



PALOMAR
POMERADO
HEALTH

**BOARD OF DIRECTORS
AGENDA PACKET**

August 14, 2006

*The mission of Palomar Pomerado Health
is to heal, comfort and promote health
in the communities we serve.*

A California Health Care District (Public Entity)

PALOMAR POMERADO HEALTH BOARD OF DIRECTORS

Marcelo R. Rivera, MD, Chairman
Nancy L. Bassett, RN, MBA, Vice Chairman
Linda C. Greer, RN, Secretary
T. E. Kleiter, Treasurer
Bruce G. Krider, MA
Alan W. Larson, MD
Gary L. Powers
Michael H. Covert, President and CEO

*Regular meetings of the Board of Directors are usually held on the second Monday
of each month at 6:30 p.m., unless indicated otherwise
For an agenda, locations or further information
call (858) 675-5106, or visit our website at www.pph.org*

MISSION STATEMENT

*The Mission of Palomar Pomerado Health is to:
Heal, Comfort, Promote Health in the Communities we Serve*

VISION STATEMENT

*Palomar Pomerado Health will be the health system of choice for patients, physicians and employees,
recognized nationally for the highest quality of clinical care and access to comprehensive services*

CORE VALUES

Integrity

To be honest and ethical in all we do, regardless of consequences

Innovation and Creativity

To courageously seek and accept new challenges, take risks, and envision new and endless possibilities

Teamwork

To work together toward a common goal, while valuing our difference

Excellence

To continuously strive to meet the highest standards and to surpass all customer expectations

Compassion

*To treat our patients and their families with dignity, respect and empathy at all times and
to be considerate and respectful to colleagues*

Stewardship

To inspire commitment, accountability and a sense of common ownership by all individuals

Affiliated Entities

Escondido Surgery Center * Palomar Medical Center * Palomar Medical Auxiliary & Gift Shop * Palomar Continuing Care Center *
Palomar Pomerado Health Foundation * Palomar Pomerado Home Care * Pomerado Hospital * Pomerado Hospital Auxiliary & Gift Shop *
San Marcos Ambulatory Care Center * Ramona Radiology Center * VRC Gateway & Parkway Radiology Center * Villa Pomerado
• Palomar Pomerado Health Concern* Palomar Pomerado Health Source* Palomar Pomerado North County Health Development, Inc.*
• North San Diego County Health Facilities Financing Authority*

**PALOMAR POMERADO HEALTH
BOARD OF DIRECTORS
REGULAR MEETING AGENDA**

Monday, August 14, 2006

Commences 6:30 p.m.

**Palomar Medical Center
Graybill Auditorium
555 E. Valley Parkway
Escondido, California**

Commences at 6:30 p.m. Palomar Medical Center, Graybill Auditorium

	<u>Time</u>	<u>Page</u>
I. CALL TO ORDER		
II. OPENING CEREMONY	5 min	
A. Pledge of Allegiance		
B. Recitation – Chaplain Bill Hard		
C. Mission & Vision – Board Member		
<i>“The mission of Palomar Pomerado Health is to heal, comfort and promote health in the communities we serve.”</i>		
 <i>“The vision of PPH is to be the health system of choice for patients, physicians and employees, recognized nationally for the highest quality of clinical care and access to comprehensive services.”</i>		
III. PUBLIC COMMENTS	5	
<i>(5 mins allowed per speaker with cumulative total of 15 min per group – for further details & policy see Request for Public Comment notices available in meeting room).</i>		
IV. * MINUTES	3	1-13
Regular Board Meeting – July 17, 2006		
Special Board Budget Workshop – June 5, 2006		
V. * APPROVAL OF AGENDA to accept the Consent Items as listed	5	14-28
A. Consolidated Financial Statements		
B. Revolving Fund Transfers/Disbursements – June, 2006		
1. Accounts Payable Invoices	\$23,483,666.00	
2. Net Payroll	<u>12,176,456.00</u>	
Total	<u>\$35,660,122.00</u>	
C. Ratification of Paid Bills		
D. June 2006 & Fiscal YTD 2006 Financial Report		
E. Clarifying Language in the Management Services Agreement between Palomar Pomerado Health and the Palomar Pomerado Health Foundation		
<i>“In observance of the ADA (Americans with Disabilities Act), please notify us at 858-675-5106, 48 hours prior to the meeting so that we may provide reasonable accommodations”</i>		

*Asterisks indicate anticipated action;
Action is not limited to those designated items.*

VI. PRESENTATIONS -

- A. Community Outreach – Tina Pope, Director Community Relations
 - Faith & Health Partnership Program – Kay Stuckhardt , Coordinator 10

- B. COPE Health Solutions – Marcos Martinez, Associate Manager;
 Kitty Pokawatana, V.P., Finance & Administration;
 Allen Miller, CEO
 - Red Shirt, Clinical Care Extender and Volunteer Medical Interpreting
 “Divisions of the Growing Our Own Medical Employees Development
 (GO-MED) Program” 15

VII. REPORTS

- A. Medical Staffs 15
 - * 1. Palomar Medical Center – *Robert D. Trifunovic, M.D.* 29-37
 - a. Credentialing/Reappointments
 - b. Additional Credentialing Reappointment 38
 - Patrick O’Meara, M.D.

 - * 2. Escondido Surgery Center – *Marvin W. Levenson, M.D.* 39
 - a. Credentialing/Reappointments

 - * 3. Pomerado Hospital – *Paul E. Tornambe, M.D.* 40
 - a. Credentialing/Reappointments

- B. Administrative
 - 1. President of Palomar Pomerado Health Foundation – *Al Stehly*
 - a. Update on PPHF Activities 5 *Verbal Report*

 - 2. Chairman of the Board – *Marcelo R. Rivera, M.D.* 10 41-42 *Verbal Report*
 - a. **Resolution No. 08.14.06 (01) – 23**
 Amending Established Dates of Regular Board Meetings for
 Calendar Year 2006 (potential change of November 13 meeting)

 - 3. President and CEO – *Michael H. Covert* 10 *Verbal Report*
 - a. Introduction of Ms Kwaja Floyd, 2006-07 Administrative Fellow

VIII. INFORMATION ITEMS (Discussion by exception only) 43-65

- A. Year in Review Human Resources
- B. Severance Procedure Human Resources

*Asterisks indicate anticipated action;
 Action is not limited to those designated items.*

- | | |
|--|-----------------|
| C. Campus Non-Smoking Policy | Human Resources |
| D. COPE/Clinical Care Extender Program | Human Resources |
| E. Quarterly Internal Audit Report | Internal Audit |
| F. Bank and Investment Account Named Signatory Changes | Finance |
| G. Status Report on the 2006 Revenue Bond Issuance | Finance |

IX. COMMITTEE REPORTS – *for Finance Committee see also under Consent Items*

- A. **Human Resources** – *Pension Sub-Committee Director Nancy Bassett, RN, MBA, Chair H.R.*
- * 1. **Approval:** Amendment No. 1 to the Palomar Pomerado Health Money Purchase Pension Plan (Amended and Restated as of July 1, 2005) 5 66-69
- B. **Finance** – *Director T. E. Kleiter, Chair* 10
- * 1. **Resolution No. 08.14.06 (02) – 24** Establishing Appropriations Limit of the District for Fiscal Year July 1, 2006-June 30, 2007 Pursuant to Article XIII(B) of the California Constitution 70-74
 - * 2. **Resolution No. 08.14.06 (03) – 25** Authorizing Individuals and Enabling Resolutions for Morgan Stanley Investment Accounts 75-79
 - *3. **Resolution No. 08.14.06 (04) – 26** Adopting General Obligation Bonds – Tax Levy by the Board of Supervisors of the County of San Diego for Fiscal Year 2006-2007 80-85
 - *4. **Approval:** Lease Agreement between Palomar Pomerado Health and The Trustees of the California State University including MOU (Exhibit A) Concerning Use of Palomar Pomerado Health Premises 86-133

X. BOARD MEMBER COMMENTS/AGENDA ITEMS FOR NEXT MONTH

XI. FINAL ADJOURNMENT

*Asterisks indicate anticipated action;
Action is not limited to those designated items.*

Palomar Pomerado Health
BOARD OF DIRECTORS
REGULAR BOARD MEETING
 Pomerado Hospital, Meeting Room E, Poway
 Monday, July 17, 2006

AGENDA ITEM	DISCUSSION	CONCLUSIONS/ACTION	FOLLOW-UP/RESPONSIBLE PARTY
CALL TO ORDER	6:30 pm Quorum comprised Directors Bassett, Greer, Krider, Larson, Powers and Rivera. Regrets from Director Kleiter.		
OPENING CEREMONY	The Pledge of Allegiance was recited in unison, followed by an inspirational reading by Chaplain Walden. <i>(attached)</i> .		
MISSION AND VISION STATEMENTS	The PPH mission and vision statements were read by Director Larson, as follows: <i>The mission of Palomar Pomerado Health is to heal, comfort and promote health in the communities we serve.</i> <i>The vision of PPH is to be the health system of choice for patients, physicians and employees, recognized nationally for the highest quality of clinical care and access to comprehensive services.</i>		
NOTICE OF MEETING	Notice of Meeting was mailed consistent with legal requirements		
PUBLIC COMMENTS	None		
APPROVAL OF MINUTES	<ul style="list-style-type: none"> • Special Board Meeting May 30, 2006 	<p>MOTION: by Bassett, 2nd by Greer and carried to approve the May 30, 2006 Special Board Meeting minutes as submitted. All in favor. None opposed.</p>	
<ul style="list-style-type: none"> • Regular Board Meeting June 12, 2006 		<p>MOTION: by Larson, 2nd by Bassett and carried to approve the June 12, 2006 Regular Board Meeting minutes as submitted. All in favor. None opposed.</p>	

AGENDA ITEM	DISCUSSION	CONCLUSIONS/ACTION	FOLLOW-UP/RESPONSIBLE PARTY
<ul style="list-style-type: none"> Joint Board/Strategic Planning Meeting June 20, 2006 		<p>MOTION: by Kridet, 2nd by Bassett and carried to approve the June 20, 2006 Joint Board/Strategic Planning Meeting minutes as submitted. All in favor. None opposed.</p>	
<ul style="list-style-type: none"> Special Board Meeting (adjourning to Closed Session) 6 pm July 17, 2006 	<p>Chairman Rivera reported that as a result of executive session held during the Special Board Meeting at 6 p.m. no action was taken.</p>		
<p>APPROVAL OF AGENDA to accept the Consent Items as listed A-F including: E. Lease of Office Space in Pomerado Outpatient Services Pavilion; F. Review of Board Policies GOV-06; GOV-08; GOV-09; GOV-12; GOV-15; HR-01; QLT-23; QLT-27; QLT-32; FIN-03</p>		<p>MOTION: by Rivera, 2nd and carried to approve the Consent Items listed A-F as submitted. All in favor. None opposed.</p>	
<p>PRESENTATION</p> <ul style="list-style-type: none"> Community Outreach – Healthcare Community Advisory Councils 	<p>Jane Radatz, Chair of Poway, Rancho Bernardo and Rancho Penasquitos Council, presented via powerpoint a report compiled with the help of Janet Bath. It was noted that HCACs collaborate on health issues, share information and provide input to PPH from the communities. Priority areas are obesity – particularly linked to children, and access to health care. Running Clubs at elementary schools during recess have been started with HCAC with the goal of spreading this concept to additional schools. Also, Pomerado Hospital is pursuing Baby Friendly status. Other issues are Access to Healthcare; Senior Transportation; Local Medical Services; and to have Every Child Insured via free and low-cost health insurance programs. A Health Resource Directory is delivered to many within the communities and accessible on-line.</p>	<p>Vice Chair Nancy Bassett, on behalf of the Board, thanked Ms Radatz for her hard voluntary work which was deeply appreciated.</p> <p>Chairman Rivera also thanked Ms Radatz as a local person within the community who makes it easy for us to talk to elected officials. He noted that the community scorecard reports are important for our legislators.</p>	

AGENDA ITEM	DISCUSSION	CONCLUSIONS/ACTION	FOLLOW-UP/RESPONSIBLE PARTY
<ul style="list-style-type: none"> Westview High School Student Presentation of Donation to Pomerado Hospital 	<p>This presentation was deferred until the delayed arrival of the presenters. Following the arrival of Arianna Afsar and Shireen Ashtar, both students of Westview High School were, together with their mother, introduced by Gustavo Friederichsen. Both students reported their organizing and directing a talent school at the Poway Community Center to raise money for Pomerado Hospital. The event, "Stars of the Future" resulted in a \$1,000.00 check presented to Pomerado.</p>	<p>Following photographs of the presentation, Chairman Rivera, on behalf of the Board and PPH, sincerely thanked Arianna Afsar and Shireen Ashtar, noting the importance of young people giving thought to such voluntary fund-raising activity and commended the students involved, as well as the schools and particularly the parents, who had rewarded the community in this way.</p> <p>Director Powers also congratulated Arianna Afsar, noting that he had been aware of Arianna for several years in the community and that she was also Miss California Team. She was truly an example of what we believe. He extended sincere thanks to her mother who had given her time and had taken her to the various community events, commending Arianna to keep up the good work.</p>	
REPORTS			
Medical Staff			
Palomar Medical Center			
<ul style="list-style-type: none"> Medical Staff Bylaws, Rules and Regulations Revisions 	<p>John J. Lilley, on behalf of Robert D. Trifunovic, MD., Chief of PMC Medical Staff, presented PMC's request for approval of Medical Staff Bylaws, Rules and Regulations Revisions.</p>	<p>MOTION: by Bassett, 2nd by Greer and carried to approve the Medical Staff Bylaws, Rules and Regulations Revisions as submitted. All in favor. None opposed.</p>	
<ul style="list-style-type: none"> Credentialing 	<p>John J. Lilley, on behalf of Robert D. Trifunovic, MD., Chief of PMC Medical Staff, presented PMC's requests for approval of Credentialing Recommendations.</p>	<p>MOTION: by Bassett, 2nd and carried to approve the Medical Staff Executive Committee credentialing recommendations for the PMC Medical Staff, as presented. All in favor. None opposed.</p> <p>Directors Greer and Larson abstained to avoid potential conflict of interest.</p> <p>MOTION: by Krider, 2nd by Greer</p>	
<ul style="list-style-type: none"> Additional Credentialing 	<p>John J. Lilley, on behalf of Robert D.</p>		

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AGENDA ITEM	DISCUSSION	CONCLUSIONS/ACTION	FOLLOW-UP/RESPONSIBLE PARTY
	<p>Trifunovic, MD., Chief of PMC Medical Staff, presented PMC's additional request for approval of Credentialing Recommendation for Patrick O'Meara, M.D.</p>	<p>and carried to approve Medical Staff credentialing for Patrick O'Meara, M.D. until the end of August, 2006 only, and not per the Executive Committee's recommendation for reappointment of Dr. O'Meara through 04/30/2007.</p> <p>All in favor. None opposed.</p> <p>Chairman Rivera noted that the Medical Executive Committee had made some recommendations and we had been very pleased with the positive progress.</p>	
<p>Escondido Surgery Center</p> <ul style="list-style-type: none"> ▪ Credentialing 	<p>John J. Lilley, M.D., for Marvin W. Levenson, MD, Administrator/Medical Director of the Escondido Surgery Center, presented requests for approval of Credentialing Recommendations.</p>	<p>MOTION: by Bassett, 2nd by Krider and carried to approve the PMC Medical Staff Executive Committee credentialing recommendations for the Escondido Surgery Center, as presented.</p> <p>None opposed.</p> <p>Directors Larson and Greer abstained to avoid potential conflict of interest.</p>	
<p>Pomerado Hospital</p> <ul style="list-style-type: none"> ▪ Credentialing 	<p>Paul E. Tornambe, MD., Chief of Pomerado Medical Staff, presented Pomerado Hospital's requests for approval of Credentialing Recommendations.</p>	<p>MOTION: by Bassett, 2nd by Powers and carried to approve the Pomerado Hospital Medical Staff Executive Committee credentialing recommendations for the Pomerado Medical Staff, as presented.</p> <p>None opposed.</p> <p>Directors Larson and Greer abstained to avoid potential conflict of interest.</p>	
<p>Administrative Chairperson - Palomar Pomerado Health Foundation</p>	<p>Mr. Al Stehly</p>		

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AGENDA ITEM	DISCUSSION	CONCLUSIONS/ACTION	FOLLOW-UP/RESPONSIBLE PARTY
	<p>Mr. Stehly provided a verbal monthly update to the Board on various PPH Foundation activities, noting that the Foundation was looking forward to the arrival of Mr. Dana Dawson as Chief Executive Officer of the Foundation. It was anticipated that a meeting be held sometime in the Fall between the Foundation and PPH to evaluate the MSA.</p> <p>The Foundation website in conjunction with the District's website was expected to launch during the first part of August.</p> <p>Mr. Stehly also referred to a Foundation Board tour of the proposed new facility for August 24.</p> <p>Marcelo R. Rivera, MD</p>	<p>Chairman Rivera thanked Mr. Stehly for his report.</p>	
<p>Chairman of the Board - Palomar Pomerado Health</p> <ul style="list-style-type: none"> Resolution No. 07.17.06 (01) – 20 Consolidation of November 7, 2006 Election 		<p>MOTION: by Bassett, 2nd by Greer and carried to adopt Resolution No. 07.17.06 (01) – 20 Requesting the Board of Supervisors to conduct the election of Palomar Pomerado Health on Tuesday, November 7, 2006, and to consolidate that election with the statement general election to be held on the same day.</p>	
<ul style="list-style-type: none"> Resolution No. 07.17.06 (02) – 21 Amending Established Date of Regular Board Meeting WITHDRAWN 	<p>Chairman Rivera stated that he would be away October 9 and, if possible, wished to move the Regular Board Meeting to October 16. He then inquired of Bob Hemker if that would present a problem, to which Mr. Hemker responded that he felt it would be such due to certain meetings that needed to be held prior to submission to the October 9 Board Meeting date.</p>	<p>MOTION: Following brief discussion, and noting that Director Bassett, Vice Chairperson, agreed to kindly chair the October 9 Regular Board Meeting in Chairman Rivera's absence, the Chairman withdrew the proposed Resolution No. 07.17.06 (02) – 21, leaving the Regular Board Meeting as originally scheduled for October 9, 2006.</p> <p>All in favor. None opposed.</p>	
<ul style="list-style-type: none"> November 13, 2006 Regular Board Meeting 	<p>Director Larson requested that a Resolution be submitted to the August 14 Regular Board Meeting for consideration of a change of date of the November 13 meeting to November 20, due to his absence November 13.</p> <p>Michael H. Covert</p>		<p>Board Assistant to include on August Board Agenda.</p>
<p>President and CEO</p>			

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AGENDA ITEM	DISCUSSION	CONCLUSIONS/ACTION	FOLLOW-UP/RESPONSIBLE PARTY
<ul style="list-style-type: none"> Community Benefit Reporting 	<p>Mr. Covert relayed information concerning community benefit reporting software for financial statements and sought consensus for him to sign such request, noting that it would behoove us to take the initiative of having such tabulated information and that all of the hospitals within VHA do this. The CEO requested a sense of direction from the Board on the matter.</p>	<p>Consensus of the Board concurred with the CEO that PPH support the benefit reporting programming sponsored by VHA and CHA.</p> <p>Chairman Larson commented that he was very pleased with this form of reporting.</p>	
<ul style="list-style-type: none"> Trauma Program Designation 	<p>Mr. Covert read out a letter received from Mr. Frank Mitchell that provided PPH with its ongoing Trauma Program Re-Certification following a recent trauma review. The CEO congratulated Peggy Sale who had gathered together all the necessary physicians and documentation for the inspection, and that as a result, we have once again been re-certified as a Level II Trauma Program in San Diego County. Congratulations were extended to all involved.</p>		
<ul style="list-style-type: none"> Joint Design Review Committee with City of Escondido 	<p>The CEO reported to the Board that in reviewing our plans on a regular basis, he will ask Mike Shanahan to join him in this process with the City of Escondido.</p>		
<ul style="list-style-type: none"> Approval of Union Contracts – CNA and CHE 	<p>Agreement had been reached on new Union Contracts and Michael Covert congratulated the Unions and District teams involved and is in line with our budget. We had been able to balance a lot of disparate issues and he was appreciative of the hard work by the Union representatives and District representatives of dealing with the myriad of issues.</p> <p>Board approval was sought for these Contracts.</p>	<p>MOTION: by Bassett, noting that she was honored to make this motion, 2nd by Larson and carried that the Collective Bargaining Agreement between PPH and CNA be approved.</p> <p>All in favor. None opposed.</p> <p>Director Larson inquired about HealthNet, to which Mr. George responded that there is flexibility.</p> <p>MOTION: by Bassett, 2nd by Larson and carried that the Collective Bargaining Agreement between PPH and CHE be approved.</p>	
<ul style="list-style-type: none"> Resolution No. 07.17.06 (03) – 22 Purchase 	<p>Mr. Covert submitted this Resolution for Board adoption.</p>	<p>All in favor. None opposed.</p> <p>MOTION: by Bassett, 2nd by Krider and carried to adopt Resolution No.</p>	

AGENDA ITEM	DISCUSSION	CONCLUSIONS/ACTION	FOLLOW-UP/RESPONSIBLE PARTY
<p>Agreement for 2.57 acres off Main Street, Ramona</p>	<p>Chairman Rivera commented upon the Union contracts and the positive manner in which negotiations were conducted on both sides and offered special thanks to Director Nancy Bassett, the Human Resources Committee and all Staff involved, with particular thanks to Wallie George and Brenda Turner.</p> <p>He also referred to the purchase agreement of land in Ramona noting that we serve 800 square miles and that the District keeps its' commitment to the people in the back country, so the promises of Proposition BB at each stage are being met in a successful way. Chairman Rivera also thanked Marcia Jackson and Bob Hemker for negotiating a tough agreement.</p>	<p>07.17.06 (03) – 22 for approval of Purchase Agreement for 2.57 acres located off Main Street in Ramona, also known as the Auerbach Property.</p> <p>All in favor. None opposed.</p>	
<ul style="list-style-type: none"> Chairman Rivera - comments 	<p><i>Discussion by exception only</i></p>		
<p>INFORMATION ITEMS</p>			
<ul style="list-style-type: none"> Human Resources 			
<ul style="list-style-type: none"> Strategic Planning 			
<ul style="list-style-type: none"> Finance 			
<ul style="list-style-type: none"> Facilities and Grounds 			
<p>COMMITTEE REPORTS</p>			
<p>Finance</p> <ul style="list-style-type: none"> Professional Svcs & Med Director Agreement Pediatric Care Unit, PMC between PPH & Children's Specialists of San Diego, Inc. 	<p>On behalf of Director Kleiter, Mr. Covert requested approval.</p>	<p>MOTION: by Krider, 2nd by Rivera and carried that the Professional Services and Medical Director Agreement Pediatric Care Unit, PMC between PPH and Children's Specialists of San Diego, Inc. as presented, be approved.</p> <p>All in favor. None opposed.</p>	
<p>Strategic Planning</p> <ul style="list-style-type: none"> FY '07 Initiatives and Targets 	<p>Director Larson presented the Fiscal Year 2007 Initiatives and Targets for Board approval.</p>	<p>MOTION: by Larson, 2nd by Bassett and carried that the Fiscal Year 2007 Initiatives and Targets as presented, be approved.</p>	

AGENDA ITEM	DISCUSSION	CONCLUSIONS/ACTION	FOLLOW-UP/RESPONSIBLE PARTY
<p>BOARD MEMBER COMMENTS/AGENDA ITEMS FOR NEXT MONTH</p>	<p>Director Greer offered her comments, congratulating Arianna Afsar and Shireen Ashtari for their tremendous fund-raising efforts for Pomerado Hospital and the way in which they presented to the Board.</p> <p>Director Bassett commented upon the AHA and Health Forum Leadership Summit 2006 she had recently attended in San Francisco. As a follow-up she would like to hear Opal's presentation and noted that Gerald Bracht was also present. Speakers were very good including Jim Collins and the Moderator. James Conway (co-author on Patient Safety) and a representative from People Link were excellent, noting that People Link interview thirty candidates for one open position.</p> <p>Director Larson also offered sincere congratulations to the two students who had presented a check to Pomerado Hospital this evening. He also added positive comments on the manner in which Wallie George and Michael Covert had reached an outstanding agreement with the Unions.</p> <p>Director Kridler agreed with previous comments, with special thanks to the two students for their presentation and thoughtfulness, and to Jane Radatz for her presentation and the time and effort she devotes to PPH and the community.</p> <p>Director Powers added his remarks regarding positive Union negotiations and also thanked Jane Radatz for her untiring efforts in the community. Director Powers also referred to Juanita Hayes in conjunction with the Escondido Power Plant/SDG&E to which Chairman Rivera positively responded.</p>	<p>All in favor. None opposed.</p>	<p>Opal Reinbold's presentation for future.</p>

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AGENDA ITEM	DISCUSSION	CONCLUSIONS/ACTION	FOLLOW-UP/RESPONSIBLE PARTY
ADJOURNMENT	7:30 p.m.		
SIGNATURES	<ul style="list-style-type: none"> <li data-bbox="267 735 349 945">▪ Board Secretary <u>Linda C. Greer, R.N.</u> <li data-bbox="267 945 349 1885">▪ Board Assistant <u>Christine D. Meaney</u> 		

BOARD OF DIRECTORS
SPECIAL BOARD BUDGET WORKSHOP)
 Palomar Medical Center, 555 East Valley Parkway, Escondido, CA
 Graybill Auditorium
 Monday, June 5, 2006, Meeting Minutes

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
NOTICE OF MEETING	The notice of meeting was posted on June 1, 2006, which is consistent with legal requirements.		
MEETING CALLED TO ORDER	6:30 p.m. by Chairman Marcelo Rivera		
ESTABLISHMENT OF QUORUM	By roll call. Present: Directors Nancy Bassett, R.N., Linda Greer, R.N., Ted Kleiter, Bruce Krider, Alan Larson, M.D., Gary Powers, and Marcelo Rivera, M.D.		
PUBLIC COMMENTS	There were no public comments.		
INFORMATION ITEM(S)	<ul style="list-style-type: none"> • Bob Hemker introduced Tim Nguyen, the new Corporate Controller. The Finance Division will be undergoing a restructuring under his direction that will include a new Director of Finance, Genevieve Nelwan, who will officially take that position later this month, having occupied it as Interim Director for several months. • Mr. Hemker announced Diane Hansen, Director of Financial Planning, would be leaving at the end of the month, moving to Indiana with her husband, who had been transferred. He stated that Mrs. Hansen had proven herself to earn her position and voiced his regret at losing her. Mrs. Hansen told the Board that it had been a fantastic experience to work with the terrific PPH team and thanked them for the experience. The Board thanked Mrs. Hansen for her excellent service to the District and wished her well in future endeavors. • There is a second Special Board meeting on the calendar for Wednesday, June 14, 2006, should the FY2007 Capital and Operating Budgets not be approved this evening. 		
FISCAL YEAR 2007 OPERATING BUDGET & CAPITAL BUDGET	<p>Chairman Rivera welcomed everyone, encouraged questions, and then turned the meeting over to Bob Hemker.</p> <p>Mr. Hemker stated that tonight's meeting had been noticed properly to allow the Board to take action on the FY 2007 Operating and Capital Budgets if they so chose. He indicated that he would be delving into detail only as requested. Utilizing the presentation included in the attached materials, Mr. Hemker presented the draft FY 2007 Capital and Operating Budgets:</p> <ul style="list-style-type: none"> • The Master Facility Plan and Plan of Finance were key drivers in the budgeting process: <ul style="list-style-type: none"> o To determine the financial performance necessary to support the required revenue bonds o Determine from a top level perspective, the net income required; budget was then built from the bottom up o Strategic focus on volumes, based on anticipated volume changes (pages 3 & 4) o Revenue strategies – rate increases, managed care partnerships 	<p>MOTION: By Director Larson, seconded by Director Kleiter and carried to approve the FY2007 Operating Budget as presented.</p> <p>MOTION: By Director Kleiter, seconded by Director Larson and carried to approve the FY2007 Capital Budget as presented.</p> <p>MOTION: By Director Krider, seconded by Director Kleiter and carried to approve the Charge Rate increase of 8% for FY2007.</p>	<p>The process of capital equipment disposal is to be reviewed.</p> <p>Assistant Tanya Howell was asked to distribute the financial information cards for the previous fiscal year in the very near future.</p>

- o Labor expenses – tied to labor standards based on units of service (UOS) for all departments; key strategy was to absorb volume increases, where possible, in to existing standards
- o Supply expenses – tied back to UOS; key strategy was new technology and pharmaceutical management
- o PPH strategic initiatives were tied to required resource allocation and assessment of potential ROI.
- Financial Class distribution remains stable; in addition, service lines have remained steady. Both held steady on a trending basis for the budget. (page 5)
 - o Self-Pay – Those who pay their own bills, without insurance
 - We exhaust all other avenues for patients who present as Self-Pay (i.e., eligibility for other insurance, MediCal, charity, etc.)
 - o Managed Care – Non-risk HMO/PPO
 - o Managed Care Cap – Capitated HMO/PPO (Cap = PPH is an at-risk partner in the capitation process)
- Proposed Charge rate increase (page 6)
 - o 8% Chargemaster increase
 - Consistent with the marketplace
 - Applied to both I/P and O/P services; marginally beneficial to net revenue depending upon financial class
- o At Risk Capitation
 - Contracts based on calendar year with four groups for Pacificare Commercial and Secured Horizons
 - Contracts for CY 2007 are under consideration and negotiation
- o Bad Debt/Uncompensated Care is targeted to be 4.8% for FY2007
- Key Inflationary Assumptions/Considerations (page 7)
 - o Conversion to VHA is still underway
 - o Specialties and technologies cause the most exposure in supplies & pharmaceuticals
 - o Appropriateness of the 2% increase in supplies, primarily for commodity goods, was discussed, with the key being to stay on task in order to keep to the budget; technology items (supplies & drugs) were evaluated and included in the budget on a judgment basis
- Good balance in terms of the labor plan (page 8)
 - o Blended to take into account the entire workforce – union/non-union
 - o Marketplace driven – base wage rates & comprehensive benefit package
 - o Changes in volume & FTEs were true incremental changes based upon nurse staff ratio requirements and ability to absorb volume increases in non-ratio departments
- Salaries & wages (page 9)
 - o Registry expense is budgeted at a lower total of \$7.9 million compared to FY06 – the result of a focused recruitment and retention strategy
 - o 11% overall dollar increase for the labor budget due to volume and reinvestment in the employees

- o Labor needs to be managed on a real-time basis and productivity monitoring will be adhered to.
- Supplies (page 10)
 - o Total increase of \$3 million – a change of about 5%
 - Supplies are currently reviewed on a monthly cycle, but a more frequent review (i.e., as POs are generated) will be utilized for high cost items
- Professional Fees (page 11)
 - o Physician fees related to Trauma and ED on-call coverage represent the single largest increase –new multi-year contract is competitive and provides for financial and coverage certainty
 - o Consulting fees are primarily attributable to Information Systems strategies
 - o Legal fees reflect a decrease year in year; addition of an in-house counsel strategy is included in the Salary and Wages budget
- Purchased Services (page 12)
 - o Key expense is for Information Systems - annual licensure fees
 - o Linen reduction strategy related to rejected (torn/damaged) linen is expected to provide significant savings
- Other Direct Expenses (page 13)
 - o Natural gas fluctuation is controlled through spot market purchases; other utilities reflect market based increases
 - o Professional liability insurance is on a claims basis
 - Recent switch to "claims mode" – initial year lags in activity until claims catch up – on way back up out of trough
 - o Outside training is zero-based for the year with base allocations to departments and administratively allocated pools by facility.
 - o Marketing comprises a significant portion of the Other Direct Expense budget
- Depreciation Expense (page 14)
 - o Depreciation expense increase results from re-infusion/reinvestment in assets the past few years
 - o \$5.5 million of the capital budget will be held in reserve for the Master Facility Plan. Thus, FY07 acquisitions and depreciation expense will be offset accordingly
- Strategic Initiatives (page 15)
 - o Gateway/Parkway's outpatient imaging centers are being strategically evaluated. They have been budgeted as bottom line neutral in the FY07 budget compared in significant FY06 losses.
 - o New vendor for the Bio-Med contract will result in the ability to do a capital asset life expectancy assessment and tracking. The new contract results in a significant operational savings from the previous contract.
- Operating Budget Recap (pages 16, 17 & 17A)
 - o Net margin percentage (net margin = bottom bottom line) is back in line with FY05 results
 - o The net income of \$22.6 million is consistent with safety net performance in the Plan of Finance.

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
	<ul style="list-style-type: none"> • Capital Budget (pages 18 & 19) - targeted at \$14.5 million, including a \$5.5 million reserve <ul style="list-style-type: none"> o 5 categories: Clinical Equipment; Non-Clinical Equipment; Facilities Renovation; Information Technology; Strategic Programs o Expenditure Requests Over \$100 thousand <ul style="list-style-type: none"> ■ Have been identified and reserved on a preliminary basis ■ Will be revalidated by business plan and economic analysis prior to expenditure ■ \$7 million of the budgeted \$9 million are for line item requests over \$100 thousand o Expenditure Requests Under \$100 thousand <ul style="list-style-type: none"> ■ Placed in "to be allocated" status ■ EMT reviews on a monthly basis for allocation based on priority needs o Capital requests were from front-line users (pages 20 & 21) <p>Members of the Board and staff commented on the number of hours devoted to the creation of the budgets and their confidence in the discipline involved in the budgeting process, which had been intelligently and thoroughly explained this evening.</p> <p>Management was instructed to maintain quality, with fiscal disciplines that will keep us focused on the bottom line, concentrating on revenue generating programs and strict adherence to expense management.</p>		
ADJOURNMENT	<p>As both the Capital and Operating Budgets for FY2007 were approved at this meeting, there will not be a Special Board Meeting on Wednesday, June 14, 2006.</p> <p>There being no further business, the meeting was adjourned at 8:30 p.m.</p>		
SIGNATURES:			
• BOARD CHAIR	<p>_____</p> <p>Marcelo Rivera, M.D.</p>		
• BOARD SECRETARY	<p>_____</p> <p>Linda Greer, R.N.</p>		

**PALOMAR POMERADO HEALTH
CONSOLIDATED DISBURSEMENTS
FOR THE MONTH OF
JUNE, 2006**

06/01/06	TO	06/30/06	ACCOUNTS PAYABLE INVOICES	\$23,483,666.00
06/02/06	TO	06/30/06	NET PAYROLL	<u>\$12,176,456.00</u>
				\$35,660,122.00

I hereby state that this is an accurate and total listing of all accounts payable, patient refund and payroll fund disbursements by date and type since the last approval.

CHIEF FINANCIAL OFFICER

APPROVAL OF REVOLVING, PATIENT REFUND AND PAYROLL FUND DISBURSEMENTS:

Treasurer, Board of Directors PPH _____

Secretary, Board of Directors PPH _____

This approved document is to be attached to the last revolving fund disbursement page of the applicable financial month for future audit review.

cc: M. Covert, G. Bracht, R. Hemker, J. Flinn

June 2006 & Fiscal YTD 2006 Financial Report

TO: Board of Directors

MEETING DATE: Monday, August 14, 2006

FROM: Board Finance Committee
Tuesday, August 1, 2006

FROM: Robert Hemker, CFO

Background: The Board Financial Reports (unaudited) for June 2006 and Fiscal YTD 2006 are submitted for the Board's approval.

Budget Impact: N/A

Staff Recommendation: Staff recommends approval.

Committee Questions:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends approval of the Board Financial Reports (unaudited) for June 2006 and Fiscal YTD 2006

Motion: X

Individual Action:

Information:

Required Time:

Pre-Audit Close

PALOMAR POMERADO HEALTH

A California Health Care District

BOARD FINANCIAL REPORT

JUNE 2006

(UNAUDITED)

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

PALOMAR POMERADO HEALTH
A California Health Care District

Pre-Audit Close

BOARD FINANCIAL REPORT

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

Statistics:

Consolidated acute patient days decreased 638 days (-6.8%) to 8,702 in June compared to May's 9,340 days. Actual patient days for June were 245 days lower than budget of 8,947. YTD acute patient days of 112,445 are higher (3.3%) than budget of 108,903. The acute Average Daily Census (ADC) was 290 in June, lower than May's 301, and lower than 308 ADC on a YTD basis. Acute admissions for June YTD were 28,364 compared to budget of 27,686 (2.4% higher than budget). YTD June SNF patient days were 75,846 compared to budget of 75,599 (.3% variance).

Palomar's YTD acute patient days of 84,231 are above budget of 82,657 (1.9% higher) resulting in a YTD actual ADC of 231 compared to budget of 226. YTD PMC is experiencing 18% less trauma cases than budget.

Pomerado's YTD acute patient days are 1,968 days (7.5%) greater than budget (actual = 28,214, budget = 26,246). YTD actual ADC was 77 compared to budget of 72 and the last 4 months averaged ADC was 82. Admissions of 6,843 were lower (-.7%) than budget of 6,889.

Total YTD surgery cases of 11,738 were down 5.4% from budget (cardiovascular surgery cases are down by 16.2% from budget) but approximated FY 05 cases of 11,789. Total YTD deliveries were 5,363, compared to a budget of 5,761 and previous year of 5,612.

Balance Sheet:

Current Cash & Cash Equivalents decreased \$13.4 million to \$ 119 million in June from \$132 million in May. The decrease is mainly due to the transfer of \$13.1 million to Restricted Assets for the public benefit payment related to the ERTC land purchase. Also, the purchase of the warehouse on Enterprise Street for \$3 million closed escrow and was paid for with working capital. These two items were partially offset by the decrease in Board Designated Funds of \$5.7 million. Total Cash and Investments are \$128 million, compared to \$131 million at June 30, 2005. Days cash on hand are 136 compared to 158 in May.

Net Accounts Receivable increased to \$70.8 million in June as compared to \$66.3 million in May. Gross A/R days is 49.6 in June, down slightly from May's 50.2 days. FY06 A/R days reflect a significant improvement from June 2005 and 2004 gross A/R days of 70 and 40, respectively. June patient account collections (excluding Capitation) were \$25.2 million compared to budget of \$26.1 million. YTD patient account collections (excluding capitation) are \$11.4 million below budget at \$302.3 million (budget was \$313.7 million). YTD total patient account collections including capitation are \$350.8 million compared to budget of \$349.5 million.

Construction in Progress increased by \$9 million mainly due to the acquisition of a new warehouse for \$3 million and \$6 million for architectural services on the Building Expansion projects.

Other Current Liabilities decreased \$1.0 million primarily due to Deferred Property Tax Revenue.

Income Statement:

Gross Patient Revenue for YTD June reflects a favorable budget variance of \$46.8 million. This favorable variance is composed of a \$38.8 million favorable volume variance and \$7.9 million favorable rate variance.

Routine revenue (inpatient room and board) reflects a favorable \$2.5 million budget variance. PPH North reflects an unfavorable variance of \$2.4 million, and PPH South reflected a favorable variance of \$4.9 million (\$1.9 million of this variance is reflected at Villa Pomerado & SubAcute).

Inpatient Ancillary gross revenue represents a YTD of \$31.3 million favorable budget variance. PPH North reflects a favorable variance of \$31.4 million and PPH South reflected \$186 thousand unfavorable variance. The main contributors to Palomar's favorable variance are reflected in Cat Scanner, Emergency Room, Pharmacy, and supply departments totaling \$35.9 million higher than budget.

Outpatient revenue reflects a YTD favorable budget variance of \$12.9 million. The majority of this favorable variance is reflected at PPH North at \$12.0 million with Emergency at \$6.6 million and pharmacy at \$1.9 million above budget.

Deductions from Revenue reflects an YTD unfavorable variance of \$38.9 million. This variance is due to 1) disproportional IP Ancillary revenue compared to routine nursing revenue (which results in additional contractual adjustments of approximately \$29 million - this is the result of most payer payments being based upon case rate or per diem reimbursement for inpatient services) at Palomar and 2) an increase in uninsured patients resulting in charity, undocumented and bad debt write-offs. Total Deductions from Revenue is 68.7% of gross revenue compared to a budget of 67.5%.

Deductions from Revenue (excluding Capitation revenue and Bad Debt/Charity/Undocumented expenses), was 64.0% of Gross Revenue for June YTD compared to budget of 62.8%.

The Capitation monies retained by PPH are reflecting a \$3.5 million favorable variance as of June. The capitation pools are reflecting a significant reduction in Net Income for the year as compared to budget; however, PPH is retaining significantly more of the capitation dollars as patients are being treated at PPH facilities.

Bad debt, charity & undocumented care write-offs reflected an YTD an unfavorable \$1.7 million budget variance. PPH North is experiencing a higher proportion of uncompensated patients than we have experienced in previous years. However, as a percentage of gross revenues, uncompensated care (bad debt, charity and undocumented write-offs) is 4.66% compared to budget of 4.70%. The .04% approximates a \$400 thousand favorable variance.

Other Operating Revenue reflects an unfavorable budget variance of \$1.7 million. A large portion of this variance, \$1.1 million, is related to laboratory services that were budgeted in Other Operating Revenue but are being recognized in OP revenue. Included in other operating revenue is the Welcome Home Baby Program's recognized ~~YTD~~ revenue of \$688 thousand, which is lower than budget by \$646 thousand. In addition, YTD Foundation revenues were approximately \$600,000 lower than budget.

Salaries, Wages & Contract labor reflects a YTD unfavorable variance of \$8.4 million. This YTD unfavorable variance is composed of: 1) Salaries and Wages - (\$4,814,000 (actual \$160.6 million), 2) Contract Labor - (\$3,561,000) (actual \$12.6 million). These YTD variances are composed of: PPH North unfavorable \$5.1 million, PPH South unfavorable \$2.7 million and Central Office \$820 thousand unfavorable. The month of June reflected an unfavorable variance of \$1 million.

Benefits Expense is reflecting a YTD favorable budget variance of \$2.4 million. The month of June reflected an unfavorable variance of \$425 thousand mainly due to salaries and wages exceeding budget by \$916,000 in June.

Supplies Expense is reflecting a YTD unfavorable budget variance of \$3.3 million. June reflected an unfavorable \$267 thousand budget variance, mainly from Palomar. The majority of this unfavorable variance is prosthesis at \$208 thousand and general surgery supplies at \$56 thousand. PPH North reflected a YTD unfavorable \$3.3 million variance from budget. The majority of PPH North's variance is in prosthesis at \$1.2 million, pharmacy-Factor Seven at \$788 thousand, general surgery supplies at \$790 thousand and non-medical supplies at \$600 thousand.

Prof Fees & Purchased Services reflected a YTD unfavorable budget variance of \$1.7 million. The unfavorable variance to budget is due to increased expenses in legal fees, Information Technology expenses and physician emergency on-call and trauma coverage fees.

Non-Operating Income reflects a YTD favorable variance of \$1.9 million in June, including a \$1.2 million favorable investment income variance. YTD investment income reflects a 3.3% investment rate of return compared to budget of 2.5%.

Ratios & Margins:

All required bond covenant ratios were achieved in June 2006.

Pre-Audit Close

Palomar Pomerado Health
Balanced Scorecard
Financial Indicators
June 30, 2006

	March		April		May		June		YTD 2006		% Actual to Bud/IPY
	Actual		Actual		Actual		Actual		Bud/IPY	Variance	

OEBITDA Margin w/Prop Tax Expenses/Wtd Day	9.4%	\$ 2,333.17	6.5%	\$ 2,526.80	5.9%	\$ 2,350.58	7.4%	\$ 2,737.25	9.8%	\$ 2,446.34	9.8%	\$ 2,439.72	-2.0%	99.0%
SWB/Wtd Day	1,331.13	\$ 1,468.82	1,468.82	\$ 1,295.58	1,295.58	\$ 1,484.94	1,484.94	\$ 1,417.92	1,417.92	\$ 1,417.35	1,403.78	1,417.35	13.57	99.0%
Prod FTE's/Adj Occupied Bed Weighted Patient Days	5.95	6.27	6.27	6.20	6.20	6.27	6.27	6.17	6.17	6.17	6.11	6.17	0.06	99.0%
	13,539	12,095	12,095	12,634	12,634	12,020	12,020	12,487	12,487	144,965	150,316	144,965	5,331	99.0%

PPH Indicators:

OEBITDA Margin w/Prop Tax Expenses/Wtd Day	10.1%	\$ 2,258.43	8.7%	\$ 2,453.41	4.2%	\$ 2,267.87	6.8%	\$ 2,704.86	11.8%	\$ 2,318.87	8.1%	\$ 2,338.91	-3.7%	101.1%
SWB/Wtd Day	1,118.84	\$ 1,245.04	1,245.04	\$ 1,080.30	1,080.30	\$ 1,259.25	1,259.25	\$ 1,182.08	1,182.08	\$ 1,181.57	1,181.57	1,181.33	(0.24)	101.6%
Prod FTE's/Adj Occupied Bed Weighted Patient Days	5.06	5.33	5.33	5.28	5.28	5.39	5.39	5.10	5.10	5.18	5.18	5.10	(0.08)	101.6%
	9,354	8,276	8,276	8,701	8,701	8,157	8,157	8,810	8,810	102,400	104,995	102,400	2,595	101.6%

PPH North Indicators:

OEBITDA Margin w/Prop Tax Expenses/Wtd Day	3.8%	\$ 2,235.87	-0.1%	\$ 2,373.34	5.0%	\$ 2,231.51	6.7%	\$ 2,472.37	1.3%	\$ 2,455.59	4.8%	\$ 2,350.12	3.5%	101.1%
SWB/Wtd Day	1,143.02	\$ 1,194.03	1,194.03	\$ 1,072.17	1,072.17	\$ 1,192.09	1,192.09	\$ 1,262.08	1,262.08	\$ 1,262.24	1,204.67	1,262.24	57.57	101.1%
Prod FTE's/Adj Occupied Bed Weighted Patient Days	5.36	5.32	5.32	5.54	5.54	5.33	5.33	5.87	5.87	5.88	5.59	5.88	0.29	101.1%
	4,003	3,706	3,706	3,788	3,788	3,712	3,712	3,428	3,428	39,733	43,291	39,733	3,558	101.1%

PPH South Indicators:

Palomar Pomerado Health
Consolidated Balance Sheet
As of June 30, 2006

Pre-Audit Close

	Current Month	Prior Month	Prior Fiscal Year End
Assets			
Current Assets			
Cash on Hand	\$8,563,683	\$6,296,042	\$12,663,073
Cash Marketable Securities	110,035,151	125,751,346	96,380,135
Total Cash & Cash Equivalents	118,598,834	132,047,388	109,043,208
Patient Accounts Receivable			
Allowance on Accounts	148,681,910	151,154,522	190,388,774
Net Accounts Receivable	-77,866,966	-84,812,256	-120,586,401
Net Accounts Receivable	70,814,944	66,342,266	69,802,373
Inventories			
Inventories	6,739,569	6,341,000	6,320,951
Prepaid Expenses	2,275,780	2,498,381	2,383,903
Other	2,298,062	1,718,793	828,210
Total Current Assets	200,727,189	208,947,828	188,378,645
Non-Current Assets			
Restricted Assets	66,734,609	54,167,041	12,026,055
Restricted by Donor	288,265	287,477	281,473
Board Designated	9,267,526	14,993,732	22,388,648
Total Restricted Assets	76,290,400	69,448,250	34,696,176
Property Plant & Equipment			
Property Plant & Equipment	335,347,385	330,539,806	337,484,770
Accumulated Depreciation	-215,737,688	-215,757,987	-218,491,576
Construction in Process	85,034,881	75,948,421	28,023,698
Net Property Plant & Equipment	204,644,578	190,730,240	147,016,892
Investment in Related Companies			
Deferred Financing Costs	6,393,497	6,540,311	6,175,837
Other Non-Current Assets	3,354,469	3,307,203	2,311,702
Total Non-Current Assets	1,130,720	1,143,376	1,274,318
Total Assets	\$492,540,853	\$480,117,208	\$379,853,570

	Current Month	Prior Month	Prior Fiscal Year End
Liabilities			
Current Liabilities			
Accounts Payable	\$29,671,113	\$17,158,469	\$18,090,054
Accrued Payroll	15,383,608	18,883,267	19,511,491
Accrued PTO	11,133,368	11,130,800	10,212,195
Accrued Interest Payable	2,265,274	1,654,693	708,785
Current Portion of Bonds	12,745,000	12,745,000	6,125,000
Est Third Party Settlements	-1,065,102	-2,118,947	-4,522,051
Other Current Liabilities	7,524,339	7,440,280	6,642,463
Total Current Liabilities	77,657,600	66,893,562	56,767,937
Long Term Liabilities			
Bonds & Contracts Payable	151,347,395	151,322,314	79,819,688
General Fund Balance	253,980,063	246,620,124	220,595,825
Unrestricted	288,265	287,477	281,473
Restricted for Other Purpose	9,267,526	14,993,732	22,388,648
Board Designated	263,535,854	261,901,333	243,265,946
Total Fund Balance	\$492,540,853	\$480,117,208	\$379,853,570
Total Liabilities / Fund Balance			

PALOMAR POMERADO HEALTH
 CONSOLIDATED
 FYTD 2006
 JUNE 06

Pre-Audit Close

	Month Activity		Variance	Variance			Rate/Eff	\$/Wtg Pt Day	
	Actual	Budget		Volume	Actual	Budget		Variance	
Statistics:									
Admissions - Acute	28,364	27,686	678						
Admissions - SNF	1,226	1,358	(132)						
Patient Days - Acute	112,445	108,903	3,542						
Patient Days - SNF	75,846	75,599	247						
LOS - Acute	3.97	4.00	(0.03)						
LOS - SNF	40.23	37.92	2.31						
Weighted Pt Days	150,316	144,985	5,331						
Revenue:									
Gross Revenue	\$ 1,103,578,586	\$ 1,056,787,431	\$ 46,791,155	\$ 38,857,356	\$ 7,933,799	\$ 7,341,72	\$ 7,288.94	\$ 52.78	(108.74)
Deductions from Rev	(751,296,265)	(708,886,173)	(42,410,092)	(26,065,263)	(16,344,829)	(4,998.11)	(4,889.38)	(55.96)	(13.84)
Net Patient Revenue	352,282,321	347,901,258	4,381,063	12,792,093	(8,411,030)	2,343.61	2,399.57	70.23	(69.80)
Other Oper Revenue	8,475,668	10,181,748	(1,706,080)	374,376	(2,080,456)	56.39	70.23		
Total Net Revenue	360,757,989	358,083,006	2,674,983	13,166,469	(10,491,486)	2,400.00	2,469.79		
Expenses:									
Salaries, Wages & Contr Labor	173,182,589	164,806,821	(8,375,768)	(6,059,835)	(2,315,933)	1,152.12	1,136.72	(15.41)	28.97
Benefits	37,827,886	40,687,200	2,859,314	(1,496,041)	4,355,355	251.66	280.63	(7.87)	(0.06)
Supplies	62,428,602	59,073,841	(3,354,761)	(2,172,105)	(1,182,656)	415.32	407.45	(3.20)	(3.44)
Prof Fees & Purch Svc	48,590,987	46,858,531	(1,732,456)	(1,722,956)	(9,500)	323.26	323.20	118.56	138.86
Depreciation	18,338,323	17,189,004	(1,149,319)	(632,028)	(517,291)	122.00	118.56	0.00	5.43
Other	20,386,500	20,132,441	(254,059)	(740,256)	486,197	135.62	0.00		
PPH Allocation	-	2	2	(0)	2	-	0.00		
Total Expenses	360,754,887	348,747,840	(12,007,047)	(12,823,221)	816,174	2,399.98	2,405.41		
Net Inc Before Non-Oper Income	3,102	9,335,166	(9,332,064)	343,248	(9,675,312)	0.02	64.39		
Property Tax Revenue	11,494,884	10,899,996	594,888	400,785	194,103	76.47	75.18	1.29	10.38
Non-Operating Income	(534,031)	(2,019,684)	1,485,653	(74,262)	1,559,915	(3.55)	(13.93)		
Net Income (Loss)	\$ 10,963,955	\$ 18,215,478	\$ (7,251,523)	\$ 669,771	\$ (7,921,294)	\$ 72.94	\$ 125.64	\$ (52.70)	
Net Income Margin	2.9%	4.8%	-1.9%						
OEBITDA Margin w/o Prop Tax	4.8%	7.0%	-2.2%						
OEBITDA Margin with Prop Tax	7.8%	9.8%	-2.0%						

F= Favorable variance
 U= Unfavorable variance

PALOMAR POMERADO HEALTH
 CONSOLIDATED
 MTD 2006
 June 2006

Pro-Audit Close

	Month Activity		Variance		\$/Wtg Pt Day		
	Actual	Budget	Variance		Volume	Rate/Eff	Actual Budget Variance
Statistics:							
Admissions - Acute	2,301	2,270	31				
Admissions - SNF	97	112	(15)				
Patient Days - Acute	8,702	8,947	(245)				
Patient Days - SNF	6,248	6,210	38				
LOS - Acute	3.97	4.01	(0.04)				
LOS - SNF	41.65	37.50	4.15				
Weighted Pt Days	12,020	11,912	108				
Revenue:							
Gross Revenue	\$ 91,226,432	\$ 86,935,007	\$ 4,291,425	F	\$ 788,195	\$ 3,503,230	\$ 7,589.55 \$ 7,298.10 \$ 291.45
Deductions from Rev	(59,616,696)	(58,314,678)	(1,302,018)	U	(528,709)	(773,309)	(4,959.79) (4,895.46) (64.34)
Net Patient Revenue	31,609,736	28,620,329	2,989,407	F	259,486	2,729,921	2,629.76 2,402.65 227.11
Other Oper Revenue	599,367	848,479	(249,112)	U	7,693	(256,805)	49.86 71.23 (21.36)
Total Net Revenue	32,209,103	29,468,808	2,740,295	F	267,179	2,473,116	2,679.63 2,473.88 205.75
Expenses:							
Salaries, Wages & Contr Labor	14,585,611	13,545,812	(1,039,799)	U	(122,813)	(916,986)	1,213.45 1,137.16 (76.29)
Benefits	3,263,427	3,344,426	80,999	F	(30,322)	111,321	271.50 280.76 9.26
Supplies	5,137,041	4,861,569	(275,472)	U	(44,077)	(231,395)	427.37 408.12 (19.25)
Prof Fees & Purch Svc	5,640,864	3,872,627	(1,768,237)	U	(35,111)	(1,733,126)	469.29 325.10 (144.19)
Depreciation	1,968,574	1,435,958	(532,616)	U	(13,019)	(519,597)	163.77 120.55 (43.23)
Other	1,885,492	1,665,852	(219,640)	U	(15,103)	(204,537)	156.86 139.85 (17.02)
PPH Allocation	-	(1)	(1)	U	0	(1)	- (0.00) (0.00)
Total Expenses	32,481,009	28,726,243	(3,754,766)	U	(260,446)	(3,494,320)	2,702.25 2,411.54 (290.71)
Net Inc Before Non-Oper Income	(271,906)	742,565	(1,014,471)	U	6,732	(1,021,203)	(22.62) 62.34 (84.96)
Property Tax Revenue	810,220	908,333	(98,113)	U	8,235	(106,348)	67.41 76.25 (8.85)
Non-Operating Income	182,857	(168,307)	351,164	F	(1,526)	352,690	15.21 (14.13) 29.34
Net Income (Loss)	\$ 721,171	\$ 1,482,591	\$ (761,420)	U	\$ 13,442	\$ (774,862)	\$ 60.00 \$ 124.46 \$ (64.46)
Net Income Margin	2.1%	4.7%	-2.6%				
OEBITDA Margin w/o Prop Tax	5.0%	6.9%	-1.9%				
OEBITDA Margin with Prop Tax	7.4%	9.8%	-2.4%				

F= Favorable variance
 U= Unfavorable variance

Palomar Pomerado Health
STATEMENTS OF CASH FLOWS
Fiscal Year 2006

Pre-Audit Close

	<u>June</u>	<u>YTD</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income (Loss from operations)	\$ (271,906)	\$ 3,372
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation Expense	1,968,574	18,338,320
Provision for bad debts	2,484,271	29,292,228
Changes in operating assets and liabilities:		
Patient accounts receivable	(6,956,949)	(30,304,799)
Property Tax and other receivables	(228,095)	(12,274,652)
Inventories	(398,569)	(418,618)
Prepaid expenses and Other Non-Current assets	369,415	(191,165)
Accounts payable	12,512,644	12,402,809
Accrued comp	(3,497,091)	(3,206,710)
Estimated settlement amounts due third-party payors	1,053,845	3,456,949
Other current liabilities	<u>992,392</u>	<u>11,781,872</u>
Net cash provided by operating activities	8,028,531	28,879,604
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (purchases) sales on investments	8,874,045	(55,249,240)
Interest (Loss) received on investments	517,057	4,179,350
Investment in affiliates	<u>(78,171)</u>	<u>(925,636)</u>
Net cash used in investing activities	9,312,931	(51,995,526)
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:		
Receipt of G.O. Bond Taxes	247,980	9,304,373
Receipt of District Taxes	<u>155,470</u>	<u>11,549,376</u>
Net cash used in activities	403,450	20,853,749
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of property plant and equipment	(15,477,272)	(72,399,172)
Proceeds from sale of asset		781,634
G.O. Bond Interest paid		(2,083,619)
Revenue Bond Interest paid	0	(4,196,668)
Proceeds from issuance of debt		82,185,607
Payments of LT Debt		<u>(6,125,000)</u>
Net cash used in activities	<u>(15,477,272)</u>	<u>(1,837,218)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,267,640	(4,099,391)
CASH AND CASH EQUIVALENTS - Beginning of period	<u>6,296,042</u>	<u>12,663,073</u>
CASH AND CASH EQUIVALENTS - End of period	<u>\$ 8,563,683</u>	<u>\$ 8,563,683</u>

PALOMAR POMERADO HEALTH
A California Health Care District
Investment Fund Balances
Quarterly Report

Pre-Audit Close

Investment Account:	Interest Payable	Interest Rate	Maturity Date	June 30, 2006	March 31, 2006	IN/(DE)CREASE
Fidelity-Institutional Portfolio Treasury Fund	Monthly	4.95%	Demand	\$ 918,280	\$ 907,635	\$ 10,645
State Treasurer Local Agency Investment Fund	Quarterly	4.53%	Demand	4,894,143	22,786,529	(17,892,386)
Maxicare Health Plans, Inc.	N/A	N/A	Demand	157	4	153
Salomon Brothers	Various	Various	Various	31,343,685	31,136,221	207,464
Pacific Income Advisors, Inc.	Various	Various	Various	30,329,997	30,050,949	279,048
Morgan Stanley & Co.	Various	Various	Various	51,854,202	55,201,312	(3,347,110)
TOTAL INVESTMENTS AT CURRENT FAIR MARKET VALUE				\$ 119,340,464	\$ 140,082,650	\$ (20,742,186)
ACCRUED INTEREST INCOME RECEIVABLE				1,168,757	1,333,542	(164,785)
Bank of America - Cash in Checking/COR Acct				6,001	10,871	(4,870)
TOTAL VALUE OF INVESTMENT PORTFOLIO				\$ 120,515,222	\$ 141,427,063	\$ (20,911,841)
INVESTMENTS COMPARATIVE						
06/06	\$ 119,340,464			\$ 120,226,957	\$ 141,141,469	\$ (20,914,512)
06/05	\$ 119,095,501			288,265	285,594	2,671
06/04	\$ 151,029,004			\$ 120,515,222	\$ 141,427,063	\$ (20,911,841)
06/03	\$ 141,879,193					

SUMMARY OF INVESTMENT PORTFOLIO BY FUND
Palomar Pomerado Unrestricted Fund
Palomar Pomerado Restricted Fund

**PALOMAR POMERADO HEALTH
BOND COVENANT RATIOS**

CUSHION RATIO	Jun-04	Jun-05	Jun-06
Cash and Cash Equivalents	140,057,417	109,043,208	118,598,834
Board Designated Reserves	27,374,261	22,388,648	9,267,526
Trustee-held Funds	11,853,970	12,026,055	12,170,183
Total	179,285,648	143,457,911	140,036,543

Divided by:			
Max Annual Debt Service (Bond Year 2012)	10,697,594	10,697,594	10,697,594

CUSHION RATIO	16.8	13.4	13.1
REQUIREMENT	1.5	1.5	1.5
	Achieved	Achieved	Achieved

DAYS CASH ON HAND	Jun-04	Jun-05	Jun-06
Cash and Cash Equivalents	140,057,417	109,043,208	118,598,834
Board Designated Reserves	27,374,261	22,388,648	9,267,526
Total	167,431,678	131,431,856	127,866,360

Divide Total by Average Adjusted Expenses per Day			
Total Expenses	311,614,910	340,338,156	360,754,887
Less: Depreciation	14,546,550	16,394,985	18,338,323
Adjusted Expenses	297,068,360	323,943,171	342,416,564

Number of days in period	366	365	365
Average Adjusted Expenses per Day	811,662	887,516	938,128

DAYS CASH ON HAND	206	148	136
REQUIREMENT	90	90	90
	Achieved	Achieved	Achieved

Net Income Available for Debt Service	Jun-04	Jun-05	Jun-06
Excess of revenue over expenses Cur Mo.	2,905,196	1,490,930	721,171
Excess of revenues over expenses YTD (General Funds)	16,053,177	17,052,649	10,963,955
ADD:			
Depreciation and Amortization	14,546,550	16,394,985	18,338,323
Interest Expense	5,581,454	5,272,031	5,025,388
Net Income Available for Debt Service	36,181,181	38,719,665	34,327,666

Aggregate Debt Service

1993 Insured Refunding Revenue Bonds	6,017,132	6,020,301	3,639,772
1999 Insured Refunding Revenue Bonds	4,357,728	4,356,844	6,950,508
Aggregate Debt Service	10,374,860	10,377,145	10,590,280

Net Income Available for Debt Service	3.49	3.73	3.24
Required Coverage	1.15	1.15	1.15
	Achieved	Achieved	Achieved

Management Services Agreement with PPH Foundation

TO: Board of Directors
MEETING DATE: Monday, August 14, 2006
FROM: Board Finance Committee
Tuesday, August 1, 2006
BY: Bob Hemker, CFO

Background: Proposed clarifying language to the Management Services Agreement—as agreed upon between PPH Administration and the PPH Foundation Finance Committee—was presented at the Board Finance Committee meeting.

Budget Impact: N/A

Staff Recommendation: Staff recommended approval of the clarifying language.

Committee Questions:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends approval of the clarifying language in the Management Services Agreement between Palomar Pomerado Health and the Palomar Pomerado Health Foundation.

Motion: X

Individual Action:

Information:

Required Time:

**PROPOSED REVISION TO
EXECUTION VERSION**

Executive Officer and Chief Financial Officer and Foundation's Chair and Treasurer shall approve in writing Advance requests exceeding One Hundred Thousand Dollars (\$100,000).

3.3 Use of Advances. Foundation shall use the Advances for the following purposes only:

- (a) For amounts approved by PPH in the capital and operating budgets of Foundation;
- (b) For subsequent repayment to PPH for insurance expense coverage;
- (c) For subsequent repayment to PPH in any given month when Foundation does not have sufficient funds to cover Foundation Expenses on a cumulative basis in accordance with the provisions of Exhibit 2.1; and
- (d) For normal and routine expenses incurred in the consummation of gift transactions approved by the Joint Gift Acceptance Committee.
- (f) Any individual expenses exceeding One Hundred Thousand Dollars (\$100,000) must be approved by the CEO of PPH.

3.4 Request and Delivery of Advances. When Foundation desires to obtain an Advance (cumulative expenses exceed cumulative contributions given to PPH), it shall deliver to PPH a notice in the form attached hereto as Exhibit 3.4 (the "Notice of Borrowing") at least three (3) Business Days prior to the date on which the Advance is to be paid (the "Proposed Funding Date"). The Notice of Borrowing shall specify the Proposed Funding Date (which shall be a Business Day), the amount of the requested Advance, and certify as to the satisfaction of each of the conditions set forth in Exhibit 3.4. "Business Day" shall mean any day which is not a Saturday, Sunday or a generally observed holiday for banks in the State of California.

3.5 Contingencies to PPH's Payment of Advances. PPH's obligation to make any Advances to Foundation under this Agreement shall be contingent upon the following:

- (a) Documentation. Foundation's submission to PPH, in form and substance satisfactory to PPH, this Agreement, the Note (as defined in Section 4.1(a)), the Security Agreement (as defined in Section 4.1(b)), and such other documents and instruments as PPH may reasonably request, all duly executed by Foundation.
- (b) Notice of Borrowing. Foundation's submission to PPH of a Notice of Borrowing in which Foundation certifies that as of the date of the Notice of Borrowing:
 - (i) all of Foundation's representations and warranties contained in this Agreement shall be true, correct and complete in all material respects to the same extent as though made on and as of that date;

MEDICAL STAFF SERVICES

July 25, 2006



TO: Board of Directors

BOARD MEETING DATE: August 14, 2006

FROM: Robert D. Trifunovic, M.D., Chief of Staff
PMC Medical Staff Executive Committee

SUBJECT: Medical Staff Credentialing Recommendations

PALOMAR MEDICAL CENTER

- I. Provisional Appointment
Edward J. Epstein, M.D., Pediatrics (08/14/2006 - 07/31/2008)
Gary D. Gonsalves, M.D., Anesthesiology (08/14/2006 - 07/31/2008)
Peter D. Gougov, M.D., Anesthesiology (08/14/2006 - 07/31/2008)
Sandi Choi Rigsby, M.D., Anesthesiology (08/14/2006 - 07/31/2008)
Christopher T. Wiesner, M.D., Emergency Medicine (08/14/2006 - 07/31/2008)
Rong Zou, M.D., Internal Medicine (08/14/2006 - 07/31/2008)
- II. Advance from Provisional to Active Category
Ramin Amani, M.D., Pediatrics (08/14/2006 - 10/31/2006)
Kathleen Gates, M.D., Pediatrics (08/14/2006 - 03/31/2008)
- III. Advance from Provisional to Associate Status
Kelly D. Dewitt, M.D., Radiation Oncology (08/14/2006 - 05/31/2007)
- IV. Change from Courtesy to Active Status
Kris Ghosh, M.D., Gynecologic Oncology
- V. Additional Privileges
Hamed Bayat, M.D., Cardiology
 - Percutaneous Transluminal Coronary Angioplasty (PTCA)Robert T. Gramins, D.D.S., Oral & Maxillofacial Surgery
 - Cosmetic Maxillofacial Surgery - Soft TissueBach K. Nguyen, M.D., Family Practice
 - PCCC PrivilegesMarc M. Sedwitz, M.D., General Vascular Surgery
 - Use of Fluoroscopy
 - General Surgery Bundle
 - Laparoscopy - Basic Bundle
 - Other - Thorocotomy for Access
- VI. Voluntary Resignations/Withdrawal of Membership
Ravi K. Ajmera, M.D., Internal Medicine (effective 08/31/2006)
Cynthia A. Araneta, M.D., Pediatrics (effective 08/31/2006)
Christy M. Jackson, M.D., Neurology (effective 07/06/2006)
Margaret Riley-Hagan, M.D., Pediatrics (effective 08/31/2006)

PALOMAR MEDICAL
CENTER
555 East Valley Parkway
Escondido, CA 92025
Tel 760.739.3140
Fax 760.739.2926

POMERADO
HOSPITAL
15615 Pomerado Road
Poway, CA 92064
Tel 858.613.4664
Fax 858.613.4217

ESCONDIDO
SURGERY CENTER
343 East Second Avenue
Escondido, CA 92025
Tel 760.480.6606
Fax 760.480.1288

VII. Allied Health Professional Appointment

Christine L. Cauvet, N.P., Nurse Practitioner; Sponsors: Drs. Arambulo, Birnbaum, Han, Heikoff, Howell, Joseph, LaFond, Simon. (includes PCCC) (08/14/2006 – 07/31/2008)

VIII. Reappointments Effective 09/01/2006 – 08/31/2008

Kenneth A. Altschuler, M.D.	Family/General Practice	Dept of Family Practice	Active
Daniel S. Anderson, M.D.	Gastroenterology	Dept of Medicine	Courtesy
Thomas C. Bruff, M.D.	Occupational Medicine	Dept of Medicine	Associate
(No clinical privileges)			
David J. Carty, M.D.	Internal Medicine	Dept of Medicine	Associate
(Changed from Courtesy to Associate) (Includes PCCC)			
Pamela O. Danque, M.D.	Pathology	Dept of Pathology	Active
Ronald T. Davis, M.D.	Radiation Oncology	Dept of Radiology	Consulting
Patrick J. Fitzgerald, M.D.	Otolaryngology	Dept of Surgery	Active
Aline G. Fournier, D.O.	Family Practice	Dept of Family Practice	Associate
Melissa E. Hurd, M.D.	Family/General Practice	Dept of Family Practice	Courtesy
Philip E. Larkins, D.P.M.	Podiatry	Dept of Ortho/Rehab	Associate
(Includes PCCC)			
Marc J. Lebovits, M.D.	Otolaryngology	Dept of Surgery	Courtesy
Richard E. Pantarotto, M.D.	Family Practice	Dept of Family Practice	Associate
(Includes PCCC)			
Norman W. Pincock, M.D.	Internal Medicine	Dept of Medicine	Active
(Includes PCCC)			
George N. Riffle, II, M.D.	Urology	Dept of Surgery	Active
Jerome L. Sinsky, M.D.	OB/GYN	Dept of OB/GYN	Active
Aruna C. Varma, M.D.	Pediatrics	Dept of Pediatrics	Active
W. David Westinghouse, M.D.	Cardiology	Dept of Medicine	Active

IX. Allied Health Professional Reappointment Effective 09/01/2006 – 08/31/2008

Jayne E. Dansky, CNM, Certified Nurse Midwife; Sponsors: Drs. Buringrud, Ghosh, Leon, Trifunovic, Kohatsu.

Therese M. O'Neill, CNM, Certified Nurse Midwife; Sponsors: Drs. Buringrud, Ghosh, Leon, Trifunovic, Kohatsu.

Certification by and Recommendation of Chief of Staff:

As Chief of Staff of Palomar Medical Center, I certify that the procedures described in the Medical Staff Bylaws for appointment, reappointment or alteration of staff membership or the granting of privileges and that the policy of the Palomar Pomerado Health System's Board of Directors regarding such practices have been properly followed. I recommend that the action requested in each case be taken by the Board of Directors.

**PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
August, 2006**

PERSONAL INFORMATION

Provider Name & Title	Edward J. Epstein, M.D.
PPHS Facilities	Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Pediatrics - Certified 1989/2004
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ORGANIZATIONAL NAME

Name	Children's Specialists of San Diego
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EDUCATION/AFFILIATION INFORMATION

Medical Education Information	Medical School UCSD School of Medicine FROM: 09/01/1981 TO: 06/09/1985 Doctor of Medicine Degree
Internship Information	Internship Children's Hospital, Los Angeles Pediatrics From: 07/01/1985 To: 06/30/1986
Residency Information	Residency Children's Hospital, Los Angeles Pediatrics From: 07/01/1986 To: 06/30/1989 Chief Resident from 07/01/88-06/30/89
Fellowship Information	N/A
Current Affiliation Information	Children's Hospital, San Diego University of California, San Diego

**PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
August, 2006**

PERSONAL INFORMATION

Provider Name & Title	Gary D. Gonsalves, M.D.
PPHS Facilities	Escondido Surgery Center Pomerado Hospital Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Anesthesiology – Not Board Certified
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ORGANIZATIONAL NAME

Name	Anesthesia Consultants of CA
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EDUCATION/AFFILIATION INFORMATION

Medical Education Information	Medical School University of Arizona, Tucson FROM: 09/01/1996 TO: 05/13/2000 Doctor of Medicine Degree
Internship Information	Internship Banner Good Samaritan Medical Center, Phoenix, AZ Internal Medicine From: 06/23/2000 To: 06/22/2001
Residency Information	Residency Banner Good Samaritan Medical Center Internal Medicine From: 07/01/2001 To: 06/05/2002 University of California, Los Angeles Anesthesia From: 07/01/2002 To: 06/30/2004 Illinois Masonic Medical Center, Chicago Anesthesia From: 07/01/2004 To: 06/30/2006
Fellowship Information	N/A
Current Affiliation Information	N/A

**PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
August, 2006**

PERSONAL INFORMATION

Provider Name & Title	Peter D. Gougov, M.D.
PPHS Facilities	Escondido Surgery Center Pomerado Hospital Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Anesthesiology – Not Board Certified
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ORGANIZATIONAL NAME

Name	Anesthesia Consultants of CA
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EDUCATION/AFFILIATION INFORMATION

Medical Education Information	Medical School Medical University of Sofia, Bulgaria FROM: 09/01/1991 TO: 11/26/1997 Doctor of Medicine Degree
Internship Information	N/A
Residency Information	Residency State University of New York at Buffalo Family Practice From: 06/24/2001 To: 06/23/2003 State University of New York at Buffalo Anesthesia From: 07/01/2003 To: 06/30/2006
Fellowship Information	Fellowship Mount Zion Hospital and Medical Center Research From: 08/01/2000 To: 05/31/2001 Clinical Research Assoc, Surgical Oncology
Current Affiliation Information	N/A

**PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
August, 2006**

PERSONAL INFORMATION

Provider Name & Title	Sandi C. Rigsby, M.D.
PPHS Facilities	Escondido Surgery Center Pomerado Hospital Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Anesthesiology – Not Board Certified
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ORGANIZATIONAL NAME

Name	Anesthesia Consultants of CA
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EDUCATION/AFFILIATION INFORMATION

Medical Education Information	Medical School Baylor College of Medicine, Houston, Texas FROM: 07/01/1998 TO: 05/30/2002
Internship Information	Internship University of Texas Medical Center at Houston Transitional From: 06/24/2002 To: 06/23/2003
Residency Information	Residency University of California, Davis Anesthesia From: 07/01/2003 To: 06/30/2006
Fellowship Information	N/A
Current Affiliation Information	N/A

**PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
August, 2006**

PERSONAL INFORMATION

<i>Provider Name & Title</i>	Christopher T. Wiesner, M.D.
<i>PPHS Facilities</i>	Pomerado Hospital Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

<i>Specialties</i>	Emergency Medicine – Not Board Certified
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ORGANIZATIONAL NAME

<i>Name</i>	California Emergency Physicians
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EDUCATION/AFFILIATION INFORMATION

<i>Medical Education Information</i>	Medical School UCSD School of Medicine FROM: 09/01/1999 TO: 06/08/2003 Doctor of Medicine Degree
<i>Internship Information</i>	Internship Harbor/UCLA Medical Center Emergency Medicine From: 06/24/2003 To: 06/30/2004 PGY1
<i>Residency Information</i>	Residency Harbor/UCLA Medical Center Emergency Medicine From: 07/01/2004 To: 06/30/2006
<i>Fellowship Information</i>	N/A
<i>Current Affiliation Information</i>	Kaiser Foundation Hospital-Bellflower

**PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
August, 2006**

PERSONAL INFORMATION

Provider Name & Title	Rong Zou, M.D.
PPHS Facilities	Pomerado Hospital Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Internal Medicine - Certified 2005
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ORGANIZATIONAL NAME

Name	Neighborhood Healthcare
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EDUCATION/AFFILIATION INFORMATION

Medical Education Information	Medical School Medical College of Georgia, Augusta FROM: 09/01/1997 TO: 05/04/2002 Doctor of Medicine Degree
Internship Information	Internship St. Mary Medical Center, Long Beach/UCLA Internal Medicine From: 06/24/2002 To: 06/23/2003
Residency Information	Residency St. Mary Medical Center, Long Beach/UCLA Internal Medicine From: 06/24/2003 To: 06/30/2005
Fellowship Information	N/A
Current Affiliation Information	Kaiser Permanente, San Diego

**PALOMAR POMERADO HEALTH
ALLIED HEALTH PROFESSIONAL
APPOINTMENT
AUGUST 2006**

NAME: Christine L. Cauvet, R.N., N.P.
SPECIALTY: Nurse Practitioner
SERVICES: Geriatric Nurse Practitioner for Kaiser
TRAINING: University of North Carolina, Chapel Hill, NC
 Bachelor of Science – Nursing 06/29/90-05/10/92
 University of San Diego, San Diego, CA
 Master of Science, Nursing and
 Adult Nurse Practitioner Program/Gerontology 09/01/98-06/01/01
PRACTICE: Geriatric Nurse Practitioner,
 Kaiser Permanente, San Diego Continuing Care
 Services 02/16/04-Present
 Geriatric Nurse Practitioner, Health Essentials,
 San Diego, CA 12/01/01-10/29/04
 Registered Nurse, Kaiser Permanente, San Diego 01/25/99-03/01/02
 R.N. Home Health Case Manager, Scripps Home Health,
 San Diego, CA 03/19/98-01/16/99
 R.N., Nursing Supervisor, Special Care, San Diego 04/01/97-04/01/98
 R.N., Santa Barbara Visiting Nurses Assn., Santa Barbara, CA 06/13/94-04/09/97
SPONSORS: Drs. Arambulo, Birnbaum, Han, Howell, Joseph, LaFond,
 Heikoff, Simon
CERTIFICATION: American Nurses Credentialing Center 2001
FACILITY: Palomar Medical Center, PCCC, Pomerado Hospital
 and Villa Pomerado

NAME: Rachel A. Christian, P.A.-C
SPECIALTY: Physician Assistant
SERVICES: Emergency Room Physician Assistant for California
 Emergency Physicians
TRAINING: Marquette University, College of Health Science
 Milwaukee, WI
 Bachelor of Science in Biomedical Science 08/31/98-05/19/02
 Marquette University, College of Health Science
 Milwaukee, WI
 Master of Physician Assistant Studies 08/28/00-05/18/03
PRACTICE: Physician Assistant, California Emergency Physicians
 Palomar Medical Center, Escondido, CA 12/01/03-Present
 Physician Assistant, Johnson Medical Group,
 National City, CA 10/03/03-07/01/04
SPONSORS: Jaime Rivas, M.D. & California Emergency Physicians
 at Palomar Medical Center
CERTIFICATION: National Commission on Certification of Physician Assistants 2003
FACILITY: Pomerado Hospital



The Medical Staff
Palomar Medical Center
555 East Valley Parkway
Escondido, CA 92025

July 25, 2006

TO: Board of Directors

BOARD MEETING DATE: August 14, 2006

FROM: Robert Trifunovic, M.D., Chief of Staff
PMC Medical Staff Executive Committee
Marvin Levenson, M.D., Medical Director
Escondido Surgery Center

SUBJECT: Additional Medical Staff Credentialing Recommendation

PALOMAR MEDICAL CENTER/ESCONDIDO SURGERY CENTER

The reappointment of Patrick M. O'Meara, M.D. will expire on 08/31/2006. As you will recall, the Board of Directors initially granted a limited reappointment from 05/01/2005 – 07/31/2005. Since that time, the Board of Directors has extended the reappointment for different intervals, the most recent of which will expire on 08/31/2006.

The Executive Committee, in its meeting of July 24, 2006, reaffirmed its original recommendation for a two year reappointment for Dr. O'Meara through 04/30/2007. This expiration date is in accordance with Article 5.1.3 of the Medical Staff Bylaws which states that reappointments shall not exceed two years and will terminate based on the renewal date of the California medical license.

I. Reappointment Effective 08/31/2006 – 04/30/2007
Patrick M. O'Meara, M.D. Orthopaedic Surgery Dept of Ortho/Rehab Active

Certification by and Recommendation of Chief of Staff:

As Chief of Staff of Palomar Medical Center, I certify that the procedures described in the Medical Staff Bylaws for appointment, reappointment or alteration of staff membership or the granting of privileges and that the policy of the Palomar Pomerado Health System's Board of Directors regarding such practices have been properly followed. I recommend that the action requested in each case be taken by the Board of Directors.

MEDICAL STAFF SERVICES



DATE: July 25, 2006
MEMO TO: Palomar Pomerado Health
Board of Directors
FROM: Marvin Levenson, M.D.
Medical Director, Escondido Surgery Center
RE: Medical Staff Recommendations

The Medical Staff of Palomar Medical Center approved the following credentialing recommendations for Escondido Surgery Center for submission to the Board of Directors:

Appointment:

- ◆ Gary D. Gonsalves, M.D., Anesthesiology (08/14/2006 – 07/31/2008)
- ◆ Peter D. Gougov, M.D., Anesthesiology (08/14/2006 – 07/31/2008)
- ◆ Sandi Choi Rigsby, M.D., Anesthesiology (08/14/2006 – 07/31/2008)

Reappointment:

09/01/2006 – 08/31/2008

- ◆ Patrick J. Fitzgerald, M.D., Otolaryngology
- ◆ Philip E. Larkins, D.P.M., Podiatry
- ◆ George N. Riffle, II, M.D., Urology
- ◆ Jerome L. Sinsky, M.D., OB/GYN

Certification by and Recommendation of Escondido Surgery Center Medical Director:

As Medical Director of Escondido Surgery Center, I certify that the procedures described in the Escondido Surgery Center Bylaws for appointment, reappointment or the granting of privileges and that the policy of the Palomar Pomerado Health Board of Directors regarding such practices have been properly followed. I recommend that the action requested in each case be taken by the Board of Directors.

PALOMAR MEDICAL
CENTER
555 East Valley Parkway
Escondido, CA 92025
Tel 760.739.3140
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POMERADO
HOSPITAL
15615 Pomerado Road
Poway, CA 92064
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Fax 858.613.4217

ESCONDIDO
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Pomerado Hospital Medical Staff Services
15615 Pomerado Road
Poway, CA 92064
Phone – (858) 613-4664
FAX - (858) 613-4217

DATE: August 1, 2006
TO: Board of Directors - August 14, 2006 Meeting
FROM: Paul E. Tornambe, M.D., Chief of Staff, Pomerado Hospital Medical Staff
SUBJECT: Medical Staff Credentials Recommendations – July 2006:

Credentials Recommendations: July 2006

Provisional Appointments: (08/14/2006 – 07/31/2008)

Gary D. Gonsalves, M.D. – Anesthesiology
Peter D. Gougov, M.D. – Anesthesiology
Sandi Choi Rigsby, M.D. – Anesthesiology
Christopher T. Wiesner, M.D. – Emergency Medicine
Rong Zou, M.D. – Internal Medicine

Biennial Reappointments: (09/01/2006 – 08/31/2008)

David J. Carty, M.D. – Medicine - Active
Robyn G. Cohen, M.D. – Surgery – Active
Pamela O. Danque, M.D. – Pathology – Active
Ronald T. Davis, M.D. – Radiology - Consulting
Patrick J. Fitzgerald, M.D. – Surgery – Active
Harrison D. Fortney, M.D. – Surgery – Active
Marcc J. Lebovits, M.D. – Surgery – Courtesy
Jeffrey R. Lozier, M.D. – Surgery – Active
Jonathan Nissanoff, M.D. – Surgery - Active
George N. Riffle, M.D. – Surgery – Courtesy
Jerome L. Sinsky, M.D. – OB/GYN - Courtesy
Aruna C. Varma, M.D. – Pediatrics – Courtesy
W. David Westinghouse, M.D. – Medicine - Active

Advancements:

Kathleen P. Gates, M.D. - Pediatrics – Active

Allied Health Renewal:

Sharon E. Adler, FNP – Sponsor - Belinda Dure-Smith, M.D. (Centre for Healthcare) 08/14/2006 – 07/31/2008

Allied Health Appointments: (08/14/2006 – 07/31/2008)

Christine L. Cauvet, N.P. – Sponsors Kaiser Physicians – Villa Pomerado
Rachel A. Christian, P.A.-C – Sponsors – CEP Physicians

Resignations

Milton Friedman, M.D. - Anesthesia
Howard N. Kaye, M.D. - Rheumatology
Vishal Mehta, M.D. - Surgery

POMERADO HOSPITAL

Certification by and Recommendation of Chief of Staff: As Chief of Staff of Pomerado Hospital, I certify that the procedures described in the Medical Staff Bylaws for appointment, reappointment, or alternation of staff membership or the granting of privileges and the policy of the Palomar Pomerado Health System's Board of Directors regarding such practices have been properly followed. I recommend that the Board of Directors take the action requested in each case.

**AMENDING ESTABLISHED DATE OF REGULAR BOARD MEETING
for CALENDAR YEAR 2006**

TO: Board of Directors

DATE: August 14, 2006

FROM: Marcelo R. Rivera, MD., Board Chairman

BY: Christine Meaney, Board Assistant

SUBJECT: **RESOLUTION TO AMEND ESTABLISHED DATE OF
REGULAR BOARD MEETING FOR CALENDAR YEAR
2006**

BACKGROUND: Consistent with legal requirements to establish dates, times and locations of Regular Board Meetings prior to the pertinent calendar year, a resolution was approved at the December 12, 2005 Annual Board Meeting.

Following Board Member request, the Chairman has asked that the following date amendment for 2006 be considered for Board approval under Resolution No. 08.14.06 (01) – 23 attached:

Amending November 13 to November 20

It is understood that Pomerado Meeting Room E, the regular location for the month of November, may be available November 20.

ACTION: Board approval is sought.

**RESOLUTION OF THE BOARD OF DIRECTORS OF
PALOMAR POMERADO HEALTH
AMENDING ESTABLISHED DATES OF
REGULAR BOARD MEETINGS
FOR CALENDAR YEAR 2006**

WHEREAS, Palomar Pomerado Health is required, pursuant to Section 54954 of the California Government Code and Section 5.2.2 of the PPH Bylaws, to pass a resolution adopting the time, place and location of the regular board meetings;

WHEREAS, the Board of Directors established the dates of regular board meetings for calendar year 2006 by Resolution No. 12.12.05(01) - 27 at the Annual Meeting of the Board of Directors held on December 12, 2006;

WHEREAS, the Board of Directors wishes to change the date of the regular meeting currently scheduled on November 13 to November 20;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of Palomar Pomerado Health that the following amended schedule of regular meetings will apply for the remaining calendar year 2006:

2006 AMENDED BOARD MEETING SCHEDULE

August 14	PMC
September 11	Pomerado
October 9	PMC
November 20	Pomerado
December 11	PMC

Each meeting will begin at **6:30 p.m.** Those meetings held at Palomar will be in Graybill Auditorium; those at Pomerado will be in the third floor meeting room.

PASSED AND ADOPTED at a Regular Meeting of the Board of Directors of Palomar Pomerado Health, held on August 14, 2006, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAINING:

DATED: August 14, 2006

APPROVED:

ATTESTED:

Marcelo R. Rivera, M.D. Chairman
Board of Directors

Linda C. Greer, R.N., Secretary
Board of Directors

Informational Presentation: Year in Review

TO: PPH Board of Directors

MEETING DATE: August 14, 2006

FROM: Wallie George
Chief Human Resources Officer

BACKGROUND: HR Committee annually receives a review of HR activities, including: an assessment of recruitment, turnover rates, retention and union grievances.

1. Vacancy rates were presented as a comparison to the CHA data. It was noted that trending is directly linked to current events. I.e.: State mandates for the nurse/patient ratio caused an increase in vacancy rates, redefining employee positions could cause a decrease in vacancy rates.
2. Retention rates are increasing as HR changes practices. I.e.: hiring a New Hire Coordinator, streamlining of system access for new hires, ordering business cards before the employee arrives, getting voice mail established, etc.
3. Turnover rates are also compared to the CHA database. The national rate is approximately 20%. PPH has a 13-14% turnover rate.
4. Terminations were graphed by duration/length of service at PPH. Most employees leave within the first 180-365 days. The 90-day terminations are lessening.
 - a. The current system for capturing verbatim from terminating employees is inadequate. The current report consists of information provided to HR via the manager of the terminating employee.
 - b. A company called The Work Institute has received a contract to begin telephone surveys with terminated employees. Individual identities will remain anonymous to PPH with results reported in the aggregate. It is anticipated that the information provided by this company will contain more complete and accurate verbatim.
5. Also provided was a graph indicating the number of RN positions offered, accepted, and declined. It was noted that during the negotiations period there was an increase in the number of positions declined, possibly due to salary issues.
 - a. Now that negotiations are over, nurses who had declined positions due to salary will be re-contacted (salaries were lower than the community standard prior to negotiations).

BUDGET IMPACT: Not Applicable

STAFF RECOMMENDATION:

Informational Presentation: Year in Review

COMMITTEE QUESTIONS:

1. A. Larson wanted to know if it was possible to benchmark against the top employers of the healthcare field rather than CHA.
2. G. Bracht questioned the possibility of asking CHA for benchmark data from the employers at the top of their bell curve.

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information: X

Required Time:

Informational: Severance Procedure

TO: PPH Board of Directors
MEETING DATE: August 14, 2006
FROM: Wallie George
Chief Human Resources Officer

BACKGROUND: The Severance Procedure was recently updated to recognize longevity for employees and to match the current process.

BUDGET IMPACT: Not Applicable

STAFF RECOMMENDATION:

N. Bassett requested a summary of changes between the current Severance Procedure and the revised edition. Summary to be available for the August HR Committee meeting.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information: X

Required Time:

Update: Non-Smoking Issue Policy

TO: PPH Board of Directors
MEETING DATE: August 14, 2006
FROM: Wallie George
Chief Human Resources Officer

BACKGROUND: Board Member Greer requested HR Committee discuss the possible creation of a PPH Campus Non-Smoking Policy. Focus Groups were established to involve PPH employees in the development of non-smoking facilities/campuses.

G. Bracht has discussed becoming a non-smoking campus with the PMC Council of Chairs. The major concern of the Council members is the question of enforcing a non-smoking environment.

BUDGET IMPACT: Not Applicable

STAFF RECOMMENDATION:
Non-smoking issue to be placed on the EMT agenda for further discussion.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion:
Individual Action:
Information: X
Required Time:

Informational: COPE/Clinical Care Extender Program

TO: PPH Board of Directors
MEETING DATE: August 14, 2006
FROM: Nancy Bassett, RN
Chair Human Resources Committee

BACKGROUND: Palomar Pomerado Health (PPH) entered into a contractual relationship with Community Outreach and Prevention Education (COPE) in July 2005 as part of a long-term workforce planning and development strategy. Representatives from COPE Health Solutions provided an update at the July 18, 2006, meeting of the Board Human Resources Committee on the services implemented at PPH within the past year, including the Clinical Care Extender program and the Medical Interpreter services.

BUDGET IMPACT: Not Applicable

STAFF RECOMMENDATION:

Recommendation made that the COPE program be presented at the August 14, 2006 PPH Board meeting.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information: X

Required Time:

Status of the Internal Audit Committee

TO: Board of Directors

DATE: August 14, 2006

FROM: Internal Audit Committee
July 19, 2006

BY: Thomas Boyle, Director Internal Audit Services

Background: This was for information only. In attendance were: Directors Rivera, Krider and Powers.

- Reviewed the Internal Audit Risk Assessment for Quarter 2 of 2006

Scheduled future meetings as follows:

October 12 – Innovation conference room A
January 11 – PMC TBD

Budget Impact: None

Staff Recommendation: None

Committee Questions: None

Next Meeting: October 12, 2006, 12:00 Noon @ Innovation Conference Room.

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information: X

Required Time:

**Bank and Investment Account
Named Signatory Changes**

TO: Board of Directors
MEETING DATE: Monday, August 14, 2006
FROM: Board Finance Committee
 Tuesday, August 1, 2006
BY: Bob Hemker, CFO

BACKGROUND: The following changes are being made to the board-designated signatory lists (*attached*) for PPH Bank and Investment Accounts. As the Resolutions currently in place pertain to the titles of the authorized signatories, these changes regarding the names of the authorized signatories are informational in nature and do not require any action on the part of the Board.

NAMING OF AUTHORIZED SIGNATORY - <i>info only</i>		
All Bank Accounts (Except Auxiliary and Health Development Accounts)	Corporate Controller Director of Finance	Tim Nguyen Genevieve Nelwan
All Investment Accounts (Except PPH GO Bond Accounts)	Corporate Controller Director of Finance	Tim Nguyen Genevieve Nelwan

BUDGET IMPACT: None

STAFF RECOMMENDATION: Information only

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:
Motion:
Individual Action:
Information: X
Required Time:

**Palomar Pomerado Health
Bank Accounts**

Resolution Number	Account Name	General Ledger #	Institution Account No	Authorized Title	Name ¹	Required Signatures and Limits	Account Purpose
	Investment Fund Savings	31-1512.11000	Bank of America 14508-03951	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht, Jim Flinn Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	Two approvals needed for telephonic and electronic fund transfers.	Receipts: Deposit investment fund cash receipts into this account. Disbursements: By telephonic and electronic only for transfers to operating fund accounts and investments.
	PPH Central Checking	01-1001.00000	Bank of America 14504-50006	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	Two handwritten signatures on amounts \$0.00 and above.	Receipts: Deposit all patient cash receipts and other operating income into this account. Disbursements: Used to transfer to other checking accounts. Also telephonic transfers for investments.
	PPH Central Accounts Payable	01-1003.00000	Bank of America ² 14508-03938	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	One facsimile signature for amounts below \$10,000.01. One manual and one facsimile signature for amounts \$10,000.01 and up. Manual checks require one handwritten signature for amounts below \$10,000.01 and two manual signatures for amounts \$10,000.01 and up.	Receipts: Deposit from Central checking. Disbursements: Used to pay all expenses (except payroll) for all facilities.
	PPH Payroll	01-1002.00000	Bank of America ² 14504-03939	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	One facsimile signature for amounts \$0.00 and above. One handwritten signature on manual checks.	Receipts: Transfers from the Central checking account. Disbursements: Pay net payroll for all PPH employees.
	PPIA General Checking	Not part of PPH GL.	Bank of America ² 14508-52046	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	One facsimile signature for amounts below \$10,000.01. One manual and one facsimile signature for amounts \$10,000.01 and up. Manual checks require one handwritten signature for amounts below \$10,000.01 and two manual signatures for amounts \$10,000.01 and up.	Receipts: Fees and other revenue received from contracting facilities. Disbursements: Expenditures for PPPIA expenses and other financial obligations.
	PPH TPA Checking	01-1003.13000	Bank of America ² 14505-08318	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	One facsimile signature for amounts below \$10,000.01. One manual and one facsimile signature for amounts \$10,000.01 and up. Manual checks require one handwritten signature for amounts below \$10,000.01 and two manual signatures for amounts \$10,000.01 and up.	Receipts: Checks received for Managed Care claims per contractual agreement. Disbursements: Managed Care claims and other financial obligations.

06.12.06 (01) - 14

2006-08-14 bankacct & investment.xls Bank Accounts
¹Names given for informational purposes only - Resolution pertains to job title.
²CFO, CAO - PMC and CAO - POM have authorization for facsimile signature.

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Bank Accounts

Resolution Number	Account Name	General Ledger #	Institution Account No.	Authorized Title	Name ¹	Required Signatures and Limits	Account Purpose
	PCCC Patient Trust Checking	Not part of PPH GL.	Bank of America 14501-04973	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Chief Administrator SNF Services Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Steve Gold Tim Nguyen Genevieve Nelwan	Two handwritten signatures are required on amounts \$0.00 and up.	Receipts: Deposit money received on behalf of patients to serve patient needs. Interest bearing checking account. Disbursements: Disbursements of funds to pay convalescent center obligations and/or patient's miscellaneous personal obligations.
	Villa POM Patient Trust Checking	Not part of PPH GL.	Bank of America 14505-50374	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Chief Administrator SNF Services Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Steve Gold Tim Nguyen Genevieve Nelwan	Two handwritten signatures are required on amounts \$0.00 and up.	Receipts: Deposit money received on behalf of patients to serve patient needs. Interest bearing checking account. Disbursements: Disbursements of funds to pay convalescent center obligations and/or patient's miscellaneous personal obligations.
	VRC Gateway Checking	03-1001-01000	Union Bank 01600025-65	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance VRC President VRC Treasurer VRC Secretary	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan Gary P. Spoto, M.D. Andrew D. Polansky, M.D. Steven J. Taggart, M.D.	Two signatures required on all amounts \$0.00 and up.	Receipts: Deposit VRC Gateway cash receipts for technical fees, professional fees and other income. Disbursements: Expenditures for VRC Gateway expenses and other VRC Gateway financial obligations.
	VRC Parkway Checking	02-1001-01000	Union Bank 01600025-57	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance VRC President VRC Treasurer VRC Secretary	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan Gary P. Spoto, M.D. Andrew D. Polansky, M.D. Steven J. Taggart, M.D.	Two signatures required on all amounts \$0.00 and up.	Receipts: Deposit VRC Parkway cash receipts for technical fees, professional fees and other income. Disbursements: Expenditures for VRC Parkway expenses and other VRC Parkway financial obligations.
	Escondido Surgery Center Savings	Not part of PPH GL.	Rancho Santa Fe National Bank 03008436-71	President/CEO Chief Financial Officer Chief Planning Officer Chief Human Resources Officer Chief Clinical Outreach Officer Corporate Controller Director of Finance ESC Administrator ESC Nurse Manager	Michael Covert Bob Hemker Marcia Jackson Wallie George Sheila Brown Tim Nguyen Genevieve Nelwan Marvin Levenson Beverly Berg	Two signatures on all checks amount \$0.00 and up.	Receipts: Deposit all Surgery Center cash receipts. Disbursements: By telephone transfer to Revolving Checking account.
	343 E. 2nd Avenue Investors, LP Checking	Not part of PPH GL.	Rancho Santa Fe National Bank 03009831-70	President/CEO Chief Financial Officer Chief Planning Officer Chief Human Resources Officer Chief Clinical Outreach Officer Corporate Controller Director of Finance ESC Administrator ESC Nurse Manager	Michael Covert Bob Hemker Marcia Jackson Wallie George Sheila Brown Tim Nguyen Genevieve Nelwan Marvin Levenson Beverly Berg	Two signatures on all checks amount \$0.00 and up.	Receipts: Money earned from land lease. Disbursements: Money disbursed to land investors and to cover accounting and legal fees.

06.12.06 (01) - 14

2006-08-14 bankacct & investment.xls Bank Accounts
¹Names given for informational purposes only - Resolution pertains to job title.
²CFO, CAO - PMC and CAO - POM have authorization for facsimile signature.

**Paiomar Pomerado Hawaii
Bank Accounts**

Resolution Number	Account Name	General Ledger #	Institution Account No.	Authorized Title	Name ¹	Required Signatures and Limits	Account Purpose
06.12.06 (01) - 14 & 06.12.06 (02) - 15	PMC Auxiliary Gift Shop Checking	Not part of PPH GL.	Bank of America 01695-21649	Auxiliary President Auxiliary Treasurer Auxiliary Secretary	Eleanor Schuitze Jodie Kroon Fran Cummings	Two handwritten signatures on amounts \$0.00 and above.	<u>Receipts:</u> To transfer funds from savings to cover expenses. <u>Disbursements:</u> To pay bills concerning PMC Auxiliary and purchases for Palomar Medical Center.
	PMC Auxiliary Gift Shop Savings	Not part of PPH GL.	Bank of America 01699-85096	Auxiliary President Auxiliary Treasurer Auxiliary Secretary	Eleanor Schuitze Jodie Kroon Fran Cummings	Two handwritten signatures on amounts \$0.00 and above.	<u>Receipts:</u> To transfer funds for scholarships. <u>Disbursements:</u> Yearly \$5000 scholarships.
	PMC Auxiliary Gift Shop Savings	Not part of PPH GL.	Bank of America 01692-85094	Auxiliary President Auxiliary Treasurer Auxiliary Secretary	Eleanor Schuitze Jodie Kroon Fran Cummings	Two handwritten signatures on amounts \$0.00 and above.	<u>Receipts:</u> Interest received used for scholarships. <u>Disbursements:</u> Transfer excess funds at maturity to general scholarship account.
	PMC Auxiliary Gift Shop Savings	Not part of PPH GL.	Bank of America 01692-85094	Auxiliary President Auxiliary Treasurer Auxiliary Secretary	Eleanor Schuitze Jodie Kroon Fran Cummings	Two handwritten signatures on amounts \$0.00 and above.	<u>Receipts:</u> To transfer from checking excess funds to hold for gifts to hospital. <u>Disbursements:</u> Transfer to checking funds needed for gifts to hospital.
	PMC Auxiliary Gift Shop Savings	Not part of PPH GL.	Bank of America 01695-85098	Auxiliary President Auxiliary Treasurer Auxiliary Secretary	Eleanor Schuitze Jodie Kroon Fran Cummings	Two handwritten signatures on amounts \$0.00 and above.	<u>Receipts:</u> To deposit funds received for remembrance of members. <u>Disbursements:</u> Expenses incurred.
	Pre-1993 Workers' Comp Claims Account	Not yet available	Wells Fargo 4121-230080	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hermer Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan		<u>Receipts:</u> <u>Disbursements:</u> Pay Workers Compensation claims both in Delta Workers Compensation Pool (pre-1993) and current.

Bank Accounts

Resolution Number	Account Name	General Ledger #	Institution Account No.	Authorized Title	Name ¹	Required Signatures and Limits	Account Purpose
06.12.06 (01) - 14	PPH Payroll in Lawson	IVIS = Not Applicable Lawson = 100201-0000	Bank of America ² 73132-03616	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	One facsimile signature for amounts \$0.00 and above. One handwritten signature on manual checks.	<u>Receipts:</u> Transfers from the Central checking account. <u>Disbursements:</u> Pay net payroll for all PPH employees.
	PPH Central Accounts Payable in Lawson	IVIS = Not Applicable Lawson = 100303-0000	Bank of America ² 73132-03593	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	One facsimile signature for amounts below \$10,000.01. One manual and one facsimile signature for amounts \$10,000.01 and up. Manual checks require one handwritten signature for amounts below \$10,000.01 and two manual signatures for amounts \$10,000.01 and up.	<u>Receipts:</u> Deposit from Central checking. <u>Disbursements:</u> Used to pay all expenses (except payroll) for all facilities.
	Palomar Pomerado North County Health Development	Not part of PPH GL.	Bank of America 14596-24521	President/CEO Chief Financial Officer Secretary	Michael Covert Bob Hemker Bradley Wiscons	One handwritten signature by the Secretary for amounts below \$5,000.01. Two handwritten signatures by the Secretary and either the President/CEO or CFO for amounts above \$5,000.01 Amounts exceeding \$249,999.00 require Board action.	<u>Receipts:</u> Deposit from PPH Central checking. <u>Disbursements:</u> Used to pay all expenses (except payroll) for PPNC Health Development.

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**Palomar Hemerado Health
Investment Accounts**

Resolution Number	Account Name	Institution Account No.	Authorized Title	Name	Required Signatures and Limits	Account Purpose
	Investment Fund	Morgan Stanley 123-095476-038	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Excess operational funds not immediately needed. <u>Disbursements:</u> Transfers to operational funds to meet cash requirements.
	Investment Fund	Salomon Brothers 123-095465-038	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Excess operational funds not immediately needed. <u>Disbursements:</u> Transfers to operational funds to meet cash requirements.
	Investment Fund	Pacific Income Advisors 123-095464-038	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Excess operational funds not immediately needed. <u>Disbursements:</u> Transfers to operational funds to meet cash requirements.
	Investment Fund	Local Agency Investment Fund (LAIF) 20-37-004	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Excess operational funds not immediately needed. <u>Disbursements:</u> Transfers to operational funds to meet cash requirements.
	Money Market Account	Fidelity 00080348725	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Excess operational funds not immediately needed. <u>Disbursements:</u> Transfers to operational funds to meet cash requirements.
	Pomerado Hospital Authority Escrow Fund 1978 Bond Issue	U.S. Bank Corporate Trust 34625230	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Interest earned on escrow <u>Disbursements:</u> Payment of bond indebtedness.

06.12.06 (01) - 14

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**Raiomar Romeroago heain
Investment Accounts**

Resolution Number	Account Name	Institution Account No.	Authorized Title	Name ¹	Required Signatures and Limits	Account Purpose
06.12.06 (01) - 14	Pomerado Hospital Authority Escrow Fund 1978 Bond Issue	U.S. Bank Corporate Trust 94625840	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Interest earned on escrow <u>Disbursements:</u> Payment of bond indebtedness.
	Revenue Bonds 1993 Issue	U.S. Bank Corporate Trust 94622930	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Transfer from operational funds to meet debt service payments. <u>Disbursements:</u> Payment of bond indebtedness.
	Revenue Bonds 1999 Issue	U.S. Bank Corporate Trust 95465800	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Transfer from operational funds to meet debt service payments. <u>Disbursements:</u> Payment of bond indebtedness.
	Repurchase Agreement	Morgan Stanley 64892719	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance	Michael Covert Bob Hemker Gerald Bracht Jim Flinn Marcia Jackson Wallie George Tim Nguyen Genevieve Nelwan	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Transfer from operational funds to meet debt service payments. <u>Disbursements:</u> Payment of bond indebtedness.
	PPH GO Bond Election of 2004 Series 2005A Interest and Sinking Fund	Wells Fargo 1804050	President/CEO Chief Financial Officer	Michael Covert Bob Hemker	One authorized signature on all documents.	<u>Receipts:</u> Receive monies from County of San Diego tax roll. <u>Disbursements:</u> Payment of Interest and Principal to Bond Holders.
	PPH GO Bond Election of 2004 Series 2005A Project Fund	Wells Fargo 1804501	President/CEO Chief Financial Officer	Michael Covert Bob Hemker	One authorized signature on all documents.	<u>Receipts:</u> Proceeds from Bond sale. Interest Income earned. <u>Disbursements:</u> Disburse funds to PPH for project costs.

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Investment Accounts

Resolution Number	Account Name	Institution Account No.	Authorized Title	Name ¹	Required Signatures and Limits	Account Purpose
06.12.06 (01) - 14 & 06.12.06 (04) - 17	Citracado Road Public Benefit Development Account	Wells Fargo 18040503	President/CEO - PPH Chief Financial Officer - PPH Controller - PPH Director of Finance - PPH Director of Finance - City of Escondido Revenue Manager - City of Escondido City Manager - City of Escondido	Michael Covert Bob Hemker Tim Nguyen Genevieve Nelwan Gil Rojas Joan Ryan Clay Phillips	Two authorized signatures (one each from PPH & City of Escondido) on all documents.	Receipts: One-time funding of \$13 million plus earned interest. Disbursements: Authorized uses pursuant to Development Agreement dated February 15, 2006.

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**Status Report on the
2006 Revenue Bond Issuance**

TO: Board of Directors
MEETING DATE: Monday, August 14, 2006
FROM: Board Finance Committee
Tuesday, August 1, 2006
BY: Bob Hemker, CFO

Background: At the Finance Committee meeting, the status of the 2006 Revenue Bond issuance was discussed, utilizing the attached presentation.

Budget Impact: N/A

Staff Recommendation: Staff presentation was informational. Further updates will be provided via the August and September Board Finance Committee meetings.

Committee Questions:

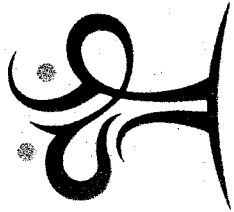
COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information: X

Required Time:



PALOMAR
POMERADO
HEALTH

Plan of Finance Update

August 1, 2006

citigroup
corporate and
investment banking

KaufmanHall

Overview

Under review / current status:

- 2006 Revenue Bond New Money - \$150.0 million
- 1993 Revenue Bond Refunding - \$23.2 million (currently callable)
- 1999 Revenue Bond Refunding - \$58.2 million (callable in 2009)

Issues related to refunding of 1993 and 1999:

- The Series 1993 and 1999 Bond documents contain language that is not favorable to PPH and needs to be addressed
 - The language may prevent PPH from issuing both Revenue and GO bonds if certain financial targets are not met
 - The Series 1993 bonds are currently callable and can be refunded to generate savings as well as eliminate the unfavorable language
 - The Series 1999 bonds are callable May 2009, thus the unfavorable language will be in effect until 2009 unless the bonds are refunded or the language is modified

Overview (cont.)

- Issues related to the covenants issues include:
 - The treatment of GO debt in all covenant analysis and additional debt test
 - No language addressing the use of interest rate swaps
 - A Gross Revenue Pledge that is different than that requested by 2006 insurers

Master Trust Indenture Overview

- The *Master Trust Indenture* (“MTI”) is a legal document between PPH and bondholders that contains all of the security provisions and covenants related to PPH’s indebtedness
- PPH has several options for modifying the existing Master Trust Indenture language in the current plan of finance for the Series 2006 Bonds
 - Option #1 – Refund the 1993 Bonds and leave the 1999 Bonds outstanding
 - Create an improved current MTI that would co-exist with the 1999 MTI until those bonds are called
 - Create an improved current MTI and request that MBIA amend and restate the 1999 MTI to match it
- Option #2 – Refund both the 1993 and 1999 Bonds
 - Allows implementation of new MTI with Series 2006 issue, without need for MBIA consent
 - Timing is beneficial to PPH given negotiations with insurers
 - Eliminates burden of dealing with multiple insurers and sets of covenants
 - Eliminates possibility of triggering existing covenants between now and 2009
 - Presents opportunity to potentially create overall level debt service with lower MADS
 - 1993 Bonds generate debt service savings in the current market; 1999 Bonds do not

Refunding Analysis – Overview

Refunding Analysis - Matched Maturity	Tax-Exempt Synthetic Fixed Rate 1,2,3,4,5	Taxable/Tax-Exempt Synthetic Fixed Rate 1,4,5,6
Series	1993	1999
Refunded Par Amount	\$23,245,000	\$58,165,000
Refunding Par Amount	\$24,735,000	\$62,325,000
Gross Debt Service	\$31,920,458	\$74,141,780
Average Annual Debt Service	\$1,875,835	\$9,248,455
Total Debt Service Savings	\$1,060,308	(\$2,054,676)
Average Annual Debt Service Savings	\$58,906	(\$228,297)
P V Savings	\$919,516	(\$1,757,845)
P V Savings as % of Refunded	3.96%	(3.02%)

See page 8 for assumptions to refunding analysis.

Financing Summary

	New Money plus Existing 1,2	New Money plus Existing 1,2	New Money plus Existing Bonds and Refunding of 93 Bonds 1,2,3,4	New Money plus Existing Bonds and Refunding of 93 Bonds 1,2,3,4	New Money and Refunding of 93 and 99 Bonds 1,2,3,4
<i>Par</i>	\$ 150,000,000	\$ 232,665,000	\$ 232,900,000	\$ 232,900,000	\$ 237,925,000
<i>All-in TIC</i>	4.18%	4.18%	4.19%	4.19%	4.34%
<i>Total Interest</i>	\$ 123,339,416	\$ 150,334,615	\$ 141,838,656	\$ 141,838,656	\$ 142,458,791
<i>Total Debt Service</i>	\$ 273,339,416	\$ 382,999,615	\$ 376,210,146	\$ 376,210,146	\$ 380,383,791
<i>Average Annual Debt Service</i>	\$ 9,106,255	\$ 12,354,826	\$ 12,153,484	\$ 12,153,484	\$ 12,672,419
<i>Maximum Annual Debt Service</i>	\$ 10,954,242	\$ 16,412,594	\$ 16,384,694	\$ 16,384,694	\$ 16,711,269
<i>Insurance Premium Benefit</i>	N/A	N/A	-5bps	-5bps	-10bps

Observations:

- > The larger deal size may allow PPH to reduce the insurance premium (in basis points) paid to Series 2006 insurer(s)
- > A refunding of the Series 1999 may allow PPH to restructure the debt service

See page 8 for assumptions to refunding analysis.

Next Steps

- Confirm with 2006 insurer(s) their willingness to:
 1. Insure additional bonds to refund the Series 1993 bonds
 2. Potentially insure additional bonds to refund the Series 1999 Bonds; and/or
 3. Accept certain terms and conditions that would accommodate leaving the Series 1999 bonds, and the associated MTI, outstanding
- Based upon the outcome of those discussions, either:
 1. Request that MBIA modify certain provisions of the 1999 MTI which would enable PPH to issue the Series 2006 Bonds while leaving the 1999 Bonds outstanding; or
 2. Decide to refund the 1999 bonds with new, taxable bonds that could be themselves refunded with tax-exempt bonds following the call date of the 1999 Bonds
- Finalize the plan of finance within a 2-3 week time frame, including:
 - Receive insurance commitment for new money and potential refunding of existing debt
 - If the 1999 bonds are to remain outstanding, negotiate required MTI amendments with MBIA
 - If the 1999 bonds are to be refunded, determine structure and amortization of refunding bonds

6x

Assumptions

Slide 4

Note: Rates as of 07/28/2006, subject to market conditions, documentation, and credit approval. PV Savings discounted at estimated bond yield of each scenario.

- 1 Assumes bond insurance premium of 1.95% of total debt service.
 - 2 Synthetic Fixed Refunding Scenario assumes underlying ARS.
 - 3 Synthetic Fixed Rate Bonds assume a floating-to-fixed swap where PPH receives 54.00% of LIBOR + 0.35% and pays fixed. Assumes floating rate received from Citibank equals floating rate paid on underlying ARS. Actual results may vary. Present Value Savings are estimates will depend on future market conditions
 - 4 Assumes 0.26% for broker-dealer and auction agent fees; fees are estimates and are subject to change over the life of the transaction, which may impact total debt service cost and present value savings. Actual future variable rate cost may vary.
 - 5 For illustration purposes only; actual results will depend on future market conditions.
 - 6 Rates as of 07/31/2006, subject to market conditions, documentation, and credit approval. PV Savings discounted at estimated bond yield of each scenario. Assumes a floating-to-fixed swap where PPH receives 100% of LIBOR through the 5/1/09 call and pays a fixed rate. After the 5/1/09 call date, PPH receives 54.00% of LIBOR + 0.35% and pays fixed. Assumes floating rate received from Citibank equals floating rate paid on underlying ARS. Actual results may vary. Present Value Savings are estimates will depend on future market conditions. Assumes bond insurance premium of 1.95% of total debt service at 5.19% (current RBI). Assumes 0.26% for broker-dealer and auction agent fees; fees are estimates and are subject to change over the life of the transaction, which may impact total debt service cost and present value savings. Actual future variable rate cost may vary.
- For illustration purposes only; actual results will depend on future market conditions.

Slide 5

Note: Rates as of 07/28/2006, subject to market conditions, documentation, and credit approval. PV Savings discounted at estimated bond yield of each scenario.

- 1 Assumes bond insurance premiums of 1.95%, 1.90% or 1.85% of total debt service depending on scenario.
- 2 Synthetic Fixed Rate Bonds assume a floating-to-fixed swap where PPH receives 54.00% of LIBOR + 0.35% and pays fixed. Assumes floating rate received from Citibank equals floating rate paid on underlying ARS. Actual results may vary. Present Value Savings are estimates will depend on future market conditions
- 3 Assumes 0.26% for broker-dealer and auction agent fees; fees are estimates and are subject to change over the life of the transaction, which may impact total debt service cost and present value savings. Actual future variable rate cost may vary.
- 4 For illustration purposes only; actual results will depend on future market conditions.

Approval: Pension and Deferred Comp Plans Amendment

TO: PPH Board of Directors

MEETING DATE: August 14, 2006

FROM: Nancy Bassett, RN
Chair Human Resources Committee

BACKGROUND: In the union contracts, we agreed to increase the pension plan contribution to 6.5% after 15 years of service in addition to matching the employees' contribution to the deferred compensation plan. The deferred compensation plan has a maximum contribution limit defined by the IRS (current \$15,000/year or \$20,000/year if over age 50). Any PPH contributions to this plan would reduce the amount of money that employees could defer. In order to not reduce employee deferrals, PPH will base the matching contribution on the employee's deferral but the actual PPH contribution will be made to the pension plan. The same provisions currently in place in the pension plan will also apply to the matching contributions. The attached amendment to the pension plan provides for increase in the pension plan contribution at 15 years and the addition to a contribution that matches the employee deferral to the deferred compensation plan deferrals.

BUDGET IMPACT: Not Applicable – included in approved budget

STAFF RECOMMENDATION:
Staff recommend acceptance of the proposed changes by the Pension Committee with movement forward to the full Board for acceptance.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion: X

Individual Action:

Information:

Required Time:

**AMENDMENT NO 1
TO THE
PALOMAR POMERADO HEALTH
MONEY PURCHASE PENSION PLAN
(AMENDED AND RESTATED AS OF JULY 1, 2005)**

WHEREAS, Palomar Pomerado Health (the "Company") adopted the Palomar Pomerado Health Money Purchase Pension Plan (the "Plan") for the benefit of certain of its eligible employees, effective as of July 1, 1980;

WHEREAS, the Plan was recently amended and restated effective as of July 1, 2005;

WHEREAS, Section 12.1 of the Plan provides that the Board of Directors of the Company may amend the Plan from time to time;

WHEREAS, the Board of Directors of the Company desires to amend the Plan to: (i) increase the non-matching Employer Contributions for certain Participants, and (ii) add matching Employer Contributions that are determined based on a Participant's compensation deferrals under the Palomar Pomerado Health Deferred Compensation Plan;

WHEREAS, this Amendment No. 1 shall supersede the provisions of the Plan (as amended and restated effective July 1, 2005) to the extent those provisions are inconsistent with the provisions of this Amendment No. 1;

WHEREAS, capitalized terms not defined herein shall have the meanings ascribed to them in the Plan;

NOW, THEREFORE, effective as of July 9, 2006, with respect payroll periods commencing on and after July 9, 2006, the Plan shall be amended as follows:

1. Addition of New Definition of Compensation Deferrals. A new Section 1.9A (definition of "Compensation Deferrals") is hereby added to read as follows:

1.9A 'Compensation Deferrals' means, with respect to a Participant, the "Employee Contributions" (as defined in the Deferred Compensation Plan) of such Participant, if any, deferred by such Participant under the Deferred Compensation Plan.

2. Addition of New Definition of Deferred Compensation Plan. A new Section 1.10A (definition of "Deferred Compensation Plan") is hereby added to read as follows:

1.10A 'Deferred Compensation Plan' means the Palomar Pomerado Health Deferred Compensation Plan, as it may be amended from time to time.

3. Amendment to Definition of Employer Contributions. The definition of "Employer Contributions" set forth in Section 1.17 of the Plan is hereby amended to read in its entirety as follows:

1.17 'Employer Contributions' means those contributions made by the Employer pursuant to Subsection 3.1, 3.1A or 3.7 of the Plan.

4. Amendment to Non-Matching Employer Contributions. Paragraph 3.1(a) of the Plan is hereby amended to read in its entirety as follows:

(a) For each payroll period, the Employer shall make Employer Contributions for each Participant who is an Eligible Employee during such payroll period in an amount to be allocated to such Participant's Employer Contributions Account, determined as follows:

(1) except as provided in subparagraph (2), the Employer Contribution shall equal to six percent of the Participant's Compensation for such payroll period, or

(2) if the Participant has completed 15 or more Years of Service, determined as of the anniversary of the Participant's date of hire, for payroll periods commencing on or after such anniversary, the Employer Contribution shall equal six and one-half percent of the Participant's Compensation for such payroll period.

5. Addition of Matching Employer Contributions. A new subsection 3.1A is hereby added to read in its entirety as follows:

3.1A Matching Employer Contributions

For each payroll period, the Employer shall make Employer Contributions for each Participant who is an Eligible Employee during such payroll period and has completed one or more Years of Service, determined as of the first day of such payroll period, in an amount to be allocated to such Participant's Employer Contributions Account, determined as follows:

(a) except as provided in paragraph (b) or (c), the Employer Contribution shall equal the lesser of: (1) 50% of the Participant's Compensation Deferrals for such payroll period, or (2) one percent of the Participant's Compensation for such payroll period,

(b) if the Participant has completed 10 or more Years of Service, but less than 16 Years of Service, determined as of the anniversary of the Participant's date of hire, for payroll periods commencing on or after such anniversary, the Employer Contribution shall equal the lesser of: (1) 100% of the Participant's Compensation Deferrals for such payroll period, and (2) two percent of the Participant's Compensation for such payroll period, or

(c) if the Participant has completed 16 or more Years of Service, determined as the anniversary of the Participant's date of hire, for payroll periods commencing on or after such anniversary, the Employer Contribution shall equal the lesser of: (1) 150% of the Participant's Compensation Deferrals for such payroll period, and (2) three percent of the Participant's Compensation for such payroll period.

6. Conforming Amendment. Section 9.7 of the Plan is hereby amended to read in its entirety as follows:

9.7 Failure to Locate Payee

If any amount is payable from the Trust Fund to any person and, after written notice from the Administrator mailed to such person's last known address, and such person shall not have presented himself or herself to the Administrator within one year after the mailing of such notice, such amount shall be forfeited and applied to reduce Employer Contributions pursuant to Subsections 3.1 and 3.1A; provided, however, that the forfeited amount shall be restored and paid to the proper payee without being credited with interest or any other earnings upon any ultimate claim for benefits by such proper payee prior to complete Plan termination. Upon complete termination of this Plan, any unclaimed amounts that have not been forfeited shall first be applied to reduce Employer Contributions then due pursuant to Subsections 3.1 and 3.1A. Any remaining unclaimed amounts shall be allocated among all remaining Participants in proportion to their Compensation for the portion of the Plan Year prior to the termination date, subject to the limitations of Section 3.4 (setting forth the limits under Code Section 415). The right of any person to restoration of forfeited or unclaimed amounts shall cease upon final distribution due to complete termination of this Plan.

7. Conforming Amendment to Qualified Governmental Excess Benefit Arrangement. Paragraph 3.2(b) of Appendix C of the Plan is hereby amended to read in its entirety as follows:

(b) Amount of Employer Contributions under this Arrangement. The amount of Employer Contributions to be made under this Arrangement shall be equal to the Employer Contributions that would otherwise have been contributed to or on behalf of a Participant pursuant to Sections 3.1, 3.1A and 3.7 of the Plan but which were not paid because of the limitations on contributions imposed by Section 415 of the Code and Section 3.4 of the Plan. The amounts to be contributed hereunder, if any, shall be calculated for purposes of the Plan Year ending on June 30, 2004 by the Administrator for such Plan Year, and for subsequent Plan Years for each payroll period, and contributed by the Employer for such Plan Year or payroll period, as applicable, and allocated to the Arrangement Accounts of the Participants in this Arrangement.

IN WITNESS WHEREOF, the undersigned has caused this Amendment No. 1 to be executed as of _____, 2006.

PALOMAR POMERADO HEALTH

By: _____

Title: _____

Establishment of Appropriations Limit for Fiscal Year 2007

TO: Board of Directors

MEETING DATE: Monday, August 14, 2006

FROM: Board Finance Committee
Tuesday, August 1, 2006

FROM: Robert A. Hemker, CFO

BACKGROUND: The Board of Directors of Palomar Pomerado Health annually adopts the Appropriations Limit for the district, pursuant to Article XIII B of the California Constitution. This action requests approval of the County's Appropriations Limit for Fiscal Year 2007 (*see attached*). This limit applies only to unrestricted appropriations and is not related to any appropriations that are restricted for the General Obligation Bonds.

The Appropriations Limit is calculated to be \$43,610,897 for Fiscal Year 2007. The District is substantially under that limit and is expected to receive approximately \$12,000,000 in unrestricted property tax revenues in Fiscal Year 2007.

BUDGET IMPACT: None

STAFF RECOMMENDATION: Approval of the Appropriations Limit for Palomar Pomerado Health for Fiscal Year 2007.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends approval of the Appropriations Limit for Palomar Pomerado Health for Fiscal Year 2007.

Motion:

Individual Action: X

Information:

Required Time:

PUBLIC NOTICE

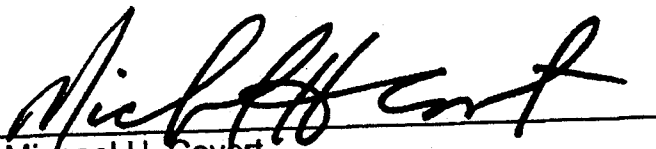
The Board of Directors of Palomar Pomerado Health will establish its Appropriations Limit for the 2006/2007 fiscal year at its regularly scheduled meeting to be held at 6:30 P.M. on August 14, 2006, in the Graybill Auditorium of Palomar Medical Center, 555 East Valley Parkway, Escondido, California 92025. This Appropriations Limit is for the unrestricted appropriations and is in no way related to the appropriations for the 2005 General Obligation Bonds. The documentation used in the determination of the Appropriations Limit is available to the public at the office of the President and Chief Executive Officer, 15255 Innovation Drive, San Diego, California 92128.

DATED: _____

7/18/06

PALOMAR POMERADO HEALTH
A California Health Care District

BY: _____



Michael H. Covert
Chief Executive Officer

NARRATIVE ON THE RECENT HISTORY OF TAXATION

Palomar Pomerado Health has two types of property taxes available as follows:

SPECIAL ASSESSMENT FOR GENERAL OBLIGATION BONDS

The taxes necessary to pay the interest and principal for the 1966 Series A and 1966 Series B Palomar Memorial Hospital General Obligation Bonds that were approved by a two thirds majority of the voters prior to 1978. These tax revenues were exempt from the provisions of Proposition No. 13 and they were restricted for this specific purpose. The final payment on these bonds was made on May 1, 1998.

The taxes necessary to pay the interest and principal for Election of 2004, Series 2005A Palomar Pomerado Health General Obligation Bonds that were approved by a two thirds majority of the voters in November, 2004. These tax revenues are restricted for the specific purpose of the election campaign of 2004.

OTHER PROPERTY TAXES

A tax equal to 1% of the full cash value of property is levied each fiscal year by the county and distributed to governmental agencies within the county according to a formula mandated by the state legislature. (California Constitution Article XIII(A); Revenue and Taxation Code Section 97). The state legislature and the county place no restrictions on the tax monies granted to local government agencies, such as Palomar Pomerado Health. (Part 0.5, Division 1 of the Revenue and Taxation Code.) Since these tax revenues are unrestricted, it is not necessary to inform the public regarding the intended use of the funds.

The following is a schedule reflecting our total tax revenues by fiscal year for the past twenty-nine years.

Fiscal Year	Total Received Cash Basis	Restricted for Bond Interest & Principal	Unrestricted	From Prior Year (Unrestricted) Increase (Decrease)	
				\$	%
1977/78	\$2,460,384	\$445,211	\$2,015,173	-----	-----
1978/79	1,513,554	518,736	994,818	(1,020,355)	-50.63%
1979/80	1,621,350	428,585	1,192,765	\$197,947	19.90%
1980/81	1,914,882	458,941	1,455,941	263,176	22.06%
1981/82	2,157,298	425,948	1,731,350	275,409	18.92%
1982/83	2,245,799	431,669	1,814,130	82,780	4.78%
1983/84	2,453,236	454,544	1,998,692	184,562	10.17%
1984/85	2,618,899	429,139	2,189,760	191,068	9.56%
1985/86	2,922,025	400,336	2,521,689	331,929	15.16%
1986/87	3,325,080	476,027	2,849,053	327,364	12.98%
1987/88	3,590,335	415,348	3,174,987	325,934	11.44%
1988/89	4,009,992	389,724	3,620,268	445,281	14.02%
1989/90	4,644,106	451,969	4,192,137	571,869	15.80%
1990/91	4,898,609	404,912	4,493,697	301,560	7.19%
1991/92	5,305,810	435,226	4,870,584	376,887	8.39%
1992/93	5,230,679	455,415	4,775,264	(95,320)	-1.96%
1993/94	5,405,901	429,917	4,975,984	200,720	4.20%
1994/95	5,589,446	422,427	5,167,019	191,035	3.84%
1995/96	5,604,306	452,813	5,151,493	(15,526)	-0.30%
1996/97	5,641,183	473,160	5,168,023	16,530	0.32%
1997/98	5,862,721	358,706	5,504,015	335,992	6.50%
1998/99	5,915,399	0	5,915,399	411,384	7.47%
1999/00	6,432,482	0	6,432,482	517,083	8.74%
2000/01	7,061,136	0	7,061,136	628,654	9.77%
2001/02	7,693,200	0	7,693,200	632,064	8.95%
2002/03	8,391,961	0	8,391,961	698,761	9.08%
2003/04	9,077,863	0	9,077,863	685,902	8.17%
2004/05	10,180,831	0	10,180,831	1,102,968	12.15%
2005/06	20,853,221	9,303,843	11,549,378	1,368,547	13.44%

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RESOLUTION OF THE BOARD OF DIRECTORS OF
PALOMAR POMERADO HEALTH
ESTABLISHING APPROPRIATIONS LIMIT OF THE DISTRICT
FOR THE FISCAL YEAR JULY 1, 2006 - JUNE 30, 2007
PURSUANT TO ARTICLE XIII(B) OF THE CALIFORNIA CONSTITUTION

WHEREAS, Government Code Section 7910 requires that each year the Board of Directors of this District shall, by resolution, establish the District's appropriations limit for the following fiscal year pursuant to Article XIII (B) of the California Constitution; and

WHEREAS, for not less than fifteen days prior to this meeting the documentation attached hereto as Exhibit "A" used in the determination of the appropriations limit has been available to the public in accordance with Government Code 7910.

NOW THEREFORE, IT IS HEREBY RESOLVED by the Board of Directors as follows:

Section 1. The appropriations limit of Palomar Pomerado Health for fiscal July 1, 2006 - June 30, 2007, pursuant to Article XIII(B) of the California Constitution is hereby established at \$43,610,897.

Section 2. This resolution is effective immediately upon its adoption by the Board of Directors.

PASSED AND ADOPTED at the meeting of the Board of Directors of Palomar Pomerado Health, held August 14, 2006, by the following votes:

AYES:

NOES:

ABSENT:

ABSTAINING:

ATTEST:

Chairperson

Secretary

EXHIBIT "A"

PALOMAR POMERADO HEALTH
APPROPRIATIONS LIMIT
2006/2007

2005/2006 APPROPRIATIONS LIMIT			<u>\$41,313,462</u>
PRICE FACTOR	3.96%		
-- OR --			
CHANGE IN LOCAL ASSESSMENT ROLL DUE TO NON-RESIDENTIAL CONSTRUCTION	3.01%	=	<u>1.0396</u>
-- AND --			
POPULATION FACTOR	1.54%	=	<u>1.0154</u>
CALCULATION OF FACTOR FOR FY 2006/07	1.0396 x 1.0154	=	1.0556
	\$41,313,462 x 1.0556	=	<u>\$43,610,897</u>
2006/2007 APPROPRIATIONS LIMIT			<u><u>\$43,610,897</u></u>

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Authorized Individuals and Enabling Resolutions for Morgan Stanley Investment Accounts

TO: Board of Directors

MEETING DATE: Monday, August 14, 2006

FROM: Board Finance Committee
Tuesday, August 1, 2006

BY: Bob Hemker, CFO
Genevieve Nelwan, Director Finance

Background: Morgan Stanley has requested that the Board adopt their standard corporate resolution titled "Authorized Individuals and Enabling Resolutions for Corporations" ("MS Resolution"). That document lists the PPH Officers who are authorized by the Board to provide Morgan Stanley with instructions concerning PPH's Investment Accounts. The attached Resolution—into which the MS Resolution is incorporated—has been drafted for Board review and approval.

Morgan Stanley's request is being made as the existing names on file with that institution are not current, and Morgan Stanley finds inadequate the format of PPH's current Resolution listing authorized account signors.

While PPH's current Resolution designates individuals as the "Officers" of the District, it does not specify their authority pertaining to specific activities. The MS Resolution specifies the banking related instructions that the PPH Officers are authorized to provide Morgan Stanley to conduct routine business activities.

Statements in the MS Resolution related to Equity Investments and Margin Investments have been stricken from the document.

Budget Impact: N/A

Staff Recommendation: Staff recommends approval of the PPH Resolution regarding Authorized Individuals and Enabling Resolutions for Morgan Stanley Investment Accounts.

Committee Questions:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends approval of the PPH Resolution regarding Authorized Individuals and Enabling Resolutions for Morgan Stanley Investment Accounts.

Motion:

Individual Action: X

Information:

Required Time:

PALOMAR POMERADO HEALTH

RESOLUTION NO. 08.14.06 (03) – 25

RESOLUTION OF THE GOVERNING BOARD OF PALOMAR POMERADO
HEALTH RE: AUTHORIZED INDIVIDUALS AND ENABLING RESOLUTIONS
FOR MORGAN STANLEY INVESTMENT ACCOUNTS

WHEREAS, Palomar Pomerado Health maintains three investment accounts with Morgan Stanley, Account Numbers 123-95465-0-038, 123-95476-0-038 and 123-95464-0-038; and,

WHEREAS, Morgan Stanley requires Client Corporations to adopt certain enabling Resolutions regarding the opening and handling of those accounts; and,

WHEREAS, Morgan Stanley requires a full true and correct copy of said Resolutions in the form and format attached hereto as pages 1 through 4 of Morgan Stanley's "Authorized Individuals and Enabling Resolutions for Corporations"; and,

WHEREAS, Palomar Pomerado Health is desirous of adopting enabling resolutions 3.1 through 3.10 inclusive, excluding 3.3, as identified in the "Authorized Individuals and Enabling Resolutions for Corporations";

NOW, THEREFORE, BE IT RESOLVED that the Governing Board of Palomar Pomerado Health hereby adopts by this Resolution the enabling resolutions 3.1 through 3.10 inclusive, excluding 3.3, as identified in the "Authorized Individuals and Enabling Resolutions for Corporations".

PASSED AND ADOPTED by the Governing Board of Palomar Pomerado Health in Poway, California, this 14th day of August, 2006, by the following vote:

AYES:

NAYS:

ABSENT:

ABSTAINING:

IN WITNESS WHEREOF, this instrument has been duly signed and sealed as of the 14th day of August, 2006.

Marcelo Rivera, M.D.
Chairperson, Board of Directors
Palomar Pomerado Health

ATTEST: _____
Linda Greer, R.N.
Secretary, Board of Directors
Palomar Pomerado Health

Authorized Individuals and Enabling Resolutions for Corporations

123-95465-0-038

123-95476-0-038

123-95464-0-038

Account Number

In consideration of Morgan Stanley opening and/or maintaining one or more accounts for the corporation named below, I, the undersigned, hereby certify as follows:

1. General Information

1. The full legal name of the corporation to which this document applies is:

Palomar Pomerado Health

2. Is the corporation a not-for-profit entity?

Yes No

(If yes, you must provide the federal tax-exempt status determination letter or, if none, other proof of not-for-profit status.)

PPH is a California local healthcare district

2. Authorized Individuals

Morgan Stanley is hereby authorized, pursuant to Resolutions "second" and "fourth" on the second page hereto, to accept investment instructions and other instructions from those officers of the corporation named above (the "Client") and/or other individuals listed below (all of whose signatures below are hereby certified pursuant to Resolution "sixth" on the second page hereto), unless their authority is expressly limited on this document. In addition, all check-signing and withdrawal privileges have been indicated below; these privileges include, but are not limited to, the authority to make distributions (e.g., of cash or securities) and transfers by check or otherwise to anyone, including the undersigned officers and/or other individuals. (ALL AUTHORIZED INDIVIDUALS MUST COMPLETE THIS SECTION, EVEN IF ALSO SIGNING ON BEHALF OF THE CLIENT AT THE END OF THIS DOCUMENT.)

Michael Covert

Name		Address		
		Chief Executive Officer		
Signature	Soc. Sec. No.	Date of Birth	Title	
Check-signing privileges:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No		
Other withdrawal privileges:	<input type="checkbox"/> Unrestricted	<input checked="" type="checkbox"/> Wire/Journal to Same-Name Account	<input type="checkbox"/> None	

Robert A. Hemker

Name		Address		
		Chief Financial Officer		
Signature	Soc. Sec. No.	Date of Birth	Title	
Check-signing privileges:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No		
Other withdrawal privileges:	<input type="checkbox"/> Unrestricted	<input checked="" type="checkbox"/> Wire/Journal to Same-Name Account	<input type="checkbox"/> None	

Tim Nguyen

Name		Address		
Signature		Soc. Sec. No.	Date of Birth	Corporate Controller Title
Check-signing privileges:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No		
Other withdrawal privileges:	<input type="checkbox"/> Unrestricted	<input checked="" type="checkbox"/> Wire/Journal to Same-Name Account	<input type="checkbox"/> None	

Genevieve Nelwan

Name		Address		
Signature		Soc. Sec. No.	Date of Birth	Director Finance Title
Check-signing privileges:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No		
Other withdrawal privileges:	<input type="checkbox"/> Unrestricted	<input checked="" type="checkbox"/> Wire/Journal to Same-Name Account	<input type="checkbox"/> None	

Subject to Morgan Stanley's policies, if Morgan Stanley receives conflicting instructions with respect to a particular account from different Authorized Individuals, or reasonably believes instructions from one Authorized Individual might conflict with the wishes of another Authorized Individual, Morgan Stanley may do any of the following: (a) choose which instructions to follow and which to disregard; (b) suspend all activity in the account until written instructions signed by all Authorized Individuals are received; (c) close the account and deliver all securities and other property, net of debits or liabilities, to the address of record; and/or (d) take other legal action.

3. Enabling Resolutions

Organizing Resolution

The following is a full, true and correct copy of Resolutions duly and regularly adopted by vote of the Board of Directors of the Client, that such Resolutions have not been rescinded or modified and are in full force and effect, and the Client further represents and warrants that: (1) the Resolutions are in accord with and pursuant to the Client's underlying charter and bylaws; (2) the Resolutions are in accord with all constitutional, statutory and regulatory provisions pertaining to the Client; (3) the Client is empowered to take the actions called for by the Resolutions; (4) the Client is duly organized, validly existing and in good standing under all applicable state laws; and (5) the persons designated above as officers of the Client have been duly installed and now hold the offices in the Client set forth by their respective names and their true signatures.

- Resolved that the Client is authorized and empowered to open one or more investment accounts (collectively, the "Securities Account") with Morgan Stanley.
- Resolved that the Securities Account shall be a Cash Account or a Margin Account for the purpose of purchasing, ~~no selling (including short sales), transferring, exchanging, pledging and generally dealing in any and all forms of securities and financial instruments of every kind or nature whatsoever, including, without limitation, purchasing, selling, etc., of option contracts (including uncovered option contracts).~~ All orders and instructions, written or oral, relating to the Account shall be given by one of the individuals designated above under the heading "Authorized Individuals," and each of them individually is hereby authorized and directed to purchase and/or sell and/or deal in any and all securities and financial instruments for the Client, including the power to deliver, accept delivery of, pledge, endorse, and direct the transfer of record title of any assets beneficially owned by the Client, without obligation on Morgan Stanley's part to inquire into the reasons for said order or instructions.

3. ~~Resolved that the Client is authorized to obtain, and borrow at any time and from time to time under, any commercial line of credit that may be extended, and/or term loan that may be made or any other financial accommodation, financial service or extension of credit, to the Client at any time and from time to time (a "Credit Facility"), and to secure payment therefor with property of the Client (including but not limited to equipment, inventory, accounts, general intangibles, real property and investment property), and to enter into any credit, security and other agreements and other documents necessary to effect the foregoing, in form and substance and in such amounts and with such repayment provisions, interest and fees, and other terms, as shall be satisfactory to any of the Authorized Individuals, acting alone, such satisfaction to be conclusively evidenced by the execution and delivery of such agreements and other documents by such Authorized Individual.~~
4. Resolved that Morgan Stanley may deal with any one of the Authorized Individuals as though Morgan Stanley were dealing with the Client directly.
5. Resolved that each of the Authorized Individuals is authorized and directed to execute and deliver to Morgan Stanley on behalf of the Client any and all agreements, documents, contracts and other writings that Morgan Stanley may require, **relate to investments and investment instructions pursuant to client and Morgan Stanley's business relationship.**
6. Resolved that the Secretary (or other duly designated officer) of the Client is hereby authorized, empowered and directed to certify, under the Seal of the Client, or otherwise to Morgan Stanley:
- (a) a true copy of these Resolutions;
 - (b) specimen signatures of each and every individual empowered by these Resolutions;
 - (c) a certificate (which, if Morgan Stanley requires, shall be supported by an opinion of the ~~general~~ **special** counsel of the Client, or other counsel satisfactory to Morgan Stanley) that the Client is duly organized and existing, that its charter empowers to transact the business contemplated in these Resolutions, and that no limitation has been imposed upon such powers by constitution, statute, regulations, ~~charter~~, bylaw or otherwise.
- Organizing Resolution,**
7. Resolved that Morgan Stanley may rely upon any certification given in accordance with these Resolutions as continuing fully effective unless and until Morgan Stanley shall receive due written notice of an amendment, modification or rescission of such Resolutions or certification. Further resolved that Morgan Stanley shall not be liable for any action taken or not taken upon instruction of any Authorized Individual prior to Morgan Stanley's actual receipt of written notice of the termination or impairment of such person's authority. The failure to supply any specimen signature shall not invalidate any transaction which is in accordance with authority actually granted. Further resolved that the Client shall indemnify and hold harmless Morgan Stanley and any of its subsidiaries and affiliates from any and all claims that a transaction was unauthorized or outside the scope of the Client's powers, if such transaction was authorized by any of the Authorized Individuals.
8. Resolved that in the event of any change in the office or powers of persons hereby empowered, the Secretary (or other duly designated officer) shall certify such changes to Morgan Stanley, in writing, which certification, when Morgan Stanley receives it, shall terminate the powers of the persons previously authorized and empower the persons thereby substituted.
9. Resolved that the Client hereby authorizes Morgan Stanley to charge any amount due Morgan Stanley under any arrangement with the Client against any or all of the accounts and other property of the Client held with Morgan Stanley or any of its affiliates, with the Client remaining liable for any deficiency.
10. Resolved that the Client hereby authorizes Morgan Stanley to only invest in instruments permissible under district law and the California Government Code and will not be obligated or responsible to Morgan Stanley for failure to comply, notwithstanding other provisions of the resolution(s).

General Obligation Bonds – Tax Levy 2006-2007

TO: Board of Directors

DATE: Monday, August 14, 2006

FROM: Board Finance Committee
Tuesday, August 1, 2006

BY: Bob Hemker, CFO

Background: In July 2005, the first tranche of GO Bonds was issued. The Series was priced in a negotiated sale on June 22, 2005. Favorable rates were obtained, ranging from 2.55% to 4.55% interest yield, depending upon maturity. Maturities ranged from 2006 through 2034. As a result, Bob Hemker executed the Bond Purchase Agreement on June 22, 2005. The Bond transaction closed on July 7, 2005.

PPH requested that the County of San Diego levy and collect the taxes necessary to pay the debt service on the Bonds. The request is made on an annual basis. PPH calculated the tax amount to levy based upon the debt service amortization and the assessed value of the District. The assessed value is provided by the County. The County then puts the required tax onto the tax roll, collects the taxes, and remits the collected amounts to the Paying Agent, Wells Fargo on a monthly basis. The Paying Agent makes the required principal and interest payments on a semi-annual basis.

The resolution will authorize the County of San Diego to levy and collect the required *ad valorem* taxes for the 2006-2007 tax roll.

Budget Impact: N/A

Staff Recommendation: Management recommends that the Board approve the attached resolution and instruct management to take the appropriate action necessary to calculate the tax levy and request the County to collect said tax levy.

Committee Questions:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends that the Board approve the attached resolution and instruct management to take the appropriate action necessary to calculate the tax levy and request the County to collect said tax levy.

Motion:

Individual Action:

X

Information:

Required Time:

July 28, 2006

Mr. Thomas J. Pastuszka
Clerk of the Board of Supervisors
County of San Diego
1600 Pacific Highway, Room 402
San Diego, CA 92101-2478

CERTIFIED MAIL
& FACSIMILE (619) 531-6098

**RE: Palomar Pomerado Health Resolution
Levy and Collection of Taxes by the Board of Supervisors of the County of San Diego
for Fiscal Year 2006-2007**

Dear Mr. Pastuszka:

Attached is a working copy of the Resolution of the Board of Directors of Palomar Pomerado Health (PPH), a California Health Care District, authorizing and requesting the County of San Diego to levy and collect certain taxes in Fiscal Year 2006-2007 related to the General Obligation Bonds, Election of 2004, Series 2005A. PPH has calculated the rate of taxation and requests, per the Resolution, that the County of San Diego levy and collect in the amount of .01775000 per \$100 valuation. As per our previous discussions, the collected amounts are to be remitted on a monthly basis to our paying agent, Wells Fargo Bank. The Resolution will be reviewed at the PPH Finance Committee meeting on August 1, 2006, and certified at the Board of Directors meeting on August 14, 2006.

Please accept this letter as authorization to incorporate the levy in the County Assessment.

If you have any questions please contact me at the address on this letterhead. Please confirm receipt and advise if you need any additional information or supporting documentation. A fax of the certified Resolution will be sent to you on August 15, 2006, and the original Resolution will follow by Certified Mail. Your assistance and the support of your staff in helping administer this tax levy is greatly appreciated.

Sincerely,

Robert Hemker
Chief Financial Officer

cc: Michael Covert, FACHE, President & CEO, PPH
Kathleen Leak, Bond Counsel, Orrick, Herrington & Sutcliffe, LLP, San Francisco, CA
Robert Barna, Underwriter, Citigroup Global Markets, Los Angeles, CA
Dania D. Samai, Paying Agent, Wells Fargo Bank, Los Angeles, CA

Ms. Tracy Sandoval
Assistant CFO/Auditor & Controller
County of San Diego
Attn: Juan Perez, Manager Property Tax Services
1600 Pacific Highway, Room 077
San Diego, CA 92101-2478
FAX: (619) 531-5168

Mr. Dan McAllister
Treasurer-Tax Collector
County of San Diego
Attn: Rob Castetter, Chief Investment Officer
1600 Pacific Highway, Room 162
San Diego, CA 92101-2478
FAX: (619) 531-6056

PALOMAR POMERADO HEALTH

RESOLUTION NO. 08.14.06 (04) - 26

RESOLUTION OF THE BOARD OF DIRECTORS OF PALOMAR POMERADO HEALTH CONCERNING THE LEVY AND COLLECTION OF TAXES BY THE BOARD OF SUPERVISORS OF THE COUNTY OF SAN DIEGO FOR FISCAL YEAR 2006-2007 TO PAY PRINCIPAL AND INTEREST ON GENERAL OBLIGATION BONDS AND AUTHORIZING THE TAKING OF ALL ACTIONS NECESSARY IN CONNECTION THEREWITH.

WHEREAS, as authorized by a ballot measure ("Measure BB"), approved by more than two-thirds of the votes cast on such ballot measure at an election held in Palomar Pomerado Health (the "District") on November 2, 2004, the Board of Directors of the District (the "Board of Directors") is authorized to issue \$496,000,000 aggregate principal amount of general obligation bonds for the purpose of financing a portion of the hospital and health care facilities projects as referenced and described in Measure BB;

WHEREAS, in accordance with the provisions of The Local Health Care District Law of the State of California (constituting Division 23 of the California Health and Safety Code) (the "Local Health Care District Law"), the District issued \$80,000,000 aggregate principal amount of such general obligation bonds, designated as "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2005A" (the "Series 2005A Bonds") on July 7, 2005;

WHEREAS, as provided by the Local Health Care District Law, principal and interest on the Series 2005A Bonds as the same becomes due are payable from the levy and collection of ad valorem taxes within the District;

WHEREAS, pursuant to Section 32312 of the Local Health Care District Law, the Board of Supervisors of the County of San Diego (the "Board of Supervisors of the County") is required to levy and collect annually each year until the Series 2005A Bonds are paid a tax sufficient to pay the principal of and interest on such Series 2005A Bonds as the same becomes due and payable;

WHEREAS, in order to facilitate the levy and collection of such ad valorem taxes by the Board of Supervisors of the County as provided in Section 32312 of the Local Health Care District Law, the Board of Directors hereby notifies the Board of Supervisors of the County that principal and interest on the Bonds in the amount of \$18,606,525 will become due and payable during the fiscal year commencing July 1, 2006, and ending June 30, 2007;

WHEREAS, the Board of Directors has been advised that the total net secured assessed valuation of the District is now estimated at \$56,609,102,643 full value; and

WHEREAS, also in order to facilitate the levy and collection of such ad valorem taxes by the Board of Supervisors of the County as provided in Section 32312 of the Local

Health Care District Law, a rate of taxation of .01775 on each one hundred dollars' valuation of taxable property (full value) within the District for fiscal year commencing July 1, 2006, and ending June 30, 2007, is hereby established;

NOW, THEREFORE, BE IT RESOLVED THAT:

Section 1. Recitals. The foregoing recitals are true and correct, and this Board of Directors so finds and determines.

Section 2. Further Authorization; Ratification of Actions. The Chair of the Board of Directors, any member of the Board of Directors, the President and Chief Executive Officer of the District or any designee of the President and Chief Executive Officer of the District or the Chief Financial Officer of the District or any designee of the Chief Financial Officer of the District (each, an "Authorized District Representative") is hereby authorized and directed, for and in the name of and on behalf of the District, to do any and all things and to execute and deliver any and all documents, instruments and certificates, and to enter into any and all agreements, which such Authorized District Representative may deem necessary or advisable in order to carry out, give effect to and comply with the terms and intent of this Resolution. All such actions heretofore taken by any such Authorized District Representative are hereby ratified, confirmed and approved.

Section 3. Effective Date. This Resolution shall take effect from the date of adoption hereof.

PASSED AND ADOPTED by the Board of Directors of Palomar Pomerado Health on the 14th day of August, 2006, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAINING:

DATED: August 14, 2006

BY:

Marcelo Rivera, M.D.
Chair, Board of Directors
Palomar Pomerado Health

ATTESTED:

Linda Greer, R.N.
Secretary, Board of Directors

STATE OF CALIFORNIA)
)ss
COUNTY OF SAN DIEGO)

I, Linda Greer, R.N., the Secretary of Palomar Pomerado Health (the "District"), do hereby certify that the foregoing is a true copy of a resolution adopted by the District on August 14, 2006, at the time and by the vote stated above, which resolution is on file in the office of the District.

DATED: August 14, 2006

Linda Greer, R.N.
Secretary, Board of Directors
Palomar Pomerado Health

**CSUSM School of Nursing and
MOU Concerning Use of PPH Premises**

TO: Board of Directors
MEETING DATE: Monday, August 14, 2006
FROM: Board Finance Committee
Tuesday, August 1, 2006
BY: Bob Hemker, CFO
Lorie Shoemaker, RN, MSN, CNAAB-BC, Chief Nurse Executive

Background: An update on the current status of the California State University San Marcos (CSUSM) School of Nursing and associated Facility Lease Agreement, Memorandum of Understanding (MOU) concerning use of PPH premises, and MOU concerning nursing faculty was presented to the Board Finance Committee, in anticipation of the school's opening in August 2006.

The Facility Lease is for a term of five (5) years at \$1 per year, for the non-exclusive use of the educational classrooms, clinical resource labs and facility offices in the PPH education center at the San Marcos Ambulatory Care Center (SMACC) Building. The combination of the Lease Agreement and MOUs, along with other agreements, will memorialize the mutual intent, collaboration, and the relationship between CSUSM and PPH in the creation of a new school of nursing at the SMACC campus of PPH.

Budget Impact: N/A

Staff Recommendation: At the Board Finance Committee meeting, Staff recommended approval of the Lease Agreement between PPH and CSUSM and the associated Memorandum of Understanding concerning use of PPH premises, subject to finalization of the documents.

Committee Questions:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends that the Board approve the Lease Agreement between Palomar Pomerado Health and CSUSM and the associated Memorandum of Understanding concerning use of PPH premises.

Motion: X

Individual Action:

Information:

Required Time:

8/7/06
Final

LEASE AGREEMENT

between

**PALOMAR POMERADO HEALTH,
a local health care district**

and

THE TRUSTEES OF THE CALIFORNIA STATE UNIVERSITY

This Lease Agreement ("Lease") is entered into by and between Palomar Pomerado Health, a California Local Healthcare District, organized pursuant to Division 23, Sections 32000, et seq. of the California Health and Safety Code ("Landlord") and the Trustees of the California State University, through its campus, California State University San Marcos ("Tenant"), who agree as follows:

Recitals

- A. Landlord is the owner of that certain building and improvements, known as the San Marcos Ambulatory Care Center, located at 120 Craven Road, San Marcos, California 92069 (the "Building").
- B. Tenant desires to lease from Landlord and Landlord desires to lease to Tenant that certain portion of the second floor of Building (the "Premises"), as more particularly shown on Exhibit A, which is attached hereto and incorporated by reference.
- C. Landlord desires to lease to Tenant and Tenant desires to lease from Landlord the Premises on the terms and conditions contained in this Lease.

Definitions

- A. Adjusted Minimum Monthly Rent: The Minimum Monthly Rent as adjusted pursuant to the provisions of this Lease.
- B. Alterations: The alterations, improvements, additions, installations or changes of any nature in or to the Premises other than the Tenant Improvements.
- C. Approval: Any approval required of landlord under this agreement shall not be unreasonably withheld.
- D. Good Condition: First-class, neat, clean, broom-clean and similar phrases referring to physical adequacy in appearance and use.
- E. Landlord's Representatives: Any agent, employee, officer or independent contractor of or retained by Landlord.
- F. Lender: The beneficiary, mortgagee, secured party or other holder of any Mortgage.
- G. Mortgage: Any deed of trust, mortgage or other written security instrument or agreement affecting the Real Property that constitutes security for the payment of debt or performance of an obligation.
- H. Real Property: The Premises, the Building, the land upon which the Building is situated, together with all presently existing improvements, additions and changes, including without limitation landscaping, parking facilities, other improvements and appurtenances illustrated on attached Exhibits B and C, all of which are incorporated into this Agreement by reference. Landlord reserves the right to make alterations and additions to the Real Property, provided that such alterations and additions do not materially adversely affect Tenant's conduct of its business, nor increase Tenant's monetary obligations hereunder, except as may otherwise be provided in this Agreement.

I. Real Property Taxes: All real property or real estate taxes, and general and special assessments, levied or assessed against the Real Property (or any portion thereof), including without limitation any tax, fee or excise on (a) rents, (b) the square footage of the Premises, (c) the act of entering into this Lease, or (d) the occupancy of Tenant, or (e) any other tax, fee or excise, however described, including without limitation, moneys paid to the City of San Marcos, or any other governmental agency, as reimbursement for tax incremental loss resulting from the tax-exempt status of the Real Property or the Landlord; tax on parking spaces, automobile trips, street or highway use or similar activity; a value-added tax, levied or assessed against the Real Property (or any portion thereof) by the United States, the State in which the Premises are located or any political subdivision of such State, including without limitation any county, city, city and county, public corporation, district, or any other political entity or public corporation, as a direct substitution in whole or in part for, or addition to, any real property or real estate taxes or general or special assessments whether foreseen or unforeseen. Notwithstanding anything to the contrary in the preceding sentence, "Real Property Taxes" shall not mean any municipal, county, state or federal income, franchise, estate, succession, inheritance or transfer taxes of Landlord. If the Real Property is assessed in combination with other property owned by Landlord, then Landlord shall, in a reasonable manner, allocate the Real Property Taxes between the Real Property and such other property included in the tax bill. If any Real Property Taxes are assessed or collected on the basis of a fiscal period, a portion of which occurs during the Term and the remainder of which occurs before or after the Term, then the Real Property Taxes payable for such fiscal period shall be apportioned between such periods based upon the number of days during such fiscal period and occurring during the Term and the number of days that occur before or after the Term.

Notwithstanding anything to the contrary set forth in the Lease, Real Property Taxes shall not include (i) any excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, federal and state income taxes, and other taxes to the extent applicable to Landlord's general or net income (as opposed to rents or receipts), (ii) taxes on tenant improvements in any space in the Building or the Real Property based upon an assessed level in excess of the assessed level for which Tenant is individually and directly responsible under this Lease, (iii) penalties incurred as a result of Landlord's negligence, inability or unwillingness to make payments of, and/or to file any tax or informational returns with respect to, any Real Property Taxes, when due, and (iv) any real estate taxes directly payable by Tenant or any other tenant in the Building under the applicable provisions in their respective leases.

J. Rent: The Minimum Monthly Rent, Additional Rent, prepaid rent, Operational Expenses, Personal Property Taxes, late charges, insurance premium charges, utilities, and/or any other sums payable by Tenant under this Lease.

K. Tenant Improvements: The initial improvements to the Premises in accordance with Exhibit C, which is attached hereto and incorporated by reference.

L. Tenant's Representatives: Any agent, employee, officer, independent contractor, or licensee of or retained by Tenant.

M. Tenant's Share: such portion of the total cost equal to the number of rentable square feet contained in the Premises at the time of such computation divided by the total rentable square footage of the Building.

NOW THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

Section 1. Lease Term

1.1 The term of this Lease (the "Term") shall be for five (5) years, commencing on August 1, 2006 (the "Commencement Date"), and ending on July 31, 2011, unless terminated earlier pursuant to the terms of this Lease (the "Termination Date").

Section 2. Early Occupancy

2.1 Notwithstanding the Commencement Date indicated in Section 1 of this Lease, all terms of this Lease shall be in full force and effect and Tenant shall have the right to enter into the portion of the Premises not occupied by Tenant as of the date of this Lease (the "Delivery Date") in order to effect Tenant's program of improvements to such space, subject to the following terms and conditions: (a) Tenant's entry prior to the commencement of the Lease shall be on all of the terms and conditions of this Lease, other than the obligation to pay Rent described under this Lease; (b) Tenant shall provide evidence of the insurance coverage required under this Lease; (c) Tenant shall indemnify, defend, and hold harmless Landlord and Landlord's agents, employees, and contractors against all claims, liability, and damages arising from Tenant's entry prior to the Commencement Date of this Lease; (d) Tenant's entry prior to the Commencement Date of this Lease does not constitute the commencement of the Lease and the Termination Date shall not change as a result of such entry by Tenant; and (e) Commencing on the Delivery Date, Tenant shall pay its share of Additional Rent, including but not limited to its share of all charges and assessments for telephone, water, sewer, gas, heat, electricity, garbage disposal, trash disposal, fire sprinkler and alarm monitoring, landscaping maintenance, personal property taxes, and all other utilities, taxes, and maintenance charges and services of any kind that may be used on the Premises based on Tenant's actual usage or if, in Landlord's reasonable opinion, such actual usage cannot be reasonably ascertained, then based on a fraction equal to the number of rentable square feet contained in the Premises divided by the total rentable square footage of the Building.

Section 3. Premises Preparation, Condition and Delay in Delivery of Possession

3.1 **Preparation of Premises:** On or before the Commencement Date, Landlord shall have substantially completed the Tenant Improvements as certified by Landlord's architect, and as described in Exhibit C, which is attached hereto and incorporated by reference.

3.2 **Delay in Possession:** Except as otherwise provided in this Lease, including but not limited to Tenant delays as provided in Exhibit C, which is attached hereto and incorporated by reference, if Landlord cannot deliver possession of the Premises to Tenant on the Commencement Date, Landlord shall provide an alternative temporary space until the Tenant takes possession of the permanent Premises and Landlord shall be responsible for any cost associated with the temporary move.

3.3 Condition of Premises: Tenant shall have thirty (30) days after the Commencement Date within which to notify Landlord in writing if any repairs, adjustments or corrections are needed for Tenant Improvements. Tenant's failure to provide such notification shall be deemed to be acceptance of the Premises. If repairs are requested in a timely manner, Landlord shall undertake such repairs, adjustments or corrections if Landlord determines that it is reasonably necessary to do so. Except as provided in this Section, Tenant agrees to accept possession of the Premises in its existing "as is" condition, including but not limited to, all patent and latent defects and subject to all applicable laws, ordinances, and regulations governing and regulating the use of the Premises and any recorded covenants, encumbrances, conditions, restrictions, easements, licenses or right of ways. Landlord represents and warrants to Tenant that, to the best of Landlord's knowledge, without investigation or inquiry, no latent or patent defects exist in the structure of the Building and that the heating, ventilation and air conditioning system servicing the Premises will be in good working order and condition as of the Commencement Date of this Lease. Except as otherwise provided in this Agreement, Landlord will be responsible for ongoing repairs.

3.4 Usable Area: Upon completion of the Tenant Improvements, Landlord's architect or engineer shall determine the number of square feet of Usable Area in the Premises using the BOMA standard definition of usable office space specified in the American National Standard Publication.

3.5 Rentable Area: The number of square feet of Rentable Area in the Premises shall be determined by multiplying the Usable Area by a "core factor" of one hundred eight percent (108%).

Section 4. Tenant's Use of Premises

4.1 Tenant shall use the Premises for the School of Nursing in partnership with Landlord, according to the Memorandum of Understanding between the parties, which is attached to this Lease as Exhibit A and incorporated herein by reference. Tenant shall not use, occupy or permit the use or occupancy of the Premises for any other purpose without the prior written consent of Landlord, which shall be provided by Landlord in its sole and absolute discretion. Tenant agrees not to use the Premises for any immoral or unlawful purpose. Tenant shall be open for business and operate during the days and hours of normal operation for California State University, San Marcos.

4.2 Insurance / Compliance with Laws: Tenant shall comply with all laws concerning the Premises and/or Tenant's use of the Premises, including without limitation the obligation at Tenant's sole cost to alter, maintain, or restore the Premises in compliance with all laws, even if such laws are enacted after the date of this Lease even if compliance entails costs to Tenant of a substantial nature and even if compliance requires structural alterations. This provision specifically includes, but shall not be limited to, any alterations or repairs that must be made in accordance with The Americans with Disabilities Act (the "ADA"), all seismic retrofitting and other earthquake protection measures being required by any governmental entity with regard to the Premises, any requirements of Title 24 of the California Code of Regulations, or any other applicable law, regulation or ordinance regarding the condition, use or occupancy of the Premises.

Tenant shall not do, bring or keep anything in or about the Premises that will cause an increase or cancellation of any insurance covering the Premises or the Building. If the rate of any insurance carried by Landlord is increased as a result of Tenant's use, Tenant shall pay to Landlord, within thirty (30) days after Landlord delivers to Tenant a notice of such increase, the amount of such increase. Tenant shall, at Tenant's sole cost and expense, comply with all requirements of Landlord's insurance carriers that are necessary for the continued maintenance at reasonable rates of fire and liability insurance policies on the Premises and any improvements thereto.

4.3 Nuisance: Tenant shall not use the Premises in any manner that will constitute waste, nuisance or unreasonable annoyance to other tenants of the Building, or to owners or occupants of nearby properties, except as reasonably necessary in using the Premises for purposes described under Paragraph 4.1. Tenant shall not use the Premises for sleeping, cooking, washing clothes, or the preparation, manufacture, or mixing of anything that might emit any odor or objectionable noises or lights onto the Building or nearby properties. Tenant shall neither bring into the Building, nor permit the bringing into the Building of, any animal, bicycle, motorcycle or other vehicle, except for guide dogs or wheelchairs.

4.4 Hazardous Materials: Tenant shall strictly comply with all statutes, laws, ordinances, rules, regulations, and precautions now or hereafter mandated or advised by any federal, state or local law, regulation, ordinance or rule or by any governmental agency with respect to the use, generation, treatment, storage, disposal, release or threatened release of hazardous, toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, metagenic or radioactive substance, materials or waste (collectively "Hazardous Materials"). As used in this Section, Hazardous Materials includes without limitation those substances identified in sections 66261.10 through 66261.126 of Title 22 of the California Code of Regulations, Division 4, Chapter 30, as amended from time to time, and those substances defined as "hazardous substances," "hazardous materials," "hazardous wastes," "pollutants," "contaminants," "chemicals known to the state to cause cancer or reproductive toxicity," "asbestos," "hydrocarbons (including without limitation oil)," "toxic bearing dust" or other similar designations in the Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended, 42 U.S.C. sections 9601, et seq., the Hazardous Materials Transportation Act, 49 U.S.C. sections 1801, et seq., the Hazardous Substance Account Act, Health & Safety Code sections 25249.5, et seq., and any other federal, state or local statutes, laws, ordinances, rules, regulations and precautions. Tenant shall not cause or allow any Hazardous Materials to be used, generated, treated, stored, disposed of or released in, on or about the Premises, except as allowed by law. Tenant, its successors, assigns and guarantors, shall indemnify, protect, defend by counsel acceptable to landlord, and hold Landlord and Landlord's Representatives and their successors, assigns and any lenders harmless from and against any and all claims, losses, liabilities, costs and expenses, judgments, penalties, fines, liabilities (including strict liability), encumbrances, liens, reasonable costs and expenses of investigation and defense of any claim whether or not such claim is ultimately defeated, and of any good faith settlement of judgment, of whatever kind or nature, including all foreseeable and unforeseeable consequential damages, directly or indirectly arising out of Tenant's breach of a covenant of Tenant contained in this Lease and/or the use, generation, treatment, storage, disposal, release or threatened release of Hazardous Materials by tenant or any party or parties claiming under Tenant or arising out of any past, present or future release or threatened release migration or threatened migration of Hazardous Materials by Tenant or Tenant's Representatives at, on, beneath or from the Premises based on the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. sections 9601 et seq., the Resource Conservation and Recovery Act, 42 U.S.C. sections

6901, et seq., the California Hazardous Substance Account Act, Health & Safety Code sections 25300, et seq. the California Hazardous Waste Control Law, Health & Safety Code sections 25100, et seq., or any other federal, state or local statute, law, regulation, ordinance or rule. Neither the written consent by Landlord to the use, generation, storage or disposal of Hazardous Materials nor the strict compliance by Tenant with all statutes, laws, ordinances, rules, regulations and precautions pertaining to Hazardous Materials shall excuse Tenant from Tenant's obligations pursuant to this Section. Tenant's obligations pursuant to this Section shall survive the expiration or termination of this Lease, the abandonment or surrender of the Premises by Tenant, and the discharge of all other obligations owed by the parties to each other, any transfer of title to the Premises, whether by sale, foreclosure, deed in lieu of foreclosure or otherwise. The obligations of Tenant under this Section shall not be affected by any investigation by or on behalf of Landlord and/or any lender, or by any information which Landlord may have or obtain with respect thereto. Tenant agrees that, except as expressly contained in this Lease, no representations by or on behalf of Landlord have been made to Tenant as to the condition of the Premises, any restrictions related to the development or use of the Premises, the applicability of any governmental requirements pertaining to the Premises, or the suitability of the Premises for any purpose whatsoever. Tenant acknowledges that Landlord has no expertise concerning Hazardous Materials and that Tenant is not relying upon any representation of Landlord, or Landlord's Representatives or the lack of such representation with respect to Hazardous Materials as they apply to the conditions of the Premises. Landlord hereby notifies Tenant, and Tenant hereby acknowledges that prior to the leasing of the Premises pursuant to this Lease, Tenant has been notified, pursuant to Health & Safety Code section 25359.7 (or any successor statute) that Landlord knows, or has reasonable cause to believe, that certain hazardous substances (as such term is used in such section 25359.7), including without limitation common cleaning supplies and consumer products, may have come to be located on or beneath the Premises. If the Premises are contaminated by any Hazardous Material during the Term by Tenant or Tenant's Representatives, then Tenant shall immediately (i) notify Landlord in writing of such contamination, and (ii) perform all remediation required by law and/or Landlord (to Landlord's satisfaction), at Tenant's sole cost, necessary to return the Premises to at least as good a condition as the Premises are in as of the date of this Lease. If Tenant does not promptly commence and diligently pursue such remediation, then Landlord may, at Landlord's election, but at Tenant's sole cost, perform or cause to be performed such remediation. Upon request of Landlord, on or before the Commencement Date and each July 1 thereafter during the Term, at Landlord's reasonable request, Tenant shall provide Landlord with a written list of all Hazardous Materials used, generated, treated, stored, disposed of and released in, on or about the Premises by Tenant during the prior fiscal year and those Hazardous Materials Tenant proposes to use, generate, treat, store, dispose of and release during the next Fiscal Year. Tenant is not required to comply with hazardous material laws or to indemnify Landlord to the extent hazardous materials were (i) on the real property before the Commencement Date, or (ii) brought onto the real property by Landlord, its agents or other tenants.

4.5 Damage and Overloading: Neither Tenant nor Tenant's Representatives shall do anything that will cause damage to the Premises, the Building and/or the Real Property. Neither the floor nor any other portion of the Premises shall be overloaded. No machinery, apparatus, or other appliance shall be used or operated in or on the Premises that will in any manner injure, vibrate or shake the Premises. If Tenant or Tenant's Representatives cause damage to the Real Property, then Landlord shall have the right but not the obligation to repair such damage and Tenant shall promptly reimburse Landlord for Landlord's actual cost of such repair.

4.6 Alterations to Premises: Landlord's sole obligations to improve or alter the Premises are set forth in the statement of Tenant Improvements attached hereto as Exhibit C. Tenant shall not make any alterations to the Premises without Landlord's prior written consent, which shall not be unreasonably withheld. If a proposed alteration is approved by Landlord, Landlord shall have final approval of any contractor(s) who may be required to undertake the alterations. Tenant shall be responsible for the cost of any such alteration. All Alterations made by Tenant shall become the property of Landlord and a part of the realty and shall be surrendered to Landlord upon the expiration or sooner termination of the Term, or, at Landlord's election made at the time consent to such Alteration is given, shall be removed before the last day of the Term after receiving ninety (90) days' prior written notice from Landlord to Tenant or within thirty (30) days after notice of Landlord's election is given to Tenant in the event of earlier termination of the Term. All damage caused by such removal shall be repaired by Landlord at Tenant's sole cost and expense. Tenant is entitled to make minor cosmetic, i.e., hanging of pictures, placement of plants, etc., alterations without Landlord's consent.

4.7 Conditions to Construction: Subject to the other provisions of this Section, any alterations installed by Tenant, its contractor or agents at any time prior to or during the Term shall be done only in compliance with the following:

4.7.1 No such work shall proceed without (a) Landlord's prior written approval or written waiver of right to approve Tenant's contractor; (b) certificates of insurance furnished to Landlord by Tenant's contractor for workers' compensation covering any workers hired by contractor to work on the Premises at the legal rate, plus general liability and automobile liability with limits of not less than \$500,000 combined single limit and builder's risk insurance to the value at risk, endorsed to name Landlord as an additional insured; (c) Landlord's prior written approval of detailed plans and specifications for such work which approval may be withheld in Landlord's reasonable discretion; and (d) with respect to any work estimated to cost more than \$50,000, procurement by Tenant or its contractor, if required by Landlord, of both a performance and labor and materials payment bond (or a single bond including such coverage) guaranteeing lien-free completion of the work of improvements.

4.7.2 All such work shall be done in conformity with a valid building permit and all other applicable permits or licenses when and where required, copies of which shall be furnished to Landlord before the work is commenced, and any work not acceptable to any governmental authority or agency having or exercising jurisdiction over such work, or not reasonably satisfactory to Landlord, shall be promptly corrected at Tenant's sole cost and expense. Notwithstanding any failure by Landlord to object to any such work, Landlord shall have no responsibility thereof either to Tenant or to third parties.

4.7.3 All such work shall be performed at such time and in such manner as Tenant may schedule or designate, subject to Landlord's reasonable approval. Tenant shall pay Landlord any actual reasonable out-of-pocket expenses associated with the review and approval of plans as submitted by Tenant.

4.7.4 Tenant shall reimburse Landlord for any extra expense incurred by Landlord by reason of faulty work done by Tenant or its contractors, or by reason of delays caused by such work, or by reason of inadequate cleanup.

4.7.5 Neither Tenant nor its contractors shall be allowed to install plumbing, mechanical equipment, electrical wiring or fixtures, acoustical or integrated ceilings, or partitions over 5' 10" in height, unless approved in writing by Landlord, which approval shall not be unreasonably withheld or delayed.

4.7.6 All data processing, photocopying, copying and other special electrical equipment shall have a separate duplex outlet and to the extent such equipment requires electrical power in excess of that allotted to the Premises, such equipment shall be installed only under the supervision of Landlord or its electrical contractor. Tenant assumes the risk of all damage, cost, and expense which is incurred by Landlord or other Building tenants as the result of Tenant's installation of electrical equipment in the Premises without the supervision of Landlord or its electrical contractor. Tenant shall pay any additional costs on account of any increased support to the floor load necessary thereof or for any other equipment. Landlord makes no representation or warranty as to the suitability of the Premises for such equipment.

4.7.7 Before the commencement of any Alterations by Tenant in, on or around the Premises, Tenant shall give sufficient notice thereof to Landlord for Landlord's preparation, posting and recordation of any appropriate notices of non-responsibility as provided in California Civil Code section 3094 or any related, successor or similar provision of law. Within ten (10) normal business days after substantial completion of any Alterations or repairs, Tenant or its contractor shall file for record in the Office of the County Recorder in and for the county in which the Building is located, a notice of completion as permitted by law.

4.7.8 All Alterations shall conform to applicable Building Codes, standard of construction and improvements currently in force in the Building.

4.7.9 Tenant is hereby notified that all construction work in excess of \$1,000 in the Building may be subject to prevailing wage law requiring the payment of prevailing wages pursuant to Labor Code Section 1770, et seq.

4.8 **Mechanic's Liens:** Tenant shall not engage or hire any contractor to perform work on the Premises without Landlord's written approval. The hiring or engagement of any contractor by Tenant without Landlord's express consent shall be considered a material breach and Landlord, at its option, may terminate this Agreement. Notwithstanding the foregoing, in the event that Tenant becomes aware of any mechanic's lien on the Premises due to work performed at Tenant's request or on Tenant's behalf, Tenant immediately shall provide Landlord with written notice of such lien. Tenant shall have the right to contest the correctness or validity of any such lien if, immediately on demand by Landlord, Tenant procures and records a lien release bond, issued by a corporation satisfactory to Landlord and authorized to issue surety bonds in California, in an amount equal to one hundred fifty percent (150%) of the amount of the claim of lien. The bond shall meet the requirements of California Civil Code section 3143, shall indemnify Landlord against liability for such claim of lien and shall hold the Real Property free from the effect of such claim of lien. In addition, Landlord may require Tenant to pay Landlord's costs in participating in such an action.

4.9 **Maintenance and Repair:** Tenant shall maintain the Premises in Good Condition, excepting reasonable wear and tear, which are Landlord's obligation. Tenant is responsible for the cost of repair and replacement, if necessary, of all portions of the Premises, including plate glass windows appurtenant to the Premises (except those portions of the Premises to be maintained by Landlord as expressly set forth in this Section). Tenant also shall be liable for any damage to the Real Property resulting from the acts or omissions of Tenant, Tenant's Representatives and Tenant's invitees. If any repairs are needed, Tenant shall provide notice to Landlord or Landlord's representative, who will undertake those repairs or permit Tenant to undertake those repairs (subject to Landlord's approval of any contractors required) if Landlord determines that they are reasonably necessary. For any repairs undertaken by Landlord that are deemed to be Tenant's responsibility under this Agreement, Landlord shall invoice Tenant for its proportionate share. Landlord shall bear the expense to maintain and repair only: (a) the structural parts of the Building, which are only the foundations, bearing and exterior walls (excluding glass and doors which are part of Tenant's Premises), subflooring, and roof; (b) the unexposed electrical, plumbing, and sewage systems of the Building; (c) window frames, gutters and downspouts on the Building; (d) the heating, ventilating and air-conditioning system of the Building and the HVAC system in Tenant's Premises installed as part of the Tenant Improvements; and (e) the Common Areas. Landlord's failure to perform its obligations set forth in the preceding sentence shall not release Tenant of its obligations under this Lease, including without limitation Tenant's obligation to pay Rent.

4.10 **Signs:** Tenant shall not place, construct, or maintain any sign, advertisement, awning, banner or other exterior decoration in, on or about the Premises or on the Building without Landlord's prior written consent. Any sign that Tenant is permitted by Landlord to place, construct, or maintain shall comply with Landlord's commercially reasonable sign criteria applicable to Landlord's other tenants in the Building, including without limitation criteria relating to size, color, shape, graphics and location, and shall comply with all applicable laws, ordinances, rules or regulations, and Tenant shall obtain any approval required by such laws. Landlord makes no representation with respect to Tenant's ability to obtain such approval. Tenant shall, at Tenant's sole cost, make any reasonable changes to any sign, advertisement, awning, banner or other exterior decoration in the Premises or on the Building as required by any new or revised applicable laws, ordinances, rules, regulations, or any changes in Landlord's sign criteria.

4.11 **Parking:** Tenant's use of the onsite Parking Area shall be subject to such rules as the Landlord may, in its reasonable discretion, adopt from time to time with respect to the use of the Parking Area, including without limitation (a) rules providing for the payment of charges or fees by users of the Parking Area (including without limitation Tenant); (b) rules to maintain the availability of accessible parking spaces for patients, guests, and invitees of tenants of the building; (c) rules limiting tenants of the building (including without limitation Tenant) to the use of certain parking spaces or certain portions of the Parking Area (the "Restricted Parking Area"), and (d) rules limiting each tenant of the building (including without limitation Tenant) to the use of a restricted number of parking spaces, or five (5) spaces per one thousand (1,000) square feet of rentable space.

Section 5. Entry and Inspection

5.1 **Access by Landlord:** Since Landlord shares the Premises in conjunction with Tenant, either Landlord or Landlord's Representatives shall have the right to enter the Premises at any time (a) to determine whether the Premises are in Good Condition or whether Tenant is complying with its obligations under this Lease, (b) to do any necessary maintenance or make any restoration to the Premises that the Landlord has the right or obligation to perform, (c) to serve, post, or keep posted any notices required or allowed under this Lease, (d) to show the Premises to brokers, agents, buyers, tenants or other persons interested in a listing of, financing an exchange of, or occupancy of the Premises or the Building, (e) to shore the foundations, footings, and walls of the Building and other improvements on the land upon which the Building is located and to erect scaffolding and protective barricades around and about the Premises, but not so as to prevent entry to the Premises and to do any other act or thing necessary for the safety or preservation of the Premises if any excavation or other construction is undertaken or is about to be undertaken on any adjacent property or nearby street, and (f) for any other purpose set forth in the parties' Memorandum of Understanding, attached hereto as Exhibit A. Landlord shall have the right at any and all times to enter the Premises for emergency purposes. For each of the foregoing purposes, Landlord shall at all times have and retain a key with which to unlock all Premises doors, excluding Tenant's vaults and safes. If Tenant has its own security system, Tenant shall provide Landlord with the current security code.

5.2 **Non-Liability:** Landlord shall not be liable for any inconvenience, disturbance, loss of business, nuisance, or other damage arising out of any entry on the Premises as provided in this Section, except damage resulting directly from the negligent acts of Landlord and/or landlord's Representatives. No provision of this Lease shall be construed as obligating Landlord to perform any repairs, alterations or decorations, except as otherwise expressly agreed to be performed by Landlord. Landlord shall have the right to run utility or other services and facilities through the Premises whether to service the Premises or other premises, provided that the use of such space does not have a materially adverse effect on Tenant's use and enjoyment of the Premises. If during the last month of the Term, Tenant shall have removed substantially all of Tenant's property and personnel from the Premises, Landlord may enter the Premises and repair, alter and redecorate the same without abatement of rent or liability to Tenant and such acts shall have no effect on this Lease. Any entry to the Premises obtained by Landlord by any of the foregoing means shall not under any circumstances be construed or deemed to be a forcible or unlawful entry into or detainer of the Premises, or an eviction of Tenant from the Premises or any portion thereof except as otherwise provided herein.

Tenant shall not be entitled to an abatement or reduction of rent because of the exercise by landlord of any rights under this Section. Landlord shall conduct its activities on the Premises as allowed in this Section in a manner that will cause as little inconvenience, annoyance, or disturbance to Tenant as reasonably feasible. Landlord agrees to accept liability for actions attributable to those issues which constitute a breach of this agreement as defined herein.

5.3 **Keys and Locks:** Tenant shall furnish Landlord with one set of keys and locks for the corridor doors and all locked doors (except non-shared, private offices) within the Premises. All such keys shall remain the property of Landlord. Tenant will provide all lock cores, keys and card access to Tenant's Faculty and Staff assigned to this location. Upon termination of this Lease, Tenant shall surrender to Landlord all keys to the Premises and give Landlord the combination of locks for safes, safe cabinets and vault doors, if any, in the Premises. Provided, however, Tenant shall not place safes, safe cabinets or vaults within the Premises without the prior written consent of Landlord. The Premises currently have card access to the exterior back door by the parking lot and interior card access to the office space is to be provided by Landlord as part of the Tenant Improvements.

Section 6. Rent

6.1 Tenant agrees to pay annual rent to Landlord, in the amount of \$1.00 (one dollar). Annual rent shall be payable no later than July 30th of each year during the duration of this Lease and shall be delivered to Landlord via U.S. Postal Service or other nationally-recognized mail carrier at the address indicated under Section 23 of this Lease.

Section 7. Tenant's Share of Costs and Operational Expenses

7.1 **Operating Expense Allowance:** Landlord shall provide to Tenant an annual operating expense allowance (the "Operating Expense Allowance") equal to the actual Operating Expenses paid or incurred by Landlord for the Building during the Base Year, or July 1st through June 30th. This sum shall be determined by Landlord at the end of each Base Year during the term of this Lease.

7.2 **Operating Expenses:** Tenant agrees to pay its proportionate share of any Operating Expenses in excess of the Operating Expense Allowance as Additional Rent. The term "Operating Expenses" means all costs of operation and maintenance of the Building, determined by generally accepted accounting principles, and shall include, but not be limited to the following:

7.2.1 Tenant's Share (as defined herein) of the Taxes and increases in taxes that result from reassessment of the Building due to changes in ownership during the Term or that result from the reassessment of the Building due to any improvements during the Term of the Lease. In the event the Premises consist of only a portion of the entire parcel being taxed, Tenant shall pay to Landlord the proportionate share of such taxes allocated to the Premises during the Term by square footage or other reasonable basis, as calculated and determined solely by Landlord. As used herein, the term "taxes" shall include: (a) all taxes, assessments, levies and other charges of any kind or nature whatsoever, general and special, foreseen and unforeseen imposed by any governmental or quasi-governmental authority or

special district having the direct or indirect power to tax or levy assessments with respect to the value, occupancy or use of the Premises or Landlord's interest therein; any improvements located within the Premises (regardless of ownership); the fixtures, equipment and other property of Landlord, real or personal, that are an integral part of and located in the Premises; and landscaping areas, walkways, parking areas, public utilities or energy within the Premises; (b) all charges, levies or fees imposed by reason of environmental regulation or other governmental control of the Premises; (c) any and all permit, inspection and license fees and other public charges of whatever nature that are assessed against the Building or arise because of the occupancy, use or possession of the Building; and (d) all costs and fees (including reasonable attorneys' fees) incurred by Landlord or Tenant in reasonably contesting any tax and in negotiation with public authorities as to any tax.

7.2.2 Tenant's Share of any insurance premiums relating to the Building and Premises as set forth in this Lease;

7.2.3 Tenant's Share of all maintenance and repair expenses relating to the Building and Premises as set forth in this Lease;

7.2.4 Tenant's Share of any other operating expenses incurred by Landlord in the operation of the Building and Premises; and

7.2.5 All charges, costs, expenses, and other amounts that Tenant is required to pay hereunder, together with all interest, late charges, penalties, costs and expenses, including but not limited to attorneys' fees, legal and accounting expenses, collection costs, and court costs, if any, that may accrue or be incurred in the event of Tenant's default, refusal or failure to pay such amounts, and all damages, costs and expenses, including but not limited to attorneys' fees that Landlord may incur by reason of any default by Tenant under this Agreement or failure on Tenant's part to comply with the terms of this Lease.

7.2.6 The cost of operation, maintenance and repairs and costs of replacements made in connection with the operation, maintenance and repairs of cables, fans, pumps, boilers, cooling equipment, wiring, electrical fixtures, metering, control and distribution equipment, component parts of the heating, ventilation and air-conditioning system, electrical systems, plumbing systems, structural items, walls, roofs, elevators, any life and/or property protection, including but not limited to sprinkler systems, driveways and other paved areas, lighting and window washing equipment. At Landlord's discretion, capital expenditures shall be amortized over the useful life of the asset in accordance with generally accepted accounting principles, plus interest at the rate of 9-1/2% (nine and one half percent) per annum.

7.2.7 The cost of purchase, rental and installation of any security or other system used in connection with life and property protection, including but not limited to all machinery, electronic systems and other equipment, as well as the cost of the operation, maintenance and/or repair of any such system. Such capital expenditures shall be amortized over the useful life of the asset in accordance with GAAP, plus interest at the rate of 9-1/2% (nine and one half percent) per annum.

7.2.8 Tenant's pro rata costs associated with the operation of the parking lot assigned to Tenant, including payment for any parking lot attendants or a parking lot management system, if necessary.

7.2.9 Costs for alterations and improvements to the Real Property made by reason of the laws and requirements of any public authorities enacted after the Commencement Date and/or requirements of insurance bodies or Landlord's insurer, costs of capital improvements, equipment or machinery installed for the purpose of reducing energy consumption or reducing other Operating Expenses (including but not limited to the cost of insurance), but only to the extent of the reasonably anticipated reduction of Operating Expenses at the time of such expenditure to be incurred, and such costs shall be amortized over the useful life of the asset in accordance with generally accepted accounting principles, plus interest at the rate of 9-1/2% (nine and one half percent) per annum.

7.2.10 **Janitorial Service:** Tenant shall provide janitorial services inside the suite. Landlord will provide cleaning in the common areas of the Building. Pursuant to the provisions of this Lease, the maintenance, storage and removal of any medical or biological Hazardous Waste shall be the sole responsibility of Tenant.

7.2.11 Reasonable legal, accounting and other professional fees.

7.2.12 All Real Property Taxes and special assessments, as defined in this Lease.

7.2.13 From time to time, as major Building or Real Property systems, roof, paved surfaces, etc., require replacement or rehabilitation, Tenant shall pay its pro rata share.

7.2.14 All other charges properly allocated to the management, repair, operation and /or maintenance of the Real Property in accordance with real estate accounting practices customarily used in the area or region where the Premises are located.

7.2.15 **The Operating Expenses shall be paid as follows:** Prior to the commencement of each year of the Term or as soon thereafter as practicable, Landlord shall give Tenant notice of its estimate of the Operating Expenses for the ensuing year of the Term. On or before the first day of each month during the ensuing year of the Term, Tenant shall pay to Landlord 1/12 of such estimated amount, provided that if such notice is not given prior to the commencement of the ensuing year of the Term, Tenant shall continue to pay on the basis of the prior year's estimate until the month after such notice is given. If at any time it appears to Landlord that the actual Operating Expenses for the current year of the Term will vary from its estimate by more than five percent (5%), Landlord may, by notice to Tenant, revise its estimate for such year and subsequent payments by Tenant for such year shall be based on such revised estimate.

7.3 Within ninety (90) days after the close of each calendar year of the Term or as soon after such 90-day period as practicable, Landlord shall deliver to Tenant the following:

7.3.1 A statement of the Operating Expenses for such calendar year showing in reasonable detail the actual Operating Expenses incurred by Landlord, certified by Landlord, which certified statement shall be final and binding upon Landlord and Tenant, together with copies of all billings, invoices, and other support for such Operating Expenses; and

7.3.2 A statement of the payments made by Tenant within this Section for each year. If, on the basis of such statements, Tenant owes an amount that is less than the estimated Operating Expenses for such year previously made by Tenant, Landlord, at its election, shall either promptly refund the amount of overpayment to Tenant or credit such excess against Tenant's subsequent obligations to pay Rent. If, on the basis of such statements Tenant owes an amount that is more than the estimated Operating Expenses for such year previously made by Tenant, Tenant shall pay the deficiency to Landlord after thirty (3) days after delivery of such statements.

7.4 **Separately Metered Utility Services:** In addition to the expenses indicated above, Tenant shall pay for all separately-metered utilities for the Premises obtained by or for the direct benefit of Tenant, including, gas, heat, light, power, cable or satellite connections, telephone, facsimile, dedicated computer services, and other services and utilities, and Tenant shall make all arrangements for and pay the cost of connection charges and taxes for all such services and utilities to the Premises. Landlord shall provide for Premises water for ordinary medical office uses. If Tenant's use of water exceeds ordinary medical office uses, then Tenant shall pay the cost of such excess (determined in Landlord's reasonable discretion). Landlord shall not be liable for failure to furnish any utilities or services to the Premises where such failure results from causes beyond Landlord's reasonable control. Except as otherwise provided herein, the discontinuance of any utilities or services shall neither be deemed an actual or constructive eviction and shall not release Tenant of its obligations under this Lease, including without limitation Tenant's obligation to pay Rent, Additional Rent, or its share of Operational Expenses.

7.5 If Tenant fails to pay any Rent, Operational Expenses or Additional Rent, Landlord reserves the right to pursue and all rights and remedies that it may have under the terms of this Lease and under law.

7.6 **Elevator Service:** Landlord shall also provide non-exclusive passenger elevator service to the Premises as may be reasonably necessary for Tenant and Tenant's Representatives, as determined by Landlord in its reasonable discretion. Landlord may temporarily suspend the use of the elevator from time to time for the purpose of performing maintenance and repairs without liability to Tenant, Tenant's Representatives or any other Building occupant for any interruption of such elevator service.

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7.7 **Tenant to Pay Personal Property Taxes:** Tenant shall pay before delinquency all taxes, assessments, license fees, and other charges ("Personal Property Taxes") that are levied or assessed against, or based upon the value of, Tenant's personal property installed or located in or on the Premises, including without limitation trade fixtures, furnishings, equipment and inventory (collectively "Tenant's Personal Property") that become payable during the Term. On demand by Landlord, Tenant shall furnish Landlord with satisfactory evidence of such payments. If any Personal Property Taxes are levied against Landlord or Landlord's property, or if the assessed value of the Real Property is increased by the inclusion of a value placed on the Personal Property, and if Landlord pays such Personal Property Taxes or any taxes based on the increased assessments caused by such Personal Property, then Tenant, on demand, shall immediately reimburse Landlord for the sum of the Personal Property Taxes so levied against Landlord, or the proportion of taxes resulting from such increase in Landlord's assessment. Landlord shall have the right to pay such Personal Property Taxes or such proportion, and receive such reimbursement, regardless of the validity of the levy.

7.8 Tenant shall be responsible at Tenant's sole cost and expense for handling and lawfully disposing of all medical and biological waste in or from the Premises. Tenant's failure to comply with its duties hereunder shall be a breach of this Lease, and, in addition to other remedies it may have under the Lease, Landlord may, at its option, enter the Premises and dispose of said medical or biological waste, and Tenant shall reimburse Landlord for its actual costs plus ten percent (10%) for supervision.

7.9 **Tenant's Right to Audit:** Within three (3) years following Tenant's receipt of the Actual Statement, Tenant or Tenant's agent may, upon not less than thirty (30) days' written notice to Landlord, audit, review and copy, if necessary, Landlord's books and records regarding Operating Expenses. Tenant's failure to timely request an audit shall be deemed a waiver of its right to such an audit, and shall be conclusively presumed to be Tenant's approval of said Actual Statement. Landlord shall reimburse Tenant for the reasonable costs of the audit if Landlord has overstated Tenant's share of Operating Expenses more than three percent (3%).

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Section 8. Indemnity

8.1 Indemnity of Landlord: Tenant shall indemnify, protect, defend and hold harmless Landlord from and against all actual or threatened claims, actions, litigation, disputes, or liabilities, and any and all resulting judgments, awards, penalties, damages, repairs, losses, costs, expenses and attorney's fees arising due to (a) the use of the Premises or the Building by Tenant and/or any of its agents, employees, invitees, officers, independent contractors or licensees (individually and collectively, "Tenant's Representatives"); (b) the conduct of Tenant's business; (c) any activity, work or things done, permitted or suffered by Tenant or any of Tenant's Representatives, or any omission to act, in or about the Premises or elsewhere; (d) any breach or default in the performance of any obligation to be performed by Tenant under this Lease; (e) any negligence or willful misconduct of Tenant and/or Tenant's Representative; (f) the lack of accessibility of the Premises by persons with handicaps or disabilities under the Americans with Disabilities Act (the "ADA") or other similar provision; and (g) any other cause occurring in or about or resulting from an occurrence in or about the Premises during the Term. If any action or proceeding is brought against Landlord by reason of any such Claim, Tenant upon notice from Landlord shall defend such action or proceeding at Tenant's sole cost by counsel satisfactory to Landlord. Tenant assumes all risk of damage to property and injury to persons in, upon or about the Premises arising from any cause, and Tenant waives all claims against Landlord in respect of such damage or injury except as expressly stated herein. Tenant's obligations pursuant to this Section shall survive the expiration or termination of this Lease.

8.2 Indemnity of Tenant: Landlord shall indemnify, protect, defend and hold harmless Tenant from and against actual or threatened claims, actions, litigation, disputes or liabilities, and any and all resulting judgments, awards, penalties, damages, repairs, losses, costs, expenses and attorney's fees arising out of Landlord's failure to perform the duties and obligations required to be performed under this Agreement. If any action or proceeding is brought against Tenant by reason of any such Claim, Landlord upon notice from Tenant shall defend such action or proceeding at Landlord's sole cost by counsel satisfactory to Tenant. Landlord assumes all risk of damage to property and injury to persons in, upon or about the Premises arising from any cause, and Landlord waives all claims against Tenant in respect of such damage or injury except as expressly stated herein. Landlord's obligations pursuant to this Section shall survive the expiration or termination of this Lease.

Section 9. Insurance

9.1 Tenant's Insurance: At all times during the Lease Term and during any holdover period, Tenant, at its sole cost and expense, shall procure and maintain the following types of insurance identified or described in this section and, where required, Tenant shall name Landlord as an additional insured under any such policy. Tenant may, at its option, fulfill its insurance obligations through self-insurance and pooled coverage programs, that is California State University, as evidenced by certificates and endorsements showing the Landlord as an additional covered party under such self insurance or pooled coverage programs.

9.1.1 Workers' Compensation Insurance: Tenant shall obtain workers' compensation coverage at the legal rate for all of its employees who are on or about the Premises and all areas appurtenant thereto, including but not limited to parking areas.

9.1.2 Public Entity Liability Insurance: Tenant shall obtain commercial general liability insurance with Broad Form Liability, insuring Landlord and Tenant against any liability arising out of the use or occupancy of the Premises and all areas appurtenant thereto, including but not limited to parking areas. Such insurance shall have a minimum combined single limit of liability of not less than \$1,000,000 per occurrence and \$3,000,000 in the aggregate and property damage limits of not less than \$1,000,000 per occurrence and \$3,000,000 in the aggregate. Such policies shall insure performance by Tenant of the indemnity provisions contained in this Lease.

9.1.3 Tenant's Fire and Extended Coverage Insurance: Tenant shall maintain for the Premises, improvements and Tenant's personal property a policy of standard fire insurance, including extended coverage, vandalism, malicious mischief insurance, and a sprinkler damage endorsement written on a comprehensive multi-peril property insurance policy to cover "all risks" to the extent of at least one hundred percent (100%) of full replacement value, issued in the name of the Tenant, Landlord and Landlord's lender, as their interests may appear. The company issuing such policy at the time the policy is initially obtained shall determine such "full replacement value." The proceeds of such insurance, so long as this Lease remains in effect, shall be used to repair or replace the personal property, inventory, alterations, fixtures, equipment, and leasehold improvements so insured.

9.1.4 Each policy of insurance required to be carried by Tenant shall be issued by a responsible insurance company authorized to do business in California with an A.M. Best rating of at least A-, and shall include a loss payable endorsement in favor of the Landlord and any beneficiary. Tenant shall deliver a certificate for each insurance policy to Landlord with all relevant endorsements. Each policy of insurance shall be primary and noncontributory with any policies carried by Landlord, to the extent obtainable, shall provide that any loss shall be payable notwithstanding any act or negligence of Landlord or any of Landlord's agents, employees or contractors that might otherwise result in forfeiture of insurance, shall contain a cross liability endorsement and shall contain a severability clause. Each insurance policy shall provide that a thirty (30) day notice of cancellation and of any material modification of coverage shall be given to all named insureds. The insurance coverage required under this Section may be carried by Tenant under a blanket policy insuring other locations of Tenant's business, provided that the Premises covered by this Lease are specifically identified as included under that policy. Tenant agrees that, upon the failure to insure as provided in this Lease, or upon the failure to pay the premiums in the insurance, Landlord may contract for the insurance and pay the premiums, and all sums expended by Landlord for the insurance shall be considered Additional Rent under this Lease and shall be immediately repayable by Tenant.

9.1.5 At all times during the Lease Term and any extensions or renewals, Tenant agrees to keep and maintain, or cause Tenant's agents, contractors or subcontractors to keep and maintain, workers' compensation insurance and other forms of insurance as may from time-to-time be required by law or may otherwise be necessary to protect Landlord and the Premises from claims of any person who may at any time work on the Premises, whether as a servant, agent, or employee of Tenant or otherwise. This insurance shall be maintained at the expense of Tenant or Tenant's agents, contractors or subcontractors and not at the expense of Landlord.

9.2 Landlord agrees that it will tender and turn over to Tenant or to Tenant's insurers the defense of any claims, demands, or suits instituted, made or brought against Landlord or against Landlord and Tenant jointly, within the scope of this Section. However, Landlord shall have the right to approve the selection of legal counsel to the extent that selection is within Tenant's control, which approval shall not be unreasonably withheld or delayed. In addition, Landlord shall retain the right at Landlord's election to have Landlord's own legal counsel participate as co-counsel, to the extent that claims are made that may not be covered by Tenant's insurers.

9.3 The parties hereto release each other and their respective agents and employees from any liability for injury to any person or damage to property that is caused by or results from any risk insured against under any valid and collectible insurance policy carried by either of the parties which contains a waiver of subrogation by the insurer and is in force at the time of such injury or damage. However, Tenant shall not be released from any such liability to the extent any damages resulting from such injury or damage are not covered by the recovery obtained by Landlord from such insurance. This release shall be in effect only so long as the applicable insurance policy contains a clause to the effect that this release shall not affect the right of the insurer to recover under such policy. Each party shall use reasonable efforts to cause each insurance policy obtained by it to provide that the insurer waives all right of recovery by way of subrogation against the other party and its agents and employees in connection with any injury or damages covered by such policy. However, if any insurance policy cannot be obtained with such a waiver of subrogation, or if such waiver of subrogation is only available at additional cost and the party for whose benefit the waiver is to be obtained does not pay such additional cost, then the party obtaining such insurance shall notify the other party of that fact and thereupon shall be relieved of the obligation to obtain such waiver of subrogation rights from the insurer with respect to the particular insurance involved.

9.4 Maintaining Insurance: If Tenant fails during the Term to maintain any insurance required to be maintained by Tenant under this Lease, then Landlord may, at its option and in addition to Landlord's other remedies in the event of default by Tenant, arrange for any such insurance, and Tenant shall reimburse Landlord for any premiums for any such insurance within five (5) business days after Tenant receives a copy of the premium notice. If any such premiums are allocable to a period, a portion of which occurs during the Term and the remainder of which occurs before or after the Term, then such premiums shall be apportioned between Landlord and Tenant based upon the number of days during such period that occurred during the Term and the number of days that occurred before or after the Term, such that Tenant pays for the premiums that are allocable to the period during the Term. Insurance required to be maintained by Tenant under this Lease (a) shall be issued as a primary policy by insurance companies authorized to do business in the State of California with a Best's rating of at least A- and a Best's financial size category rating of at least VII, as set forth in the most current edition of "Best's Insurance Reports" or such higher rating as may be required by any Lender, (b) shall name Landlord and any Lender as additional insureds, and (c) shall not be cancelable or subject to reduction coverage or other modification except after thirty (30) days' prior written notice to Landlord and any Lender. Tenant shall, at least thirty (30) days prior to the expiration of any such policy, furnish Landlord with a renewal or binder of such policy. Tenant shall promptly deliver to Landlord a certified copy of such policy or policies or Certificates evidencing the existence and amounts of such insurance required under this Section 14 together with evidence of payment of premiums. Deductible amounts shall not exceed \$250,000. Any policy required to be maintained by Landlord or Tenant under this Lease may be maintained under a so-called "blanket policy" insuring other parties and/or other locations.

9.5 Landlord Insurance: Landlord may, at its option, obtain policies of insurance to cover the Building and Premises. Landlord's election to obtain such coverage shall not in any way diminish Tenant's duties and obligations to obtain and maintain insurance specified under this Lease. Any insurance obtained by Tenant shall be primary with respect to any loss or liability addressed under this Lease.

Section 10. Trade Fixtures

10.1 During the Term of this Lease, and upon Landlord's written consent, Tenant shall have the ability, at its sole cost and expense, to install and affix on the Premises items for use in Tenant's trade or business that Tenant deems advisable (collectively "Trade Fixtures"). If any contractors are required for the installation of Trade Fixtures, Landlord shall have the right to approve any contractor in advance and those contractors shall perform their work in accordance with this Agreement, including but not limited to Section 4.7. Trade Fixtures installed in the Premises by Tenant shall always remain the property of Tenant and may be removed at the expiration of the Term or any extension thereof, provided that any damage to the Premises caused by the removal of the Trade Fixtures shall be repaired by Tenant at Tenant's expense, and further provided that Landlord shall have the right to keep any Trade Fixtures or to require Tenant to remove any Trade Fixtures that Tenant might otherwise elect to abandon.

10.2 As security for Tenant's performance of obligations under this Lease, Tenant grants to Landlord a security interest in all Trade Fixtures owned by Tenant and now or later placed on the Premises by Tenant. Any right to remove the Trade Fixtures given Tenant by the provisions of this Section shall be exercisable only if, at the time of the removal, Tenant is not in default in performance of this Lease. Tenant may, however, at any time Tenant is not in default in performance of this Lease, trade in or replace any Trade Fixture, free of the security interest created by this Section. This security interest will then attach to the item that replaced the previous Trade Fixture. Upon default under this Lease, Landlord shall immediately have as to the Trade Fixtures the remedies provided to a secured party under relevant sections of the California Uniform Commercial Code.

10.3 Any Trade Fixtures that are not removed from the Premises by Tenant within thirty (30) days after the Termination Date shall be deemed to be abandoned by Tenant and shall automatically become the property of Landlord as owner of the real property to which they are affixed and not due to the lien provided to Landlord in this Section.

Section 11. Damage and Destruction

11.1 **Damage or Destruction:** If, during the Term, the Premises or other improvements located thereon are damaged or destroyed, whether partially or entirely, from any insured casualty, Landlord may, within one hundred and fifty (150) days after such casualty, commence to restore the Premises to substantially the same condition as prior to such casualty and prosecute same to diligent completion. Landlord's obligation shall not include repair or replacement of Tenant's equipment, furnishings, fixtures, or personal property. Damage to or destruction of any portion of the building, fixtures or other improvements on the Premises by fire, the elements, or any other cause shall not terminate this Lease or entitle Tenant to surrender the Premises or otherwise affect the respective obligations of the parties, any present or future law to the contrary notwithstanding. If the existing laws do not permit the Premises to be restored to substantially the same condition as they were in immediately before such casualty and Landlord is unable to get a variance to such laws to permit the commencement of restoration of the Premises within the 150-day period, then either party may terminate this Lease by giving written notice to the other party within thirty (3) days after the expiration of such 150-day period, in which event this Lease shall terminate as of the date of such notice. Notwithstanding the foregoing, in the event that Landlord decides within 150 days following a casualty to demolish the Premises rather than rebuild it, Landlord may notify Tenant in writing within such 150 day period of such election, in which event the Lease will terminate as of the date of such notice to Tenant.

11.2 If the Premises are damaged or destroyed in whole or in part by any uninsured or under-insured casualty, Landlord may within one hundred and fifty (150) days following the date of such damage:

11.2.1 Commence to restore the Premises to substantially the same condition as they were in immediately before the destruction and prosecute the same diligently to completion, in which event this Lease shall continue in full force and effect; or

11.2.2 Within the 150 day period, Landlord may elect not to so restore the Premises. In either event, Landlord shall give Tenant written notice of its intention within 150 days following such casualty.

11.3 If any casualty occurs to the Premises during the last six (6) months of the initial Term or within the last six (6) months of any extension thereof so that Tenant's use or occupancy of the Premises is materially impaired, either party shall have the right to terminate this Lease within thirty (30) days following such casualty.

11.4 In the event that a casualty not caused by Tenant or any of Tenant's employees, agents, contractors, officers, directors, invitees, or licensees, results in the material impairment of Tenant's use or occupancy of the Premises and this Lease is not terminated in accordance with the terms of this Section, the Rent otherwise payable by Tenant shall be abated from the date of such casualty until the Premises are substantially completed, based on the extent to which Tenant's use or occupancy of the Premises is materially impaired by such casualty. Except for the abatement of Rent, all other obligations of Tenant under this Lease shall remain in full force and effect. Except for the abatement of Rent, Tenant shall have no claim against Landlord for any loss suffered by Tenant due to such casualty or any restoration or repair work undertaken as provided herein.

11.5 The provisions of California Civil Code Sections 1932(2) and 1933(4) and any similar or successor statutes are hereby waived by Tenant and shall be inapplicable with respect to any damage or destruction of the Premises, such sections providing that a lease terminates on the destruction of the Premises unless otherwise agreed between the parties to the contrary.

Section 12. Condemnation

12.1 If, during the Term or any renewal or extension, the whole of the Premises shall be taken pursuant to any condemnation proceeding, this Lease shall terminate as of 12:01 a.m. of the date that actual physical possession of the Premises is taken, and after that, both Landlord and Tenant shall be released from all obligations under this Lease.

12.2 If, during the Term or any renewal or extension, only a part of the Premises is taken pursuant to any condemnation proceeding and the remaining portion is not suitable or adequate for the purposes for which Tenant was using the Premises prior to the taking, or if the Premises should become unsuitable or inadequate for those purposes by reason of the taking of any other property adjacent to or over the Premises pursuant to any condemnation proceeding, or if by reason of any law or ordinance the use of the Premises for the purposes specified in this Lease shall become unlawful, then after the taking or after the occurrence of other described events, Tenant shall have the option to terminate, and the option can be exercised only after the taking or after the occurrence of other described events by Tenant giving ten (10) days' written notice to Landlord and Rent, Additional Rent and Operating Expenses shall be paid only to the time when Tenant surrenders possession of the Premises. If, under this Section 10.2, Tenant is legally able to remain on the Premises after a partial condemnation proceeding and Tenant, in fact, elects to remain on the Premises, then Tenant's share of Rent, Additional Rent and Operating Expenses shall be reduced proportionately based on the actual square footage available to Tenant in the Premises. Tenant shall notify Landlord of its intention to remain on the Premises under this Section 10.2 within thirty (30) days of the actual date of condemnation or taking of any portion of the Premises. If Tenant does not provide notice of its intention to remain on the Premises within this time period, then the Lease shall automatically terminate.

12.3 Award: All compensation, sums or anything of value awarded, paid, or received on a total or partial condemnation ("Award") shall belong to and be paid to Landlord. Tenant shall have no right to any part of the Award, and Tenant assigns to Landlord all of Tenant's right, title and interest in and to any part of the Award, except that Tenant shall receive from the Award any sum that might be paid expressly to Tenant from the Condemnor.

Section 13. Assignment and Subletting

13.1 Tenant shall not assign or hypothecate this Lease or any interest herein (by operation of law or otherwise), shall not sublet the Premises or any part thereof, or permit the use of the Premises by any party other than Tenant, shall not mortgage or encumber the Lease (or otherwise use the Lease as a security device) in any manner and shall not materially amend or modify an assignment, sublease, or other transfer that has been previously approved by Landlord (each "Transfer") without the prior written consent of Landlord which shall not be unreasonably withheld. If Tenant is a corporation, a partnership, or a limited liability company, the transfer (as a consequence of a single transaction or any number of separate transactions) of fifty percent (50%) or more of the beneficial ownership interest of the voting stock of Tenant issued and outstanding as of the date hereof or partnership interests in Tenant, or ownership interests in Tenant, as the case may be, shall constitute a Transfer hereunder for which such consent is required. Further, Tenant shall not Transfer this Lease to any corporation which controls, is controlled by, or is under common control with Tenant, or to any corporation resulting from merger or consolidation with Tenant, or to any person or entity which acquires all the assets as a going concern of the business of Tenant that is being conducted on the Premises, without the prior written consent of Landlord which shall not be unreasonably withheld. Any of the foregoing acts without such consent shall be void, and, at the option of Landlord, shall terminate this Lease.

13.2 In the event that Tenant should desire to Transfer this Lease, Tenant shall provide Landlord with written notice of such desire at least sixty (60) days in advance of the effective date of such Transfer. Such notice shall include: (a) the name and legal composition of the proposed subtenant or assignee; (b) the nature of business to be conducted by the proposed subtenant or assignee in the Premises; (c) the terms and conditions of the proposed Transfer; (d) a current financial statement of the proposed subtenant or assignee, financial statements of proposed subtenant or assignee covering the preceding three (3) years, if they exist, and, if available, an audited financial statement of the proposed subtenant or assignee for a period ending not more than one (1) year prior to the proposed effective date of the Transfer, all of which are to be prepared in accordance with generally accepted accounting principles; (e) a statement of all consideration to be given on account of the Transfer; and (f) any other information that Landlord requests. At any time within thirty (30) days following receipt of Tenant's notice, Landlord may by written notice to Tenant elect to: (a) in Landlord's sole and absolute discretion, terminate this Lease as to the space affected as of the effective date of the proposed Transfer; (b) consent to the proposed subletting of the Premises or assignment of this Lease; or (c) disapprove of the proposed Transfer. If Landlord elects to terminate this Lease, Landlord shall so notify Tenant, in which event, Tenant shall have the right within three (3) business days following the receipt of Landlord's notice to notify Landlord that Tenant has elected not to Transfer the Lease and has retracted its request for Landlord's consent thereto, in which event, Landlord shall not terminate the Lease. Without limiting other situations in which it may be reasonable for Landlord to withhold its consent to any proposed assignment or sublease, Landlord and Tenant agree that it shall be reasonable for Landlord to withhold its consent in any one or more of the following situations: (a) if, in Landlord's reasonable judgment, the net worth of the proposed subtenant or assignee does not equal or exceed the greater of Tenant's net worth at the time this Lease is signed or Tenant's net worth immediately prior to

the proposed assignment or sublease; (b) in Landlord's reasonable judgment, the business history and reputation in the community of the proposed subtenant or assignee does not meet the standards applied by Landlord; or (c) the proposed subtenant or assignee shall be a then existing or prospective tenant of Landlord. In any event, Landlord shall be entitled to exercise its right of termination in lieu of consenting to a transfer, as set forth above.

13.3 In addition to the provisions of this Section regarding Landlord's consideration of Tenant's request for Transfer, any Transfer accepted by Landlord is conditioned upon Tenant's delivery to Landlord, and Landlord's acceptance of, an executed copy of the applicable sublease or assignment whereby the subtenant or assignee expressly assumes the obligations of Tenant under this Lease. To be effective, the sublease or assignment must contain a counterpart for Landlord's review and signature wherein Landlord acknowledges that the Transfer is reasonably satisfactory to Landlord in form and substance.

13.4 Tenant shall pay to Landlord, as Additional Rent, all costs and attorneys' fees incurred by Landlord in connection with the evaluation, processing or documentation of any requested Transfer, whether or not Landlord's consent is granted. Landlord's costs shall include the cost of any review of investigation performed by Landlord or any person acting on behalf of Landlord and any related attorneys' fees incurred by Landlord.

13.5 Regardless of Landlord's consent, no Transfer shall release Tenant of Tenant's obligation or alter the primary liability of Tenant for rent and performance of all other obligations to be performed by Tenant under this Lease. Acceptance of rent by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provision contained herein. Consent to one Transfer shall not be deemed consent to any subsequent Transfers. In the event of default by any assignee or successor of Tenant in performing any of the terms hereof, Landlord may proceed directly against Tenant without the necessity of exhausting remedies against said assignee or successor. Landlord may consent to subsequent Transfers of this Lease or amendments or modifications to this Lease with assignees of Tenant, without notifying Tenant, or any successor of Tenant, and without obtaining its or their consent thereto and such action shall not relieve Tenant or any successor of Tenant of liability under this Lease.

13.6 Any attempted Transfer without Landlord's consent shall constitute an Event of Default. Landlord's consent to any one Transfer shall not constitute a waiver of the provisions of this Section regarding any subsequent transfer.

Section 14. Default

14.1 Any of the following events or occurrences shall constitute a material breach of this Lease by Tenant and, after the expiration of any applicable grace period, shall constitute an "Event of Default":

14.1.1 The failure by Tenant to pay any amount in full when it is due under the Lease;

14.1.2 The failure by Tenant to perform any obligation under this Lease, which by its nature Tenant has no capacity to cure;

14.1.3 The failure by Tenant to perform any other obligation under this Lease, if the failure has continued for a period of ten (10) days after Landlord demands in writing that Tenant cure the failure. If, however, by its nature the failure cannot be cured within ten (10) days, Tenant may have a longer period as is necessary to cure the failure, but this is conditioned on Tenant's promptly commencing to cure within the ten (10) day period and thereafter completing the cure within thirty (30) days after Landlord demands in writing that Tenant cure the failure. Tenant shall indemnify and defend Landlord against any liability, claim, damage, loss or penalty that may be threatened or may in fact arise from that failure during the period the failure is uncured;

14.1.4 A general assignment by Tenant for the benefit of Tenant's creditors; any voluntary filing, petition, or application by Tenant under any law relating to insolvency or bankruptcy, whether for a declaration of bankruptcy, a reorganization, an arrangement, or otherwise; the abandonment, vacation, or surrender of the Premises by Tenant without Landlord's prior written consent; or the dispossession of Tenant from the Premises (other than by Landlord) by process of law or otherwise;

14.1.5 The appointment of a trustee or receiver to take possession of all or substantially all of Tenant's assets or the attachment, execution or other judicial seizure of all or substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, unless the appointment or attachment, execution, or seizure is discharged within thirty (30) days; or the involuntary filing against Tenant, or any general partner of Tenant if Tenant is a partnership, of a petition to have Tenant, or any partner of Tenant if Tenant is a partnership, declared bankrupt or for reorganization or arrangement of Tenant under any law relating to insolvency or bankruptcy, unless the petition is dismissed within sixty (60) days;

14.1.6 The abandonment of the Premises by Tenant;

14.1.7 Tenant's transfer of any interest in the Premises without the express authorization and consent of Landlord;

14.1.8 Tenant's breach of the parties' Memorandum of Understanding regarding the School of Nursing Program, a true and correct copy of which is attached hereto as Exhibit A. A breach would include, but would not be limited to, the parties' failure to execute the agreement described in Section 5.4 of Exhibit A by December 31, 2006; or

14.1.9 Any other act or condition described under this Lease or any exhibit hereto that automatically terminates this Lease or gives Landlord the option to automatically terminate this lease.

Section 15. Remedies

15.1 Upon the occurrence of an Event of Default, Landlord, in addition to any other rights or remedies available to Landlord at law or in equity, shall have the right to:

15.1.1 Terminate this Lease and all rights of Tenant under this Lease by giving Tenant written notice that this Lease is terminated, in which case Landlord may recover from Tenant the aggregate sum of: (a) the worth at the time of award of any unpaid rent that had been earned at the time of termination; (b) the worth at the time of award of the amount by which (i) the unpaid rent that would have been earned after termination until the time of the award exceeds (ii) the amount of the rental loss, if any, as Tenant affirmatively proves could have been reasonably avoided; (c) the worth at the time of award of the amount by which (i) the unpaid rent for the balance of the term after the time of the award exceeds (ii) the amount of rental loss, if any, as Tenant affirmatively proves could be reasonably avoided; (d) any other amount necessary to compensate Landlord for all the detriment caused by Tenant's failure to perform Tenant's obligations or that, in the ordinary course of things, would be likely to result from Tenant's failure, including, without limitation, the costs and expenses incurred by Landlord for: (i) retaking possession of the Premises; (ii) cleaning and making repairs and alterations (including installation of leasehold improvements, whether or not the same shall be funded by a reduction of rent, direct payment, or otherwise) necessary to return the Premises to good condition and preparing the Premises for reletting, with any tenant improvements necessary to prepare the Premises for reletting being amortized over the life of such improvements and charged to Tenant based on the then remainder of the Term hereof; (iii) removing, transporting, and storing any of Tenant's property left at the Premises (although Landlord shall have no obligation to remove, transport, or store any of the said property); (iv) reletting the Premises, including, without limitation, brokerage commissions, advertising costs, and attorney fees; (v) attorney fees, expert witness fees and court costs in terminating this Lease and enforcing Landlord's rights thereunder; (vi) any unamortized real estate brokerage commissions paid in connection with this Lease; and (vii) costs of carrying the Premises, such as repairs, maintenance, taxes, insurance premiums, utilities, and security precautions, if any; and (viii) all other amounts in addition to or in lieu of those previously set out as may be permitted from time to time by applicable California law. As used in clause 13.1.1 (a) and (b) of this Section, the worth at the time of award is computed by allowing interest at the rate of ten percent (10%) per annum. As used in clause 13.1.1 (c) of this Section, the worth at the time of award is computed by discounting that amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award, plus one percent (1%). As used in this Section, the term rent shall include Monthly Rent and any other payments required by Tenant under this Lease.

15.1.2 Continue this Lease, and from time to time, without terminating this Lease, either: (a) recover all rent and other amounts payable as they become due; or (b) relet the Premises or any part on behalf of Tenant on terms and at the rent that Landlord, in Landlord's sole discretion, may deem advisable, all with the right to make alterations and repairs to the Premises, at Tenant's cost, and apply the proceeds of reletting to the rent and other amounts payable by Tenant. To the extent that the rent and other amounts payable by Tenant under this Lease exceed the amount of the proceeds from reletting, the Landlord may recover the excess from Tenant as and when due.

15.1.3 Re-enter the Premises, with or without terminating this Lease, and to remove all persons and property from the Premises. Landlord may store the property removed from the Premises in a public warehouse or elsewhere at the expense and for the account of Tenant.

15.2 None of the following remedial actions, alone or in combination, shall be construed as an election by Landlord to terminate this Lease unless Landlord has in fact given Tenant written notice that this Lease is terminated or unless a court of competent jurisdiction decrees termination of this Lease: any act by Landlord to maintain or preserve the Premises; any efforts by Landlord to relet the Premises; any re-entry, repossession, or reletting of the Premises; or any re-entry, repossession, or reletting of the Premises by Landlord pursuant to this Section. If Landlord takes any of the previous remedial actions without terminating this Lease, Landlord may nevertheless at any later time terminate this Lease by written notice to Tenant.

15.3 If Landlord relets the Premises, Landlord shall apply the revenue from the reletting as follows: first, to the payment of any indebtedness other than rent due from Tenant to Landlord; second, to the payment of any cost of reletting, including, without limitation, finder's fees and leasing commissions; third, to the payment of the cost of any maintenance and repairs to the Premises; and fourth, to the payment of rent and other amounts due and unpaid under this Lease. Landlord shall hold and apply the residue, if any, to payment of future amounts payable under this Lease as the same may become due, and shall be entitled to retain the eventual balance with no liability to Tenant. If the revenue from reletting during any month, after application pursuant to the previous provisions, is less than the sum of: (a) Landlord's expenditures for the Premises during that month; and (b) the amounts due from Tenant during that month, Tenant shall pay the deficiency to Landlord immediately upon demand.

15.4 After the occurrence of an Event of Default, Landlord, in addition to or in lieu of exercising other remedies, may, but without any obligation to do so, cure the breach underlying the Event of Default for the account and at the expense of Tenant. However, Landlord shall by prior notice first allow Tenant a reasonable opportunity to cure, except in cases of emergency, where Landlord may proceed without prior notice to Tenant. Tenant shall, upon demand, immediately reimburse Landlord for all costs, including costs of settlements, defense, court costs, and attorney fees, that Landlord may incur in the course of any cure.

15.5 No security or guaranty for the performance of Tenant's obligations that Landlord may now or later hold shall in any way constitute a bar or defense to any action initiated by Landlord for unlawful detainer or for the recovery of the Premises, for enforcement of any obligation of Tenant, or for the recovery of damages caused by a breach of this Lease by Tenant or by an Event of Default.

15.6 Except to the extent that either party may have otherwise agreed in writing, no waiver by a party of any violation or nonperformance by the other party of any obligations, agreements, or covenants under this Lease shall be deemed to be a waiver of any subsequent violation or nonperformance of the same or any other covenant, agreement, or obligation, nor shall any forbearance by either party to exercise a remedy for any violation or nonperformance by the other party be deemed a waiver by that party of the rights or remedies with respect to that violation or nonperformance.

15.7 **Arbitration:**

15.7.1 Any controversy or dispute between Tenant and Landlord concerning the performance, termination or interpretation of this Agreement shall be resolved through arbitration proceeding under the Federal Arbitration Act and before the American

Arbitration Association (AAA) in accordance with AAA's Commercial Arbitration Rules at the AAA location closest to Landlord's office. The administrative cost of the arbitration and the arbitrator's fee shall be shared equally by the parties. The parties shall have full discovery rights under the California Discovery Act, subject to modification by the arbitrator in his or her discretion.

15.7.2 The Arbitrator shall have no authority or power to amend or modify the terms of this Agreement. All arbitration decisions shall be final and binding on the parties. The prevailing party, as determined by the Arbitrator in his or her decision, shall be awarded an amount equal to its reasonable attorneys' fees incurred in connection with such arbitration, in addition to any other relief that may be awarded.

15.7.3 Judgment upon any award rendered by the Arbitrator may be entered in any court having jurisdiction.

15.7.4 Notwithstanding the contrary provisions of this Section, each of the parties hereto shall have the right to apply for and obtain a temporary restraining order or other temporary, interim or permanent injunctive or equitable relief from a court of competent jurisdiction in order to enforce the provisions of any part of this Agreement as may be necessary to protect its rights under those Sections. Each party shall bear its own costs and attorneys' fees in the event that such action is taken.

Section 16. Late Charge

16.1 Tenant acknowledges that Tenant's failure to pay any installment of Rent, or any other amounts due under this Lease as and when due may cause Landlord to incur costs not contemplated by Landlord when entering into this Lease, the exact nature and amount of which would be extremely difficult and impracticable to ascertain. Such costs include, without limitation, processing and accounting charges, and late charges that may be imposed on Landlord by the terms of any encumbrance and note secured by any encumbrance covering the Premises, extraordinary interest charges, penalties, collection costs, attorney and accountant fees, and the like. Accordingly, if any installment of Rent, or any other amount due under the Lease is not received by Landlord as and when due, then, without any notice to Tenant, Tenant shall pay to Landlord an amount equal to seven percent (7%) of the past due amount, which the parties agree represents a fair and reasonable estimate of the costs incurred by Landlord as a result of the late payment by Tenant (the "Late Charge"). Notwithstanding the foregoing, so long as no installment of Rent is past due more than twice in any twelve month period during the Term, Landlord agrees to provide Tenant with five (5) days notice prior to any assessment of the Late Charge.

Section 17. Default Interest

17.1 All Rent and other amounts payable by Tenant to Landlord hereunder, if not received by Landlord when and as due, shall bear interest from the due date until paid at the rate of 7% (seven percent) per annum. In no event shall such interest exceed the maximum rate permitted by law. Interest due pursuant to this Section shall be in addition to and not in lieu of late fees owing under Section 14 hereof. Acceptance of any late charge or interest payment shall not constitute a waiver of Tenant's default with respect to the overdue amount, nor prevent Landlord from exercising any of the other rights and remedies available to Landlord under this Lease, at law, or in equity.

Section 18. Waiver

18.1 Any express or implied waiver of a breach of any term of this Lease shall not constitute a waiver of any further breach of the same or other term of this Lease; and the acceptance of rent shall not constitute a waiver of any breach of any term of this Lease, except as to the payment of rent accepted.

Section 19. Estoppel Certificates

19.1 At any time, with at least fifteen (15) days' prior notice by Landlord, Tenant shall execute, acknowledge, and deliver to Landlord a certificate certifying:

19.1.1 the Commencement Date, the occupancy date, and the Term;

19.1.2 the amount of the Monthly Rent;

19.1.3 the dates to which rent and other charges have been paid;

19.1.4 that this Lease is unmodified and in full force or, if there have been modifications, that this Lease is in full force, as modified, and stating the date and nature of each modification;

19.1.5 that no notice has been received by Tenant of any default by Tenant that has not been cured, except, if any exist, those defaults shall be specified in the certificate, and Tenant shall certify that no event has occurred that, but for the expiration of the applicable time period or the giving of notice, or both, would constitute an Event of Default under this Lease;

19.1.6 that no default of Landlord is claimed by Tenant, except, if any, those defaults shall be specified in the certificate; and

19.1.7 other matters as may be reasonably requested by Landlord.

19.2 Any certificate may be relied on by prospective purchasers, mortgagees, or beneficiaries under any deed of trust on the Premises or any part of it.

Section 20. Security Deposit

20.1 Tenant agrees that, on or before the execution of this Lease, Tenant shall deposit with Landlord the amount of \$1.00 (one dollar), which amount shall be held by Landlord as security for the full and faithful performance of all of Tenant's covenants and obligations under this Lease (the "Security Deposit"), it being expressly understood and agreed that the Security Deposit is not an advance rental deposit or a measure of the Landlord's damages in case of Tenant's default. Upon the occurrence of any default by Tenant hereunder, Landlord may (but shall not be required to), from time to time and without prejudice to any other remedy provided by this Lease or by law, use the Security Deposit to the extent necessary to make good any arrears of rent or other payments or liability caused by such default or to compensate Landlord for any other loss, damage, liability, or expense which Landlord may suffer by reason of Tenant's default. Tenant shall within ten (10) days after written demand therefor pay to Landlord the amount that was applied in order to restore the Security Deposit to the amount held by Landlord prior to the application. Tenant's failure to so restore the Security Deposit shall constitute an event of default under this Lease on the part of Tenant. Although the Security Deposit shall be deemed the property of Landlord, if Tenant fully and faithfully performs and observes every provision of this Lease to be performed and observed by Tenant, the Security Deposit, or any then unused balance thereof, shall be returned to Tenant (or at Landlord's option, to the last assignee of Tenant's interest hereunder) after the expiration of the Term and after Tenant has vacated and surrendered the Premises in accordance with the terms hereof. Tenant shall not have the right to apply this Security Deposit or any part thereof toward the payment of any Rent or sums due hereunder. In the event of termination of Landlord's interest in this Lease, Landlord shall transfer the unused balance of said Deposit to Landlord's successor-in-interest whereupon Tenant hereby agrees to release Landlord from liability for the return of such Deposit provided such successor-in-interest agrees to return the Security Deposit to Tenant in accordance with the terms hereof. Landlord shall not be required to keep the Security Deposit separate from the general accounts of Landlord nor pay Tenant any interest thereon.

Section 21. Authority

21.1 If Tenant is a corporation, trust, limited liability company, or general or limited partnership, all individuals executing this Lease on behalf of that entity represent that they are authorized to execute and deliver this Lease on behalf of that entity. If Tenant is a corporation, limited liability company, trust, or partnership, Tenant shall, prior to the execution of this Lease, deliver to Landlord evidence of that authority and evidence of due formation, all satisfactory to Landlord. If Tenant is a partnership, Tenant shall furnish Landlord with a copy of Tenant's partnership agreement and with a certificate from Tenant's attorney stating that the partnership agreement constitutes a correct copy of the existing partnership agreement of Tenant. Tenant agrees that it shall in a timely manner obtain all corporate and other approvals necessary to allow it to execute this Lease and carry out Tenant's obligations hereunder.

Section 22. Notices

22.1 Except as otherwise expressly provided by law, all notices or other communications required or permitted by this Lease or by law to be served on or given to either party to this Lease by the other party shall be in writing and shall be deemed served when personally delivered to the party to whom they are directed, or in lieu of the personal service, three days following deposit in the United States Mail, certified or registered mail, return receipt requested, postage prepaid, addressed as follows:

Landlord's Address:

Attn: Property Manager
Palomar Pomerado Health
15255 Innovation Drive
San Diego, CA 92128

With a copy to:

Attn: CFO
Palomar Pomerado Health
15255 Innovation Drive
San Diego, CA 92128

Tenant's Address:

Procurement & Support Services – Property Lease
California State University San Marcos
333 S. Twin Oaks Valley Road
San Marcos, CA 92096-0001

Either party may change the address for the purpose of this Section by giving written notice of the change to the other party in the manner provided in this Section.

Section 23. Subordination, Nondisturbance and Attornment

23.1 This Lease and the rights of Tenant hereunder are subject and subordinate to any ground or underlying lease and the lien of the holder of or beneficiary under a mortgage or deed of trust which now or in the future encumbers the Premises and to any and all advances made thereunder, and interest thereon, and all modifications, renewals, supplements, consolidations, and replacements thereof.

23.2 Tenant agrees that any ground or underlying landlord or lender may at its option, unilaterally elect to subordinate in whole or in part, such ground or underlying lease or the lien of such mortgage or deed or trust to this Lease, provided that such subordination shall be conditioned on such ground or underlying landlord or lender agreeing to enter into a nondisturbance and attornment agreement with Tenant which shall provide that: (a) so long as Tenant is not in default in the payment of rent or in the performance of any of the terms, covenants, and conditions of this Lease, the landlord under any ground or underlying lease, the beneficiary under a mortgage or deed of trust which now encumbers the Premises, and any purchaser at a trustee's sale or foreclosure sale shall not interfere with Tenant's possession of the Premises during the term of this Lease; and (b) if Landlord's interest in the Premises is transferred to the landlord under any ground or underlying lease as a result of the expiration or termination of such lease or if Landlord's interest in the Premises is transferred to the beneficiary under a mortgage or deed of trust which now encumbers the Premises or any other purchaser at a trustee's sale or foreclosure sale of the Premises, Tenant shall agree to be bound to such transferee under all of the terms, covenants, and conditions of the Lease for the balance of the term hereof (including any extensions or renewals). Except for such nondisturbance agreement, such subordination or priority of this Lease, as the case may be, shall be effective without the necessity of executing any further instrument or agreement to effect such subordination or priority. Tenant agrees to execute, acknowledge, and deliver to Landlord upon demand any and all instruments required by Landlord or any such ground or underlying landlord or lender evidencing the subordination or priority of this Lease, as the case may be. Tenant hereby irrevocably appoints Landlord as its agent and attorney-in-fact (which appointment is coupled with an interest) to execute, acknowledge, and deliver any such instruments in the name of and on behalf of Tenant if Tenant fails to so execute, acknowledge, and deliver such instruments within ten (10) days after written request therefor.

23.3 Within thirty (30) days of the execution by both parties of this Lease, Landlord shall cause the landlord under any ground or underlying lease and the holder of or beneficiary under a mortgage or deed of trust which now encumbers the Premises to enter into a nondisturbance and attornment agreement with Tenant which shall provide that: (a) so long as Tenant is not in default in the payment of rent or in the performance of any of the terms, covenants, and conditions of this Lease, the landlord under any ground or underlying lease, the beneficiary under a mortgage or deed of trust which now encumbers the Premises, and any purchaser at a trustee's sale or foreclosure sale shall not interfere with Tenant's possession of the Premises during the term of this Lease; and (b) if Landlord's interest in the Premises is transferred to the landlord under any ground or underlying lease as a result of the expiration or termination of such lease or if Landlord's interest in the Premises is transferred to the beneficiary under a mortgage or deed of trust which now encumbers the Premises or any other purchaser at a trustee's sale or foreclosure sale of the Premises, Tenant shall agree to be bound to such transferee under all of the terms, covenants, and conditions of the Lease for the balance of the term hereof (including any extensions or renewals).

Section 24. Merger

24.1 The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation of the Lease, or a termination by Landlord shall not work a merger, and shall, at the option of Landlord, terminate all or any existing subtenancies or may, at the option of Landlord, operate as an assignment to a Landlord of any of the subtenancies.

Section 25. Easements

25.1 Landlord reserves the right to grant easements, rights, and dedications that Landlord deems necessary or desirable, and to record parcel maps and restrictions, so long as these easements, rights, dedications, maps, and restrictions do not unreasonably interfere with Tenant's use or occupancy of the Premises. Tenant agrees to sign any of these documents immediately upon request of Landlord.

Section 26. Covenants and Conditions

26.1 Each term of this Lease performable by Tenant shall be deemed both a covenant and a condition.

Section 27. Transfer by Landlord

27.1 If Landlord transfers the Premises, Landlord shall be relieved of all liability for the performance of Landlord's obligations after the date of the transfer. However, any prepaid rent or security deposit held by Landlord at the time of the transfer shall be delivered to the transferee.

Section 28. Security Measures

28.1 Tenant acknowledges that Landlord shall have no obligation to provide any guard service or other security measures to the Premises, and Tenant assumes all responsibility for the protection of Tenant, Tenant's agents, employees, invitees, and customers, and the property of Tenant and of Tenant's agents, employees, invitees, and customers from acts of third parties.

Section 29. Offer

29.1 Preparation of this Lease by Landlord or Landlord's agent and submission to Tenant shall not be deemed an offer to lease. This Lease shall become binding on Landlord and Tenant only when fully executed by Landlord and Tenant.

Section 30. Surrender of Premises and Holding Over

30.1 **Surrender of Premises:** By the Expiration Date or earlier termination of this Lease, (a) Tenant shall surrender to Landlord the Premises, including without limitation all Alterations, in Good Condition (except for destruction to the Premises covered by the Section entitled "Damage and Destruction"), reasonable wear and tear excepted, except for Alterations that Tenant is obligated to remove pursuant to this Lease; (b) Tenant shall remove all its Personal Property and perform all repairs and restoration required by the removal of any Alterations or Personal Property at its sole cost; and (c) Tenant shall surrender to Landlord all keys to the Premises (including without limitation any keys

to exterior or interior office doors) and all permits, validations, keycards, passes, and similar items with respect to the Parking Area. Landlord may elect to retain or dispose of, in accordance with applicable law, any Alterations or Personal Property that Tenant does not remove from the Premises on the Expiration Date or earlier termination of this Lease as required by this Lease by giving written notice to Tenant. Any such Alterations or Personal Property that Landlord elects to retain or dispose of shall vest in Landlord. Tenant waives all claims against Landlord for any damage to Tenant resulting from Landlord's retention or disposition of any such Alterations or Personal Property after the expiration or earlier termination of this Lease. Tenant shall be liable to Landlord for Landlord's costs for storing, removing or disposing of any such Alterations or Personal Property. If Tenant fails to surrender the Premises to Landlord on the Expiration Date or earlier termination of this Lease, Tenant shall indemnify and defend Landlord against all liability, loss and claims resulting from such failure, including without limitation any claim for damages made by a succeeding tenant.

30.2 Holding Over: If Tenant, with Landlord's consent, remains in possession of the Premises after the Expiration Date or earlier termination of this Lease, such possession by Tenant shall be deemed to be a month-to-month tenancy terminable on thirty (30) days' written notice given at any time by Landlord or Tenant. Upon sixty (60) days prior written notice to Tenant, during any such month-to-month tenancy, Tenant shall pay, as minimum monthly rent, the lesser of (a) one hundred fifty percent (150%) of the Rent in effect immediately prior to the Expiration Date or earlier termination of this Lease, as the case may be; or (b) one hundred percent (100%) of the then current fair market rental rate for comparable space. All provisions of this Lease except for those pertaining to Term shall apply to such month-to-month tenancy. This shall include, but is not limited to, Tenant's obligation to pay all other amounts due under this Lease, such as Additional Rent and Operating Expenses.

Section 31. Landlord's Inability to Perform

31.1 Causes of Inability to Perform: This Lease and the obligations of Tenant shall not be affected or impaired because Landlord is unable to fulfill any of its obligations or is delayed in doing so, if such inability or delay is caused by reason of the following:

31.1.1 Unavailability of materials, strike or other labor actions or disputes:

31.1.2 Any statute, law or regulation of or inability to obtain any permission from any governmental authority having lawful jurisdiction preventing, delaying or restricting such fulfillment; or

31.1.3 Any other cause beyond the reasonable control of Landlord.

Section 32. Landlord's Default

32.1 Landlord shall not be deemed to be in default in the performance of any obligation required to be performed by Landlord unless and until it has failed to perform such obligation within thirty (30) days after Landlord's receipt of written notice from Tenant specifying Landlord's failure to perform such obligation. However, if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be deemed to be in default if it shall commence such performance within such 30-day period and thereafter prosecutes the same to completion.

Section 33. Common Areas

33.1 Tenant shall have the non-exclusive right to use any public areas of the Real Property that are not leased to any tenants or for lease to any tenants (the "Common Areas"). Landlord shall manage, repair, operate and maintain the Common Areas. Except as specifically set forth in the lease, Landlord's failure to perform its obligations set forth in the preceding sentence shall not release Tenant of its obligations under the Lease, including without limitation Tenant's obligation to pay Rent, Additional Rent or Operating Expenses. Landlord may, at its election, (a) close any of the Common Areas to the extent required in the opinion of Landlord's legal counsel to prevent a dedication of any of the Common Areas or the accrual of any rights of any person or the public to the Common Areas; (b) close temporarily any of the Common Areas for maintenance purposes; and (c) make any changes to the Common Area, or any part of the Real Property, including without limitation changes to the Building or other improvements on the Real Property, addition of new buildings or other improvements, and changes in the location of driveways, entrances, exits, vehicular parking spaces, or the direction of the flow of traffic, provided such closure or changes do not materially adversely affect Tenant's operation of its business.

Section 34. Rules

34.1 Tenant and Tenant's Representatives shall observe faithfully and comply strictly with the rules that are set forth in attached EXHIBIT D and such other reasonable rules as Landlord may from time to time adopt for the Real Property, the Building and the Premises in Landlord's discretion. Such rules shall not be discriminately applied. Landlord will use reasonable efforts to assure that other tenants comply with land rules, provided, however, that Landlord shall not be liable to Tenant for violation of any rule by any other tenant, or its agents, employees, officers, independent contractors, customers, invitees, visitors, or licensees. All the rules adopted by Landlord pursuant to this paragraph shall be in accordance with the material terms of this Agreement. Note: The Building is a Non-Smoking Building. Smoking will only be allowed outside the Building in areas designated by Landlord.

Section 35. Quiet Enjoyment

35.1 Tenant, subject to the terms and provisions of this Lease, upon paying Rental and observing, and performing all the obligations under this Lease which are to be kept and performed by Tenant, shall lawfully and quietly hold, occupy and enjoy the Premises during the Term without hindrance or ejection by anyone lawfully claiming by, through or under Landlord. It is expressly understood and agreed that Tenant's use of the Premises is not exclusive. Landlord shall be entitled to the concurrent use, enjoyment and benefit of the Premises with Tenant throughout the entire Term of this Lease, any extension of this Lease, and any holding over period. The parties will use their best efforts to coordinate their use of the Premises so that such use does not unreasonably interfere with the other party.

Section 36. Joint and Several Obligations

36.1 If more than one person is Tenant, the obligations imposed on Tenant shall be joint and several. The failure of any person to sign the Lease shall not release or affect the liability and obligations of those who do sign this Lease. Any act or signature of one or more of any of the persons executing this Lease as Tenant and any notice or refund given to or served on any one of such persons shall be fully binding on all of such persons.

Section 37. Payments in United States Currency

37.1 All payments to be made by Tenant to Landlord under this Lease shall be in United States currency.

Section 38. Brokers

38.1 Landlord shall not be responsible for any broker fees, costs or other expenses of a broker, and Tenant hereby indemnifies Landlord against all liability, costs, expenses and charges and claims arising from any claims that may be made against Landlord by any real estate broker, agent, finder, or other person alleging to have acted on behalf of or to have dealt with Tenant arising out of the negotiation, execution or performance of this Lease.

Section 39. Tenant's Financial Statements

39.1 Upon request by Landlord, Tenant shall provide a copy of its most recent audited financial statement within thirty (30) days from its receipt of such request.

Section 40. No Option

40.1 The submission of this Lease by Landlord, its agent or representative for examination or execution by Tenant does not constitute an option or offer to lease the Premises upon the Terms and conditions contained in this Lease or reservation of the Premises in favor of Tenant. This Lease shall only become effective upon the execution of the Lease by Landlord and delivery of a fully executed counterpart to Tenant.

Section 41. Recordation of Lease

41.1 Neither this Lease nor any Memorandum of Lease shall be recorded without the express written consent of Landlord.

Section 42. Building Name Change and Use of Name

42.1 Building Name Change: Landlord, with reasonable discretion and prior consent from its ground lessor, reserves the right with ninety (90) days' prior written notice to change the name of the Building from time to time during the Term.

42.2 Use of Building Name: Tenant shall not be allowed to use the name, picture or representation of the Building or words to that effect, in connection with any business carried on in the Premises or otherwise (except at Tenant's address) without the prior written consent of Landlord.

Section 43. Reserved Area

43.1 Tenant hereby acknowledges and agrees that the exterior walls of the Premises and the area between the finished ceilings of the Premises and the slab of the floor of the Building are not demised to Tenant under this Lease and the use thereof together with the right to install, maintain, use, repair and replace pipes, ducts, conduits and wires leading through, over or above the Premises in locations which will not materially interfere with Tenant's use of the Premises and serving other parts of the Building are hereby accepted and reserved unto Landlord.

Section 44. Non-Business Days

44.1 Unless otherwise specified in this Lease, all periods for action under the terms of this Lease shall be measured in calendar days.

Section 45. Reasonableness and Good Faith

45.1 Except for determinations expressly described as being in the "discretion" of the applicable party, neither Landlord nor Tenant shall unreasonably withhold or delay any consent, approval or other determination provided for hereunder, and determinations subject to discretion shall not be unreasonably delayed. Tenant acknowledges that the Building is a medical office building, and that Landlord's determinations under this Lease shall be deemed reasonable and in good faith to the extent they are made to maintain the integrity, character, and quality of the Building as a first class medical office building. In the event that either Landlord or Tenant disagree with any determination made by the other hereunder (other than a determination in the discretion of the determining party) and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within five (5) days following such request. In addition, whenever the Lease grants Landlord or Tenant the right to take action, exercise discretion, establish rules and regulations, make allocations or other determinations, or otherwise exercise rights or fulfill obligations, Landlord and Tenant shall act reasonably and in good faith and take no action which might result in the frustration of the reasonable expectations of a sophisticated Landlord and sophisticated Tenant concerning the benefits to be enjoyed under this Lease.

Section 46. Miscellaneous Provisions

46.1 **Heirs and Successors:** Except for any provision in this Lease under the Section discussing Transfer to the contrary, this Lease shall be binding on and shall inure to the benefit of the heirs, executors, administrators, successors, and assigns of Landlord and Tenant.

46.2 **Partial Invalidity:** Should any provision of this Lease be held by a court of competent jurisdiction to be either invalid or unenforceable, the remaining provisions of this Lease shall remain in effect, unimpaired by the holding.

46.3 **Entire Agreement:** This instrument, and any Exhibits attached hereto and incorporated by reference, constitutes the sole agreement between Landlord and Tenant respecting the Premises, the leasing of the Premises to Tenant, and the specified lease term, and correctly sets forth the duties and obligations of Landlord and Tenant. Any agreement or representations respecting the Premises or their leasing by Landlord to Tenant not expressly set forth in this instrument are void.

46.4 **Time of Essence:** Time is of the essence in this Lease.

46.5 **Amounts Deemed Rent:** All monetary obligations of Tenant to Landlord under the Lease, including, but not limited to, the Monthly Rent and any amounts deemed additional rent hereunder shall be deemed rent.

46.6 **Amendments:** This Lease may be modified only in writing and only if signed by the parties at the time of the modification.

46.7 **Governing Law:** This Lease shall be governed by and construed in accordance with California law. For purposes of venue and jurisdiction, this Lease shall be deemed made and performed in the City of San Marcos, California.

46.8 **Person and Gender:** Whenever the singular number is used in this Lease, the same shall include, when appropriate, the plural; and each gender shall include, when appropriate, any other genders; and the word "person" shall include, in addition to a natural person, when appropriate, a corporation, firm, partnership, joint venture, trust, estate or other entity.

46.9 **Severability:** If any provision of this Lease is held by a court to be unenforceable or invalid for any reason, the remaining provisions of this Lease shall be unaffected by such holding.

46.10 **Headings:** The article, section and subsection headings of this Lease shall have no effect on its interpretation.

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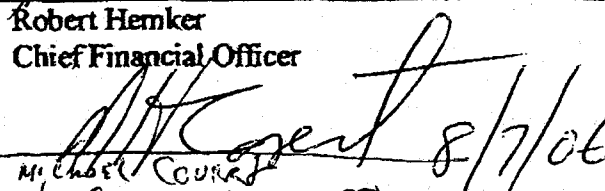
46.11 Exhibits Incorporated by Reference: Any exhibits referred to in this Lease are made a part of and incorporated into this Lease by such reference.

IN WITNESS WHEREOF, the parties have executed this Lease as of the date first above written. Tenant acknowledges that it has had the opportunity to conduct an independent legal review of this Lease and all exhibits hereto and it agrees to be bound by all terms and conditions contained herein.

LANDLORD:

Palomar Pomerado Health

By:  Dated: 8/7/06
Robert Hemker
Chief Financial Officer
4:40 pm

 8/7/06
Michael Courie
Chief Executive Officer

TENANT:

California State University San Marcos

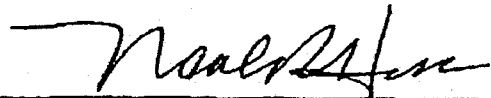
By:  Dated: 8/7/2006
Neal Hoss
Vice President Finance
and Administrative Services

EXHIBIT A

**MEMORANDUM OF UNDERSTANDING
CONCERNING USE OF PPH PREMISES**

This Memorandum of Understanding ("MOU") is entered into by and between Palomar Pomerado Health, a California Local Healthcare District, organized pursuant to Division 23 of the California Health and Safety Code ("PPH") and California State University San Marcos ("CSUSM"), on this 1st day of August, 2006.

Recitals

- A. PPH is the owner of that certain building and improvements, known as the San Marcos Ambulatory Care Center ("Building"), located at 120 Craven Road, San Marcos, California 92069.
- B. PPH and the Trustees of the California State University, through its campus, CSUSM, are in the process of negotiating a separate agreement ("Lease Agreement") whereby CSUSM will lease from PPH, and share with PPH, a portion of the second floor of said Building for the purpose of providing nursing education ("Premises"). PPH and CSUSM will generally refer to their use of the Premises as the "CSUSM School of Nursing located at the Palomar Pomerado Health Education Center".
- C. The parties acknowledge and agree that the Premises will be used and shared according to the terms of this MOU. All other aspects of the parties' understanding concerning the use and function of the Premises that are not specifically addressed in this MOU shall be controlled by the separately negotiated Lease Agreement.

NOW THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

Section 1. Relationship of the Parties

1.1 As part of the collaboration between CSUSM and PPH, PPH has agreed to share and lease the Premises to CSUSM to provide needed space for instructing additional nursing students in order to address a critical nursing shortage in the community. PPH's offer to allow CSUSM to lease its Premises to support the CSUSM School of Nursing is the subject of this MOU.

Section 2. Use of Premises

2.1 Both CSUSM and PPH shall have access to the Premises for the general purpose of providing nursing education to their respective students and/or staff. It is anticipated, but not guaranteed, that the Premises will contain a nursing skills laboratory, computer laboratory, simulated hospital space, conference space and classrooms. The parties' Lease Agreement contains the description and terms of the layout and construction details for the Premises.

Section 3. Sharing of Premises

3.1 The parties' specific times for use of the Premises shall be jointly negotiated. From time-to-time, third parties may be provided special permission by PPH to utilize the Premises. If there is any disagreement between the parties regarding the use or sharing of space in the Premises, PPH shall make a final decision, which shall be binding.

3.2 Authorized access via key or card systems will be available to appropriate personnel of both parties or any third parties upon the written approval of PPH. All rules and regulations regarding times for access shall be set forth in the parties' Lease Agreement.

3.3 CSUSM shall supply its own clinical or instructional-related materials and equipment, models, supplies, skills laboratory demonstration mannequins, and associated materials at the Premises at its own cost and expense. PPH shall be entitled to reasonable use of equipment, but not supplies, furnished by CSUSM for this purpose. In addition, PPH will have its own designated storage space for its own equipment and supplies, which shall not be used or disturbed by CSUSM except upon written approval by PPH. Each party is responsible for the maintenance of the equipment that it owns and purchases.

3.4 PPH personnel shall have access to a designated office space and shall have reasonable access to CSUSM telephones, postage and/or postage meters, computers, copiers and other office equipment for its own use and enjoyment of the Premises. CSUSM shall bear the cost and expense of providing these office supplies and services and CSUSM shall utilize its existing courier services to pick up and deliver mail for its own staff and PPH personnel at this location.

3.5 CSUSM faculty, staff and students will park in the designated CSUSM spaces and PPH staff and employees will park in the designated PPH parking spaces. Appropriate parking stickers or passes shall designate all vehicles as belonging to CSUSM faculty, PPH staff, or "students" of the nursing program.

3.6 PPH may publicly affiliate itself with the CSUSM School of Nursing and may make statements that advertise or describe its collaboration with CSUSM and its support of and contribution to the CSUSM School of Nursing. CSUSM will publicly recognize, acknowledge, or describe PPH's support of and collaboration with the CSUSM School of Nursing.

Section 4. MOU Term

4.1 This MOU shall be contingent upon the parties' successful negotiation of the Lease Agreement and shall commence on the effective date of said Lease Agreement. As a result, this MOU, including any modifications, shall be in effect only for the term and duration of the parties' Lease Agreement. The cancellation, termination, or expiration of the parties' Lease Agreement shall automatically result in the cancellation, termination, or expiration of this MOU.

Section 5. Miscellaneous Provisions

5.1 **Amendments:** This MOU may be modified only in a signed writing by the parties to this agreement.

5.2 **Governing Law:** This MOU shall be governed by and construed in accordance with California law. For purposes of venue and jurisdiction, this MOU shall be deemed to be made and performed in the City of San Marcos, California.

5.3 If any portion of this MOU is in conflict with the parties' Lease Agreement, the terms of the Lease Agreement shall control.

5.4 The parties shall use their best efforts to negotiate an agreement setting forth the affiliation between PPH and CSUSM in connection with the School of Nursing, which further defines the relationship, including any exclusivity and collaboration, and shall address the following key terms: 1) Opportunity for PPH to obtain naming rights relative to the School of Nursing, 2) Opportunity for qualified PPH personnel to assume faculty appointments subject to applicable collective bargaining agreements, and 3) Opportunity for CSUSM to manage parking administration and enforcement on the Premises. Notwithstanding anything else contained herein or in the Lease Agreement, in the event that the parties do not execute such an agreement by December 31, 2006, either party shall have the right to terminate this MOU and the Lease Agreement. To ensure that no student in the School of Nursing Program is adversely affected during the academic semester, such termination shall not become effective until (i) the end of the Spring 2007 CSUSM school semester, or (ii) June 1, 2007, whichever is later.

Palomar Pomerado Health

Dated: 8/7/06
4:40 pm

By: [Signature], CFO
[Signature] 8/7/06

California State University San Marcos

Dated: 8/7/2006

By: [Signature]

EXHIBIT B
Description of Real Property

Legal Description: That portion of Lot 2 of San Marcos Tract No. 347, in the City of San Marcos, County of San Diego, State of California, according to Map thereof No. 12591, filed in the Office of the County Recorder of San Diego County, March 29, 1990, described as follows:

Beginning at a point on the westerly line of said Lot 2, distant thereon 44.00 feet northerly of the southwesterly corner of said Lot 2; thence along the westerly line of said lot, north 00 52'48" east, 22.02 feet; thence south 89 06'51" east, 58.38 feet; thence south 87 41'17" east, 193.03 feet to the beginning of a 613 foot radius curve, concave northerly; thence easterly along said curve, through a central angle of 0125' 25'55", an arc length of 15.32 feet; thence south 89 07'12" east, 38.33 feet to the beginning of a 17.00 foot radius curve, concave northwesterly, thence easterly and northerly along said curve, through a central angle of 72 53'43", an arc length of 21.63 feet; thence south 89 07'12" east, 129.76 feet to the beginning of a 303 foot radius curve, concave southerly; thence easterly along said curve, through a central angle of 12 44'21", an arc length of 67.37 feet; thence south 76 22'51" east, 13.12 feet to the beginning of a 277 foot radius curve, concave northerly; thence easterly along said curve, through a central angle of 08 38'49", an arc length of 41.80 feet to the beginning of a compound 1751 foot radius curve, concave southerly; thence easterly along said curve, through a central angle of 04 32'23", an arc length of 138.74 feet to the beginning of a compound 22 foot radius curve, concave northwesterly, thence easterly and northerly along said curve, through a central angle of 90 01'44", an arc length of 34.57 feet to a point of cusp with the westerly line of Twin Oaks Valley Road as dedicated on said Map No. 12591; thence along said westerly line, south 09 28'59" west, 4.00 feet to the beginning of a 25 foot radius curve, concave northwesterly, thence leaving said westerly line of Twin Oaks Valley Road, southerly and westerly along said curve, through a central angle of 89 55'37", an arc length of 39.24 feet to the beginning of a compound 842 foot radius curve, concave southerly, thence westerly along said curve, through a central angle of 08 31'48", an arc length of 125.35 feet to a line parallel with and 44.00 feet northerly of, measured at right angles, the southerly line of said Lot 2; thence north 89 07'12" west 580.91 feet to the point of beginning.

Assessor Parcel Number: 221-091-02

EXHIBIT C
Tenant Improvements

Nursing and Support Programs
Palomar Pomerado Health & Education Institute
San Marcos Ambulatory Care Center
15,259 Construction Area, Tenant Improvement

Hard Costs

Framing	128,005.56
Electrical	79,456.00
HVAC	161,896.00
Ceiling	98,032.00
Fire Life Safety	68,000.00
Mill Work	102,600.00
Drywall	46,780.00
Hardware, Doors	65,099.00
Flooring	74,043.00
Security	80,745.00
Plumbing	149,765.00
Phone, IT, Infrastructure	428,087.00
Sub Total – Hard Costs	1,482,508.56

Soft Costs

Architect	174,207.16
General Contractor	326,638.42
Permits	32,663.84
FF&E	444,397.37
Signage	40,000.00
Sub Total – Soft Cost	1,017,906.79

Hard Costs	1,482,508.56
Soft Costs	1,017,906.79

Project Cost 2,500,415.35

The cost of tenant improvements shall not exceed \$2,500,415.35. The Landlord will share all costs information with the Tenant by sending budget updates monthly to the Tenant's Project Manager in PD&C showing a budget for each line item.

EXHIBIT D
Rules and Regulations

The entry passages, corridors, halls, elevators and stairways may be used for ingress and egress only. Space for admitting natural light into any public area of the Building shall not be covered or obstructed by Tenant except in a manner approved by Landlord. No awnings or other projections shall be attached to the outside walls of the Building.

Toilets and other like apparatus shall be used only for the purpose for which they were constructed. Any and all damage from misuse shall be borne by Tenant.

Landlord shall provide and install all letters or numerals on entrance doors to the Premises, the cost of which shall be deducted from the Tenant Improvement Allowance. All such letters and numerals shall be in Building Standard graphics, designated by Landlord. Landlord reserves the right to reasonably determine the number of letters allowed for Tenant on any directory Landlord maintains. The bulletin board or directory of the Building will be provided exclusively for the display of the name and location of Tenant only. Landlord agrees to display the names of all doctors on the door and/or the Building directory.

No sign, advertisement or notice shall be used in, on or about the Premises or Building by or on behalf of Tenant other than what is approved in advance by Landlord in writing. If Tenant violates this provision, Landlord may remove the violation without liability and Tenant shall pay all costs and expenses incurred by Landlord in doing so.

Tenant shall not throw, or permit anything to be thrown out of windows or doors or down passages or elsewhere in the Building, or commit or make any indecent or disturbing noises or obstruct, injure, annoy or interfere with, other tenants, or occupants of the Building.

Furniture, supplies and equipment of Tenant shall be delivered only at times designated by Tenant and reasonably approved by Landlord.

Tenant shall not permit cleaning by any person other than Landlord's Representatives or other persons reasonably approved in writing by Landlord and Tenant shall be solely responsible for the costs of such persons. Blinds of the quality, type, design and color designated by Landlord shall be used on all windows. All curtains, shades, screens and other fixtures shall be of a quality, type, design, and color, and attached in a manner, approved by Landlord.

Tenant shall furnish Landlord with a set of keys for the Premises for access to all shared and common areas. Tenant agrees lock the lobby door immediately upon entering and leaving the Building between 5:00 p.m. and 7:00 a.m. Monday through Friday and all day Saturday and Sunday. Tenant shall be responsible for any and all damage and injury to persons or property resulting from Tenant's neglecting to lock the lobby door as required. All keys in Tenant's possession or known by Tenant to be in existence shall be delivered to Landlord at the termination of this Lease.

The Premises shall not be defaced in any way.

The Building shall be open and operating from 7:00 a.m. to 9:00 p.m. Monday through Friday and 9:00 a.m. to 5:00 p.m. on Saturdays and Sundays, excluding holidays. Without limiting any provisions in this Lease, Tenant shall be responsible for all persons for whom it requests after-hour access and shall be liable to Landlord for all acts and omissions of such persons. Landlord reserves the right to exclude or expel from the Building any person who, in the judgment of Landlord, is intoxicated or under the influence of alcohol or drugs, or who shall in any manner do any act in violation of the Rules and Regulations of the Building. For the general welfare of all tenants and security of the Building, Landlord may deny entry to any persons who fail to demonstrate affiliation with any Tenant wishing after-hour access.

Unless specifically authorized by Landlord, Landlord's Representatives shall not perform, nor be asked to perform, work other than their regularly assigned duties.

Carvassing, soliciting and peddling in the Building is prohibited and Tenant shall cooperate to prevent the same.

All parking regulations, if any, established from time to time by Landlord shall be obeyed.

Tenant shall not place a load on any floor of the Premises exceeding 60 lb. per square foot (PS F), without Landlord's written approval. Landlord reserves the right to prescribe the weight and position of all safes and heavy equipment to the extent reasonably necessary to avoid damage to the Building. Information safety note: The contractor's floor load specifications for this Building provide an 8OPSF live load plus 2OPSF partition load. The 6OPSF is a precautionary limit established by Landlord and agreed to by Tenant. Landlord will not unreasonably withhold permission for Tenant to place a live floor load up to 8OPSF.

Tenant shall not install or use any air-conditioning or heating device or system other than as provided by Landlord.

Tenant understands that the rules for the Premises may periodically be changed from time-to-time depending on circumstances and Landlord's business needs. Tenant agrees to abide by all changes and updates to those rules as they occur.

Dated: 8/7/2006

Tenant Signature: 

Name: California State University San Marcos

Dated: 8/7/06
4:40 PM

Landlord Signature:  CFO

Name: Palomar Pomerado Health