	4.3%	5.7%	5.0%	4.4%	3.0%	3.2%	4.0%	4.7%	5.4%
Excess Margin	5.9%	6.2%	4.8%	5.9%	7.3%	6.6%	5.8%	4.5%	4.9%	5.8%	6.6%	8.1%
EBIDA Margin	11.1%	12.0%	10.6%	11.5%	13.0%	13.2%	14.5%	14.7%	15.1%	15.7%	16.0%	17.0%
Debt Position												
Debt Service Coverage (x)	4.9x	3.8	4.2	5.5	6.9	7.6	9.0	7.4	7.0	7.7	14.4	16.2
Long-Term Debt to Capitalization	36.0%	49.8%	33.4%	39.2%	33.0%	30.2%	28.7%	27.4%	26.0%	24.5%	23.2%	21.8%
Cushion Ratio (x)	16.1x	8.8	22.5	32.5	34.0	15.3	19.5	17.5	20.5	26.8	33.5	69.4
Debt to Cash Flow (x)	3.3	6.1	6.4	7.1	5.5	4.8	3.9	3.6	3.2	2.8	2.5	2.2
Liquidity												
Cash to Debt	120.4%	47.7%	143.6%	86.0%	91.5%	41.7%	54.4%	67.4%	94.5%	126.9%	160.6%	202.2%
Days Cash On Hand (days)	166	125	336	256	248	102	122	137	174	216	256	301
Days in A/R, net	48.1	69.3	59.8	57.8	55.8	54.8	53.8	52.8	51.8	50.8	50.3	49.8

Note: Credit medians for freestanding hospitals & single-state healthcare systems in the "A" category by Moody's, as of Spring 2007.

Note: Debt, Principal and Interest has been excluded for GO bonds. Equity contribution equal to GOs has been included.

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Most Likely Scenario Key Ratios Summary Graphs



Note: Credit medians for freestanding hospitals & single-state healthcare systems in the "A" category by Moody's, as of Spring 2007.
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Kaufman Hall's Observations

- PPH's credit position is strong as a result of consistent operating performance and GO tax support for the current master facility plan.
- PPH will spend approximately \$1.03 billion in capital over the next 10 years with a significant portion of this coming in the next 5 years. PPH will need to closely monitor capital expenditure levels and potential cost overruns.
- Immediate and sustained financial risks for the organization include:
 - **Short-Term Liquidity** : In the last four years of the ten year projections liquidity levels are significantly above Moody's 'A' rated days cash on hand targets. However, in FY2011, FY2012 and FY2013 days cash on hand levels fall well below Moody's 'A' target of 166 days.
 - **Strategic Growth Initiatives**: There is some risk in achieving the projected market share gains and volumes as a result of the strategic growth initiatives.
 - **Operational Risks**: PPH will need to monitor staffing levels, supply expenses and other operating expenses as new beds and the Kaiser volume come on-line in FY2012-FY2013. PPH will also need to monitor acute care bed capacity to ensure adequate capacity to meet growth projections.

Capital Position Analysis 2008-2017 (\$ in millions)

Uses of Cash (2008 - 2017)	
Routine & Strategic (Inc. Capitalized Interest)	\$156.7
Expansion and Replacement	<u>879.7</u>
Total Capital Expenditures	1036.5
Funding of Min. Cash Position (2017) - 166 Days	372.6
Principal Payments on indebtedness (Excludes GOs)	81.8
Working Capital Estimate	15.0
Total Capital Uses	\$1,505.9

Current Available Cash (2007)	\$140.6
Revenue Bonds	100.0
General Obligation/BAN's	416.0
Philanthropy	45.0
Unspent Bond Proceeds	127.0
Total Capital Sources	\$828.6

Required 16 Year Cash Flow

2008 Budget Operating Cash Flow:	\$45.0
2007 Actual Operating Cash Flow:	\$52.4
2006 Actual Operating Cash Flow:	\$39.7
Avg. Annual 2008 – 2012 Operating Cash Flow	\$69.8
Avg. Annual 2008 – 2017 Operating Cash Flow	\$96.7

Note: Debt, Principal and Interest has been excluded for GO bonds. Equity contribution equal to GOs has been included.

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Sensitivity Analysis

<u>Scenario</u>	<u>Sensitivity Assumption</u>
1. Philanthropy:	\$0 dollars from philanthropy
2. Inpatient Decrease:	2% Lower than Most Likely Scenario for FY2009-FY2012
3. Outpatient Decrease:	2% Lower than Most Likely Scenario for FY2009-FY2012
4. Salary Inflation Increase:	1.5% Higher than Most Like Scenario for FY2009-FY2012

Sensitivity Analysis – Independent Variable Analysis

Sensitivities - Summary of Key Ratios

(\$ in 000s)	2009	2010	2011	2012	2013	2014
Operating Margin						
Most Likely Scenario	1.7%	3.2%	2.7%	2.2%	0.9%	1.3%
No Philanthropy Contribution	1.7%	3.2%	2.7%	2.2%	0.9%	1.3%
Lower Inpatient Volume 2% annually FY2009-FY2011	1.3%	2.5%	1.7%	0.9%	-0.4%	1.3%
Lower Outpatient Volume 2% annually from FY2009-FY2012	1.4%	2.7%	1.9%	1.2%	-0.1%	1.3%
Higher Salary Inflation 1.5% annually from FY2009-FY2012	1.0%	1.8%	0.6%	-0.6%	-2.0%	1.3%
EBIDA Margin						
Most Likely Scenario	11.5%	13.0%	13.2%	14.5%	14.7%	15.1%
No Philanthropy Contribution	11.5%	12.9%	13.1%	14.3%	14.6%	15.1%
Lower Inpatient Volume 2% annually FY2009-FY2011	11.3%	12.6%	12.7%	13.8%	14.0%	15.1%
Lower Outpatient Volume 2% annually from FY2009-FY2012	11.3%	12.5%	12.6%	13.7%	13.9%	15.1%
Higher Salary Inflation 1.5% annually from FY2009-FY2012	10.8%	11.5%	11.0%	11.5%	11.6%	15.1%
Days Cash on Hand						
Most Likely Scenario	256	248	102	122	137	175
No Philanthropy Contribution	252	239	91	108	120	175
Lower Inpatient Volume 2% annually FY2009-FY2011	258	250	98	116	126	175
Lower Outpatient Volume 2% annually from FY2009-FY2012	256	246	97	114	125	175
Higher Salary Inflation 1.5% annually from FY2009-FY2012	252	236	84	93	97	175
Cash Flow (NI + Depreciation)						
Most Likely Scenario	55,275	70,367	78,421	94,265	100,274	109,432
No Philanthropy Contribution	55,047	70,018	77,860	93,486	99,268	109,432
Lower Inpatient Volume 2% annually FY2009-FY2011	53,364	66,216	71,803	84,977	90,131	109,432
Lower Outpatient Volume 2% annually from FY2009-FY2012	53,881	67,328	73,520	87,295	92,643	109,432
Higher Salary Inflation 1.5% annually from FY2009-FY2012	51,590	62,212	64,855	74,514	78,250	109,432

A combination of two or more of these sensitivities will result in a significant liquidity issue by FY2011. Management will need to monitor liquidity and capital spending levels closely over the next five years.

Next Steps

- Present updated Plan of Finance / Projections to Rating Agencies (November 7-9th)
- Communicate Updated Financial and Capital Plan to different levels of management including the key operating assumptions necessary in order to meet the updated Plan of Finance / Projections
- Incorporate Updated Projections to Performance Target into FY Budget 2009

Operating Assumptions

I. Utilization

- Inpatient discharges to increase between 0.5% and 8.0% annually
- Outpatient visits to increase 1.0% annually

II. Charges

- IP and OP rates projected to increase 6.0% annually

III. Reimbursement

- Medi-Cal: IP and OP to increase 1.0% annually
- Medicare: IP and OP to increase 2.0% annually
- HMO / PPO: IP and OP to increase range from 5.0 % to 6.0% annually
- Indemnity: IP and OP to increase range from 5.0% to 6.0% annually
- Champus: IP and OP to increase 6.0% annually
- Self Pay: IP and OP to increase 6.0% annually
- Other: IP and OP to increase 6.0% annually

IV. Other Operating Revenue

- Projected to increase 2% annually

Summary of Key Assumptions (continued)

V. Expenses

- ✓ No productivity improvement is assumed in the financial projections
- ✓ Annual salary inflation ranges from 4.0% to 5.5%
- ✓ Benefits as a % of salary assumed to be constant at 24.5%
- ✓ Professional fees inflation is assumed to be constant at 4.0%
- ✓ Purchased services inflation is assumed to be constant at 3.5%
- ✓ Insurance inflation is assumed to be constant at 3.0%
- ✓ Medical supplies, other supplies inflation ranges from 3.5% to 5.5%
- ✓ Utilities, rent and other expense inflations range from 3.0% to 4.0% annually
- ✓ Expenses to increase on fixed / variable basis in addition to inflation

VI. Reinvestment earnings

- ✓ Realized and unrealized investment earnings to grow at 3.5%

VII. Bad Debt and Charity

- ✓ Total of 3.5% of Gross Charges

Summary of Key Assumptions (continued)

VIII. Utilization statistics

Key Utilization Statistics	Projection Years									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Inpatient Discharges	31,538	32,355	33,796	35,348	36,047	36,983	37,969	38,659	39,364	40,079
Inpatient Days	194,790	200,528	208,958	218,001	223,147	229,397	235,967	241,371	246,947	252,679
Average Length of Stay	6.18	6.20	6.18	6.17	6.19	6.20	6.21	6.24	6.27	6.30
Average Daily Census	534	549	572	597	611	628	646	661	677	692
Outpatient Visits	222,869	229,282	237,799	247,696	253,174	259,006	261,821	264,656	267,476	270,327
Adjusted Patient Discharges	40,873	42,144	44,260	46,560	47,443	48,761	50,161	50,996	51,848	52,707
Adjusted Patient Days	252,448	261,196	273,650	287,153	293,691	302,449	311,738	318,397	325,260	332,290

Palomar Pomerado Health

Financial Projections – No Strategic Growth (\$000s)

Ratio/Statistic	Moody's "A"	Audit	Projected									
	Hospitals	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Operating Revenue	\$391,257	\$428,177	\$463,038	\$489,636	\$520,705	\$551,041	\$595,140	\$630,048	\$667,182	\$706,677	\$748,699	\$793,416
Operating Income	\$11,635	(\$2,663)	\$5,069	\$7,597	\$10,567	\$5,704	\$3,178	(\$8,222)	(\$9,082)	(\$3,972)	\$1,863	\$8,510
Net Income	\$21,680	\$32,996	\$25,038	\$30,664	\$35,976	\$31,473	\$28,357	\$18,045	\$18,659	\$25,754	\$33,730	\$48,873
Cash Flow (Net Inc + Depr)	\$36,478	\$52,449	\$46,334	\$53,553	\$61,863	\$66,037	\$80,848	\$83,176	\$87,596	\$97,474	\$106,341	\$121,272
Unrestricted Cash	\$242,406	\$140,696	\$418,625	\$349,532	\$360,467	\$155,196	\$185,453	\$211,941	\$280,469	\$357,905	\$440,995	\$545,518
EBIDA	\$43,259	\$51,412	\$51,525	\$57,080	\$65,054	\$68,839	\$83,230	\$88,762	\$95,034	\$104,424	\$112,809	\$127,741
Long-Term Debt	\$144,003	\$294,723	\$287,873	\$392,350	\$384,845	\$376,955	\$368,645	\$359,890	\$350,675	\$340,970	\$337,700	\$334,430
Profitability												
Operating Margin	3.2%	(0.6%)	1.1%	1.6%	2.0%	1.0%	0.5%	(1.3%)	(1.4%)	(0.6%)	0.2%	1.1%
Operating Margin (Including Property Tax)	3.2%	2.3%	4.0%	4.4%	4.7%	3.6%	3.0%	1.1%	0.9%	1.6%	2.4%	3.1%
Excess Margin	5.9%	6.2%	5.2%	6.0%	6.6%	5.5%	4.6%	2.7%	2.7%	3.5%	4.3%	5.9%
EBIDA Margin	11.1%	12.0%	11.1%	11.7%	12.5%	12.5%	14.0%	14.1%	14.2%	14.8%	15.1%	16.1%
Debt Position												
Debt Service Coverage (x)	4.9x	3.8	4.3	5.3	6.1	6.4	7.8	6.2	5.7	6.3	11.6	13.1
Long-Term Debt to Capitalization	36.0%	49.8%	33.4%	39.2%	33.2%	30.7%	29.4%	28.4%	27.3%	26.1%	25.2%	24.1%
Cushion Ratio (x)	16.1x	8.8	22.7	33.7	34.8	15.1	18.1	15.3	17.3	22.1	27.3	56.0
Debt to Cash Flow (x)	3.3	6.1	6.2	7.3	6.2	5.7	4.6	4.3	4.0	3.5	3.2	2.8
Liquidity												
Cash to Debt	120.4%	47.7%	145.4%	89.1%	93.7%	41.2%	50.3%	58.9%	80.0%	105.0%	130.6%	163.1%
Days Cash On Hand (days)	166	125	360	278	272	111	125	135	169	204	239	279
Days in AR, net	48.1	69.3	59.8	57.8	55.8	54.8	53.8	52.8	51.8	50.8	50.3	49.8

Note: Credit medians for freestanding hospitals & single-state healthcare systems in the "A" category by Moody's, as of Spring 2007.

Note: Debt, Principal and Interest has been excluded for GO bonds. Equity contribution equal to GOs has been included.

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Palomar Pomerado Health

Detailed Financial Projections – Most Likely Scenario (\$000s)

Hospital Advisor® Financial and Capital Planning System

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PPH - Financial Projections	Projection Years									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Statement of Revenue and Expenses										
Patient Revenue										
Inpatient Services	\$1,071,169	\$1,168,082	\$1,298,804	\$1,446,113	\$1,564,061	\$1,705,302	\$1,860,801	\$2,008,191	\$2,167,356	\$2,338,866
Outpatient Services	<u>317,065</u>	<u>353,392</u>	<u>402,104</u>	<u>458,720</u>	<u>494,448</u>	<u>543,059</u>	<u>597,524</u>	<u>640,845</u>	<u>687,322</u>	<u>736,905</u>
Gross Patient Revenue	1,388,234	1,521,474	1,700,908	1,904,833	2,058,509	2,248,361	2,458,325	2,649,036	2,854,678	3,075,771
Deductions from Patient Revenue										
Contractual Discounts	917,932	1,012,273	1,140,167	1,289,601	1,404,038	1,543,701	1,697,346	1,840,476	1,995,758	2,163,352
Provision for Charity	<u>5,491</u>	<u>6,062</u>	<u>6,818</u>	<u>7,687</u>	<u>8,288</u>	<u>9,054</u>	<u>9,907</u>	<u>10,646</u>	<u>11,436</u>	<u>12,287</u>
Total Deductions from Revenue	<u>923,423</u>	<u>1,018,335</u>	<u>1,146,985</u>	<u>1,297,288</u>	<u>1,412,326</u>	<u>1,552,755</u>	<u>1,707,253</u>	<u>1,851,122</u>	<u>2,007,194</u>	<u>2,175,639</u>
Net Patient Revenue	464,811	503,139	553,923	607,545	646,183	695,606	751,072	797,914	847,484	900,132
Other Operating Revenue	<u>9,615</u>	<u>9,727</u>	<u>9,840</u>	<u>9,954</u>	<u>21,909</u>	<u>22,622</u>	<u>23,366</u>	<u>24,144</u>	<u>24,957</u>	<u>25,807</u>
Total Operating Revenue	474,426	512,866	563,763	617,499	668,092	718,228	774,438	822,058	872,441	925,939
Operating Expenses										
Salaries and Wages	200,067	215,263	234,584	255,416	271,857	291,648	313,256	332,974	354,004	376,379
Employee Benefits	47,595	51,435	56,423	61,820	65,848	70,822	76,275	81,095	86,237	91,707
Professional fees	26,193	27,329	28,577	29,887	31,254	32,691	34,192	35,768	37,417	39,147
Supplies	65,982	71,823	78,800	86,160	95,707	104,769	115,312	121,810	128,616	135,766
Purchased Services	34,109	35,303	36,541	37,818	39,142	40,513	41,929	43,398	44,917	46,490
Depreciation & Amortization	21,510	23,690	27,109	35,836	53,763	66,403	70,209	72,777	73,133	72,599
Interest	5,191	3,527	3,191	2,802	2,381	5,586	7,438	6,950	6,469	6,469
Other	26,657	28,892	29,621	33,058	32,827	33,397	34,419	35,473	36,560	37,400
Bad Debt	<u>43,533</u>	<u>47,077</u>	<u>50,894</u>	<u>56,052</u>	<u>60,478</u>	<u>65,731</u>	<u>71,493</u>	<u>74,723</u>	<u>79,922</u>	<u>86,062</u>
Total Operating Expenses	<u>470,837</u>	<u>504,339</u>	<u>545,840</u>	<u>600,849</u>	<u>653,258</u>	<u>711,560</u>	<u>764,523</u>	<u>804,968</u>	<u>847,274</u>	<u>892,019</u>
Excess of Revenue over Expenses from Operations	3,589	8,527	17,923	16,650	14,834	6,668	9,915	17,090	25,167	33,920
Nonoperating Revenue										
Investment Income	5,989	8,810	10,807	11,122	10,563	11,801	13,603	16,045	18,733	27,858
Unrestricted Contributions	473	478	483	487	492	497	502	507	512	517
Property Tax Revenue	<u>13,500</u>	<u>13,770</u>	<u>14,045</u>	<u>14,326</u>	<u>14,613</u>	<u>14,905</u>	<u>15,203</u>	<u>15,507</u>	<u>15,817</u>	<u>16,134</u>
Net Nonoperating Revenue	<u>19,962</u>	<u>23,058</u>	<u>25,335</u>	<u>25,935</u>	<u>25,668</u>	<u>27,203</u>	<u>29,308</u>	<u>32,059</u>	<u>35,062</u>	<u>44,509</u>
Excess of Revenue over Expenses Before Extraordinary Items	<u>23,551</u>	<u>31,585</u>	<u>43,258</u>	<u>42,585</u>	<u>40,502</u>	<u>33,871</u>	<u>39,223</u>	<u>49,149</u>	<u>60,229</u>	<u>78,429</u>
Excess of Revenue over Expenses	<u>\$23,551</u>	<u>\$31,585</u>	<u>\$43,258</u>	<u>\$42,585</u>	<u>\$40,502</u>	<u>\$33,871</u>	<u>\$39,223</u>	<u>\$49,149</u>	<u>\$60,229</u>	<u>\$78,429</u>
Cash Flow	45,061	55,275	70,367	78,421	94,265	100,274	109,432	121,926	133,362	151,028

Palomar Pomerado Health

Detailed Financial Projections – No Strategic Growth (\$000s)

Hospital Advisor® Financial and Capital Planning System

Kaufman, Hall & Associates

PPH - Financial Projections	Projection Years									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Statement of Revenue and Expenses										
Patient Revenue										
Inpatient Services	\$1,050,675	\$1,122,744	\$1,211,369	\$1,307,050	\$1,410,351	\$1,521,888	\$1,642,323	\$1,772,369	\$1,912,804	\$2,064,465
Outpatient Services	302,632	323,997	346,871	371,361	397,579	425,847	455,701	487,871	522,314	559,189
Gross Patient Revenue	1,353,307	1,446,741	1,558,240	1,678,411	1,807,930	1,947,535	2,098,024	2,260,240	2,435,118	2,623,654
Deductions from Patient Revenue										
Contractual Discounts	894,568	961,144	1,041,270	1,130,770	1,227,665	1,332,559	1,446,103	1,569,006	1,702,037	1,846,019
Provision for Charity	5,316	5,688	6,105	6,554	7,034	7,550	8,105	8,701	9,339	10,026
Total Deductions from Revenue	899,884	966,832	1,047,375	1,137,324	1,234,699	1,340,109	1,454,208	1,577,707	1,711,376	1,856,045
Net Patient Revenue	453,423	479,909	510,865	541,087	573,231	607,426	643,816	682,533	723,742	767,609
Other Operating Revenue	9,615	9,727	9,840	9,954	21,909	22,622	23,366	24,144	24,957	25,807
Total Operating Revenue	463,038	489,636	520,705	551,041	595,140	630,048	667,182	706,677	748,699	793,416
Operating Expenses										
Salaries and Wages	196,814	208,202	221,541	235,021	249,375	264,661	280,943	298,291	316,777	336,479
Employee Benefits	46,667	49,351	52,510	55,703	59,103	62,726	66,582	70,690	75,068	79,736
Professional fees	26,193	27,329	28,577	29,887	31,254	32,691	34,192	35,768	37,417	39,147
Supplies	62,960	66,845	70,359	74,068	77,977	81,705	85,621	89,730	94,047	98,577
Purchased Services	34,109	35,303	36,541	37,818	39,142	40,513	41,929	43,398	44,917	46,490
Depreciation & Amortization	21,296	22,889	25,887	34,564	52,491	65,131	68,937	71,720	72,611	72,399
Interest	5,191	3,527	3,191	2,802	2,381	5,586	7,438	6,950	6,469	6,469
Other	21,710	22,637	23,132	23,950	24,772	25,544	26,336	27,155	28,000	28,590
Bad Debt	43,009	45,956	48,400	51,524	55,466	59,713	64,286	66,947	71,531	77,019
Total Operating Expenses	457,949	482,039	510,138	545,337	591,962	638,270	676,264	710,649	746,836	784,906
Excess of Revenue over Expenses from Operations	5,089	7,597	10,567	5,704	3,178	(8,222)	(9,082)	(3,972)	1,863	8,510
Nonoperating Revenue										
Investment Income	5,976	8,819	10,881	10,956	10,074	10,865	12,036	13,712	15,538	23,712
Unrestricted Contributions	473	478	483	487	492	497	502	507	512	517
Property Tax Revenue	13,500	13,770	14,045	14,326	14,613	14,905	15,203	15,507	15,817	16,134
Net Nonoperating Revenue	19,949	23,067	25,409	25,769	25,179	26,267	27,741	29,726	31,867	40,363
Excess of Revenue over Expenses Before Extraordinary Items	25,038	30,664	35,976	31,473	28,357	18,045	18,659	25,754	33,730	48,873
Excess of Revenue over Expenses	\$25,038	\$30,664	\$35,976	\$31,473	\$28,357	\$18,045	\$18,659	\$25,754	\$33,730	\$48,873
Cash Flow	46,334	53,553	61,863	66,037	80,848	83,176	87,596	97,474	106,341	121,272

Definition of Financial Ratios

Profitability / Cash Flow Ratios

$$\frac{\text{Operating Margin:}}{\text{Operating Income}} \\ \text{Total Operating Revenue}$$

$$\frac{\text{Excess Margin:}}{\text{Operating Income} + \text{Non-operating Revenue}} \\ \text{Total Operating} + \text{Non-operating Revenue}$$

$$\frac{\text{Operating EBIDA Margin:}}{\text{Operating Income} + \text{Depreciation, Amortization and Interest}} \\ \text{Total Operating Revenue}$$

Debt Ratios

$$\frac{\text{Historic Debt Service Coverage:}}{\text{Excess Revenue Over Expenses} + \text{Interest} + \text{Dep} + \text{Amort}} \\ \text{Annual Debt Service}$$

$$\frac{\text{Capitalization Ratio:}}{\text{Long-Term Debt}} \\ \text{Long-Term Debt} + \text{Fund Balance}$$

Liquidity Ratios

$$\frac{\text{Days Cash on Hand:}}{\text{Cash \& Marketable Securities} + \text{Board Design. Funds}} \\ ((\text{Total Operating Expense} - \text{Depreciation}) / 365)$$

$$\frac{\text{Cushion Ratio:}}{\text{Unrestricted Cash}} \\ \text{Maximum Annual Debt Service}$$

Other Ratios

$$\frac{\text{Cash to debt:}}{\text{Cash \& Marketable Securities} + \text{Board Design. Funds}} \\ \text{Long-Term Debt}$$

$$\frac{\text{Average Age of Plant:}}{\text{Accumulated Depreciation}} \\ \text{Annual Depreciation}$$