

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

EXECUTIVE SUMMARY

<p>Applicant: Children’s Hospital of Orange County (“CHOC”) & CHOCO Realty Corporation (“Realty”) Orange, California (Orange County)</p> <p>Facility Types: Pediatric hospital services</p>	<p>Amount Requested: \$85,000,000</p> <p>Date Requested: August 26, 2004</p> <p>Requested Loan Term: 30 years</p> <p>Resolution Number: F- 304</p>																												
<p>Uses of Bond Proceeds: CHOC seeks funds for construction of a new hospital tower, parking structures, and remodeling of the existing hospital.</p>																													
<p>Type of Issue: Negotiated public offering with either two series of auction rate bonds (Series A & B) or one series of fixed rate bonds.</p> <p>Credit Enhancement: Bond insurance, if economically feasible; Parent company to act as guarantor</p> <p>Expected Credit Rating: AAA (S&P) and AAA (Fitch), based on bond insurance <i>(expected underlying rating of A+ [S&P] and A+ [Fitch])</i></p> <p>Senior Underwriter: Morgan Stanley</p> <p>Bond Counsel: Orrick, Herrington & Sutcliffe LLP</p>																													
<p>Financial Overview: CHC has demonstrated strong profitability in the last three years, leading to sizable unrestricted net assets, good liquidity, and manageable leverage. A proforma debt service coverage ratio of 3.03x indicates an ability to manage this debt.</p>																													
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<p>Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$85,000,000 for Children’s Hospital of Orange County and CHOCO Realty Corporation subject to a bond rating of at least an “A” rating by a nationally recognized rating agency.</p>																													

STAFF SUMMARY AND RECOMMENDATION

Children’s Hospital of Orange County (“CHOC”) & CHOCO Realty Corporation (“Realty”)

August 26, 2004

Resolution Number: F-304

I. PURPOSE OF FINANCING:

According to management, based on regional population growth, CHOC will need to increase its bed capacity by at least 40% by 2020. CHOC seeks to build a tower adjoining its existing facility, creating space to add approximately 84 more beds and to expand ancillary services.

It is anticipated that CHOC will fund the two-phase project using primarily cash reserves and fundraising of approximately \$60 million and proceeds of the 2004 bonds of approximately \$82 million. The remainder of approximately \$85 million will be funded with a combination of fundraising and/or additional tax-exempt debt. CHOC may also be eligible for up to \$75 million in grant funding if Proposition 61 is approved in the November 2004 elections. If approved, this grant funding would offset the additional fundraising or tax-exempt debt required to fund the project.

Construction/Renovation \$227,000,000

The project consists of the construction of two parking structures, acquisition of land (and preconstruction costs) for south tower, and remodeling space in the existing facility.

Construct new tower..... \$180,000,000

The CHOC South Tower design is a 4-story (including one lower level) tower consisting of approximately 220,000 square feet and will have direct connections into the existing CHOC North Tower. The South Tower will have the capacity to house both clinical and ancillary services.

This construction is expected to begin in 2005 with a completion date in 2010/2011. The total estimated cost is \$180 million. Of that total, \$35 million in acquisition and pre-construction costs will be financed by 2004 bond proceeds.

Renovation..... \$15,000,000

The renovation includes conversion of a portion of existing intensive care space for a step-up intermediate care unit as well as building-out the sixth floor for 30 intensive care beds. Ambulatory services will also be expanded.

Construct parking facilities..... \$32,000,000

The project also includes construction of a new parking structure adjacent to the South Tower, an additional parking structure near CHOC’s existing facilities, as well as a pedestrian walkway into hospital buildings. Construction costs, including demolition of an existing structure, are estimated at \$32 million.

Insurance Premium/ Fee		2,000,000
Financing Costs		1,000,000
Cost of Issuance	\$450,000	
Underwriters Discount	550,000	
Total Uses of Funds.....		<u>\$230,000,000</u>

Structure of Financing:

CHOC will seek to issue two series of auction rate bonds (with bond insurance) *or* one series of fixed rate bonds (with no bond insurance).

- Series A and Series B:
 - Variable, auction rate bonds (\$85 million), 30 year maturity
 - Credit Enhancement: Bond insurance and guarantee from Children’s Healthcare of California (“CHC”).
 - Expected Credit Rating: AAA (S&P) and AAA (Fitch), based on bond insurance
(expected underlying rating of A+ [S&P] and A+ [Fitch])
 - Negotiated public offering.
 - Joint and several obligation of the obligated group (CHOC and CHOCO Realty).

OR

- Series C:
 - Fixed rate bonds (\$85 million), 30 year maturity
 - Guarantor: Guarantee from CHC
 - Expected Credit Rating: A+ (S&P) and A+ (Fitch), based on anticipated hospital rating
 - Negotiated public offering.
 - Joint and several obligation of the obligated group (CHOC and CHOCO Realty).

II. FINANCIAL STATEMENTS AND ANALYSIS

**Children's Healthcare of California and Affiliates
Combined Statements of Operations (\$000's)
(Unrestricted)**

	<u>For the year ended June 30,</u>			
	<u>2004</u> (Unaudited)	<u>2003</u>	<u>2002</u>	<u>2001</u>
Unrestricted Revenue:				
Net patient service revenue	\$ 234,713	\$ 196,377	\$ 174,379	\$ 146,351
Premium revenue	34,670	26,996	21,024	21,864
Thrift store sales	8,403	9,730	10,166	10,838
Donated merchandise	7,173	8,604	8,406	8,889
Public support, contributions, and bequests	4,292	3,244	4,862	4,547
Other revenue	34,231	31,683	23,937	18,107
Net assets released from restrictions used for operations	3,076	3,049	3,369	2,403
Total revenues	<u>326,558</u>	<u>279,683</u>	<u>246,143</u>	<u>212,999</u>
Operating Expenses:				
Salaries and benefits	115,526	99,839	84,667	65,246
Purchased services	116,797	96,376	80,751	77,157
Supplies	25,948	22,292	23,154	15,868
Thrift store cost of goods sold	7,679	9,268	9,419	10,088
Provision for uncollectible accounts	17,481	19,135	16,833	14,556
Rent	6,142	6,631	5,035	2,962
Depreciation and amortization	10,648	10,346	8,034	7,844
Interest expense	521	633	809	1,444
Other	13,056	11,746	10,645	8,732
Total operating expenses	<u>313,798</u>	<u>276,266</u>	<u>239,347</u>	<u>203,897</u>
Income from operations	12,760	3,417	6,796	9,102
Gain on sale of property	2,379	1,309	-	-
Interest and other income	4,141	3,576	3,361	8,776
Revenues and gains in excess of revenues	<u>19,280</u>	<u>8,302</u>	<u>10,157</u>	<u>17,878</u>
Net assets released from restrictions used for capital equipment	908	1,619	71	1,015
Other changes in net assets	12	546	(150)	103
Increase in unrestricted net assets	20,200	10,467	10,078	18,996
Unrestricted net assets, beginning of year	<u>222,164</u>	<u>211,697</u>	<u>201,619</u>	<u>182,623</u>
Unrestricted net assets, end of year	<u>\$ 242,364</u>	<u>\$ 222,164</u>	<u>\$ 211,697</u>	<u>\$ 201,619</u>

**Children's Healthcare of California and Affiliates
Combined Statements of Financial Position (\$000's)**

As of June 30,

<u>Assets</u>	<u>2004</u> <u>(Unaudited)</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current Assets:				
Cash	\$ 38,503	\$ 58,078	\$ 56,387	\$ 51,451
Short-term investments	5,219	4,600	4,462	4,698
Assets whose use is limited - current	1,358	1,058	550	-
Patients accounts receivable, less allowance	46,253	38,227	36,754	33,350
Inventory	3,015	3,965	3,131	3,011
Other receivables	15,218	13,436	7,362	4,930
Prepaid expenses and other current assets	<u>13,381</u>	<u>3,270</u>	<u>3,218</u>	<u>1,568</u>
Total Current Assets	122,947	122,634	111,864	99,008
Assets whose use is limited	77,228	70,960	67,063	66,517
Property and equipment, net	143,366	124,044	121,177	111,661
Other assets	11,668	12,155	11,380	15,337
Total Assets	<u>\$ 355,209</u>	<u>\$ 329,793</u>	<u>\$ 311,484</u>	<u>\$ 292,523</u>
Liabilities & Net Assets				
Current Liabilities:				
Current portion of long term debt	\$ 1,134	\$ 902	\$ 801	\$ 472
Accounts payable and accrued liabilities	24,818	26,513	27,665	20,979
Accrued compensation and related liabilities	16,860	13,698	10,692	7,279
Medical claims payable	5,334	4,833	1,962	2,871
Deferred income	5,969	2,264	2,222	2,486
Payable to third-party payors	451	407	139	147
Payable to contracting hospitals	<u>4,042</u>	<u>3,586</u>	<u>1,594</u>	<u>3,807</u>
Total current liabilities	58,608	52,203	45,075	38,041
Long-term debt	33,058	35,102	36,005	36,806
Postretirement benefit obligation	<u>5,327</u>	<u>5,167</u>	<u>5,036</u>	<u>4,901</u>
Total Liabilities	96,993	92,472	86,116	79,748
Unrestricted net assets	242,364	222,164	211,697	201,619
Temporarily restricted net assets	11,206	10,871	9,623	7,508
Permanently restricted net assets	4,646	4,286	4,048	3,648
Total Liabilities & Net Assets	<u>\$ 355,209</u>	<u>\$ 329,793</u>	<u>\$ 311,484</u>	<u>\$ 292,523</u>

Financial Ratios:

	Proforma ^(a)			
Debt Service Coverage (x)	3.03	14.05	17.12	16.26
Debt/Unrestricted Net Assets (x)	0.54	0.16	0.17	0.18
Margin (%)		3.7%	4.0%	8.5%
Current Ratio (x)		2.35	2.49	2.59

^(a) Recalculates June 2003 audited results to include the impact of this proposed financing. Based on unaudited 2004 results, Debt Service Coverage is 4.47x and Debt to Unrestricted Net Assets is 0.49x.

Financial Discussion:

Note regarding financial statements: The financial statements above, include:

- **CHOC and CHOCO Realty Corporation comprise the obligors for this financing. Its net assets comprise 53% of total net assets of CHC & Affiliates (as of June 30, 2003) and 82% of total revenue. The obligated group financial statements are attached as Exhibit A to this staff report.**
- **CHC, the parent, who will act as guarantor for the bonds, comprises 34% of net assets of CHC & Affiliates. CHC is the sole member of CHOC, CHOCO Realty Corp, and of the other affiliates.**
- **The remaining affiliates comprise the remaining 13% of total net assets.**

The discussion, below, is based on financial statements for CHC and Affiliates.

CHC and Affiliates has demonstrated strong profitability in our review period leading to sizeable unrestricted net assets, good liquidity, and manageable leverage.

CHC has exhibited impressive net revenues in the three years ended June 30, 2003, with a 3.7% margin for fiscal 2003. Margins have narrowed, however since 2001. Total revenue has increased by 31% from 2001 to 2003, with patient revenues increasing by 34% due to higher utilization and better reimbursements.

Although commercial capitated contracts were terminated in 2001, the hospital has increased utilization in our three year review period. Inpatient occupancy has increased, (even with the addition of 10 intensive care beds in 2003) and outpatient visits have increased by 16% since 2001. Expenses in this same period have increased by 35%, primarily due to increases in salaries and benefits, which have increased by 53%.

A proforma debt service coverage ratio of 3.03x indicates an ability to manage this debt.

In addition to a satisfactory proforma debt service coverage ratio of 3.03x (based on audited 2003 figures), unaudited 2004 results indicate strong growth in net income. Leverage will remain slight with a proforma debt to net assets of 0.54x. For 2004, the obligated group's unaudited statements likewise indicate positive operating income and satisfactory debt service coverage.

III. UTILIZATION STATISTICS:

	Fiscal Year Ended June 30			
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Acute beds:				
Licensed Beds	192	192	202	202
Occupancy %	57.2%	58.3%	58.4%	67.1%
Discharges	8,238	8,490	8,931	10,413
Patient Days	40,086	40,859	43,084	48,612
Total outpatient visits:	132,256	140,662	153,029	161,672

IV. ORGANIZATION:

Background: CHOC's hospital facility, comprising 360,000 square feet on a five-acre site in the city of Orange, is a regional tertiary referral center and is the largest single provider of pediatric hospital services in Orange County. CHOC provides medical/surgical, emergency, pharmacy, physical therapy, occupational therapy, rehabilitation, recreation therapy, psychology/psychiatry, blood donor and cord blood bank services. Additionally, CHOC provides critical care services through its Pediatric Intensive Care Unit, Neonatal Intensive Care Unit, Oncology Intensive Care Unit, and Transport Services.

CHOC was incorporated and began operating in 1964. CHOC's original 62-bed facility was located in a leased wing of St. Joseph Hospital of Orange, with which CHOC shared hospital services, such as surgery, laboratory, radiology, among others. With a growth in demand, in 1975 CHOC moved to a former skilled nursing facility renovated into an acute care pediatric hospital, including neonatal and pediatric intensive care units and increased licensed capacity to 190 beds. CHOCO Realty Corporation ("Realty"), which holds title to all of CHOC's land and buildings, purchased a two-story building adjacent to CHOC's acute care pediatric hospital and renovated the building to house ambulatory care services, including an outpatient clinic and outpatient pharmacy, psychology services, medical records, computer services, pediatric subspecialty medical offices and several administrative departments. In 1990, Realty constructed a six-story research building and an expanded clinic facility adjacent to CHOC's acute care pediatric hospital, and, in 1991, Realty constructed a 192 licensed bed replacement facility for all inpatient services ("CHOC North"). During the summer of 2002, because of increased demand, CHOC added 10 new intensive care beds. This brought the current Newborn Intensive Care unit bed complement to 42, and CHOC's total beds to 202.

CHOC and St. Joseph Hospital, which is located across the street from CHOC North, continue their shared services agreement, through which St. Joseph Hospital provides CHOC with, among others, emergency services, laboratory, radiology and surgery services.

Corporate Structure

In 1986, CHOC was reorganized, and Children's HealthCare of California ("CHC") was incorporated as the "parent" company and sole corporate member of each of CHOC and Realty as well as four other affiliates. CHOC and Realty will comprise the Obligated Group under the 2004 Master Indenture. CHC guarantees the payments required to be made by the Obligated Group with respect to the Bonds and has entered into similar guarantees with respect to all prior CHOC bond issues.

The Obligated Group will be subject to a number of financial and operational covenants set forth in the new Master Indenture. Those covenants include, among others, debt service coverage ratios, limitations on disposition of assets (including property and cash). CHC, as guarantor, is not subject to the Master Indenture covenants and is treated as outside of the Obligated Group for transfers of assets by CHOC and Realty.

Other Affiliates of CHC

CHOC Foundation for Children was formed in 1964 to help support clinical and non-clinical medical education, research and allied fields of pediatric care exclusively at CHOC and CHOC at Mission.

Children's Hospital of Orange County Thrift Stores, Inc. was formed in 1987 to support clinical and non-clinical medical education, research and allied fields of pediatrics at CHOC through the operation of six thrift stores.

Children's Hospital at Mission ("CHOC at Mission") was formed in 1991 and operates a 48-bed acute pediatric hospital located in Mission Viejo, California. CHOC at Mission is a "hospital within a hospital," located on the fifth floor of Mission Hospital ("MH"), which provides nursing services and purchases its ancillary services from MH through an operating agreement.

CRC Real Estate Corporation ("CRC") was formed in 1993 to acquire the 173,000 square foot commercial office building located across the street from CHOC, which currently houses certain hospital administrative functions as well as commercial tenants. In March 2004, CRC acquired a nearby 207,000 square foot office building which will be used to replace the building mentioned above, which is currently being offered for sale.

Facilities

CHOC's facilities are located on a five-acre site in the central part of the city of Orange at the junction of three primary cross-county freeways (Interstate 5, California Highway 57 and California Highway 22). The buildings on the campus collectively comprise approximately 360,000 square feet of space.

CHOC treats approximately 10,000 inpatients per year and sees in excess of 161,000 outpatients annually through its clinics and emergency services. CHOC's current bed complement is set forth below.

Hospital Beds

General Acute ⁽¹⁾	124
Intensive Care Newborn Nursery	42
Intensive Care	36
Total Beds	202

⁽¹⁾ Children 0-17 years of age

Service Area and Competition: There are eight stand-alone children’s hospitals in California. CHOC (and its affiliate, CHOC at Mission) are the only two children’s hospitals in Orange County, California. The eight stand-alone children’s hospitals listed below are ranked by the number of licensed beds:

California Stand Alone Children’s Hospitals	Beds	Miles from CHOC
Children’s Hospital of Los Angeles	286	35
Lucile S. Packard Children’s Hospital (Palo Alto)	248	389
Children’s Hospital of San Diego	247	86
Children’s Hospital of Central California (Madera)	243	273
<i>Children’s Hospital of Orange County</i>	202	—
CHOC at Mission	48	21
E&L Millers Children’s Hospital (Long Beach)	198	21
Children’s Hospital & Research Center of Oakland	169	403

The other integrated children’s hospitals in Southern California include UCLA Medical Center / Mattel Children’s Hospital, UC Irvine Medical Center / University Children’s Hospital and Loma Linda University Medical Center / Children’s Hospital.

Licenses and Contracts: CHOC is licensed as an acute care facility. CHOC maintains Medi-Cal managed care contracts which reimburse on a capitated basis and is also a Medi-Cal disproportionate share provider. CHOC also receives reimbursements on a fee for service basis under the California Children’s Services Program for children with severe medical conditions. Medicare, which provides very limited reimbursements to children’s hospitals, comprises less than 1% of total patient revenue.

V. SECTION 15438.5 OF THE ACT (Savings Pass Through):

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

CHOC has provided a description of its savings pass through in Attachment A.

VI. SECTION 15459.1 OF THE ACT (Community Service Requirement):

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) To advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, (b) To make available to the authority and to any interested person a list of physicians with staff privileges at the borrower's facility, and (c) To post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard "Certification and Agreement Regarding Community Service Obligation".

CHOC has executed this certificate included as Attachment B and submitted its current list of physicians, specialties, languages spoken, telephone numbers and whether Medi-Cal and Medicare patients are accepted.

VII. COMPLIANCE WITH SEISMIC REGULATIONS:

SB 1953 (Chapter 740, 1994) requires that all acute care hospitals in California meet specific seismic safety standards by 2008 and 2030.

CHOC has provided a description of its seismic requirements. See Attachment C.

VIII. OUTSTANDING DEBT: As of June 30, 2003, the outstanding debt issued through the Authority for CHOC and Realty was \$33,200,000. Following this proposed financing, CHOC and Realty will have outstanding approximately \$118,200,000 of Authority debt. The composition of CHOC and Realty's total long-term debt structure is as follows:

<u>Date Issued:</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/03</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<u>Existing Authority Debt:</u>			
Series 1991	\$25,000,000	\$23,800,000	\$23,800,000
Series 1994	\$9,900,000	\$9,400,000	\$9,400,000
<u>Proposed Authority Debt</u>			
2004 Series A, B & C			\$85,000,000
Total Debt		\$33,200,000	\$118,200,000

IX. LEGAL REVIEW: Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

X. STAFF RECOMMENDATION: Staff recommends the Authority approve a Resolution in an amount not to exceed \$85,000,000 for Children's Hospital of Orange County and CHOCO Realty Corporation subject to a bond rating of at least an "A" rating by a nationally recognized rating agency.

Children's Healthcare of California and Affiliates - Obligated Group
Statement of Operations (\$000's)
(Unrestricted)

	<u>For the year ended June 30,</u>			
	<u>2004</u> <u>(Unaudited)</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Unrestricted Revenue:				
Net patient service revenue	202,335	166,576	149,605	123,866
Premium revenue	34,670	26,996	21,024	21,864
Thrift store sales	-	-	-	-
Donated merchandise	-	-	-	-
Public support, contributions, and bequests	263	1,185	1,003	237
Other revenue	33,314	32,423	23,124	17,006
Net assets released from restrictions used for operations	3,076	2,951	3,369	2,403
Total revenues	<u>273,658</u>	<u>230,131</u>	<u>198,125</u>	<u>165,376</u>
Operating Expenses:				
Salaries and benefits	100,929	85,298	72,072	54,700
Purchased services	99,258	80,599	65,517	63,117
Supplies	25,465	21,688	22,447	15,010
Thrift store cost of goods sold	-	-	-	-
Provision for uncollectible accounts	15,270	16,253	13,897	11,452
Rent	3,204	2,689	2,286	821
Depreciation and amortization	8,701	7,624	6,014	6,024
Interest expense	383	478	654	1,289
Other	9,493	8,475	7,767	6,264
Total operating expenses	<u>262,703</u>	<u>223,104</u>	<u>190,654</u>	<u>158,677</u>
Income from operations	10,955	7,027	7,471	6,699
Gain on sale of property	936	91	-	-
Interest and other income	828	1,169	2,452	3,128
Revenues and gains in excess of revenues	<u>12,719</u>	<u>8,287</u>	<u>9,923</u>	<u>9,827</u>
Net assets released from restrictions used for capital equipment	908	1,619	71	1,015
Contributions from/(to) Children's Healthcare of California	(23,500)	5,800	-	-
Other changes in net assets	(8)	454	(150)	122
Increase in unrestricted net assets	(9,881)	16,160	9,844	10,964
Unrestricted net assets, beginning of year	<u>116,083</u>	<u>99,923</u>	<u>90,079</u>	<u>79,115</u>
Unrestricted net assets, end of year	<u>\$ 106,202</u>	<u>\$ 116,083</u>	<u>\$ 99,923</u>	<u>\$ 90,079</u>

Children's Healthcare of California and Affiliates - Obligated Group
Statement of Financial Position (\$000's)

	As of June 30.			
	2004	2003	2002	2001
<u>Assets</u>	(Unaudited)			
Current Assets:				
Cash	\$ 26,642	\$ 45,635	\$ 40,199	\$ 39,175
Short-term investments	4,412	4,091	4,017	173
Assets whose use is limited - current	667	600	600	-
Patients accounts receivable, less allowance	40,119	32,496	30,150	27,603
Inventory	1,718	1,539	997	985
Other receivables	13,251	10,802	5,015	3,494
Prepaid expenses and other current assets	3,275	4,217	3,830	4,172
Total Current Assets	90,084	99,380	84,808	75,602
Assets whose use is limited	594	660	490	350
Property and equipment, net	108,755	103,405	99,305	89,958
Other assets	5,587	6,167	3,812	8,201
Total Assets	\$ 205,020	\$ 209,612	\$ 188,415	\$ 174,111
<u>Liabilities & Net Assets</u>				
Current Liabilities:				
Current portion of long term debt	\$ 1,132	\$ 900	\$ 800	\$ 471
Accounts payable and accrued liabilities	21,356	23,219	24,614	18,207
Accrued compensation and related liabilities	16,585	13,319	10,462	7,175
Medical claims payable	5,334	4,833	1,962	2,871
Deferred income	5,700	2,155	2,154	2,449
Payable to third-party payors	-	-	-	-
Payable to related parties	165	43	-	3,590
Payable to contracting hospitals	1,951	2,088	1,027	3,028
Total current liabilities	52,223	46,557	41,019	37,791
Long-term debt	32,901	33,200	34,100	34,900
Postretirement benefit obligation	5,327	5,167	5,036	4,901
Total Liabilities	90,451	84,924	80,155	77,592
Unrestricted net assets	106,202	116,083	99,923	90,079
Temporarily restricted net assets	7,668	8,066	7,836	6,013
Permanently restricted net assets	699	539	501	427
Total Liabilities & Net Assets	\$ 205,020	\$ 209,612	\$ 188,415	\$ 174,111

Financial Ratios:

	Proforma ^(a)			
Debt Service Coverage (x)	(b) 4.10	14.37	14.66	7.63
Debt/Unrestricted Net Assets (x)	1.03	0.29	0.35	0.39
Margin (%)		6.8%	4.0%	6.5%
Current Ratio (x)		2.13	2.07	2.00

^(a) Recalculates June 2003 audited results to include the impact of this proposed financing. Based on unaudited 2004 results, proforma Debt to Unrestricted Net Assets is 1.12x and Debt Service Coverage is 4.62x.

^(b) Debt Service Coverage ratio computations exclude "Contributions from/(to) Children's Healthcare of California" Future contributions will be limited, per the terms of the 2004 Master Indenture.