PALOMAR
POMERADO
HEALTH

BOARD OF DIRECTORS
AGENDA PACKET

December 12, 2005

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

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 * Palomar Pomerado Health Concern * Ramona Radiology Center * VRC Gateway & Parkway Radiology Center * Villa Pomerado * Palomar Pomerado North County Health Development, Inc.*

PALOMAR POMERADO HEALTH
BOARD OF DIRECTORS
ANNUAL MEETING AGENDA

Monday, December 12, 2005

Open Session: 6:30 p.m.

Palomar Medical Center
555 E. Valley Parkway
Escondido, California

			Time	Page
I.		**CALL TO ORDER**		
II.		**OPENING CEREMONY**	*5*	
	A.	Pledge of Allegiance		
	B.	Recitation – Chaplain Bill Hard		
	C.	Mission & Vision – Board Member		
		"The mission of Palomar Pomerado Health is to heal, comfort and promote health in the communities we serve."		
		"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."		
III.		**PUBLIC COMMENTS**	*5*	
		(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).		
IV.	*	**MINUTES**	*3*	
		Regular Board Meeting – November 14, 2005 - *separate cover*		
V.	*	**CONSENT ITEMS**	*10*	1-85
	A.	Consolidated Financial Statements		
	B	Revolving Fund Transfers/Disbursements – October, 2005		
		1. Accounts Payable Invoices $ 23,060,192.00		
		2. Net Payroll 8,297,096.00		
		Total $ 31,357,288.00		
	D.	Ratification of Paid Bills		
	E.	October 2005 & YTD FY 2006 Financial Report		
	F.	Draft Audited Financial Statements for Years ended June 30, 2005 and 2004 & Independent Auditors' Report		
	G.	**Administrative Medical/Surgical Stabilization Services Agreement with SpecialCare Hospital Management Corporation**		

"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"

VI. PRESENTATIONS

A. **"Get with the Guidelines" Awards from American Heart Association** *15*
Presenters: Robert Stein, M.D., and Barbara Buesch, RN
(i) Coronary Artery Disease/Quality of Care Award (3rd successive year);
(ii) Congestive Heart Failure/Quality of Care Award.

VII. REPORTS

A. **Medical Staffs** *15*

* 1. Palomar Medical Center – *James S. Otoshi, M.D* 86-106
a. Credentialing/Reappointments
b. Medical Staff Bylaws, Rules and Regulations

* 2. Escondido Surgery Center – *Marvin W. Levenson, M.D.* 107
a. Credentialing/Reappointments

* 3. Pomerado Hospital – *Paul E. Tornambe, M.D.* 108-109
a. Credentialing/Reappointments

B. **Administrative**

1. President of Palomar Pomerado Health Foundation – *Pauline Getz*
a. Update on PPHF Activities *5* *Verbal Report*

2. Chairman of the Board – *Marcelo R. Rivera M.D.* *15* *Verbal Report*
a. * Election of Officers: 2006 – *Chair; Vice Chair; Secretary; Treasurer* 110
(latter deferred to January)
b. * Resolution No. 12.12.05(01)-27 Establishing Board Meetings for Calendar Year 2006 111-117
c. Annual Board Self-Evaluation Meeting December 14, 2005

3. President and CEO – *Michael H. Covert* *20* *Verbal Report*
a. December, 2005 Values in Action Recipient
b. 4th Qtr Leadership in Action Recipient
c. FY 06 Qtr 1 Patient Loyalty Scores
d. Qtrly Patient Satisfaction "Highest to Goal" Award
for Pomerado ED with Pharmacy as "Best Support"
e. Employee Engagement Survey, Dec 5-16
f. Update on ERTC and downtown sites
g. Overview of 2005
h. Bi-Monthly Reports from Executive Staff
i. Gerald Bracht, Palomar Medical Center
ii. Jim Flinn, Pomerado Hospital
iii. Sheila Brown, Clinical Outreach
iv. Lorie Shoemaker, Chief Nurse Executive

VIII. INFORMATION ITEMS *(Discussion by exception only)*

A.	Fall TV Campaign	} Community Relations	118-156
B.	New PPH Website Homepage	} Community Relations	
C.	Unity Awards Overview	} Community Relations	
D.	Cancer Conference Overview	} Community Relations	
E.	Monthly Reports (September & October, 2005)	} Community Relations	
F.	Physician Loyalty Survey Results	} Strategic Planning	
G.	Clinical Research Program Development	} Strategic Planning	
H.	Employee Wellness Initiative	} Strategic Planning	
I.	Board Policies Review	} Governance	
J.	Draft Succession Planning Policy	} Governance	
K.	Potential Draft Sale of PPH Assets Policy	} Governance	
L.	Update on Potential PPHF Representation on PPH Board Committees	} Governance	
M.	Legislative/Governmental Relations Update	} Governance	
N.	Summation for Calendar Year 2005	} Governance	
O.	Potential Date/Time/Location of Next Meeting	} Governance	
P.	Update on Workers' Compensation Results	} Finance	
Q.	Date Change of January 2006 Finance Committee Meeting	} Finance	

IX. COMMITTEE REPORTS –

A. **Strategic Planning Committee** – *Alan W. Larson, MD, Chairman* *5*

* 1. **Approval:** FY '06 Goals Outcome 157

B. **Governance Committee** – *Linda C. Greer, RN, Chairperson* *5*

* 1. **Approval: Resolution No. 12.12.05 (02) – 28** to Amend and Restate the Bylaws of Palomar Pomerado Health for those revisions as redlined 158-213

C. **Finance Committee** – *T. E. Kleiter, Chairman* *5*

* 1. **Approval: Resolution No. 12.12.05 (03) – 29** Approving Revised Plan of Finance, Approving a Debt Policy, Approving the Issuance of Revenue Bonds, Directing the Chief Financial Officer to Pursue Credit Enhancement for Revenue Bond Offerings, and Approving a Forward Rate Swap 214-237

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
CONSOLIDATED DISBURSEMENTS
FOR THE MONTH OF
OCTOBER, 2005

10/01/05	TO	10/31/05	ACCOUNTS PAYABLE INVOICES	$23,060,192.00
10/07/05	TO	10/21/05	NET PAYROLL	$8,297,096.00
				$31,357,288.00

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

October 2005 & Fiscal YTD 2006 Financial Report

TO: Board of Directors

FROM: Board Finance Committee
Tuesday, December 6, 2005

MEETING DATE: Monday, December 12, 2005

BY: Robert Hemker, CFO

Background: The Board Financial Reports (unaudited) for October 2005 and Fiscal YTD 2006 are submitted for the Committee's approval.

Budget Impact: N/A

Staff Recommendation: Staff recommends approval.

Committee Questions:

COMMITTEE RECOMMENDATION: The Finance Committee recommends approval of the Board Financial Reports (unaudited) for October 2005 and Fiscal YTD 2006.

Motion: X

Individual Action:

Information:

Required Time:

PALOMAR POMERADO HEALTH

A California Health Care District

BOARD FINANCIAL REPORT

OCTOBER 2005

(UNAUDITED)

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

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PALOMAR POMERADO HEALTH

A California Health Care District

BOARD FINANCIAL REPORT

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Bond Covenant Ratios	8

PALOMAR POMERADO HEALTH
OCTOBER 2005 and YTD FY 2006 FINANCIAL RESULTS
EXECUTIVE SUMMARY and HIGHLIGHTS

Statistics:

Consolidated acute patient days increased (3%) to 9,277 in October compared to September. YTD acute patient days of 36,665 were nearly at budget of 36,701. The acute Average Daily Census (ADC) was 299 in October compared to 300 in September. Acute admissions for October YTD were 9,556 compared to budget of 9,332 (2.4% higher than budget). YTD October SNF patient days were 25,563 compared to budget of 25,477 (.3% variance).

PMC's YTD acute patient days are at budget; however, PMC also encountered a lower volume of trauma cases than what was budgeted (approx 19% less cases). PMC's cardiovascular surgery cases were down by 25% (from budget and prior year) and total surgery cases were down 5% from budget.

Pomerado's acute patient days are also at budget; however, mental health days were up 194 days and medical acute days were down 224 days compared to budget.

Balance Sheet:

Current Cash & Cash Equivalents increased $10.2 million to $100.7 million in October from $90.5 million in September. The increase is mainly due to 1) $7.1 million reimbursement for the Master Facility Plan from the GO Bonds and 2) increased patient account collections (approximately $4.7 million higher than September). Total Cash and Investments are $132 million, compared to $131 million at June 30, 2005. Days cash on hand are 147 compared to 148 at June 30, 2005 still within "A" rated guidelines. Additional amounts paid from working capital for Facility Master Plan usage remain to be reimbursed of approximately $17 million dollars or 19 days of cash on hand.

Net Accounts Receivable decreased $5.2 million in October to $71.8 million compared to September ($77M). Gross A/R days decreased to 61 in October. June 2005 and 2004 gross A/R days were 70 and 40, respectively. October patient account collections were $28.2 million compared to budget of $26.1 million. YTD patient account collections are $8.6 million below budget at $96 million (budget was $104.6 million).

Accounts Payable decreased $4.7 million in October due to the timing of vendor in payments.

Income Statement:

Gross Patient Revenue for YTD October reflects a favorable budget variance of $5.8 million. This favorable variance is composed of a $2.8 million favorable volume variance and $3 million favorable rate variance.

Routine revenue (inpatient room and board) reflects an unfavorable $1.8 million budget variance. PPH North reflects an unfavorable variance of $1.6 million, and PPH South reflected an unfavorable variance of $199 thousand.

Inpatient Ancillary gross revenue represents an YTD $3.8 million favorable budget variance at October. PPH North reflects a favorable variance of $5.4 million and PPH South reflected $1.6 million unfavorable variance. The main contributors to Palomar's favorable variance was reflected in the Emergency Room, Cat Scanner and Pharmacy Departments totaling $4.7 million higher than budget. The main department contributors to Pomerado's unfavorable variance are Surgery and Patient Chargeable Supplies (totaling $3.5 million unfavorable variance from budget).

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Outpatient revenue reflects an YTD favorable budget variance of $3.8 million. The majority of this favorable variance is reflected at PPH North at $3.8 million and the majority if this variance is in the Emergency - $2.1 million).

Deductions from Revenue reflects an YTD unfavorable variance of $9.8 million. This variance is mainly due to disproportional usage of IP Ancillary services (which result in additional contractual adjustments approximately $5 million) at Palomar. Total Deductions from Revenue is 68.7% of gross revenue compared to a budget of 67%. This is the result of most payer payments being based upon case rate or per diem reimbursement for inpatient services.

Deductions from Revenue (excluding Capitation revenue and Bad Debt/Charity/Undocumented expenses), was 64% of Gross Revenue for September YTD compared to budget of 63%.

The Capitation monies retained by PPH are reflecting an YTD $800 thousand favorable variance as of October.

Bad debt, charity & undocumented care write-offs reflected an YTD an unfavorable $1.7 million budget variance. In October, two non-insured patients admitted during the month reflected $850 thousand in charges – the reserve is either Charity or Undocumented. These cases are in addition to the four abnormal uncompensated care experience in July of approximately $830 thousand. Thus, 6 cases account for nearly the entire unfavorable variance. Bad debt, charity and undocumented write-offs as a percent of gross revenue were 5.1% compared to the budget of 4.7%.

Other Operating Revenue reflects an unfavorable budget variance of $528 thousand. Contributions from the Foundation account for $247 thousand of this variance and $349 thousand is related to laboratory services that were budgeted in Other Operating Revenue but are being recognized in OP revenue.

Salaries, Wages & Contract labor reflects an YTD favorable variance of $22 thousand. This favorable variance is composed of: 1) Salaries and Wages – $1,184,000 (actual $51.3 million); 2) Contract Labor – ($1,162,000) (actual $4.2 million). Incurred longevity increases and the impact of moving to a common evaluation date (October 15th) are being amortized over the fiscal year to more closely reflect the budget allocation which was based upon the historical method of anniversary dates for merit and market adjustments.

Benefits Expense is reflecting an YTD unfavorable budget variance of $439 thousand.

Supplies Expense is reflecting an YTD favorable budget variance of $97 thousand.

Prof Fees & Purch Services reflected a favorable budget variance of $1.5 million. These expenses are budgeted evenly throughout the year; however, many of the actual expenses have not occurred yet.

Non-Operating Income reflects an YTD unfavorable variance of $90 thousand in October. This variance is made up of ($339,254) investment income and $260 thousand gain on sale of land (recorded in September). Investment income reflects a 1.5% investment rate of return compared to budget of 2.5%.

Ratios

All required bond covenant ratios were achieved in October 2005.

Palomar Pomerado Health
Balanced Scorecard
Financial Indicators
October 31, 2005

July Actual	August Actual	September Actual	October Actual	October Budget	October Variance	% to Actual to Budget		YTD 2005 Actual	YTD 2005 Budget	YTD 2005 Variance	% to Actual to Budget
							PPH Indicators:				
9.0%	8.0%	6.6%	7.6%	9.9%	-2.3%		OEBITDA Margin w/Prop Tax	7.8%	9.8%	-2.0%	
$ 2,270.91	$ 2,455.48	$ 2,460.33	$ 2,403.66	$ 2,432.16	$ 28.50		Expenses/Wtd Day	$ 2,396.62	$ 2,435.22	$ 38.60	
$ 1,353.93	$ 1,455.68	$ 1,442.06	$ 1,407.71	$ 1,416.75	$ 9.04		SWB/Wtd Day	$ 1,414.41	$ 1,417.04	$ 2.63	
5.94	6.05	6.28	6.50	6.17	$ (0.33)	105.3%	Prod FTE's/Adj Occupied Bed	6.15	6.17	$ 0.02	
							PPH North Indicators:				
7.1%	7.5%	11.2%	5.3%	11.9%	-6.6%		OEBITDA Margin w/Prop Tax	7.8%	11.8%	-4.0%	
$ 2,158.90	$ 2,339.31	$ 2,319.27	$ 2,323.64	$ 2,305.66	$ (17.98)		Expenses/Wtd Day	$ 2,284.13	$ 2,308.28	$ 24.15	
$ 1,139.16	$ 1,222.02	$ 1,213.62	$ 1,222.66	$ 1,180.75	$ (41.91)	103.5%	SWB/Wtd Day	$ 1,198.76	$ 1,180.98	$ (17.78)	101.5%
4.97	5.07	5.22	5.61	5.09	$ (0.52)		Prod FTE's/Adj Occupied Bed	5.18	5.10	$ (0.08)	101.6%
							PPH South Indicators:				
10.1%	5.3%	-7.7%	10.3%	1.4%	8.9%		OEBITDA Margin w/Prop Tax	5.1%	1.3%	3.8%	
$ 2,255.63	$ 2,424.39	$ 2,513.55	$ 2,315.48	$ 2,443.48	$ 128.00		Expenses/Wtd Day	$ 2,377.75	$ 2,446.30	$ 68.55	
$ 1,182.09	$ 1,277.37	$ 1,290.97	$ 1,212.00	$ 1,261.88	$ 49.88		SWB/Wtd Day	$ 1,241.23	$ 1,262.09	$ 20.86	
5.54	5 70	6 11	5.90	5.87	$ (0.03)		Prod FTE's/Adj Occupied Bed	5.75	5.88	$ 0.13	

Palomar Pomerado Health
Consolidated Balance Sheet
As of October 31, 2005

	Current Month	Prior Month	Prior Fiscal Year End
Assets			
Current Assets			
Cash on Hand	$16,358,549	$7,234,968	$12,663,073
Cash Marketable Securities	84,364,115	83,322,539	96,380,135
Total Cash & Cash Equivalents	100,722,664	90,557,507	109,043,208
Patient Accounts Receivable	178,320,220	184,458,329	190,388,774
Allowance on Accounts	-106,440,890	-107,356,664	-120,586,401
Net Accounts Receivable	71,879,330	77,101,665	69,802,373
Inventories	6,247,849	6,292,255	6,320,951
Prepaid Expenses	2,175,980	2,323,497	2,383,903
Other	13,547,267	12,853,037	828,210
Total Current Assets	194,573,090	189,127,961	188,378,645
Non-Current Assets			
Restricted Assets	91,300,092	97,380,303	12,026,055
Restricted by Donor	282,871	282,464	281,473
Board Designated	31,616,819	32,621,121	22,388,648
Total Restricted Assets	123,199,782	130,283,888	34,696,176
Property Plant & Equipment	334,456,347	336,096,608	337,484,770
Accumulated Depreciation	-220,192,571	-220,810,207	-218,491,576
Construction in Process	34,183,984	33,736,387	28,023,698
Net Property Plant & Equipment	148,447,760	149,022,788	147,016,892
Investment in Related Companies	6,230,680	5,957,757	6,175,837
Deferred Financing Costs	3,313,366	4,037,289	2,311,702
Other Non-Current Assets	1,234,992	1,248,219	1,274,318
Total Non-Current Assets	282,426,580	290,549,941	191,474,925
Total Assets	$476,999,670	$479,677,902	$379,853,570

	Current Month	Prior Month	Prior Fiscal Year End
Liabilities			
Current Liabilities			
Accounts Payable	$10,617,487	$15,364,221	$18,090,054
Accrued Payroll	19,275,899	18,409,979	19,511,491
Accrued PTO	10,426,709	9,905,775	10,212,195
Accrued Interest Payable	3,489,624	2,794,414	708,785
Current Portion of Bonds	12,310,000	12,310,000	6,125,000
Est Third Party Settlements	-1,311,887	-1,033,404	-4,522,051
Other Current Liabilities	15,431,934	16,327,224	6,642,463
Total Current Liabilities	70,239,766	74,078,209	56,767,937
Long Term Liabilities			
Bonds & Contracts Payable	157,706,745	157,681,664	79,819,688
General Fund Balance			
Unrestricted	217,153,468	215,014,208	220,595,825
Restricted for Other Purpose	282,871	282,464	281,473
Board Designated	31,616,819	32,621,121	22,388,648
Total Fund Balance	249,053,158	247,917,793	243,265,946
Total Liabilities / Fund Balance	$476,999,670	$479,677,902	$379,853,570

PALOMAR POMERADO HEALTH
CONSOLIDATED
FYTD 2006
OCT 2005

	Month Activity				Variance		$/Wtg Pt Day		
	Actual	Budget	Variance		Volume	Rate/Eff	Actual	Budget	Variance
Statistics:									
Admissions - Acute	9,556	9,332	224						
Admissions - SNF	403	457	(54)						
Patient Days - Acute	36,665	36,701	(36)						
Patient Days - SNF	25,563	25,477	86						
LOS - Acute	3.97	4.00	(0.03)						
LOS - SNF	40.42	37.96	2.46						
Weighted Pt Days	49,246	48,860	386						
Revenue:									
Gross Revenue	$ 361,864,613	$ 356,080,104	$ 5,784,509	F	$ 2,813,077	$ 2,971,432	$ 7,348.10	$ 7,287.76	$ 60.34
Deductions from Rev	(248,114,216)	(238,856,586)	(9,257,630)	U	(1,886,996)	(7,370,634)	(5,038.26)	(4,888.59)	(149.67)
Net Patient Revenue	113,750,397	117,223,518	(3,473,121)	U	926,080	(4,399,201)	2,309.84	2,399.17	(89.33)
Other Oper Revenue	2,865,946	3,393,916	(527,970)	U	26,812	(554,782)	58.20	69.46	(11.27)
Total Net Revenue	116,616,343	120,617,434	(4,001,091)	U	952,893	(4,953,984)	2,368.04	2,468.63	(100.60)
Expenses:									
Salaries, Wages & Contr Labor	55,505,992	55,528,033	22,041	F	(438,678)	460,719	1,127.12	1,136.47	9.36
Benefits	14,147,905	13,708,485	(439,420)	U	(108,299)	(331,121)	287.29	280.57	(6.72)
Supplies	19,806,238	19,902,910	96,672	F	(157,235)	253,907	402.19	407.35	5.16
Prof Fees & Purch Svc	14,173,366	15,722,714	1,549,348	F	(124,211)	1,673,559	287.81	321.79	33.98
Depreciation	5,766,898	5,715,504	(51,394)	U	(45,153)	(6,241)	117.10	116.98	(0.13)
Other	6,953,572	6,748,743	(204,829)	U	(53,316)	(151,513)	141.20	138.12	(3.08)
PPH Allocation	-	1	1	F	(0)	1	-	0.00	0.00
Total Expenses	116,353,971	117,326,390	972,418	F	(926,893)	1,899,312	2,362.71	2,401.28	38.57
Net Inc Before Non-Oper Income	262,372	3,291,044	(3,028,672)	U	26,000	(3,054,672)	5.33	67.36	(62.03)
Property Tax Revenue	3,633,332	3,633,332	-	-	28,704	(28,704)	73.78	74.36	(0.58)
Non-Operating Income	(763,686)	(673,228)	(90,458)	U	(5,319)	(85,139)	(15.51)	(13.78)	(1.73)
Net Income (Loss)	$ 3,132,018	$ 6,251,148	$ (3,119,130)	U	$ 49,385	$ (3,168,515)	$ 63.60	$ 127.94	$ (64.34)
Net Income Margin	2.5%	4.9%	-2.4%						
OEBITDA Margin w/o Prop Tax	4.9%	7.0%	-2.1%						
OEBITDA Margin with Prop Tax	7.8%	9.8%	-2.0%						

F= Favorable variance
U= Unfavorable variance

PALOMAR POMERADO HEALTH
CONSOLIDATED
MTD 2006
OCT 2005

	Month Activity				Variance		$/Wtg Pt Day		
	Actual	Budget	Variance		Volume	Rate/Eff	Actual	Budget	Variance
Statistics:									
Admissions - Acute	2,362	2,352	10						
Admissions - SNF	94	115	(21)						
Patient Days - Acute	9,277	9,250	27						
Patient Days - SNF	6,331	6,421	(90)						
LOS - Acute	3.97	4.00	(0.03)						
LOS - SNF	42.38	37.95	4.43						
Weighted Pt Days	12,214	12,315	(101)						
Revenue:									
Gross Revenue	$ 91,401,103	$ 89,738,729	$ 1,662,374	F	$ (735,981)	$ 2,398,355	$ 7,483.31	$ 7,286.95	$ 196.36
Deductions from Rev	(63,119,951)	(60,196,380)	(2,923,571)	U	493,693	(3,417,264)	(5,167.84)	(4,888.05)	(279.78)
Net Patient Revenue	28,281,152	29,542,349	(1,261,197)	U	(242,288)	(1,018,909)	2,315.47	2,398.89	(83.42)
Other Oper Revenue	659,462	848,479	(189,017)	U	(6,959)	(182,058)	53.99	68.90	(14.91)
Total Net Revenue	28,940,614	30,390,828	(1,450,214)	U	(249,247)	(1,200,967)	2,369.46	2,467.79	(98.33)
Expenses:									
Salaries, Wages & Contr Labor	13,695,914	13,992,843	296,929	F	114,761	182,168	1,121.33	1,136.24	14.91
Benefits	3,497,830	3,454,472	(43,358)	U	28,331	(71,689)	286.38	280.51	(5.87)
Supplies	4,960,031	5,016,992	56,961	F	41,146	15,815	406.09	407.39	1.29
Prof Fees & Purch Svc	3,504,352	3,950,029	445,677	F	32,396	413,281	286.91	320.75	33.84
Depreciation	1,451,680	1,428,876	(22,804)	U	11,719	(34,523)	118.85	116.03	(2.83)
Other	1,830,660	1,694,297	(136,363)	U	13,896	(150,259)	149.88	137.58	(12.30)
Total Expenses	28,940,467	29,537,509	597,042	F	242,248	354,794	2,369.45	2,398.50	29.05
Net Inc Before Non-Oper Income	147	853,319	(853,172)	U	(6,998)	(846,174)	0.01	69.29	(69.28)
Property Tax Revenue	908,333	908,333	-	-	(7,450)	7,450	74.37	73.76	0.61
Non-Operating Income	(436,912)	(168,307)	(268,605)	U	1,380	(269,985)	(35.77)	(13.67)	(22.10)
Net Income (Loss)	$ 471,568	$ 1,593,345	$ (1,121,777)	U	$ (13,068)	$ (1,108,709)	$ 38.61	$ 129.38	$ (90.77)
Net Income Margin	1.5%	4.9%	-3.4%						
OEBITDA Margin w/o Prop Tax	4.7%	7.0%	-2.3%						
OEBITDA Margin with Prop Tax	7.6%	9.9%	-2.3%						

F= Favorable variance
U= Unfavorable variance

Palomar Pomerado Health
STATEMENTS OF CASH FLOWS
Fiscal Year 2006

	October	YTD
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (Loss from operations	$ 147	$ 262,376
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation Expense	1,451,680	5,766,898
Provision for bad debts	2,877,903	10,042,172
Changes in operating assets and liabilities		
Patient accounts receivable	2,344,433	(12,119,129)
Property Tax and other receivables	(30,432)	(10,063,865)
Inventories	44,406	73,102
Prepaid expenses and Other Non-Current assets	(125,406)	(273,123)
Accounts payable	(3,924,984)	(6,650,817)
Accrued comp	1,386,854	(21,078)
Estimated settlement amounts due third-party payors	(278,483)	3,210,164
Other current liabilities	13,043	12,422,803
Net cash provided by operating activities	3,759,161	2,649,505
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (purchases) sales on investments	6,042,528	(76,487,588)
Interest (Loss) received on investment	103,585	615,735
Investment in affiliates	(184,771)	267,532
Net cash used in investing activities	5,961,342	(75,604,321)
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:		
Other	0	0
Receipt of district taxes	123,306	750,353
Net cash used in activities	123,306	750,353
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of property plant and equipment	(720,229)	(7,067,303)
Proceeds from sale of asset	0	781,634
Interest paid	0	0
Proceeds from issuance of debt	0	82,185,607
Payments of LT Debt	0	0
Net cash used in activities	(720,229)	75,899,938
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,123,580	3,695,476
CASH AND CASH EQUIVALENTS - Beginning of period	7,234,969	12,663,073
CASH AND CASH EQUIVALENTS - End of period	$ 16,358,549	$ 16,358,549

PALOMAR POMERADO HEALTH
BOND COVENANT RATIOS

CUSHION RATIO	Jun-04	Jun-05	Oct-05
Cash and Cash Equivalents	140,057,417	109,043,208	100,722,664
Board Designated Reserves	27,374,261	22,388,648	31,616,819
Trustee-held Funds	11,853,970	12,026,055	15,600,206
Total	179,285,648	143,457,911	147,939,689
Divided by:			
Max Annual Debt Service (Bond Year 2012)	10,697,594	10,697,594	10,697,594
CUSHION RATIO	**16.8**	**13.4**	**13.8**
REQUIREMENT	**1.5**	**1.5**	**1.5**
	Achieved	**Achieved**	**Achieved**

DAYS CASH ON HAND	Jun-04	Jun-05	Oct-05
Cash and Cash Equivalents	140,057,417	109,043,208	100,722,664
Board Designated Reserves	27,374,261	22,388,648	31,616,819
Total	167,431,678	131,431,856	132,339,483
Divide Total by Average Adjusted Expenses per Day			
Total Expenses	311,614,910	341,614,078	116,353,971
Less: Depreciation	14,546,550	16,394,985	5,766,898
Adjusted Expenses	297,068,360	325,219,093	110,587,073
Number of days in period	366	365	123
Average Adjusted Expenses per Day	811,662	891,011	899,082
DAYS CASH ON HAND	**206**	**148**	**147**
REQUIREMENT	**90**	**90**	**90**
	Achieved	**Achieved**	**Achieved**

Net Income Available for Debt Service	Jun-04	Jun-05	Oct-05
Excess of revenue over expenses Cur Mo	2,905,196	1,480,728	471,568
Excess of revenues over expenses YTD (General Funds)	16,053,177	17,042,445	3,132,018
ADD:			
Depreciation and Amortization	14,546,550	16,394,985	5,766,898
Interest Expense	5,581,454	5,272,031	1,669,796
Net Income Available for Debt Service	36,181,181	38,709,461	10,568,712
Aggregate Debt Service			
1993 Insured Refunding Revenue Bonds	6,017,132	6,020,301	2,007,380
1999 Insured Refunding Revenue Bonds	4,357,728	4,356,844	1,451,856
Aggregate Debt Service	10,374,860	10,377,145	3,459,236
Net Income Available for Debt Service	**3.49**	**3.73**	**3.06**
Required Coverage	**1.15**	**1.15**	**1.15**
	Achieved	**Achieved**	**Achieved**

Draft Audited Financial Statements for Years Ended June 30, 2005 and 2004 & Independent Auditors' Report

TO: Board of Directors

FROM: Board Finance Committee
Tuesday, December 6, 2005

DATE: Monday, December 12, 2005

BY: Bob Hemker, CFO

BACKGROUND: The draft Audited Financial Statements for the Years Ended June 30, 2005 and 2004, and the Independent Auditors' Report were submitted for approval.

BUDGET IMPACT: N/A

STAFF RECOMMENDATION: Approval of the draft Audited Financial Statements for the Years Ended June 30, 2005 and 2004, and the Independent Auditors' Report, as submitted.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION: The Finance Committee recommends approval of the draft Audited Financial Statements for the Years Ended June 30, 2005 and 2004, and the Independent Auditors' Report, as submitted.

Motion: X

Individual Action:

Information:

Required Time:

Palomar Pomerado Health

Financial Statements for the Years Ended June 30, 2005 and 2004 and Independent Auditors' Report

PALOMAR POMERADO HEALTH

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Palomar Pomerado Health

We have audited the accompanying balance sheets of Palomar Pomerado Health ("PPH") as of June 30, 2005 and 2004, and the related statements of revenue, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of PPH's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PPH's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Palomar Pomerado Health as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2–9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of PPH's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

December 1, 2005

PALOMAR POMERADO HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

This section of Palomar Pomerado Health's ("PPH") annual financial report presents our analysis of PPH's financial performance for the years ended June 30, 2005 and 2004. Please read this analysis in conjunction with the financial statements that follow this section.

This annual financial report includes:

- Independent Auditors' Report
- Management's Discussion and Analysis
- Financial Statements of Palomar Pomerado Health, including notes that explain in more detail some of the information in the financial statements.

PPH's financial statements report information using accounting methods required by the Governmental Accounting Standards Board which, while similar to those used by private sector healthcare organizations, include some differences as described further in this management's discussion and analysis. These financial statements contain short-term and long-term financial information about PPH's activities.

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Required Financial Statements

Balance Sheet—The balance sheet includes all of PPH's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to PPH's creditors (liabilities), and net assets—the difference between assets and liabilities—of PPH and the changes in them. The balance sheet also provides the basis for evaluating the capital structure of PPH and assessing the liquidity and financial flexibility of PPH.

CONDENSED BALANCE SHEETS AS OF JUNE 30, 2005 AND 2004 ($000's)

ASSETS	**2005**	**2004**
Current assets	$ 197,693	$ 202,891
Capital assets	147,017	120,470
Non-current assets	39,666	42,855
TOTAL	$ 384,376	$ 366,216
LIABILITIES AND NET ASSETS		
Current liabilities	$ 53,956	$ 50,859
Other long-term liabilities (long-term workers' compensation)	7,334	3,900
Long-term debt—net of current portion	79,820	85,252
Total liabilities	141,110	140,011
Invested in capital assets—net of related debt	63,384	31,102
Restricted for repayment of debt	11,317	11,127
Restricted for other purposes	282	278
Unrestricted	168,283	183,698
Total net assets	243,266	226,205
TOTAL	$ 384,376	$ 366,216

Analysis of the Balance Sheets:

- Current Assets decreased $5,198,000 in 2005, primarily due to the reduction in cash and short-term investments used to fund major building project activities offset by an increase in Patient Accounts Receivable. PPH installed a completely new clinical and billing information system package in October 2004. This implementation caused a delay in collections on Patient Accounts Receivable. In addition, working capital was used to finance initial projects of the Master Facility Plan that will be subsequently reimbursed from Bond proceeds.
- Capital Assets increased by $26,547,000 primarily due to purchases related to PPH's major building projects and the installation of the new information system.
- Non-Current Assets decreased by $3,189,000 primarily due to the reduction in Board Designated assets used for capital purchases.

- Current Liabilities increased by $3,100,000 primarily due to amounts owed for the building project and an increase in accrued compensation and related liabilities for employee expenses due to the timing of the last pay period in relation to the last day of the fiscal year.
- Long-Term Debt decreased by $5,432,000 primarily as a result of principal payments on PPH's bond issues.
- Other Long-term debt increased $3,434,000 due to the re-classification of PPH's estimated portion the ALPHA Fund deficit from a short term to a long term liability (see Note 12 for additional information).
- Net Assets increased $17,060,000 primarily due to results of operations, investment income and tax revenue.

Statements of Revenue and Expenses and Changes in Net Assets—All of PPH's revenue, expenses and other changes in net assets are accounted for in the statements of revenue, expenses and changes in net assets. This statement measures the success of PPH's operations during the years presented and can be used to determine whether PPH has successfully recovered all of its costs through its fees and other sources of revenue. It also shows profitability and creditworthiness. Over time, increases or decreases in PPH's net assets are one indicator of whether its financial health is improving or deteriorating.

CONDENSED STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004 ($000's)

	2005	2004
OPERATING REVENUE:		
Net patient service revenue	$ 292,453	$ 271,430
Net patient capitation premium revenue	40,187	32,950
Other revenue	10,853	12,338
Total operating revenue	343,493	316,718
OPERATING EXPENSES	335,066	306,034
INCOME FROM OPERATIONS	8,427	10,684
NON-OPERATING INCOME (EXPENSES):		
Investment income	3,575	1,312
Interest expense	(5,272)	(5,581)
Property tax revenue	10,218	9,206
Other	105	432
Total non-operating income—net	8,626	5,369
EXCESS OF REVENUE OVER EXPENSES	17,053	16,053
OTHER CHANGES IN NET ASSETS	7	54
INCREASE IN NET ASSETS	17,060	16,107
BEGINNING NET ASSETS	226,206	210,098
ENDING NET ASSETS	$ 243,266	$ 226,205
AVERAGE DAILY CENSUS	299	297

Analysis of the Statement of Revenues and Expenses and Changes in Net Assets

- In accordance with generally accepted accounting principles for governmental healthcare providers, the District's Statements of Revenues and Expenses and Changes in Net Assets reflect the following: 1) Net Patient Service Revenues include the provision for bad debts, which for non-governmental hospitals is shown as an operating expense, and 2) Non-operating Income (Expenses) includes interest expense, which for non-governmental hospitals is typically grouped as an operating expense. While these GASB requirements make district hospitals conform to other government entities, such as colleges and universities, they do have a drawback. The drawback is that the District's Statement of Revenues, Expenses and Changes in Net Assets is less comparable to non-government hospitals because the GASB requirements do not apply to them. This must be considered in order to compare the District to non-profit and for-profit hospitals. The provision for bad debts was $21,574,000 in fiscal year 2005 and

$13,124,000 in fiscal year 2004, and interest expense was $5,272,000 in fiscal year 2005 and $5,581,000 in fiscal year 2004.

- The Average Daily Census is the number of acute care inpatients in PPH's hospitals every day and is slightly higher than 2004. Although this volume measure is not formally a part of the statement of revenue, expenses and changes in net assets, it does assist in interpreting the statement because revenue and expenses are closely tied to patient activity. Not included in this number are the skilled nursing facilities patients.
- Operating revenue is generated by PPH's primary activity of treating patients. Operating revenue increased $26,775,000 in 2005 due to increased acuity of patient activity, resulting in an increase in net charges during the year.
- Operating expenses are those expenses related to the treatment of patients including overhead and administration expenses. Operating expenses increased by $29,032,000 in 2005 primarily due to increases in labor costs of approximately $19,177,000 and supplies expense of $5,557,000. The labor increase was equally due to wage increases and additional staffing to fill clinical shortages.
- Operating income in 2005 was $8,427,000. This favorable operating income is a result of revenues in excess of operating expenses.
- Non-operating income (expenses) consists of interest earned on invested monies, interest expense and PPH's share of property taxes collected by the County. PPH's non-operating income was $8,626,000 in 2005, which is approximately $3,257,000 more than 2004. Interest earned on investments includes $1,513,000 of realized and unrealized losses in the investment portfolio due to increasing market interest rates.
- Ending net assets increased by $17,060,000 in 2005, which is greater than 2004.

Statement of Cash Flows—The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from operating, investing and financing activities, which provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

CONDENSED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004 ($000's)

	2005	2004
CASH FLOWS FROM:		
Operating activities	$ 108	$ 26,075
Non-capital financing activities	10,618	9,501
Capital and related financing activities	(51,404)	(37,906)
Investing activities	36,629	(5,847)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,049)	(8,177)
BEGINNING CASH AND CASH EQUIVALENTS	16,712	24,889
ENDING CASH AND CASH EQUIVALENTS	$ 12,663	$ 16,712

Analysis of the Statement of Cash Flows:

- Operating Activities cash inflows reflected a decrease of approximately $25,967,000 in 2005 over 2004. This decrease is attributed to increased cost to employees and cost of supplies and a slowdown in collection of accounts receivable.
- Non-capital financing activities were primarily property taxes received. There was a $1,117,000 increase in 2005 compared to 2004, due primarily to the increase in property tax receipts.
- Capital and Related Financing Activities cash outflows increased $13,498,000 in 2005 compared to 2004, mainly due to the funding of PPH's major building project and the new information technology systems installed.
- Investing Activities cash inflows were $36,629,000 in 2005. This inflow is mainly comprised of the sales of longer-term investments to fund the capital activities.
- The ending Cash and Cash Equivalents of $12,663,000 reflect the checking account and overnight investment balances held by PPH. In addition, there were current investments of approximately $96,380,000 and Board-designated investments of approximately $22,388,000 at June 30, 2005.

Capital Assets and Long-Term Debt

The Board of Directors has approved a Master Facility Plan project that is estimated at approximately $753,000,000. In November 2004, the residents of the District voted and approved to fund $496,000,000 of this expansion by the issuance of general obligation bonds. Payment for these bonds will be funded by *ad valorem* property tax levied on the District residents. The approximate amount for each resident is $17.75 per $100,000 of assessed value.

The major building expansion will include a new acute care hospital and trauma center in the North San Diego area, a significant expansion of the Pomerado Hospital in Poway, renovation on the Palomar Medical Center site, and adding satellite facilities in various geographical locations of the district.

During fiscal year 2005, PPH completed the initial schematic designs and purchased land and land options for the new hospital campus and a new satellite facility. The land purchases are reflected in Construction In Progress.

PPH has two outstanding Insured Revenue bond issues that are classified as long-term debt. During 2005, PPH reduced its debt by $6,015,000, bringing the net long-term bond principal to $79,820,000. All debt payments were made timely and PPH was in good standing on all bond covenants throughout the year. More detailed information about the PPH debt is presented in Note 8 to the financial statements. PPH has an underlying Moody's rating of A2, stable on the indebtedness. In July 2005 PPH issued its first series of General Obligation Bonds in the amount of $80,000,000 for use in funding the building expansion project. More detailed information about the additional debt is presented in Note 13 to the financial statements.

Economic and Other Factors

A number of significant factors are affecting the financial health of healthcare providers. Some major factors working in favor of healthcare providers are:

- *Insurance Reimbursement*—Healthcare providers are taking advantage of higher premium increases by insurers in recent years by negotiating improved reimbursements and restoring cost coverage and profitability to the commercial managed care business segment.
- *Medicare Reimbursement*—The Benefits Improvement and Protection Act and the Balanced Budget Relief Act allow for a declining adverse financial impact originally imposed by the Balanced Budget Act of 1997. Medicare reimbursements are not expected to increase materially.
- *Demand for Services*—Due to the aging of the population and a steady growth in overall population in PPH's primary and secondary service areas there is a continued increase in hospital admissions and overall demand for healthcare services.

Some major factors working against healthcare providers are:

- *Labor Shortages*—Lack of availability for nursing and other key technical positions increases the cost for providers significantly. Additionally, the State of California mandated nurse staff ratios have increased demand for nursing personnel and increased salary and wages expenses.
- *Pharmaceutical Costs*—The continued escalation of pharmaceutical drug costs remains a challenge for providers.
- *State Budget Difficulties* —This has a multiple effect on providers as state Medicaid budget is impacted, investment portfolios are depressed and employers shift more of the cost of healthcare to employees.
- *Heightened Competition*—Services that have a profit margin are becoming more competitive as entrepreneurial physicians and for-profit entities migrate to services with a return on investment putting further stress on hospital providers that traditionally cover core and safety net services with returns on profitable services.
- *HIPAA*—The Health Insurance Portability and Accountability Act ("HIPAA") among other things establishes privacy and security regulations over patient information that may have significant cost implications for healthcare providers.

- *Seismic Compliance*—California SB 1953 requires hospitals to meet more stringent seismic guidelines which represents an unfunded mandate and imposes a financial burden by 2008 under current regulation. Under certain criteria, it is possible to extend the SB 1953 deadline to 2013. The District applied for an extension from the California Department of Health Services moving our deadline to 2013 and has received approval for the extension.

Finance Contact

PPH's financial statements are designed to present users with a general overview of PPH's finances and to demonstrate PPH's accountability. If you have any questions about the report or need additional financial information, please contact the Chief Financial Officer, Palomar Pomerado Health, 15255 Innovation Drive, San Diego, California 92128.

PALOMAR POMERADO HEALTH

BALANCE SHEETS
JUNE 30, 2005 AND 2004

ASSETS	2005	2004
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,663,073	$ 16,711,909
Investments	96,380,135	123,345,498
Patient accounts receivable, net of allowances for uncollectible accounts of $36,092,000 and in 2005 and $23,181,000 in 2004	69,802,373	47,827,442
Other receivables	828,210	1,330,194
Supplies/Inventories	6,320,951	5,578,404
Prepaid expenses and other	2,383,903	2,238,196
Estimated third-party payor settlements	4,522,051	1,122,042
Assets whose use is limited—current portion	4,792,123	4,736,842
Total current assets	197,692,819	202,890,527
ASSETS WHOSE USE IS LIMITED:		
Held by trustee under indenture agreements	12,026,056	11,853,970
Board-designated for capital improvements	22,388,648	27,374,261
Restricted by donor	281,473	278,470
Total assets whose use is limited	34,696,177	39,506,701
Less current portion	4,792,123	4,736,842
NON-CURRENT ASSETS WHOSE USE IS LIMITED	29,904,054	34,769,859
CAPITAL ASSETS:		
Land improvements	5,927,392	5,928,944
Buildings and leasehold improvements	128,941,910	124,624,580
Equipment	192,682,293	161,500,054
	327,551,595	292,053,578
Less accumulated depreciation and amortization	218,491,576	204,146,712
	109,060,019	87,906,866
Land	9,933,176	9,933,176
Construction in progress	28,023,698	22,630,125
Total capital assets—net	147,016,893	120,470,167
OTHER ASSETS:		
Deferred financing costs—net	2,311,702	1,899,414
Investment in and amounts due from affiliated entities	6,175,837	6,186,581
Other	1,274,318	
Total other assets	9,761,857	8,085,995
TOTAL	$ 384,375,623	$ 366,216,548

(Continued)

PALOMAR POMERADO HEALTH

BALANCE SHEETS
JUNE 30, 2005 AND 2004

LIABILITIES AND NET ASSETS	2005	2004
CURRENT LIABILITIES:		
Accounts payable	$ 18,090,054	$ 13,966,809
Accrued compensation and related liabilities	22,389,519	22,542,399
Current portion of long-term debt	6,125,000	6,015,000
Other accrued liabilities	6,642,464	7,607,731
Accrued interest payable	708,785	726,838
Total current liabilities	53,955,822	50,858,777
WORKERS COMPENSATION—Net of current portion	7,334,167	3,900,000
LONG-TERM DEBT—Net of current portion	79,819,688	85,252,186
Total liabilities	141,109,677	140,010,963
COMMITMENTS AND CONTINGENCIES (Notes 9, 10, 11, 12 and 13)		
NET ASSETS:		
Invested in capital assets—net of related debt	63,383,907	31,102,397
Restricted for repayment of debt	11,317,270	11,127,132
Restricted for other purposes	281,473	278,470
Unrestricted	168,283,296	183,697,586
Total net assets	243,265,946	226,205,585
TOTAL	$ 384,375,623	$ 366,216,548

PALOMAR POMERADO HEALTH

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUE:		
Net patient service revenue	$ 292,453,117	$271,430,064
Net premium revenue	40,186,632	32,950,241
Other revenue	10,853,363	12,337,527
Total operating revenue	343,493,112	316,717,832
OPERATING EXPENSES:		
Salaries, wages and benefits	199,147,232	179,970,355
Professional fees	18,647,188	18,200,414
Supplies	57,900,432	52,343,370
Purchased services	25,873,599	24,591,372
Depreciation and amortization	16,394,985	14,546,551
Rent expense	3,654,950	4,189,136
Utilities expense	3,836,588	3,762,017
Other	9,611,151	8,430,241
Total operating expenses	335,066,125	306,033,456
INCOME FROM OPERATIONS	8,426,987	10,684,376
NON-OPERATING INCOME (EXPENSES):		
Investment income	3,574,969	1,312,240
Interest expense	(5,272,031)	(5,581,454)
Property tax revenue	10,218,388	9,206,371
Other	104,336	431,643
Total non-operating income—net	8,625,662	5,368,800
EXCESS OF REVENUE OVER EXPENSES	17,052,649	16,053,176
OTHER CHANGES IN NET ASSETS	7,712	53,964
INCREASE IN NET ASSETS	17,060,361	16,107,140
NET ASSETS—Beginning of year	226,205,585	210,098,445
NET ASSETS—End of year	$ 243,265,946	$226,205,585

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from:		
Patients, insurers and other third-party payors	$ 332,955,475	$ 325,902,624
Other sources	11,642,942	10,946,992
Payments to:		
Employees	(197,952,734)	(180,887,296)
Suppliers	(146,537,638)	(129,887,133)
Net cash provided by operating activities	108,045	26,075,187
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Receipt of district taxes	10,180,831	9,077,863
Other	437,574	423,039
Net cash provided by noncapital financing activities	10,618,405	9,500,902
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of property, plant, and equipment—net	(40,389,396)	(27,584,059)
Interest paid	(4,306,864)	(4,411,789)
Deferred financing costs for 2005 G.O. Bonds	(692,929)	
Repayment of long-term debt	(6,015,000)	(5,910,000)
Net cash used in capital and related financing activities	(51,404,189)	(37,905,848)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net sale (purchases) of investments	30,262,692	(12,636,870)
Interest received on investments and notes receivable	5,088,165	5,538,717
Net distributions and payments from affiliated entities and others	1,278,046	1,250,875
Net cash provided by (used in) investing activities	36,628,903	(5,847,278)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,048,836)	(8,177,037)
CASH AND CASH EQUIVALENTS—Beginning of year	16,711,909	24,888,946
CASH AND CASH EQUIVALENTS—End of year	$ 12,663,073	$ 16,711,909

(Continued)

PALOMAR POMERADO HEALTH

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from operations	$ 8,426,987	$ 10,684,376
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	16,394,985	14,546,551
Provision for bad debts	21,573,770	13,123,714
Equity in earnings of affiliates	(1,305,915)	(1,254,613)
Changes in assets and liabilities:		
Patient accounts receivable	(43,548,701)	(15,081,106)
Other receivables	539,541	1,147,573
Supplies/Inventories	(742,547)	(947,215)
Prepaid expenses and other	(145,707)	46,233
Accounts payable	1,578,639	1,439,594
Accrued compensation and related liabilities	3,281,287	3,364,084
Other accrued liabilities	(1,269,967)	1,336,176
Estimated third-party payor settlements	(3,400,009)	(2,330,419)
Other—net	(1,274,318)	239
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 108,045	$ 26,075,187

See notes to financial statements. (Concluded)

PALOMAR POMERADO HEALTH

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—Palomar Pomerado Health ("PPH" or the "District") is organized under the provisions of the Health and Safety Code of the State of California to provide and operate healthcare facilities. The accompanying financial statements include the accounts of the following commonly controlled divisions of PPH:

- Palomar Medical Center, located in Escondido, California, including Palomar Continuing Care Center, a convalescent facility.
- Pomerado Hospital, located in Poway, California, including Villa Pomerado, a convalescent facility.
- San Marcos Ambulatory Care Center, located in San Marcos, California.
- Management Services Organization, providing management and administrative services to outside organizations.
- Central Office, providing management, financial, data processing, materials management, and public affairs services to the other divisions.

All significant transactions between divisions have been eliminated in the accompanying financial statements.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Proprietary Fund Accounting—PPH utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenue and expenses are subject to accrual.

Accounting Standards—Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, PPH has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents—For purposes of the statement of cash flows, cash equivalents include highly liquid debt instruments with original maturities of three months or less and intended for use in daily operations.

Investments—Investments in debt securities are carried at fair value, as determined by quoted market prices, in the balance sheets. Investment income or loss is included in non-operating income unless the income or loss is restricted by donor or law.

Supplies/Inventories—Inventories are stated at the lower of cost (first-in, first-out) or market value.

Assets Whose Use is Limited—Assets whose use is limited primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future capital improvements over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of PPH have been classified as current assets in the accompanying balance sheets.

Capital Assets—Property, plant and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful life of each class of depreciable asset, generally 3 to 30 years. Interest cost incurred on borrowed funds during the period of construction of capital assets, net of any interest earned on temporary investments of the proceeds for construction projects funded by tax-exempt borrowings, is capitalized as a component of the cost of acquiring those assets. Net interest cost capitalized was $0 for the years ended June 30, 2005 and 2004.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Other Assets – Other long-term assets at June 30, 2004 were reported net of an allowance for doubtful collectibility of $1,445,600 for an outstanding loan receivable. Because the debtor has been making consistent monthly payments, during the year ended June 30, 2005, PPH reversed the allowance, which is reflected as an offset to other operating expenses in the accompanying statement of revenue, expenses and changes in net assets for the year ended June 30, 2005.

Debt Discounts and Deferred Financing Costs—Debt discounts and deferred financing costs are amortized by the bonds outstanding method over the life of the related bonds.

Net Assets—Net assets of the District are classified in four components. Net assets invested in capital assets – net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowing used to finance the purchase or construction of those assets. Net assets restricted for repayment of debt are amounts deposited with trustees as required by revenue bond indentures, as described in Note 8. Net assets restricted for other purposes are noncapital net assets that must be used for a particular purpose, as specified by contributors external to the District. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets – net of related debt or restricted.

Statements of Revenue, Expenses and Changes in Net Assets—All revenues and expenses directly related to the delivery of healthcare services are included in operating revenue and expenses in the statements of revenue, expenses and changes in net assets. Non-operating income and expenses consist of those revenues and expenses that result from non-exchange transactions and interest expense and investment income.

Net Patient Service Revenue—PPH has agreements with third-party payers that provide for payments to PPH at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Premium Revenue—PPH has agreements with various third-party payers to provide medical services to subscribing participants. Under these agreements, PPH receives monthly capitation payments based on the number of each payer's participants, regardless of services actually performed by PPH.

Charity Care—PPH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as revenue in the accompanying financial statements. Charity care charges forgone, at established rates, for the years ended June 30, 2005 and 2004 were approximately $23,537,000 and $23,406,000, respectively.

Recent Accounting Pronouncements—In March 2003, the GASB issued Statement of Governmental Accounting Standards No. 40, *Deposit and Investment Risk Disclosures*. The District has adopted GASB Statement No. 40 effective for the fiscal year beginning July 1, 2004. GASB Statement No. 40 establishes additional disclosure requirements addressing risks related to investments. Implementation of the statement did not affect the District's net assets or revenues, expenses, and changes in net assets, but resulted in additional disclosure.

Income Taxes—PPH is a governmental subdivision of the State of California and is exempt from federal income and state franchise taxes.

2. NET PATIENT SERVICE REVENUE

PPH renders services to certain patients under contractual arrangements with the Medicare and Medi-Cal programs and various health maintenance and preferred provider organizations. The Medicare program generally pays a prospectively determined fee for services rendered to Medicare patients. Additionally, Medicare reimburses PPH for certain inpatient services (primarily mental health unit services) on the basis of costs incurred. The Medi-Cal program provides for payment on a prospectively negotiated contractual rate per day, percentage-of-charges for services rendered, or capitated payment arrangement.

Revenue from the Medicare and Medi-Cal programs accounted for approximately 26 percent and 7 percent, respectively, of PPH's net patient revenue for the year ended June 30, 2005, and 26 percent and 9 percent, respectively, of PPH's net patient revenue for the year ended June 30, 2004.

The administrative procedures for the cost-based programs preclude final determination of the amounts payable or receivable until after cost reports of PPH are audited or otherwise reviewed and settled with the respective agencies. The cost reports for Medicare and Medi-Cal programs have been settled through fiscal years 2001 and 2003, respectively. Results of cost report settlements, as well as estimates for settlements of all fiscal years through 2005, have been reflected in the accompanying financial statements.

At June 30, 2005 and 2004, estimated third-party settlement receivables totaled $4,522,051 and $1,122,042, respectively. During fiscal 2005 and 2004, PPH settled various prior year cost reports and appeal issues. These settlements resulted in approximately $7,709,000 and $4,435,000 of additional revenues in fiscal 2005 and 2004, respectively, which are included in net patient service revenue in the accompanying statements of revenue, expenses and changes in net assets.

PPH also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to PPH under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

3. CASH AND INVESTMENTS

The State of California Government Code generally authorizes the District to invest unrestricted and board-designated assets in obligations of the U.S. Treasury and certain U.S. government agencies, obligations of the State of California and local government entities, bankers' acceptances, commercial paper, certificates of deposit, repurchase agreements and mortgage securities. Certain of these investments may be purchased only in limited amounts, as defined in the Government Code.

The District's bond indenture agreements authorize trustee-held assets to be invested in obligations of the U.S. Treasury and certain U.S. government agencies, repurchase agreements, and obligations of financial institutions meeting certain criteria defined in the indentures.

The California State Treasury makes available the Local Agency Investment Fund ("LAIF") through which local governments may pool investments. Each governmental entity may invest up to $40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. PPH is a voluntary participant in the LAIF. The fair value of the PPH's investments in the LAIF is reported in the accompanying financial statements based on PPH's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio

As of June 30, 2005 and June 30, 2004 PPH had the following investments and maturities.

2005				
		Investment Maturities (in years)		
Investment Type	Fair Value	Less Than 1	1-5	More Than 5
LAIF	$ 3,237,821	$ 3,237,821	$ -	$ -
US Government Bonds	53,424,005	25,809,758	27,614,247	-
US Treasury Notes	39,300,961	6,925,817	32,375,144	-
Corporate Bonds	13,077,640	6,660,079	6,417,561	-
Negotiable Certificates of Deposit	7,949,116	7,949,116	-	-
Money Market Mutual Funds	13,372,329	13,372,329	-	-
Cash	714,440	714,440	-	-
Total	$ 131,076,312	$ 64,669,360	$ 66,406,952	$ -

2004				
		Investment Maturities (in years)		
Investment Type	Fair Value	Less Than 1	1-5	More Than 5
LAIF	$ 33,755,139	$ 33,755,139	$ -	$ -
US Government Bonds	54,041,467	18,120,544	35,920,923	-
US Treasury Notes	41,299,403	10,558,686	30,740,717	-
Corporate Bonds	19,669,963	8,170,347	11,499,616	-
Negotiable Certificates of Deposit	5,721,468	25,738	5,695,730	-
Money Market Mutual Funds	8,350,318	8,350,318		
Other	14,441	14,441	-	-
Total	$ 162,852,199	$ 78,995,213	$ 83,856,986	$ -

There are many factors that can affect the value of investments. Some, such as credit risk, custodial credit risk, and concentration of credit risk and interest rate risk, may affect both equity and fixed income securities. Equity and debt securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Interest Rate Risk. Interest rate risk is the risk that the value of fixed income securities will decline due to increasing interest rates. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. As a means of limiting exposure to fair value losses arising from increasing interest rates, the District's investment policy limits the term of any investment to a maturity not exceeding five years.

Credit Risk. Fixed income securities are subject to credit risk, which is the chance that a issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government are not considered to have credit risk. State law limits the District's investment in commercial paper, corporate bonds, and bond mutual funds with an "A" rating issued by nationally recognized statistical rating organizations. The District has no investment policy that would further limit investment choices. As of

June 30, 2005 and June 30, 2004, PPH's investments, excluding U.S. Government obligations, consisted of the following: corporate bond investments rated "A" or better by Standard and Poor's and Moody's Investor Services, U.S. Government Agency investments rated "AAA" by Standard and Poor's and Moody's Investor Services, and negotiable CDs rated Superior or better by IDC - Interactive Data Corp.

Concentration of Credit Risk. Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the District to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Investments issued or guaranteed by the U.S. government and investments in external investment pools, such as LAIF, are not considered subject to concentration of credit risk. In accordance with state law, no more than 5% of total investments may be invested in the securities of any one issuer, except obligations of the United States Government, no more than 10% may be invested in any one mutual fund, and no more than 30% may be invested in bankers acceptances of any one commercial bank.

Investments in any one issuer (other than U.S. Treasury Securities and external investment pools) that represent 5% or more of the total investments are:

Issuer	Investment Type		Reported Amount
FNMA	US Government Agency Bonds	$	10,670,104
FHLB	US Government Agency Bonds		24,270,725
FHLMC	US Government Agency Bonds		18,483,176
Total		$	53,424,005

The District does not have any investment in any one mutual fund that exceeds 10% of total investments. The District has no investments in bankers acceptances.

Custodial Credit Risk-Investments. All of the District's investments are insured or registered, or are held by the District's agent in the agent's nominee name, with subsidiary records listing the District as the legal owner. For these reasons, the District is not exposed to custodial credit risk for its investments.

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2005, the District's bank balances totaled $18,682,000 and were not exposed to custodial credit risk as the uninsured deposits are with financial institutions that are individually required by State law to have government deposits collateralized at a rate of 110% of the deposits.

4. CONCENTRATIONS OF CREDIT RISK

PPH grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2005 and 2004, was as follows:

	2005	2004
Medicare	20%	19%
Medi-Cal	12%	11%
HMO/PPO/Commercial	46%	45%
Patient	15%	14%
Others	7%	11%
Total	100%	100%

5. CAPITAL ASSETS

A summary of changes in capital assets is as follows for the years ended June 30:

	Beginning Balance Fiscal 2005	Additions	Deletions	Ending Balance Fiscal 2005
Land improvements	$ 5,928,944	$	$ (1,552)	$ 5,927,392
Buildings and leasehold improvements	124,624,580	4,317,330		128,941,910
Equipment	161,500,054	33,336,003	(2,153,764)	192,682,293
	292,053,578	37,653,333	(2,155,316)	327,551,595
Less accumulated depreciation and amortization	(204,146,712)	(16,394,985)	2,050,121	(218,491,576)
	87,906,866	21,258,348	(105,195)	109,060,019
Land	9,933,176			9,933,176
Construction in progress	22,630,125	39,479,348	(34,085,775)	28,023,698
Capital assets—net	$ 120,470,167	$ 60,737,696	$ (34,190,970)	$ 147,016,893

	Beginning Balance Fiscal 2004	Additions	Deletions	Ending Balance Fiscal 2004
Land improvements	$ 5,922,912	$ 6,032	$	$ 5,928,944
Buildings and leasehold improvements	120,611,731	4,035,147	(22,298)	124,624,580
Equipment	146,879,547	15,116,336	(495,829)	161,500,054
	273,414,190	19,157,515	(518,127)	292,053,578
Less accumulated depreciation and amortization	(189,890,067)	(14,546,551)	289,906	(204,146,712)
	83,524,123	4,610,964	(228,221)	87,906,866
Land	9,933,176			9,933,176
Construction in progress	13,955,326	21,081,918	(12,407,119)	22,630,125
Capital assets—net	$ 107,412,625	$ 25,692,882	$ (12,635,340)	$ 120,470,167

6. INVESTMENT IN AND AMOUNTS DUE FROM AFFILIATED ENTITIES

In October 1992, PPH advanced funds to a partnership of which it is a general partner. The amount outstanding at June 30, 2005 and 2004 of $2,383,450 and $2,429,439, respectively, is secured by real property and is due in monthly installments including principal and interest necessary to amortize the note over a 30-year period at an interest rate determined on each fifth anniversary of the note equal to the five-year U.S. Treasury Strip rate plus 1%, and with any remaining principal due and payable on the fifteenth anniversary of the note in October 2007. The interest rate and monthly payment amount as of June 30, 2005 were 4.12% and $12,060 respectively.

The Limited Partnership Agreement states that PPH is obligated, until October 31, 2010, to purchase the Class A limited units (total of 30 units) from the current holders at a price of $89,000 per unit, if requested by the holder. Prior to fiscal 2004, PPH purchased one Class A unit. During fiscal 2005, PPH purchased 12 Class A units. Subsequent to June 30, 2005, PPH purchased four additional Class A units, thus leaving 13 remaining Class A units not owned by PPH.

PPH's investment in affiliated entities, which are accounted for under the equity method because PPH does not control the entities, was $3,487,687 and $3,757,142 at June 30, 2005 and 2004, respectively.

7. RELATED ORGANIZATION

Palomar Pomerado Health Foundation (the "Foundation") is a charitable nonprofit organization created to provide assistance and support for PPH. The Foundation is a separately governed organization. Its net assets and results of operations are not included in the accompanying financial statements of PPH.

The Foundation funds various programs on behalf of PPH. Funding for these programs provided by the Foundation totaled $573,613 and $493,805 in the years ended June 30, 2005 and 2004, respectively.

In 1998, PPH entered into a management services agreement with the Foundation whereby PPH provides administrative support to the Foundation. Support provided to the Foundation totaled $1,262,967 and $1,272,416 in the years ended June 30, 2005 and 2004, respectively.

A summary of the Foundation's assets, liabilities and fund balances is as follows at June 30:

	2005	2004
Assets	$ 7,027,174	$7,249,368
Liabilities	1,382,891	$1,835,454
Fund balance	5,644,283	5,413,914
Total liabilities and fund balance	$ 7,027,174	$7,249,368

8. LONG-TERM DEBT

Long-term debt consists of the following at June 30 (also see Note 13):

	2005	2004
Series 1999 insured refunding revenue bonds, interest at 4.25 to 5.375% due semi-annually, principal due in annual amounts ranging from $1,355,000 in fiscal 2006 to $7,855,000 in fiscal 2015, net of unaccreted premium of $251,624 and $297,359 at June 30, 2005 and 2004, respectively, and unamortized loss on defeasance of $2,438,462 and $2,882,284 at June 30, 2005 and 2004, respectively	$57,333,162	$58,240,077
Series 1993 insured revenue bonds, interest at 4.80 to 5.25% due semi-annually, principal due in annual amounts ranging from $4,770,000 in fiscal 2006 to $1,425,000 in fiscal 2024, less unamortized discount of $658,474 and $952,892, at June 30, 2005 and 2004, respectively	28,611,526	33,027,109
Total	85,944,688	91,267,186
Less current portion	6,125,000	6,015,000
Total long-term debt	$79,819,688	$85,252,186

In June 1999, PPH issued its Series 1999 insured refunding revenue bonds to refund its Series 1989A bonds. The refunding resulted in a loss on extinguishment of debt of $5,065,577, which has been deferred and is being amortized as a component of interest expense over 15 years.

The Series 1999 and 1993 bonds are collateralized by PPH revenues, as defined in the respective indentures. PPH is also subject to compliance with certain debt covenants under the indentures, including restrictions on additional indebtedness.

The estimated fair value of PPH's long-term debt was approximately $92 million and $96 million as of June 30, 2005 and 2004, respectively, based on quotations from independent third parties.

Future principal and interest payments on long-term debt are as follows:

Year Ending June 30	Principal	Interest	Total
2006	6,125,000	4,252,709	10,377,709
2007	6,560,000	4,136,567	10,696,567
2008	6,850,000	3,841,723	10,691,723
2009	7,160,000	3,526,923	10,686,923
2010	7,505,000	3,192,063	10,697,063
2011-2015	43,875,000	9,595,415	53,470,415
2016-2020	5,395,000	2,056,039	7,451,039
2021-2024	5,320,000	646,476	5,966,476
Total	$88,790,000	$31,247,915	$120,037,915

9. OPERATING LEASES

PPH leases certain office space and equipment under operating leases. Lease expense on all such leases for the years ended June 30, 2005 and 2004 totaled $3,654,950 and $4,189,136, respectively. PPH also leases to others office space under operating leases. Future minimum lease commitments under non-cancelable operating leases are as follows:

Year Ending June 30	Lease Payments	Lease Receipts
2006	$1,375,503	$1,079,333
2007	877,540	824,408
2008	535,135	758,258
2009	399,537	637,739
2010	306,575	636,664
2011–2015	517,484	868,708
2016–2020	81,236	
Total	$4,093,010	$4,805,110

10. DEFERRED ANNUITY CONTRACTS

PPH offers its employees a deferred compensation plan created in accordance with Internal Revenue Code ("IRC") Section 457. Employees who elect to participate in the plan make contributions through a reduction in salary. All employee contributions are invested by a funding agency selected by PPH.

The investments of PPH's IRC Section 457 plan and earnings thereon are held in trust for the exclusive benefit of the plan participants and their beneficiaries. Accordingly, the accompanying balance sheets do not include the funds deposited with financial institutions pursuant to deferred annuity contracts.

11. RETIREMENT PLAN

PPH sponsors a defined contribution retirement plan under which benefits are limited to amounts accumulated from total contributions by PPH and by the employee plus accrued interest. Prior to January 1, 2004, all employees with three years of service are covered by the plan. On January 1, 2004, the plan was revised to change the eligibility for all employees with one year of service. Contributions under the plan by PPH equal 6% of covered employees' basic compensation and are funded as accrued. Total PPH contributions expensed for the years ended June 30, 2005 and 2004 were $7,136,000 and $5,431,000, respectively.

12. COMMITMENTS AND CONTINGENCIES

Legal Matters—The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medi-Cal programs, are subject to government review and interpretation, as well as regulatory actions. Claims for payment for services rendered to Medicare and Medi-Cal beneficiaries must meet applicable billing laws and regulations, which among other things, require that the services are medically necessary, accurately coded, and sufficiently documented in the beneficiaries' medical

records. Allegations concerning possible violations of regulations can result in the imposition of significant fines and penalties, as well as significant repayment of previously billed and collected revenues for patient services.

PPH has ongoing efforts to comply with laws and regulations and to assess its prior compliance and the potential impact of noncompliance. PPH with its ongoing compliance program will continue to monitor, investigate and correct any potential areas of noncompliance. No regulatory action has been asserted against PPH to date, although such action could occur in the future.

PPH is a party to certain other legal actions arising in the ordinary course of business. In the opinion of PPH management, the liability, if any, under these claims is adequately covered by insurance. PPH is insured for medical malpractice under an occurrence basis policy.

Seismic Compliance—California Senate Bill 1953 ("SB 1953") requires hospital acute care buildings to meet more stringent seismic guidelines by 2008. On February 23, 2005 the District received an approval from the Office of Statewide Health Planning and Development for a time extension for compliance with SB 1953 until January 1, 2013. The Board of Directors of PPH has approved a $753 million expansion plan which includes building a new hospital in the City of Escondido area, downsizing the existing facility in Escondido (removing sections that are not compliant with SB 1953), expanding the hospital facility in Poway and building new outpatient satellite clinics. This plan will enable PPH to comply with SB 1953 seismic guidelines. The financing for this expansion plan has multiple parts, including $496 million of general obligation bonds to be repaid through ad valorom property taxes of the residents of the District (see Note 13). Proposition BB approving the general obligation bonds was passed by more than the required 2/3 vote of the District residents in the November 2, 2004 election. Additionally, PPH expects to issue revenue bonds to raise approximately $210 million and use future income to repay them over 30 years. The remaining funds are expected to be obtained from fundraising and/or cash reserves. The new hospital is scheduled to be completed in calendar 2010.

Workers' Compensation Program—PPH is a participant in the Association of California Hospital Districts ALPHA Fund ("ALPHA Fund") that administers a self-insured workers' compensation plan for participating districts' and other qualifying non-profit entity employees. PPH pays premiums to the ALPHA Fund that are adjusted annually. Effective July 1, 2002, PPH changed its participation in ALPHA Fund from first dollar coverage of workers' compensation claims to self-insurance by PPH of the first $350,000 of each claim. Effective July 1, 2003, PPH increased its self-insurance level to the first $500,000 of each claim. Effective July 1, 2004, PPH increased its self-insurance level to the first $750,000 of each claim.

ALPHA Fund has been in a deficit position for several years as actuarial claims estimates have exceeded revenues. However, ALPHA Fund has been able to maintain positive cash flow. If ALPHA Fund were terminated, PPH would be liable for its share of any additional premiums necessary for final disposition of claims and losses covered by ALPHA Fund. If PPH were to withdraw from ALPHA Fund, it would be required to fund its share of the deficit as defined under the joint powers agreement. As of June 30, 2005, PPH's share of the deficit is approximately $3.5 million. ALPHA Fund also has the ability to assess its members; however, ALPHA Fund has developed a recovery plan to reduce its fund deficit over the next 10 years, which is anticipated to eliminate the need to assess the members. Based on its analysis of ALPHA Fund's historical and projected financial condition and results of operations, and its expectation regarding PPH's future participation in ALPHA Fund, PPH has recorded an estimated liability of $2.3 million as of June 30, 2005 and 2004.

13. SUBSEQUENT EVENT

During July 2005, the District issued $80,000,000 of Palomar Pomerado Health Care District General Obligation Bonds, Election of 2005, Series 2005A (the "2005 G.O. Bonds"). The 2005 G.O. Bonds bear coupon interest at rates of 3.0% to 5.02%. The net proceeds of the 2005 G.O. Bonds will be used by the District to construct a new acute care and trauma hospital facility, expand Pomerado Hospital, renovate Palomar Medical Center, and open satellite ambulatory care facilities in the District (see Note 12).

The 2005 G.O. Bonds maturing on or after August 1, 2016 are subject to redemption at the option of the District prior to their respective stated maturities at redemption prices equal to par. The 2005 G.O. Bonds require the District to make principal payments beginning in fiscal year 2007.

The 2005 G.O. Bonds represent the general obligation of the District, and the District has the power and is obligated to cause to be levied and collected by the County of San Diego annual ad valorem taxes upon all property within the District's boundaries subject to taxation by the District for payment when due of the principal of and interest on the bonds.

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POMERADO HOSPITAL
ADMINISTRATIVE MEDICAL/SURGICAL SERVICES AGREEMENT
SPECIALCARE HOSPITAL MANAGEMENT CORPORATION

TO:	Board of Directors
FROM:	Board Finance Committee
	Tuesday, December 6, 2005
MEETING DATE:	Monday, December 12, 2005
FROM:	Sheila Brown, Clinical Outreach Officer
	Susan Linback, System Director, Behavioral Health Services
BY:	Jim Flinn, Chief Administrative Officer, Pomerado Hospital

Background: At the August 30, 2005, Finance Committee meeting, Management requested approval of the agreement between SpecialCare Hospital Management Corporation and Pomerado Hospital for "The New Vision Program©". This program provides hospital-based inpatient adult emergency medical/surgical stabilization services. **SpecialCare Hospital Management Corporation (SHMC)** is a national firm that offers a variety of programs and services specially designed to improve the hospital's financial situation and market share, while offering needed services to the community. SHMC currently has forty-five (45) affiliated client hospitals nationwide, in 12 states.

"The New Vision Program©": SpecialCare will provide three and a half (3.5) full-time on-site personnel, corporate administration systems, reporting systems, critical pathways and medical protocols, marketing systems, and support activities to assist the hospital in achieving the goals of the service. The Agreement will be for two (2) years related to the new market in California, with termination after two (2) consecutive quarters of loss.

The primary function is to medically treat and stabilize individuals who require an inpatient acute care hospital environment for their current medical conditions, which may include drugs, alcohol, and other related health issues.

PPH will bill, collect, and retain all patient revenue, less expenses. SpecialCare will receive an all-inclusive set monthly fee for the micromanagement of this service.

Immediate benefits to Pomerado Hospital:

- New/increased revenue
- No up-front capital expenditures required
- No additional licensure requirements
- No renovations
- No immediate need for additional staff
- Immediately noticeable increased medical/surgical census
- Standardized treatment of existing admissions
- Patients are voluntary and pre-screened for insurance coverage with little bad debt (less than 5% nationally)

POMERADO HOSPITAL
ADMINISTRATIVE MEDICAL/SURGICAL SERVICES AGREEMENT
SPECIALCARE HOSPITAL MANAGEMENT CORPORATION

At the August 30, 2005, meeting, the Finance Committee made inquiries regarding a review by and support from the Medical Executive Committee. It was explained that the Medical Executive Committee had not been consulted, nor had SpecialCare made a presentation to them.

Action was deferred pending a review by and support from the Medical Executive Committee, including a presentation by SpecialCare, which was held on Tuesday, September 27, 2005. As the consensus of the Medical Executive Committee was to approve the Agreement, the matter was returned to the December 6, 2005, Finance Committee meeting for reconsideration.

Budget Impact: The $462,000 annual management fee is a budgetary impact. This amount will have zero impact if volume is maintained at 20 patients per month. ***(See pro forma – Exhibit C of the Agreement).***

Staff Recommendation: Staff recommends approval.

Committee Questions:

COMMITTEE RECOMMENDATION: The Finance Committee recommends approval of the Administrative Medical/Surgical Stabilization Services Agreement between Palomar Pomerado Health and SpecialCare Hospital Management Corporation.

Motion: X

Individual Action:

Information:

Required Time:

AGREEMENT

BETWEEN

PALOMAR POMERADO HEALTH

AND

SPECIALCARE HOSPITAL MANAGEMENT

CORPORATION

October 24, 2005

ADMINISTRATIVE SERVICES AGREEMENT

THIS Administrative Medical/Surgical Stabilization Services Agreement (this "Agreement") made and entered into on the date or dates written below, by and between Palomar Pomerado Health ("PPH"), a local healthcare district organized pursuant to Division 23 of California Health and Safety Code, and SpecialCare Hospital Management Corporation ("SHMC"), a Missouri Corporation.

WITNESSETH

WHEREAS, PPH operates Pomerado Hospital ("Hospital"), a healthcare facility located at 15615 Pomerado Road, Poway, CA, 92064, ("Premises") which is duly licensed as an acute care hospital; and

WHEREAS, SHMC is in the business of organizing, and providing administrative services including recommending policies and procedures, performing clinical audits, quality improvement activities, intake and discharge planning services, providing business office services, including reimbursement analysis, and marketing services to hospitals in order to expand and organize Inpatient Emergency Medical Stabilization Services ("Stabilization Services") for adults with drug, alcohol and other related health issues offered by Hospital. SHMC uses SHMC's trade name of "The New Vision Program©" to more specifically describe Stabilization Services which SHMC shall assist PPH and Hospital in offering, and hereinafter will be referred to as "The New Vision Program©". Use of the name "The New Vision Program©" shall be governed according to Section 7 hereunder; and

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WHEREAS, PPH has determined that there is a community need within Hospital's service area to expand existing Stabilization Services, and PPH can best provide for that need by engaging SHMC exclusively to administer the Stabilization Services; and

WHEREAS, SHMC is willing and able to provide The New Vision Program© to Hospital through this Agreement with PPH;

NOW, THEREFORE, in consideration of the premises, the mutual covenants and conditions hereinafter contained and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. **SERVICES** - SHMC shall provide those services described in "Exhibit A" attached hereto and incorporated herein by reference ("SHMC's Services"). Hospital agrees that SHMC shall be the exclusive provider of such services during the Term of this Agreement. Hospital covenants that during the Term, Hospital shall not enter into any agreement with any other person or entity for the provision of the same or substantially similar services to Hospital, as provided by SHMC hereunder. Hospital shall provide those services and facilities described in "Exhibit B" ("Hospital's Services") attached hereto and incorporated herein by reference.

2. **TERM AND RENEWAL** - The initial term of this Agreement shall commence on such date (the "Effective Date") as SHMC shall designate to Hospital in writing as the first date on which SHMC is prepared and able to provide all of SHMC's Services. The Effective Date is to be mutually agreed upon in writing by both Parties and is subject to

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Section 31 hereunder. This Agreement shall terminate two (2) years from the Effective Date, unless terminated earlier according to the provisions of section 5 hereunder. This Agreement shall be automatically renewed for consecutive one (1) year terms upon the expiration of the initial term of this Agreement, and any subsequent renewal term, unless one party shall give the other party advance written notice of its intent not to renew, not less than ninety (90) days prior to the expiration date. (The initial term together with any and all renewals hereunder shall be hereinafter referred to as the "Term".)

3. **COMPENSATION** - As compensation to SHMC for SHMC's Services provided pursuant to this Agreement, beginning upon the Effective Date and for the Term of this Agreement, Hospital and SHMC agree that:

a. Hospital agrees to pay SHMC a monthly administrative fee ("Monthly Fee") as defined in Section 3(b) herein, for each and every calendar month of the Term. The Monthly Fee shall be paid according to the terms and schedule listed below, for each calendar month or portion thereof, of the Term.

b. The monthly administrative fee for each calendar month of the Term shall be as follows:

i. The Monthly Fee for the first month (1st) of the Term shall be Eighteen Thousand Dollars ($18,000.00), and

ii. The Monthly Fee for the second (2nd) month of the Term shall be Twenty Two Thousand Dollars ($22,000.00), and

iii. The Monthly Fee for the third (3rd) month of the Term shall be Twenty Eight Thousand Dollars ($28,000.00), and

iv. The Monthly Fee for the fourth (4th) month of the Term shall be Thirty Five Thousand Dollars ($35,000.00), and

v. The Monthly Fee for the fifth (5th) month and all remaining months of the Term and any renewals hereunder shall be Thirty Eight Thousand Five Hundred ($38,500.00) Dollars. Such fee shall be pro-rated for partial calendar months occurring at the beginning or the end of the Term.

c. The Monthly Fee is due and payable on the first (1st), but not later than the twenty fifth (25th) day of the next calendar month following the calendar month of service. If SHMC receives payment on or before the tenth (10th) day of the next calendar month following the calendar month of service, Hospital is entitled to a 2% discount on such early payment.

d. SHMC shall invoice Hospital monthly on or about the first (1st) day of each calendar month for the Monthly Fee for the preceding calendar month. Failure to receive an invoice from SHMC shall not excuse Hospital from paying the Monthly Fee. Disputes to invoices must be submitted to SHMC in writing within 14 days after the invoice date. After such 14-day period, invoices are considered fully due and owing. Hospital agrees to accept facsimile copies as original invoices.

e. On any and all amounts of undisputed Monthly Fees that become delinquent or past due under this Agreement, SHMC may charge, and Hospital agrees to pay, a late charge of Five Hundred Dollars ($500.00) per invoice per month on all unpaid past due invoices. The parties agree that any invoice not paid to SHMC within ten (10) days after the due date described herein is considered delinquent.

f. Hospital and SHMC agree that the Monthly Fee paid to SHMC is for the express purpose of providing administrative services for Stabilization Services and providing for the availability to the community of The New Vision Program© for the Term of this Agreement.

4. **EXPENSES** - SHMC shall be responsible for all costs of travel, food, and other expenses incurred by SHMC personnel in connection with their duties under this Agreement, as well as expenses outlined in "Exhibit A". Hospital shall pay for all other expenses outlined in "Exhibit B". In addition, Hospital shall be responsible for all expenses associated with the operation and licensure of the Hospital and Premises. Neither party shall be liable for the debts of the other party, nor shall either party have the right or ability to incur debts or expenses for the other party.

5. **TERMINATION** -

a. **Breach**:

i) Either party may terminate this Agreement prior to the expiration of the Term upon a material breach of the Agreement by the non-terminating party which is not cured in the time span provided for in this Section. Upon the occurrence of a material breach, the non-breaching party shall give notice to the breaching party, specifying the nature of the breach. The breaching party shall have thirty (30) days from the date of receipt of such notice to cure the breach. If the breach is not cured within such

period, the non-breaching party, at its option, may immediately terminate the Agreement without further notice.

ii) Monetary Default: Material breach shall also include failure by Hospital to pay undisputed Monthly Fees when such are due according to Section 3 herein ("Monetary Default"). In the event of a Monetary Default by Hospital, SHMC shall give notice to Hospital specifying the Monetary Default. Hospital shall have ten (10) days from the date of receipt of such notice to cure such Monetary Default. If the Monetary Default is not cured within such period, SHMC, at its option, may immediately terminate the Agreement without further notice.

b. **Termination for Economic Non-Viability:** During the Term of the Agreement, the Hospital may terminate this Agreement on sixty (60) days notice in the event that the Profit and Loss Statement ("P&L's") for Stabilization Services (as defined in Exhibit B), averaged over the immediately prior two (2) calendar quarters, show a loss. Such notice must be given not later than thirty (30) days after the end of the second calendar quarter used to calculate the loss. If the notice is not given in accordance with this subsection, Hospital waives the right to terminate by this subsection for the loss relating to the first quarter of the two quarters of loss only, and such waiver is not a waiver of the right to terminate for economic non-viability for any future periods.

c. In the event that Hospital gives SHMC notice under this section, of Hospital's intent to terminate this Agreement, such termination shall only be effective upon the full payment to SHMC of all Monthly Fees due hereunder, through and

inclusive of the date of termination, on or before the date of termination (the "Termination Date").

d. SHMC may terminate this Agreement upon written notice, effective immediately, if Hospital, (i) goes into liquidation, receivership or dissolution, (ii) seeks the benefit of any bankruptcy or insolvency act, (iii) makes an assignment for the benefit of creditors, (iv) has a substantial portion of its assets seized or attached, or (v) has any involuntary proceeding in bankruptcy, receivership, insolvency, reorganization, dissolution or liquidation commenced against it.

e. **Renegotiation:** – If during the Term, there is a change in the rules and/or regulations for Medicare, Medicaid or other federal or state statutes or regulations, or in the interpretation thereof by any governmental agency or authority which renders any of the material terms of this Agreement unlawful or unenforceable, this Agreement shall continue and each party shall have the right to immediately initiate such good faith negotiations as are necessary to amend this Agreement to bring this Agreement into compliance with such statute, regulation or interpretation thereof. If the parties are not able to agree on an amendment within thirty (30) days after the commencement of negotiations pursuant to this section, then either party shall have the option to terminate this Agreement on the later date of either sixty (60) days notice to the other, or the effective date of such change to rules, regulations, or interpretation. Notwithstanding the foregoing, both parties shall mutually confirm that the Agreement complies with applicable laws, rules, and regulations identified pursuant to this section ten (10) days prior to the Effective Date. In the event of

non-compliance, requisite changes shall be made to the Agreement prior to the Effective Date.

f. **Effect of Termination:** Except as otherwise expressly provided herein, all of the rights, privileges, duties and obligations of the parties hereto under this Agreement shall cease upon the termination of this Agreement. Notwithstanding the foregoing, termination of this Agreement shall not relieve either party from any obligation to perform hereunder through the Termination Date or to perform such duties and obligations as shall expressly survive termination. After termination each party shall keep confidential all information provided by the other pursuant to this Agreement which is not in the public domain, and shall exercise the same care in handling such information as it would exercise with similar information of its own.

g. Hospital expressly understands that upon termination, it shall be solely responsible for continued delivery of care and services for all Stabilization Services patients who may remain in Hospital after termination.

6. **RECORDS** - Upon the written request of the Secretary of Health and Human Services or the Comptroller General or any of their duly authorized representatives, SHMC will make available those contracts, books, documents, and records necessary to verify the nature and extent of the costs of providing services under this Agreement. Such inspection shall be available up to 4 years after the rendering of such services. If SHMC carries out any of the duties of this Agreement through a subcontract with a value of $10,000 or more over a 12-month period with a related individual or organization,

SHMC agrees to include this requirement in any such subcontract. This section is included pursuant to and is governed by the requirements of Public Law 96-499, Sec. 952 (Sec. 1861 (v)(1) of the Social Security Act) and the regulations promulgated thereunder. No attorney-client, accountant-client or other legal privilege will be deemed to have been waived by the Hospital or SHMC by virtue of this Agreement.

7. **COOPERATION** - Hospital acknowledges that, in order for SHMC to provide SHMC's Services as set forth herein, SHMC will need the cooperation of Hospital. Therefore, both parties agree to cooperate in the following manner:

   a. Hospital agrees that it will use its best efforts to adhere to Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") standards regarding discharge planning and continuous quality improvement.

   b. Hospital agrees that SHMC shall have the right to inspect Hospital's business office and medical records of Stabilization Services patients at any time during normal business hours during the Term, for purposes of fulfilling SHMC's obligations under this Agreement.

   c. SHMC shall provide staff in accordance with "Exhibit A" ("SHMC's Staff"). SHMC's employees, agents and independent contractors shall be subject to all applicable Hospital policies, provided that Hospital has provided SHMC with a copy of such policies, and that Hospital has provided orientation to SHMC's employees, agents and independent contractors on such policies prior to the Effective Date.

d. SHMC shall arrange with Hospital to interview and approve prospective SHMC employees prior to placement at Hospital. If any individual provided by SHMC, or any Hospital nurse or physician working with Stabilization Services patients under this Agreement becomes unacceptable to the other party due to poor work performance pursuant to the parties normal policies, procedures, and standards of medical practice, the party employing such unacceptable person agrees to replace such person within 30 days after receipt of written notice from the other party requesting such replacement. Such replacement shall only take effect after appropriate disciplinary measures have been followed to address the concerns of the other party based upon the other party's disciplinary policies and collective bargaining agreements, if applicable. In the event of negligent disregard for a patient's welfare, immediate termination may be warranted by Hospital.

e. Hospital shall provide licensed medical surgical beds, office space on the Premises, and personnel and services in order to staff and operate the Stabilization Services, all as outlined in "Exhibit B", and such other Hospital facilities and support services as may reasonably be necessary for The New Vision Program©. Hospital expressly agrees that it shall provide sufficient staff in accordance with "Exhibit B" to accept patient admissions to Stabilization Services on a twenty four (24) hour per day, three hundred sixty five (365) calendar day per year basis.

f. **Licenses: Copyrights** - Hospital grants to SHMC, a temporary non-exclusive license to utilize Hospital's copyrighted materials, service marks and trademarks, for the purpose of advertising The New Vision Program© during the Term.

SHMC grants to Hospital a temporary non-exclusive license to utilize SHMC's copyrighted materials, service marks and trademarks, together with all operational, administrative, financial, and marketing systems, manuals, books, visual and audio materials and recordings which contain SHMC supplied information relating to the Stabilization Services and The New Vision Program©, during the Term. Hospital and SHMC further agree that all copyright materials, trademarks, and service marks are owned exclusively by the respective parties, and no common law or other ownership rights shall be created, or asserted by either party in respect to any of such items that are furnished by the other party. All permissions and licenses to utilize such materials during the Term are immediately revoked upon termination of this Agreement. Hospital agrees to return all materials supplied by SHMC which relate to The New Vision Program© upon termination of the Agreement.

g. Hospital agrees to notify SHMC in writing within five (5) business days upon any of the following:

(i) Any action taken against Hospital's license(s) or accreditation(s) by any State or Federal regulatory or governmental agency or JCAHO;

(ii) Any changes in Hospital's ownership, business address, or billing address;

(iii) Any legal action initiated against Hospital which could materially affect this Agreement, or could potentially involve SHMC;

(iv) Any occurrence which Hospital is aware or becomes aware of which could prevent or impair Hospital's ability to fulfill its duties and obligations hereunder.

h. Attached to this Agreement as "Exhibit C" is the Income and Cost Projection, dated August 25, 2005, which has been reviewed and accepted by the parties. The parties agree that they will utilize their commercial best efforts to achieve results similar to the Income and Cost Projection, through effective treatment of Stabilization Services patients pursuant to this Agreement.

8. **CONFIDENTIAL AND PROPRIETARY INFORMATION** –

A. Both parties acknowledge that pursuant to this Agreement, each will receive confidential information to which the other has a proprietary interest. For purposes of this Agreement, confidential information shall be deemed to include, but shall not be limited to, the following items:

a. All advertising prototypes, slicks, camera-ready art, audio and/or videotapes of proposed or actual advertising, brochures, and direct mail pieces.

b. All instructional documents and other materials, forms, proposals, manuals, books, memoranda, production books and visual, as well as audio recordings provided by SHMC, which contain information relating to SHMC's Services, defined herein.

c. All unique procedures, methods and techniques utilized in the organization, development, administration and marketing of Stabilization Services, and The New Vision Program©.

d. All proprietary computer programs and data derived from such, regardless of how such information is stored or retrieved, or whether such program or

data is part of the original program or derived from a stored or backup version. Disassembly, de-compiling, or reverse engineering of such proprietary programs or data shall constitute a breach of this section.

e. All information and materials relating to the business and operations of the Hospital and SHMC, including the terms of this Agreement.

f. All patient information, records and data.

(The items described in this section are hereinafter collectively referred to as "Confidential Information"). Both parties agree during the Term of this Agreement and at all times thereafter, not to disclose to any unauthorized third party Confidential Information except to the extent such disclosure may be (i) necessary for the proper certification, licensure, and operation of the Stabilization Services and The New Vision Program© as required by law, or (ii) under lawful order of any State or Federal Agency, or (iii) as required by a court of competent jurisdiction.

Hospital specifically agrees that it will not disclose to SHMC's employees, agents, or independent contractors, the terms, conditions and compensation arrangements included in this Agreement, and will disclose to Hospital's own employees such information only to the extent necessary for the performance of such employees under this Agreement, and with the instruction and full understanding that such information is to be held confidentially by them in compliance with this section. Anything herein to the contrary notwithstanding, the term "Confidential Information" shall not include any information or

materials that are otherwise within the public domain or any information or materials obtained lawfully from third parties.

B. **HIPAA COMPLIANCE** – Both parties agree to comply with the applicable provisions of the Administrative Simplification section of the Health Insurance Portability and Accountability Act of 1996 as codified at 42 U.S.C. § 1320d through d-8 ("HIPAA"), and the requirements of any regulations promulgated thereunder including without limitation the federal privacy regulations as contained in 45 C.F.R. part 164 (the "Federal Privacy Regulations") and the federal security standards as contained in 45 C.F.R. Part 142 (the "Federal Security Regulations"). Both parties agree not to use or further disclose any protected health information, as defined in 45 C.F.R. 164.504, or individually identifiable health information, as defined in 42 U.S.C. § 1320d (collectively the "Protected Health Information"), concerning a patient other than is permitted by this Agreement and the requirements of HIPAA or regulations promulgated under HIPAA including without limitation the Federal Privacy Regulations and the Federal Security Regulations.

9. **PROHIBITION AGAINST SOLICITATION AND EMPLOYMENT** - With respect to the solicitation and employment of each other's agents, employees, patients and independent contractors, the parties agree as follows:

a. Hospital acknowledges that SHMC has expended and will continue to expend substantial time, effort, and money in the training of its employees, agents and independent contractors who are responsible for providing services under this

Agreement. Hospital therefore agrees that it will not, without the express written consent of SHMC, either directly or indirectly, during the Term of this Agreement and for a period of one (1) year thereafter, employ in any capacity or in any way retain the services of, any current SHMC employee, agent, or independent contractor, or any former employee, agent, or independent contractor of SHMC who was an employee, agent, or independent contractor of SHMC during the Term. Hospital furthermore agrees that it will not, without the express written consent of SHMC, either directly or indirectly, during the Term of this Agreement and for a period of one (1) year thereafter:

i) Solicit, encourage, induce or facilitate, or cause or assist any third party to solicit, encourage, induce or facilitate any officer, employee, agent, or independent contractor of SHMC, whether employed or retained by SHMC currently or at any time during the Term, to terminate or limit his or her relationship with SHMC, and

ii) Solicit, encourage, induce, facilitate, cause or assist any officer, employee, agent, or independent contractor of SHMC, whether employed or retained by SHMC currently or at any time during the Term, to initiate an employment or independent contractor relationship with any organization or individual other than SHMC.

b. SHMC acknowledges that Hospital has expended and will continue to expend substantial time, effort, and money in the training of its employees, agents and independent contractors who are responsible for providing services under this Agreement. SHMC therefore agrees that it will not, without the express written

consent of Hospital, either directly or indirectly, during the Term of this Agreement and for a period of one (1) year thereafter, solicit, encourage, induce or facilitate, or cause or assist any third party to solicit, encourage, induce or facilitate any officer, employee, agent or independent contractor of Hospital, to terminate or limit his or her relationship with Hospital, or to initiate an employment or independent contractor relationship with any organization or individual other than Hospital. SHMC agrees that it will not, without the express written consent of Hospital, either directly or indirectly, during the Term of this Agreement and for a period of one (1) year thereafter, employ in any capacity any current or former employee of Hospital who was an employee of Hospital during the Term.

10. **DISCONTINUATION OF SERVICE** - Upon termination or expiration of this Agreement, Hospital agrees that it will immediately discontinue offering and/or advertising The New Vision Program©. Hospital agrees that Hospital will not itself nor through a third party, advertise, market or offer outreach services for any service of a similar nature for a period of one (1) year after the date of termination or expiration of this Agreement.

11. **IRREPARABLE INJURY** - Acceptance of this Agreement by each of the parties hereto shall constitute such party's acknowledgment that the provisions contained herein, and more specifically in Sections 7(f), 8, 9, 10, and 13 are reasonable and necessary in

order to protect the parties legitimate business interests, and that any violation thereof would result in irreparable injury to the non-breaching party.

12. **REMEDIES** - Either party shall be authorized and entitled to apply to any court of competent jurisdiction, and obtain preliminary and permanent injunctive relief against the other and/or any third party for a violation of any provision contained in Sections 3, 7(f), 8, 9, 10, and 13. All rights and remedies shall be cumulative and in addition to any other rights or remedies to which the parties may be entitled including attorneys fees for the prevailing party.

13. **PREMISES** - Hospital acknowledges that this Agreement provides for the provision of SHMC's Services, including the Confidential Information provided hereunder pertaining to the Stabilization Services and The New Vision Program©, at the Premises only, and that SHMC's Services, and the Confidential Information may not be used by Hospital in establishing and/or managing other similar programs at any other hospitals or medical facilities, regardless of whether such other hospital or medical facility is owned or operated by Hospital or is in any way affiliated with Hospital.

14. **INDEMNIFICATION** -

a. SHMC shall indemnify and hold Hospital and its directors, officers, employees, agents and representatives (collectively, the "Hospital Indemnitees") harmless from and against any and all liability, losses, damages, claims or causes of action, and expenses connected therewith caused, directly or indirectly, by or as a result

of (i) a breach of this Agreement by SHMC, or (ii) any other acts or omissions of SHMC and/or SHMC's employees or agents. Nothing in this Section shall relieve any Hospital Indemnitee from liability proximately caused by such Hospital Indemnitee.

b. Hospital shall indemnify and hold SHMC and its directors, officers, employees, agents and representatives (collectively, the "SHMC Indemnitees") harmless from and against any and all liability, losses, damages, claims, or causes of action, and expenses connected therewith caused, directly or indirectly, by or as a result of (i) a breach of this Agreement by Hospital, or (ii) any other acts or omissions of Hospital or Hospital's employees and/or agents. Nothing in this Section shall relieve any SHMC Indemnitee from liability proximately caused by such SHMC Indemnitee.

15. INSURANCE - SHMC and Hospital each agree to keep and maintain professional and general liability insurance coverage. As a minimum, such insurance shall provide coverage in the amount of One Million Dollars ($1,000,000.00) per occurrence/Three Million Dollars ($3,000,000.00) annual aggregate. If such insurance is maintained on a claims made basis, such insurance shall continue throughout the Term of this Agreement, and upon the termination of this Agreement, or the expiration or cancellation of this insurance, each party shall purchase for itself either (i) an extended reporting endorsement ("tail coverage") for the maximum period that may be purchased from its insurer, (ii) "prior acts" coverage from the new insurer with a retroactive date on or prior to the date SHMC began performing services at Hospital, or (iii) maintain continuous

coverage with the same carrier for the period of the statute of limitations for personal injury. All such insurance shall be kept and maintained at the expense of the respective parties. Each party will provide the other party with a certificate or certificates of insurance certifying the existence of all coverage required hereunder. Each party shall request its insurance carriers to provide the other party with not less than thirty (30) days prior written notice in the event of a material change in the professional or general liability policies of the other party.

16. **NATURE OF RELATIONSHIP** - SHMC and its employees and agents are performing services and duties under this Agreement as independent contractors and not as employees, agents, partners of, or joint ventures with Hospital. Notwithstanding any unanticipated effect of any provision of this Agreement, neither party will knowingly or intentionally conduct himself in a manner as to violate any Federal, State or local law, regulation, ordinance or ruling, including, but not limited to, the prohibition against fraud and abuse in connection with the Medicare and MediCal programs (42 U.S.C. § 1320a-7b).

17. **NON-DELEGABLE POWERS** - It is expressly agreed to by the parties that:

a. Hospital retains responsibility for the day-to-day operations of Stabilization Services. Stabilization Services shall be subject to the same policies, monitoring and oversight by Hospital as is applicable to any Hospital department.

b. Neither party has any authority to hire or fire any employee of the other party;

c. Neither party maintains and/or controls the books and records of the other party;

d. Neither party has any authority to incur any liability on behalf of the other party;

e. SHMC has no authority to adopt or enforce policies regarding the operation of Stabilization Services at the Premises. Ultimate control over patients and supervision of Stabilization Services shall reside in Hospital;

f. Notwithstanding any other provision in this Agreement, Hospital remains responsible for insuring that any service provided pursuant to this Agreement complies with all pertinent Federal, State and local statutes, rules and regulations.

18. **WAIVER AS AFFECTING FUTURE PERFORMANCE** - No delay or omission to exercise any right or remedy accruing to SHMC or Hospital upon any breach or default by the other party hereunder shall impair any such right, or remedy, nor shall it be construed to be a waiver of any such breach or default, or any acquiescence therein, of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring.

19. **CIRCUMSTANCES EXCUSING PERFORMANCE** - This Agreement is subject to force majeure and in the event that either party hereto shall be prevented from the performance of any act required hereunder by strikes, lockouts, labor troubles, inability to procure materials, failure of power, fire, winds, acts of God, restrictive governmental laws or regulations, riots, insurrections, war, or other reason of a like nature not reasonably within the control of the party not performing any of its obligations under the terms of this Agreement (hereafter such party shall be referred to as the "Impaired

Party"), then performance of such obligations shall be excused for the period of nonperformance and the period for performance of any such obligations shall be extended for an equivalent period, provided that the Impaired Party has provided written notice to the other party explaining the reason for such excuse and when possible, the projected period of time of nonperformance to be excused. Such written notice shall be given within seven (7) days after the start of the period of nonperformance, and shall thereafter excuse both parties from performance of obligations under this Agreement for an equivalent period, and the Term shall be extended for such an equivalent period. If such period is expected to exceed, or exceeds one hundred eighty (180) days, the other party may terminate this Agreement upon seven (7) days written notice to the Impaired Party.

20. **MODIFICATION** - Any modification of this Agreement shall not be valid unless the same shall be in writing and signed by both parties.

21. **LAW** - This Agreement shall be governed by and construed according to the laws of the State of California.

22. **HEADINGS** - These headings have been inserted in this Agreement for convenience only and shall not affect the interpretation hereof.

23. **NOTICE** - Any notice between the parties shall be in writing and shall be deemed to have been duly given when delivered by an overnight carrier or delivery service which

requires a signature for delivery, or mailed postage prepaid, certified registered mail, return receipt requested, at the following addresses, or at such other address as either of the parties may furnish to the other in writing for such purpose:

Hospital: Palomar Pomerado Health
15255 Innovation Dr.
San Diego, CA 92128
ATTN: Chief Executive Officer

SHMC: SpecialCare Hospital Management Corporation
514 Earth City Expressway
Ste 310
St. Louis, MO 63045
ATTN: Vice President/Contracts

24. **SURVIVABILITY** - The provisions of Sections 7(f), 8, 9, 10, 13, 14, 15 and any other provisions which by their nature would continue, shall survive the termination of this Agreement and shall be deemed to be material and to have been relied on by the parties.

25. **SEVERABILITY** - If any part of this Agreement is found to be void or unenforceable for any reason, the remainder of this Agreement shall be severable and may be enforced accordingly, unless such severed provision would cause a material decrease in the value of the Agreement to either party.

26. **AUTHORIZATION OF AGREEMENT**: The execution, delivery and performance of this Agreement by both parties has been duly authorized by all necessary corporate action, and is not to the knowledge of the parties hereto, in violation of: (a) any law, rule or regulation of any governmental entity having jurisdiction of either party or (b) the

articles or bylaws of either party or (c) any agreement, covenant or instrument to which it is bound.

27. **BINDING EFFECT** - This Agreement shall inure to the benefit of and shall bind the parties, affiliates of the parties, successors of the parties, heirs, legal representatives, and subsequent owners and managers of the parties. Neither this Agreement nor any right hereunder may be assigned by Hospital without the prior written consent of SHMC. This Agreement shall continue in full force and effect in the event of sale, merger or any transfer of ownership or assets of Hospital for the Term agreed to herein, and such condition shall be made a condition of any such sale, merger or transfer agreement.

28. **NO REFERRAL REQUIREMENT** - The parties acknowledge that nothing contained herein shall be interpreted to require or obligate Hospital to admit or cause the admittance of a patient to Hospital, or to utilize their services. The parties acknowledge that none of the benefits granted the parties under this Agreement is conditioned on any requirement or expectation that the parties make referrals to, be in a position to make or influence referrals to, or otherwise generate business for the other party. The parties further acknowledge that neither party is restricted from referring any service to, or otherwise generating business for any other facility of their choosing.

29. **SOLICITATION, GIFTS AND REFERRALS**: SHMC shall not offer, deliver, receive, provide, or accept, nor shall it permit any of its agents, directors, shareholders, officers, employees, or contractors, or any other person or entity providing services for, on behalf of or in the name of SHMC or Hospital under, pursuant to or in connection

with this Agreement to offer, deliver, receive, provide, or accept any rebate, payment, refund, commission, gift, gratuity, or other compensation, consideration, or inducement for referring or causing others to refer patients, or clients to SHMC or to the Hospital, or any affiliate of either party.

30. **EXCLUSIVITY AND RIGHT OF FIRST REFUSAL**- SHMC agrees that during the Term of this Agreement, PPH shall be the only entity that SHMC shall contract with for the provision of The New Vision Program© within San Diego County, California and the Hospital shall be the only location that SHMC shall offer The New Vision Program© from, within San Diego County, California, except that in the event that if Hospital turns away more than eight (8) documented and appropriate admissions per month in any three (3) consecutive month period, SHMC may notify PPH of such, and SHMC shall be allowed to immediately offer to contract with PPH, to offer and provide The New Vision Program© from any other PPH healthcare facility located within San Diego County, California, under terms similar to those contained within this Agreement (the "Contract Proposal"). PPH shall then have thirty (30) days from the date PPH receives SHMC's Contract Proposal to either sign or decline the Contract Proposal. If PPH declines to sign, or fails to respond to SHMC's Contract Proposal within such thirty (30) day period, then SHMC shall be allowed to contract with any other healthcare provider within San Diego County, California, that is farther away than twenty (20) miles in a radius North from Hospital and fifteen (15) miles in a radius South from Hospital, for provision of The New Vision Program©. A line drawn through the Premises, running East to West shall

serve as the North-South demarcation line between the two abovementioned circles of different radii.

31. **CONTINGENCIES** – This Agreement is made contingent upon the satisfaction of all of the following conditions. Evidence of such satisfaction shall be affirmative written notice from PPH to SHMC removing such contingency(s).

A. Contingent upon PPH notifying SHMC in writing that PPH has obtained approval from PPH's Board of Directors.; and

B. The Effective Date is contingent upon the ability of PPH and the Hospital, with SHMC's assistance, to recruit one or more physicians to provide necessary physician services to Stabilization Services patients. It is acknowledged by both parties that this Section 31(B) is a prerequisite to Hospital offering Stabilization Service. If no acceptable physician is found willing to provide such physician services by ten (10) days prior to the mutually agreed upon Effective Date, then notwithstanding any other provision contained herein, this Agreement may be immediately terminated by Hospital with written notice to SHMC, except for provisions related to the ongoing confidentiality of each party's proprietary information or other continuing provisions contained herein. SHMC, for its part, agrees that it shall not hold PPH or Hospital liable for SHMC's costs and expenses incurred prior to the Effective Date. PPH and Hospital, for their part, agree that SHMC's performance hereunder is impaired during the period prior to the Effective Date, and they agree to immediately release SHMC from further obligation hereunder, should this contingency not be removed.

32. **ENTIRE AGREEMENT** - This Agreement embodies the entire Agreement between the parties hereto and there are no other agreements made or entered in to by either of the parties other than as set forth herein.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year written below.

SPECIALCARE HOSPITAL MANAGEMENT CORPORATION

By:_____
Robert C. McNutt
Chief Executive Officer

Date:_____

PALOMAR POMERADO HEALTH

By:_____
Michael H. Covert
Chief Executive Officer

Date:_____

By:_____
Robert A. Hemker
Chief Financial Officer

"EXHIBIT A"

SHMC'S SERVICES

During the Term, SHMC will supply the following:

I. SERVICE IMPLEMENTATION AND ADMINISTRATION

A. Emergency Medical/Surgical Stabilization Services: SHMC, shall organize, provide administrative services, including recommending policies and procedures, perform clinical audits, provide services to Hospital's business office including reimbursement analysis, quality improvement activities, and intake and discharge planning services in order to organize, administer, and assist in marketing the following service under the name of The New Vision Program© on site at Hospital. Admission and treatment criteria will be recommended by SHMC to Hospital for adoption, however, both parties agree that all admissions to Stabilization Services will only be accepted by Hospital after assessment and diagnosis of need for inpatient treatment is made by a licensed physician on Hospital's staff. It is expressly understood that only a licensed physician may admit patients to Stabilization Services. Patients who are inappropriate for Stabilization Services will be given referrals by SHMC to other appropriate treatment.

B. SHMC shall assist Hospital in the recruitment and screening of necessary Hospital personnel for Stabilization Services, including a Medical Director acceptable to SHMC. This provision is subject to the provisions of Section 31 (C) hereunder.

C. Admissions to Stabilization Services shall conform to applicable Hospital admission criteria including financial policies.

II. ADMINISTRATIVE STAFF PROVIDED BY SHMC (SHMC's STAFF)

A. One (1) full time equivalent ("FTE") Service Coordinator on-site to administer and market the Stabilization Services.

B. Two (2) full time equivalent ("FTE") Intake Coordinators to assist on intake procedures and discharges of Stabilization Services patients (during weekday hours).

C. One (1) part time Intake Coordinator to assist on intake procedures and discharges of Stabilization Services patients for the hours of 8:00 a.m. through 5:00 p.m. each Saturday and Sunday.

III. ORGANIZATIONAL

A. The Service Coordinator shall report to the Vice President of Operations of SHMC and the Administrator of the Hospital or their designee, and shall function as a department head.

B. The Intake Coordinators shall report to the Service Coordinator.

C. All activity conducted by SHMC shall be coordinated with the Hospital's Administrator or their designee.

IV. STAFF ORIENTATION/TRAINING

A. SHMC will provide orientation and information on Stabilization Services to Hospital's department managers.

B. SHMC will provide an initial one (1) day nursing orientation for Stabilization Services. SHMC will provide initial training for a maximum of up to twenty (20) nurses for this orientation. The orientation will be four (4) hours in duration and will commence at 8:00am to 12:00 noon on orientation date.

C. SHMC will provide a job description and training and orientation to the Medical Director.

V. PUBLIC INFORMATION PLAN

A. SHMC and the Service Coordinator will develop a Public Information Plan, which will serve as the basis for the public awareness and marketing campaign for The New Vision Program©.

B. The Public Information Plan will include but not be limited to the following:
   1. Establish Media Campaign
   2. Develop Radio and Television Commercials upon approval of Hospital
   3. Arrange for the placement and purchase of Media Spots, T.V., Radio, Print (At Hospital's expense, to be paid from the budget established in "Exhibit B")
   4. Develop Public Service Announcements
   5. Develop Brochures
   6. Develop Posters
   7. Develop Presentations

C. The Hospital agrees to utilize SHMC's existing marketing materials (brochures, TV ads, etc.) for advertising and promoting The New Vision Program©.

VI. PROGRAM MATERIALS

A. SHMC will, at SHMC's sole expense, be responsible for:

1. Providing Patient Information Admission Packet.
2. Printing of business cards, brochures, literature, etc.
3. Printing of invitation and announcements for educational programs and seminars.
4. Printing of personalized stationary, if desired.
5. Writing public relations and referral letters.
6. Writing of press releases.
7. Writing of radio and television spots.
8. Addressing and mailing of invitations, announcements and general correspondence.
9. Hosting of groups for seminars and workshops.
10. Providing camera ready media and production of television advertising spots to promote The New Vision Program© (except that the costs of placement of advertising and media time buys shall be paid by Hospital).
11. Negotiation of arrangements, and placement of purchases of media and advertising spots to promote The New Vision Program©.

"EXHIBIT B"

HOSPITAL'S SERVICES

Hospital agrees that, at its sole expense, it shall provide:

I. PERSONNEL/STAFFING FOR STABILIZATION SERVICES - The Hospital will expand medical stabilization services for patients suffering incapacitation from drug or alcohol use or acute drug withdrawal, and associated medical complications.

A. Nursing: Hospital will provide appropriately qualified licensed nursing personnel, acceptable to SHMC, in order to staff Stabilization Services and provide nursing services as required by State law and as required by JCAHO accreditation standards.

B. Medical Director: Hospital shall provide a part time Medical Director to provide services to Hospital as defined in the Job Description for Medical Director, provided by SHMC.

C. Hospital shall be responsible for all costs and expenses associated with the hiring and continued employment of the above personnel.

D. Training to SHMC staff: Hospital shall provide training and orientation to SHMC's Staff on all Hospital Policies and Procedures which SHMC's Staff shall be accountable to, or governed by, with the exception of policies specifically related to employment benefits of Hospital.

II. MEDICAL AND SUPPORT SERVICES

A. Hospital will provide for the care and treatment of Stabilization Services patients, furnish all ancillary Hospital facilities and support services for Stabilization Services and its patients, i.e. admitting, discharging, laboratory testing, billing and collecting of patient accounts, providing food service, laundry and linen; television service; housekeeping; transportation of potential patients to the Premises, or from the Premises, etc., as would be required for, or provided to any other patient within Hospital.

B. It remains the responsibility of the Business Office to verify benefits and coverage and to pre-certify Stabilization Services patients prior to admission. Admissions to Stabilization Services shall conform to applicable Hospital admission criteria including financial policies.

III. FACILITIES, LICENSURE, CERTIFICATION

A. Hospital will continuously maintain in force and in good standing, any and all licensure(s), certification(s) and facilities, without interruption, which are required by law or JCAHO to be maintained by Hospital in order for SHMC to provide SHMC's Stabilization Services, and The New Vision Program© for the Term of this Agreement.

B. Hospital will utilize Hospital's Medicare and MediCal provider number for the Stabilization Services and all required state licensing applications which are now, or in the future may become necessary for Stabilization Services and /or The New Vision Program©. Hospital may receive reimbursement for Stabilization Services patients through the Medicare, MediCal, CHAMPUS, or other third party reimbursement program, and understands that it should be familiar with and comply with all rules and regulations and requirements for documentation, billing and cost reporting.

C. Beginning not later than two (2) weeks after the date Hospital signs this Agreement and for the remainder of the Term, Hospital shall provide SHMC with:

1) Furnished office space with utilities on Premises, with a minimum of 200 square feet
2) Two (2) desks
3) Two (2) telephones, with one (1) dedicated direct line, one (1) rollover line, one (1) dedicated fax line
4) Two (2) lockable file cabinets
5) High Speed Internet access via local area network

SHMC covenants that this space will not be utilized by SHMC or it's staff for any non-program related use not contemplated herein.

IV. MONTHLY OPERATIONS BUDGET

Hospital will allocate up to Two Thousand Five Hundred ($2,500.00) Dollars per month for media costs for advertising the Stabilization Services, as agreed upon in advance by the parties.

V. STAFF ORIENTATION/TRAINING

Hospital will provide SHMC with proper facilities (i.e., Conference Room/Education Room) to do initial one (1) day nursing orientation for Stabilization Services. Hospital shall be responsible for Hospital personnel costs for training and orientation sessions hereunder.
Hospital will supply coffee and refreshments for this orientation.

VI. PROFIT AND LOSS STATEMENT

The following format shall be used by the parties in determining whether the P&L's described in Section 5(b) herein show a loss. Such P&L's shall cover calendar quarter periods. Costs included in the P&L's shall be only those incremental costs directly attributable to the care and treatment of Stabilization Services patients without regard to Hospital's overhead or administrative and general costs.

A. Net Patient Revenue (shall be defined as the sum of the following):
   1. Stabilization Services Inpatient Revenue

B. Operating Expenses (shall be defined as the sum of the following):
   1. Nursing Salary & Fringes (only for direct cost of patient care for Stabilization Services patients)
   2. Medical Director Fee
   3. Indirect Costs:
      a. Dietary
      b. Medical Records
      c. Admitting
      d. Accounting
      e. Patient Billing
      f. Laundry/Linen
      g. Costs of patient transportation (if not reimbursed by a third party payer).
   4. Pharmacy Costs for Stabilization Services patient medications
   5. Ancillary Costs
   6. Actual Expenses of Monthly Operations Budget
   7. Monthly Fee to SHMC

C. Profit or Loss shall be determined by subtracting the Operating Expenses from the Net Patient Revenue.

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EXHIBIT C

Income and Cost Projection (Attached)

THE NEW VISION PROGRAM©

[redacted]

INCOME AND COST PROJECTION

FOR

POMERADO HOSPITAL
POWAY, CALIFORNIA

August 25, 2005

INCOME AND COST PROJECTION SUMMARY

DATA BASED ON REIMBURSEMENT FOR POMERADO LOCATION

Number Of Patients ADC

	3.50	5.50	7.50
Revenue			
Average revenue per patient day including ancillaries:	$1,246.56	$1,243.62	$1,245.81
Cost			
Average variable costs per patient day:	$948.31	$791.70	$643.61
Profit Contribution			
Profit contribution per patient day:	$298.25	$451.92	$602.20
Profit contribution per 30 day month:	$31,316.25	$74,566.80	$135,495.00
Profit contribution per year:	**$375,795.00**	**$894,801.60**	**$1,625,940.00**

POMERADO HOSPITAL'S PROJECTED REVENUE

Average Revenue Estimates

Average Admissions Per Month	Admissions by Payor/DRG and Revenue[1]				
35 Admissions	1 Medi-Cal*	x	$3,825.00	=	$3,825.00
	4 Mcare (521)**	x	$3,893.00	=	$15,572.00
	3 Mcare (523)**	x	$2,164.00	=	$6,492.00
	21 Commercial***	x	$4,000.00	=	$84,000.00
	6 Cash/Self****	x	$3,500.00	=	$21,000.00
					$130,889.00

$130,889.00 ÷ 35 = $3,739.69 ÷ 3 ALOS = $1,246.56 avg rev per patient day

35 x 3 ÷ 30 = 3.50 A.D.C.

55 Admissions	1.6 Medi-Cal*	x	$3,825.00	=	$6,120.00
	6 Mcare (521)**	x	$3,893.00	=	$23,358.00
	5 Mcare (523)**	x	$2,164.00	=	$10,820.00
	33 Commercial***	x	$4,000.00		$132,000.00
	9.4 Cash/Self****	x	$3,500.00	=	$32,900.00
					$205,198.00

$205,198.00 ÷ 55 = $3,730.87 ÷ 3 ALOS = $1,243.62 avg rev per patient day

55 x 3 ÷ 30 = 5.50 A.D.C.

75 Admissions	2 Medi-Cal*	x	$3,825.00	=	$7,650.00
	8.5 Mcare (521)**	x	$3,893.00	=	$33,090.50
	6.5 Mcare (523)**	x	$2,164.00	=	$14,066.00
	45 Commercial***	x	$4,000.00		$180,000.00
	13 Cash/Self****	x	$3,500.00	=	$45,500.00
					$280,306.50

$280,306.50 ÷ 75 = $3,737.42 ÷ 3 ALOS = $1,245.81 avg rev per patient day

75 x 3 ÷ 30 = 7.50 A.D.C.

* Medi-Cal rate based on $1,275.00 per diem with a 3 day LOS.

** Medicare rate based on Pomerado Hospital Data on a DRG per discharge amount.

*** Commercial rate based on $1,333.33 per diem with a 3 day LOS. (California Average Rate)
Note: Hospital provided a comercial per diem of $1,800.00. We took a more conservative projection here.

**** Cash/Self rate based on 100% up-front payment

PROJECTED VARIABLE COSTS PER PATIENT DAY

	Number Of Patients A.D.C.		
	3.50	5.50	7.50
Direct			
Staff [1]	Included	Included	Included
Nursing [2]	321.46	306.85	225.02
Ancillary [3]	37.10	37.10	37.10
Management Fee [4]	366.67	233.33	171.11
Total Direct Cost	**$725.23**	**$577.28**	**$433.23**
Indirect			
Dietary	4.34	4.34	4.34
Medical Records	25.21	25.21	25.21
Admitting	23.29	23.29	23.29
Accounting	12.69	12.69	12.69
Patient Billing	21.79	21.79	21.79
Laundry/Linen	11.95	11.95	11.95
Advertising	23.81	15.15	11.11
Pharmacy	100.00	100.00	100.00
Total Indirect Cost	**$223.08**	**$214.42**	**$210.38**
Total Variable Costs	**$948.31**	**$791.70**	**$643.61**

[1] Supplied by SHMC, included in Management Fee

[2] See Nursing Payroll Projections

[3] See Cost Worksheet

[4] See Cost Worksheet
If Medical Director stipend, $2,000/month = $65.76 per patient day

PROJECTED PAYROLL COSTS FOR NURSING

# Pts	First Shift R.N.	First Shift Nurs. Asst.	First Shift Secretary	Second Shift R.N.	Second Shift Nurs. Asst.	Third Shift R.N.	Third Shift Nurs. Asst.
1	0	0	0	0	0	0	0
2	0	0	0	0	0	0	0
3	1	0	0	1	0	1	0
4	1	0	0	1	0	1	0
5	1.5	0	0	1.5	0	1.5	0
6	1.5	0	0	1.5	0	1.5	0
7	1.5	0	0	1.5	0	1.5	0
8	1.5	0	0	1.5	0	1.5	0
9	1.5	0	0	1.5	0	1.5	0
10	1.5	0	0	1.5	0	1.5	0
11	1.5	1	0	1.5	1	1.5	1
12	2	1	0	2	1	2	1
13	2	1	0	2	1	2	1
14	2	1.5	0	2	1.5	2	1.5
15	2	1.5	0	2	1.5	2	1.5
16	2	1.5	0	2	1.5	2	1.5

	First Shift	Second Shift	Third Shift
R.N.	$35.84	$35.84	$36.47
Nurs. Asst.	$13.94	$13.50	$15.27
Secretary	$15.84	$16.10	$16.68

TOTAL DAILY NURSING COSTS AT SELECTED ADC LEVELS

3.50	ADC	=	$1,125.12	Total Daily Cost
5.50	ADC	=	$1,687.68	Total Daily Cost
7.50	ADC	=	$1,687.68	Total Daily Cost

AVERAGE COST PER PATIENT DAY AT SELECTED ADC LEVELS

$1,125.12	per day	÷	3.50	pts	=	$321.46	per patient day
$1,687.68	per day	÷	5.50	pts	=	$306.85	per patient day
$1,687.68	per day	÷	7.50	pts	=	$225.02	per patient day

Benefits = 25% of salary

Differential = $2.10 per hour - - 3 p.m. - 11 p.m.
$3.35 pr hour - - 11 p.m. - 7 a.m.

COST WORKSHEET

DIRECT COST ANALYSIS

Staff - Supplied by SHMC

Nursing - Estimated

Ancillary Cost -	Based on Costs for 7 Tests/3 ALOS	=	$37.10
Management Fee -	The Monthly Fee = $38,500.00		
$38,500.00	÷ 30 days ÷ 3.50 ADC	=	$366.67
$38,500.00	÷ 30 days ÷ 5.50 ADC	=	$233.33
$38,500.00	÷ 30 days ÷ 7.50 ADC	=	$171.11

INDIRECT COST ANALYSIS

Estimated

Dietary - Per day raw food cost per patient	=	$4.34
Medical Records -Per day cost per patient	=	$25.21
Admitting and Business Office -Per day cost per patient	=	$23.29
Accounting - Per day cost per patient	=	$12.69
Patient Billing - Per day cost per patient	=	$21.79
Laundry/Linen -Per day cost per patient	=	$11.95
Advertising- $2,500.00 = $83.33 /DAY		
$83.33 ÷ 3.50	=	$23.81
$83.33 ÷ 5.50	=	$15.15
$83.33 ÷ 7.50	=	$11.11
Pharmacy - Per day cost per patient	=	$100.00

Medical Director- Bill for H&P's + daily rounds

Ancillary Services

	CHARGE	COST
U/A	$45.00	$6.20
CBC	$100.95	$10.81
RPR	$58.90	$7.40
CHEM 23	$264.75	$50.00
EKG	$84.25	$4.00
DRUG SCREEN	$150.00	$20.00
ETOH-BLOOD	$65.95	$12.90
TOTAL CHARGES	$769.80	
TOTAL COSTS		$111.31
COST PER DAY-3 DAYS		$37.10

MEDICAL STAFF SERVICES

PALOMAR POMERADO HEALTH

November 29, 2005

TO: Board of Directors

BOARD MEETING DATE: December 12, 2005

FROM: James S. Otoshi, M.D., Chief of Staff
PMC Medical Staff Executive Committee

SUBJECT: Medical Staff Credentialing Recommendations

PALOMAR MEDICAL CENTER

I. Provisional Appointment (12/12/2005 – 11/30/2007)
Emily S. Benson, M.D., Orthopaedic Surgery
Evan S. Gold, DMD, M.D., Oral and Maxillofacial Surgery
Ramesh K. Gopi, M.D., Diagnostic Radiology
Jayanthi Magesh, M.D., Internal Medicine
Marc A. Olivier, M.D., Internal Medicine
Charles J. Wray, M.D., Pulmonary Disease (includes PCCC)

II. Advancement from Provisional to Active Category
Parmjit M. Singh, M.D., Internal Medicine (12/12/2005 – 10/31/2006) (includes PCCC)

III. Additional Privileges
Edward R. Curley, M.D., Pediatrics
- Category III Pediatric Privileges
- Pediatric Diagnoses – Sepsis (Rule Out or Documented)

G. Douglas Moir, M.D., Cardiology
- Deep Sedation/Analgesia

Raymond Y. Sung, M.D., Diagnostic Radiology
- Moderate Sedation

Jose G. Veliz, M.D., Pain Management
- Stellate Ganglion Blocks

IV. Leave of Absence
Alberto Chavira, M.D., Cardiology (effective 11/22/2005 – 10/31/2007)

V. Voluntary Resignations/Withdrawal of Membership
David M. Kaegi, M.D., Neonatology (effective 12/12/2005)
David E. LaRue, D.O., Family/General Practice (Effective 11/15/2005 after three month suspension for nonpayment of dues)
Priscilla M. Madsen, M.D., Pulmonary Disease/Critical Care (Effective 11/15/2005 after three month suspension for nonpayment of dues)
Azhar Majeed, M.D., Internal Medicine (Effective 11/18/2005) (Includes PCCC)
Gilbert E. Rodriguez, M.D., Family Practice (Effective 10/28/2005)

VI. Allied Health Professional Appointment (12/12/2005 – 11/30/2007)
Alice C. Cresci, R.N., Clinical Research Coordinator; Sponsor: Dr. Schechter
Carrie Jaffe, Ph.D., Clinical Psychologist; Sponsor: N/A

VII. Allied Health Professional Resignation/Withdrawal

Jennifer G. Burrows, R.N., Clinical Research Coordinator; Sponsor: Escondido Pulmonary Medical Group
Gwendolyn T. Cline, R.N., Clinical Research Coordinator, Sponsor: Escondido Cardiology Associates
Cara L. Hills, N.P., Nurse Practitioner, Sponsor: Drs. Meyer, Greenwald, Nowak.
Carlos J. Pensinger, CCP, Perfusionist; Sponsors: Drs. Reichman, Rosenburg, Young and Bulkin.

VIII. Reappointments Effective 01/01/2006 – 12/31/2007

Philip C. Bosch, M.D. (Includes PCCC)	Urology	Dept of Surgery	Active
Donald B. Fuller, M.D.	Radiation Oncology	Dept of Radiology	Consulting
Radharani Gattu, M.D.	Family Practice	Dept of Family Practice	Active
Bill C. Joswig, M.D.	Cardiology	Dept of Medicine	Courtesy
John S. Kennedy, M.D.	OB/GYN	Dept of OB/GYN	Active
Joseph M. Leeba, M.D.	Diagnostic Radiology	Dept of Radiology	Active
Rabbe R. Lindstrom, M.D.	Diagnostic Radiology	Dept of Radiology	Active
Gina J. Mansy, M.D.	Radiation Oncology	Dept of Radiology	Consulting
William D. McKown, M.D.	Pediatrics	Dept of Pediatrics	Active
Arvin L. Mirow, M.D. (Includes PCCC)	Psychiatry	Dept of Medicine	Courtesy
Kenneth H. Morris, M.D.	Pediatrics	Dept of Pediatrics	Active
Richard J. Price, M.D.	Radiology	Dept of Radiology	Active
Edward C. Reno, M.D.	Pediatrics	Dept of Pediatrics	Active
Andrew C. Schiffman, M.D.	Psychiatry	Dept of Medicine	Active
Jeffrey S. Schiffman, M.D. (Includes PCCC)	Orthopaedic Surgery	Dept of Ortho/Rehab	Active
Michael J. Shack, M.D.	Neurology	Dept of Medicine	Active

IX. Allied Health Professional Reappointment Effective 12/12/2005 – 11/30/2007

Wayne Inancsi, P.A., Physician Assistant; Sponsors: Drs. Heikoff, Joseph, Nyberg, Simon, Howell, Arambulo, LaFond, Birnbaum, Han. (Includes PCCC)

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
December, 2005

PERSONAL INFORMATION

Provider Name & Title	Emily S. Benson, M.D.
PPHS Facilities	Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Orthopaedic Surgery Not Board Certified

ORGANIZATIONAL NAME

Name	Jeffrey Smith, M.D.

EDUCATION/AFFILIATION INFORMATION

Medical Education Information	Boston University, Boston, MA FROM: 09/03/1996 TO: 05/21/2000 Doctor of Medicine Degree
Internship Information	University of Massachusetts Medical Center, Worchester General Surgery From: 07/01/2000 To: 06/30/2001 General Surgery Internship
Residency Information	University of Massachusetts Medical Center Orthopaedics From: 07/01/2001 To: 06/30/2005 Orthopaedic Surgery Residency
Fellowship Information	Jeffrey M. Smith, M.D. Orthopaedic Trauma From: 08/01/2005 To: 07/31/2006 Orthopaedic Trauma
Current Affiliation Information	University of California, San Diego

PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
December, 2005

PERSONAL INFORMATION

Provider Name & Title	James M. Fait, M.D.
PPHS Facilities	Pomerado Hospital

SPECIALTIES/BOARD CERTIFICATION

Specialties	Orthopaedic Surgery Board Certified - 2005

ORGANIZATIONAL NAME

Name	Kaiser Permanente

EDUCATION/AFFILIATION INFORMATION

Medical Education Information	University of California, Davis FROM: 09/21/1992 TO: 06/14/1996
Internship Information	University of California, Davis General Surgery From: 06/25/1996 To: 06/30/1997
Residency Information	University of California, Davis Orthopaedics From: 07/01/1997 To: 06/30/2001
Fellowship Information	Scripps Clinic and Research Foundation Orthopaedics From: 08/01/2001 To: 07/31/2002 Lower Extremity
Current Affiliation Information	Sharp Coronado Hospital Kaiser Permanente, San Diego

PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
December, 2005

PERSONAL INFORMATION

Provider Name & Title	Kris Ghosh, M.D.
PPHS Facilities	Escondido Surgery Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Obstetrics and Gynecology Board Certified - 2001

ORGANIZATIONAL NAME

Name	Escondido OB/GYN

EDUCATION/AFFILIATION INFORMATION

Medical Education Information	Indiana University School of Medicine, Indianapolis FROM: 08/29/1988 TO: 05/09/1993 Doctor of Medicine Degree
Internship Information	University of California, Los Angeles Obstetrics/Gynecology From: 07/01/1993 To: 06/30/1994
Residency Information	University of California, Los Angeles Obstetrics/Gynecology From: 07/01/1994 To: 06/30/1997 University of Texas M.D. Anderson Cancer Center, Houston Gynecologic Oncology From: 08/01/1995 To: 08/31/1995 Felix Rutledge Fellow
Fellowship Information	University of Minnesota, Minneapolis Gynecologic Oncology From: 07/01/1997 To: 06/30/2000
Current Affiliation Information	Alvarado Hospital and Medical Center Sharp Memorial Hospital, Chula Vista Scripps Mercy Hospital Palomar Medical Center Pomerado Hospital Sharp Grossmont Hospital Scripps Memorial Hospital, Encinitas Scripps Green Hospital Scripps Memorial Hospital, La Jolla Sharp Mary Birch Hospital Sharp Memorial Hospital

PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
December, 2005

PERSONAL INFORMATION

Provider Name & Title	Evan S. Gold, DMD, MD
PPHS Facilities	Escondido Surgery Center Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Surgery, Oral & Maxillofacial Board Certified - 2005

ORGANIZATIONAL NAME

Name	North County Oral & Facial Surgery Center

EDUCATION/AFFILIATION INFORMATION

Medical Education Information	Case Western Reserve University, Cleveland, Ohio FROM: 08/10/1998 TO: 05/20/2001 University of Pennsylvania, DMD, Philadelphia FROM: 08/29/1994 TO: 05/18/1998
Internship Information	University Hospitals of Cleveland, Ohio General Surgery From: 07/01/2001 To: 06/30/2002
Residency Information	Case Western Reserve University, Cleveland, Ohio Oral & Maxillofacial Surgery From: 07/01/1998 To: 06/30/2003
Fellowship Information	N/A
Current Affiliation Information	Scripps Memorial Hospital, La Jolla

PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
December, 2005

PERSONAL INFORMATION

Provider Name & Title	Ramesh K. Gopi, M.D.
PPHS Facilities	Pomerado Hospital Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Diagnostic Radiology Board Certified - 2004

ORGANIZATIONAL NAME

Name	Stat Radiology Medical Corp.

EDUCATION/AFFILIATION INFORMATION

Medical Education Information	University of California, Irvine School of Medicine FROM: 09/05/1995 TO: 06/19/1999
Internship Information	Kaiser Foundation Hospital, Los Angeles Internal Medicine From: 07/01/1999 To: 06/30/2000
Residency Information	University of California, Los Angeles Radiology, Diagnostic Imaging From: 07/01/2000 To: 06/30/2004
Fellowship Information	University of California, San Diego Magnetic Resonance Imaging From: 07/01/2004 To: 06/30/2005
Current Affiliation Information	Scripps Memorial Hospital, La Jolla Scripps Mercy Hospital Scripps Memorial, Chula Vista Scripps Memorial Hospital, Encinitas Scripps Green Hospital

PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
December, 2005

PERSONAL INFORMATION

Provider Name & Title	William F. Luetzow, M.D.
PPHS Facilities	Pomerado Hospital

SPECIALTIES/BOARD CERTIFICATION

Specialties	Orthopaedic Surgery Board Certified - 1996

ORGANIZATIONAL NAME

Name	Kaiser Permanente

EDUCATION/AFFILIATION INFORMATION

Medical Education Information	University of California, Los Angeles FROM: 09/01/1983 TO: 06/12/1987 Doctor of Medicine Degree
Internship Information	N/A
Residency Information	University of California, Los Angeles Orthopaedics From: 06/24/1987 To: 06/30/1993
Fellowship Information	Kaiser Permanente, San Diego Orthopaedics From: 08/01/1993 To: 08/31/1994 S.D. Knee & Shoulder Fellowship
Current Affiliation Information	Sharp Coronado Hospital Kaiser Permanente, San Diego

PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
December, 2005

PERSONAL INFORMATION

Provider Name & Title	Jayanthi Magesh, M.D.
PPHS Facilities	Pomerado Hospital Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Internal Medicine Board Certified - 2005

ORGANIZATIONAL NAME

Name	Neighborhood Healthcare

EDUCATION/AFFILIATION INFORMATION

Medical Education Information	Kilpauk Medical College, India FROM: 10/08/1992 TO: 01/24/1998
Internship Information	Oakwood Hospital and Medical Center-Dearborn, MI Internal Medicine From: 07/01/2002 To: 06/30/2003
Residency Information	University of California, San Francisco (Fresno) Internal Medicine From: 07/01/2003 To: 08/04/2005
Fellowship Information	N/A
Current Affiliation Information	None

PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
December, 2005

PERSONAL INFORMATION

Provider Name & Title	Dennis M. Mamaril, M.D.
PPHS Facilities	Pomerado Hospital

SPECIALTIES/BOARD CERTIFICATION

Specialties	Internal Medicine Board Certified - 2003

ORGANIZATIONAL NAME

Name	Centre For Health Care

EDUCATION/AFFILIATION INFORMATION

Medical Education Information	New York Medical College, Valhalla, NY FROM: 08/05/1996 TO: 05/19/2000 Doctor of Medicine Degree
Internship Information	North Shore University Hospital, Manhasset, NY Internal Medicine From: 07/01/2000 To: 06/30/2001
Residency Information	North Shore University Hospital Internal Medicine From: 07/01/2001 To: 06/30/2003
Fellowship Information	N/A
Current Affiliation Information	None

PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
December, 2005

PERSONAL INFORMATION

Provider Name & Title	Marc A. Olivier, M.D.
PPHS Facilities	Pomerado Hospital Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Internal Medicine Board Certified - 2004

ORGANIZATIONAL NAME

Name	Neighborhood Healthcare

EDUCATION/AFFILIATION INFORMATION

Medical Education Information	St. George's University School of Medicine, West Indies FROM: 01/13/1997 TO: 05/18/2001 Doctor of Medicine Degree
Internship Information	Alameda County Medical Center, Highland Campus, San Leandro, CA Internal Medicine From: 07/01/2001 To: 06/30/2002
Residency Information	Alameda County Medical Center, Highland Campus Internal Medicine From: 07/01/2002 To: 06/30/2004
Fellowship Information	University of California, San Diego Nephrology From: 07/01/2004 To: / / Expected Date of Completion: 06/30/2006
Current Affiliation Information	None

PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
December, 2005

PERSONAL INFORMATION

Provider Name & Title	Joseph M. Schwarz, M.D.
PPHS Facilities	Escondido Surgery Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Internal Medicine Board Certified - 1985 Gastroenterology Board Certified - 1989

ORGANIZATIONAL NAME

Name	Kaiser Permanente

EDUCATION/AFFILIATION INFORMATION

Medical Education Information	Georgetown University School of Medicine, Washington, DC FROM: 08/01/1977 TO: 05/30/1981 Doctor of Medicine Degree
Internship Information	Naval Medical Center, San Diego Medicine From: 07/01/1981 To: 06/30/1982 Medicine Internship
Residency Information	Naval Medical Center, San Diego Internal Medicine From: 07/01/1983 To: 06/30/1985 Internal Medicine Residency
Fellowship Information	Naval Medical Center, San Diego Gastroenterology From: 07/01/1987 To: 06/30/1989 Gastroenterology Fellowship
Current Affiliation Information	Palomar Medical Center Kaiser Permanente, San Diego

PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
December, 2005

PERSONAL INFORMATION

Provider Name & Title	Lynn A. Shipman, M.D.
PPHS Facilities	Pomerado Hospital

SPECIALTIES/BOARD CERTIFICATION

Specialties	Dermatology Board Certified - 1984

ORGANIZATIONAL NAME

Name	Bernardo Dermatology Medical Group

EDUCATION/AFFILIATION INFORMATION

Medical Education Information	George Washington University, Washington, DC FROM: 09/02/1975 TO: 05/25/1979 Doctor of Medicine Degree
Internship Information	Naval Hospital, Bethesda, MD Medicine From: 07/01/1979 To: 06/30/1980 National Naval Medical Center
Residency Information	Naval Medical Center, San Diego Dermatology From: 08/10/1981 To: 08/09/1984 Dermatology Residency
Fellowship Information	New England Medical Center, Boston, MA Dermatology From: 07/01/1987 To: 06/30/1988 (Micrographic Surgery)
Current Affiliation Information	Veterans Administration, San Diego

PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
December, 2005

PERSONAL INFORMATION

Provider Name & Title	Scott D. Shoemaker, M.D.
PPHS Facilities	Pomerado Hospital

SPECIALTIES/BOARD CERTIFICATION

Specialties	Orthopaedic Surgery Board Certified - 2001

ORGANIZATIONAL NAME

Name	Kaiser Permanente

EDUCATION/AFFILIATION INFORMATION

Medical Education Information	UCSD School of Medicine FROM: 09/01/1988 TO: 06/07/1992 Doctor of Medicine Degree
Internship Information	University of California, San Diego General Surgery From: 06/24/1992 To: 06/27/1993
Residency Information	University of California, San Diego Orthopaedics From: 07/01/1993 To: 06/30/1998 Orthopaedic Surgery
Fellowship Information	Texas Scottish Rite Hospital for Children, Dallas, TX Pediatric Orthopaedics From: 08/01/1998 To: 07/31/1999
Current Affiliation Information	Sharp Coronado Hospital Kaiser Permanente, San Diego

PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
December, 2005

PERSONAL INFORMATION

Provider Name & Title	Matthew E. Sitzer, M.D.
PPHS Facilities	Escondido Surgery Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Gastroenterology Internal Medicine – Board Certified - 1989

ORGANIZATIONAL NAME

Name	Kaiser Permanente

EDUCATION/AFFILIATION INFORMATION

Medical Education Information	UCSD School of Medicine, MD FROM: 09/01/1982 TO: 05/01/1986 Doctor of Medicine Degree
Internship Information	University of California, Los Angeles Internal Medicine From: 06/24/1986 To: 06/30/1987 Internal Medicine Internship
Residency Information	University of California, Los Angeles Internal Medicine From: 07/01/1987 To: 06/30/1989 Internal Medicine Residency
Fellowship Information	University of California, Los Angeles Gastroenterology From: 07/01/1989 To: 06/30/1991 Gastroenterology Fellowship
Current Affiliation Information	Palomar Medical Center Kaiser Permanente, San Diego

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PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
December, 2005

PERSONAL INFORMATION

Provider Name & Title	Gang Tong, M.D.
PPHS Facilities	Pomerado Hospital

SPECIALTIES/BOARD CERTIFICATION

Specialties	Neurology Board Certified - 2001

ORGANIZATIONAL NAME

Name	Southwest Neurology Med Group

EDUCATION/AFFILIATION INFORMATION

Medical Education Information	The Second Military Medical University, Shanghai, China FROM: 09/01/1978 TO: 08/27/1983 Doctor of Medicine Degree
Internship Information	N/A
Residency Information	University of California, San Francisco (Fresno) Internal Medicine From: 06/24/1996 To: 06/22/1997 Preliminary Medicine University of California, San Diego Neurology From: 07/01/1997 To: 06/30/2000 Neurology Residency
Fellowship Information	University of California, San Diego Neurology From: 07/01/2000 To: 06/30/2002 Geriatric Neurology
Current Affiliation Information	Palomar Medical Center University of California, San Diego Veterans Administration, San Diego

PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
December, 2005

PERSONAL INFORMATION

Provider Name & Title	Charles Jackson Wray, M.D.
PPHS Facilities	Pomerado Hospital Palomar Medical Center Palomar Continuing Care Center Villa Pomerado

SPECIALTIES/BOARD CERTIFICATION

Specialties	Internal Medicine Board Certified - 2003

ORGANIZATIONAL NAME

Name	Escondido Pulmonary Medical Group

EDUCATION/AFFILIATION INFORMATION

Medical Education Information	Vanderbilt University, Nashville, TN FROM: 08/22/1996 TO: 05/12/2000 Doctor of Medicine Degree
Internship Information	Vanderbilt University Hospital Internal Medicine From: 07/01/2000 To: 06/30/2001
Residency Information	Vanderbilt University Hospital Internal Medicine From: 07/01/2001 To: 06/30/2003 Vanderbilt University Hospital Internal Medicine From: 07/01/2003 To: 06/30/2004 Chief Resident
Fellowship Information	University of California, San Diego Pulmonary/Critical Care From: 07/01/2004 To: / / Expected Date of Completion: 06/30/07
Current Affiliation Information	Kindred Hospital

PALOMAR POMERADO HEALTH
ALLIED HEALTH PROFESSIONAL
APPOINTMENTS
FOR DECEMBER 2005

NAME:	**Alice C. Cresci, R.N.**	
SPECIALTY:	Registered Nurse/Clinical Research Coordinator	
SERVICES:	Registered Nurse for Clinical Research Studies for Roger Schechter, M.D.	
TRAINING:	Palomar College, San Marcos, CA	
	Associate of Arts Degree in Nursing	09/01/73-06/08/76
PRACTICE:	Registered Nurse Clinical Research Study Coordinator for Roger Schechter, M.D.	05/01/05-Present
	RN/Case Manager, Grace Care Management, Ramona, CA	06/01/04-Present
	Registered Nurse, E.R., Pomerado Hospital, Poway, CA	02/01/01-Present
	RN Case Manager, Home Recovery, Farmville, VA	1992-1994
	RN, Southside Hospital, Farmville, VA	1992-1994
	RN, Providence Hospital, Oakland, CA	1988-1992
	Instructor, Health Sciences Division, Chabot College, Hayward, CA	1987-1989
	Owner, QA and Education for EMS Providers, Oakland, CA	1987-1989
	Pre-Hospital Care Coordinator, Instructor, Alameda County EMS Agency, Oakland, CA	1986-1989
	RN, Tahoe Forest Hospital, Truckee, CA	1979-1986
	RN, St. Mary's Hospital, Reno, CA	1977-1980
	RN, Palomar Hospital, Escondido	1976-1977
SPONSORS:	Roger Schechter, M.D.,	
CERTIFICATION:	None	
FACILITIES:	Palomar Medical Center and Pomerado Hospital	

NAME:	**Paul Heath**	
SPECIALTY:	Orthopaedic Technician	
SERVICES:	Orthopaedic Technician for the Kaiser Orthopaedic Surgeons at Pomerado Hospital	
TRAINING:	U.S. Army, Brooke Army Medical Center, Ft. Sam Houston, TX	
	Orthopaedic Specialist Course	10/01/76-12/1/76
PRACTICE:	Orthopaedic Technician, Kaiser Permanente, San Diego, CA	06/06/80-Present
	Orthopaedic/Medical Specialist,Womack Army Hospital, Orthopaedic Clinic, Ft. Bragg, N.C.	01/01/77-05/11/80
SPONSORS:	Kaiser Orthopaedic Surgeons at Pomerado Hospital	
CERTIFICATION:	None	
FACILITY:	Pomerado Hospital	

PALOMAR POMERADO HEALTH
ALLIED HEALTH PROFESSIONAL
APPOINTMENTS
FOR DECEMBER 2005
(continued)

NAME:	**Carrie Jaffe, PhD**	
SPECIALITY:	Psychologist	
SERVICES:	Psychologist	
TRAINING:	Ohio University, Athens, OH	
	A.A.S. Mental Health Technology	09/01/80-06/01/83
	Ohio University, Athens, OH	
	Bachelor of Arts – Psychology/Mental Health Technology	09/01/80-06/01/84
	Georgia State University, Atlanta, GA	
	Master of Arts – Clinical Psychology	09/01/88-06/15/91
	Georgia State University, Atlanta, GA	
	Doctor of Philosophy – Clinical Psychology	09/01/88-06/20/98
PRACTICE:	Clinical Psychologist, private practice, San Diego, CA	04/01/05-Present
	Clinical Psychologist, private practice, Roseville, CA	02/01/03-04/01/05
	Psychology Assistant, Fall Creek Counseling Associates, Roseville,CA	05/01/01-02/28/03
	Interim Program Director, Xanthos, Alameda, CA	03/12/01-06/08/01
	Program Director, Project Eden/Horizon Services, Hayward, CA	09/01/99-03/31/01
	Assistant Program Director, Bonita House, Oakland, CA	01/05/98-08/18/99
	Workshop Coordinator, Kids Turn, San Francisco, CA	12/01/97-5/31/01
	Addiction Therapist, Dept of VA, Oakland, CA	09/01/97-10/31/97
	Psychology Intern, Dept of VA, Martinez/Oakland, CA	09/01/96-08/31/97
	Psychometrist, Rebecca More, PhD, Atlanta, GA	01/01/95-12/31/96
	Therapist, Atlanta Area Psychological Associates, Atlanta, GA	1993-12/31/1996
CERTIFICATION:	None	
FACILITY:	Palomar Medical Center	

NAME:	**Patrick J. Lehmann, P.A.-C.**	
SPECIALTY:	Physician Assistant	
SERVICES:	Physician Assistant services for Kaiser Orthopaedic Surgeons at Pomerado Hospital	
TRAINING:	University of Wisconsin, Madison, WI	
	Bachelor of Science – Nursing	09/03/85-08/23/92
	University of Wisconsin, Madison, WI	
	Bachelor of Science - Physician Assistant	09/01/92-05/22/94
PRACTICE:	Physician Assistant, Dept. of Orthopaedics, Kaiser Permanente, San Diego, CA	10/15/00-Present
	Physician Assistant, Orthopaedic Surgery, University of Wisconsin Health/Physicians Plus, Madison, WI	06/29/94-10/02/00
	Emergency Medical Technician, City of Fitchburg, WI	01/01/91-12/31/97
SPONSORS:	Kaiser Orthopaedic Surgeons at Pomerado Hospital	
CERTIFICATION:	National Commission on Certification of Physician Assistants	1994
FACILITY:	Pomerado Hospital	

PALOMAR POMERADO HEALTH
ALLIED HEALTH PROFESSIONAL
APPOINTMENTS
FOR DECEMBER 2005
(continued)

NAME:	**Steven A. Manes, O.T.-C**	
SPECIALTY:	Orthopedic Technologist	
SERVICES:	Orthopaedic Technician for the Kaiser Orthopaedic Surgeons at Pomerado Hospital	
TRAINING:	Grossmont College/S.D. County ROP Program, La Mesa/San Diego, CA	
	Orthopaedic Technician Certificate	08/26/91-07/30/92
PRACTICE:	Orthopaedic Technician, Kaiser Permanente, San Diego, CA	07/14/03-Present
	Orthopaedic Technician, Sutter Davis Hospital, Davis, CA	05/03/01-12/06/03
	Orthopaedic Coordinator, Sutter Medical Foundation, Sacramento,CA	01/22/01-06/18/03
	Orthopaedic Technician, Woodland Healthcare, Woodland, CA	10/25/99-01/17/01
	Orthopaedic Technician, James McClurg, M.D., San Diego, CA	08/01/94-10/31/99
	Orthopaedic Technician, Readi-Care Medical Center, San Diego, CA	06/01/92-94
SPONSORS:	Kaiser Orthopaedic Surgeons at Pomerado Hospital	
CERTIFICATION:	National Board for Certification of Orthopaedic Technologists	1998
FACILITY:	Pomerado Hospital	

PALOMAR MEDICAL CENTER

November 29, 2005

TO: Board of Directors

MEETING DATE: December 12, 2005

FROM: James S. Otoshi, M.D., Chief of Staff
PMC Medical Staff Executive Committee

SUBJECT: Medical Staff Bylaws, Rules and Regulations

The following revision to the Medical Staff Bylaws, Rules and Regulations was approved for forwarding to the Board of Directors. In accordance with Article 18.3, this is an amendment based on Federal Regulations and does not require a vote of the Active Members of the Medical Staff.

Rationale
The Code of Federal Regulations , Title 42, Section 482.22 requires that a physical examination and medical history be done no more than seven days before or forty-eight hours after an admission for each patient.

Modifications

Rules and Regulations:

3.5 If a complete history has been recorded and a physical examination performed prior to the patient's admission to the Hospital, a reasonable, durable, legible copy of these reports may be used in the patient's Hospital medical record in lieu of the admission history and report of physical examination described in Section 1.5 of these Rules and Regulations, provided the history and physical examination were performed by a Member not more than ~~thirty (30)~~ seven (7) days prior for the same medical condition. In such circumstances, an interval admission note that includes all additions to the history and any subsequent changes in physical findings must always be documented in the medical record within twenty-four (24) hours of admission.

MEDICAL STAFF SERVICES

PALOMAR POMERADO HEALTH

DATE: November 29, 2005

MEMO TO: Palomar Pomerado Health
Board of Directors

FROM: Marvin Levenson, M.D.
Medical Director, Escondido Surgery Center

RE: **Medical Staff Recommendations**

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

Appointment:

- Kris Ghosh, M.D., Gynecologic Oncology/OB/GYN (Effective 12/12/2005 – 10/31/2006)
- Evan S. Gold, DMD, M.D., Oral and Maxillofacial Surgery (Effective 12/12/2005 – 11/30/2007)
- Joseph M. Schwarz, M.D., Gastroenterology (Effective 12/12/2005 – 09/30/2007)
- Matthew E. Sitzer, M.D., Gastroenterology (Effective 12/12/2005 – 10/31/2007)

Allied Health Professional Withdrawal:

- Pamela J. Koenig, RNFA, Registered Nurse First Assist; Sponsor: Dr. Cloyd.

Reappointment:
Effective 01/01/2006 – 12/31/2007

- Philip C. Bosch, M.D., Urology
- Jeffrey S. Schiffman, M.D., Orthopaedic Surgery

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 Policies and Procedures 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
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

PALOMAR
POMERADO
HEALTH

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

DATE: November 29, 2005
TO: Board of Directors - December 12, 2005 Meeting
FROM: Paul E. Tornambe, M.D., Chief of Staff, Pomerado Hospital Medical Staff
SUBJECT: Medical Staff Credentials Recommendations – **November 2005:**

Provisional Appointments:
James M. Fait, M.D. – Orthopedic Surgery
Ramesh Gopi, M.D. - Radiology
William F. Luetzow, M.D. – Orthopedic Surgery
Jayanthi Magesh, M.D. – Internal Medicine
Dennis M. Mamaril, M.D. – Internal Medicine
Marc A. Olivier, M.D. – Internal Medicine
Lynn A. Shipman, M.D. - Dermatology
Scott D. Shoemaker, M.D. – Orthopedic Surgery
Gang Tong, M.D. – Neurology
Charles J. Wray, M.D. - Pulmonary

Biennial Reappointments: Effective through 12/31/2007
Philip C. Bosch, M.D. – Courtesy – Surgery (Villa also)
Donald B. Fuller, M.D. – Consulting - Radiology
Lynn B. Herring, M.D. – Active - Pediatrics
William P. Hummel, M.D. – Affiliate – OB/GYN
Bill C. Joswig, M.D. – Active – Medicine (Villa also)
Ruth A. Larson, M.D. – Affiliate - Medicine
Joseph M. Leeba, M.D. – Active - Radiology
Rabbe R. Lindstrom, M.D. – Active - Radiology
Gina J. Mansy, M.D. – Consulting - Radiology
Arvin L. Mirow, M.D. – Affiliate - Psychology
Richard J. Price, M.D. – Active - Radiology
Stephen W. Shewmake, M.D. – Affiliate - Dermatology

Additional Privileges:
Raymond Y. Sung, M.D. – Moderate Sedation Privileges

Advancements:
Duane M. Buringrud, M.D. – Courtesy
Rae D. Felthouse, M.D. - Active

Allied Health Reappointments:
Wayne Inancsi, P.A. – Sponsors Kaiser Physicians

Allied Health Appointments:
Alice C. Cresci, R.N – Sponsor – Dr. Schechter.
Paul S. Heath,II,O.T. – Sponsors Kaiser Physicians
Patrick J. Lehmann, P.A.-C – Sponsors Kaiser Physicians
Steven A. Manes, O.T.-C – Sponsors Kaiser Physicians

Leave of Absence 11/29/05 – 11/28/07
Zehui Tan, M.D. – Internal Medicine

Resignations:
John R. Hannig, M.D. – OB/GYN
Artemio G. Pagdan, M.D. – Neurology

Allied Health Resignation:
Monique Fogata Evans – O.T.C.
Tom H. Frank, P.A.-C

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.

ELECTION OF OFFICERS – BOARD OF DIRECTORS for CALENDAR YEAR 2006

TO: Board of Directors

DATE: December 12, 2005

FROM: Christine Meaney, Board Assistant

BACKGROUND:

The PPH Bylaws require that the Board of Directors elect officers at the annual, organizational meeting which is held in December of each year. The one possible exception is that the Board has the option of either electing the Treasurer or appointing the Chairperson of the Finance Committee to fill that position at such time as committee appointments are made.

The term of each office is one year. **The offices are assumed on January 1 of the ensuing year.**

The following are the offices along with a summary of prescribed duties:

1. ***Chairperson.*** *The Chairperson shall be the principal officer of the District and the Board and shall preside at all meetings of the Board. The Chairperson shall appoint all Board committee members and chairpersons and shall perform all duties incidental to the office and such other duties as may be prescribed by the Board from time to time.*

   In the event of a vacancy in the office of Chairperson, the Board may elect a new Chairperson.

2. ***Vice Chairperson.*** *In the absence of the Chairperson, the Vice Chairperson shall perform the duties of the Chairperson.*

3. ***Secretary.*** *The Secretary shall provide for the keeping of minutes of meetings of the Board. The Secretary shall give or cause to be given appropriate notices in accordance with the bylaws or as required by law and shall act as custodian of District records and reports and of the District's seal.*

4. ***Treasurer.*** *The Treasurer shall serve at the pleasure of the Board. The Treasurer shall be charged with the safekeeping and disbursal of the funds in the treasury of the District. The Treasurer may be the Chairperson of the Finance Committee.*

ESTABLISHING DATES OF REGULAR BOARD MEETINGS for CALENDAR YEAR 2006

TO: Board of Directors

DATE: December 12, 2005

FROM: Christine Meaney, Board Assistant

SUBJECT: **RESOLUTION TO ESTABLISH DATES OF REGULAR BOARD MEETINGS FOR CALENDAR YEAR 2006 and TENTATIVE BOARD CALENDAR**

BACKGROUND: Consistent with legal requirements to establish dates, times and locations of Regular Board Meetings prior to the pertinent calendar year, a resolution has been prepared for your approval. That resolution is predicated on meetings scheduled on the second Monday of each month, excepting those Mondays which fall on holidays observed by PPH and significant religious holidays.

A tentative working calendar has also been prepared and attached to indicate various events and holidays which may impact your personal calendars and conflict with Board Meetings.

The calendar presented represents no conflicts with either PPH observed holidays nor with major religious holidays. The following is noted either as an exception or for your information/consideration:

- **January** — Due to the New Year holiday office closure anticipated as Monday, January 2, and the New Year holiday period, consideration may be given to holding the January meeting on the 16th, rather than the 9th. This would allow more time for Board packet preparation.
- **November** — The Governance Institute Annual Chair/CEO Conference will be held from November 9-11, 2006 at La Quinta, California. This should not present a problem for the proposed November 13 Regular Board Meeting.

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RESOLUTION NO. 12.12.05 (01) - 27

RESOLUTION OF THE BOARD OF DIRECTORS OF PALOMAR POMERADO HEALTH ESTABLISHING 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;

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

2006 BOARD MEETING SCHEDULE

January ~~16~~ 9	Pomerado	**July 10**	Pomerado
February 13	PMC	**August 14**	PMC
March 13	Pomerado	**September 11**	Pomerado
April 10	PMC	**October 9**	PMC
May 8	Pomerado	**November 13**	Pomerado
June 12	PMC	**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 December 12, 2005, by the following vote:

AYES:

NOES:

ABSENT:

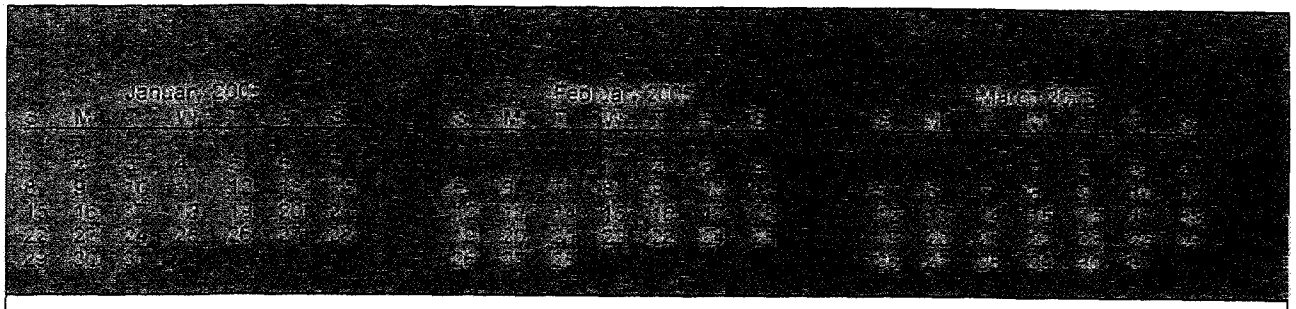
ABSTAINING:

DATED: December 12, 2005

APPROVED: ***ATTESTED:***

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

Nancy H. Scofield, Secretary
Board of Directors



Sunday,January 01,2006
09:00am 09:15am HANUKKAH BEGINS 12/25 - 1/1

Monday,January 02,2006
08.00am 08:15am (PPH OFFICES CLOSED DUE TO SUN 1/1 NEW Y

Monday,January 09,2006
06:30pm 09:00pm time??/Regular Bd Mtg or Jan 16??
Location: POM E

Tuesday,January 10,2006
10:00am 12:00pm GOV CTTEE (cdm)
Location: PMC CAFE CONF ROOM

Thursday,January 12,2006
12:00pm 01:30pm Audit Committee mtg djhc ext 5580
Location: POM

Friday,January 13,2006
11:30am 01:30pm MTHLY BD EDCNL SESSION
Location: tbd

Wednesday,January 18,2006
06:00pm 09:00pm ??Potential Ann CEO Eval Jan 18/19/25??
Location: ??

Thursday,January 19,2006
06.00pm 09:00pm ??Potential Ann CEO Eval Jan 18/19/25??
Location: ??

Tuesday,January 24,2006
12:00pm 01:30pm Health Development Board Meeting (tlhd f
Location PMC GRAYBILL
02:00pm 04.00pm OPEN HOUSE/N Cty Hlth Develop (Jim Micke
Location: PMC Graybill
05:30pm 08:00pm Board Finance Committee (tlhd for rah4 5
Location: POM E

Wednesday,January 25,2006
06:00pm 09:00pm ??Potential Ann CEO Eval Jan 18/19/25??
Location: ??

Thursday,January 26,2006
05:00pm 06:30pm PPHF BD MTG
Location: POMERADO

Tuesday,January 31,2006
08:00am 05:00pm (FYI--2nd INNOVATION WEEK Jan 31-Feb 3 M
Location: tbd

Wednesday,February 01,2006
08:00am 05:00pm (FYI--2nd INNOVATION WEEK Jan 31-Feb 3 M
Location: tbd

Thursday,February 02,2006
08:00am 05:00pm (FYI--2nd INNOVATION WEEK Jan 31-Feb 3 M
Location: tbd

Friday,February 03,2006
08:00am 05:00pm (FYI--2nd INNOVATION WEEK Jan 31-Feb 3 M
Location: tbd

Friday,February 10,2006
11:30am 01:30pm MTHLY BD EDCNL SESSION
Location. tbd

Monday,February 20,2006
08:00am 08:15am PRESIDENT'S DAY PUBLIC HOLIDAY

Friday,March 10,2006
11:30am 01:30pm MTHLY BD EDCNL SESSION
Location: tbd

Monday,March 20,2006
11:30am 01:45pm Facilities & Grounds Board Meeting mlg7/
Location: PMC - Graybill

Thursday,March 23,2006
05·00pm 06:30pm PPHF BD MTG
Location: PMC

Thursday,April 13,2006
08.00am 08:15am PASSOVER

Friday,April 14,2006
08·00am 08:15am GOOD FRIDAY
11:30am 01:30pm MTHLY BD EDCNL SESSION
Location: tbd

Sunday,April 16,2006
08:00am 08 15am EASTER

Tuesday,April 18,2006
12:00pm 01:30pm Health Dev BOD Regular Quarterly Mtg (rm
Location: Innovation Rm A

Tuesday,April 25,2006
12:00pm 01:30pm Health Development Board Meeting (tihd f
Location: POM Cafe

Sunday,April 30,2006
08:00am 08:15am AHA ANNUAL MTG
Location. Washington, DC/Hilto

Monday,May 01,2006
08:00am 08:15am AHA ANNUAL MTG
Location. Washington, DC/Hilto

Tuesday,May 02,2006
08:00am 08:15am AHA ANNUAL MTG
Location: Washington, DC/Hilto

Wednesday,May 03,2006
08:00am 08:15am AHA ANNUAL MTG
Location: Washington, DC/Hilto

Friday,May 12,2006
11:30am 01:30pm MTHLY BD EDCNL SESSION
Location: tbd

Thursday,May 25,2006
05:00pm 06:30pm PPHF BD ANN MTG
Location: TBD (OFF SITE)

Monday,May 29,2006
08:00am 08:15am MEMORIAL DAY PUBLIC HOLIDAY

Friday,June 09,2006
11:30am 01:30pm MTHLY BD EDCNL SESSION
Location: tbd

Tuesday,June 13,2006
12:30pm 01:30pm Health Development Board - Annual Organi
Location. Innovation Conf Rm A

Monday,June 19,2006
11:30am 01:45pm Facilities & Grounds Board Mtg mlg7/x419
Location: POM Conf Rm D

Tuesday,June 27,2006
12.00pm 01:30pm Health Development Board - Annual Organi
Location. POM Cafe

Monday,July 03,2006
08:00am 08:15am (??SP BD MTG JULY/AUG for 6-MTH BD SELF

Tuesday,July 04,2006
08:00am 08:15am 4th July INDEPENDENCE DAY

Friday,July 14,2006
11:30am 01:30pm MTHLY BD EDCNL SESSION
Location: tbd

Wednesday,July 19,2006
08:00am 08:15am CHA ANNUAL MTG Jul 19/20/21
Location: Ohai, CA

Thursday,July 20,2006
08:00am 08:15am CHA ANNUAL MTG Jul 19/20/21
Location: Ohai, CA

Friday,July 21,2006
08:00am 08:15am CHA ANNUAL MTG Jul 19/20/21
Location: Ohai, CA

Friday,August 11,2006
11:30am 01:30pm MTHLY BD EDCNL SESSION
Location: tbd

Monday,September 04,2006
08:00am 08:15am LABOR DAY PUBLIC HOLIDAY

Friday,September 08,2006
11:30am 01:30pm MTHLY BD EDCNL SESSION
Location: tbd

Monday,September 18,2006
11:30am 01:45pm Facilities & Grounds Board Mtg mlg7/x419
Location: PMC - Graybill

Wednesday,September 20,2006
12:00pm 02:00pm Rehab Week celebration

Saturday,September 23,2006
08:00am 08:15am ROSH HASHANAH

Wednesday,September 27,2006
08:00am 08:15am ACHD ANNUAL MTG Sept 27/28/29
Location: Sheraton SD Marina

Thursday,September 28,2006
08:00am 08:15am ACHD ANNUAL MTG Sept 27/28/29
Location: Sheraton SD Marina

Friday,September 29,2006
08:00am 08:15am ACHD ANNUAL MTG Sept 27/28/29
Location: Sheraton SD Marina

Monday,October 02,2006
08:00am 08:15am YOM KIPPUR

Friday,October 13,2006
11:30am 01:30pm MTHLY BD EDCNL SESSION
Location: tbd

Thursday,November 02,2006
11:00am 03.00pm HASD&IC ANNUAL MTG
Location: tbd

Tuesday,November 07,2006
08:00am 08.15am ELECTION DAY

Thursday,November 09,2006
08:00am 08:15am ANN GOV INST BD CHAIR/CEO CONF.
Location: La Quinta, CA

Friday,November 10,2006
08:00am 08:15am ANN GOV INST BD CHAIR/CEO CONF.
Location: La Quinta, CA
11:30am 01:30pm MTHLY BD EDCNL SESSION
Location: tbd

Saturday,November 11,2006
08:00am 08:15am ANN GOV INST BD CHAIR/CEO CONF.
Location: La Quinta, CA

Thursday,November 23,2006
08:00am 08:15am THANKSGIVING DAY

Friday,December 08,2006
11 30am 01:30pm MTHLY BD EDCNL SESSION
Location: tbd

Saturday,December 16,2006
08:00am 08:15am HANUKKAH

Monday,December 18,2006
11:30am 01:45pm Facilities & Grounds Board Mtg mlg7/x419
Location: POM - Conf Rm D

Monday,December 25,2006
08:00am 08:15am CHRISTMAS DAY

Fall TV Campaign

TO: PPH Board of Directors

MEETING DATE: December 12, 2005

FROM: Community Relations Committee on November 18, 2005

BY: Gustavo Freiderichsen

BACKGROUND: Janet Gennoe and Tami Weigold showed the committee the two commercials that are now airing on various channels and time slots. They shared that Gustavo Friederichsen and his team spent one week with a video crew to gather footage for the commercials. They spoke of the focus of PPH's new marketing slogan, "Specializing in You." Using "Specializing in You as its theme, each ad tells a different story. The first gets back to the basics with the mission of PPH as its focus, while the second one features a "day in the life" of a physician. The new ads began airing in early November and will continue through April 2006 on KFMB, KGTV, KNSD, KSWB, KUSI and XETV during morning, afternoon and prime time programming. Gustavo also asked that they acknowledge all who made the filming and production a success.

BUDGET IMPACT: None

STAFF RECOMMENDATION: For information purposes only

COMMITTEE RECOMMENDATION:

Information: X

New Website Homepage Look and Feel

TO: PPH Board of Directors

MEETING DATE: December 12, 2005

FROM: Community Relations Committee on November 18, 2005

BY: Gustavo Freiderichsen

BACKGROUND: Janet Gennoe and Tami Weigold shared with the committee ~~ideas for the new website~~ home page and where we will go as far as updating the site. They stressed that the information would need to be collected from various departments in order to keep the information as updated and current as possible. Tami explained what long process it is to build a new site as it takes a lot to get all the information loaded but that once we have the base, things will move more quickly.

BUDGET IMPACT: None

STAFF RECOMMENDATION: For information purposes only

COMMITTEE RECOMMENDATION:

Information: X

Unity Awards Overview

TO: PPH Board of Directors

MEETING DATE: December 12, 2005

FROM: Community Relations Committee on November 18, 2005

BY: Gustavo Freiderichsen

BACKGROUND: Tina Pope reported on the 2005 Unity Awards celebration, which took place on November 4th, 2005 at the California Center for the Arts in Escondido. The awards were designed to honor those who have given of their time, talent and energy to improve the health of our communities. They are held every two years. This years Master of Ceremonies was Fred Blankenship. Tina stated that she was very happy to report that the event was attended with many community officials and that the event came in under budget. Those present at the meeting who attended the event complimented that the video that was shown set the tone for the event as it was very nicely done. Tina thanked everyone involved for their help and said that it was a tremendous effort between both Marketing and Community Outreach.

BUDGET IMPACT: None

STAFF RECOMMENDATION: For information purposes only

COMMITTEE RECOMMENDATION:

Information: X

Cancer Conference Overview

TO: PPH Board of Directors

MEETING DATE: December 12, 2005

FROM: Community Relations Committee on November 18, 2005

BY: Gustavo Freiderichsen

BACKGROUND: Janet Gennoe reported on the PPH Cancer Conference titled "Collaborating Against Cancer"that the HealthSource sponsored on Thursday the 27th of October at the Carmel Mountain Ranch Country Club. She was happy to report that the overall scores taken from the evaluations were at 4.85 on a 5.0 scale. She shared that it was the first Cancer Conference PPH has held in this format. The conference included exhibits, health screenings and an "Ask-the-Oncologist session, a physician panel discussion and a physician question and answer session. Janet shared that although we didn't start out getting the response we were hoping for as far as attendees, we ended up having to close the conference registration after adjusting our count to a lesser number.

BUDGET IMPACT: None

STAFF RECOMMENDATION: For information purposes only

COMMITTEE RECOMMENDATION:

Information: X

Monthly Reports

TO: PPH Board of Directors

MEETING DATE: December 12, 2005

FROM: Community Relations Committee on November 18, 2005

BY: Gustavo Friederichsen

BACKGROUND: Monthly reports were respectively presented to the Community Relations Committee. Included were Marketing/Public Relations, HealthSource , and Community Outreach for the months of September and October, 2005.

BUDGET IMPACT: None

STAFF RECOMMENDATION: For information purposes only

COMMITTEE RECOMMENDATION:

Information: X

Physician Loyalty Survey Results

TO: PPH Board of Directors

DATE: December 12, 2005

FROM: Strategic Planning Committee on November 15, 2005

BY: Gerald Bracht, Chief Administrative Officer – PMC

BACKGROUND: Palomar Pomerado Health conducts an annual Physician Loyalty Survey, and Gerald Bracht presented the results of the 2005 Physician Loyalty Survey. The Gallup Organization randomly interviewed a total of 200 PPH physicians in April and May of 2005, with 131 physicians who identified PMC as the hospital with which they most closely associated, and 69 who identified most closely with POM. The metrics of physician engagement asked three overall questions, aimed at loyalty and engagement, as follows:

- Overall, how satisfied are you with (PMC/POM)?
- How likely are you to continue to choose (PMC/POM)?
- How likely are you to recommend (PMC/POM) to an associate?

An additional 8 questions were designed to rate the following attitudes: Passion, Pride, Integrity, and Confidence. Three degrees of engagement were discussed relative to the following categories and their corresponding percentages of PPH physicians in 2005:

- Engaged – loyal, psychologically committed (44%)
- Not Engaged – productive but not as psychologically connected (26%)
- Actively Disengaged – physically present but psychologically absent; unhappy and insists on sharing their unhappiness with others (30%)

There was some indication of polarization going on at PPH over the past 3 years, as the middle group (Not Engaged) is coming down from their fences and choosing sides.

Individual Mean Scores Trended for PPH indicated that PPH scores above the 50th percentile of the Gallup's database of 50 hospitals, and below the 75th percentile of the same database. Gallup was asked to further compare PPH's ranking by physician specialties. Michael Covert noted that PPH's physician scores went down in areas that we made a conscious effort to touch in a direct way (radiology, OB/Gyn, gastroenterology, orthopedics, anesthesia, and psychology).

Gerald also presented the Functional Drivers of Physician Engagement, in order to determine loyalty and engagement, and an overall rank ordering of correlation. He also presented the results of the Changes in the Physician Functional Driver Mean Scores.

Gerald then presented the next steps to take in creating engaged physicians:

- Drill down by hospital – challenge with small numbers
- Focus on key specialties as mentioned previously: radiology, OB/Gyn, gastroenterology,

Physician Loyalty Survey Results

orthopedics, anesthesia, and psychology

- Focus on key questions
- Share results with staff – departments can see how they are doing
- Increased rounding by all EMT - and communicating feedback

BUDGET IMPACT: None

STAFF RECOMMENDATION: For information purposes only.

COMMITTEE RECOMMENDATION:

Information: X

Clinical Research Program Development

TO: PPH Board of Directors

DATE: December 12, 2005

FROM: Strategic Planning Committee on November 15, 2005

BY: Dr. Richard Just

BACKGROUND: In response to a request from the Board of Directors, Dr. Massone, former Interim Chief Quality Officer, and Dr. Just, Chair Investigational Review Committee, previously assessed PPH's situation regarding clinical research participation, and developed a plan for enhancing the Research Development Program. They presented their findings and recommendations to this Committee at the May 2005 meeting.

Dr. Just presented an update on Clinical Research Program Development at the November 15 Committee meeting. Dr. Just noted that he was very excited after the May 2005 Committee meeting, and that he felt a lot of support for the Clinical Research Program Development. He let us know that the program has not really had a structure or goals decided on yet. He provided a proposed list of Research Program Medical Director Responsibilities as follows:

1. Promote the ongoing completion of at least 24 clinical trials a year
2. Monitor activity of physicians and staff, and produce a monthly research report
3. Develop a program of evaluation for devices, technology and systems in partnership with corporate sponsors
4. Build a formal relationship with UCSD, College of Medicine, and other institutions, in completion of research studies in all areas where we have educational relationships
5. Lead a Research Advisory Board, that shall establish a plan of growth and development of a research agenda for PPH that can be adopted and funded from various sources, particularly external funding
6. Serve as a member of the IRC and Board QRC, non-voting member
7. Organize a Health Development Committee to actively pursue grants
8. Assist PPH Administration with preparation for, and conduct of, any inspections and on-site surveys of hospitals conducted by governmental agencies, accrediting organizations, or payors contracting with the hospitals
9. Assist in preparing a budget for PPH Research Program
10. Hire a full-time research coordinator, which will ease Wendy Smith's responsibilities

Dr. Just indicated that he is willing to serve as the Medical Director for the Research Program.

Bruce Krider suggested that PPH look for money from pharmaceutical companies, and relate the programs to PPH Centers of Excellence. He emphasized not asking the public for money.

Michael Covert said that the research program has to be something that interests people, and has

Clinical Research Program Development

to have financial backing. The key to do this is the Research Associates; we need to keep on track, and explore the existing technologies out there; however, we need to have a program without an "institute" title.

Dr. Just mentioned that he has an upcoming meeting with UCSF to discuss a viable program, whereby they will share information with us at no cost.

BUDGET IMPACT: None

STAFF RECOMMENDATION: For information purposes only.

COMMITTEE RECOMMENDATION:

Information: X

Employee Wellness Initiative

TO: PPH Board of Directors

DATE: December 12, 2005

FROM: Strategic Planning Committee on November 15, 2005

BY: Dr. Donald Herip, Medical Director, PPH Corporate Health

BACKGROUND: Led by Dr. Alan Larson, PPH is exploring becoming an innovator in wellness care delivery for our employees. In concert with the newly formed Medical Advisory Council, Corporate Health will explore a complement of wellness-related care that will promote better medical outcomes for our employees.

Healthcare benefits and medical care are becoming a significant part of the cost of doing business. Employers need to start taking a more active role and consider alternatives. In 2004, Dr. Donald Herip joined the PPH family as the Medical Director of Corporate Health Services and accepted the opportunity to begin employee Health Risk Assessments in support of wellness initiatives. In July 2005, Corporate Health began health-risk assessments (HRA). These appraisals will assist highly targeted intervention strategies designed to reduce treatment cost, improve health, and promote productivity among PPH employees. PPH currently offers employees the following: Immunizations, including Hepatitis B, MMR, Td, influenza; Tuberculosis screening, blood pressure screening, smoking cessation class, healthy choices, and chair massages.

In addition, Corporate Health collected proactive data regarding our PMC employees during their annual exams. From this data, the following focus is recommended in FY'06:

- Weight management
- Work/life balance
- Diabetic management

The employee **Health Risk Assessment (HRA)** consists of a personal wellness profile for employees that consists of the following:

- 39 question survey (HRA)
- Complete computer bubble sheet
- Answer sheet scanned
- Personal wellness report generated
- On-line version of HRA, as well as a Spanish version

The **HRA** also consists of clinical data, including the following:
Blood pressure
Cholesterol

- Total cholesterol
- LDL

- HDL

Triglycerides
Glucose

- Diabetes screening

The HRA report will identify risk factors that need improvement, lab results that require further attention, health improvement opportunities, and will generate a personal wellness profile report. There are also many intangible benefits of having an HRA report, such as:

- Increasing employee morale
- Increasing employee retention
- Attracting higher quality employees
- Improving employee satisfaction
- Enhancing our corporate image

The next steps for PPH to take are divided into short-term and long-term steps:

Short term

- Expand Health Risk Assessment program
- Establish clinician list for speakers bureau
- Establish clinician list for referral panel
- Establish a wellness coordinator position

Long term

- Corporate and community programs
- Establish employee incentive program
- Academic collaboration
- Cost benefit analysis
- Wellness Center opportunities

BUDGET IMPACT: Unknown

STAFF RECOMMENDATION: For information purposes only.

COMMITTEE RECOMMENDATION:

Information **X**

Governance Committee
Board Policies Review/Update

TO: Board of Directors

DATE: December 12, 2005

FROM: Christine Meaney for Jim Neal, Director,
Corporate Compliance and Integrity

BACKGROUND: In order to bring PPH policies up to date, and to continue review on a tri-annual basis, revisions to all policies were being made. Those policies that had been reviewed/updated were being brought to Governance Committee on a regular basis to ensure this was accomplished. Following Governance Committee and Board approval, policies will be input online into the Lucidoc program.

The latest segment for review had been distributed by Mr. Jim Neal, Compliance Officer, to the Committee Board members requesting initial input. During the Committee meeting it was agreed to defer this segment of Policies to allow further time for review, bringing back to the next meeting.

With regard to Committee Position Descriptions, Director Krider felt these should be standing agenda items for each Committee with an annual report to the Board, and a Rotational Agenda Schedule for each Committee.

BUDGET IMPACT: None

STAFF RECOMMENDATION: Approval *(deferred)*

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION: Following discussion, the Governance Committee deferred this item to the next meeting.

Motion:

Individual Action:

Information: **X**

Required Time:

Filename u\my docs\gov cttee\nov 05 gov cttee\gov cttee narr policies:cdm

Governance Committee
Draft Succession Planning Policy

TO: Board of Directors

DATE: December 12, 2005

FROM: Michael Covert, CEO

BY: Christine Meaney, Secretary to Governance Committee

BACKGROUND: Following prior request of the Committee, a draft Succession Planning Policy prepared by the CEO together with CEO/Skills/Development Plan was presented to the Committee for consideration.

BUDGET IMPACT: None

STAFF RECOMMENDATION: Discussion/Potential action

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION: Following Governance Committee discussion and input, the CEO would incorporate these into the draft policy and bring back to a future meeting.

Motion:

Individual Action:

Information: **X**

Filename. u\my docs\gov cttee\sept 05 gov cttee\gov cttee narr succession plg policy:cdm

Governance Committee
Potential Draft Sale of PPH Assets Policy

TO: Board of Directors

DATE: December 12, 2005

FROM: Michael Covert, CEO

BY: Christine Meaney, Secretary to Governance Committee

BACKGROUND: Following prior request of the Committee, a potential draft Sale of PPH Assets Policy was discussed. It was suggested that a joint meeting with the Finance Committee might be held to discuss the matter as a group, and that a draft of such a policy would be available through the CEO and the Compliance Officer.

BUDGET IMPACT: None

STAFF RECOMMENDATION: Discussion

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information: X

Required Time:

Filename. u\my docs\gov cttee\sept 05 gov cttee\gov cttee narr pph assets sale policy cdm

Governance Committee
Potential PPHF Representation on PPH Board Committees

TO: Board of Directors

DATE: December 12, 2005

FROM: Michael Covert, CEO

BY: Christine Meaney, Secretary to Governance Committee

BACKGROUND: In follow up to the possibility of PPHF representation on PPH Board Committees, a verbal update was provided by the CEO. It was understood that the Community Relations Committee had indicated interest, but that each committee would likely review the matter on a case by case basis.

BUDGET IMPACT: None

STAFF RECOMMENDATION: Information

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information: X

Required Time:

Filename u\my docs\gov cttee\sept 05 gov cttee\gov cttee narr pphf repn on pph cttees:cdm

Governance Committee
Legislative/Governmental Relations Update

TO: Board of Directors

DATE: December 12, 2005

FROM: Michael Covert

BY: Christine Meaney, Secretary to Governance Committee

BACKGROUND: So that regular information may be provided to this Committee, Michael Covert, on behalf of Gustavo Friederichsen, Chief Marketing and Communication Officer, provided an update on legislative/governmental issues. Mr. Covert would be attending a meeting of the CHA Board that would include discussions on upcoming Government initiatives.

BUDGET IMPACT: None

STAFF RECOMMENDATION: Informational

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information: **X**

Required Time:

Filename: u\my docs\gov cttee\sept 05 gov cttee\gov cttee narr gov rels:cdm

Governance Committee
Summation for Calendar Year 2005

TO: Board of Directors

DATE: December 12, 2005

FROM: Christine Meaney, Secretary to Governance Committee

BACKGROUND: Director Greer, Chairperson of the Governance Committee, provided a brief summation of the Committee's accomplishments during this calendar year noting she was very proud of what had been achieved, particularly the updating and ongoing revision of our Board Policies and continued legislative review, thanking all involved.

BUDGET IMPACT: None

STAFF RECOMMENDATION:

COMMITTEE QUESTIONS:

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

Filename. u\my docs\gov cttee\nov 05 gov cttee\gov cttee summation:cdm

Governance Committee
Tentative Date/Time/Location of Next Meeting

TO: Board of Directors

DATE: December 12, 2005

FROM: Christine Meaney, Secretary to Governance Committee

BACKGROUND: The Committee was requested to determine a tentative date/time/location for the next Governance Committee meeting, bearing in mind that January, 2006 may see a change in Committee membership. However, so as to obtain a calendared date at this point, the next meeting was suggested for:
Tuesday, January 10, 2006 from 10 am – Noon at PMC Café Conference Room for which that meeting room had been reserved.

BUDGET IMPACT: None

STAFF RECOMMENDATION: Potential approval

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION: The Governance Committee approved the tentative date of Tuesday, January 10, 2006 from 10 am – Noon at PMC for the next meeting.

Motion:

Individual Action:

Information: **X**

Filename. u\my docs\gov cttee\sept 05 gov cttee\gov cttee narr date time jan mtg.cdm

PPH Employee/Corporate Health and Workers' Compensation Program Update

TO: Board of Directors

FROM: Board Finance Committee
Tuesday, December 6, 2005

MEETING DATE: Monday, December 12, 2005

BY: Sheila Brown, RN, MBA, Chief Clinical Outreach Officer
Bob Hemker, Chief Financial Officer

Background: Palomar Pomerado Health and Barney & Barney provided an update on the status of PPH's Employee/Corporate Health and Workers' Compensation Programs. In 2002, PPH partnered with Barney & Barney to evaluate different options to lower premiums for Workers' Compensation. An update on loss prevention activities, incurred costs, and changes within the state workers' compensation environment was provided.

Budget Impact: Fiscal impact in planning for workers' compensation insurance.

Staff Recommendation: Information only.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information: X

Required Time:

Corporate/Employee Health Services and Workers' Compensation Update

Bill Buchanan, Barney and Barney

Bob Hemker, CFO

Sheila Brown, Chief Clinical Outreach Officer

PALOMAR POMERADO HEALTH

Mission and Vision

- Mission
  - To heal, comfort, and promote health in the communities we serve
- Vision
  - 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

PALOMAR POMERADO HEALTH

PPH Historical Perspective

- Premiums increased by 25% in 2003
  - $4.1 million to $5.1 million
- Increased lost work days
- No formal programs
- Ineffective case management for PPH employees
- Specialist disengaged
- 90% of workers' compensation business went outside PPH's system

PALOMAR POMERADO HEALTH

2003 Employee/Corporate Health Services

	Acute Care	
	Skilled Nursing	
	Total	$ 97,955,569
		$0
	Acute Care	
	Skilled Nursing	$ 3.95
Projected Contribution:		
	Acute Care	
	Skilled Nursing	
	Total	
	Experience Modification Factor	
	Est. Total Alpha Fund Contribution	**$ 4,119,708**
	Est. Deductible Incurred Costs (5 years undeveloped average valued 5/31/05)	0
	Broker Service Fee	0
	PPH Infrastructure: FY06 Budgeted Staff Salaries, Benefits, and Lift Team (POM)	0
	PPH Infrastructure: FY03 with Industrial Medicine and Employee Health	$ 400,000
	Est. Total Cost	
	Actual Total Cost	**$ 4,519,708**
Projected Contribution from Corporate Health Services:		
	Budgeted Corporate Health Revenues	0
	Employee Health/Occupational Health Svcs, Lab, radiology, and pharmacy charges	Unknown

PALOMAR POMERADO HEALTH

Business As Usual

- Zero deductible
- No PPH Workers' Compensation Risk Management Initiatives
- Disengaged Specialists
- Increased lost work days
- Ineffective case management for PPH
- 90% workers' compensation continue to leave PPH

PALOMAR POMERADO HEALTH

FY06 Employee/Corporate Health Services

Acute Care	$	143,569,056
Skilled Nursing	$	10,667,053
Total	$	154,236,109
		Deduct. amt/claim
		$0
Acute Care	$	5.03
Skilled Nursing	$	9.58
Projected Contribution:		
Acute Care	$	7,215,781
Skilled Nursing	$	1,021,477
Total	$	8,237,258
Experience Modification Factor		1.03
Est. Total Alpha Fund Contribution	**$**	**8,484,375**
Est. Deductible Incurred Costs (5 years undeveloped average valued 5/31/05)		$0
Broker Service Fee		$0
PPH Infrastructure: FY06 Budgeted Staff Salaries, Benefits, and Lift Team (POM)		$0
PPH Infrastructure: FY03 with Industrial Medicine and Employee Health		
8% increase inflation annually		$496,000
Est. Total Cost	**$**	**8,980,375**
Actual Total Cost		
Projected Contribution from Corporate Health Services:		
Budgeted Corporate Health Revenues		0
Employee Health/Occupational Health Svcs, Lab, radiology, and pharmacy charges		unknown

PALOMAR POMERADO HEALTH

PPH Paradigm Shift

"The Old Days"

Industrial Medicine

- Single component of injury management usually provided at the workplace

"2003"

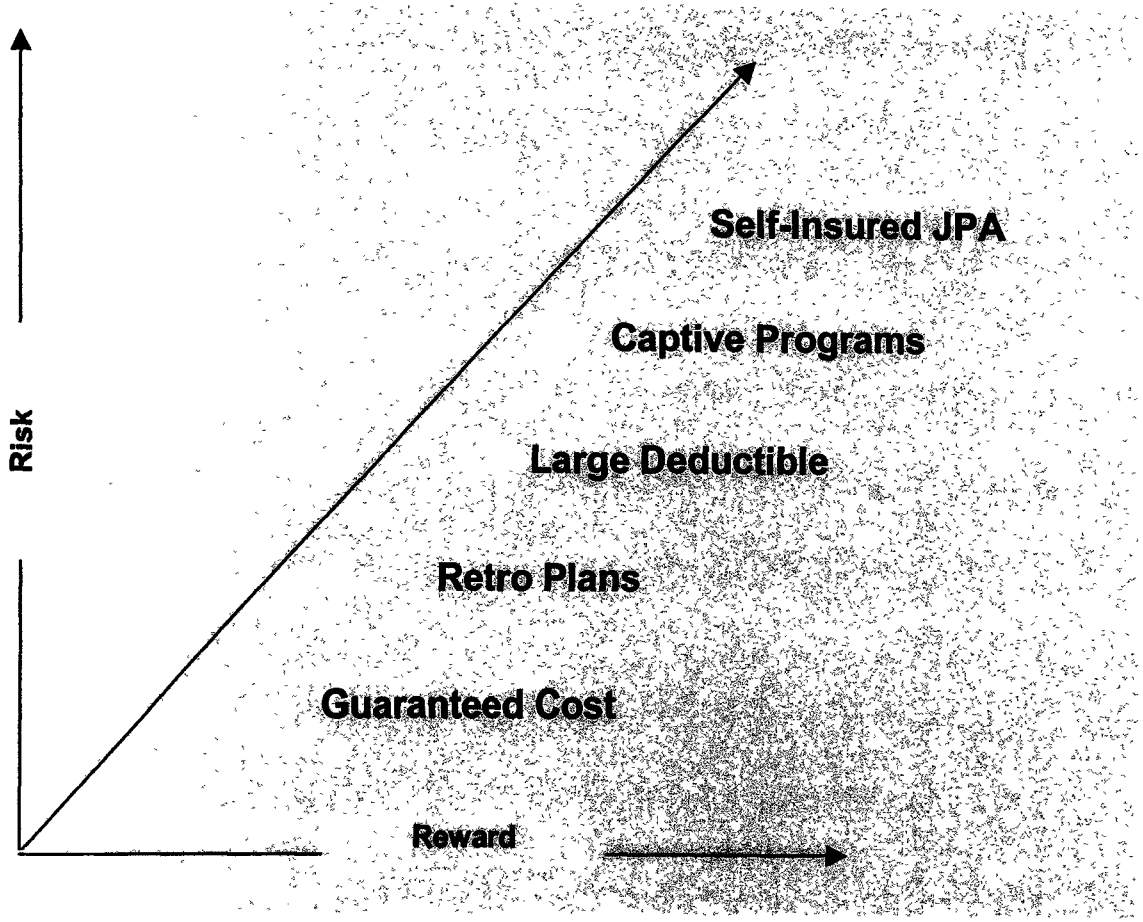
Comprehensive

Corporate Health Services

- Work Injury Management
- Total Health Services
- Rehabilitation Management
- Health Surveillance
- Employee Assistance Programs
- Preventative Services
  - Education
  - Wellness
  - Health Promotion
- Loss Prevention Program

PALOMAR POMERADO HEALTH

Workers' Compensation Risk Continuum



PALOMAR POMERADO HEALTH

PPH Workers' Compensation Risk Management Initiatives

- Patient Lift Team Program
- Circle 7
- Return-to-Work Program
- Accident Investigations
- Aggressive Claims Management
- Loss Prevention Action Committee

PALOMAR POMERADO HEALTH

Historical Comparison

Program Year	Payroll	Reinsurance Coverage Cost	Deductible	Total Incurred	Development Factor
7/1/05-6/30/06	$154,236,109	$971,687	$750,000	N/A	N/A
7/1/04-6/30/05	$148,998,000	$864,188	$750,000	$813,248	2.96
7/1/03-6/30/04(1)	$136,962,661	$1,198,149	$500,000	$1,582,597	1.74
7/1/02-6/30/03(1)	$110,552,599	$789,346	$350,000	$2,602,860	1.38
7/1/01-6/30/02(1)	$97,955,569	$4,119,708	$0	$3,039,625	1.28
Average	$129,740,988	N/A	N/A	**$2,009,583**	N/A

(1) Final payrolls and member contributions provided by Alpha Fund 6/30/05

Claims valued as of 6/30/05

Total Incurred = Paid and Reserves for all Claims

PALOMAR POMERADO HEALTH

Facility and Fiscal Year Comparison

Year	Total Incurred					Total # of Claims
	PMC		POM		PPH TOTAL	
	# of Claims	Amount	# of Claims	Amount		
FY05	127	$604,475	82	$208,773	$813,248	209
FY04	140	$1,173,777	58	$408,820	$1,582,597	198
FY03	163	$2,014,237	80	$588,623	$2,602,860	243
FY02	150	$2,540,810	69	$498,815	$3,039,625	219

NOTE: Claims valued as of 06/30/05

PALOMAR POMERADO HEALTH

Lift Team Results
Patient Lift Claims

Lift Team Established 4/1/03

	Baseline 3-Year Average		FY 03		FY 04		FY 05	
	# of Claims	Total Incurred	# of Claims	Total Incurred	# of Claims	Total Incurred	# of Claims	Total Incurred
PMC	31	$429,993	24	$1,008,458	20	$158,640	22	$283,046
POM	11	$148,754	14	$263,482	11	$130,435	9	$80,412
Total	42	$578,747	38	$1,271,940	31	$289,075	31	$363,458

NOTE: All claims valued as of 06/30/05

First Aid only claims not included

PALOMAR POMERADO HEALTH

Patient Lift Team Data

	PMC		POM	
	FY 04	FY 05	FY 04	FY 05
Patient Lifts	6,336	6,831	7,774	12,175
Patient Lift Injuries	20	22	11	9
Injuries While Lift Team on Duty	10	8	1	2
Lift Team Not on Duty	10	14	10	7
Total Incurred	$326,389	$283,547	$87,130	$80,412
Claims valued as of	06/30/04	06/30/05	06/30/04	06/30/05

PALOMAR POMERADO HEALTH

PMC Circle 7 FY05 Summary

PMC DEPARTMENTS	TOTAL CLAIMS FY 04	TOTAL CLAIMS FY05	TOTAL INCURRED FY 04	TOTAL INCURRED FY 05
EVS	12	13	$48,895	$40,953
FANS	11	4	$93,487	$1,741
PCCC	11	8	$23,090	$24,320
ER	10	3	$186,859	$521
RADIOLOGY	9	4	$54,986	$17,637
TELEMETRY	8	9	$22,710	$79,582
CCU	7	16	$65,059	$236,852

PALOMAR POMERADO HEALTH

POM Circle 7 FY05 Summary

POM DEPARTMENTS	TOTAL CLAIMS FY 04	TOTAL CLAIMS FY05	TOTAL INCURRED FY 04	TOTAL INCURRED FY 05
EVS	8	3	$27,923	$7
VILLA POM	8	3	$9,146	$49
14 MED/SURG	5	2	$85,486	$199
FANS	4	9	$32,767	$1,338
MATERIALS MGMT	3	5	$42,668	$265
PLANT OPS/MAINT	3	1	$6,333	$171
SECURITY	3	4	$7,056	$7,685

PALOMAR POMERADO HEALTH

Return to Work Program

	FY 04		FY 05	
	# of Claims	# of Lost Work Days	# of Claims	# of Lost Work Days
PMC	27	817	21	517
POM	12	230	6	151
TOTAL	39	1047	27	668

PALOMAR POMERADO HEALTH

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Outcomes

	Deduct. amt/claim
	$ 750,000
Acute Care	$ 0.63
Skilled Nursing	$ 0.63
Projected Contribution:	
Acute Care	$ 904,485
Skilled Nursing	$ 67,202
Total	$ 971,687
Experience Modification Factor	
Est. Total Alpha Fund Contribution	**$ 971,687**
Est. Deductible Incurred Costs (5 years undeveloped average valued 5/31/05)	$ 3,152,274
Broker Service Fee	$ 110,000
PPH Infrastructure: FY06 Budgeted Staff Salaries, Benefits, and Lift Team (POM)	$ 1,200,000
PPH Infrastructure: FY03 with Industrial Medicine and Employee Health	
Est. Total Cost	**$ 5,433,961**
Actual Total Cost	
Projected Contribution from Corporate Health Services FY06:	
Budgeted Corporate Health Revenues	$ 350,000
Employee Health/Occupational Health Svcs, Lab, radiology, and pharmacy charges	$ 926,000

PALOMAR POMERADO HEALTH

Total Cost Savings

$3.5 MILLION!

PALOMAR
POMERADO
HEALTH

Outcomes

- Savings resulting from:
  - Implementation of Lift Team
  - Circle 7 Program
  - Return to Work Program
  - Loss Prevention
  - Functional Capacity
  - Wellness and Ergonomic Evaluations
- Improve the health, safety, and wellness of PPH
- Capture revenues by reporting PPH evidenced-based programs to local employers
- Create the Medical Provider Network and meet with PPH specialists regularly to discuss outcomes
- Implement wellness initiative

PALOMAR POMERADO HEALTH

Finance Committee Date Change
for Tuesday, January 31, 2006, Meeting

TO: Board of Directors

FROM: Board Finance Committee
Tuesday, December 6, 2005

MEETING DATE: Monday, December 12, 2005

BY: Bob Hemker, CFO

Background: The Board Finance Committee was requested to change the date of the meeting scheduled on **Tuesday, January 31, 2006,** in **Graybill Auditorium, Palomar Medical Center, 555 East Valley Parkway, Escondido, CA.** Prior to the Finance Committee meeting, members of the Board were polled regarding date and location options.

Budget Impact: N/A

Staff Recommendation: At the meeting, the Finance Committee was requested to approve a new date of **Tuesday, January 24, 2006,** and a new location at **Meeting Room E, Pomerado Hospital, 15615 Pomerado Road, Poway, CA,** for the Finance Committee meeting originally scheduled on Tuesday, January 31, 2006.

Committee Questions:

COMMITTEE RECOMMENDATION: The Finance Committee approved a new date of **Tuesday, January 24, 2006,** and a new location at **Meeting Room E, Pomerado Hospital, 15615 Pomerado Road, Poway, CA,** for the Finance Committee meeting originally scheduled on Tuesday, January 31, 2006.

Motion:

Individual Action:

Information: **X**

Required Time:

FY'06 Goal Outcome

TO: PPH Board of Directors

MEETING DATE: November 15, 2005

FROM: Strategic Planning Committee on November 15, 2005

BY: Carrie Frederick, Director Performance Excellence

BACKGROUND: Annual goals were established at the beginning of fiscal year 2006. A spreadsheet provided a summary of the first quarter achievement of those goals.

Carrie Frederick demonstrated the balanced scorecard software, which can generate status reports on initiative's progress, as well as provide links to other websites. Discussion ensued regarding numerous opportunities and milestones with the implementation of the software.

Dr. Kanter asked if tracking was available under sub-categories, and Carrie responded affirmatively, and demonstrated by using the OR's numbers. This program allows the user to view the status of an entire organization, in order to see their alignment with targeted goals.

After review of the goals, it was noted that, under the Customer Service domain, in the Strategic Planning Committee, Objective 2.2, to "Increase physician loyalty," the FY 2005 – 2006 Target currently states the scores should be at the "98th percentile." However, Gallup has since re-calibrated their scale due to an increase in the survey size, and the Committee felt that it is not realistic to expect such a high percentile rating. Accordingly, Ted Kleiter proposed that the "FY '06 target be changed from the 98th percentile to the 75th percentile," with Bruce Krider seconding the motion, which passed unanimously, to take the item to the full PPH BOD for approval at the December meeting.

BUDGET IMPACT: None

COMMITTEE RECOMMENDATION: Take Action Item to full BOD at December meeting for approval.

COMMITTEE RECOMMENDATION:

Action Item: X

Governance Committee
Annual Review and Approval of Amended and Restated Bylaws (2005) Revision

TO: Board of Directors

DATE: December 12, 2005

FROM: Michael Covert

BY: Christine Meaney for Jim Neal, Director,
Corporate Compliance and Integrity

BACKGROUND: In keeping with an annual review of PPH Bylaws, the Amended and Restated Bylaws (2005 Revision), including redlined copy, are attached for review and approval together with the requisite Resolution. One exception however is noted in the Resolution regarding item 6.2.2(b) – Governance Committee – Non-Voting Membership – addition of the Compliance Officer, as this has not been specifically brought to the Governance Committee for review/approval.

BUDGET IMPACT: None

STAFF RECOMMENDATION: Approval requested

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION: The Committee recommended approval of the Amended and Restated Bylaws (2005 Revision) at its November 15, 2005 meeting. Note exception stated above.

Motion:

Individual Action: X

Information:

Filename. u\my docs\gov cttee\sept 05 gov cttee\gov cttee narr ann review of bylaws:cdm

RESOLUTION OF THE BOARD OF DIRECTORS OF PALOMAR POMERADO HEALTH FOR ADOPTION OF AMENDED AND RESTATED BYLAWS
Resolution No. 12.12.05 (02) - 28

WHEREAS, Palomar Pomerado Health ("PPH") in accordance with an annual, comprehensive review of the District Bylaws which has been undertaken and following previous amendments to the Bylaws at meetings of the Board of Directors held January 13, 2003, February 10, 2003, May 12, 2003, and January 2004, and October 18, 2004 (the "Amendments"); and

WHEREAS, for ease in administering the Bylaws and in order to avoid confusion, PPH now desires to restate the Bylaws to incorporate the Amendments and adopt such restated Bylaws, a true and correct copy of which is attached hereto as Exhibit A (the "Amended and Restated Bylaws"). In addition, a redlined version of the Amended and Restated Bylaws showing the changes effectuated by the Amendments, in addition to a Summary of PPH Bylaws Changes, is attached hereto as Exhibit B.

NOW, THEREFORE, IT IS HEREBY RESOLVED that the Amended and Restated Bylaws are hereby approved and adopted in the form of Exhibit A, attached hereto, with one exception regarding item 6.2.2(b) – Governance committee – Non-Voting Membership – addition of the Compliance Officer, as this has not been specifically brought to the Governance Committee for review/approval.

PASSED AND ADOPTED at a duly held meeting of the Board of Directors on December 12, 2005, by the following vote:

AYES:

NOES:

ABSTAINING:

ABSENT:

ATTESTED:

_____
Marcelo R. Rivera, M.D., Chairperson

_____
Nancy H. Scofield, Secretary

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EXHIBIT "A"

AMENDED AND RESTATED

BYLAWS

OF

PALOMAR POMERADO HEALTH

Revised November 04, 2005

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BYLAWS
OF
PALOMAR POMERADO HEALTH

ARTICLE I.
DEFINITIONS

1.1 "Hospital(s)" means Palomar Medical Center, 555 East Valley Parkway, Escondido, California, and/or Pomerado Hospital, 15615 Pomerado Road, Poway, California.

1.2 "Board" means the Board of Directors of the District.

1.3 "District" means Palomar Pomerado Health.

1.4 "Medical Staff(s)" or "Staff(s)" means the organized medical staff of Palomar Medical Center, the organized medical staff of Pomerado Hospital, and/or the organized medical staff of other District Facilities, as indicated.

1.5 "Facility" or "Facilities" means a Hospital or the Hospitals, Home Health, Skilled Nursing Facilities, or any other health care facility or facilities operated by the District.

1.6 "Practitioner" means a physician (*i.e.*, M.D. or D.O.), dentist (D.D.S. or D.M.D.) or podiatrist (D.P.M.) who is duly licensed in the State of California to practice within the scope of said license.

ARTICLE II.
ORGANIZATION, POWERS AND PURPOSES

2.1 ORGANIZATION. The District is a political subdivision of the State of California organized under the Division 23 of the Health and Safety Code ("Local Health Care District Law").

2.2 PURPOSES AND POWERS. The District is organized for the purposes described in the Local Health Care District Law and shall have and may exercise such powers in the furtherance of its purposes as are now or may hereafter be set forth in the Local Health Care District Law and any other applicable statutes, rules or regulations of the State of California.

2.3 BYLAWS, POLICIES AND PROCEDURES

2.3.1 The Board shall have the powers to adopt, amend, and promulgate District Bylaws, Policies, and Procedures as appropriate, and may delegate its power to promulgate Procedures in its discretion. For purposes of these Bylaws, "Policies" shall denote Board approved statements that provide broad strategic directions and/or governing mandates for the District, enabling the development of Procedures. The term "Procedures" shall mean any specific instruction or mode of conduct for the purpose of implementing a policy that may be promulgated by those District officers designated by the Board.

2.3.2 The Board shall review and approve the District Bylaws annually.

2.3.3 The Governance Committee will have the responsibility to oversee and ensure collaboration between the Board and District management for the purpose of developing, reviewing and revising the District Bylaws, Policies, Procedures, and other rules or regulations prior to being brought to the full Board for approval.

2.4 DISSOLUTION. Any proposal to dissolve the District shall be subject to confirmation by the voters of the District in accordance with the Government Code.

ARTICLE III.
OFFICES

3.1 PRINCIPAL OFFICE. The principal office of the District is hereby fixed and located at 15255 Innovation Drive, San Diego, California.

3.2 OTHER OFFICES. Branch or subordinate offices may be established at any time by the Board at any place or places.

ARTICLE IV.
BOARD

4.1 GENERAL POWERS. The Board is the governing body of the District. All District powers shall be exercised by or under the direction of the Board. The Board is authorized to make appropriate delegations of its powers and authority to officers and employees.

4.2 OPERATION OF FACILITIES. The Board shall be responsible for the operation of the Facilities according to the best interests of the public health, and shall make and enforce all rules, regulations and bylaws necessary for the administration, government, protection and maintenance of the Facilities and all property belonging thereto, and may prescribe the terms upon which patients may be admitted to the Facilities. Such rules, regulations and bylaws applicable to the Facilities shall include but not be limited to the provisions specified in the Health and Safety Code, and shall be in accordance with and contain minimum standards no less than the rules and standards of private or voluntary hospitals. Unless specifically prohibited by law, the Board may adopt other rules which could be lawfully adopted by private or voluntary hospitals.

4.3 RATES. In setting the rates the Board shall, insofar as possible, establish such rates as will permit the Facilities to be operated upon a self-supporting basis. The Board may establish different rates for residents of the District than for persons who do not reside within the District.

4.4 NUMBER AND QUALIFICATION.

4.4.1 The Board shall consist of seven members, each of whom shall be a registered voter residing in the District.

4.4.2 Except as otherwise provided in applicable law, no Board member shall possess any ownership interest in any other hospital serving the same area as that served by the District or be a director, policymaking management employee, or medical staff officer of any hospital serving the same area as that served by the District, unless the boards of directors of the District and the hospital have determined that the situation will further joint planning, efficient delivery of health care services, and the best interests of the areas

served by their respective hospitals, or unless the District and the hospital are affiliated under common ownership, lease, or any combination thereof. No Board member shall simultaneously hold any other position over which the Board exercises a supervisory, auditory, or removal power.

4.4.3 For purposes of this section, a hospital shall be considered to serve the same area as the District if more than five percent of the hospital's patient admissions are District residents.

4.4.4 For purposes of this section, the possession of an ownership interest, including stocks, bonds, or other securities by the spouse or minor children or any person shall be deemed to be the possession or interest of the person.

4.4.5 Any candidate who elects to run for the office of member of the Board, and who owns stock in or who works for any health care facility that does not serve the same area served by the District, shall disclose on the ballot his or her occupation and place of employment.

4.5 CONFLICTS OF INTERESTS. The Board shall endeavor to eliminate from its decision making processes financial or other interests possessed by its members that conflict with the District's interests. Board members and other persons who are "Designated Employees," as defined in the current Conflict of Interests Code of Palomar Pomerado Health as it may be amended from time to time, shall at all times comply with said Code any and all laws and regulations relating to conflicts of interests, including but not limited to the Government Code.

4.6 ELECTION AND TERM OF OFFICE. An election shall be held in the District on the first Tuesday after the first Monday in November in each even-numbered year, at which a successor shall be chosen to each Director whose term shall expire on the first Friday of December following such election. The election of Board members shall be an election at large within the District and shall be consolidated with the statewide general election. The candidates receiving the highest number of votes for the offices to be filled at the election shall be elected thereto. The term of office of each elected Board member shall be four years, or until the Board member's successor is elected and has qualified, except as otherwise provided by law in the event of a vacancy.

4.7 NEW MEMBER ORIENTATION. An orientation shall be provided which familiarizes each new Board member with his or her duties and responsibilities, including the Board's responsibilities for quality care and the Facilities' quality assurance programs. Continuing education opportunities shall be made available to Board members.

4.8 EVALUATION. The Board shall evaluate its own performance as well as those of its officers and employees on an annual or other periodic basis.

4.9 VACANCIES. Vacancies on the Board shall be filled in accordance with the applicable provisions of the Government Code.

4.10 RESIGNATION OR REMOVAL. Any Board member may resign effective upon giving written notice to the Chairperson or the Secretary of the Board, unless the notice specifies a later time for the effectiveness of such resignation. The term of any member of the Board shall expire if the member is absent from three consecutive regularly scheduled monthly Board meetings or from three of any five

consecutive regular meetings of the Board and if the Board by resolution declares that a vacancy exists on the Board. All or any of the members of the Board may be recalled at any time by the voters following the recall procedure set forth in Division 16 of the Election Code.

4.11 LIABILITY INSURANCE. The Board may purchase and maintain liability insurance on behalf of any person who is or was a director, officer, employee or agent of the District, or is or was serving at the request of the District as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise or as a member of any committee or similar body, against any liability asserted against such person and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the District would have the power to indemnify him or her against such liability.

4.12 COMPENSATION. The Board shall serve without compensation unless the Board authorizes, by resolution adopted by majority vote, compensation of not to exceed $100 per meeting for a maximum of five meetings per month for each member of the Board. For purposes of this section, "meeting" shall mean any regular or special Board meeting, whether open or closed, any standing or ad hoc committee meetings or any orientation sessions. For compensation purposes, successive open and closed meetings shall be considered as one meeting.

4.13 HEALTH AND WELFARE BENEFITS. Notwithstanding Section 4.12 above, the Board may provide health and welfare benefits, pursuant to Government Code Section 53200 *et seq.*, for the benefit of its elected and former members and their dependents, or permit its elected and former members and their dependents to participate in District programs for such benefits, in accordance with all applicable laws and regulations.

4.14 TRAVEL AND INCIDENTAL EXPENSES REIMBURSEMENT. Each member of the Board shall be reimbursed for his or her actual necessary traveling and incidental expenses incurred in the performance of official business of the District as approved by the Board and in accordance with District Policy. Such reimbursement, if approved by the Board, shall not constitute "compensation" for purposes of Section 4.12 above.

ARTICLE V.
BOARD MEETINGS

5.1 MEETINGS OPEN TO THE PUBLIC. Meetings of the Board shall be open to the public, except as otherwise provided in applicable laws or regulations, including but not limited to the Brown Act and the Local Health Care District Law.

5.2 BOARD MEETING. A meeting of the Board is any congregation of a majority of the members of the Board at the same time and place to hear, discuss or deliberate upon any item that is within the subject matter jurisdiction of the Board. A meeting is also the use of direct communication, personal intermediaries or technological devices that is employed by a majority of the members of the Board to develop a collective concurrence as to action to be made on an item by the members of the Board. Board meetings may be held by teleconference subject to applicable laws and regulations including the Government Code.

5.3 REGULAR MEETINGS. Regular meetings of the Board shall be held as follows:

5.3.1 The Board's annual organizational meeting shall be held in December at the place and time designated by the Board in the Resolution discussed in Section 5.3.2 below.

5.3.2 At the annual organizational meeting, the Board shall pass a resolution stating the dates, times and places of the Board's regular monthly meetings for the following calendar year.

5.4 HOLIDAYS. Meetings of the Board may be held on any calendar day as determined by the Board.

5.5 NOTICE AND ACTION. The Board shall provide public notice of its meetings in accordance with the Brown Act. No "action," as defined in the Brown Act, shall be taken on any item not appearing on the posted agenda unless permitted under applicable law.

5.6 MEMBERS OF THE PUBLIC. Members of the public shall be afforded an opportunity to participate in District decision making processes and Board meetings to the extent permitted under applicable laws, including but not limited to the Brown Act and the Local Health Care District Law.

5.7 ANNUAL ORGANIZATIONAL MEETING. At its annual organizational meeting, the Board shall organize by the election of officers. One member shall be elected as Chairperson, one as Vice Chairperson and one as Secretary. The Board may also appoint the Treasurer at the annual organizational meeting, who may also be the Chairperson of the Finance Committee.

5.8 SPECIAL MEETINGS.

5.8.1 A special meeting may be called at any time by the Chairperson, or by four or more Board members, by delivering personally or by mail written notice to each Board member and to each local newspaper of general circulation, radio or television station requesting notice in writing. Such notice must be delivered personally or by mail at least 24 hours before the time of such meeting as specified in the notice. The call and notice shall specify the time and place of the special meeting and the business to be transacted; no other business shall be considered at special meetings. Written notice may be dispensed with as to any Board member who at or prior to the time the meeting convenes files with the Secretary a written waiver of notice. Such written notice may also be dispensed with as to any member who is actually present at the meeting at the time it convenes.

5.8.2 The call and notice shall also be posted at least 24 hours prior to the special meeting in a location that is freely accessible to members of the public. Notice shall be required pursuant to this Section regardless of whether any action is taken at the special meeting.

5.8.3 In the case of an emergency situation involving matters upon which prompt action is necessary due to the disruption or threatened disruption of public facilities, the Board may hold an emergency meeting without complying with either or both the 24 hour notice or posting requirements. In the event the notice and/or posting requirements are dispensed with due to an emergency situation, each local newspaper of general circulation and radio or television station which has requested notice of special meetings shall be notified by the Chairperson, or his designee, one hour prior to the emergency meeting, by telephone. All telephone numbers provided in the most recent request of such newspaper or station for notification of special meetings shall be exhausted. In the event that telephone services are not functioning, the notice requirements of this

paragraph shall be deemed waived, and the Board, or its designee, shall notify those newspapers, radio stations or television stations of the fact of the holding of the emergency meeting, the purpose of the meeting, and any action taken at the meeting as soon after the meeting as possible. Notwithstanding this Section, the Board shall not meet in closed session during a meeting called as an emergency meeting. With the exception of the 24 hours notice and posting requirements, all requirements contained in this Section shall be applicable to any meeting called due to an emergency situation.

5.8.4 The minutes of an emergency meeting, a list of persons who the Chairperson, or his designee, notified or attempted to notify, a copy of the roll call vote, and any actions taken at the meeting shall be publicly posted for a minimum of ten days as soon possible after the meeting.

5.9 QUORUM. A vote is to be determined by a simple "majority vote". If there are abstentions on a vote, the non-abstaining members of the Board must constitute a quorum of the whole board (four members or more) for the transaction of business. Except as otherwise provided by law or these Bylaws, the act of the majority of the non-abstaining Board members voting will be the "majority vote".

5.10 ADJOURNMENT AND CONTINUANCE. The Board may adjourn any of its meetings in accordance with applicable laws, including but not limited to the Brown Act.

5.11 DISRUPTED MEETINGS. In the event that any meeting is willfully interrupted by a group or groups of persons so as to render the orderly conduct of such meeting unfeasible, and order cannot be restored by the removal of individuals who were willfully interrupting the meeting, the Board may order the meeting room closed and continue in session. Only matters appearing on the agenda may be considered in such a session. Representatives of the press or other news media, except those participating in the disturbance, shall be allowed to attend any session held pursuant to this section. The Board may establish a procedure for readmitting an individual or individuals not responsible for willfully disrupting the orderly conduct of the meeting.

5.12 MEDICAL STAFF REPRESENTATION. The Medical Staff of each Facility shall have the right of representation at all meetings of the Board, except closed sessions at which such representation is not requested, by and through the Chief of Staff or President of each Medical Staff, who shall have the right of attendance, the right to participate in Board discussions and deliberations, but who shall not have the right to vote.

ARTICLE VI.
BOARD COMMITTEES

6.1 APPOINTMENT. Standing committees are established by the Board and shall be advisory in nature unless otherwise specifically authorized to act by the Board. Members of all committees, whether standing or special (ad hoc) shall be appointed by the Chairperson of the Board.

6.1.1 A standing committee of the Board is any commission, committee, board or other body, whether permanent or temporary, which is created by formal action of the Board and has continuing subject matter jurisdiction and/or a meeting schedule fixed by charter, ordinance, resolution, or formal action of the Board. Actions of committees shall be advisory in nature with recommendations being made to the full Board.

6.1.2 Special or ad hoc committees are appointed by the Chair of the Board and shall exist for a single, limited purpose with no continuing subject matter or jurisdiction. Special or advisory committees shall be advisory in nature and shall make recommendation to the full Board. The committee shall be considered disbanded upon conclusion of the purpose for which it was appointed.

6.1.3 The Audit Committee of the Board shall function pursuant to a charter approved by the Board and amended from time to time.

6.2 STANDING COMMITTEES. There shall be the following standing committees of the Board: Finance, Governance, Human Resources, Strategic Planning, Community Relations, Quality Review, Audit Committee, and Facilities and Grounds Committee. Standing committees will be treated as the Board with respect to Article V of these bylaws. All provisions in Article V that apply to Board members shall apply to members of any standing committee.

6.2.1 Finance Committee.

(a) Voting Membership. The Finance Committee shall consist of seven voting members, four members of the Board, the President and Chief Executive Officer and the Chief of Medical Staff from each hospital. One alternate Committee member shall also be appointed by the Chairperson who shall attend Committee meetings and enjoy voting rights on the Committee only when serving as an alternate for a voting Committee member. The Chairperson of the Board may appoint the Treasurer as the chairperson of the Finance Committee.

(b) Non-Voting Membership. The Chief Financial Officer (CFO), the Chief Administrative Officers Palomar Medical Center and Pomerado Hospital and a nurse representative.

(c) Duties. The duties of the Committee shall include but are not limited to:

(i) Review the preliminary, annual operating budgets for the District and Facilities and other entities;

(ii) Develop and recommend to the Board the final, annual, operating budgets;

(iii) Develop and recommend to the Board a three-year, capital expenditure plan that shall be updated at least annually. The capital expenditure plan shall include and identify anticipated sources of financing for and objectives of each proposed capital expenditure in excess of $100,000;

(iv) Review and recommend approval of the monthly financial statements to the Board.

(v) Recommend to the Board cost containment measures and policies;

(vi) Review annually those policies and procedures within its purview and report the results of such review to the Governance Committee. Such reports shall include recommendations regarding the modification of existing or creation of new policies and procedures; and

(vii) Perform such other duties as may be assigned by the Board.

6.2.2 Governance Committee.

(a) Voting Membership. Membership shall consist of no more than three members of the Board and one alternate. The alternate shall attend and enjoy voting rights only in the absence of a voting Committee member.

(b) Non-Voting Membership. The President and Chief Executive Officer, the Chief Marketing and Communications Officer and the Compliance Officer.

(c) Duties. The duties of the Committee shall include but are not limited to:

(i) Review periodically and make recommendations regarding pending and existing federal, state and local legislation which, in the committee's opinion, may impact the District;

(ii) Make an annual, comprehensive review of the District bylaws, policies and procedures and receive reports regarding same, and elicit recommendations on such issues from management;

(iii) Review any initiation of legislation;

(iv) Review such other issues associated with PPH and/or Board governance and its effectiveness, including but not limited to Board member orientation and continuing education;

(v) Make recommendations regarding the annual self-assessment of the Board;

(vi) Receive reports from the Compliance Officer and recommend action to the full Board regarding Compliance issues; and

(vii) Perform such other duties as may be assigned by the Board.

6.2.3 Human Resources Committee.

(a) Voting Membership. Membership shall consist of no more than three members of the Board and one alternate. The alternate shall attend Committee meetings and enjoy voting rights only in the absence of a voting Committee member.

(b) Non-Voting Membership. The President and Chief Executive Officer, Chief Human Resources Officer, the Chief Administrative Officers Palomar Medical Center and Pomerado Hospital and the Chief Nurse Executive.

(c) Duties. The duties of the Committee shall include but are not limited to:

(i) Make recommendations to the President and Chief Executive Officer and the Board to improve communications among the Board, Medical Staffs, District employees and auxiliaries, including initiating special studies;

(ii) Maintain ultimate oversight of annual performance reviews of all District officers and employees and, in the appropriate circumstances and upon request by the Board, make a report of such reviews to the Board; and

(iii) Review annually those policies and procedures within its purview and report the results of such review to the Governance Committee. Such reports shall include recommendations to the Board regarding modification of existing or creation of new policies and procedures; and

(iv) Review and make recommendations to the Board regarding compensation, incentive, and benefit plans offered to District Officers and other employees.

(v) Ensure that all special studies and recommendations/proposals are in alignment with the PPH mission, vision and strategic plan as well as government regulations.

(vi) Perform such other duties as may be assigned by the Board.

6.2.4 Strategic Planning Committee.

(a) Voting Membership. The Committee shall consist of seven voting members, including four members of the Board and one alternate who shall attend Committee meetings and enjoy voting rights on the Committee only when serving as an alternate for a voting Committee member, the President and Chief Executive Officer and the Chiefs of Staff of the Hospitals or the designees of the Chiefs of staff, as approved by the Committee Chairperson.

(b) Non-Voting Membership. The Chief Financial Officer, Chief Marketing and Communications Officer, Chief Administrative Officers Palomar Medical Center and Pomerado Hospital, the Chief Nurse Executive, Chief Executive Officer of the Palomar Pomerado Health Foundation, a board member of the Palomar Pomerado Health Foundation recommended by the Foundation and approved by the Committee Chairperson and an additional physician from each hospital as recommended by each hospital's Chief of Staff and as approved by the Committee Chairperson.

(c) Duties. The duties of the Committee shall include but are not limited to:

(i) Review and make recommendations to the Board regarding the District's short and long range strategic plans, master and Facility plans, physician development plans and strategic collaborative relationships; and

(ii) Review annually those policies within the Committee's purview and report the results of such review to the Governance Committee. Such reports shall include recommendations regarding the modification of existing, or creation of new policies; and

(iii) Undertake planning regarding physician recruitment and retention and program development of new and enhanced services and Facilities; and

(iv) Perform such other duties as may be assigned by the Board.

6.2.5 Quality Review Committee.

(a) Voting Membership. The Committee shall consist of five voting members, including three members of the Board and the Chairs of Medical Staff Quality Management Committees of the Hospitals or Physician Co-Chair, Quality Council (voting position will rotate between Chairs of Medical Staff Quality Management Committees and Physician Co-Chair Quality Council allowing only two votes total for these three positions) and an alternate, who shall attend and enjoy voting rights only in the absence of a voting Committee Member.

(b) Non-Voting Membership. The President and Chief Executive Officer, the Chief Administrators of Pomerado Hospital and Palomar Medical Center, a nurse representative, the Chief Quality and Clinical Effectiveness Officer, Chair of the Patient Safety Committee, the Physician Co-Chair of Quality Council or the Chairs of the Quality Management Committees of Pomerado Hospital and Palomar Medical Center (non-voting position will rotate between Chairs of Medical Staff Quality Management Committees, and Physician Co-Chair Quality Council allowing only two votes total for these three positions)

(c) Duties. The duties of the Committee shall include but are not limited to:

(i) Periodically review and make recommendations to the Board with regard to credentialing, claims and potential litigation, performance improvement and risk management activities, and performance improvement and procedure issues; and

(ii) Oversee the performance improvement and risk management activities of the Hospitals and other Facilities, if applicable, and shall periodically report its conclusions and recommendations to the Board.

6.2.6 Community Relations Committee.

(a) Voting Membership. The Committee shall consist of five voting members, including three members of the Board and one alternate who shall attend Committee meetings and enjoy voting rights on the Committee only when serving as an alternate for a voting Committee member, the President and Chief Executive

Officer and a Board member of the Palomar Pomerado Heath Foundation recommended by the Foundation and approved by the Committee Chairperson.

(b) Non-Voting Membership. The Chief Marketing and Communications Officer, the Community Outreach Director, the Chief Executive Officer of the Palomar Pomerado Health Foundation, the Director HealthSource, the Director Marketing and Public Relations, a nurse representative and a representative of each District Auxiliary, as approved by the Committee Chairperson.

(c) Duties. The duties of the Committee shall include but are not limited to:

(i) Review and make recommendations to the Board regarding the District's community relations and outreach activities, including marketing, community education and wellness activities;

(ii) Review marketing policies to ensure that they support the District's mission and goals. Such policies shall include market research, specific and marketing program planning and development, and internal and external communications. The Committee shall report its review of such policies to the Board on a regular basis;

(iii) Serve as Board liaison to the Foundation and annually review, recommend and prioritize capital projects and contemplated funding requests to the Foundation's Board of Directors, and review annual reports from the Foundation regarding donations and projects funded during the previous year;

(iv) Review annually those policies within the Committee's purview and report the results of such review to the Governance Committee. Such reports shall include recommendations regarding the modification of existing, or creation of new, policies;

(v) Advise the Board on issues relating to health care advisory councils and District grant procurements;

(vi) Undertake planning regarding the District's community relations and outreach activities, including marketing, community education and wellness activities; and

(vii) Perform such other duties as may be assigned by the Board.

6.2.7 Audit Committee.

(a) Voting Membership. The Audit Committee shall consist of no more than three members of the Board and one alternate. The alternate shall attend Committee meetings and enjoy voting rights only in the absence of a voting Committee member.

(b) Non-Voting Membership. The President and Chief Executive Officer, Director of Audit Services, and a representative from each Hospital's Medical Staff. Any district executive, representative or director will attend as an invited guest.

(c) Duties. The duties of the Committee shall include but are not limited to:

(i) Approve the overall audit scope;

(ii) Ensuring that audits are conducted in an efficient and cost effective manner;

(iii) Overseeing the organizations financial statements and internal controls;

(iv) Recommending to the Board a qualified firm to conduct an annual, independent financial audit;

(v) Recommending to the Board the approval of the organizations annual audit reports;

(vi) Review annually those policies within its purview and report the results of such review to the Governance Committee. Such reports shall include recommendations regarding the modification of existing or creation of new policies; and

(vii) Assess and monitor the independent status of the outside independent auditors;

(viii) Direct special investigations for the Board;

(ix) Meet periodically in closed session with only committee members present.

(x) Perform such other duties as may be assigned by the Board.

6.2.8 Facilities and Grounds Committee.

(a) Voting Membership. The Facilities and Grounds Committee shall consist of four voting members, including three members of the Board, and the President and Chief Executive Officer. One alternate Committee member shall also be appointed by the Chairperson who shall attend Committee meetings and enjoy voting rights on the Committee only when serving as an alternate for a voting Committee member.

(b) Non-Voting Membership. Chief Administrative Officer Pomerado Hospital, the Chief Financial Officer (CFO) or designee, nurse representative from PMC or POM and the Director of Facilities Planning and Development. As needed, other appropriate relevant staff in engineering, architectural, planning and Compliance and a Physician Advisory Committee member may be requested to attend along with PPH staff to facilitate the work of the committee.

(c) Duties. The duties of the Committee shall include but are not limited to:

(i) Review construction estimates and expenses for accuracy and architectural plans completeness and effectiveness;

(ii) Approve construction project change orders in accordance with applicable district law and PPH policies;

(iii) Receive reports from the Construction Manager and the Director of Facilities Planning and Development and recommend action to the Board regarding facilities design and maintenance;

(iv) Review regulations and reports regarding facilities and grounds from external agencies, accrediting bodies and insurance carriers and make recommendations for appropriate action regarding the same to the Board;

(v) Approve the annual Facilities Development Plan and regularly review updates on implementation of plan;

(vi) Receive a biannual Environment of Care report;

(vii) Perform such other duties as may be assigned by the Board.

6.3 SPECIAL COMMITTEES. Special or ad hoc committees may be appointed by the Chairperson for special tasks as circumstances warrant and upon completion of the task for which appointed such special committee shall stand discharged. The Chairperson shall make assignments on special committees, and/or individual Board member assignments, to assure that each Board member shall have equal participation on special committees or individual Board assignments throughout the year. Some of the functions that may be the topic of special committees include the review of new projects, the review of special bylaw changes or the review of the Bylaws periodically, the meeting with other public agencies or health facilities on a specific topic and the evaluation of the Board.

6.4 ADVISORS. A committee chairperson may invite individuals with expertise in a pertinent area to voluntarily work with and assist the committee. Such advisors shall not vote or be counted in determining the existence of a quorum and may be excluded from any committee session in the discretion of the committee chairperson.

6.5 MEETINGS AND NOTICE. Meetings of a committee may be called by the Chairperson of the Board, the chairperson of the committee, or a majority of the committee's voting members. The chairperson of the committee shall be responsible for contacting alternate committee members in the event their participation is needed for any given committee meeting.

6.6 QUORUM. A majority of the voting members of a committee shall constitute a quorum for the transaction of business at any meeting of such committee. Each committee shall keep minutes of its proceedings and shall report periodically to the Board.

6.7 MANNER OF ACTING. The act of a majority of the members of a committee present at a meeting at which a quorum is present shall be the act of the committee so meeting. No act taken at a meeting at which less than a quorum was present shall be valid unless approved in writing by the absent

members. Special committee action may be taken without a meeting by a writing setting forth the action so taken signed by each member of the committee entitled to vote.

6.8 TENURE. Each member of a committee described above shall serve a one year term, commencing on the first day of January after the annual organizational meeting at which he or she is elected or appointed. Each committee member shall hold office until a successor is elected, unless he or she sooner resigns or is removed from office by the Board.

ARTICLE VII.
OFFICERS

7.1 CHAIRPERSON. The Board shall elect one of its members as Chairperson at an organizational regular meeting. In the event of a vacancy in the office of Chairperson, the Board may elect a new Chairperson. The Chairperson shall be the principal officer of the District and the Board, and shall preside at all meetings of the Board. The Chairperson shall appoint all Board committee members and committee chairpersons, and shall perform all duties incident to the office and such other duties as may be prescribed by the Board from time to time.

7.2 VICE CHAIRPERSON. The Board shall elect one of its members as Vice Chairperson at an organizational meeting. In the absence of the Chairperson, the Vice Chairperson shall perform the duties of the Chairperson.

7.3 SECRETARY. The Board shall elect one of its members Secretary at an organizational meeting. The Secretary shall provide for the keeping of minutes of all meetings of the Board. The Secretary shall give or cause to be given appropriate notices in accordance with these bylaws or as required by law and shall act as custodian of District records and reports and of the District's seal.

7.4 TREASURER. The Board shall appoint a Treasurer who shall serve at the pleasure of the Board. The Treasurer shall be charged with the safekeeping and disbursal of the funds in the treasury of the District. The Treasurer may be the chairperson of the Finance Committee.

7.5 TENURE. Each officer described above shall serve a one-year term, commencing on the first day of January after the organizational meeting at which he or she is elected to the position. Each officer shall hold office until the end of the one year term, or until a successor is elected, unless he or she shall sooner, resign or is removed from office.

7.6 REMOVAL. An officer described above may be removed from office by the affirmative vote of four members of the Board not counting the affected Board member. In addition, an officer described above will automatically be removed from office when his or her successor is elected and is sworn in as a Board member.

7.7 PRESIDENT AND CHIEF EXECUTIVE OFFICER. The Board shall select and employ a President and Chief Executive Officer who shall report to the Board. The President and Chief Executive Officer shall have sufficient education, training, and experience to fulfill his or her responsibilities, which shall include but not be limited to:

7.7.1 Reviewing, recommending changes to, and implementing District Policies and Procedures. By working with standing and special committees of the Board and joint committees of the Medical Staffs of the Facilities, the President and Chief Executive

Officer is to participate in the elaboration of policies which provide the framework for patient care of high quality at reasonable cost.

7.7.2 Maintaining District records and minutes of Board and committee meetings.

7.7.3 Overall operation of the District, its Facilities and other health services, including out-of-hospital services sponsored by the District. This includes responsibility for coordination among Facilities and services to avoid unnecessary duplication of services, facilities and personnel, and control of costs. This also includes responsibility for sound personnel, financial, accounting and statistical information practices, such as preparation of District budgets and forecasts, maintenance of proper financial and patient statistical records, collection of data required by governmental and accrediting agencies, and special studies and reports required for efficient operation of the District.

7.7.4 Implementing community relations activities, including, as indicated, public appearances, responsive communication with the media.

7.7.5 Assisting the Board in planning services and facilities and informing the Board of Governmental legislation and regulations and requirements of official agencies and accrediting bodies, which affect the planning and operation of the facilities, services and programs sponsored by the District, and maintenance appropriate liaison with government and accrediting agencies and implementing actions necessary for compliance.

7.7.6 Ensuring the prompt response by the Board and/or District personnel to any recommendations made by planning, regulatory or accrediting agencies.

7.7.7 Hiring and termination of all employees of the District. To the extent the President and Chief Executive Officer deems appropriate, the President and Chief Executive Officer shall delegate to the District Officers the authority to hire and terminate personnel of their respective hospitals or other entities.

7.7.8 Administering professional contracts between the District and Practitioners.

7.7.9 Providing the Board and Board committee with adequate staff support.

7.7.10 Sending periodic reports to the Board and to the Medical Staffs on the overall activities of the District and the Facilities, as well as pertinent federal, state and local developments that effect the operation of District Facilities.

7.7.11 Providing liaison among the Board, the Medical Staffs, and the District's operating entities.

7.7.12 The maintenance of insurance or self-insurance on all physical properties of the District.

7.7.13 Designate other individuals by name and position who are, in the order or succession, authorized to act for the District Officers during any period of absence.

7.7.14 Participating as a non-voting member in all meetings of standing committees of the Board.

7.7.15 Such other duties as the Board may from time to time direct.

7.8 ADMINISTRATIVE OFFICERS. The President and Chief Executive Officer, with the approval of the Board, may select and employ an Administrative Officer or other responsible individual for each of the Facilities, who shall report to the President and Chief Executive Officer. The Administrative Officer or other responsible individual shall be responsible for the day-to-day administration of their respective Facilities. Specifically, each such individual shall:

7.8.1 Be responsible for implementing policies of the Board in the operation of the Facility.

7.8.2 Provide the Facility's professional staff with the administrative support and personnel reasonably required to carry out their review and evaluation activities.

7.8.3 Organize the administrative functions of the Facility, delegate duties, and establish formal means of accountability on the part of subordinates.

7.8.4 Be responsible for selecting, employing, controlling and discharging employees, in accordance with the authority delegated by the President and Chief Executive officer.

7.8.5 Assist the President and Chief Executive Officer and the Finance Committee in annually reviewing and updating a capital budget and preparing an operating budget showing the expected receipts and expenditures for the Facilities, and supervise the business affairs of the Facilities to assure that the funds are expended in the best possible advantage.

7.8.6 Perform any other duty within the express or implicit terms of his or her duties hereunder that may be necessary for the interest of the Facilities.

7.8.7 Be responsible for the maintenance of the Facility's property.

7.8.8 Perform such other duties as the Board or President and Chief Executive Officer may from time to time direct.

7.9 SUBORDINATE OFFICERS. The President and Chief Executive Officer, with the approval of the Board, may select and employ, such other officers as the District may require, each of who shall hold office for such period, have such authority, and perform such duties as the Board may from time to time determine.

ARTICLE VIII.
MEDICAL STAFFS

8.1 ORGANIZATION.

8.1.1 There shall be separate Medical Staff organizations for each of the District's Hospitals with appropriate officers and bylaws and with staff appointments on a biennial basis. The Medical Staff of each Hospital shall be self-governing with respect to the professional work performed in that Hospital. Membership in the respective Medical

Staff organization shall be a prerequisite to the exercise of clinical privileges in each Hospital, except as otherwise specifically provided in the Hospital's Medical Staff bylaws.

8.1.2 District Facilities other than the Hospitals may also have professional personnel organized as a medical or professional staff, when deemed appropriate by the Board pursuant to applicable law and Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") and/or other appropriate accreditation standards. The Board shall establish the rules and regulations applicable to any such staff and shall delegate such responsibilities, and perform such functions, as may be required by applicable law and JCAHO and/or other appropriate accreditation standards. To the extent provided by such rules, regulations, laws and standards, the medical or professional staffs of such Facilities shall perform those functions specified in this Article VIII.

8.2 MEDICAL STAFF BYLAWS. Each Medical Staff organization shall propose and adopt by vote bylaws, rules and regulations for its internal governance which shall be subject to, and effective upon, Board approval, which shall not be unreasonably withheld. The bylaws, rules and regulations shall be periodically reviewed for consistency with Hospital policy and applicable legal or other requirements. The bylaws shall create an effective administrative unit to discharge the functions and responsibilities assigned to the Medical Staffs by the Board. The bylaws, rules and regulations shall state the purpose, functions and organization of the Medical Staffs and shall set forth the policies by which the Medical Staffs exercise and account for their delegated authority and responsibilities. The bylaws, rules and regulations shall also establish mechanisms for the selection by the Medical Staff of its officers, departmental chairpersons and committees.

8.3 MEDICAL STAFF MEMBERSHIP AND CLINICAL PRIVILEGES.

8.3.1 Membership on the Medical Staffs shall be restricted to Practitioners who are competent in their respective fields, worthy in character and in professional ethics, and who are currently licensed by the State of California. The bylaws of the Medical Staffs may provide for additional qualifications for membership and privileges, as appropriate.

8.3.2 While retaining its ultimate authority to independently investigate and/or evaluate Medical Staff matters, the Board hereby delegates to the Medical Staffs the responsibility and authority to carry out Medical Staff activities, including the investigation and evaluation of all matters relating to Medical Staff membership, clinical privileges and corrective action. The Medical Staffs shall forward to the Board specific written recommendations, with appropriate supporting documentation that will allow the Board to take informed action, related to at least the following:

(a) Medical Staff structure and organization;

(b) The process used to review credentials and to delineate individual clinical privileges;

(c) Appointing and reappointing Medical Staff members, and restricting, reducing, suspending, terminating and revoking Medical Staff membership;

(d) Granting, modifying, restricting, reducing, suspending, terminating and revoking clinical privileges;

(e) All matters relating to professional competency;

(f) The process by which Medical Staff membership may be terminated; and

(g) The process for fair hearing procedures.

8.3.3 Final action on all matters relating to Medical Staff membership, clinical privileges and corrective action shall be taken by the Board after considering the Medical Staff recommendations. The Board shall utilize the advice of the Medical Staff in granting and defining the scope of clinical privileges to individuals, commensurate with their qualifications, experience, and present capabilities. If the Board does not concur with the Medical Staff recommendation relative to Medical Staff appointment, reappointment or termination of appointment and granting or curtailment of clinical privileges, there shall be a review of the recommendation by a conference of two Board members and two members of the relevant Medical Staff, before the Board renders a final decision.

8.3.4 No applicant shall be denied Medical Staff membership and/or clinical privileges on the basis of sex, race, creed, color, or national origin, or on the basis of any other criterion lacking professional justification. The Hospitals shall not discriminate with respect to employment, staff privileges or the provision of professional services against a licensed clinical psychologist within the scope of his or her licensure, or against a physician, dentist or podiatrist on the basis of whether the physician or podiatrist holds an M.D., D.O, D.D.S., D.M.D. or D.P.M. degree. Wherever staffing requirements for a service mandate that the physician responsible for the service be certified or eligible for certification by an appropriate American medical board, such position may be filled by an osteopathic physician who is certified or eligible for certification by the equivalent appropriate American Osteopathic Board.

8.4 PERFORMANCE IMPROVEMENT.

8.4.1 The Medical Staffs shall meet at regular intervals to review and analyze their clinical experience, in order to assess, preserve and improve the overall quality and efficiency of patient care in the Hospitals and other District Facilities, as applicable. The medical records of patients shall be the basis for such review and analysis. The Medical Staffs shall identify and implement an appropriate response to findings. The Board shall further require mechanisms to assure that patients with the same health problems are receiving a consistent level of care. Such performance improvement activities shall be regularly reported to the Board.

8.4.2 The Medical Staffs shall provide recommendations to the Board as necessary regarding the organization of the Medical Staffs' performance improvement activities as well as the processes designed for conducting, evaluating and revising such activities. The Board shall take appropriate action based on such recommendations.

8.4.3 The Board hereby delegates to the Medical Staffs the responsibility and authority to carry out these performance improvement activities. The Board, through the President and

Chief Executive Officer, shall provide whatever administrative assistance is reasonably necessary to support and facilitate such performance improvement activities.

8.5 MEDICAL RECORDS. A complete and accurate medical record shall be prepared and maintained for each patient.

8.6 TERMS AND CONDITIONS. The terms and conditions of Medical Staff membership, and of the exercise of clinical privileges, shall be as specified in the Hospitals' Medical Staff bylaws.

8.7 PROCEDURE. The procedure to be followed by the Medical Staff and the Board in acting on matters of membership status, clinical privileges, and corrective action, shall be specified in the applicable Medical Staff bylaws.

8.8 APPELLATE REVIEW. Any adverse action taken by the Board with respect to a Practitioner's Staff status or clinical privileges, shall, except under circumstances for which specific provision is made in the Medical Staff bylaws, be subject to the practitioner's right to an appellate review in accordance with procedures set forth in the bylaws of the Medical Staffs.

ARTICLE IX.
AUXILIARY ORGANIZATIONS

9.1 FORMATION. The Board may authorize the formation of auxiliary organizations to assist in the fulfillment of the purposes of the District. Each such organization shall establish its bylaws, rules and regulations, which shall be subject to Board approval and which shall not be inconsistent with these bylaws or the policies of the Board.

9.2 EXISTING ORGANIZATIONS. The Palomar Medical Center Auxiliary and the Pomerado Hospital Auxiliary are existing auxiliary organizations to assist in the fulfillment of the purposes of the District, both of which have been authorized, and their bylaws approved, by the Board.

ARTICLE X.
CLAIMS AND JUDICIAL REMEDIES

10.1 CLAIMS. The District is subject to Division 3.6 of Title 1 of the California Government Code, pertaining to claims against public entities. The Chief Executive Officer or his designee is authorized to perform those functions of the Board specified in Part 3 of that Division, including the allowance, compromise or settlement of any claims if the amount to be paid from the District's treasury does not exceed $50,000. Any allowance, compromise or settlement of any claim in which the amount to be paid from the District's treasury exceeds $10,000 shall be approved personally by the Chief Executive Officer rather than his or her designee.

10.2 JUDICIAL REVIEW. The California Code of Civil Procedure shall govern the rights of any person aggrieved by any decision of the Board or the District, including but not limited to an action taken pursuant to Article VIII of these Bylaws.

10.3 CLAIMS PROCEDURE. Notwithstanding any exceptions contained in Section 905 of the Government Code, no action based on a claim shall be brought against the District unless presented to the District within the time limitations and in the manner prescribed by Government Code Section 910 *et seq.*, and shall be further subject to Section 945.4 of the Government Code.

ARTICLE XI.
AMENDMENT

These bylaws may be amended or repealed by vote of at least four members of the Board at any Board meeting. Such amendments or repeal shall be effective immediately, except as otherwise indicated by the Board.

SECRETARY'S CERTIFICATE

I, the undersigned, the duly appointed, qualified and acting Secretary of the Board of Directors for Palomar Pomerado Health, do hereby certify that attached hereto is a true, complete and correct copy of the current Bylaws of Palomar Pomerado Health.

Dated: _____, 2004

_____
Secretary

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EXHIBIT "B"

NEW

BOARD BYLAWS

REDLINE

AMENDED AND RESTATED

BYLAWS

OF

PALOMAR POMERADO HEALTH

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BYLAWS
OF
PALOMAR POMERADO HEALTH

ARTICLE I.
DEFINITIONS

1.1 "Hospital(s)" means Palomar Medical Center, 555 East Valley Parkway, Escondido, California, and/or Pomerado Hospital, 15615 Pomerado Road, Poway, California.

1.2 "Board" means the Board of Directors of the District.

1.3 "District" means Palomar Pomerado Health.

1.4 "Medical Staff(s)" or "Staff(s)" means the organized medical staff of Palomar Medical Center, the organized medical staff of Pomerado Hospital, and/or the organized medical staff of other District Facilities, as indicated.

1.5 "Facility" or "Facilities" means a Hospital or the Hospitals, Home Health, Skilled Nursing Facilities, or any other health care facility or facilities operated by the District.

1.6 "Practitioner" means a physician (*i.e.*, M.D. or D.O.), dentist (D.D.S. or D.M.D.) or podiatrist (D.P.M.) who is duly licensed in the State of California to practice within the scope of said license.

ARTICLE II.
ORGANIZATION, POWERS AND PURPOSES

2.1 ORGANIZATION. The District is a political subdivision of the State of California organized under the Division 23 of the Health and Safety Code ("Local Health Care District Law").

2.2 PURPOSES AND POWERS. The District is organized for the purposes described in the Local Health Care District Law and shall have and may exercise such powers in the furtherance of its purposes as are now or may hereafter be set forth in the Local Health Care District Law and any other applicable statutes, rules or regulations of the State of California.

2.3 BYLAWS, POLICIES AND PROCEDURES

2.3.1 The Board shall have the powers to adopt, amend, and promulgate District Bylaws, Policies, and Procedures as appropriate, and may delegate its power to promulgate Procedures in its discretion. For purposes of these Bylaws, "Policies" shall denote Board approved statements that provide broad strategic directions and/or governing mandates for the District, enabling the development of Procedures. The term "Procedures" shall mean any specific instruction or mode of conduct for the purpose of implementing a policy that may be promulgated by those District officers designated by the Board.

2.3.2 The Board shall review and approve the District Bylaws annually.

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2.3.3 The Governance Committee will have the responsibility to oversee and ensure collaboration between the Board and District management for the purpose of developing, reviewing and revising the District Bylaws, Policies, Procedures, and other rules or regulations prior to being brought to the full Board for approval.

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2.4 DISSOLUTION. Any proposal to dissolve the District shall be subject to confirmation by the voters of the District in accordance with the Government Code.

ARTICLE III.
OFFICES

3.1 PRINCIPAL OFFICE. The principal office of the District is hereby fixed and located at 15255 Innovation Drive, San Diego, California.

3.2 OTHER OFFICES. Branch or subordinate offices may be established at any time by the Board at any place or places.

ARTICLE IV.
BOARD

4.1 GENERAL POWERS. The Board is the governing body of the District. All District powers shall be exercised by or under the direction of the Board. The Board is authorized to make appropriate delegations of its powers and authority to officers and employees.

4.2 OPERATION OF FACILITIES. The Board shall be responsible for the operation of the Facilities according to the best interests of the public health, and shall make and enforce all rules, regulations and bylaws necessary for the administration, government, protection and maintenance of the Facilities and all property belonging thereto, and may prescribe the terms upon which patients may be admitted to the Facilities. Such rules, regulations and bylaws applicable to the Facilities shall include but not be limited to the provisions specified in the Health and Safety Code, and shall be in accordance with and contain minimum standards no less than the rules and standards of private or voluntary hospitals. Unless specifically prohibited by law, the Board may adopt other rules which could be lawfully adopted by private or voluntary hospitals.

4.3 RATES. In setting the rates the Board shall, insofar as possible, establish such rates as will permit the Facilities to be operated upon a self-supporting basis. The Board may establish different rates for residents of the District than for persons who do not reside within the District.

4.4 NUMBER AND QUALIFICATION.

4.4.1 The Board shall consist of seven members, each of whom shall be a registered voter residing in the District.

4.4.2 Except as otherwise provided in applicable law, no Board member shall possess any ownership interest in any other hospital serving the same area as that served by the District or be a director, policymaking management employee, or medical staff officer of any hospital serving the same area as that served by the District, unless the boards of directors of the District and the hospital have determined that the situation will further joint planning, efficient delivery of health care services, and the best interests of the areas

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served by their respective hospitals, or unless the District and the hospital are affiliated under common ownership, lease, or any combination thereof. No Board member shall simultaneously hold any other position over which the Board exercises a supervisory, auditory, or removal power.

4.4.3 For purposes of this section, a hospital shall be considered to serve the same area as the District if more than five percent of the hospital's patient admissions are District residents.

4.4.4 For purposes of this section, the possession of an ownership interest, including stocks, bonds, or other securities by the spouse or minor children or any person shall be deemed to be the possession or interest of the person.

4.4.5 Any candidate who elects to run for the office of member of the Board, and who owns stock in or who works for any health care facility that does not serve the same area served by the District, shall disclose on the ballot his or her occupation and place of employment.

4.5 CONFLICTS OF INTERESTS. The Board shall endeavor to eliminate from its decision making processes financial or other interests possessed by its members that conflict with the District's interests. Board members and other persons who are "Designated Employees," as defined in the current Conflict of Interests Code of Palomar Pomerado Health as it may be amended from time to time, shall at all times comply with said Code any and all laws and regulations relating to conflicts of interests, including but not limited to the Government Code.

4.6 ELECTION AND TERM OF OFFICE. An election shall be held in the District on the first Tuesday after the first Monday in November in each even-numbered year, at which a successor shall be chosen to each Director whose term shall expire on the first Friday of December following such election. The election of Board members shall be an election at large within the District and shall be consolidated with the statewide general election. The candidates receiving the highest number of votes for the offices to be filled at the election shall be elected thereto. The term of office of each elected Board member shall be four years, or until the Board member's successor is elected and has qualified, except as otherwise provided by law in the event of a vacancy.

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4.7 NEW MEMBER ORIENTATION. An orientation shall be provided which familiarizes each new Board member with his or her duties and responsibilities, including the Board's responsibilities for quality care and the Facilities' quality assurance programs. Continuing education opportunities shall be made available to Board members.

4.8 EVALUATION. The Board shall evaluate its own performance as well as those of its officers and employees on an annual or other periodic basis.

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4.9 VACANCIES. Vacancies on the Board shall be filled in accordance with the applicable provisions of the Government Code.

4.10 RESIGNATION OR REMOVAL. Any Board member may resign effective upon giving written notice to the Chairperson or the Secretary of the Board, unless the notice specifies a later time for the effectiveness of such resignation. The term of any member of the Board shall expire if the member is absent from three consecutive regularly scheduled monthly Board meetings or from three of any five

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consecutive regular meetings of the Board and if the Board by resolution declares that a vacancy exists on the Board. All or any of the members of the Board may be recalled at any time by the voters following the recall procedure set forth in Division 16 of the Election Code.

4.11 LIABILITY INSURANCE. The Board may purchase and maintain liability insurance on behalf of any person who is or was a director, officer, employee or agent of the District, or is or was serving at the request of the District as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise or as a member of any committee or similar body, against any liability asserted against such person and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the District would have the power to indemnify him or her against such liability.

4.12 COMPENSATION. The Board shall serve without compensation unless the Board authorizes, by resolution adopted by majority vote, compensation of not to exceed $100 per meeting for a maximum of five meetings per month for each member of the Board. For purposes of this section, "meeting" shall mean any regular or special Board meeting, whether open or closed, any standing or ad hoc committee meetings or any orientation sessions. For compensation purposes, successive open and closed meetings shall be considered as one meeting.

4.13 HEALTH AND WELFARE BENEFITS. Notwithstanding Section 4.12 above, the Board may provide health and welfare benefits, pursuant to Government Code Section 53200 *et seq.*, for the benefit of its elected and former members and their dependents, or permit its elected and former members and their dependents to participate in District programs for such benefits, in accordance with all applicable laws and regulations.

4.14 TRAVEL AND INCIDENTAL EXPENSES REIMBURSEMENT. Each member of the Board shall be reimbursed for his or her actual necessary traveling and incidental expenses incurred in the performance of official business of the District as approved by the Board and in accordance with District Policy. Such reimbursement, if approved by the Board, shall not constitute "compensation" for purposes of Section 4.12 above.

ARTICLE V.
BOARD MEETINGS

5.1 MEETINGS OPEN TO THE PUBLIC. Meetings of the Board shall be open to the public, except as otherwise provided in applicable laws or regulations, including but not limited to the Brown Act and the Local Health Care District Law.

5.2 BOARD MEETING. A meeting of the Board is any congregation of a majority of the members of the Board at the same time and place to hear, discuss or deliberate upon any item that is within the subject matter jurisdiction of the Board. A meeting is also the use of direct communication, personal intermediaries or technological devices that is employed by a majority of the members of the Board to develop a collective concurrence as to action to be made on an item by the members of the Board. Board meetings may be held by teleconference subject to applicable laws and regulations including the Government Code.

5.3 REGULAR MEETINGS. Regular meetings of the Board shall be held as follows:

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5.3.1 The Board's annual organizational meeting shall be held in December at the place and time designated by the Board in the Resolution discussed in Section 5.3.2 below.

5.3.2 At the annual organizational meeting, the Board shall pass a resolution stating the dates, times and places of the Board's regular monthly meetings for the following calendar year.

5.4 HOLIDAYS. Meetings of the Board may be held on any calendar day as determined by the Board.

5.5 NOTICE AND ACTION. The Board shall provide public notice of its meetings in accordance with the Brown Act. No "action," as defined in the Brown Act, shall be taken on any item not appearing on the posted agenda unless permitted under applicable law.

5.6 MEMBERS OF THE PUBLIC. Members of the public shall be afforded an opportunity to participate in District decision making processes and Board meetings to the extent permitted under applicable laws, including but not limited to the Brown Act and the Local Health Care District Law.

5.7 ANNUAL ORGANIZATIONAL MEETING. At its annual organizational meeting, the Board shall organize by the election of officers. One member shall be elected as Chairperson, one as Vice Chairperson and one as Secretary. The Board may also appoint the Treasurer at the annual organizational meeting, who may also be the Chairperson of the Finance Committee.

5.8 SPECIAL MEETINGS.

5.8.1 A special meeting may be called at any time by the Chairperson, or by four or more Board members, by delivering personally or by mail written notice to each Board member and to each local newspaper of general circulation, radio or television station requesting notice in writing. Such notice must be delivered personally or by mail at least 24 hours before the time of such meeting as specified in the notice. The call and notice shall specify the time and place of the special meeting and the business to be transacted; no other business shall be considered at special meetings. Written notice may be dispensed with as to any Board member who at or prior to the time the meeting convenes files with the Secretary a written waiver of notice. Such written notice may also be dispensed with as to any member who is actually present at the meeting at the time it convenes.

5.8.2 The call and notice shall also be posted at least 24 hours prior to the special meeting in a location that is freely accessible to members of the public. Notice shall be required pursuant to this Section regardless of whether any action is taken at the special meeting.

5.8.3 In the case of an emergency situation involving matters upon which prompt action is necessary due to the disruption or threatened disruption of public facilities, the Board may hold an emergency meeting without complying with either or both the 24 hour notice or posting requirements. In the event the notice and/or posting requirements are dispensed with due to an emergency situation, each local newspaper of general circulation and radio or television station which has requested notice of special meetings shall be notified by the Chairperson, or his designee, one hour prior to the emergency meeting, by telephone. All telephone numbers provided in the most recent request of such newspaper or station for notification of special meetings shall be exhausted. In the event that telephone services are not functioning, the notice requirements of this

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paragraph shall be deemed waived, and the Board, or its designee, shall notify those newspapers, radio stations or television stations of the fact of the holding of the emergency meeting, the purpose of the meeting, and any action taken at the meeting as soon after the meeting as possible. Notwithstanding this Section, the Board shall not meet in closed session during a meeting called as an emergency meeting. With the exception of the 24 hours notice and posting requirements, all requirements contained in this Section shall be applicable to any meeting called due to an emergency situation.

5.8.4 The minutes of an emergency meeting, a list of persons who the Chairperson, or his designee, notified or attempted to notify, a copy of the roll call vote, and any actions taken at the meeting shall be publicly posted for a minimum of ten days as soon possible after the meeting.

5.9 QUORUM. A vote is to be determined by a simple "majority vote". If there are abstentions on a vote, the non-abstaining members of the Board must constitute a quorum of the whole board (four members or more) for the transaction of business. Except as otherwise provided by law or these Bylaws, the act of the majority of the non-abstaining Board members voting will be the "majority vote".

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5.10 ADJOURNMENT AND CONTINUANCE. The Board may adjourn any of its meetings in accordance with applicable laws, including but not limited to the Brown Act.

5.11 DISRUPTED MEETINGS. In the event that any meeting is willfully interrupted by a group or groups of persons so as to render the orderly conduct of such meeting unfeasible, and order cannot be restored by the removal of individuals who were willfully interrupting the meeting, the Board may order the meeting room closed and continue in session. Only matters appearing on the agenda may be considered in such a session. Representatives of the press or other news media, except those participating in the disturbance, shall be allowed to attend any session held pursuant to this section. The Board may establish a procedure for readmitting an individual or individuals not responsible for willfully disrupting the orderly conduct of the meeting.

5.12 MEDICAL STAFF REPRESENTATION. The Medical Staff of each Facility shall have the right of representation at all meetings of the Board, except closed sessions at which such representation is not requested, by and through the Chief of Staff or President of each Medical Staff, who shall have the right of attendance, the right to participate in Board discussions and deliberations, but who shall not have the right to vote.

ARTICLE VI.
BOARD COMMITTEES

6.1 APPOINTMENT. Standing committees are established by the Board and shall be advisory in nature unless otherwise specifically authorized to act by the Board. Members of all committees, whether standing or special (ad hoc) shall be appointed by the Chairperson of the Board.

6.1.1 A standing committee of the Board is any commission, committee, board or other body, whether permanent or temporary, which is created by formal action of the Board and has continuing subject matter jurisdiction and/or a meeting schedule fixed by charter, ordinance, resolution, or formal action of the Board. Actions of committees shall be advisory in nature with recommendations being made to the full Board.

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6.1.2 Special or ad hoc committees are appointed by the Chair of the Board and shall exist for a single, limited purpose with no continuing subject matter or jurisdiction. Special or advisory committees shall be advisory in nature and shall make recommendation to the full Board. The committee shall be considered disbanded upon conclusion of the purpose for which it was appointed.

6.1.3 The Audit Committee of the Board shall function pursuant to a charter approved by the Board and amended from time to time.

6.2 STANDING COMMITTEES. There shall be the following standing committees of the Board: Finance, Governance, Human Resources, Strategic Planning, Community Relations, Quality Review, Audit Committee, and Facilities and Grounds Committee. Standing committees will be treated as the Board with respect to Article V of these bylaws. All provisions in Article V that apply to Board members shall apply to members of any standing committee.

6.2.1 Finance Committee.

(a) Voting Membership. The Finance Committee shall consist of seven voting members, four members of the Board, the President and Chief Executive Officer and the Chief of Medical Staff from each hospital. One alternate Committee member shall also be appointed by the Chairperson who shall attend Committee meetings and enjoy voting rights on the Committee only when serving as an alternate for a voting Committee member. The Chairperson of the Board may appoint the Treasurer as the chairperson of the Finance Committee.

(b) Non-Voting Membership. The Chief Financial Officer (CFO), the Chief Administrative Officers Palomar Medical Center and Pomerado Hospital and a nurse representative.

(c) Duties. The duties of the Committee shall include but are not limited to:

(i) Review the preliminary, annual operating budgets for the District and Facilities and other entities;

(ii) Develop and recommend to the Board the final, annual, operating budgets;

(iii) Develop and recommend to the Board a three-year, capital expenditure plan that shall be updated at least annually. The capital expenditure plan shall include and identify anticipated sources of financing for and objectives of each proposed capital expenditure in excess of $100,000;

(iv) Review and recommend approval of the monthly financial statements to the Board.

(v) Recommend to the Board cost containment measures and policies;

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(vi) Review annually those policies and procedures within its purview and report the results of such review to the Governance Committee. Such reports shall include recommendations regarding the modification of existing or creation of new policies and procedures; and

(vii) Perform such other duties as may be assigned by the Board.

6.2.2 Governance Committee.

(a) Voting Membership. Membership shall consist of no more than three members of the Board and one alternate. The alternate shall attend and enjoy voting rights only in the absence of a voting Committee member.

(b) Non-Voting Membership. The President and Chief Executive Officer, the Chief Marketing and Communications Officer and the Compliance Officer.

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(c) Duties. The duties of the Committee shall include but are not limited to:

(i) Review periodically and make recommendations regarding pending and existing federal, state and local legislation which, in the committee's opinion, may impact the District;

(ii) Make an annual, comprehensive review of the District bylaws, policies and procedures and receive reports regarding same, and elicit recommendations on such issues from management;

(iii) Review any initiation of legislation;

(iv) Review such other issues associated with PPH and/or Board governance and its effectiveness, including but not limited to Board member orientation and continuing education;

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(v) Make recommendations regarding the annual self-assessment of the Board;

(vi) Receive reports from the Compliance Officer and recommend action to the full Board regarding Compliance issues; and

(vii) Perform such other duties as may be assigned by the Board.

6.2.3 Human Resources Committee.

(a) Voting Membership. Membership shall consist of no more than three members of the Board and one alternate. The alternate shall attend Committee meetings and enjoy voting rights only in the absence of a voting Committee member.

(b) Non-Voting Membership. The President and Chief Executive Officer, Chief Human Resources Officer, the Chief Administrative Officers Palomar Medical Center and Pomerado Hospital and the Chief Nurse Executive.

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(c) Duties. The duties of the Committee shall include but are not limited to: -

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(i) Make recommendations to the President and Chief Executive Officer and the Board to improve communications among the Board, Medical Staffs, District employees and auxiliaries, including initiating special studies;

(ii) Maintain ultimate oversight of annual performance reviews of all District officers and employees and, in the appropriate circumstances and upon request by the Board, make a report of such reviews to the Board; and

(iii) Review annually those policies and procedures within its purview and report the results of such review to the Governance Committee. Such reports shall include recommendations to the Board regarding modification of existing or creation of new policies and procedures; and

(iv) Review and make recommendations to the Board regarding compensation, incentive, and benefit plans offered to District Officers and other employees.

(v) Ensure that all special studies and recommendations/proposals are in alignment with the PPH mission, vision and strategic plan as well as government regulations.

(vi) Perform such other duties as may be assigned by the Board.

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6.2.4 Strategic Planning Committee.

(a) Voting Membership. The Committee shall consist of seven voting members, including four members of the Board and one alternate who shall attend Committee meetings and enjoy voting rights on the Committee only when serving as an alternate for a voting Committee member, the President and Chief Executive Officer and the Chiefs of Staff of the Hospitals or the designees of the Chiefs of staff, as approved by the Committee Chairperson.

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(b) Non-Voting Membership. The Chief Financial Officer, Chief Marketing and Communications Officer, Chief Administrative Officers Palomar Medical Center and Pomerado Hospital, the Chief Nurse Executive, Chief Executive Officer of the Palomar Pomerado Health Foundation, a board member of the Palomar Pomerado Health Foundation recommended by the Foundation and approved by the Committee Chairperson and an additional physician from each hospital as recommended by each hospital's Chief of Staff and as approved by the Committee Chairperson.

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(c) Duties. The duties of the Committee shall include but are not limited to:

(i) Review and make recommendations to the Board regarding the District's short and long range strategic plans, master and Facility plans, physician development plans and strategic collaborative relationships; and

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(ii) Review annually those policies within the Committee's purview and report the results of such review to the Governance Committee. Such reports shall include recommendations regarding the modification of existing, or creation of new policies; and

(iii) Undertake planning regarding physician recruitment and retention and program development of new and enhanced services and Facilities; and

(iv) Perform such other duties as may be assigned by the Board.

6.2.5 Quality Review Committee.

(a) Voting Membership. The Committee shall consist of five voting members, including three members of the Board and the Chairs of Medical Staff Quality Management Committees of the Hospitals or Physician Co-Chair, Quality Council (voting position will rotate between Chairs of Medical Staff Quality Management Committees and Physician Co-Chair Quality Council allowing only two votes total for these three positions) and an alternate, who shall attend and enjoy voting rights only in the absence of a voting Committee Member.

(b) Non-Voting Membership. The President and Chief Executive Officer, the Chief Administrators of Pomerado Hospital and Palomar Medical Center, a nurse representative, the Chief Quality and Clinical Effectiveness Officer, Chair of the Patient Safety Committee, the Physician Co-Chair of Quality Council or the Chairs of the Quality Management Committees of Pomerado Hospital and Palomar Medical Center (non-voting position will rotate between Chairs of Medical Staff Quality Management Committees, and Physician Co-Chair Quality Council allowing only two votes total for these three positions)

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(c) Duties. The duties of the Committee shall include but are not limited to:

(i) Periodically review and make recommendations to the Board with regard to credentialing, claims and potential litigation, performance improvement and risk management activities, and performance improvement and procedure issues; and

(ii) Oversee the performance improvement and risk management activities of the Hospitals and other Facilities, if applicable, and shall periodically report its conclusions and recommendations to the Board.

6.2.6 Community Relations Committee.

(a) Voting Membership. The Committee shall consist of five voting members, including three members of the Board and one alternate who shall attend Committee meetings and enjoy voting rights on the Committee only when serving as an alternate for a voting Committee member, the President and Chief Executive

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Officer and a Board member of the Palomar Pomerado Heath Foundation recommended by the Foundation and approved by the Committee Chairperson.

(b) Non-Voting Membership. The Chief Marketing and Communications Officer, the Community Outreach Director, the Chief Executive Officer of the Palomar Pomerado Health Foundation, the Director HealthSource, the Director Marketing and Public Relations, a nurse representative and a representative of each District Auxiliary, as approved by the Committee Chairperson.

(c) Duties. The duties of the Committee shall include but are not limited to:

(i) Review and make recommendations to the Board regarding the District's community relations and outreach activities, including marketing, community education and wellness activities;

(ii) Review marketing policies to ensure that they support the District's mission and goals. Such policies shall include market research, specific and marketing program planning and development, and internal and external communications. The Committee shall report its review of such policies to the Board on a regular basis;

(iii) Serve as Board liaison to the Foundation and annually review, recommend and prioritize capital projects and contemplated funding requests to the Foundation's Board of Directors, and review annual reports from the Foundation regarding donations and projects funded during the previous year;

(iv) Review annually those policies within the Committee's purview and report the results of such review to the Governance Committee. Such reports shall include recommendations regarding the modification of existing, or creation of new, policies;

(v) Advise the Board on issues relating to health care advisory councils and District grant procurements;

(vi) Undertake planning regarding the District's community relations and outreach activities, including marketing, community education and wellness activities; and

(vii) Perform such other duties as may be assigned by the Board.

6.2.7 Audit Committee.

(a) Voting Membership. The Audit Committee shall consist of no more than three members of the Board and one alternate. The alternate shall attend Committee meetings and enjoy voting rights only in the absence of a voting Committee member.

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(b) Non-Voting Membership. The President and Chief Executive Officer, Director of Audit Services, and a representative from each Hospital's Medical Staff. Any district executive, representative or director will attend as an invited guest.

(c) Duties. The duties of the Committee shall include but are not limited to:

(i) Approve the overall audit scope;

(ii) Ensuring that audits are conducted in an efficient and cost effective manner;

(iii) Overseeing the organizations financial statements and internal controls;

(iv) Recommending to the Board a qualified firm to conduct an annual, independent financial audit;

(v) Recommending to the Board the approval of the organizations annual audit reports;

(vi) Review annually those policies within its purview and report the results of such review to the Governance Committee. Such reports shall include recommendations regarding the modification of existing or creation of new policies; and

(vii) Assess and monitor the independent status of the outside independent auditors;

(viii) Direct special investigations for the Board;

(ix) Meet periodically in closed session with only committee members present.

(x) Perform such other duties as may be assigned by the Board.

6.2.8 Facilities and Grounds Committee.

(a) Voting Membership. The Facilities and Grounds Committee shall consist of four voting members, including three members of the Board, and the President and Chief Executive Officer. One alternate Committee member shall also be appointed by the Chairperson who shall attend Committee meetings and enjoy voting rights on the Committee only when serving as an alternate for a voting Committee member.

(b) Non-Voting Membership. Chief Administrative Officer Pomerado Hospital, the Chief Financial Officer (CFO) or designee, nurse representative from PMC or POM and the Director of Facilities Planning and Development. As needed, other appropriate relevant staff in engineering, architectural, planning and Compliance and a Physician Advisory Committee member may be requested to attend along with PPH staff to facilitate the work of the committee.

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(c) Duties. The duties of the Committee shall include but are not limited to:

(i) Review construction estimates and expenses for accuracy and architectural plans completeness and effectiveness;

(ii) Approve construction project change orders in accordance with applicable district law and PPH policies;

(iii) Receive reports from the Construction Manager and the Director of Facilities Planning and Development and recommend action to the Board regarding facilities design and maintenance;

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(iv) Review regulations and reports regarding facilities and grounds from external agencies, accrediting bodies and insurance carriers and make recommendations for appropriate action regarding the same to the Board;

(v) Approve the annual Facilities Development Plan and regularly review updates on implementation of plan;

(vi) Receive a biannual Environment of Care report;

(vii) Perform such other duties as may be assigned by the Board.

6.3 SPECIAL COMMITTEES. Special or ad hoc committees may be appointed by the Chairperson for special tasks as circumstances warrant and upon completion of the task for which appointed such special committee shall stand discharged. The Chairperson shall make assignments on special committees, and/or individual Board member assignments, to assure that each Board member shall have equal participation on special committees or individual Board assignments throughout the year. Some of the functions that may be the topic of special committees include the review of new projects, the review of special bylaw changes or the review of the Bylaws periodically, the meeting with other public agencies or health facilities on a specific topic and the evaluation of the Board.

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6.4 ADVISORS. A committee chairperson may invite individuals with expertise in a pertinent area to voluntarily work with and assist the committee. Such advisors shall not vote or be counted in determining the existence of a quorum and may be excluded from any committee session in the discretion of the committee chairperson.

6.5 MEETINGS AND NOTICE. Meetings of a committee may be called by the Chairperson of the Board, the chairperson of the committee, or a majority of the committee's voting members. The chairperson of the committee shall be responsible for contacting alternate committee members in the event their participation is needed for any given committee meeting.

6.6 QUORUM. A majority of the voting members of a committee shall constitute a quorum for the transaction of business at any meeting of such committee. Each committee shall keep minutes of its proceedings and shall report periodically to the Board.

6.7 MANNER OF ACTING. The act of a majority of the members of a committee present at a meeting at which a quorum is present shall be the act of the committee so meeting. No act taken at a meeting at which less than a quorum was present shall be valid unless approved in writing by the absent

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members. Special committee action may be taken without a meeting by a writing setting forth the action so taken signed by each member of the committee entitled to vote.

6.8 TENURE. Each member of a committee described above shall serve a one year term, commencing on the first day of January after the annual organizational meeting at which he or she is elected or appointed. Each committee member shall hold office until a successor is elected, unless he or she sooner resigns or is removed from office by the Board.

ARTICLE VII.
OFFICERS

7.1 CHAIRPERSON. The Board shall elect one of its members as Chairperson at an organizational regular meeting. In the event of a vacancy in the office of Chairperson, the Board may elect a new Chairperson. The Chairperson shall be the principal officer of the District and the Board, and shall preside at all meetings of the Board. The Chairperson shall appoint all Board committee members and committee chairpersons, and shall perform all duties incident to the office and such other duties as may be prescribed by the Board from time to time.

7.2 VICE CHAIRPERSON. The Board shall elect one of its members as Vice Chairperson at an organizational meeting. In the absence of the Chairperson, the Vice Chairperson shall perform the duties of the Chairperson.

7.3 SECRETARY. The Board shall elect one of its members Secretary at an organizational meeting. The Secretary shall provide for the keeping of minutes of all meetings of the Board. The Secretary shall give or cause to be given appropriate notices in accordance with these bylaws or as required by law and shall act as custodian of District records and reports and of the District's seal.

7.4 TREASURER. The Board shall appoint a Treasurer who shall serve at the pleasure of the Board. The Treasurer shall be charged with the safekeeping and disbursal of the funds in the treasury of the District. The Treasurer may be the chairperson of the Finance Committee.

7.5 TENURE. Each officer described above shall serve a one-year term, commencing on the first day of January after the organizational meeting at which he or she is elected to the position. Each officer shall hold office until the end of the one year term, or until a successor is elected, unless he or she shall sooner, resign or is removed from office.

7.6 REMOVAL. An officer described above may be removed from office by the affirmative vote of four members of the Board not counting the affected Board member. In addition, an officer described above will automatically be removed from office when his or her successor is elected and is sworn in as a Board member.

7.7 PRESIDENT AND CHIEF EXECUTIVE OFFICER. The Board shall select and employ a President and Chief Executive Officer who shall report to the Board. The President and Chief Executive Officer shall have sufficient education, training, and experience to fulfill his or her responsibilities, which shall include but not be limited to:

7.7.1 Reviewing, recommending changes to, and implementing District Policies and Procedures. By working with standing and special committees of the Board and joint committees of the Medical Staffs of the Facilities, the President and Chief Executive

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Officer is to participate in the elaboration of policies which provide the framework for patient care of high quality at reasonable cost.

7.7.2 Maintaining District records and minutes of Board and committee meetings.

7.7.3 Overall operation of the District, its Facilities and other health services, including out-of-hospital services sponsored by the District. This includes responsibility for coordination among Facilities and services to avoid unnecessary duplication of services, facilities and personnel, and control of costs. This also includes responsibility for sound personnel, financial, accounting and statistical information practices, such as preparation of District budgets and forecasts, maintenance of proper financial and patient statistical records, collection of data required by governmental and accrediting agencies, and special studies and reports required for efficient operation of the District.

7.7.4 Implementing community relations activities, including, as indicated, public appearances, responsive communication with the media.

7.7.5 Assisting the Board in planning services and facilities and informing the Board of Governmental legislation and regulations and requirements of official agencies and accrediting bodies, which affect the planning and operation of the facilities, services and programs sponsored by the District, and maintenance appropriate liaison with government and accrediting agencies and implementing actions necessary for compliance.

7.7.6 Ensuring the prompt response by the Board and/or District personnel to any recommendations made by planning, regulatory or accrediting agencies.

7.7.7 Hiring and termination of all employees of the District. To the extent the President and Chief Executive Officer deems appropriate, the President and Chief Executive Officer shall delegate to the District Officers the authority to hire and terminate personnel of their respective hospitals or other entities.

7.7.8 Administering professional contracts between the District and Practitioners.

7.7.9 Providing the Board and Board committee with adequate staff support.

7.7.10 Sending periodic reports to the Board and to the Medical Staffs on the overall activities of the District and the Facilities, as well as pertinent federal, state and local developments that effect the operation of District Facilities.

7.7.11 Providing liaison among the Board, the Medical Staffs, and the District's operating entities.

7.7.12 The maintenance of insurance or self-insurance on all physical properties of the District.

7.7.13 Designate other individuals by name and position who are, in the order or succession, authorized to act for the District Officers during any period of absence.

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7.7.14 Participating as a non-voting member in all meetings of standing committees of the Board.

7.7.15 Such other duties as the Board may from time to time direct.

7.8 ADMINISTRATIVE OFFICERS. The President and Chief Executive Officer, with the approval of the Board, may select and employ an Administrative Officer or other responsible individual for each of the Facilities, who shall report to the President and Chief Executive Officer. The Administrative Officer or other responsible individual shall be responsible for the day-to-day administration of their respective Facilities. Specifically, each such individual shall:

7.8.1 Be responsible for implementing policies of the Board in the operation of the Facility.

7.8.2 Provide the Facility's professional staff with the administrative support and personnel reasonably required to carry out their review and evaluation activities.

7.8.3 Organize the administrative functions of the Facility, delegate duties, and establish formal means of accountability on the part of subordinates.

7.8.4 Be responsible for selecting, employing, controlling and discharging employees, in accordance with the authority delegated by the President and Chief Executive officer.

7.8.5 Assist the President and Chief Executive Officer and the Finance Committee in annually reviewing and updating a capital budget and preparing an operating budget showing the expected receipts and expenditures for the Facilities, and supervise the business affairs of the Facilities to assure that the funds are expended in the best possible advantage.

7.8.6 Perform any other duty within the express or implicit terms of his or her duties hereunder that may be necessary for the interest of the Facilities.

7.8.7 Be responsible for the maintenance of the Facility's property.

7.8.8 Perform such other duties as the Board or President and Chief Executive Officer may from time to time direct.

7.9 SUBORDINATE OFFICERS. The President and Chief Executive Officer, with the approval of the Board, may select and employ, such other officers as the District may require, each of who shall hold office for such period, have such authority, and perform such duties as the Board may from time to time determine.

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ARTICLE VIII.
MEDICAL STAFFS

8.1 ORGANIZATION.

8.1.1 There shall be separate Medical Staff organizations for each of the District's Hospitals with appropriate officers and bylaws and with staff appointments on a biennial basis. The Medical Staff of each Hospital shall be self-governing with respect to the professional work performed in that Hospital. Membership in the respective Medical

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Staff organization shall be a prerequisite to the exercise of clinical privileges in each Hospital, except as otherwise specifically provided in the Hospital's Medical Staff bylaws.

8.1.2 District Facilities other than the Hospitals may also have professional personnel organized as a medical or professional staff, when deemed appropriate by the Board pursuant to applicable law and Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") and/or other appropriate accreditation standards. The Board shall establish the rules and regulations applicable to any such staff and shall delegate such responsibilities, and perform such functions, as may be required by applicable law and JCAHO and/or other appropriate accreditation standards. To the extent provided by such rules, regulations, laws and standards, the medical or professional staffs of such Facilities shall perform those functions specified in this Article VIII.

8.2 MEDICAL STAFF BYLAWS. Each Medical Staff organization shall propose and adopt by vote bylaws, rules and regulations for its internal governance which shall be subject to, and effective upon, Board approval, which shall not be unreasonably withheld. The bylaws, rules and regulations shall be periodically reviewed for consistency with Hospital policy and applicable legal or other requirements. The bylaws shall create an effective administrative unit to discharge the functions and responsibilities assigned to the Medical Staffs by the Board. The bylaws, rules and regulations shall state the purpose, functions and organization of the Medical Staffs and shall set forth the policies by which the Medical Staffs exercise and account for their delegated authority and responsibilities. The bylaws, rules and regulations shall also establish mechanisms for the selection by the Medical Staff of its officers, departmental chairpersons and committees.

8.3 MEDICAL STAFF MEMBERSHIP AND CLINICAL PRIVILEGES.

8.3.1 Membership on the Medical Staffs shall be restricted to Practitioners who are competent in their respective fields, worthy in character and in professional ethics, and who are currently licensed by the State of California. The bylaws of the Medical Staffs may provide for additional qualifications for membership and privileges, as appropriate.

8.3.2 While retaining its ultimate authority to independently investigate and/or evaluate Medical Staff matters, the Board hereby delegates to the Medical Staffs the responsibility and authority to carry out Medical Staff activities, including the investigation and evaluation of all matters relating to Medical Staff membership, clinical privileges and corrective action. The Medical Staffs shall forward to the Board specific written recommendations, with appropriate supporting documentation that will allow the Board to take informed action, related to at least the following:

(a) Medical Staff structure and organization;

(b) The process used to review credentials and to delineate individual clinical privileges;

(c) Appointing and reappointing Medical Staff members, and restricting, reducing, suspending, terminating and revoking Medical Staff membership;

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(d) Granting, modifying, restricting, reducing, suspending, terminating and revoking clinical privileges;

(e) All matters relating to professional competency;

(f) The process by which Medical Staff membership may be terminated; and

(g) The process for fair hearing procedures.

8.3.3 Final action on all matters relating to Medical Staff membership, clinical privileges and corrective action shall be taken by the Board after considering the Medical Staff recommendations. The Board shall utilize the advice of the Medical Staff in granting and defining the scope of clinical privileges to individuals, commensurate with their qualifications, experience, and present capabilities. If the Board does not concur with the Medical Staff recommendation relative to Medical Staff appointment, reappointment or termination of appointment and granting or curtailment of clinical privileges, there shall be a review of the recommendation by a conference of two Board members and two members of the relevant Medical Staff, before the Board renders a final decision.

8.3.4 No applicant shall be denied Medical Staff membership and/or clinical privileges on the basis of sex, race, creed, color, or national origin, or on the basis of any other criterion lacking professional justification. The Hospitals shall not discriminate with respect to employment, staff privileges or the provision of professional services against a licensed clinical psychologist within the scope of his or her licensure, or against a physician, dentist or podiatrist on the basis of whether the physician or podiatrist holds an M.D., D.O, D.D.S., D.M.D. or D.P.M. degree. Wherever staffing requirements for a service mandate that the physician responsible for the service be certified or eligible for certification by an appropriate American medical board, such position may be filled by an osteopathic physician who is certified or eligible for certification by the equivalent appropriate American Osteopathic Board.

8.4 PERFORMANCE IMPROVEMENT.

8.4.1 The Medical Staffs shall meet at regular intervals to review and analyze their clinical experience, in order to assess, preserve and improve the overall quality and efficiency of patient care in the Hospitals and other District Facilities, as applicable. The medical records of patients shall be the basis for such review and analysis. The Medical Staffs shall identify and implement an appropriate response to findings. The Board shall further require mechanisms to assure that patients with the same health problems are receiving a consistent level of care. Such performance improvement activities shall be regularly reported to the Board.

8.4.2 The Medical Staffs shall provide recommendations to the Board as necessary regarding the organization of the Medical Staffs' performance improvement activities as well as the processes designed for conducting, evaluating and revising such activities. The Board shall take appropriate action based on such recommendations.

8.4.3 The Board hereby delegates to the Medical Staffs the responsibility and authority to carry out these performance improvement activities. The Board, through the President and

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Chief Executive Officer, shall provide whatever administrative assistance is reasonably necessary to support and facilitate such performance improvement activities.

8.5 MEDICAL RECORDS. A complete and accurate medical record shall be prepared and maintained for each patient.

8.6 TERMS AND CONDITIONS. The terms and conditions of Medical Staff membership, and of the exercise of clinical privileges, shall be as specified in the Hospitals' Medical Staff bylaws.

8.7 PROCEDURE. The procedure to be followed by the Medical Staff and the Board in acting on matters of membership status, clinical privileges, and corrective action, shall be specified in the applicable Medical Staff bylaws.

8.8 APPELLATE REVIEW. Any adverse action taken by the Board with respect to a Practitioner's Staff status or clinical privileges, shall, except under circumstances for which specific provision is made in the Medical Staff bylaws, be subject to the practitioner's right to an appellate review in accordance with procedures set forth in the bylaws of the Medical Staffs.

ARTICLE IX.
AUXILIARY ORGANIZATIONS

9.1 FORMATION. The Board may authorize the formation of auxiliary organizations to assist in the fulfillment of the purposes of the District. Each such organization shall establish its bylaws, rules and regulations, which shall be subject to Board approval and which shall not be inconsistent with these bylaws or the policies of the Board.

9.2 EXISTING ORGANIZATIONS. The Palomar Medical Center Auxiliary and the Pomerado Hospital Auxiliary are existing auxiliary organizations to assist in the fulfillment of the purposes of the District, both of which have been authorized, and their bylaws approved, by the Board.

ARTICLE X.
CLAIMS AND JUDICIAL REMEDIES

10.1 CLAIMS. The District is subject to Division 3.6 of Title 1 of the California Government Code, pertaining to claims against public entities. The Chief Executive Officer or his designee is authorized to perform those functions of the Board specified in Part 3 of that Division, including the allowance, compromise or settlement of any claims if the amount to be paid from the District's treasury does not exceed $50,000. Any allowance, compromise or settlement of any claim in which the amount to be paid from the District's treasury exceeds $10,000 shall be approved personally by the Chief Executive Officer rather than his or her designee.

10.2 JUDICIAL REVIEW. The California Code of Civil Procedure shall govern the rights of any person aggrieved by any decision of the Board or the District, including but not limited to an action taken pursuant to Article VIII of these Bylaws.

10.3 CLAIMS PROCEDURE. Notwithstanding any exceptions contained in Section 905 of the Government Code, no action based on a claim shall be brought against the District unless presented to the District within the time limitations and in the manner prescribed by Government Code Section 910 *et seq.*, and shall be further subject to Section 945.4 of the Government Code.

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ARTICLE XI.
AMENDMENT

These bylaws may be amended or repealed by vote of at least four members of the Board at any Board meeting. Such amendments or repeal shall be effective immediately, except as otherwise indicated by the Board.

SECRETARY'S CERTIFICATE

I, the undersigned, the duly appointed, qualified and acting Secretary of the Board of Directors for Palomar Pomerado Health, do hereby certify that attached hereto is a true, complete and correct copy of the current Bylaws of Palomar Pomerado Health.

Dated: _____, 2004

_____
Secretary

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Overview of Changes

BOARD BYLAWS

Overview of Board Bylaw Changes

Laws reviewed included:

1. Health and Safety Code §§13840-13857
2. Health and Safety Code §§32121-32138
3. Health and Safety Code §§32150-32155
4. Health and Safety Code §§13840-13857
5. Civil Code §§1357.100-1357.150
6. Civil Code §§1363.05
7. Government Code

These changes were reviewed and approved by the Attorneys.

List of changes by page and section number with reason for the change.

1. **Page 2 Article I § 1.5:**
   Redline change
   "Facility" or "Facilities" means a Hospital or the Hospitals, Home Health, Skilled Nursing Facilities, or any other health care facility or facilities operated by the District.
   Reason:
   This change was recommended by a DHS Inspector and reflects our current policy.

2. **Page 2 § 2.3.2:**
   Redline change
   The Board shall review and approve the District Bylaws annually.
   Reason:
   This change was recommended by a DHS Inspector and reflects our current policy.

3. **Page 3 § 2.3.3:**
   Redline change
   The Governance Committee will have the responsibility to oversee and ensure collaboration between the Board and District management for the purpose of developing, reviewing and revising the District Bylaws, Policies, Procedures, and other rules or regulations prior to being brought to the full Board for approval.
   Reason:
   This change was made for clarification and reflects our current policy.

Deleted: periodically, through the
Deleted: as provided below,
Deleted: regulations

4. **Page 7 § 5.9:**
Redline change
QUORUM. A vote is to be determined by a simple "majority vote". If there are abstentions on a vote, the non-abstaining members of the Board must constitute a quorum of the whole board (four members or more) for the transaction of business. Except as otherwise provided by law or these Bylaws, the act of the majority of the non-abstaining Board members voting will be the "majority vote".
Reason:
This change was made for clarification of the law and reflects our current policy.

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Deleted: present at a meeting at which a quorum is present shall be the act of the Board

5. **Page 8 § 6.1.3:**
Redline change
The Audit Committee of the Board shall function pursuant to a charter approved by the Board and amended from time to time.
Reason:
This section was added as recommended by the attorneys and approved by the full Board 12/13/04.

6. **Page 9 § 6.2.2(b):**
Redline change
Non-Voting Membership. The President and Chief Executive Officer, the Chief Marketing and Communications Officer and the Compliance Officer.
Reason:
This section was changed to reflect the addition of the Chief Marketing and Communications Officer and was approved by the full Board 02/07/05.

Deleted: and
Deleted: Planning

The Compliance Officer was added as recommended by the CEO and Compliance Officer. This would allow a Board level committee to receive reports and discuss compliance issues. This would allow the Compliance officer the ability to reduce reports to the full Board to twice a year. Page 9 § 6.2.2(c)(v) was added as follows to for guidance: Receive reports from the Compliance Officer and recommend action to the full Board regarding Compliance issues;

7. **Page 10 § 6.2.3(c)(v):**
Redline change
Ensure that all special studies and recommendations/proposals are in alignment with the PPH mission, vision and strategic plan as well as government regulations.
Reason:
This section was added as recommended by the Governance Committee 3/8/05 and approved by the full Board 04/11/05.

8. **Page 10 § 6.2.4(a) & (b):**
Redline change

(a) Voting Membership. The Committee shall consist of seven voting members, including four members of the Board and one alternate who shall attend Committee meetings and enjoy voting rights on the Committee only when serving as an alternate for a voting Committee member, the President and Chief Executive Officer and the Chiefs of Staff of the Hospitals or the designees of the Chiefs of staff, as approved by the Committee Chairperson.

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(b) Non-Voting Membership. The Chief Financial Officer, Chief Marketing and Communications Officer, Chief Administrative Officers Palomar Medical Center and Pomerado Hospital, the Chief Nurse Executive, ...

Deleted: President and Chief Executive Officer,

Deleted: Planning

Reason:
This section was changed as recommended by the Board Governance Committee 03/8/05 and approved by the full Board 04/11/05.

9. **Page 11 § 6.2.5 (a) & (b):**
Redline change

(a) Voting Membership. The Committee shall consist of five voting members, including three members of the Board and the Chairs of Medical Staff Quality Management Committees of the Hospitals or Physician Co-Chair, Quality Council (voting position will rotate between Chairs of Medical Staff Quality Management Committees and Physician Co-Chair Quality Council allowing only two votes total for these three positions) and an alternate, who shall attend and enjoy voting rights only in the absence of a voting Committee Member.

(b) Non-Voting Membership. The President and Chief Executive Officer, the Chief Administrators of Pomerado Hospital and Palomar Medical Center, a nurse representative, the Chief Quality and Clinical Effectiveness Officer, Chair of the Patient Safety Committee, the Physician Co-Chair of Quality Council or the Chairs of the Quality Management Committees of Pomerado Hospital and Palomar Medical Center (non-voting position will rotate between Chairs of Medical Staff Quality Management Committees, and Physician Co-Chair Quality Council allowing only two votes total for these three positions)

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Reason:
This section was changed as recommended by the Board Quality Committee 07/12/05 and approved by the full Board 08/15/05.

10. **Page 13 § 6.2.8(b):**
Redline change

Non-Voting Membership. Chief Administrative Officer Pomerado Hospital, the Chief Financial Officer (CFO) or designee, nurse representative from PMC or POM and the Director of Facilities Planning and Development. As needed, other appropriate relevant staff in engineering, architectural, planning, Compliance and a Physician Advisory Committee member may be requested to attend along with PPH staff to facilitate the work of the committee.

Reason:
This section was changed as recommended by the Board Governance Committee 01/20/05 and approved by the full Board 02/07/05.

11. Page 14 § 6.2.8(c)(iii):

Redline change

Receive reports from the Construction Manager and the Director of Facilities Planning and Development and recommend action to the Board regarding facilities design and maintenance;

Deleted: committee

Reason:

This was a typographical error. The Committee makes reports to the Board for action.

12. Page 14 § 6.2.8(c)(vi):

Redline change

Receive a biannual Environment of Care report;

Reason:

This section was added as recommended by the Board Director Kleiter and approved by the full Board 02/07/05.

13. Page 17 § 7.9:

Redline change

SUBORDINATE OFFICERS. The President and Chief Executive Officer, with the approval of the Board, may select and employ, such other officers as the District may require, each of who shall hold office for such period, have such authority, and perform such duties as the Board may from time to time determine.

Deleted: Board may select and employ or empower the

Reason:

This section changed to as recommended by the CEO and to match section 7.8 of the Bylaws.

Update on Plan of Finance and Debt Policy

TO: Board of Directors

FROM: Board Finance Committee
Tuesday, December 6, 2005

MEETING DATE: Monday, December 12, 2005

FROM: Bob Hemker, CFO

Background: In August 2004, the Board approved the Plan of Finance to provide the necessary funding to complete the previously approved Facility Master Plan. The Financing Team continues to develop the next steps of financing for the Master Facility Plan, which includes restructuring the existing Revenue Bonds and issuance of new Revenue Bonds.

At the March 29, 2005, Board Finance Committee, the Plan of Finance update included the introduction of the use of variable rate debt instruments. At that time, the Committee recommended, and it was subsequently approved by the Board, that Management be allowed to pursue the development of a variable rate debt and underlying debt policy for PPH, to include identification of a target range of stabilized variable rate exposure, and the establishment of guidelines for use of traditional and non-traditional fixed and variable rate instruments.

Since that time, Management has been working with the Financing Team to develop the next steps of financing, as well as the components of the requisite debt/swap policy. The update to be discussed at the meeting will include:

- Use Credit Enhancement
- Issue Variable Rate Debt and maintain an unhedged portion within the guidelines of the Debt Policy
- Increase the Borrowing Amount in 2006
- Enter into an Interest Rate Swap Agreement
- Lock in Interest Rates
- Formulate a Debt and Interest Rate Swap Policy

Budget Impact: N/A

Staff Recommendation: Staff recommends approval.

Committee Questions:

COMMITTEE RECOMMENDATION: The Finance Committee recommends approval for the Financing Team to: Use Credit Enhancement; Issue Variable Rate Debt and Maintain an Unhedged Portion Within the Guidelines of the Debt Policy; Increase the Borrowing Amount in 2006; Enter into an Interest Rate Swap Agreement; Lock in Interest Rates; and Formulate a Debt and Interest Rate Swap Policy, along with the underlying Resolution.

Motion:

Individual Action: X

Information:

Required Time:

PALOMAR POMERADO HEALTH

Discussion Materials

December 6, 2005

citigroup corporate and investment banking

KaufmanHall

Note: These materials are an integral part of the Citigroup presentation dated August 22nd and October 28th 2005.

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PALOMAR POMERADO HEALTH

Executive Summary

- The first part of the multi-year financing was completed July 7th, 2005 with the issuance of $80 million of GO Bonds
- The next phase of the Plan of Finance will be the issuance of an initial tranche of Revenue Bonds
  - Approximately $100 to $220 million of new money bonds targeted for 2006
  - Additional bonds related to restructuring existing revenue bond debt (approximately $91 million) for covenant relief and possible savings
- Key decisions for the revenue bond financing include
  - Fixed versus variable rate mix
  - Synthetic or Traditional
  - Credit enhancement
  - Hedging interest rate risk by locking in today's low rates

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PALOMAR POMERADO HEALTH

Overview of "AAA" Health Care Bond Insurer Market

Ambac	• Very active in health care and has bid more aggressively recently due to increased competition • Recently added Tom Bell from MBIA for additional health care coverage
FGIC	• Has returned to insuring health care credits, focusing on strong "A" credits or better • Health care team led by former bankers Ellen Gordon and Florien Boumeester • Arguably the most flexible in executing a transaction to meet a borrower's needs
FSA®	• Since 2003, FSA has become far more active in health care • A new team has been put together with Jim Andrews, Holly Horn and Rob Wetzler all as new hires • "Essentiality" to service area is a primary consideration in their underwriting determination
MBIA	• Reduced interest in health care, but appetite for "AA" category credits. Typically requests the strictest covenants • Staffing is an issue due to limited health care team • Expect interest in refunding/restructuring
CIFG	• New "AAA" insurer licensed in 43 states – license pending in California • Internally approved to pursue "A" or better health care credits, single risk limit of $80 million • There may be a slight trading differential to other insurers
Assured Guaranty	• New "AAA" insurer with Aa1 from Moody's • Internally approved to pursue all health care credits, single risk limit for PPH will range from $100 to $180 million • There may be a slight trading differential to other insurers

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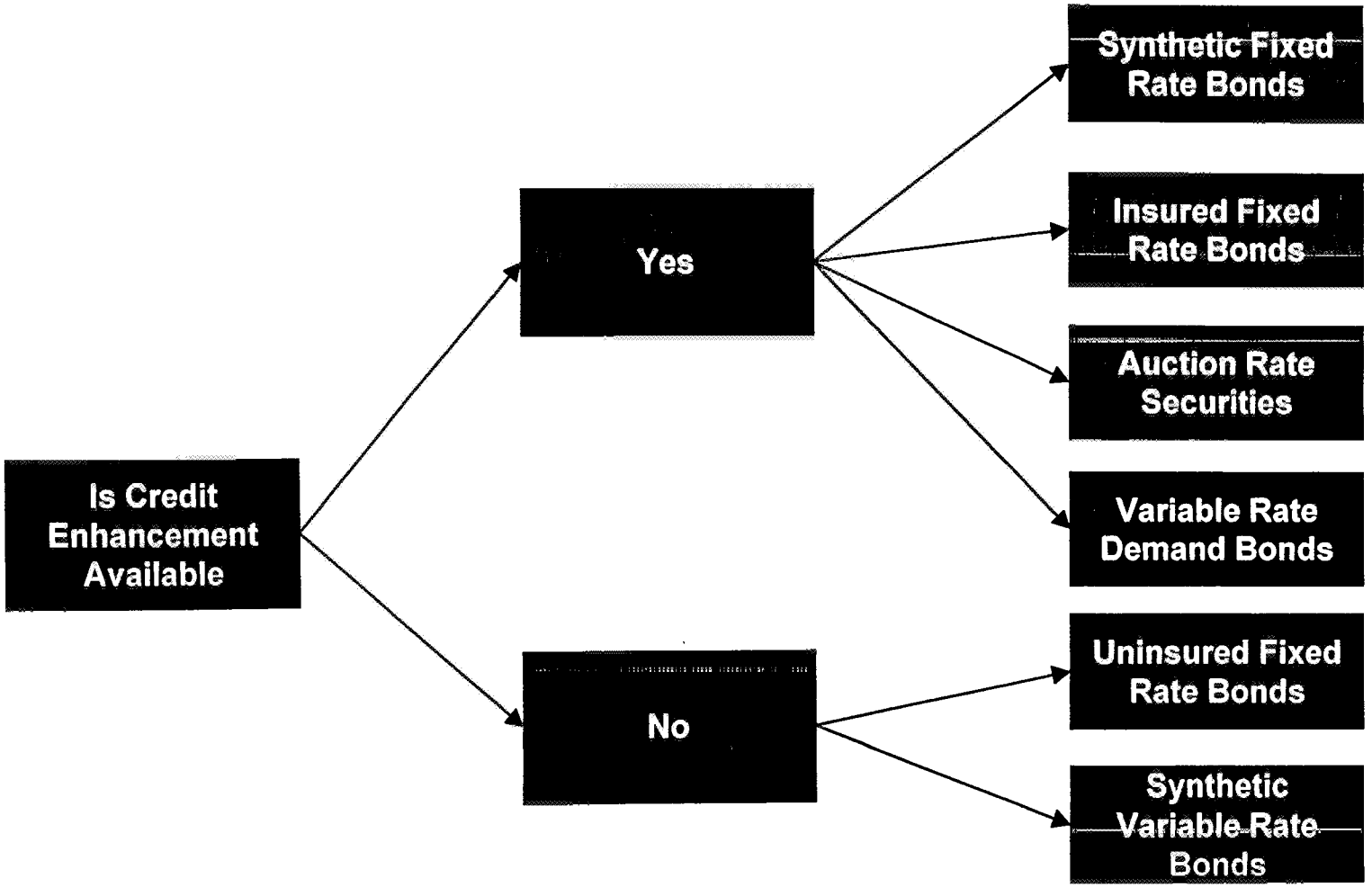
PALOMAR POMERADO HEALTH

Credit Enhancement Drives Options



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PALOMAR POMERADO HEALTH

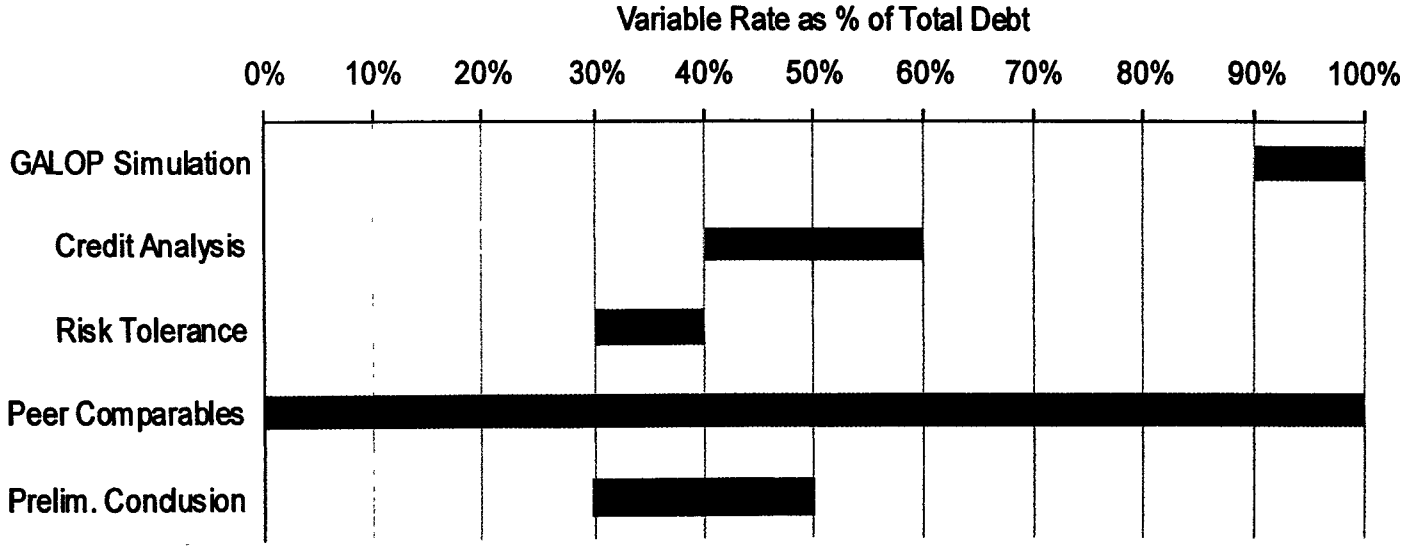
Preliminary GALOP Conclusion

- Preliminary GALOP analysis indicates that PPH has capacity for a significant portion of its debt to bear a variable rate
- PPH's variable rate policy should be informed by feedback from advisors, rating agencies and other internal and external stakeholders, in addition to this analysis

GALOP combines objective and subjective indicators to inform the debt allocation decision

We look forward to working with you to refine this analysis

SUMMARY OF GALOP INDICATORS



Based on simulated future results: Actual results will depend upon future market conditions. Refer to the GALOP analysis completed March 9, 2005 for a full analysis of risks and benefits of balance sheet expense. The GALOP model quantifies PPH's risk/reward trade-offs by generating thousands of historically realistic market factor scenarios and mapping these scenarios to PPH's financial resources and obligations.

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Debt Policy Overview

- A Draft Debt and Swap Policy was presented at the August meeting
- The Debt Policy will be tailored to PPH, addressing various financing components including:
  - Credit enhancement – what type, and when to use
  - Variable rate debt – how much, and which structure(s)
  - Interest rate swaps -- rationale, risk analysis and authorization process

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Overview of Fixed Rate Alternatives

Uninsured Fixed

20 Year Rate

5.21%

→

- No Credit Enhancement Required
- Bonds are sold based upon the credit of PPH
- Typically, the highest cost debt

Insured Fixed

20 Year Rate

4.61%

→

- Bond Insurance Required
- Bonds are sold based upon the credit of the bond insurance provider

Synthetic Fixed

20 Year Rate

3.53%

→

- Underlying Variable Rate Structure
- Interest rate swap is used to create synthetic fixed rate debt
- Depending on Structure: Letter of Credit, Liquidity and/or Bond Insurance required
- Typically, the lowest cost debt

Note: Rates as of 10/26/05, subject to market conditions, documentation, and credit approval.

1 Traditional fixed rate scale is for insured non-callable bonds.

2 Synthetic fixed rates where PPH pays fixed rate and receives 54% of LIBOR + 0.35% include 0.26% for auction agent and broker dealer fees which are estimates and are subject to change over the life of the transaction, which may impact total debt service cost. Assumes floating rate received from Citibank equals floating rate paid on bonds. Actual results may vary.

3 Rates include 0.26% for liquidity and remarketing 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. Average is from 1989, the inception of the BMA index.

6 For illustration purposes only; actual results will depend on future market conditions.

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Locking in Low Fixed Rates

- As previously discussed, the differential between the historical average for floating rates (BMA and LIBOR) and today's long-term fixed rate (MMD) has decreased over the past year
  - At the same time, long-term fixed rates are at historically attractive levels
  - Yield curve has significantly flattened
- Through the use of various financial products, PPH could lock in today's low fixed rates for future new money or refunding needs.
- The cost of locking in today's rates for future transactions is very attractive and near historical lows.

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Note:
BMA – Bond Market Association
LIBOR – London Interbank Offered Rate
MMD – Municipal Market Data

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PALOMAR POMERADO HEALTH

Plan of Finance Update

- New money needs are approximately $220 million from Revenue Bonds
  - Original plan was to issue in 2006 and 2008
  - Given favorable interest rate environment, all of the Revenue bonds may be issued in 2006
  - Ability to spend down money on appropriate projects will be the key determinant
- The Series 1993 and Series 1999 Bonds have unfavorable covenant language
  - PPH must have strong EBIDA to meet all additional debt tests
  - If test can't be met, then the project is at risk of not being completed
  - The Series 1993 bonds can be refunded for potential savings
  - The are several options for addressing the Series 1999 Bonds

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New Money Considerations

- PPH has approximately $220 million of total new money needs to come from Revenue Bond proceeds
- Approximately $100 million was targeted to be issued in 2006
- PPH may want to consider issuing more than the $100 million in 2006 due to the following
  - Certainty of strong underlying ratings
  - Credit Enhancement is as favorable as it has been since 1998
  - Cost certainty in favorable interest rate environment
- Considerations for issuing the additional debt include
  - Spend down requirements
  - Legal and tax issues and approvals
  - Life of underlying assets

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Financing Timeline (2005/2006)

November	◆ Distribute credit packages to insurers
December to February	◆ Adopt debt and swap policy ◆ Determine use of credit enhancement ◆ Select credit enhancement provider ◆ Determine borrowing amount ◆ Finalize Plan of Finance ◆ Determine hedging strategy ◆ Lock in interest rates (if appropriate)
March/April	◆ Draft Bond Documents
April	◆ Marketing of Bonds
May	◆ Close Revenue Bond Financing

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Plan of Finance Decision Items

- The Finance Team is seeking approvals:
  - To Use Credit Enhancement
  - To Issue Variable Rate Debt and maintain an unhedged portion within the guidelines of the Debt Policy
  - To Increase the Borrowing Amount in 2006
  - To Enter into an Interest Rate Swap Agreement
  - To Lock in Interest Rates
  - Of a Debt and Interest Rate Swap Policy

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PALOMAR POMERADO HEALTH

RESOLUTION NO. 12.12.05(03) – 29

RESOLUTION APPROVING REVISED PLAN OF FINANCE, APPROVING A DEBT POLICY, APPROVING THE ISSUANCE OF REVENUE BONDS, DIRECTING THE CHIEF FINANCIAL OFFICER OF THE DISTRICT TO PURSUE CREDIT ENHANCEMENT FOR REVENUE BOND OFFERINGS, AND APPROVING A FORWARD RATE SWAP

Whereas, the Board of Directors of Palomar Pomerado Health (the "District") previously approved a plan of finance ("Plan") on August 4, 2004;

Whereas, the Board of the District periodically reviews the Plan to ensure that it is consistent with the District's needs;

Whereas, California Health & Safety Code Section 32215 grants local healthcare districts the authority to issue revenue bonds;

Whereas, taking into account market conditions and circumstances, the Board has determined that it would be beneficial to revise the Plan to reflect the issuance of new money revenue bonds in an amount not to exceed $220 million (the "New Revenue Bonds"), in one or more tranches and restructure the existing Series 1993 and Series 1999 revenue bonds of approximately $91 million remaining principal (the "Existing Revenue Bonds"), collectively known as the Revenue Bonds ("Revenue Bonds");

Whereas, such Revenue Bonds may be issued as fixed or variable rate bonds;

Whereas, the Board has determined that adopting a debt policy (the "Policy"), including policies regarding credit enhancement and interest rate swaps, is in the best interest of the District; and

Whereas, the Board has determined that it might be beneficial to pursue credit enhancement of one or more tranches of its offerings of New Revenue Bonds and/or Existing Revenue Bonds in circumstances in which the Chief Financial Officer of

the District, or his designee, determines that such credit enhancement would result in monetary savings to the District.

NOW, THEREFORE, BE IT RESOLVED THAT:

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

Section 2. Adoption of Revised Plan of Finance. The District hereby revises the previously approved Plan to allow for one or more tranches of New Revenue Bonds of up to $220 million, to allow for the use of debt instruments approved by the Policy, and to restructure the Existing Revenue Bonds.

Section 3. Adoption of Debt Policy. The District hereby adopts the Policy attached hereto as Exhibit A.

Section 4. Approval of Revenue Bonds. The District hereby authorizes the Chief Financial Officer of the District, or his designee, or each of them acting alone or through their designees, to complete the negotiations with respect to the New Revenue Bonds and/or Existing Revenue Bonds and to execute and deliver any and all documents, agreements, instruments and certificates necessary or appropriate in connection therewith, and to cause the District to perform its obligations thereunder.

Section 5. Direction to Pursue Credit Enhancement. The District directs the Chief Financial Officer of the District, or his designee, or each of them acting alone or through their designees, to pursue credit enhancement in the form of bond insurance, letters or lines of credit, or liquidity facilities, in accordance with the District's Policy, with respect to any issuance of Revenue Bonds for which the Chief Financial Officer of the District, or his designee, determines that such credit enhancement would result in financial savings to the District, and to execute and deliver any and all documents, agreements, instruments and certificates necessary or appropriate in connection therewith, and to cause the District to perform its obligations thereunder.

Section 6. Approval of Forward Rate Swap. The District hereby authorizes the Chief Financial Officer of the District, or his designee, or each of them acting alone or through their designees, to enter into a forward starting floating-to-fixed rate swap in an amount not to exceed $300,000,000 (the "Rate Swap") in connection with the Revenue Bonds.

Section 7. Findings Regarding Rate Swap. The Board hereby finds, pursuant to California Government Code Section 5922(a), that the Rate Swap is designed to reduce the amount or duration of payment, currency, rate, spread, or similar risk or result in a lower cost of borrowing when used in combination with the issuance of the Revenue Bonds.

Section 8. Further Authorization. The officers of the District are hereby authorized and directed, individually and collectively, to do any and all things that they deem necessary or advisable in order to effectuate the purposes of this Resolution.

Section 9. Effective Date. This Resolution shall take effect from the date of adoption hereof.

APPROVED AND ADOPTED by the Governing Board of Palomar Pomerado Health in Poway, California, this _____ day of December, 2005, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAINING:

DATED: _____, 2005

APPROVED:

_____
Marcelo R. Rivera, M.D.
Chairman, Board of Directors
Palomar Pomerado Health

ATTESTED:

_____
Nancy H. Scofield
Secretary, Board of Directors
Palomar Pomerado Health

Debt and Interest Rate Swap Policy

1. Introduction

The purpose of this policy (this "Policy") of Palomar Pomerado Health (the "PPH") is to establish guidelines for the execution and management of PPH's use of variable rate debt and interest rate swaps, caps, options, basis swaps, rate locks, total return swaps and other similar products (collectively, "Swap Products"). This Policy confirms the commitment of the Board of Directors (the "Board"), management, staff, advisors, and other decision makers to adhere to sound financial and risk management practices. It is expected that this Policy will be formally approved by the Board and updated by the Board periodically.

2. Debt Financing – Appropriate Use of Long-Term Debt

Purpose for Long-Term Debt - Long-term debt should be used to finance essential capital facilities, projects, and certain equipment where it is cost-effective and fiscally prudent. The scope, requirements, and financial demands as a result of the Budget, and the ability or need to expedite or maintain the programmed schedule of approved capital projects should also be factors in the decision to issue long-term debt. . PPH will seek to maximize its use of lower cost tax-exempt debt before considering taxable debt. Long-term debt should be in the form of either Revenue Bonds or General Obligation Bonds. When considering the use of debt, PPH will take into consideration additional factors including cost and risk profile of various instruments, covenants, impact on credit ratings, and PPH's debt capacity .

3. Debt Policy – Use of Short-Term & Variable Rate Debt

Variable Rate Debt - It is often appropriate to issue variable rate debt to diversify the debt portfolio, reduce interest costs, provide interim funding for capital projects and improve the match of assets to liabilities. PPH may issue variable rate debt and synthetic variable rate debt from time to time. PPH will consider diversifying the variable rate debt products it uses i.e., Variable Rate Debt Obligations, Auction Rate Securities, Index Put Bonds, Commercial Paper and Synthetic Variable, to control risks and lower interest cost. Variable Rate debt will only be used for Revenue Bond financings.

Asset/Liability Management - PPH will establish a targeted range for unhedged variable rate revenue bonds as a percent of total revenue

bonds debt of 30% to 50% with the understanding that it may be prudent to maintain more or less variable rate exposure given specific market conditions that exist going forward. The range is based upon expected hedging and diversification benefits relative to investment returns. It also incorporates rating agency views, PPH risk tolerance, market outlook and other factors to ensure reasonableness.

PPH will perform and periodically update an Asset/Liability analysis to ensure the accuracy of the variable rate target. The analysis may be similar to that performed in April 2005. This analysis concluded the long-term target could be managed up to 50% unhedged variable debt over the long-term, with the understanding that it may be prudent to maintain more or less variable rate exposure given specific market conditions that exist going forward. The staff shall perform such updates at least bi-annually or when there are significant shifts in PPH's situation or market conditions and economic outlook and present them to the Board.

4. Credit Enhancement

Bond Insurance - Bond Insurance will be used when it provides an economic advantage to a particular bond maturity or entire issue. Bond insurance premiums are a one time fee paid upfront. Bond insurance provides improved credit quality for the bonds as a result of the insurance provider's guarantee of the payment of principal and interest on the bonds. Because of the decreased risk, investors are willing to purchase bonds with lower yields than uninsured bonds, thus providing PPH with interest cost savings.

Benefit analysis - The decision to use bond insurance is an economic decision. The analysis compares the present value of the interest savings to the cost of the insurance premium. Insurance will be purchased when the premium cost is less than the projected interest savings.

Lines and Letters of Credit – Lines and Letters of Credit ("LOC") represent a bank's promise to pay principal and interest when due for a defined period of time, and subject to certain conditions. In the case of a direct-pay LOC, the trustee can draw upon the letter of credit to make debt service payments. A stand-by LOC can be used to cover PPH's default or bankruptcy. If a letter of credit is to be used, a distribution will be made to qualified banks as described in the "Provider Selection" section on the following page, a request for qualifications that includes terms and conditions that are acceptable to PPH. Lines and LOC's have a short term duration and require renewals at market rates.

Liquidity Facility - The issuance of variable rate debt obligations requires the use of a liquidity facility to ensure the availability of liquidity support should the bonds be tendered or not remarketed. If a Liquidity Facility is to be used, a distribution will be made to qualified

banks as described in the "Provider Selection" section on the following page, a request for qualifications that includes terms and conditions that are acceptable to PPH..

Provider Selection - Only those banks with long-term ratings greater than or equal to that of PPH, and short-term ratings of P-1/A-1+, by Moody's Investors Service and Standard & Poor's, respectively, may be solicited.

- Selection criteria will include, but not be limited to the following:
  - Long-term ratings at least equal to or better than PPH's;
  - Short-term ratings of P-1/A-1+;
  - Terms and conditions acceptable to PPH;
  - Representative list of clients for whom the bank has provided liquidity facilities;
  - Previous Banking relationships;
  - Fees; specifically, cost of LOC, draws, bank counsel and other administrative charges and estimate of trading differential cost.

5. Rationale for Using Swap Products

The Board recognizes that Swap Products can be appropriate financial management tools. This Policy sets forth the manner in which PPH shall enter into transactions involving Swap Products ("Swap Transactions"). PPH shall integrate Swap Transactions into its overall debt and investment management programs in a prudent manner in accordance with the parameters set forth in this Policy.

Factors to be considered for the use of Swap Products and the execution of Swap Transactions include, but are not limited to:

- To hedge or actively manage interest rate, tax, basis, and other risks;
- To enhance the relationship between risk and return with respect to debt or investments;
- To optimize PPH's capital structure;
- To achieve an appropriate match of assets and liabilities;
- To achieve significant savings as compared to products available in the cash market;
- To synthetically create fixed or variable rate exposure;
- To lock in current fixed rates for future use, including synthetically advance refunding debt that cannot be refunded with a conventional cash-market issuance;
- To access the capital markets more rapidly than may be possible with conventional debt instruments;

- To provide a higher level of savings, lower level of risk, greater flexibility, or other direct benefits not available in the cash market;
- To manage PPH's exposure to the risk of changes in the legal and regulatory tax treatment of tax-exempt bonds (e.g., income tax rate changes);
- To manage PPH's credit exposure to financial institutions and other entities; and
- To achieve more flexibility in meeting overall financial objectives than can be achieved in conventional markets.

Swap Products may be used by PPH to achieve a specific objective consistent with its overall debt and investment management policy, but they shall not be used for speculation, as PPH shall not assume risks through the use of Swap Products that would not be considered prudent in light of the above-stated factors. PPH recognizes that changes in the capital markets or, PPH's programs, and other unforeseen circumstances may from time to time produce circumstances that are not contemplated by this Policy and shall require modifications or exceptions to achieve PPH's goals. In these cases, management flexibility is appropriate, provided that specific authorization from the Board is obtained.

6. Permitted Instruments

PPH hereby approves the use of the following, or similar, Swap Products, each of which is a two-party agreement between PPH and a counterparty:

- Interest Rate Swaps: An agreement to exchange periodic payments based upon changes in rates over a period of time. Cash flows are calculated based on a fixed or floating rate against a set "notional" amount (amount used only for calculation of payments) and may begin on a current or forward basis. Principal is not exchanged.
- Options on Swaps (Swaptions): An agreement in which one party has the right, but not the obligation, to enter into, cancel or modify a predetermined swap with the other party on a future date or dates or during a specific period.
- Basis Swaps: A floating-to-floating interest rate swap in which one floating rate is exchanged for another.
- Rate Locks: A form of interest rate swap with a single cash flow, which is most often used to hedge, though not necessarily reduce, the interest cost of an upcoming fixed rate issue.
- Interest Rate Caps, Collars, Floors: A financial contract under which the counterparty, in exchange for charging a set premium, will make payments to PPH insofar as the specified interest rate

either exceeds a specified strike rate or, in the case of a floor, is less than a specified strike rate.

- Total Return Swaps: A swap pursuant to which one party receives synthetic exposure to a debt or equity instrument in return for a fixed or floating payment.

Other Swap Products shall be permitted at the discretion of the Board.

7. Risk Analysis

Prior to entering into any Swap Transaction, PPH shall consider the risks presented thereby, including each of the following risks:

- *Market or Interest Rate Risk:* The risk that rates, or the spreads between rates, will increase or decrease, and the effect of such changes on the Swap Transaction's cash flow and market value.
- *Basis Risk:* The mismatch between the rate received by PPH under a Swap Transaction and the rate payable by PPH on any related obligation. (For example, the risk in a floating-to-fixed swap that the floating rate received by PPH under the Swap Transaction may not at all times equal the floating rate paid by PPH on the variable rate bonds that it is hedging.)
- *Tax Risk:* Basis risk stemming from changes in the value or interest cost of PPH's tax-exempt bonds, as a result of the occurrence of tax events in respect of PPH's bonds or of tax-exempt bonds generally, including changes in marginal income tax rates and other changes in the Federal and state tax systems.
- *Termination Risk:* The risk that a Swap Transaction could be terminated prior to its scheduled termination date pursuant to its terms as a result of any of several events relating to either PPH or its counterparty. (Upon an early termination, PPH could owe a termination payment to the counterparty or receive a termination payment from the counterparty. Such payment would typically reflect the then-current market value of all Swap Transactions executed by PPH and its counterparty.)
- *Amortization Risk:* The risk of a mismatch between the principal amount of any obligations related to the Swap Transaction and the notional amount of the Swap Transaction.
- *Counterparty Risk:* The risk that the counterparty will not fulfill its obligations as specified by the terms of the Swap Transaction.
- *Rollover Risk:* The risk that the term of a Swap Transaction does not match the term of the related bonds being hedged.
- *Uncommitted Funding/Put Risk:* Derivative transactions that entail the use of Variable Rate Demand Obligations (VRDOs) bear the risks of the VRDOs, including the risk that the bonds cannot be remarketed and/or liquidity facility cannot be renewed.

8. Additional Considerations

PPH shall note each of the following additional considerations:

- *Accounting & Covenants:* PPH shall consider how the execution and performance of a Swap Transaction will be reported for accounting purposes and how the terms of the Swap Transaction may affect satisfaction by PPH of its financial covenants.
- *Security:* PPH understands that its procurement and negotiation of the optimum portfolio of Swap Transactions in accordance with the terms of this Policy may be dependent, in part, on its ability to secure its payments to its counterparties. PPH shall consider, in light of its overall debt and investment management policy, and consistent with any limitations imposed by its other credit agreements, the benefits of providing its counterparties with a favorable credit position vis-à-vis its other creditors (e.g., parity with bondholders, etc.). Additionally, PPH may provide additional credit enhancement to its counterparties in the form of collateral, financial guaranty insurance or other credit support.
- *Refinancing for covenant relief:* PPH shall consider opportunities to refund or defease existing debt if by doing so the organization can materially improve its operational and financial flexibility, even if such refunding or defease does not produce economic savings at the time of execution.

9. Risk Limits

The total notional amount and term of all Swap Transactions executed by PPH shall not exceed the notional amount and term specified from time to time by the Board for Swap Transactions.

It is expected that PPH's total variable rate exposure, net of Swap Transactions which have the economic effect of reducing (or increasing) variable rate exposure, shall not exceed an amount to be determined by the Board from time to time. This range incorporates PPH's asset-liability analysis and will be reviewed and adjusted as investment allocations, risk tolerance, credit strength, market conditions and other factors evolve.

10. Procurement

All services related to Swap Products shall be procured in a manner which is intended to provide PPH with the highest level of service at the best available terms and pricing while being consistent with any applicable laws.

11. Swap Counterparties

While PPH shall have a flexible credit standard, it shall seek to enter into Swap Transactions with counterparties rated in the "A" category or above as of the date of execution of the Swap Transaction.

For lower-rated (below "A" category) counterparties, PPH shall seek credit enhancement in the form of collateral or additional guarantees, as appropriate. PPH shall seek to include terms in Swap Transactions to mitigate and offset its exposure to counterparty risk, including, without limiting the forgoing, ratings-based termination events.

12. Execution and Ongoing Management

The Chief Financial Officer and his or her designee (the "Authorized Officer") shall have discretion to execute Swap Transactions consistent with this Policy and any Board resolution. This discretion shall extend to future termination or modifications of the initial Swap Transactions provided the resulting structure does not exceed the parameters set forth in this Policy or prescribed by the Board.

PPH shall consult an independent advisor for the execution of a swap transaction. PPH shall seek to maximize the benefits it accrues and manage the risks it bears by actively managing its use of Swap Products. This shall entail continuous monitoring of market conditions, in conjunction with the counterparty and PPH's advisors, for emergent opportunities and risks. Ongoing management may entail modifications of existing positions including:

- Early termination of a Swap Transaction;
- Modification of the duration of a Swap Transaction;
- A sale or purchase of options; and
- Application of basis swaps.

Each proposed modification shall be consistent with this Policy.

13. Swap Documentation

PPH shall use, where practicable, standard ISDA documentation, including the ISDA Master Agreement, the Schedule to the ISDA Master Agreement, a Confirmation of each Swap Transaction and, as applicable, the ISDA Credit Support Annex. PPH shall consider the following when negotiating the documentation of a particular Swap Transaction:

- Liquidity should be maximized. Key provisions, including those related to early termination and collateral requirements, should reflect the credit strength of the parties to the Swap Transaction, and, as far as practicable, market conventions.

- Eligible collateral under a Credit Support Annex shall be defined by current market standards. If the swap is uninsured, collateral thresholds shall be set on a sliding scale based on credit ratings.
- Confirm no adverse impact to PPH with Bond Counsel and Rating Agencies.

14. Reporting and Disclosure

The Authorized Officershall prepare periodic reports on the status of its Swap Transactions. Each report shall include an evaluation of the performance of each Swap Transaction relative to PPH's goals, and other performance and risk measures. Each report shall include a summary of the terms of each Swap Transaction, including the credit rating of the counterparty, the value of any collateral that has been posted, the market value of the Swap Transaction, as well as cumulative and periodic cash flows. Each report shall note all material changes to existing Swap Transactions and any new Swap Transactions entered into by PPH since the previous report.

The Authorized Officershall ensure compliance with this Policy as well as prevailing accounting practices and federal, state, and local regulations and requirements. Disclosure shall be provided to rating agencies as needed.

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