

PATTON – FULLER COMMUNITY HOSPITAL

From: Zachary Hardie, CFO
To: Davis Geach, President/CEO
Fredric Adair, Chief Compliance Officer
Jess Ducat, Chief Operating Officer
Caterina Hossack, Chief Nursing Officer
Brent Houze, Chief Medical Officer
Nadene Saetteurn, Chief Human Resource Officer
Re: 2010 Operating Budget Assumptions

Based upon a review of the 2007, 2008 and 2009 Operating Budget variances, the long and short-term plans of the various hospital departments and an in-depth analysis of general economic conditions, we have arrived at the following assumptions that will be used in the preparation of the 2010 Operating Budget projections.

In general, we anticipate a 3% overall “deflation rate” for prices in 2009 – due to the weak economy – will continue into 2010.

Revenues

Net Patient Revenue	Patient revenue will continue to increase - but at a decreased rate (3%) - with little or no increase in patient volume, due to new managed care contracts.
Other Revenue	Other revenue is projected to increase by 15% based on Marketing's plan to increase donations by 15%.

Expenses

Salaries and benefits	Salaries will hold to a 1% overall increase in cost due to price "deflation" nation-wide, with no increase in labor hours (due to no increase in patient volume). This assumption could be affected by a board decision to either raise nursing wages by \$1 per hour or to increase the nursing hour ratio.
-----------------------	--

Supplies	Supplies cost will decrease 3% due to the price deflation and our current over-stock purchased last year.
Physician and Professional Fees	Contracts for fees have a built-in 3% increase.
Utilities	Utilities cost will increase 5% due to the rising cost of oil partially offset by the efficiency of the hospital's new heating and cooling systems.
Other	No net change in the cost or volume of these items.
Depreciation & Amortization ("non-cash" expenses)	Some high-cost equipment (air conditioning, telephone system, all patient beds and headwalls) were replaced in 2009, and "depreciation" rose sharply. Depreciation will remain at this level in 2010 so no projected increase.
Interest	The repayment plan for any monies borrowed in 2009 will come due in 2010, with a sharp increase (30%) in interest cost.
Provision for Doubtful Accounts	The renegotiation of Managed Care plans has delayed collection and made collections less certain. We will assume a 10% increase in doubtful accounts.

Operating Income

Non-operating Income (Loss)	We do not expect to have any non-operating income or loss.
Investment Income (Loss)	The Market is down, expected to hold steady, so a "zero" return is expected, with neither losses nor gains.

We believe that the hospital will continue its dramatic "turnaround", taking advantage of the stagnation in patient volume, price "deflation", the efficiency of new equipment and the improved arrangements with the managed care companies

If you have any further thoughts or comments regarding these assumptions, please communicate them to me no later than Friday.

37