PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

BOARD FINANCE COMMITTEE MEETING

Posted
Mailed (US & E-mail)
September 26, 2008

Tuesday, September 30, 2008
5:30 p.m. (Buffet dinner for Committee Members & Invited Guests *only*)
6:00 p.m. Meeting

Palomar Medical Center
555 East Valley Parkway, Escondido, CA
Graybill Auditorium

		Time	Page	Target
❖	**CALL TO ORDER**	....	....	**6:00 p.m.**
➢	Public Comments	5	....	6:05 p.m.
❖	**ADJOURNMENT TO CLOSED SESSION**		....	**6:05 p.m.**
	~pursuant to California Government Code §54956.9 (b)(3)(A)~ **CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION** Significant exposure to litigation (1 case) *~Anticipated Action~*	30	....	6:35 p.m.
❖	**RESUMPTION OF OPEN SESSION**		....	**6:35 p.m.**
➢	Action Resulting from Closed Session Discussion, *if any*	5	....	6:40 p.m.
➢	Information Item(s)	5	....	6:45 p.m.
1.	* Approval: Finance Committee Minutes – Tuesday, August 26, 2008 *(Addendum A)*	5	Ag2	6:50 p.m.
2.	* Approval: Issuance of GO Bonds, Election of 2004, Series 2007A AND Conversion of Certificates of Participation – ARS 2006	45	Ag3-5	7:35 p.m.
3.	* Review/Approval: Increase in the Line of Credit for Palomar Pomerado North County Health Development	5	Ag6-7	7:40 p.m.
4.	* Review/Approval: 1st Amendment to Medical Director Agreement a. Alan Conrad, M.D. – DiabetesHealth Services	5	Ag8-11	7:45 p.m.
5.	* Review/Approval: 1st Amendment to Clinical Director Agreement a. Marina Katz, M.D. – Outpatient Behavioral Health – Palomar Medical Center	5	Ag12-15	7:50 p.m.
6.	* Review/Approval: Independent Citizens' Oversight Committee	10		8:00 p.m.
	a. Annual Report of the Committee to the PPH Board – *(Addendum C)*		Ag16	
	b. Appointment of Officers of the Committee		Ag17	
	c. Vacancy on the Committee		Ag18	
	d. Approval of Minutes – Annual Meeting – September 23, 2008 ***(Deferred to October Board Finance Meeting)***		....	
7.	Review: Legal Department Strategic Plan *(Addendum D)*	15	Ag19	8:15 p.m.
8.	* Approval: August 2008 & YTD FY2009 Financial Report *(Addendum E)*	15	Ag20	8:30 p.m.
	FINAL ADJOURNMENT	....	....	**8:30 p.m.**

NOTE: If you have a disability, please notify us 72 hours prior to the event so that we may provide reasonable accommodations.

Minutes
Finance Committee – Tuesday, August 26, 2008

TO: Board Finance Committee

MEETING DATE: Tuesday, September 30, 2008

FROM: Tanya Howell, Secretary

BY: Bob Hemker, CFO

Background: The minutes of the Board Finance Committee meeting held on Tuesday, August 26, 2008, are respectfully submitted for approval *(Addendum A)*.

Budget Impact: N/A

Staff Recommendation: Staff recommends approval of the Tuesday, August 26, 2008, Board Finance Committee minutes.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

Issuance of GO Bonds, Election of 2004, Series 2008A, And Conversion of Certificates of Participation – ARS 2006

TO: Board Finance Committee

MEETING DATE: Tuesday, September 30, 2008

FROM: Bob Hemker, CFO

Background: At its December 20, 2005, Board of Director's Strategic Planning Committee Meeting, the Committee, full Board invited, reviewed the current development of the Facility Master Plan, including design, project scope, and updated cost estimates. As the result of current market conditions, notably increased material and labor costs, and refinement of project definition within the approved Facility Master Plan, the project costs increased from a total of $753 million to approximately $983 million.

At that time, the Board requested that Management and the Financing Team assess the impact on PPH's debt capacity and update the Plan of Finance, which was done as part of the 2006 Certificates of Participation ("CoP") issuance. The result of the assessment indicated PPH, under conditions, assumptions and expectations outlined, had the capacity through an integrated Plan of Finance to fund the revised FMP.

To date, various financing and funding vehicles have been evaluated and utilized to fund the FMP. These vehicles include Tax-Exempt Revenue Bonds / CoP, General Obligation Bonds, Cash Reserves, and Philanthropy. To date the following debt instruments have been issued:

- General Obligation Bonds, Election of 2004, Series 2005A – July 7, 2005, $80 million
- Certificates of Participation, Series 2006A – December 7, 2006, $60 million
- Certificates of Participation, Series 2006B – December 7, 2006, $60 million
- Certificates of Participation, Series 2006C – December 7, 2006, $60 million
- General Obligation Bonds, Election of 2004, Series 2007A – December 20, 2007, $241,083,318.80

The 2006 "CoP" issues included the refunding of the 1993 Revenue Bonds and utilized auction rate securities and an interest rate swap resulting in synthetic fixed rate indebtedness and approximately $127 million of new money project proceeds. As previously discussed the Auction Rate Securities ("ARS") Market began eroding February 11, 2008. Since that time, the Financing Team has evaluated alternatives including: maintaining the ARS indebtedness, converting to Fixed Rate debt instrument, and converting to other variable rate debt instruments. Substantial analysis of current and observed market conditions and their likely forecast of the future, indicate the most prudent course of action is to execute: a Conversion of the 2006 CoPs into Fixed Rate CoPs, termination the SWAP transaction, and subject to fiscal prudency retain the FSA insurance on the converted CoPs. The Finance Team continues on preparing for this solution with an anticipated completion of November 20, 2008.

Concurrently with the above, the next scheduled issuance of bonds for the updated and approved Plan of Finance is General Obligation Bonds. It is anticipated that this transaction will also close on or about November 20, 2008 with a Par amount not exceeding $110 million.

The Financing Team will review the market conditions, status of the GO Bond issuance documents and Conversion Documents for the issuance at the meeting. In addition, various documents and resolutions required for the transactions will be presented and reviewed, with a request for the Committee's recommendation of approval at the October 20, 2008 BOD meeting.

Issuance of GO Bonds, Election of 2004, Series 2008A, And Conversion of Certificates of Participation – ARS 2006

GENERAL OBLIGATION BONDS:

Provisions of The Local Health Care District Law relating to the issuance of general obligation bonds, including Section 32310 of The Local Health Care District Law, provide for sale of general obligation bonds by competitive bid. Alternatively, other provisions of the California Government Code, including Section 6588 and 6589 of the California Government Code, authorize PPH to sell its general obligation bonds to a joint exercise of powers authority and authorize the joint exercise of powers authority to simultaneously resell such general obligation bonds or other bonds in a negotiated sale. A negotiated sale will help assure the most cost effective interest rate is obtained for the bonds. As with the issuance of previous tranches, it is recommended that PPH sell the bonds through a negotiated sale and utilize the previously established Joint Exercise of Powers Authority.

Remaining steps include:

- Rating Agency presentations – 2nd week of October
- Review / consent of the Joint Exercise of Powers Authority – October 24th
- Completion of Due Diligence
- Finalize required documents / agreements

In continuation for the preparation of the issuance of the third tranche of GO Bonds on or about November 20, 2008, the following documents/resolutions, as attached, will require Finance Committee recommendation and Board approval (at its October 20, 2008 meeting):

- GO Bond Resolution
- Second Supplemental Paying Agent Agreement
- Preliminary Official Statement (POS)
- Appendix A to Preliminary Official Statement
- Appendix C to Preliminary Official Statement
- Continuing Disclosure Undertaking
- Bond Purchase Agreement

CONVERSION OF 2006 ARS-CoPs - TO FIXED RATE CoPs:

Remaining steps include:

- Rating Agency presentations – 2nd week of October
- Review / consent of the Joint Exercise of Powers Authority – October 24th
- Completion of Due Diligence
- Finalize required documents / agreements

Issuance of GO Bonds, Election of 2004, Series 2008A, And Conversion of Certificates of Participation – ARS 2006

In continuation for the preparation of the conversion of the 2006 ARS-CoPs to fixed rate CoPs on or about November 20, 2008, the following documents/resolutions, as attached, will require Finance Committee recommendation and Board approval (at its October 20, 2008 meeting):

- Conversion Resolution
- Second Supplemental Trust Agreement
- Preliminary Remarketing Agreement
- Appendix A to Preliminary Remarketing Agreement
- Remarketing Agreement

Based on volatility in the market, Conversion Resolution authorizes management to refund the 2006 ARS-CoPs with other fixed rate debt rather than convert the 2006 ARS-CoPs to fixed rate if no longer fiscally prudent to retain FSA and authorizes additional debt to finance the termination payment anticipated in connection with termination of the Swap and the costs of conversion.

In summary, management will review the updated market conditions, explain decisions made and review the GO Bond Documents and CoP Conversion Documents. Further management will recommend and seek the following actions for the third tranche of GO bonds and conversion of the ARSs-CoPs:

- Authorize the issuance of General Obligation Bonds, Election of 2004, Series 2008A, not to exceed $110 million Par
- Authorize the conversion of the 2006 ARS-CoPs to fixed rate CoPs
- Authorize the termination of the SWAP transaction for the 2006 ARS-CoPs
- Authorize the negotiated sale of the GO Bonds and remarketing of 2006 fixed rate CoPs utilizing the previously established Joint Exercise of Powers Authority
- Approve the Resolutions and requisite documents and agreements to consummate the GO Bond Issuance and the conversion/restructuring of the 2006 ARSs-CoPs to fixed rate CoPs

Budget Impact:

- **$110 million tranche on remaining $174,916,681.14 million GO Bond authorization**
- **Costs of Issuance and SWAP termination payment to Convert $180 million of ARS to Fixed Rate CoPs – Amount and funding source to be determined at close**

Staff Recommendation: Management recommends approval of the attached documents/resolutions and delegate to management the authority to take the appropriate action necessary to complete the documents and matters necessary to issue the third tranche of General Obligation Bonds (GO Bonds) on or about November 20, 2008, convert/restructure the 2006 CoPs-ARS to fixed rate CoPs and to terminate the SWAP transaction for the 2006 CoPs–ARS.

Committee Questions:

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

PALOMAR POMERADO NORTH COUNTY HEALTH DEVELOPMENT
INCREASE IN LINES OF CREDIT

TO: Board Finance Committee

MEETING DATE: Tuesday, September 30, 2008

FROM: Brad Wiscons, Director, Grant Services, Health Development

BY: Bob Hemker, CFO

Background: Palomar Pomerado North County Health Development (Health Development) currently has an approved Line of Credit (LoC) of $2.9 million. Health Development is anticipating an operating deficit in FY09, per the Board-approved FY09 operating budget, necessitating an increase in its working capital LoC *(see attached letter – signature on file).*

Health Development is requesting an increase of $500,000, which would increase the total LoC from $2.9 million to $3.4 million, effective immediately, to fund start-up costs, staffing and other operational expenses of the Research Institute.

Budget Impact: N/A – Operating statement impact is already budgeted; cash flow impact of up to $500,000

Staff Recommendation: Staff recommends that the LoC with Health Development be increased from $2.9 million to $3.4 million as requested.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

August 13, 2008

Robert A. Hemker
Chief Financial Officer
Palomar Pomerado Health
15255 Innovation Drive
San Diego, CA. 92128

RE: Increase in Line of Credit

This letter is a request to increase the current line of credit for PPNC Health Development with Palomar Pomerado Health.

The current line of credit dated July 9, 2007 has been used to cover start up costs beginning in August 2004 and general operations of Health Development to date, that were not covered by indirect costs from Grants. The total amount of the Line of Credit is $2.9 million with approximately $167,000 remaining as of June 30, 2008.

Health Development is requesting no increase in the Line of Credit for Health Development operational expenses.

Additionally, we are requesting an increase of $500,000 in the Line of Credit for the Research Institute to fund start-up costs, staffing and other operational expenses. This increase will also fund an Information Systems Research Coordinator. These increases will bring our total Line of Credit to $3.4 million.

Although this is one Line of Credit with PPH, Health Development will maintain separate accounting for the Research Institute and Information Systems Research Coordinator draws on this Line of Credit, and calculate interest accordingly.

Sincerely,

Brad Wiscons
Director of Grant Services

PALOMAR POMERADO HEALTH
MEDICAL DIRECTOR – DIABETESHEALTH SERVICES

TO: Board Finance Committee

MEETING DATE: Tuesday, September 30, 2008

FROM: Sheila Brown, FACHE, Chief Clinical Outreach Officer
Kris Hedges, MBA, System Director, DiabetesHealth

BACKGROUND: This is a request to approve the Physician Advisor Agreement with Alan Conrad, M.D. Dr. Conrad will provide Physician Advisor oversight for all Palomar Pomerado DiabetesHealth Services. Physician oversight is a requirement of the American Diabetes Association recognition, which allows PPH to bill Medicare for outpatient education.

BUDGET IMPACT: Included in FY 2009 budget

STAFF RECOMMENDATION: Approval for continuity of services

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

PALOMAR POMERADO HEALTH - AGREEMENT ABSTRACT

Section Reference	Term/Condition	Term/Condition Criteria
	TITLE	Medical Director Agreement – PPH DiabetesHealth Alan Conrad, M.D.
	AGREEMENT DATE	May 1, 2006
	EXTENSION DATE	November 1, 2008
	PARTIES	1) PPH 2) Alan Conrad, M.D.
Recitals E	**PURPOSE**	To provide Medical oversight for PPH's DiabetesHealth Program.
Exhibit A	**SCOPE OF SERVICES**	Alan Conrad, M.D., will provide Medical Director coverage and medical leadership for the PPH DiabetesHealth Program. In order to receive payments, Medicare requires that PPH is ADA recognized. This Program provides needed services to inpatient and outpatient clients who suffer from diabetes.
	PROCUREMENT METHOD	☐ **Request For Proposal** ■ **Discretionary**
4.1	**ORIGINAL TERM**	May 1, 2006 through June 30, 2008
4	**RENEWAL**	
	LETTER OF INTENT	July 1, 2008 through October 31, 2008
	FIRST AMENDMENT	November 1, 2008 through October 31, 2010
4.3.1.2 4.3.1.1	**TERMINATION**	a. Immediately for cause b. Not less than 90 days of written notice without cause
3.1	**COMPENSATION METHODOLOGY**	Monthly payment on or before the 15th of each month with supporting documentation of the prior month's time records.
	BUDGETED	■ **YES** ☐ **NO – IMPACT:**
	EXCLUSIVITY	■ **NO** ☐ **YES – EXPLAIN:**
	JUSTIFICATION	In order to remain ADA recognized for diabetes care, medical oversight is needed.
	AGREEMENT NOTICED	☐ **YES** ■ **NO** **Methodology & Response:** Renewal
	ALTERNATIVES/IMPACT	Proceeding without this arrangement will cause the program to be out of compliance with the ADA guidelines.
Exhibit A	**Duties**	■ **Provision for Staff Education** ■ **Provision for Medical Staff Education** ■ **Provision for participation in Quality Improvement** ■ **Provision for participation in budget process development**
	COMMENTS	
	APPROVALS REQUIRED	■ VP ■ CFO ■CEO ■BOD Finance Committee ■BOD

FIRST AMENDMENT TO MEDICAL DIRECTOR AGREEMENT
BETWEEN
PALOMAR POMERADO HEALTH
AND
ALAN CONRAD, M.D.

This First Amendment to the **Medical Director Agreement** is entered into effective **November 1, 2008**, ("Effective Date") by and between **Palomar Pomerado Health**, a local healthcare district organized under Division 23 of the California Health and Safety Code ("PPH"), and **Alan Conrad, M.D.** ("Medical Director") (collectively, the "Parties"), and amends the **Medical Director Agreement** between the Parties dated **May 1, 2006** ("Agreement").

In consideration of the mutual promises of the Parties, the receipt and sufficiency of which are hereby acknowledged, the **Medical Director Agreement** between the Parties dated **May 1, 2006**, is hereby amended as follows:

AGREEMENT

4. TERM AND TERMINATION

4.1 Term. This Agreement shall commence on May 1, 2006 and shall continue until October 31, 2010, unless sooner terminated as otherwise provided in this Agreement.

EXHIBIT A. ADMINISTRATIVE DUTIES

Responsibilities:

Medical Director's duties shall include the following:

(b) Participate in and supervise quality measurement activities conducted for the Program. Quality indicators to be established and upheld are as follows: (1) The continued improvements of systemic and systematic interventions, including roll out of hyperglycemia order sets at Palomar Medical Center; and (2) Improve utilization of systemic and systematic interventions among hospitalists.

All other terms of the Agreement not amended herein remain in full force and effect. In the event the terms of this Amendment conflict with the terms of the Agreement, the terms and conditions of this Amendment shall prevail.

IN WITNESS WHEREOF, The parties have executed this Amendment on the date set forth below.

Alan Conrad, M.D.	**Palomar Pomerado Health**
By:______________________________	By:______________________________
Alan Conrad, M.D.	Robert A. Hemker
Medical Director	Chief Financial Officer
Date:___________________________	Date:___________________________

PALOMAR POMERADO HEALTH
OUTPATIENT BEHAVIORAL HEALTH
CLINICAL DIRECTOR

TO: Board Finance Committee

DATE: Tuesday, September 30, 2008

FROM: Sheila Brown, R.N., M.B.A., Chief Clinical Outreach Officer
Susan Linback, R.N., M.B.A., System Director, Behavioral Health

BACKGROUND: This is a request to approve an amendment to the Psychiatric Clinical Director Agreement with Marina Katz, M.D. Dr. Katz will provide Clinical Director coverage and medical leadership for the Outpatient Behavioral Health Programs at both Palomar Medical Center and Pomerado Hospital. Dr. Katz has been the Clinical Director for Pomerado's program since September 1, 2007 and will continue in that role. She will assume the same responsibilities for Palomar's program on November 1, 2008. These Outpatient treatment programs provide needed services to acutely ill patients who suffer from severe mental health disorders, both the adult and Senior population.

BUDGET IMPACT: No Budget Impact

STAFF RECOMMENDATION: Approval

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

PALOMAR POMERADO HEALTH - AGREEMENT ABSTRACT

Section Reference	Term/Condition	Term/Condition Criteria
	TITLE	Clinical Director Agreement – Palomar Pomerado Health Marina Katz, M.D.
	AGREEMENT AMENDMENT DATE	November 1, 2008
	PARTIES	1) PPH 2) Marina Katz, M.D.
Recitals E	**PURPOSE**	To provide Psychiatric Clinical Director oversight for the Outpatient Behavioral Health Programs at both Palomar Medical Center in San Marcos and Pomerado Hospital in Poway
Exhibit A	**AMENDED SCOPE OF SERVICES**	Marina Katz, M.D., has been providing Clinical Director coverage for PPH's Outpatient Behavioral Health Program at Pomerado Hospital and will begin providing those services at Palomar Medical Center. The outpatient treatment programs at both facilities provide needed services to acutely ill patients who suffer from mental health disorders in both the adult and Senior populations.
	PROCUREMENT METHOD	☐ **Request for Proposal** ■ **Discretionary**
4.1.1 4.1.2	**ORIGINAL TERM** **AMENDMENT TERM**	September 1, 2007 through August 31, 2010 November 1, 2008 through August 31, 2010
	RENEWAL	N/A
4.2 4.2	**TERMINATION**	a. Immediately for cause b. Not less than 30 days of written notice without cause
3.1	**COMPENSATION METHODOLOGY**	Monthly payment on or before the 15th of each month with supporting documentation of the prior month's time records.
	BUDGETED	■ **YES** ☐ **NO - IMPACT:** None.
	EXCLUSIVITY	■ **NO** ☐ **YES – EXPLAIN:**
	JUSTIFICATION	In order to remain compliant with CMS requirements for Outpatient Behavioral Health Services, medical oversight is required.
	POSITION NOTICED	■ **YES** ☐ **NO** **METHODOLOGY & RESPONSE:** Posted in Medical Staff Offices for 30 days
	ALTERNATIVES/IMPACT	Proceeding without this arrangement would cause the services to be out of compliance with CMS requirements and jeopardize ongoing mental health to a vulnerable population.
Exhibit B	**DUTIES**	■ **PROVISION FOR STAFF EDUCATION** ■ **PROVISION FOR MEDICAL STAFF EDUCATION** ■ **PROVISION FOR PARTICIPATION IN QUALITY IMPROVEMENT**
	COMMENTS	
	APPROVALS REQUIRED	■ Officer ■ CFO ■ CEO ■ BOD Finance Committee ■ BOD

FIRST AMENDMENT
TO
CLINICAL DIRECTOR SERVICES AGREEMENT
BETWEEN
PALOMAR POMERADO HEALTH
AND
MARINA KATZ, M.D.

This First Amendment is made by and between Palomar Pomerado Health, a California local healthcare district organized under Division 23 of the Health and Safety Code, and Marina Katz, M.D. ("Clinical Director") effective **November 1, 2008**.

The parties agree and acknowledge that the **CLINICAL DIRECTOR SERVICES AGREEMENT** ("Agreement") between the parties dated **October 1, 2007**, is hereby amended as follows:

<u>RECITALS</u>

A. PPH is the owner and operator of Pomerado Hospital, a general acute care hospital located at 15615 Pomerado Road, Poway, California, and the owner and operator of Palomar Medical Center, a general acute care hospital, located at 555 East Valley Parkway, Escondido, California (collectively "Hospitals").

B. PPH operates a Psychiatric Outpatient Program ("Program") at Pomerado Hospital and at Palomar Medical Center, which are a part of a continuum of PPH's Behavioral Health Services.

H. All provisions of the Agreement applicable to Pomerado Hospital are now also applicable to Palomar Medical Center, except for Section 1.3.1 and Section 1.3.2 and Section 4.1.1 and 4.1.2, which specifically relate to Pomerado Hospital and Palomar Medical Center, respectfully.

I. All places of the Agreement where the word Hospital is used should be replaced with the word Hospitals.

<u>AGREEMENT</u>

I. CLINICAL DIRECTOR SERVICES

1.1 **<u>Clinical Director of Program.</u>** Clinical Director shall act as the Clinical Director of the Program in accordance with the terms of this Agreement, the Medical Staff Bylaws of Hospitals ("Medical Staff Bylaws"), and PPH's bylaws, rules, regulations, policies, and procedures (collectively, "PPH's Bylaws" or "Hospitals' Bylaws"). Clinical Director, at all times during the term of this Agreement, shall be duly licensed as a physician under California law, shall be board certified or eligible in Psychiatry under the rules of the American Board of Psychiatry and Neurology, shall be a member in good standing of the active Medical Staff at Hospitals, shall comply with all applicable standards and recommendations of The Joint

Commission, and shall hold all clinical privileges on the active Medical Staff of Hospitals appropriate to the discharge of his or her obligations under this Agreement.

1.3 **Administrative Hours.**

1.3.1 **Administrative Hours at Pomerado Hospital.** Clinical Director shall commit to a minimum of three (3) to four (4) hours per week, not to exceed seventeen (17) hours per month and Clinical Director shall set his or her own work schedule consistent with the proper operation of the Program. In the event Clinical Director seeks to provide more than four (4) hours per week during any week in connection with this Agreement, Clinical Director shall obtain advance approval from Hospitals' Chief Clinical Outreach Officer.

1.3.2 **Administrative Hours at Palomar Medical Center.** Clinical Director shall commit to a minimum of five (5) to six (6) hours per week, not to exceed twenty-five (25) hours per month and Clinical Director shall set his or her own work schedule consistent with the proper operation of the Program. In the event Clinical Director seeks to provide more than six (6) hours per week during any week in connection with this Agreement, Clinical Director shall obtain advance approval from Hospitals' Chief Clinical Outreach Officer.

4. TERM AND TERMINATION

4.1 **Term.**

4.1.1 **Term for Clinical Director at Pomerado Hospital.** This Agreement shall commence on September 1, 2007 and shall continue until August 31, 2010, or unless sooner terminated as otherwise provided in this Agreement.

4.1.2 **Term for Clinical Director at Palomar Medical Center.** This Agreement shall commence on November 1, 2008 and shall continue until August 31, 2010, or unless sooner terminated as otherwise provided in this Agreement.

All other terms of the Agreement not amended herein remain in full force and effect. In the event the terms of this Amendment conflict with the terms of the Agreement, the terms and conditions of this Amendment shall prevail.

The parties have executed this Amendment on the date set forth below.

MARINA KATZ, M.D.

By:______________________________
Print Name: Marina Katz, M.D.
Title: Clinical Director

Date: ____________________________

PALOMAR POMERADO HEALTH

By:______________________________
Print Name: Robert A. Hemker
Title: Chief Financial Officer

Date: ____________________________

Independent Citizens' Oversight Committee
Review of Annual Report for District Fiscal Year 2007-2008

TO: Board Finance Committee

FROM: Independent Citizens' Oversight Committee

MEETING DATE: Tuesday, September 30, 2008

BY: Bob Hemker, CFO

Background: On Tuesday, September 23, 2008, the Palomar Pomerado Health Hospital, Emergency Care, Trauma Center Improvement and Repair Measure Bonds Independent Citizens' Oversight Committee (ICOC) held their annual meeting.

At that meeting, the ICOC reviewed the District Expenditure Report, which details the reconciliation of funds expended from the proceeds of the General Obligation Bonds issued pursuant to Measure BB. Following that review, the ICOC concluded that PPH is in compliance with the requirements of Measure BB. Pursuant to §3.2 of the ICOC Procedures, Policies & Guidelines (PP&G), the Annual Report of the ICOC for District Fiscal Year 2007-2008 is herewith submitted to the District Board for consideration and response *(Addendum C).*

If approved, the report will be considered final and will be posted on the ICOC page of the District Board's public web site www.pph.org/default.aspx?nd=2144. If the response is other than approval, the ICOC will review the District Board's response at their next regularly scheduled meeting, will make correction, amendment and approval, and will then submit the final report for inclusion in the District Board's public records on the ICOC page of the PPH web site.

The ICOC has chosen to meet on a bi-annual basis, with their mid-year meeting tentatively scheduled for April 21, 2009.

Budget Impact: N/A

Staff Recommendation: Staff recommends approval of the Annual Report of the ICOC for District Fiscal Year 2007-2008.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

PPH Independent Citizens' Oversight Committee
Appointment of Officers

TO: Board Finance Committee

MEETING DATE: Tuesday, September 30, 2008

FROM: Bob Hemker, CFO

Background:

Pursuant to the Policies, Procedures & Guidelines (PP&G) of the Palomar Pomerado Health Hospital, Emergency Care, Trauma Center Improvement and Repair Measure Bonds Independent Citizens' Oversight Committee (ICOC), the PPH Board of Directors shall appoint the Officers of the ICOC. At its July 2005 meeting, the PPH Board delegated responsibility for those appointments to the Board Chair and the Board Finance Committee Chair. The PP&G also specify a term limit for the Chair of the ICOC of three consecutive terms.

The FY2008 Officers were Steve Yerxa, Chair; Bob Wells, Vice Chair; and John McIver, Secretary. Although their terms technically expired on June 30, 2008, the incumbents have continued in the duties of their respective offices pending nominations to and appointment of Officers by the Board Chair and Finance Committee Chair.

At the Annual Meeting of the ICOC on September 23, 2008, the incumbent officers were nominated by the Committee for re-appointment to their currently held offices. After that meeting, it was discovered that, if re-appointed, Chair Steve Yerxa would be serving a fourth consecutive term, which invalidated his nomination.

The members of the ICOC have been polled via email, and the resultant nominations will be provided upon receipt.

Budget Impact:

N/A

Staff Recommendation:

PPH Staff will recommend that the nominees for Officers as submitted by the ICOC be appointed by the Board Chair and the Board Finance Committee Chair for the FY2009 terms of office.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

PPH Independent Citizens' Oversight Committee
Resignation of Edward R. Lehman
Next Steps Required of the Board

TO: Board Finance Committee

MEETING DATE: Tuesday, September 30, 2008

FROM: Bob Hemker, CFO

Background: On Tuesday, September 23, 2008, the Palomar Pomerado Health Hospital, Emergency Care, Trauma Center Improvement and Repair Measure Bonds Independent Citizens' Oversight Committee (ICOC) held their annual meeting.

At that meeting, Acting Chair Steve Yerxa reported having received a letter of resignation from Edward R. Lehman. Mr. Lehman's resignation was accepted, and a letter confirming that action will be sent to him by Acting Chairman Yerxa.

Mr. Lehman's resignation in effect causes two vacancies on the ICOC: 1) A vacancy in number, as the Policies, Procedures & Guidelines (PP&G) of the ICOC require that there shall be not less than nine (9) members; and, 2) A vacancy in Required Members, as Mr. Lehman was the Senior Citizen's Organization representative on the ICOC—required pursuant to the PP&G.

- As William C. Bonner is a current member and—by virtue of his status as a volunteer with Rancho Bernardo Senior Services—is qualified to fill the Senior Citizen's Organization vacancy, he may move into the Required Member for Senior Citizen's Organization representative vacancy that was created by Mr. Lehman's resignation

Pursuant to the PP&G, the PPH Board shall appoint a new member to serve the remainder of the term (Mr. Lehman was a member of the Class of 2007, with his second and final term to expire on June 30, 2009).

- The PPH Board shall post the vacancy and solicit applications from the general public.
- The Board designee [the Board Finance Committee] shall review applications and make recommendations to the Board for applicants to fill the vacant position.

Budget Impact: N/A

Staff Recommendation: It is recommended that the Board:

1) Post the vacancy created by the resignation of Edward R. Lehman, soliciting applications from the general public in accordance with the PP&G of the ICOC. Consistent with previous methodology, it is also recommended that the full Finance Committee evaluate all applicants (conducting phone and/or face-to-face interviews with the finalists as warranted) prior to recommending to the District Board the proposed finalists for the vacant seat on the ICOC.

2) Establish a deadline for receipt of applications.

3) Appoint William C. Bonner to serve as the Required Member Senior Citizen's Organization representative for the remainder of his term.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

LEGAL DEPARTMENT STRATEGIC PLAN

TO: Board Finance Committee

MEETING DATE: Tuesday, September 30, 2008

FROM: Janine Sarti, Esq., General Counsel

Background: Information will be presented regarding the Strategic Plan for the Legal Services Department *(Addendum D).*

Budget Impact: N/A

Staff Recommendation: ***Information only***

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

August 2008 & YTD FY2009 Financial Report

TO: Board Finance Committee

MEETING DATE: Tuesday, September 30, 2008

FROM: Robert Hemker, CFO

Background: The Board Financial Reports (unaudited) for August 2008 and YTD FY2009 are submitted for the Finance Committee's approval *(Addendum E).*

Budget Impact: N/A

Staff Recommendation: Staff recommends approval.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

ADDENDUM A

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

Draft

Board Finance Committee Meeting
Attendance Roster & Meeting Minutes
Calendar Year 2008

Members	Meeting Dates:										
	1/22/08	2/26/08	3/25/08	4/29/08	5/27/08	7/1/08	7/29/08	8/26/08	9/30/08	10/28/08	12/2/08
Nancy Bassett, R.N.	P	P	P	P							
Ted Kleiter – Chair	P	P	P	P	P	P	P	P			
Bruce Krider, M.A.	P	P	P	P	P	E	P	P			
Marcelo Rivera, M.D.	P	P	P	P	P	E	P[1]	A			
Michael Covert, FACHE	P	P	P	P	P	P	E[2]	P			
Ben Kanter, M.D.	E	P	P	P	P	E	P	P			
John Lilley, M.D.	P	E	P	E	A	P	E	A			
Linda Greer – Alternate			Guest			P	P[1]				
Linda Bailey – 2nd Alternate						E	Guest				
Alan Larson, M.D. – 3rd Alternate						E					
Nancy Bassett, R.N. – 4th Alternate						P	Guest				
Staff Attendees											
Bob Hemker	P	P	P	P	P	P	P	P			
Gerald Bracht	P	P	P	P	P	P	P	P			
David Tam			P	P	P	E	P	E			
Steve Gold	P	P									
Tanya Howell – Secretary	P	P	P	P	P	P	P	P			
Invited Guests	**See Text of Minutes For Names of Guest Presenters**										

[1] Director Rivera left the meeting following the Plan of Finance update, and was replaced by Linda Greer as the Finance Committee Alternate
[2] Sheila Brown attended as Interim CEO, with full voting privileges

Add A-2

BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, AUGUST 26, 2008

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
MEETING LOCATION	Meeting Room E, Pomerado Hospital, 15615 Pomerado Road, Poway, CA		
MEETING CALLED TO ORDER	6:13 p.m. by Chair Ted Kleiter		
ESTABLISHMENT OF QUORUM	See roster		
PUBLIC COMMENTS	There were no public comments		
ADJOURNMENT TO CLOSED SESSION	**The meeting adjourned to Closed Session at 6:13 p.m.** *~ pursuant to California Government Code §54956.8~* **Conference with Real Property Negotiators** Property: 151-155 East Valley Boulevard, Escondido, CA A mixed-use property improved with three structures consisting of four residential units and one commercial unit (a total approximate building area of 3,815 sq ft) on an approximately 6,700 sq ft parcel, exact legal description to be provided in escrow Agency Negotiator: Robert A. Hemker, CFO Negotiating Parties: Bosko & Seka Hrnjak and Robert A. Hemker Under Negotiation: Instruction to negotiator will concern Agency's interest in buildings and property, price, and terms for ownership interest Estimated date of public disclosure: September 2008 *~Anticipated Action~*		
OPEN SESSION RESUMED	Chairman Kleiter called the Open Session to Order at 6:33 p.m.		
ACTION RESULTING FROM CLOSED SESSION DISCUSSION	**MOTION:** By Director Krider, seconded by CEO Covert and carried to recommend approval for Negotiator to continue negotiations with Sellers for the purchase of the property located at 151-155 E Valley Boulevard, Escondido, CA, with terms to be consistent with the Letter of Intent and based on appraised value; with Negotiator also to be authorized to utilize a §1033 acquisition/friendly condemnation and to proceed to enact the transaction on a quick-time basis, including associated and reasonable costs thereof. All in favor. None opposed.		Forwarded to the September 8, 2008, Board of Directors meeting with a recommendation for approval

INFORMATION ITEM(S)	Bob Hemker presented several informational items
	• The State's lack of budget and its effect on Medi-Cal payments to PPH
	  o The Governor was working on a compromise bill as of last Friday
	  o CHA provided districts with a media statement that the Medi-Cal payment IOUs to State providers currently amount to about $750M in the queue
	    ▪ For PPH for the month of July, Medi-Cal shows $1.47M negative against budgeted cash collections
	    ▪ For August, it was $3.78M negative as of today
	    ▪ PPH has actual IOUs sitting on file at about $5M – approximating the actual to budget cash shortfall
	      ⅄ We do know what we have processed, as well as what IOUs have been received back from the State
		Information Only	**Add A-3**

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
	▪ He has discussed with other providers in the area, and their results are about the same ▪ August cash will take a hit unless relief from the State is forthcoming this week o We actually received a check for about $200K in mid-August, but that was from prior year monies • The State has been enjoined by a Court from enacting the proposed 10% cuts to Medi-Cal payments o The State has filed an appeal o If the State loses the appeal, the Subacute expansion utilizing SNF beds might become a value added rather than a value preservation • Ventures & business aspects of Valley Radiology Consultants (VRC) o PPH has pulled out of all ventures and business relationships with VRC for Parkway, Gateway and POM Imaging ▪ Agreement is being signed in counterpart, with both parties officially swapping via courier ▪ Effective as of July 1st business date ▪ VRC has right of first refusal for both women's services and to do professional reads ⅄ Applies to coverage on a limited basis ⅄ Effective until 12/31/08 (a) Waived option for women's services only (b) Still has right to exercise option to do professional reads through effective date		
MINUTES – TUESDAY, JULY 29, 2008			
JOINT BOARD QUALITY REVIEW / FINANCE COMMITTEE MEETING	No discussion.	**MOTION:** By Director Krider, seconded by Dr. Kanter and carried to approve the minutes of the Joint Board Quality Review/Finance Committee meeting as presented. All in favor. None opposed.	
BOARD FINANCE COMMITTEE MEETING	No discussion.	**MOTION:** By Director Krider, seconded by Dr. Kanter and carried to approve the minutes of the Board Finance Committee meeting as presented. All in favor. None opposed.	**Add A-4**

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
PHYSICIAN ADVISOR AGREEMENT – BEHAVIORAL HEALTH			
STEPHEN F. SIGNER, MD	Susan Linback stated that they have been working on strategic planning for Behavioral Health • The Physician piece is key to the plan, to act as an advisor for the growth of new services being added, which would possibly include o Telepsychiatry o Working with the military to assist active duty personnel returning from Iraq • Agreement extends services through September 30, 2010 • Budgeted contract for FY09 – just an extension of what we're doing	**MOTION:** By Director Krider, seconded by Dr. Kanter and carried to approve the two-year **(October 1, 2008 to September 30, 2010)** Physician Advisor Agreement for Palomar Pomerado Behavioral Health Services with Stephen F. Signer, MD, as presented. All in favor. None opposed.	Forwarded to the September 8, 2008, Board of Directors meeting with a recommendation for approval
PHYSICIAN RECRUITMENT AGREEMENT – FAMILY PRACTICE			
STEPHANIE IEM, DO	• Standard recruitment package o 1 year of income assistance with a 2-year repayment period o Dr. Iem is a physician whose recruitment was in process during the budget cycle	**MOTION:** By Director Krider, seconded by CEO Covert and carried to approve the Physician Recruitment Agreement with Stephanie Iem, DO, as presented. All in favor. None opposed.	Forwarded to the September 8, 2008, Board of Directors meeting with a recommendation for approval
BOND UPDATE	Bob Hemker distributed a table containing the year-to-date weekly reset rates on the Auction Rate Securities (ARS) *(Attachment 1)*: • Series A & B had 3.01% and 3.04% this week, respectively, showing some consistency • Combined 12-week rolling average for the week of August 18th was 3.21% o SIFMA index + normal margin is 2.98/3.0% ■ Consistent with market in general o Still dual tracking for the ARS conversion issuance and the General Obligation (GO) Bond issuance on following schedule ■ 9/30 – Board Finance Meeting – Approval recommendations for ARS solution and new GO monies ■ 10/20 – Board Meeting – Approval recommendations ■ 10/24 – Anticipate rating agency updates ■ 10/24 – JPA Meeting (Tri-City, Grossmont & PPH) – Negotiated sale ■ 10/28 – Board Finance	**Information only**	Forwarded to the September 8, 2008, Board of Directors meeting with a recommendation for approval **Add A-5**

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
	■ 10/29 – Mailing Preliminary Official Statement for Series 2008 GO Bonds ■ 11/10 – Board Meeting ■ 11/13 – Pricing of Series 2008 GO Bonds ■ 11/3 – Signing Bond Purchase Agreement for Series 2008 GO Bonds ■ 11/17 – Pre-closing for Series 2006A, 2006B and 2006C ARS and Series 2008 GO Bonds ■ 11/18 – Closing for Series 2006A ARS ■ 11/19 – Closing for Series 2006A ARS ■ 11/20 – Closing for Series 2006C ARS and Series 2008 GO Bonds • Still in conversation with FSA regarding insuring bonds o Should they invoke additional covenants, PPH must weigh value of having insured vs non-insured bonds • Some other alternative instruments to fixed rate bonds for the ARS conversion are still being explored o Will bring forth if viable o Just need to provide awareness to the Committee that all available instruments are being investigated, not just those for which prior authorization has been given o Have a 30-day window in which to rescind notice (10/30 or so) for the ARS conversion • Costs of issuance o Will there be any additional debt service funds? o If so, don't want to take costs out of cash reserves o GO is all self-funded for costs of issuance • Questions o Concerns about tax rate ■ GO will still be at $17.75/$100K of assessed value based upon current projected assessed values and current level of reserves o Documentation associated with bond issuance/conversions ■ ARS will have a conversion document instead of Official Statement ■ Both documents to be printed and mailed on October 29th ⅄ Contains documentation regarding all financials since previous bond issuance ⅄ Will also contain audited FY2008 financials ⅄ If issuance is delayed beyond 11/13, FY2009 unaudited financials must also be included		

Add A-6

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
FINANCIAL REPORT **MONTH 2007 & YTD FY2007**	Bob Hemker reviewed the July 2008 & YTD 2009 financial report, utilizing the presentation distributed as Addendum C in the agenda packet, as well as updated Balanced Scorecard and Flash Report slides *(Attachments 2 & 3, respectively)*. • No longer using “per Weighted Patient Day” – now “ per Adjusted Discharge” • YTD Actual vs Budget variance o 109% positive combined variance ■ 111% positive – North ■ 112% positive – South o July is tracking positively in virtually every indicator • Key Indicators o Statistics ■ Admissions are up 38 to budget ■ Days are down 67 against budget ⅄ Drives acute LOS, which is slightly lower than budgeted ■ Case mix index is also just below budget ■ Surgeries are up 97 to budget ■ Births are also up with a positive variance of 46 ■ ER visits are down 134 against budget ■ ER to Admit Rate is 1.3% higher than budgeted ■ Productivity is up over 1%, as well o Income Statement ■ Net patient revenues are almost right on budget for July ■ Salaries and wages show a slightly positive variance ■ Supplies also show a positive variance for July ⅄ Have watched carefully to see if there was any inventory draw-down – accrual applied as a reserve ■ Bottom bottom line is about $70K up from where we expected ⅄ Similar to last year for first month o OEBITDA is right at budget, with a very slight positive variance o Cash collections are down $3.2M for July ■ About $1.5M is income not yet realized from Medi-Cal payments being held pending a State budget ■ Not atypical as target is based on budget and we’re still collecting last year’s money in July ■ Patient access is providing additional on-site training for up-front (point of service) collections o Days cash on hand is also down ■ Bond replenishment for working capital did not occur until August	**MOTION:** By Director Krider, seconded by Dr. Kanter and carried to approve the July 2008 and YTD FY2009 Financial Report as presented. All in favor. None opposed.	Forwarded to the September 8, 2008, Board of Directors meeting with a recommendation for approval. **Add A-7**

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
	• Key Variances o Weight Solutions is a new program ■ Reduction of revenue is contra to expenses we didn't incur ⅄ All from retail sales of product ■ Needs to have a "for-profit" Tax ID ⅄ Looked at creating one under Health Development (a) Appeared to fit under the intent of Health Development (b) Cash sales of product as a for-profit would not work for a 501(c)(3) ⅄ Looking to put it back under the PPH Tax ID, may not be the best way to do it, either ⅄ Possibility of creating a for-profit subsidiary (a) If done, may have to bring back to the Board for approval (b) Will do so when/if appropriate ⅄ Potential opportunity loss until resolved o Workers comp ■ We're still using the old accrual rate, even though we negotiated a reduced rate this year ■ Left historical rate in budget to avoid any potential problems for IBNR ■ Will true up throughout the year o Pro fees are positive to budget ■ Primarily due to physician recruitment guarantees not yet realized o Supplies ■ Overall $100K positive variance ■ Prosthesis had a negative variance of $152K o Other Direct ■ San Diego Radiosurgery is the joint venture for radiation therapy and stereotactic ■ Expenses will be shown here and will constantly show contra to revenue o Salaries & Wages ■ 2664 FTEs were approved ⅄ Staffing is at 2642 ⅄ 22 less than budgeted ■ Productivity as of pay period end (PPE) 8/16 was at 100%, with an $859K positive variance ■ 88% of labor dollars are going to regular wages ⅄ Still in a 12% range of premium pay ■ Challenges ⅄ Registry is negative against budget ⅄ Overtime is $77K positive		Add A-8

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
	■ Lorie Shoemaker addressed the on-boarding of new nursing graduates embedded in the budget ⅄ In her annual report to the Board she outlined the strategy to hire new nursing graduates (a) Plan is to have 100 new-hires or "new-to-specialty" nurses on staff this year (b) Budgeted into nursing administration at the respective campuses (i) Budget was adjusted on a month-by-month basis, based upon when we said we'd be hiring them (ii) Hiring schedule for July/August/September, following May and June graduations (iii) Based on when new-hires would be on-boarded, with ramp-up ■ Mrs. Shoemaker then discussed the preliminary findings of the Premium Pay Task Force ⅄ Implemented some "quick fixes" on overtime (a) Reduced by $500K in the last quarter ⅄ Task Force includes all of premium pay, not just overtime and is comprised of "Top 20 Offenders" (a) Reviewing system problems that need to be overcome (b) Fishbone graph compiled *(Example distributed – Attachment 4)* containing Processes, People, Environment and Procedures (i) Input from staff as to what factors are contributing to overtime and registry use (ii) Almost a 100% response (c) Went back to managers and asked, "What can you and your staff fix?" (d) Reviewed to determine what system-wide fixes were needed (i) Looked to items that would provide the "biggest bang for a buck" 1. Issues: a. Staffing coverage issues of PTO, LOAs, etc. b. Working with physician partners on some practice issues c. Throughput issues 2. Impaneled subcommittees to review (e) Focusing on reducing premium pay (i) Bottom line is that – until new graduates get through on-boarding process in October, premium pay will not get a whole lot better (ii) Currently have 55 new graduates/new-to-specialty nurses on board (iii) Will rotate off training and back to regular wages in November/December (iv) Will spike back up when the January graduates come in (v) 10 of the new grads are on the intermediate care unit 1. Creates a need for a significant number of preceptors, etc.		Add A-9

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP
	2. Creates a scheduling dilemma as well, as you can't put all new-hires on one shift 3. Second-highest unit for premium pay ⅄ Will not turn down new grads, just banking dollars ⅄ Breakdown of plusses and minuses (a) All positives equal $1.9M, so all negatives are $1.1M (b) Top 25 positives are $1.3M, with top 25 negatives at $.9M (c) Need to keep trending on the positives (d) Anything over 36 hours for an RN is time and a half (e) If an RN is called off as not needed, those hours they didn't work still count toward overtime, and the RN will still accrue 12 hours toward hours worked in counting overtime • Investment income is slightly up against budget • Bottom bottom line much stronger than previous July o Up on admissions almost 10% • Trauma is still right on budget – 103 against 102 budgeted • Trauma admissions are at 95 against 92 budgeted		
ADJOURNMENT	**The meeting was adjourned at 7:33 p.m.**		
SIGNATURES: • **COMMITTEE CHAIR** ____________________ Ted Kleiter • **COMMITTEE SECRETARY** ____________________ Tanya Howell			

Add A-10

ATTACHMENT 1

Palomar Pomerado Health
2006 Auction Rate Securities - Each Series $60 million
Weekly Reset Rates

Week of:	2006 Series A	2006 Series B	2006 Series C	Combined Average Weekly Reset Rate	Combined 12 Week Rolling Average Reset Rate	Series A 12 Week Rolling Average Reset Rate	Series B 12 Week Rolling Average Reset Rate	Series C 12 Week Rolling Average Reset Rate
2/11/08	4.50%	7.00%	9.00%	6.83%	3.83%	3.67%	3.80%	4.00%
2/18/08	10.00%	10.00%	10.00%	10.00%	4.35%	4.19%	4.33%	4.53%
2/25/08	8.00%	8.50%	6.74%	7.75%	4.69%	4.55%	4.74%	4.78%
3/3/08	8.10%	8.00%	8.40%	8.17%	5.07%	4.92%	5.11%	5.17%
3/10/08	8.50%	8.00%	7.77%	8.09%	5.45%	5.33%	5.48%	5.53%
3/17/08	8.00%	9.77%	8.22%	8.66%	5.84%	5.67%	5.97%	5.87%
3/24/08	7.11%	8.88%	7.09%	7.69%	6.16%	5.93%	6.38%	6.15%
3/31/08	7.11%	7.20%	7.03%	7.11%	6.46%	6.23%	6.69%	6.45%
4/7/08	6.48%	6.88%	6.08%	6.48%	6.73%	6.49%	7.01%	6.69%
4/14/08	5.00%	5.24%	5.00%	5.08%	6.90%	6.65%	7.19%	6.85%
4/21/08	4.91%	4.98%	5.00%	4.96%	7.03%	6.79%	7.33%	6.97%
4/28/08	4.25%	4.50%	4.48%	4.41%	7.10%	6.83%	7.41%	7.07%
5/5/08	3.70%	4.60%	4.00%	4.10%	6.88%	6.76%	7.21%	6.65%
5/12/08	3.70%	3.89%	3.70%	3.76%	6.36%	6.24%	6.70%	6.13%
5/19/08	3.50%	3.50%	3.25%	3.42%	6.00%	5.86%	6.29%	5.84%
5/23/08	3.00%	3.39%	3.00%	3.13%	5.58%	5.44%	5.90%	5.39%
6/2/08	2.99%	2.75%	3.00%	2.91%	5.14%	4.98%	5.47%	4.99%
6/9/08	2.50%	2.49%	2.99%	2.66%	4.64%	4.52%	4.86%	4.55%
6/16/08	2.50%	4.50%	4.50%	3.83%	4.32%	4.14%	4.49%	4.34%
6/23/08	2.50%	4.09%	4.21%	3.60%	4.03%	3.75%	4.23%	4.10%
6/30/08	3.00%	3.00%	3.99%	3.33%	3.77%	3.46%	3.91%	3.93%
7/7/08	2.50%	2.75%	3.19%	2.81%	3.58%	3.25%	3.70%	3.78%
7/14/08	2.30%	3.00%	3.19%	2.83%	3.40%	3.04%	3.54%	3.63%
7/21/08	2.00%	3.00%	3.18%	2.73%	3.26%	2.85%	3.41%	3.52%
7/28/08	3.00%	2.99%	3.18%	3.06%	3.17%	2.79%	3.28%	3.45%
8/4/08	4.00%	3.99%	3.149%	3.71%	3.17%	2.82%	3.29%	3.40%
8/11/08	3.19%	3.99%	3.99%	3.72%	3.19%	2.79%	3.33%	3.46%
8/18/08	3.04%	3.99%	3.00%	3.34%	3.21%	2.79%	3.38%	3.46%
8/25/08	3.01%	3.04%				2.80%	3.40%	

Palomar Pomerado Health
2006 Auction Rate Securities - Each Series $60 million
Weekly Reset Rates

Week of:	2006 Series A	2006 Series B	2006 Series C	Combined Average Weekly Reset Rate	Combined 12 Week Rolling Average Reset Rate	Series A 12 Week Rolling Average Reset Rate	Series B 12 Week Rolling Average Reset Rate	Series C 12 Week Rolling Average Reset Rate
7/23/07	3.50%	3.50%	3.55%	3.52%				
7/30/07	3.50%	3.45%	3.50%	3.48%				
8/6/07	3.45%	3.45%	3.45%	3.45%				
8/13/07	3.50%	3.50%	3.50%	3.50%				
8/20/07	3.80%	3.85%	3.80%	3.82%				
8/27/07	3.80%	3.80%	3.70%	3.77%				
9/3/07	3.95%	3.80%	3.75%	3.83%				
9/10/07	3.81%	3.80%	3.65%	3.75%				
9/17/07	3.80%	3.85%	3.65%	3.77%				
9/24/07	3.80%	3.75%	3.65%	3.73%				
10/1/07	3.70%	3.70%	3.55%	3.65%				
10/8/07	3.50%	3.40%	3.40%	3.43%	3.64%	3.68%	3.65%	3.60%
10/15/07	3.35%	3.34%	3.40%	3.36%	3.63%	3.66%	3.64%	3.58%
10/22/07	3.25%	3.30%	3.25%	3.27%	3.61%	3.64%	3.63%	3.56%
10/29/07	3.30%	3.25%	3.20%	3.25%	3.59%	3.63%	3.61%	3.54%
11/5/07	3.15%	3.15%	3.15%	3.15%	3.57%	3.60%	3.58%	3.51%
11/12/07	3.20%	3.35%	3.35%	3.30%	3.52%	3.55%	3.54%	3.48%
11/19/07	3.45%	3.80%	3.80%	3.68%	3.52%	3.52%	3.54%	3.48%
11/26/07	3.80%	3.65%	3.75%	3.73%	3.51%	3.51%	3.53%	3.48%
12/3/07	3.65%	3.65%	3.70%	3.67%	3.50%	3.50%	3.52%	3.49%
12/10/07	3.65%	3.55%	3.70%	3.63%	3.49%	3.48%	3.49%	3.49%
12/17/07	3.55%	3.55%	3.50%	3.53%	3.47%	3.46%	3.47%	3.48%
12/24/07	4.00%	3.90%	4.05%	3.98%	3.50%	3.49%	3.49%	3.52%
12/31/07	3.90%	3.90%	3.75%	3.85%	3.53%	3.52%	3.53%	3.55%
1/7/08	3.55%	3.50%	3.40%	3.48%	3.54%	3.54%	3.55%	3.55%
1/14/08	3.40%	3.10%	3.20%	3.23%	3.54%	3.55%	3.53%	3.55%
1/21/08	3.05%	3.05%	3.10%	3.07%	3.53%	3.53%	3.51%	3.54%
1/28/08	3.25%	3.30%	3.65%	3.40%	3.55%	3.54%	3.53%	3.58%
2/4/08	3.75%	3.50%	3.25%	3.50%	3.56%	3.58%	3.54%	3.57%

ATTACHMENT 2

Att 2-2

FISCAL YEAR 2009
Balanced Scorecard
Financial Indicators

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

June	July				YTD 2009			
Actual	Actual	Budget / PY	Variance		Actual	Budget	Variance	Prior Year Actual
				PPH Indicators:				
(0.5%)	9.8%	9.3%	0.5%	OEBITDA Margin w/Prop Tax	9.8%	9.3%	0.5%	10.1%
$ 10,729	$ 10,019	$ 10,677	$ 658	Expenses/Adj Discharge	$ 10,019	$ 10,677	$ 658	$ 10,309
$ 6,091	$ 6,123	$ 6,418	$ 295	SWB/Adj Discharge	$ 6,123	$ 6,418	$ 295	$ 6,204
6.53	6.29	6.63	0.34	Prod FTE's/Adj Occupied Bed	6.29	6.62	0.33	6.64
3,276	3,600	3,408	192	Adjusted Discharges	3,600	3,408	109.7%	3,283
				PPH North Indicators:				
2.4%	5.5%	9.9%	(4.4%)	OEBITDA Margin w/Prop Tax	5.5%	9.9%	(4.4%)	8.4%
$ 9,769	$ 9,483	$ 9,828	$ 345	Expenses/Adj Discharge	$ 9,483	$ 9,828	$ 345	$ 9,693
$ 5,114	$ 5,098	$ 5,265	$ 166	SWB/Adj Discharge	$ 5,098	$ 5,265	$ 166	$ 4,999
5.33	5.12	5.43	0.31	Prod FTE's/Adj Occupied Bed	5.11	5.43	0.32	5.52
2,324	2,582	2,462	120	Adjusted Discharges	2,582	2,462	111.5%	2,316
				PPH South Indicators:				
(10.4%)	18.1%	6.1%	12.0%	OEBITDA Margin w/Prop Tax	18.1%	6.1%	12.0%	10.5%
$ 11,169	$ 10,611	$ 11,537	$ 927	Expenses/Adj Discharge	$ 10,611	$ 11,537	$ 927	$ 10,622
$ 5,442	$ 5,471	$ 5,958	$ 487	SWB/Adj Discharge	$ 5,471	$ 5,958	$ 487	$ 5,653
6.29	6.12	6.42	0.30	Prod FTE's/Adj Occupied Bed	6.11	6.40	0.29	6.11
904	999	926	73	Adjusted Discharges	999	926	112.2%	890

Adjusted Discharges is compared with Prior Year Actual

ATTACHMENT 3

F I S C A L   Y E A R   2 0 0 9

Weekly Flash Report

Att 3-2 52

PALOMAR
POMERADO
HEALTH
SPECIALIZING IN YO

August 08	Aug 1-7	Aug 8-14	Aug 15-21		MTD Total	MTD Budget	% Varianc
ADC (Acute)	296	300	307	0	301	311	(3.35
PMC	216	221	224	0	220	231	(4.52
POM	80	79	83	0	81	81	0.01
PCCC	87	88	85	0	87	85	1.64
VP	127	125	121	0	124	123	1.12
Patient Days (Acute)	2073	2098	2150	0	6,321	6,540	(3.35
PMC	1512	1547	1569		4,628	4,847	(4.52
POM	561	551	581		1,693	1,693	0.01
PCCC	609	614	594		1,817	1,788	1.64
VP	891	872	849		2,612	2,583	1.12
Discharges	542	591	549	0	1,682	1,695	(0.76
PMC	411	433	412		1,256	1,269	(1.06
POM	131	158	137		426	425	0.14
Number of Surgeries	232	227	247	0	706	700	0.79
PMC	158	145	175		478	482	(0.90
POM	74	82	72		228	218	4.53
Number of Births	109	112	106	0	327	308	6.32
PMC	78	80	81		239	238	0.23
POM	31	32	25		88	69	27.36

FISCAL YEAR 2009
Weekly Flash Report

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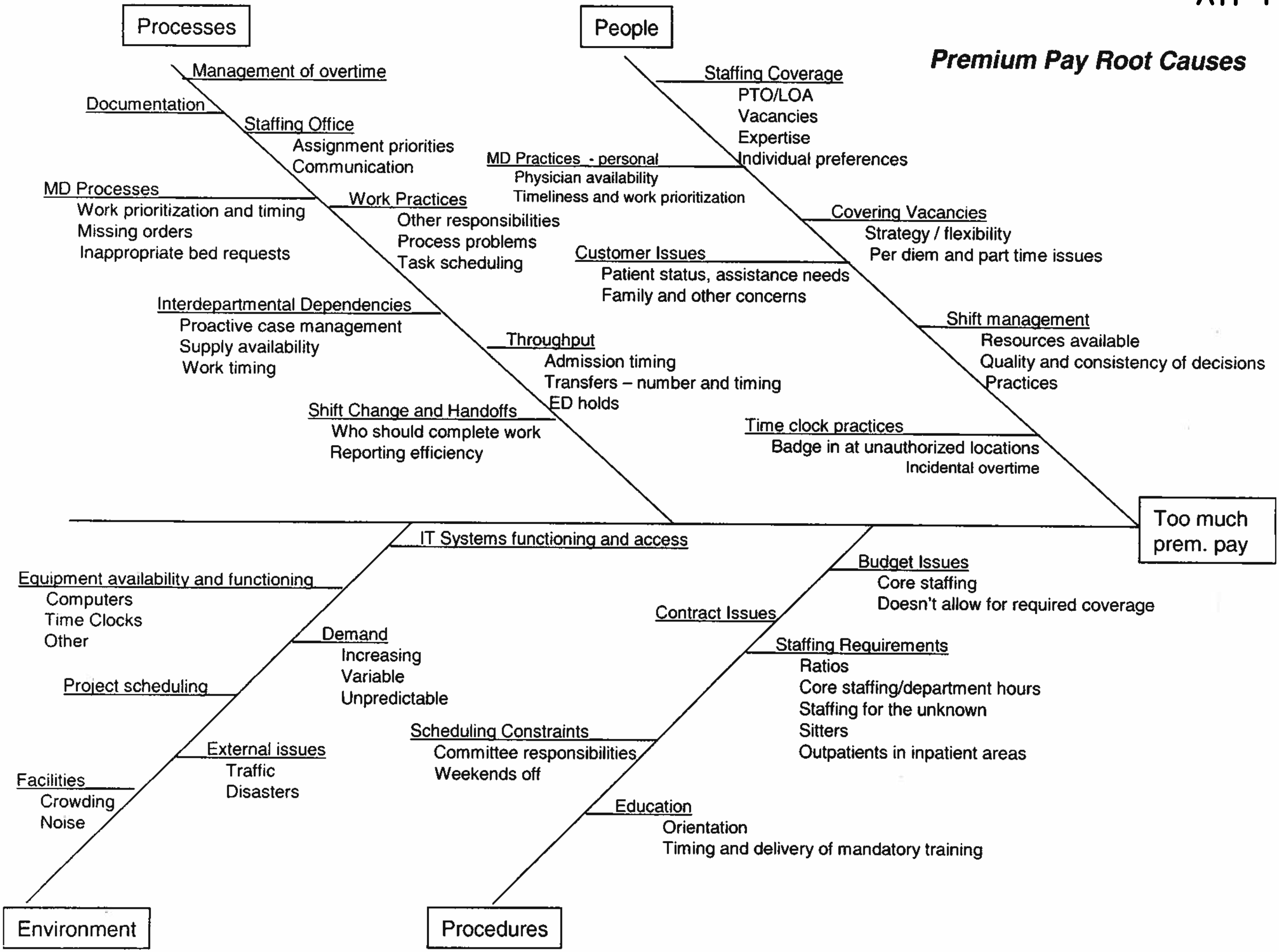
PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

August 08

	Aug 1-7	Aug 8-14	Aug 15-21		MTD Total	MTD Budget	% Varianc
Outpatient Visits (inc. Lab)	2475	1914	1797	0	6,186	6,168	0.29
PMC	1653	1197	1207		4,057	4,209	(3.61
POM	822	717	590		2,129	1,959	8.67
ER Visits	1704	1763	1793	0	5,260	5,215	0.87
PMC	1180	1224	1222		3,626	3,568	1.63
POM	524	539	571		1,634	1,647	(0.78
Trauma Visits	17	22	17	0	56	69	(18.95
IP	17	21	14		52	62	(16.56
OP	0	1	3		4	7	(40.95
Gross IP Revenue	22,183,641	21,980,515	21,753,718		65,917,874	65,842,747	0.11
Gross OP Revenue	7,874,741	7,360,452	7,500,224		22,735,417	20,414,429	11.37
Cash Collection	7,703,158	6,462,785	6,550,758		20,716,701	27,427,082	(24.47
Days cash on hand	93	94	103		103	80	
Prod Hrs (PP 3 & 4)	208,717		216,556		425,273	423,470	(0.43)
PMC - North	122,494		128,243		250,737	246,642	(1.66)
POM - South	55,173		57,361		112,534	117,231	4.01
Others	31,050	-	30,952	-	62,002	59,597	(4.04)
Prod $ (PP 3 & 4)	6,511,505		6,967,668		13,479,173	13,853,512	2.70
PMC - North	3,825,711		4,140,527		7,966,238	8,129,074	2.00
POM - South	1,652,549		1,786,787		3,439,336	3,699,561	7.03
Others	1,033,245	-	1,040,354	-	2,073,599	2,024,877	(2.41)

ATTACHMENT 4

Premium Pay Root Causes



ADDENDUM B

PALOMAR POMERADO HEALTH

RESOLUTION NO. 10.20.08 (___) - ___

RESOLUTION OF THE BOARD OF DIRECTORS OF PALOMAR POMERADO HEALTH AUTHORIZING THE ISSUANCE OF NOT TO EXCEED $110,000,000 AGGREGATE PRINCIPAL AMOUNT OF PALOMAR POMERADO HEALTH GENERAL OBLIGATION BONDS, ELECTION OF 2004; APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A SECOND SUPPLEMENTAL PAYING AGENT AGREEMENT SETTING FORTH THE TERMS OF SAID BONDS; APPROVING THE NEGOTIATED SALE OF SAID BONDS; APPROVING THE FORM OF BOND PURCHASE AGREEMENT PROVIDING FOR SAID SALE AND AUTHORIZING THE EXECUTION AND DELIVERY OF SUCH BOND PURCHASE AGREEMENT; APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DISTRIBUTION OF AN OFFICIAL STATEMENT FOR SAID BONDS; APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A CONTINUING DISCLOSURE UNDERTAKING FOR SAID BONDS, AND AUTHORIZING THE TAKING OF CERTAIN OTHER ACTIONS IN CONNECTION WITH THE ISSUANCE AND SALE OF SAID BONDS.

WHEREAS, pursuant to Resolution No. 08.04.04 (01)-8, adopted on August 4, 2004, by the Board of Directors of Palomar Pomerado Health, a local health care district duly organized and existing under the laws of the State of California (the "District"), an election was duly called and regularly held in the District on November 2, 2004, at which election a proposition (hereinafter referred to as "Measure BB") was submitted to the electorate of the District to authorize the issuance of general obligation bonds by the District in an amount not to exceed $496,000,000;

WHEREAS, an election was regularly held in the District on November 2, 2004 and the Registrar of Voters of the County of San Diego did duly and regularly canvass the returns of said election and did certify that Measure BB received at said election the affirmative vote of more than two-thirds of the votes cast on Measure BB at said election and that Measure BB was thereby carried and adopted by said election;

WHEREAS, pursuant to said favorable vote, the Board of Directors of the District (the "Board of Directors") is authorized to issue said general obligation bonds pursuant to and in accordance with Chapter 4 of Division 23 (commencing with Section 32300) of the California Health and Safety Code ("The Local Health Care District Law") and other applicable law;

WHEREAS, the District has heretofore issued $80,000,000 aggregate principal amount of Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2005A," of which $67,485,000 aggregate principal amount remain outstanding, and $241,083,318.80

aggregate principal amount of Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A," all of which remain outstanding, for the purpose of financing a portion of the hospital and health care facilities projects as referenced and described in Measure BB;

WHEREAS, for the purpose of financing an additional portion of the hospital and health care facilities projects as referenced and described in Measure BB (hereinafter referred to as the "Project"), the Board of Directors desires to authorize the issuance of certain additional general obligation bonds (hereinafter referred to as the "Bonds"), in an aggregate principal amount not to exceed $110,000,000;

WHEREAS, the Bonds will be issued pursuant to and in accordance with the provisions of The Local Health Care District Law and other applicable law and a Paying Agent Agreement, dated as of June 1, 2005 (as heretofore supplemented, the "Original Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"), as further supplemented by the Second Supplemental Paying Agent Agreement (the "Second Supplemental Paying Agent Agreement," and, together with the Original Paying Agent Agreement, hereinafter collectively referred to as the "Paying Agent Agreement"), to be entered into between the District and the Paying Agent;

WHEREAS, there has been prepared and presented to the Board of Directors a proposed form of Second Supplemental Paying Agent Agreement;

WHEREAS, the proceeds of the Bonds shall be applied as provided in Measure BB to finance or reimburse the District for its prior payment of costs of the Project and to pay costs of issuance of the Bonds;

WHEREAS, in order to facilitate such financing or reimbursement, the District has requested the assistance of the North San Diego County Health Facilities Financing Authority (the "Authority"), which was established and created pursuant to a joint exercise of powers agreement (the "JPA Agreement"), between the District and Tri-City Healthcare District;

WHEREAS, pursuant to a request received from Grossmont Healthcare District, a local health care district duly organized and existing under the laws of the State of California ("Grossmont"), and a "public agency" as such term is defined in the JPA Agreement, the Board of Directors of the Authority approved the addition of Grossmont as an additional Member (as such term is defined in the JPA Agreement) on May 11, 2007 in accordance with the provisions set forth in Section 19 of the JPA Agreement;

WHEREAS, pursuant to Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and the JPA Agreement, the District may sell the Bonds to the Authority, which is authorized to purchase the Bonds from the District, and to sell the Bonds so purchased from the District to public or private purchasers at public or negotiated sale;

WHEREAS, the Board of Directors deems it desirable to authorize the sale of the Bonds to the Authority and the simultaneous resale of the Bonds by the Authority to Citigroup Global Markets Inc. (hereinafter referred to as the "Purchaser") pursuant to a bond purchase agreement (the "Bond Purchase Agreement"), which is proposed to be executed by the Purchaser and agreed to and accepted by the District and the Authority;

WHEREAS, there has been prepared and presented to the Board of Directors a proposed form of Bond Purchase Agreement;

WHEREAS, the Board of Directors hereby determines and finds that the issuance and sale of the Bonds as described herein to finance the Project is necessary in order to enable the District to continue to provide accessible health care services, including trauma, emergency room and acute care services, and is necessary and proper and in the best interests of the District and its residents;

WHEREAS, in order to facilitate the offering of the Bonds by the Purchaser, the Board of Directors proposes to approve, execute and deliver an official statement (the "Official Statement") describing the Bonds and certain related matters;

WHEREAS, there has been prepared and presented to the Board of Directors a proposed form of Official Statement in preliminary form describing the Bonds and certain related matters;

WHEREAS, in order to assist the Purchaser in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) ("Rule 15c2-12"), the Board of Directors proposes to execute and deliver a continuing disclosure undertaking (the "Continuing Disclosure Undertaking");

WHEREAS, there has been prepared and presented to the Board of Directors a proposed form of Continuing Disclosure Undertaking;

WHEREAS, in order to obtain the lowest cost of borrowing obtainable at a prudent level of risk, it may be desirable to obtain bond insurance for the Bonds of one or more stated maturity dates;

WHEREAS, in order to accomplish the foregoing, it will be necessary for the District to enter into or execute or approve and deliver the following documents and agreements, forms of which have been prepared and presented to this meeting:

(1) Second Supplemental Paying Agent Agreement;

(2) Bond Purchase Agreement;

(3) Official Statement; and

(4) Continuing Disclosure Undertaking.

WHEREAS, on October 31, 2006, there was published in a newspaper of general circulation in the District, a notice of public hearing concerning the proposed issuance by the District of obligations, including general obligation bonds, pursuant to a plan of financing;

WHEREAS, on November 20, 2006, the Board of Directors held a public hearing for purposes of Section 147(f) of the Internal Revenue Code of 1986 (the "Code") at which interested persons were given an opportunity to express their views concerning the issuance of the above-referenced obligations and on the nature and location of the facilities proposed to be financed pursuant to the above-referenced plan of financing;

WHEREAS, the Board of Directors desires to approve the issuance of the Bonds for purposes of Section 147(f) of the Code, to authorize and direct the execution and delivery of each of the Second Supplemental Paying Agent Agreement, the Bond Purchase Agreement, the Official Statement and the Continuing Disclosure Undertaking (hereinafter collectively referred to as the "Financing Documents"), to authorize the issuance and sale of the Bonds pursuant to Measure BB and the Financing Documents, to authorize the negotiation of, and, as applicable, the securing of bond insurance to provide credit support for the Bonds, and to authorize the taking of such other actions as shall be necessary to consummate the financing of the Project as referred to and described in Measure BB, the Financing Documents and herein; and

WHEREAS, the Board of Directors has determined that the issuance of the Bonds will not cause the total outstanding bonded indebtedness of the District to exceed any applicable statutory or contractual debt limitation;

NOW, THEREFORE, BE IT RESOLVED THAT:

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

Section 2. Authorization of Issue; Designation of Bonds; Approval for Purposes of Section 147(f) of the Internal Revenue Code. This Board of Directors hereby authorizes and approves the issuance and sale of not to exceed $110,000,000 aggregate principal amount of general obligation bonds of the District, such Bonds to be designated as the "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2008A" on the terms and conditions set forth herein, in the Original Paying Agent Agreement and in the Second Supplemental Paying Agent Agreement, as finally executed and delivered.

It is the purpose and intent of the Board of Directors that this Resolution constitute approval of the issuance of the Bonds for purposes of Section 147(f) of the Code.

Section 3. **Second Supplemental Paying Agent Agreement and Terms of the Bonds.** The proposed form of Second Supplemental Paying Agent Agreement presented to this meeting is hereby approved. The President and Chief Executive Officer of the District (the "President") or the Chief Financial Officer of the District (the "Chief Financial Officer") is hereby authorized and directed, for and in the name of and on behalf of the District, to execute and deliver a Second Supplemental Paying Agent Agreement, in substantially said form, with such changes therein as the officer executing the same (each, an "Authorized District Representative"), with the advice of counsel to the District ("District Counsel"), may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

The Bonds shall be dated their date of delivery, or such other date as shall be set forth in the Second Supplemental Paying Agent Agreement as finally executed and delivered. The Bonds shall mature on such date or dates, in each of the years, not exceeding thirty (30) years from the date of issuance, and in such aggregate principal amounts or accreted values at maturity as shall be set forth in the Second Supplemental Paying Agent Agreement, as finally executed and delivered. The maximum interest rate on the Bonds shall not exceed 12% per annum (in accordance with Section 53531 and Section 53532 of the Government Code of the State of California), computed on the basis of a 360-day year of twelve 30-day months. The Bonds shall be issued as capital appreciation bonds or current interest serial bonds or current interest term bonds, shall be subject to redemption prior to their respective stated maturity dates at the option of the District as set forth in the Second Supplemental Paying Agent Agreement, as finally executed and delivered, and in the Bonds, and may also be subject to mandatory sinking fund redemption as specified in the Second Supplemental Paying Agent Agreement, as finally executed and delivered, and in the Bonds. The Second Supplemental Paying Agent Agreement may provide that the Bonds of any maturity shall not be subject to optional or mandatory sinking fund redemption as further set forth therein. The Bonds shall be signed by the manual or facsimile signature of the Chairperson of the Board of Directors of the District, under seal attested by the manual or facsimile signature of the Secretary of the Board of Directors of the District. The time, manner and place or places of payment of the Bonds, the registration provisions and other terms of the Bonds shall be as set forth in the Second Supplemental Paying Agent Agreement, as finally executed and delivered.

Section 4. **Bond Purchase Agreement; Sale of Bonds**. The proposed form of Bond Purchase Agreement presented to this meeting is hereby approved. The sale of the Bonds by the District to the Authority and the simultaneous resale of the Bonds by the Authority to the Purchaser, at a purchase price to be set forth therein are hereby approved; provided, that (i) the true interest cost for the Bonds shall not be in excess of 9.0%, (ii) the Purchaser's compensation shall not exceed 0.975% of the aggregate principal amount of the Bonds, plus any original issue premium, and excluding any costs of issuance the Purchaser agrees to pay pursuant to the provisions of the Bond Purchase Agreement; and (iii) the Bonds shall otherwise conform to the limitations specified herein. Each Authorized District Representative is hereby authorized and directed, for and in the name of and on behalf of the District, to execute and deliver a Bond Purchase Agreement, providing for the sale of the Bonds by the District to the Authority and the simultaneous resale of the Bonds by the Authority to the Purchaser, such Bond Purchase Agreement to be to be in substantially said form, with such changes therein as the Authorized District Representative executing the same, with the advice of District Counsel may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. **Official Statement**. The Official Statement in preliminary form presented to this meeting is hereby approved. The Official Statement in preliminary form may be deemed final as of its date, within the meaning of Rule 15c2-12 (except for the omission of certain final pricing, rating and related information as permitted by Rule 15c2-12) by either Authorized District Representative for purposes of compliance with Rule 15c2-12 and the distribution of the Official Statement in such preliminary form as is deemed final by an Authorized District Representative to persons who may be interested in the purchase of Bonds is hereby authorized. Each Authorized District Representative is hereby authorized and directed, for and in the name and on behalf of the District to execute and deliver to the Purchaser a final

Official Statement, in substantially said form, with such changes therein as the officer executing the same, with the advice of District Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof. The Purchaser is hereby authorized and directed to deliver a copy of the Official Statement, as finally executed, to all actual purchasers of Bonds.

Section 6. **Continuing Disclosure Undertaking.** The proposed form of Continuing Disclosure Undertaking presented to this meeting is hereby approved. Each Authorized District Representative is hereby authorized and directed to execute and deliver a Continuing Disclosure Undertaking, in substantially said form, with such changes therein as the Authorized District Representative executing the same, with the advice of District Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 7. **Bond Insurance**. The Chief Financial Officer is hereby authorized and directed, for and in the name and on behalf of the District, to negotiate with bond insurance companies, and, if the Chief Financial Officer determines that it is in the best interest of the District to commit to purchase bond insurance for Bonds of one or more stated maturity dates, the Chief Financial Officer is authorized to commit to purchase bond insurance on such terms as the Chief Financial Officer, with the advice of District Counsel, the financial advisor to the District, and the Purchaser, determines are appropriate.

Section 8. **Request for Necessary County Actions**. The Board of Supervisors of the County of San Diego (the "County") and the Treasurer-Tax Collector and other appropriate officials of the County are hereby requested to take and authorize such actions as may be necessary pursuant to all applicable laws of the State of California to provide for the levy and collection of a property tax on all taxable property within the District sufficient to provide for payment of all principal of, redemption premium, if any, and interest on the Bonds as the same shall become due and payable, and to transfer such moneys as directed by the District for deposit in the bond interest and sinking fund previously established by the District pursuant to the Paying Agent Agreement and in accordance with Section 32127 of The Local Health Care District Law.

Section 9. **Notices to State Debt Commission**. An Authorized District Representative is hereby authorized and directed to cause notices of the proposed sale and final sale of the Bonds to be filed in a timely manner with the California Debt and Investment Advisory Commission pursuant to Section 8855 of the Government Code of the State of California.

Section 10. **Additional Actions**. Each Authorized District Representative or the designee of either Authorized District Representative, acting singly, is, and each of them hereby is, authorized and directed, for and in the name and on behalf of the District, (i) to do any and all things and to execute and deliver any and all documents, instruments and certificates, including signature certificates, no-litigation certificates and tax certificates, and to enter into any and all agreements necessary or advisable in order to carry out, give effect to and comply with the terms and intent of this Resolution and the transactions contemplated by any of the documents and agreements authorized to be executed and delivered pursuant to this Resolution, including, without limitation, any of the foregoing which may be necessary or desirable in connection with any amendment of any of the documents authorized to be executed and delivered pursuant to this Resolution and such documents, agreements, instruments or certificates as may be required or necessary to arrange for bond insurance for Bonds of one or more stated maturity dates, and (ii) to authorize payment of all reasonable fees and expenses incurred or to be incurred by the District in connection with the transactions contemplated by any of the documents and agreements authorized to be executed and delivered pursuant to this Resolution.

The Secretary of the Board of Directors of the District is hereby authorized to attest to the seal of the District and/or any signature of the Chairperson of the Board of Directors or Authorized District Representative on any of the documents, instruments, certificates and agreements (including the Bonds) authorized by this Resolution.

Section 11. **Ratification of Actions**. All actions heretofore taken by the officers, representatives or agents of the District, including without limitation, the Chairperson of the Board of Directors and each Authorized District Representative, in connection with the issuance and sale of the Bonds are hereby ratified, confirmed and approved.

Section 12. **Effective Date**. This Resolution shall take effect from the date of adoption hereof.

PASSED AND ADOPTED by the Board of Directors of Palomar Pomerado Health on the 20th day of October, 2008, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAINING:

Dated: October 20, 2008.

By:______________________________

Bruce G. Krider
Chair, Board of Directors
Palomar Pomerado Health

Attested:

____

Linda Bailey
Secretary, Board of Directors

SECOND SUPPLEMENTAL PAYING AGENT AGREEMENT

between

PALOMAR POMERADO HEALTH

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Paying Agent

Dated as of November 1, 2008

Relating
to
Palomar Pomerado Health
General Obligation Bonds, Election of 2004,
Series 2008A

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SECOND SUPPLEMENTAL PAYING AGENT AGREEMENT

This SECOND SUPPLEMENTAL PAYING AGENT AGREEMENT, dated as of November 1, 2008 (this "Supplemental Paying Agent Agreement"), between WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association duly organized and existing under the laws of the United States of America, as paying agent (the "Paying Agent"), and PALOMAR POMERADO HEALTH, a local health care district duly organized and existing under the laws of the State of California (the "District"),

W I T N E S S E T H:

WHEREAS, this Supplemental Paying Agent Agreement is supplemental to the Paying Agent Agreement, dated as of June 1, 2005 (as supplemented or amended pursuant to this Supplemental Paying Agent Agreement, and as it may from time to time be further supplemented or amended pursuant to the provisions thereof, the "Paying Agent Agreement"), between the District and the Paying Agent;

WHEREAS, the Paying Agent Agreement provides that the District may issue general obligation bonds (as more fully defined in Section 1.01 of the Paying Agent Agreement, the "Bonds") in one or more Series (as such term is defined in the Paying Agent Agreement) from time to time as authorized by a supplemental paying agent agreement;

WHEREAS, pursuant to and in accordance with Chapter 4 of Division 23 (commencing with Section 32300) of the California Health and Safety Code and other applicable law in order to finance hospital and health care facilities projects as referenced and described in Measure BB (as such term is defined in the Paying Agent Agreement), the District has determined to issue a third Series of Bonds, which Bonds shall be designated as "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2008A (the "Series 2008A Bonds");

WHEREAS, a portion of the proceeds of the Series 2008A Bonds will be applied to pay costs of issuance of the Series 2008A Bonds as provided pursuant to Section 32300.1 of the California Health and Safety Code and Measure BB;

WHEREAS, issuance and delivery of the Series 2008A Bonds was authorized and approved by the Board of Directors of the District pursuant to Resolution No. __________ (the "Series 2008A Bond Resolution"), adopted by the Board of Directors of the District on October 20, 2008; and

WHEREAS, all acts, conditions and things required by law and the Paying Agent Agreement to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Supplemental Paying Agent Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Supplemental Paying Agent Agreement;

NOW, THEREFORE, the District and the Paying Agent hereby agree as follows:

ARTICLE XVI

DEFINITIONS

SECTION 16.01 Definitions. Unless otherwise specifically provided herein to the contrary or the context otherwise requires, capitalized terms used and not otherwise defined herein shall have the meanings ascribed to such terms in Section 1.01 of the Paying Agent Agreement.

SECTION 16.02 Additional Definitions. Unless the context otherwise requires, the terms defined in this Section 16.02 shall, for all purposes of this Supplemental Paying Agent Agreement, and of any paying agent agreement supplemental hereto, have the meanings herein specified in this Section 16.02.

"Capital Appreciation Series 2008A Bonds" means Series 2008A Bonds on which interest is compounded and paid at maturity.

"Current Interest Series 2008A Bonds" means Series 2008A Bonds which, commencing August 1, 200_, pay interest at least semiannually.

"Interest Payment Date" with respect to the Current Interest Series 2008A Bonds shall mean February 1 and August 1 of each year, commencing [February 1, 2009].

"Record Date" with respect to the Current Interest Series 2008A Bonds shall mean the fifteenth day of the month prior to the month in which an Interest Payment Date occurs, whether or not such day is a Business Day.

"Series 2008A Bonds" shall mean the Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2008A, comprised of the Capital Appreciation Series 2008A Bonds and the Current Interest Series 2008A Bonds.

["Series 2008A Bond Insurance Policy" shall mean the financial guaranty insurance policy issued by the Series 2008A Insurer insuring the payment when due of the principal of and interest on the Series 2008A Bonds as provided therein.]

"Series 2008A Bond Purchase Agreement" shall mean the Bond Purchase Agreement, dated [November 13, 2008], among the Series 2008A Underwriter, the District and the Authority, providing for the sale of the Series 2008A Bonds by the District to the Authority and the simultaneous resale of the Series 2008A Bonds by the Authority to the Series 2008A Underwriter.

"Series 2008A Continuing Disclosure Undertaking" shall mean that certain Continuing Disclosure Undertaking, dated the date of issuance and delivery of the Series 2008A Bonds, executed and delivered by the District, as originally executed and as it may be supplemented, modified or amended from time to time in accordance with its terms.

["Series 2008A Insurer" shall mean _____________, a _____________, and its successors and assigns.]

"Series 2008A Measure BB Costs of Issuance Fund" shall mean the fund designated as "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2008A Measure BB Costs of Issuance Fund " created pursuant to Section 18.04.

"Series 2008A Measure BB Project Fund" shall mean the fund designated as "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2008A Measure BB Project Fund " created pursuant to Section 18.03.

"Series 2008A Underwriter" shall mean Citigroup Global Markets Inc., as purchaser of the Series 2008A Bonds from the Authority pursuant to the Series 2008A Bond Purchase Agreement.

ARTICLE XVII

THE SERIES 2008A BONDS

SECTION 17.01 Authorization of 2008A Bonds. The Board of Directors hereby approves and authorizes the issuance of $___________ aggregate principal amount of Series 2008A Bonds in accordance with the Series 2008A Bond Resolution and the Paying Agent Agreement. The Series 2008A Bonds shall be comprised of: (i) the Capital Appreciation Series 2008A Bonds, which are authorized to be issued in the initial principal amount of $___________; and (ii) the Current Interest Series 2008A Bonds, which are authorized to be issued in the aggregate principal amount of $___________.

SECTION 17.02 Purpose and Use of Proceeds of Series 2008A Bonds. The Series 2008A Bonds shall be issued for the purpose of providing funds to pay Measure BB Costs. Proceeds of the sale of the Series 2008A Bonds shall be applied to pay Measure BB Costs and may also be applied to pay Costs of Issuance of the Series 2008A Bonds. Net original issue premium will be applied to pay Costs of Issuance, including underwriting discount, and to pay a portion of the interest coming due on the Current Interest Series 2008A Bonds on [February 1, 2009].

SECTION 17.03 Terms of the Capital Appreciation Series 2008A Bonds. (a) The Capital Appreciation Series 2008A Bonds shall be issued as fully registered bonds in denominations of five thousand dollars ($5,000) accreted value at maturity ("maturity value") or any integral multiple of five thousand dollars ($5,000). Each Capital Appreciation Series 2008A Bond shall be dated the date of its initial delivery, shall be numbered from R-1 consecutively upwards in order of delivery, and shall be issued in the initial principal amount and shall mature on the date and in the accreted value at maturity set forth in the schedule set forth on the following page:

Maturity (August 1)	**Initial Principal Amount**	**Accreted Value at Maturity**
	$ ________.__	$ ________

(b) The Capital Appreciation Series 2008A Bonds shall not bear current interest. Each Capital Appreciation Series 2008A Bond shall increase in value by the accumulation of earned interest from its initial principal amount on the date of issuance thereof to its stated accreted value at maturity as set forth in the Table of Accreted Values attached hereto as Attachment I. Interest on the Capital Appreciation Series 2008A Bonds shall be computed on the basis of a 360-day year comprised of twelve 30-day months, shall be compounded commencing on [February 1, 2009], and semiannually thereafter on [February] 1 and [August]1 in each year and shall be payable only upon maturity.

(c) The stated accreted value at maturity of the Capital Appreciation Series 2008A Bonds shall be payable in like lawful money to the Bondholder thereof upon the surrender thereof at the Principal Corporate Trust Office of the Paying Agent. So long as Cede & Co. or its registered assigns shall be the registered owner of any of the Capital Appreciation Series 2008A Bonds, payment shall be made thereto by wire transfer as provided in Section 2.09(c).

SECTION 17.04 Terms of the Current Interest Series 2008A Bonds. (a) The Current Interest Series 2008A Bonds shall be issued as fully registered bonds in denominations of five thousand dollars ($5,000) or any integral multiple of five thousand dollars ($5,000), shall be dated the date of their initial delivery, shall be numbered from R-1 consecutively upwards in order of delivery, and shall mature on the dates and in the principal amounts and shall bear interest at the rates per annum set forth in the schedule on the following page:

Maturity (August 1)	**Principal Amount**	**Interest Rate**
	$_________	__.___%

(b) Interest on the Current Interest Series 2008A Bonds shall be payable on February 1 and August 1 of each year, commencing [February 1, 2009] and shall be computed on the basis of a 360-day year comprised of twelve 30-day months.

(c) Interest on the Current Interest Series 2008A Bonds shall be payable in lawful money of the United States of America to the person whose name appears in the bond registration books maintained by the Paying Agent under Section 2.08 as the Bondholder thereof as of the close of business on the Record Date immediately preceding each Interest Payment Date, such interest to be paid by check mailed by first class mail to such Bondholder at such Bondholder's address as it appears in such bond registration books or at such address as the Bondholder may have filed with the Paying Agent for that purpose (except that upon the written request of the Bondholder of Current Interest Series 2008A Bonds aggregating not less than one million dollars ($1,000,000) in principal amount, given no later than the close of business on the Record Date immediately preceding the applicable Interest Payment Date, the interest due on such Interest Payment Date shall be paid by wire transfer in immediately available funds to an account maintained in a state or national bank in the United States of America at such wire address as such Bondholder shall specify in such written request). The principal of and redemption premium, if any, on the Current Interest Series 2008A Bonds shall be payable in like lawful money to the Bondholder thereof upon the surrender thereof at the Principal Corporate Trust Office of the Paying Agent. So long as Cede & Co. or its registered assigns shall be the registered owner of any of the Current Interest Series 2008A Bonds, payment shall be made thereto by wire transfer as provided in Section 2.09(c).

SECTION 17.05 <u>Form of Series 2008A Bonds</u>. The Capital Appreciation Series 2008A Bonds, the Paying Agent's certificate of authentication, and the form of assignment to appear thereon shall be in substantially the form attached hereto as Exhibit A, with necessary or appropriate variations, omissions and insertions as permitted or required by the Paying Agent Agreement.

The Current Interest Series 2008A Bonds, the Paying Agent's certificate of authentication, and the form of assignment to appear thereon shall be in substantially the form attached hereto as Exhibit B, with necessary or appropriate variations, omissions and insertions as permitted or required by the Paying Agent Agreement.

SECTION 17.06 <u>Transfer and Exchange of Series 2008A Bonds</u>. The provisions set forth in Section 2.06 and Section 2.07 of the Paying Agent Agreement shall apply to the Series 2008A Bonds, provided however, a Capital Appreciation Series 2008A Bond may only be transferred or exchanged for a Capital Appreciation Series 2008A Bond and a Current

Interest Series 2008A Bond may only be transferred or exchanged for a Current Interest Series 2008A Bond.

SECTION 17.07 Registration of Series 2008A Bonds. The Capital Appreciation Series 2008A Bonds shall be initially registered in the name of "Cede & Co.," as nominee of DTC and shall be evidenced by a single authenticated bond certificate for each stated maturity of Capital Appreciation Series 2008A Bonds, representing the accreted value at maturity of the Capital Appreciation Series 2008A Bonds of such maturity. Registered ownership of the Capital Appreciation Series 2008A Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 2.09 or, in the event the use of a depository for the Bonds is discontinued, in accordance with Section 2.06.

The Current Interest Series 2008A Bonds shall be initially registered in the name of "Cede & Co.," as nominee of DTC and shall be evidenced by a single authenticated bond certificate for each stated maturity of Current Interest Series 2008A Bonds, representing the aggregate principal amount of the Current Interest Series 2008A Bonds of such maturity. Registered ownership of the Current Interest Series 2008A Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 2.09 or, in the event the use of a depository for the Bonds is discontinued, in accordance with Section 2.06.

ARTICLE XVIII

DELIVERY OF SERIES 2008A BONDS; APPLICATION OF PROCEEDS; ESTABLISHMENT OF FUNDS AND ACCOUNTS

SECTION 18.01 Delivery of Series 2008A Bonds. Upon receipt of a Request of the District, the Paying Agent is hereby authorized to authenticate and deliver the Series 2008A Bonds to Series 2008A Underwriter pursuant to the Series 2008A Bond Purchase Agreement.

SECTION 18.02 Application of Proceeds of Sale of Series 2008A Bonds. Upon the delivery of the Series 2008A Bonds to the Series 2008A Underwriter as described in Section 18.01 and receipt from the Series 2008A Underwriter of the amount due in connection with the Bonds, $___________, comprised of the principal amount of the Bonds ($___________), plus net original issue premium in the amount of $___________, less an underwriting discount in the amount of $___________, [and less the premium due in connection with the Series 2008A Bond Insurance Policy in the amount of $___________ paid directly to Series 2008A Bond Insurer by the Series 2008A Underwriter on behalf of the District], the Paying Agent shall set aside and deposit $___________ in the Series 2008A Measure BB Project Fund established pursuant to Section 18.03, $___________ in the Series 2008A Measure BB Costs of Issuance Fund established pursuant to Section 18.04 and $___________ in the Series 2008A Measure BB Funded Interest Account established pursuant to Section 18.05.

SECTION 18.03 Establishment and Application of the Series 2008A Measure BB Project Fund. The Paying Agent shall establish and maintain and hold in trust a separate fund designated as the "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2008A Measure BB Project Fund" (the "Series 2008A Measure BB Project Fund"). All money on deposit in the Series 2008A Measure BB Project Fund shall be applied solely for the payment of authorized costs of a Project. Before any payment from the Series 2008A Measure BB Project Fund shall be made by the Paying Agent, the District shall file or cause to be filed with the Paying Agent a Requisition of the District, such Requisition of the District to be in substantially such form as is set forth in Exhibit C hereto and to include a certification to the effect that all Measure BB Costs identified on such Requisition of the District relate to Projects for which CEQA Compliance has been achieved.

All money in the Series 2008A Measure BB Project Fund shall be invested by the Paying Agent in Investment Securities specified by the District in a Request of the District. Investment earnings on the Series 2008A Measure BB Project Fund shall be retained in the Series 2008A Measure BB Project Fund.

When the District determines that the portion of the Measure BB Costs to be paid from the proceeds of the Series 2008A Bonds have been paid, a Certificate of the District shall be delivered to the Paying Agent by the District stating that all of such Measure BB Costs thereof have been determined and paid (or that all of such costs have been paid less specified claims which are subject to dispute and for which a retention in the Series 2008A Measure BB Project Fund is to be maintained in the full amount of such claims until such dispute is resolved). Upon receipt of such Certificate of the District, the Paying Agent shall transfer any remaining balance in the Series 2008A Measure BB Project Fund, less the amount of any such retention, to such other Measure BB Project Fund then existing as the District shall specify in the Certificate of the District delivered pursuant to this paragraph.

Upon receipt of a Request of the District, the Paying Agent shall transfer the Series 2008A Measure BB Project Fund to the District. In the event that the District shall request such transfer, the District shall hold the Series 2008A Measure BB Project Fund transferred to the District by the Paying Agent pursuant to such Request of the District as a separate fund and shall withdraw moneys from such fund solely for the payment of authorized costs of a Project. Before the District shall make payment from the Series 2008A Measure BB Project Fund, the District shall prepare a Requisition of the District, such Requisition of the District to be in substantially such form as is set forth in Exhibit C hereto and to be maintained in the records of the District and to include a certification to the effect that all Measure BB Costs identified on such Requisition of the District relate to Projects for which CEQA Compliance has been achieved.

Subsequent to the transfer of the Series 2008A Measure BB Project Fund to the District, all money in the Series 2008A Measure BB Project Fund shall be invested by the District in Investment Securities in accordance with Section 5.06 of the Paying Agent Agreement. Investment earnings on the Series 2008A Measure BB Project Fund shall be retained therein.

When the District determines that the portion of the Measure BB Costs to be paid from the proceeds of the Series 2008A Bonds have been paid, the District shall transfer any amount remaining on deposit in the Series 2008A Measure BB Project Fund to such other Measure BB Project Fund as shall then be in existence.

SECTION 18.04 Establishment and Application of the Series 2008A Measure BB Costs of Issuance Fund. The Paying Agent shall establish and maintain and hold in trust a separate fund designated as the "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2008A Measure BB Costs of Issuance Fund" (the "Series 2008A Measure BB Costs of Issuance Fund"). All money on deposit in the Series 2008A Measure BB Costs of Issuance Fund shall be applied solely for the payment of authorized Costs of Issuance. Before any payment from the Series 2008A Measure BB Costs of Issuance Fund shall be made by the Paying Agent, the District shall file or cause to be filed with the Paying Agent a Requisition of the District, such Requisition of the District to be in substantially such form as is set forth in Exhibit D hereto.

All money in the Series 2008A Measure BB Costs of Issuance Fund shall be invested by the Paying Agent in Investment Securities specified by the District in a Request of the District. Investment earnings on the Series 2008A Measure BB Costs of Issuance Fund shall be transferred to the Series 2008A Measure BB Funded Interest Account.

Any amounts remaining in the Series 2008A Measure BB Costs of Issuance Fund one hundred eighty (180) days after the date of issuance of the Series 2008A Bonds shall be transferred to the Interest and Sinking Fund.

SECTION 18.05 Establishment and Application of Series 2008A Measure BB Funded Interest Account. The Paying Agent shall establish, maintain and hold in trust a separate account within the Interest and Sinking Fund designated as the "Series 2008A Measure BB Funded Interest Account" (the "Series 2008A Measure BB Funded Interest Account"). Net original issue premium on the Series 2008A Bonds in the amount of $___________ shall be deposited in the Series 2008A Measure BB Funded Interest Account. All amounts in the Series 2008A Measure BB Funded Interest Account shall be applied by the Paying Agent to the payment of interest coming due on the Current Interest Series 2008A Bonds on ___________.

SECTION 18.06 Payment Provisions for the Series 2008A Bond Insurance Policy. [Copy to come, if applicable.].

ARTICLE XIX

REDEMPTION OF SERIES 2008A BONDS

SECTION 19.01 Capital Appreciation Series 2008A Bonds Not Subject to Optional or Mandatory Redemption. The Capital Appreciation Series 2008A Bonds shall not be subject to optional or mandatory redemption prior to their respective stated maturities.

SECTION 19.02 Terms of Redemption of Current Interest Series 2008A Bonds.

(a) Optional Redemption. Current Interest Series 2008A Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on August 1, ____ or on any date thereafter, at a redemption price equal to the principal amount of the Current Interest Series 2008A Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

If less than all the Outstanding Current Interest Series 2008A Bonds are to be redeemed on any one date, the District shall select the maturity date or dates of the Current Interest Series 2008A Bonds to be redeemed, and if less than all the Current Interest Series 2008A Bonds of any one maturity date are to be redeemed on any one date, the Paying Agent shall select the Current Interest Series 2008A Bonds or the portions thereof of such maturity date to be redeemed on such date in any manner deemed fair by the Paying Agent, and the Paying Agent shall promptly notify the District in writing of the numbers of the Current Interest Series 2008A Bonds so selected by it for redemption, and for purposes of such selection the Current Interest Series 2008A Bonds shall be deemed to be composed of five thousand dollars ($5,000) multiples and any such multiple may be separately redeemed.

(b) Mandatory Sinking Fund Redemption. Current Interest Series 2008A Bonds bearing interest at a rate of _____% and maturing on August 1, ____ are also subject to redemption prior to their stated maturity, in part, by lot, from mandatory sinking fund payments deposited in the Interest and Sinking Fund, on any August 1 on or after August 1, _____, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Mandatory Sinking Fund Payment Date (August 1)	**Mandatory Sinking Fund Payment Amount**
	$___________
____*	

*Final maturity

(c) Mandatory Sinking Fund Redemption. Current Interest Series 2008A Bonds bearing interest at a rate of ____% and maturing on August 1, ____ are also subject to redemption prior to their stated maturity, in part, by lot, from mandatory sinking fund payments deposited in the Interest and Sinking Fund, on any August 1 on or after August 1, ____, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Mandatory Sinking Fund Payment Date (August 1)	**Mandatory Sinking Fund Payment Amount**
	$__________
____*	

*Final maturity

(d) Mandatory Sinking Fund Redemption. Current Interest Series 2008A Bonds maturing on August 1, 20__ are also subject to redemption prior to their stated maturity, in part, by lot, from mandatory sinking fund payments deposited in the Interest and Sinking Fund, on any August 1 on or after August 1, 20__, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Mandatory Sinking Fund Payment Date (August 1)	**Mandatory Sinking Fund Payment Amount**
	$___________
____*	

*Final maturity

The principal amount of each mandatory sinking fund payment of any maturity shall be reduced proportionately, in $5,000 increments, by the amount of any Current Interest Series 2008A Bonds of that maturity optionally redeemed prior to the mandatory sinking fund payment date.

ARTICLE XX

[GENERAL PROVISIONS RELATING TO THE SERIES 2008A BOND INSURANCE POLICY AND THE SERIES 2008A INSURER]

SECTION 20.01 General Provisions. Each of the covenants contained in this Article XX is for the benefit of the Series 2008A Insurer and shall be in effect only so long as the Series 2008A Bond Insurance Policy remains in full force and effect and the Series 2008A Insurer is not then failing to make a payment as required in connection therewith. Any covenant contained in this Article XX may be modified, amended or waived with the prior written consent of the Series 2008A Insurer without the consent of the District, the Paying Agent or any Bondholder.

[Copy to Come if Applicable.]

ARTICLE XXI

MISCELLANEOUS

SECTION 21.01 Terms of Series 2008A Bonds Subject to the Paying Agent Agreement. Except as in this Supplemental Paying Agent Agreement expressly provided, every term and condition contained in the Paying Agent Agreement shall apply to this Supplemental Paying Agent Agreement and to the Series 2008A Bonds with the same force and effect as if the same were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to this Supplemental Paying Agent Agreement.

This Supplemental Paying Agent Agreement and all the terms and provisions herein contained shall form part of the Paying Agent Agreement as fully and with the same effect as if all such terms and provisions had been set forth in the Paying Agent Agreement. The Paying Agent Agreement is hereby ratified and confirmed and shall continue in full force and effect in accordance with the terms and provisions thereof, as supplemented and amended hereby.

SECTION 21.02 Effective Date of Supplemental Paying Agent Agreement. This Supplemental Paying Agent Agreement shall take effect upon its execution and delivery.

SECTION 21.03 Execution in Counterparts. This Supplemental Paying Agent Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Paying Agent Agreement to be duly executed by their officers duly authorized as of the date first written above.

PALOMAR POMERADO HEALTH

By: ______________________________
Chief Financial Officer

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Paying Agent

By ______________________________
Authorized Officer

Attachment I

Table of Accreted Values

Exhibit A

[Form of Capital Appreciation Series 2008A Bond]

Number	**United States of America**	Maturity Value
	State of California	
R - __	**County of San Diego**	$___________

Palomar Pomerado Health
General Obligation Bond, Election of 2004,
Series 2008A

Capital Appreciation Bond

Maturity Date	**Date**	**CUSIP No.**
August 1, 20__	[November 20, 2008]	__________

Registered Owner: Cede & Co.

Initial Principal Amount: ________________________

Accreted Value at Maturity: ________________________ Dollars

Palomar Pomerado Health, a local health care district organized and existing under and pursuant to The Local Health Care District Law of the State of California (herein called the "District"), acknowledges itself obligated to and promises to pay to the registered owner identified above or registered assigns on the maturity date set forth above, the accreted value at maturity specified above in lawful money of the United States of America, such accreted value at maturity consisting of the initial principal amount hereof plus interest earned thereon and accumulated from the date hereof to such date as reflected in the Table of Accreted Values hereinafter set forth, compounded on February 1 and August 1 of each year, commencing [February 1, 2009], assuming in any such semiannual period that this Bond shall increase in value by the accumulation of earned interest in equal daily amounts on the basis of a 360-day year of twelve 30-day months, until the obligation represented hereby shall have been discharged, upon the surrender hereof at the principal corporate trust office of the hereinafter defined Paying Agent in accordance with the provisions of that certain Paying Agent Agreement, dated as of June 1, 2005, as supplemented and amended from time to time pursuant to its terms, including as supplemented and amended by the First Supplemental Paying Agent Agreement, dated as of December 1, 2007 and by the Second Supplemental Paying Agent Agreement, dated as of November 1, 2008 (hereinafter collectively referred to as the "Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent (together with any successor paying agent, the "Paying Agent"). All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Paying Agent Agreement.

This Bond is one of a duly authorized issue of general obligation bonds designated as "Palomar Pomerado Health General Obligation Bonds, Election of 2004 (the "Bonds") of the Series designated above (each, a "Series 2008A Bond," and, collectively, the "Series 2008A Bonds"). The Series 2008A Bonds are issued and sold by the District, pursuant to and in strict conformity with the provisions of the Constitution and laws of the State of California, a resolution of the Board of Directors of the District, adopted on [October 20, 2008] (the "Resolution"), and the Paying Agent Agreement. The Series 2008A Bonds comprise a portion of $496,000,000 aggregate principal amount of general obligation bonds authorized by the affirmative vote of more than two-thirds of the votes cast on a ballot measure, Measure BB, at an election duly and legally called, held and conducted in the District on November 2, 2004. The Series 2008A Bonds are comprised of capital appreciation bonds (each, a "Capital Appreciation Series 2008A Bond," and, collectively, the "Capital Appreciation Series 2008A Bonds") and current interest Series 2008A Bonds (each, a "Current Interest Series 2008A Bond," and, collectively, the "Current Interest Series 2008A Bonds"). This Series 2008A Bond is a Capital Appreciation Series 2008A Bond.

The Capital Appreciation Series 2008A Bonds are issuable as fully registered bonds in the denomination of $5,000 accreted value at maturity or any integral multiple thereof. Subject to the limitations and conditions and upon payment of the charges, if any, as provided in the Paying Agent Agreement, Capital Appreciation Series 2008A Bonds may be exchanged for a like aggregate accreted value at maturity of Capital Appreciation Series 2008A Bonds of the same maturity of other authorized denominations.

This Capital Appreciation Series 2008A Bond is transferable by the registered owner hereof, in person or by attorney duly authorized in writing, at said office of the Paying Agent, but only in the manner, subject to the limitations and upon payment of the charges provided in the Paying Agent Agreement, and upon surrender and cancellation of this Capital Appreciation Series 2008A Bond. Upon such transfer, a new Capital Appreciation Series 2008A Bond or Capital Appreciation Series 2008A Bonds of authorized denomination or denominations for the same maturity and same aggregate accreted value at maturity will be issued to the transferee in exchange herefor.

The District and the Paying Agent may treat the registered owner hereof as the absolute owner hereof for all purposes, and the District and the Paying Agent shall not be affected by any notice to the contrary.

The Capital Appreciation Series 2008A Bonds are not subject to optional and mandatory sinking fund redemption prior to maturity.

The Board of Directors hereby certifies and declares that the total amount of indebtedness of the District, including the amount of this Capital Appreciation Series 2008A Bond, is within the limit provided by law, that all acts, conditions and things required by law to be done or performed precedent to and in the issuance of this Capital Appreciation Series 2008A Bond have been done and performed in strict conformity with the laws authorizing the issuance of this Capital Appreciation Series 2008A Bond, that this Capital Appreciation Series 2008A Bond is in the form prescribed by order of the Board of Directors of the District duly made and entered in the minutes of the Board of Directors of the District, that this Capital Appreciation Series 2008A Bond shall be payable out of the Interest and Sinking Fund, and that the money for the payment of the accreted value at maturity of this Capital Appreciation Series 2008A Bond shall be raised by taxation upon the taxable property of said District.

This Capital Appreciation Series 2008A Bond shall not be entitled to any benefit under the Resolution or the Paying Agent Agreement, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been signed by the Paying Agent.

IN WITNESS WHEREOF Palomar Pomerado Health has caused this Capital Appreciation Series 2008A Bond to be executed in its name and on its behalf by the facsimile signature of the Chairperson of the Board of Directors of the District and its seal to be reproduced hereon by facsimile and attested by the facsimile signature of the Secretary of the Board of Directors of the District, as of the date set forth above.

PALOMAR POMERADO HEALTH

By: ______________________________________
Chairperson of the Board of Directors

(Seal)

By: ______________________________
Secretary of the Board of Directors

[Form of Certificate of Authentication]

This is one of the Capital Appreciation Series 2008A Bonds described in the within-mentioned Paying Agent Agreement authenticated on ___________.

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Paying Agent/Registrar and Transfer Agent

By: ______________________________
Authorized Officer

[Form of Statement of Insurance]

[Copy to Come, if Applicable.]

[Form of DTC Legend]

Unless this Capital Appreciation Series 2008A Bond is presented by an authorized representative of The Depository Trust Company to the District or its agent for registration of transfer, exchange or payment, and any Capital Appreciation Series 2008A Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., **any transfer, pledge or other use hereof for value or otherwise by or to any person is wrongful** since the registered owner hereof, Cede & Co., has an interest herein.

[Form of Table of Accreted Values]

See Attachment I.

[Form of Assignment]

For value received the undersigned do(es) hereby sell, assign and transfer unto ________________________________ the within-mentioned Capital Appreciation Series 2008A Bond and hereby irrevocably constitute(s) and appoint(s) ________________________________ attorney, to transfer the same on the books of the Paying Agent/Registrar and Transfer Agent with full power of substitution in the premises.

____
I.D. Number

____
NOTE:

The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Capital Appreciation Series 2008A Bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: ____________________

Signature Guaranteed by: ______________________________________

Notice: Signature must be guaranteed by an eligible guarantor institution.

Exhibit B

[Form of Current Interest Series 2008A Bond]

Number	**United States of America**	Amount
	State of California	
R - __	**County of San Diego**	$_________

Palomar Pomerado Health
General Obligation Bond, Election of 2004,
Series 2008A

Current Interest Bond

Interest Rate	**Maturity Date**	**Date**	**CUSIP No.**
____%	August 1, 20__	[November 20, 2008]	__________

Registered Owner: Cede & Co.

Principal Sum: ________________________ Dollars

Palomar Pomerado Health, a local health care district organized and existing under and pursuant to The Local Health Care District Law of the State of California (herein called the "District"), acknowledges itself obligated to and promises to pay to the registered owner identified above or registered assigns on the maturity date set forth above or upon redemption prior thereto, the principal sum specified above in lawful money of the United States of America, and to pay interest thereon in like lawful money at the interest rate per annum stated above, computed on the basis of a 360-day year of twelve 30-day months, payable [February 1, 2009], and thereafter on February 1 and August 1 in each year (each, an "Interest Payment Date"), until payment of said principal sum.

All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Paying Agent Agreement, dated as of June 1, 2005, as supplemented and amended from time to time pursuant to its terms, including as supplemented and amended by the Second Supplemental Paying Agent Agreement, dated as of November 1, 2008 (hereinafter collectively referred to as the "Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent (together with any successor paying agent, the "Paying Agent").

The principal hereof is payable to the registered owner hereof upon the surrender hereof at the Principal Corporate Trust Office of the Paying Agent. The interest hereon is payable to the person whose name appears on the bond registration books of the Paying Agent as the registered owner hereof as of the close of business on the Record Date preceding each Interest Payment Date, whether or not such day is a Business Day, such interest to be paid: (i) by check mailed to such registered owner at the owner's address as it appears on such registration books, or at such other address filed with the Paying Agent for that purpose; or (ii) by wire transfer in accordance with the provisions set forth in the Paying Agent Agreement.

This Bond is one of a duly authorized issue of general obligation bonds designated as "Palomar Pomerado Health General Obligation Bonds, Election of 2004 (the "Bonds") of the Series designated above (each, a "Series 2008A Bond," and, collectively, the "Series 2008A Bonds"). The Series 2008A Bonds are issued and sold by the District, pursuant to and in strict conformity with the provisions of the Constitution and laws of the State of California, a resolution of the Board of Directors of the District, adopted on [October 20, 2008] (the "Resolution"), and the Paying Agent Agreement. The Series 2008A Bonds comprise a portion of $496,000,000 aggregate principal amount of general obligation bonds authorized by the affirmative vote of more than two-thirds of the votes cast on a ballot measure, Measure BB, at an election duly and legally called, held and conducted in the District on November 2, 2004. The Series 2008A Bonds are comprised of capital appreciation bonds (each, a "Capital Appreciation Series 2008A Bond," and, collectively, the "Capital Appreciation Series 2008A Bonds") and current interest Series 2008A Bonds (each, a "Current Interest Series 2008A Bond," and, collectively, the "Current Interest Series 2008A Bonds"). This Series 2008A Bond is a Current Interest Series 2008A Bond.

The Current Interest Series 2008A Bonds are issuable as fully registered bonds in the denomination of $5,000 principal amount or any integral multiple thereof. Subject to the limitations and conditions and upon payment of the charges, if any, as provided in the Paying Agent Agreement, Current Interest Series 2008A Bonds may be exchanged for a like aggregate principal amount of Current Interest Series 2008A Bonds of the same maturity and interest rate of other authorized denominations.

This Current Interest Series 2008A Bond is transferable by the registered owner hereof, in person or by attorney duly authorized in writing, at said office of the Paying Agent, but only in the manner, subject to the limitations and upon payment of the charges provided in the Paying Agent Agreement, and upon surrender and cancellation of this Current Interest Series 2008A Bond. Upon such transfer, a new Current Interest Series 2008A Bond or Current Interest Series 2008A Bonds of authorized denomination or denominations for the same maturity, interest rate, and same aggregate principal amount will be issued to the transferee in exchange herefor.

The District and the Paying Agent may treat the registered owner hereof as the absolute owner hereof for all purposes, and the District and the Paying Agent shall not be affected by any notice to the contrary.

The Current Interest Series 2008A Bonds are subject to optional and mandatory sinking fund redemption as described below on the terms and subject to the conditions specified in the Paying Agent Agreement. If this Current Interest Series 2008A Bond is called for redemption and payment is duly provided therefor, interest shall cease to accrue hereon from and after the date fixed for redemption.

Current Interest Series 2008A Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on August 1, ____ or on any date thereafter, at a redemption price equal to the principal amount of the Current Interest Series 2008A Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

Current Interest Series 2008A Bonds maturing on August 1, ____ and August 1, ____ are also subject to redemption prior to their stated maturity, in part, by lot, from mandatory sinking fund payments deposited in the Interest and Sinking Fund, at a redemption price equal to the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

The Board of Directors hereby certifies and declares that the total amount of indebtedness of the District, including the amount of this Current Interest Series 2008A Bond, is within the limit provided by law, that all acts, conditions and things required by law to be done or performed precedent to and in the issuance of this Current Interest Series 2008A Bond have been done and performed in strict conformity with the laws authorizing the issuance of this Current Interest Series 2008A Bond, that this Current Interest Series 2008A Bond is in the form prescribed by order of the Board of Directors of the District duly made and entered in the minutes of the Board of Directors of the District, that this Current Interest Series 2008A Bond shall be payable out of the Interest and Sinking Fund, and that the money for the payment of the principal of this Current Interest Series 2008A Bond, premium, if any, and the payment of interest hereon, shall be raised by taxation upon the taxable property of said District.

This Current Interest Series 2008A Bond shall not be entitled to any benefit under the Resolution or the Paying Agent Agreement, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been signed by the Paying Agent.

IN WITNESS WHEREOF Palomar Pomerado Health has caused this Current Interest Series 2008A Bond to be executed in its name and on its behalf by the facsimile signature of the Chairperson of the Board of Directors of the District and its seal to be reproduced hereon by facsimile and attested by the facsimile signature of the Secretary of the Board of Directors of the District, as of the date set forth above.

PALOMAR POMERADO HEALTH

By: ______________________________________
Chairperson of the Board of Directors

(Seal)

By: ______________________________
Secretary of the Board of Directors

[Form of Certificate of Authentication]

This is one of the Current Interest Series 2008A Bonds described in the within-mentioned Paying Agent Agreement authenticated on ___________.

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Paying Agent/Registrar and Transfer Agent

By: ______________________________
Authorized Officer

[Form of Statement of Insurance]

[Copy to Come, if Applicable.]

[Form of DTC Legend]

Unless this Current Interest Series 2008A Bond is presented by an authorized representative of The Depository Trust Company to the District or its agent for registration of transfer, exchange or payment, and any Current Interest Series 2008A Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., **any transfer, pledge or other use hereof for value or otherwise by or to any person is wrongful** since the registered owner hereof, Cede & Co., has an interest herein.

[Form of Assignment]

For value received the undersigned do(es) hereby sell, assign and transfer unto ______________________________ the within-mentioned Current Interest Series 2008A Bond and hereby irrevocably constitute(s) and appoint(s) ______________________________ attorney, to transfer the same on the books of the Paying Agent/Registrar and Transfer Agent with full power of substitution in the premises.

____
I.D. Number

____
NOTE:

The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Current Interest Series 2008A Bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: __________________

Signature Guaranteed by: ____________________________________

Notice: Signature must be guaranteed by an eligible guarantor institution.

Exhibit C

[Form of Series 2008A Measure BB Project Fund Requisition]

Requisition No. ___

Series 2008A Measure BB Project Fund

The undersigned, _________, hereby certifies as follows:

1. I am ___________________ of Palomar Pomerado Health, a local health care district duly organized and existing under the laws of the State of California (the "District").

2. Pursuant to the provisions of that certain Paying Agent Agreement, dated as of June 1, 2005, as supplemented and amended by the First Supplemental Paying Agent Agreement, dated as of December 1, 2007 and by the Second Supplemental Paying Agent Agreement, dated as of November 1, 2008 (hereinafter collectively referred to as the "Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"), I am an Authorized District Representative (as such term is defined in the Paying Agent Agreement) and I am delivering this Requisition on behalf of the District. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Paying Agent Agreement.

3. The undersigned, acting on behalf of the District, does hereby authorize disbursement of funds from the Series 2008A Measure BB Project Fund created pursuant to Section 18.03 of the Paying Agent Agreement to the parties, in the amounts and for the purposes set forth in Schedule I hereto.

TOTAL DISBURSEMENT AMOUNT AUTHORIZED: $__________

4. The undersigned, acting on behalf of the District, hereby certifies that: (a) each item relates to a Project for which CEQA Compliance has been achieved; (b) obligations in the amounts set forth in Schedule I attached hereto have been incurred by the District and are presently due and payable; (c) each item is a proper charge against the Series 2008A Measure BB Project Fund; (d) each item has not been previously paid from the Series 2008A Measure BB Project Fund; and (e) there has not been filed with or served upon the District notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the persons named in such Requisition, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law.

Dated: ____________.

Palomar Pomerado Health

By:_________________________________
Authorized District Representative

Schedule I To Requisition No. ____

Name and Address of Party To Be Paid	Payment Amount	Nature of Expenditure	Payment Instructions

Exhibit D

[Form of Series 2008A Measure BB Costs of Issuance Fund Requisition]

Requisition No. ___

Series 2008A Measure BB Costs of Issuance Fund

The undersigned, _________, hereby certifies as follows:

1. I am ___________________ of Palomar Pomerado Health, a local health care district duly organized and existing under the laws of the State of California (the "District").

2. Pursuant to the provisions of that certain Paying Agent Agreement, dated as of June 1, 2005, as supplemented and amended by the First Supplemental Paying Agent Agreement, dated as of December 1, 2007 and by the Second Supplemental Paying Agent Agreement, dated as of November 1, 2008 (hereinafter collectively referred to (the "Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"), I am an Authorized District Representative (as such term is defined in the Paying Agent Agreement) and I am delivering this Requisition on behalf of the District. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Paying Agent Agreement.

3. The undersigned hereby requests that the Paying Agent pay from the Series 2008A Measure BB Costs of Issuance Fund created pursuant to Section 18.04 of the Paying Agent Agreement the amounts specified in Schedule I hereto to the persons identified in Schedule I.

4. The undersigned, acting on behalf of the District, hereby certifies that: (a) obligations in the amounts set forth in Schedule I attached hereto have been incurred by the District and are presently due and payable; (b) each item is a proper charge against the Series 2008A Measure BB Costs of Issuance Fund; and (c) each item has not been previously paid from the Series 2008A Measure BB Costs of Issuance Fund.

Dated: ____________.

Palomar Pomerado Health

By:________________________________
Authorized District Representative

Schedule I To Requisition No. ____

Name and Address of Party To Be Paid	Payment Amount	Nature of Expenditure	Payment Instructions

PRELIMINARY OFFICIAL STATEMENT DATED [OCTOBER 29], 2008

NEW ISSUE – FULL BOOK-ENTRY

RATINGS: See "RATINGS"

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to Palomar Pomerado Health, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

[PPH Logo]

$[GO PAR]*
PALOMAR POMERADO HEALTH
General Obligation Bonds, Election of 2004, Series 2008A

Dated: Date of Delivery **Due: August 1, as shown on the inside cover**

The Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2008A (the "Bonds") are being issued by Palomar Pomerado Health (the "District"), a local healthcare district located in north San Diego County, California. The Bonds were authorized at an election held on November 2, 2004 in the District, at which more than two-thirds of the persons voting on the proposition voted to authorize the issuance and sale of $496,000,000 principal amount of general obligation bonds of the District, of which $80,000,000 were issued in July 2005 and $241,083,318.80 were issued in December 2007. The Bonds are the third series of bonds being issued pursuant to that voter authorization, and are being issued for the purpose of financing health care facilities of the District, as more fully described herein.

The Bonds represent general obligations of the District payable from ad valorem taxes levied and collected by the County of San Diego (the "County"). The Board of Supervisors of the County is empowered and is obligated to levy ad valorem taxes upon all property within the District subject to taxation by the District, without limitation as to rate or amount (except certain personal property that is taxable at limited rates) for the payment of principal of and interest on the Bonds when due.

The Bonds will be issued as current interest bonds (the "Current Interest Bonds") and capital appreciation bonds (the "Capital Appreciation Bonds"). The Bonds will be issued in book-entry form only and initially will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (collectively referred to herein as "DTC"). DTC will act as security depository for the Bonds. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical certificates representing their interests in the Bonds.

Interest with respect to the Current Interest Bonds accrues from their date of delivery, and is payable on February 1 and August 1 of each year, commencing [February 1, 2009*]. The Current Interest Bonds are issuable as fully registered Bonds in denominations of $5,000 or any integral multiple thereof. The Capital Appreciation Bonds will not bear current interest, but will increase in value by the accumulation of earned interest from their initial principal amounts on the date of delivery thereof to their respective accreted values at maturity. Interest on the Capital Appreciation Bonds will be compounded on each February 1 and August 1, commencing [February 1, 2009*] and shall be payable at maturity. The Capital Appreciation Bonds are issuable as fully registered bonds in denominations of $5,000 accreted value at maturity or any integral multiple thereof.

Payments of principal of and interest on the Bonds will be made by Wells Fargo Bank, National Association, as Paying Agent, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Bonds. See "THE BONDS – General Provisions; Book-Entry Only System" herein.

The Bonds are being sold by the District to the North San Diego County Health Facilities Financing Authority and will simultaneously be resold to the Underwriter identified below.

The Current Interest Bonds are subject to optional and mandatory sinking fund redemption, as described herein. The Capital Appreciation Bonds are not subject to redemption prior to their respective maturity dates.

MATURITY SCHEDULE
(See Inside Front Cover)

[Payment of the principal of and interest on the Bonds maturing ___________ when due will be insured by a financial guaranty insurance policy to be issued by [Bond Insurer] simultaneously with the delivery of the Bonds. See "BOND INSURANCE" herein and APPENDIX H—"SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."]

[INSERT [BOND INSURER] LOGO]

The cover page contains information for reference only. It is not a summary of this issue. Investors must read this entire Official Statement to obtain information essential to the making of an informed investment decision.

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* Preliminary, subject to change.

The Bonds will be offered when, as and if issued, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Certain legal matters are being passed upon for the Underwriter by Squire, Sanders & Dempsey, L.L.P. and for the District by Janine Sarti, Esq., general counsel to the District. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about November __, 2008.

Citi

The date of this Official Statement is ______________, 2008.

MATURITY SCHEDULE*

$[GO PAR]
PALOMAR POMERADO HEALTH
GENERAL OBLIGATION BONDS, ELECTION OF 2004, SERIES 2008A

$[CAB PAR] CAPITAL APPRECIATION BONDS

Maturity (August 1)	Initial Principal Amount	Accretion Rate (approximate)	Accreted Value at Maturity	Price	CUSIP[(1)]

$[CIB PAR] CURRENT INTEREST BONDS

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP[(1)]

$________ ___% Term Bonds due August 1, ____ – Yield ____%[(1)] CUSIP

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(1) Copyright 2008, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw Hill Companies, Inc. CUSIP numbers have been assigned by an independent company not affiliated with the District and are included solely for the convenience of the holders of the Bonds. The District is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

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* Preliminary, subject to change.

This Official Statement does not constitute an offering of any security other than the original offering of the Bonds of the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

This Official Statement is not to be construed as a contract with any purchaser of the Bonds. The information set forth herein has been obtained from the District and other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. No representation is made that the past experience, as shown by financial and other information, will necessarily continue or be repeated in the future. This Official Statement contains, in part, estimates and matters of opinion, whether or not expressly stated to be such, which are not intended as statements or representation of fact or certainty, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District [or Bond Insurer] since the date hereof.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget," "project," "forecast" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to such forward-looking statements if or when the expectations, events, conditions or circumstances on which such statements are based, change or fail to occur.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of its responsibilities under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

This Official Statement and the information contained herein is in a form deemed final by the District for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended.

PALOMAR POMERADO HEALTH

District Board of Directors

Bruce G. Krider, MBA, *Chairman*
Marcelo Rivera, M.D., *Vice-Chair*
T. E. Kleiter, *Treasurer*
Linda Bailey, *Secretary*
Nancy L. Bassett, R.N., MBA, *Director*
Linda C. Greer, R.N., *Director*
Alan W. Larson, M.D., *Director*

District Administration

Michael H. Covert, *President and Chief Executive Officer*
Robert Hemker, *Chief Financial Officer*
Gerald Bracht, *Chief Administrative Officer*
David Tam, M.D., *Interim Chief Administrative Officer*
Janine Sarti, Esq., *General Counsel*

PROFESSIONAL SERVICES

Bond Counsel

Orrick, Herrington & Sutcliffe LLP

Underwriter's Counsel

Squire, Sanders & Dempsey L.L.P.
San Francisco, California

Financial Advisor

Kaufman Hall & Associates, Inc.
Los Angeles, California

Paying Agent

Wells Fargo Bank, National Association
Los Angeles, California

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(continued)

$[GO PAR]*
PALOMAR POMERADO HEALTH
General Obligation Bonds, Election of 2004, Series 2008A

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides certain information in connection with the initial issuance and sale by Palomar Pomerado Health of $[GO PAR]* aggregate principal amount of Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2008A (the "Bonds"). The Bonds are being issued as current interest bonds (the "Current Interest Bonds") and capital appreciation bonds (the "Capital Appreciation Bonds"), as more fully described herein.

This introduction contains only a brief summary of certain of the terms of the Bonds being offered and a brief description of this Official Statement. A full review should be made of the entire Official Statement, including the cover page and the Appendices. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the laws of the State of California (the "State") or any other documents referred to herein do not purport to be complete, and such references are qualified in their entirety by reference to the complete provisions. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

All capitalized terms used in this Official Statement and not otherwise defined herein have the same meaning as in the Paying Agent Agreement, dated as of June 1, 2005 (as supplemented and amended, the "Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"), or if not defined therein, as in the Bond Resolution (defined below).

The District

Palomar Pomerado Health (the "District") is a local health care district, formed by a vote of the District's electorate in 1948, and organized pursuant to Division 23 of the Health and Safety Code of the State of California ("The Local Health Care District Law"). The District's boundaries encompass an area of approximately 800 square miles in northern San Diego County. Included within those boundaries are all or a portion of the cities and communities of Escondido, Poway, Ramona, Rancho Bernardo, Rancho Penasquitos, San Marcos, Valley Center, Pauma Valley, Santa Ysabel and Julian. The total 2008-09 net assessed valuation of property within the District is $[__] billion. See APPENDIX A for certain information concerning the District, its operations and revenues from operations.

Authority for Issuance and Sale of the Bonds

The Bonds constitute the third series of bonds issued under a $496,000,000 authorization ("Measure BB") approved by more than a two-thirds vote of the voters of the District voting at an election on November 2, 2004. The District issued its Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2005A (the "2005 GO Bonds") on July 7, 2005 in the aggregate principal amount

* Preliminary, subject to change.

of $80,000,000, of which $[________] is currently outstanding. The District issued its Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A (the "2007 GO Bonds") on December 20, 2007 in the aggregate principal amount of $241,083,318.80, [all of which] is currently outstanding. The Bonds are issued pursuant to certain provisions of The Local Health Care District Law and other applicable laws, and pursuant to a resolution adopted by the Board of Directors of the District (the "District Board") on [October 20], 2008 (the "Bond Resolution"). See "THE BONDS – Authority for Issuance." The Bonds will be sold by the District to the North San Diego County Health Facilities Financing Authority (the "Authority") pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6484) of the California Government Code. The Bonds purchased by the Authority will be resold immediately to Citigroup Global Markets Inc. (the "Underwriter"), as described under "MISCELLANEOUS – Underwriting" herein.

Use of Bond Proceeds

Prior to the adoption of Measure BB, the District Board approved a facilities master plan for the District (the "Facilities Master Plan"). The Facilities Master Plan is intended to enable the District to meet expanding community needs, which are driven by a growing and aging population, as well as to meet the mandated State standards for earthquake safety. Proceeds of the Bonds will be used for paying portions of the costs of acquiring and constructing facilities contemplated in the initial phase of the Facilities Master Plan and authorized by Measure BB and may also be used to pay cost of issuance of the Bonds and/or to fund interest. The initial phase of the Facilities Master Plan is currently expected to be substantially completed before the end of fiscal year [2014] at a total cost currently estimated at approximately $[983] million. The District [***PPH Confirm* -** has expended the proceeds of the 2005 GO Bonds and***]*** is expending the proceeds of the 2007 GO Bonds and a portion of proceeds of revenue obligations incurred by the District in 2006 in the aggregate principal amount of $180 million, to pay portions of the costs of the initial phase of the Facilities Master Plan. See APPENDIX A—"INFORMATION CONCERNING PALOMAR POMERADO HEALTH—FACILITIES MASTER PLAN, SERVICE AREA AND COMPETITION."

Source of Payment for the Bonds

The Bonds represent general obligations of the District payable from ad valorem taxes. The Board of Supervisors of the County of San Diego (the "County") has the power and is obligated to annually levy ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds when due. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" herein.

References herein to payment of principal on the Bonds includes payment of principal of the Current Interest Bonds at their maturity and payment of the accreted value of Capital Appreciation Bonds at their maturity.

[Bond Insurance]

[Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by [Bond Insurer] simultaneously with the delivery of the Bonds. See "BOND INSURANCE" herein and APPENDIX H—"SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."]

Continuing Disclosure

The District has covenanted that it will comply with and carry out all of the provisions of the Continuing Disclosure Undertaking of the District for the Bonds relating to disclosure of certain annual financial and operational information and notices of certain events. See "LEGAL MATTERS – Continuing Disclosure" herein and APPENDIX E—"FORM OF CONTINUING DISCLOSURE UNDERTAKING."

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

This Official Statement is intended to be made available through The Bond Buyer, Secondary Market Disclosure, 395 Hudson Street, 3rd Floor, New York, New York 10014, telephone: (212) 807-3814.

Copies of documents referred to herein and information concerning the Bonds are available from Palomar Pomerado Health, 15255 Innovation Drive, Suite 204, San Diego, California 92128, Attn: Office of CFO or by telephone: (858) 675-5567. The District may impose a charge for copying, mailing and handling.

THE BONDS

Authority for Issuance

The Bonds are being issued pursuant to the provisions of The Local Health Care District Law, other applicable laws and the Bond Resolution. The District received authorization to issue $496,000,000 of general obligation bonds at an election held on November 2, 2004 by more than two-thirds of the votes cast by eligible voters within the District on Measure BB. The Bonds are the third series of bonds to be issued under the Measure BB authorization. Certain terms and provisions of the Bonds are set forth in the Paying Agent Agreement.

General Provisions; Book-Entry Only System

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Purchasers will not receive bond certificates representing their interest in the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references in the Official Statement to "Holder," "Bondholder" or registered owners of the Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such Bonds. The District and the Paying Agent shall treat the registered owner of the Bonds (which will be DTC so long as the Book-Entry Only System is in effect) as the absolute owner of the Bonds for the purposes of payment of debt service, giving all notices of redemption and all other matters with respect to the Bonds.

As long as DTC's Book-Entry Only System is used for the Bonds, the Paying Agent will send any notice of redemption or other notices to Bondholders only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the redemption of the Bonds called for redemption or of any other action premised on such notice. The Paying Agent, the District and the Underwriter of the Bonds have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Bonds.

For a description of the method of payment of principal of and interest on the Bonds and matters pertaining to their exchange while the Book-Entry Only System is place, see APPENDIX D—"BOOK-ENTRY ONLY SYSTEM."

Current Interest Bonds. Interest with respect to the Current Interest Bonds accrues from their date of delivery, and is payable on February 1 and August 1 of each year (each, an "Interest Payment Date"), commencing [February 1, 2009]. Interest on the Current Interest Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. The Current Interest Bonds are issuable in denominations of $5,000 or any integral multiple thereof and will mature on August 1, in the years and amounts set forth on the inside cover page hereof.

Interest on the Current Interest Bonds shall be payable in lawful money of the United States of America to the person whose name appears in the bond registration books maintained by the Paying Agent as the Bondholder thereof as of the close of business on the Record Date immediately preceding each Interest Payment Date, such interest to be paid by check mailed by first class mail to such Bondholder at such Bondholder's address as it appears in such bond registration books or at such address as the Bondholder may have filed with the Paying Agent for that purpose (except that upon the written request of the Bondholder of Current Interest Bonds aggregating not less than $1,000,000 in principal amount, given no later than the close of business on the Record Date immediately preceding the applicable Interest Payment Date, the interest due on such Interest Payment Date shall be paid by wire transfer in immediately available funds to an account maintained in a state or national bank in the United States of America at such wire address as such Bondholder shall specify in such written request). The principal of and redemption premium, if any, on the Current Interest Bonds shall be payable in like lawful money to the Bondholder thereof upon the surrender thereof at the Principal Corporate Trust Office of the Paying Agent. So long as Cede & Co. or its registered assigns shall be the registered owner of any of the Current Interest Bonds, payment shall be made to Cede & Co. by wire transfer as provided in the Paying Agent Agreement.

Capital Appreciation Bonds. The Capital Appreciation Bonds shall not bear current interest. Each Capital Appreciation Bond shall increase in value by the accumulation of earned interest from its initial principal amount on the date of issuance thereof to its stated accreted value at maturity as set forth in the Table of Accreted Values attached hereto as APPENDIX G. Interest on the Capital Appreciation Bonds shall be computed on the basis of a 360-day year comprised of twelve 30-day months, shall be compounded commencing on [February 1, 2009], and semiannually thereafter on August 1 and February 1 in each year and shall be payable only upon maturity.

The Capital Appreciation Bonds shall be issued as fully registered bonds in denominations of $5,000 accreted value at maturity ("maturity value") or any integral multiple of $5,000. Each Capital Appreciation Bond shall be dated the date of its initial delivery and shall mature on the date and in the accreted value at maturity set forth on the inside cover page hereto.

The stated accreted value at maturity of the Capital Appreciation Bonds shall be payable in lawful money to the registered owner thereof upon the surrender thereof at the Principal Corporate Trust Office of the Paying Agent. So long as Cede & Co. or its registered assigns shall be the registered owner of any of the Capital Appreciation Bonds, payment shall be made to Cede & Co by wire transfer as provided in the Paying Agent Agreement.

Redemption

Capital Appreciation Bonds. The Capital Appreciation Bonds are not subject to redemption prior to their respective stated maturities.

Current Interest Bonds.

Optional Redemption. The Current Interest Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of funds, in whole or in part on August 1, 20__, or on any date thereafter at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium.

If less than all the Outstanding Current Interest Bonds are to be optionally redeemed on any one date, the District shall select the maturity date or dates of such Bonds to be redeemed, and if less than all the Current Interest Bonds of any one maturity date are to be redeemed on any one date, the Paying Agent shall select such Bonds or the portions thereof of such maturity date in any manner deemed fair by the Paying Agent.

Mandatory Sinking Fund Redemption. The Current Interest Bonds maturing on August 1, 20__ are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, beginning August 1, 20__, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium. The principal amount represented by such Current Interest Bonds to be so redeemed and the dates therefor and the final principal payment date is as indicated in the following table:

Redemption Date (August 1)	Principal Amount
	$
*	

*Maturity.

The Current Interest Bonds maturing on August 1, 20__ are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, beginning August 1, 20__, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium. The principal amount represented by such Current Interest Bonds to be so redeemed and the dates therefor and the final principal payment date is as indicated in the following table:

Redemption Date (August 1)	Principal Amount
	$
*	

*Maturity.

Notice of Redemption

Notice of redemption of any Current Interest Bonds shall be mailed, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date (i) to the respective Bondholders thereof at the addresses appearing on the bond registration books maintained by the Paying Agent, (ii) to all organizations registered with the Securities and Exchange Commission as securities depositories, (iii) to such information services of national recognition which disseminate redemption information with respect to municipal securities as the District shall designate, and (iv) as may be further required in accordance with the Continuing Disclosure Undertaking of the District.

Each notice of redemption shall contain all of the following information: (i) the date of such notice; (ii) the name of the Current Interest Bonds and the date of issue of the Current Interest Bonds; (iii) the date of redemption (the "Redemption Date"); (iv) the redemption price; (v) the dates of maturity of the Current Interest Bonds to be redeemed; (vi) if less than all of the Current Interest Bonds of any maturity are to be redeemed, the distinctive numbers of the Current Interest Bonds of each maturity to be redeemed; (vii) in the case of Current Interest Bonds redeemed in part only, the respective portions of the principal amount of the Current Interest Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Current Interest Bonds to be redeemed; (ix) a statement that such Current Interest Bonds must be surrendered by the Bondholders at the Principal Corporate Trust Office of the Paying Agent, or at such other place or places designated by the Paying Agent; and (x) notice that further interest on such Current Interest Bonds will not accrue after the designated Redemption Date.

The District may rescind any optional redemption and any notice of thereof for any reason on any date prior to the date fixed for such optional redemption by causing written notice of the rescission to be given to the Bondholders of those Current Interest Bonds so called for redemption. Any optional redemption and any notice thereof shall be rescinded if for any reason on the date fixed for redemption moneys are not available in the Interest and Sinking Fund or otherwise held in trust in an escrow fund established for such purpose in an amount sufficient to pay in full on said date the principal of and interest due on the Current Interest Bonds called for redemption. Notice of rescission shall be given in the same manner in which notice of redemption was originally given.

The actual receipt by the Holder of any Current Interest Bond or by any other party designated to receive notice of such redemption or rescission shall not be a condition precedent to redemption or rescission, and failure to receive such notice, or any defect in the notice mailed, shall not affect the validity of the proceedings for the redemption of such Current Interest Bond or the cessation of interest on the date fixed for redemption, or such rescission, as applicable. A certificate of the Paying Agent that notice of call and redemption has been given to Holders and the other parties designated in the Paying Agent Agreement to receive such notice shall be conclusive as against all parties.

When notice of redemption has been given as provided in the Paying Agent Agreement, and when the redemption price of the Current Interest Bonds called for redemption is set aside in the Interest and Sinking Fund or the escrow fund established for such purpose, the Current Interest Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date. The Holders of such Current Interest Bonds so called for redemption after such redemption date shall have no rights under the Paying Agent Agreement except to receive payment of the principal of and redemption premium, if any, on the Current Interest Bonds and the interest accrued thereon to the Redemption Date, such payment to be made solely from the funds provided therefor.

Defeasance

The District may pay and discharge any or all of the Bonds by depositing in trust with the Paying Agent or an escrow agent selected by the District at or before maturity, money or non-callable direct obligations of the United States of America or senior debt obligations of other government sponsored agencies, in an amount which will, together with the interest to accrue thereon and available moneys then on deposit in the Interest and Sinking Fund, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal and interest) at or before their respective maturity dates.

Registration, Transfer and Exchange of Bonds

The Paying Agent will keep or cause to be kept at its Principal Corporate Trust Office sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection by the District, and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as provided in the Paying Agent Agreement.

The Capital Appreciation Bonds shall be initially registered in the name of “Cede & Co.,” as nominee of DTC and shall be evidenced by a single authenticated bond certificate for each stated maturity of Capital Appreciation Bonds, representing the accreted value at maturity of the Capital Appreciation Bonds of such maturity. Registered ownership of the Capital Appreciation Bonds, or any portion thereof, may not thereafter be transferred except as set forth in the Paying Agent Agreement.

The Current Interest Bonds shall be initially registered in the name of “Cede & Co.,” as nominee of DTC and shall be evidenced by a single authenticated bond certificate for each stated maturity of Current Interest Bonds, representing the aggregate principal amount of the Current Interest Bonds of such maturity. Registered ownership of the Current Interest Bonds, or any portion thereof, may not thereafter be transferred except as set forth in the Paying Agent Agreement.

In the event that the Book-Entry Only System as described in APPENDIX D is no longer used with respect to the Bonds, the following provisions will govern the transfer and exchange of the Bonds.

Any Bond may, in accordance with its terms, be transferred upon the books required to be kept pursuant to the provisions of the Paying Agent Agreement by the person in whose name it is registered, in person or by the duly authorized attorney of such person, upon surrender of such Bond to the Paying Agent for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a from approved by the Paying Agent. Bonds may be exchanged at the Principal Corporate Trust Office of the Paying Agent or such other place as the Paying Agent shall designate, for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity and interest rate. A Capital Appreciation Bond may only be transferred or exchanged for a Capital Appreciation Bond and a Current Interest Bond may only be transferred or exchanged for a Current Interest Bond. No transfer or exchange of Bonds shall be required to be made by the Paying Agent during the period from any Record Date to the following Interest Payment Date or from the date on which notice of redemption is given with respect to such Bond to and including the specified Redemption Date for such Bond.

Investment of Bond Proceeds

The District expects to invest monies in the Series 2008A Measure BB Project Fund as permitted by the Paying Agent Agreement, which includes, without limitation, any one or more investments generally permitted to local health care districts under the laws of the State, including guaranteed investment contracts.

Annual Debt Service on the Bonds, the 2007 GO Bonds and the 2005 GO Bonds

The following table summarizes the debt service requirements for the 2005 GO Bonds, the 2007 GO Bonds and the Capital Appreciation Bonds and the Current Interest Bonds (assuming no optional redemptions on the 2005 GO Bonds, the 2007 GO Bonds or the Current Interest Bonds).[1]

			Capital Appreciation Bonds		Current Interest Bonds			
Year Ending (August 1)	**Total Debt Service on the 2007 GO Bonds[2]**	**Total Debt Service on the 2005 GO Bonds[2]**	**Principal**	**Compounded Interest**	**Principal[2]**	**Interest**	**Total Debt Service on the Bonds[2]**	**Aggregate Annual Debt Service[2]**
2009	$ 8,797,650.00	$4,191,975.00						
2010	8,797,650.00	4,234,175.00						
2011	9,432,650.00	4,273,425.00						
2012	10,047,650.00	4,314,625.00						
2013	10,697,650.00	4,362,425.00						
2014	11,392,650.00	4,403,675.00						
2015	12,137,650.00	4,445,375.00						
2016	12,927,650.00	4,491,875.00						
2017	13,767,650.00	4,537,375.00						
2018	14,662,650.00	4,581,625.00						
2019	15,617,650.00	4,629,375.00						
2020	16,637,650.00	4,675,125.00						
2021	17,722,650.00	4,718,625.00						
2022	18,877,650.00	4,769,625.00						
2023	20,107,650.00	4,817,375.00						
2024	21,417,650.00	4,861,625.00						
2025	22,812,650.00	4,912,125.00						
2026	24,297,650.00	4,963,125.00						
2027	25,882,650.00	5,009,125.00						
2028	22,712,650.00	5,061,800.00						
2029	22,726,900.00	5,110,250.00						
2030	22,741,400.00	5,164,250.00						
2031	22,754,400.00	5,213,000.00						
2032	22,769,150.00	5,269,250.00						
2033	22,783,650.00	5,322,000.00						
2034	22,763,706.25	5,370,750.00						
2035	22,743,150.00	-						
2036	22,714,675.00	-						
2037	22,691,231.25	-						
Total	**$523,436,262.50**	**$123,703,975.00**	**$**	**$**	**$**	**$**	**$**	**$**

[1] Table does not include revenue obligations of the District, which are discussed in APPENDIX A—"INFORMATION CONCERNING PALOMAR POMERADO HEALTH—MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE—Outstanding Long-Term Debt."
[2] Includes mandatory sinking fund payments for the Current Interest Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Bonds are expected to be applied as follows:

Sources of Funds	
Principal Amount of Bonds*	$
Net Original Issue [Premium/Discount]	
Total Sources	$
Uses of Funds	
Deposit to Series 2008A Measure BB Project Fund	$
Deposit to Series 2008A Measure BB Funded Interest Account	
Deposit to Series 2008A Measure BB Costs of Issuance Fund(1)	
Total Uses	$

(1) All costs of issuance, including underwriter's discount, [bond insurance premium,] fees of the financial advisor, rating agency, Bond Counsel, and other costs of issuance. See "MISCELLANEOUS – Underwriting herein."

* Aggregate of principal amount of Current Interest Bonds and the initial principal amount of the Capital Appreciation Bonds.

[TO BE PROVIDED BY BOND INSURER]

[BOND INSURANCE]

[Payment of principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") to be issued by [Bond Insurer] (the "Insurer") simultaneously with the delivery of the Bonds.]

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General Obligation of District

The Bonds represent general obligations of the District payable from ad valorem taxes. The Board of Supervisors of the County is empowered and is obligated to levy ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except certain personal property which is taxable at limited rates) for the payment of the principal of and interest on the Bonds. Such taxes will be collected by the County and transferred by the County to the Paying Agent. Pursuant to the provisions of the Paying Agent Agreement, the County will be directed to transfer such taxes on a monthly basis, and the Paying Agent is directed to deposit all such taxes in the Interest and Sinking Fund held by the Paying Agent, which is required to be used by the Paying Agent solely for the payment of general obligation bonds of the District, including the Bonds, the 2007 GO Bonds, the 2005 GO Bonds, and additional general obligation bonds issued under Measure BB (collectively, the "GO Bonds"), and interest thereon when due. Although the County is obligated to levy an ad valorem tax for the payment of the GO Bonds, the GO Bonds are not a debt of the County.

The moneys in the Interest and Sinking Fund, to the extent necessary to pay the principal of and interest on the Bonds as the same becomes due and payable, shall be transferred by the Paying Agent on each Interest Payment Date, or, with respect to the Capital Appreciation Bonds, the maturity date, to DTC for remittance by DTC to its Participants for subsequent disbursement to the Beneficial Owners of the Bonds.

The District is required by Section 32127 of The Local Health Care District Law to use moneys in its maintenance and operation fund whenever ad valorem taxes will be insufficient to pay principal and interest on its GO Bonds. The District anticipates that ad valorem taxes will be sufficient to pay its GO Bonds when due. For certain information concerning the District, its operations and revenues derived from its operations, see APPENDIX A—"INFORMATION CONCERNING PALOMAR POMERADO HEALTH."

Ad Valorem Property Taxation

As required by State law, the District utilizes the services of the County for the assessment and collection of taxes for District purposes. District taxes are collected at the same time and on the same tax roll as are the taxes levied by the County, school districts, cities and other special district located within the County. Taxes are levied by the County for each fiscal year on taxable real and personal property which is located in the District as of the preceding January 1. See "- Tax Levies, Collections and Delinquencies" below.

The amount of the annual ad valorem tax levied by the County to repay the District's GO Bonds will be based on the assessed valuation of taxable property in the District and the amount of debt service due on its GO Bonds. The District calculates the tax rate on an annual basis based on: the assessed valuation of taxable property in the District as of the preceding January 1; and the amount of debt service due on its GO Bonds. In calculating the tax rate, the District utilizes an assumed delinquency rate. Subsequent to the District's annual calculation of the tax rate, the District, in accordance with County policy, adopts a resolution notifying the County of the tax rate so established. The County, in turn, levies and collects the ad valorem taxes and transfers such ad valorem taxes to the Paying Agent as described above.

Certain Risks Related to Ad Valorem Property Taxation

Reductions in Assessed Valuation. A reduction in the assessed valuation of taxable property located in the District, such as may be caused by deflation of property values, economic recession, a relocation out of the District by one or more major property owners, or the complete or partial destruction of such property caused by, among other events, an earthquake, wildfire, flood or other natural disaster, could cause a reduction in the assessed value of the District's tax roll and necessitate an unanticipated increase in the annual tax levy necessary to pay debt service on its GO Bonds. A significant decrease in assessed valuation, an unanticipated increase in the rate of tax delinquencies, or a declaration of bankruptcy by the District, could delay the payment of debt service on the District's GO Bonds. As stated above, the District calculates the tax rate on an annual basis, in part, based on an assumed delinquency rate. **[*DISTRICT TO CONFIRM -*** To date, the District has assumed a delinquency rate which is twice the actual historic rate of delinquencies in the County, which are discussed under "—Tax Levies, Collections and Delinquencies" below.] In any given fiscal year, to the extent the delinquency rate is less than that which was assumed for such year, any excess taxes collected will be used to pay debt service in the following fiscal year. Conversely, if in any given year, the delinquency rate is higher than that which was assumed for such year and to the extent there are not sufficient funds on deposit in the Interest and Sinking Fund to pay debt service on the GO Bonds for such year, the District is required to provide funds from its operations to make up any deficiencies in the Interest and Sinking Fund to provide for payment of the GO Bonds. While the levy of ad valorem tax to pay debt service of the Bonds and other GO Bonds is not limited as to rate or amount, the risks discussed in this paragraph could affect a tax payor's willingness or ability to pay ad valorem taxes.

[To be reviewed and revised/deleted based on actual impact on assessed valuation - San Diego Wildfires. On October 21, 2007, the first of four San Diego County wildfires broke out in the eastern region of the District. By the time the fires were contained, approximately 350,000 acres of land were burned throughout the County. Within the District, approximately 1,322 homes, located in the Cities of Escondido, Poway and San Diego, including the community of Rancho Bernardo, which lost approximately 380 homes, and the communities of Ramona, Julian, Pauma Valley, Palomar Mountain and Valley Center, were damaged or destroyed. It is anticipated that most of the homeowners who lost their homes will rebuild in the area. Based upon a preliminary and limited analysis of currently available public data concerning the parcels with homes destroyed and the assessed valuation of such homes, the District anticipates that the 2007 wildfires will have only a minor impact on assessed valuations in the District in the near term and very little impact over the long term. The District experienced wildfires in 2003 with a similar extent of damage to area homes. The impact on assessed valuation in the District subsequent to the 2003 wildfires was negligible.]

[To be reviewed and revised/deleted based on actual impact on financial results- No District health care or other facilities were destroyed by the 2007 wildfires. However, on October 22, 2007, two District health care facilities, Pomerado Hospital and Villa Pomerado, were ordered to be evacuated by County officials. A total of approximately 200 acute and skilled nursing care patients were evacuated from the two facilities. The District received permission to reoccupy Pomerado Hospital three days subsequent to the evacuation, and to reoccupy Villa Pomerado four days subsequent to the evacuation. As a result of the evacuation, the District lost approximately 290 acute care days and 490 skilled nursing care days and an estimated 40 elective surgical procedures. The District expects to receive partial reimbursement from its business interruption insurance and disaster relief from both the Federal Emergency Management Agency ("FEMA") and the California Governor's Office of Emergency Services ("OES"). Therefore, the District does not expect the evacuation to have a material impact upon its financial results. In addition, certain District health care and other facilities incurred smoke and ash damage. The District anticipates that costs of repair of such damage will be paid from insurance, FEMA and OES funds. In the event that such costs are not entirely covered by such sources, the District does not anticipate that the amount of noncovered costs will have a material adverse impact upon its financial results. See also "—Real Estate Activity in the District" below.]

Assessed Valuations

The assessed valuation of property in the District is established by the San Diego County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIIIA of the California Constitution. For a discussion of how properties currently are assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" herein.

Certain classes of property, such as churches, not-for-profit and public colleges and universities, hospitals, charitable institutions and governmental property, are exempt from property taxation and do not appear on the tax rolls.

Property located within the District has a total net taxable assessed valuation for fiscal year 2008-09 of $[_________]. The following table presents the ten-year history of assessed valuations in the District.

PALOMAR POMERADO HEALTH
Assessed Valuations of Real Property Within The District

Fiscal Year	Local Secured	Utility	Unsecured	Total
1999-00	28,113,223,336	5,745,070	1,178,159,557	29,297,127,963
2000-01	30,813,486,785	4,410,714	1,224,964,391	32,042,861,890
2001-02	33,780,505,569	2,710,662	1,409,669,406	35,192,885,637
2002-03	36,806,807,000	2,596,223	1,556,491,545	38,365,894,768
2003-04	40,289,884,045	2,109,932	1,514,796,896	41,806,790,873
2004-05	44,564,471,198	5,326,359	1,461,304,859	46,031,102,416
2005-06	50,322,146,725	204,643,139	1,589,632,696	52,116,422,560
2006-07	56,241,876,525	367,226,118	1,862,529,854	58,471,632,497
2007-08	61,369,060,961	197,696,241	1,811,878,450	63,378,635,652
2008-09				

Source: California Municipal Statistics, Inc.

(1) All years shown at full cash value and include secured, unsecured and utility property, but exclude tax-exempt property.

Under The Local Health Care District Law, the District's 2008-09 gross bonding capacity is equal to 2.5% of the assessed valuation of the taxable property within its boundaries, being $[_________]. The District has voter approval by Measure BB to issue a total of $496,000,000 of GO Bonds. The Bonds are the third issuance under that authorization. The 2005 GO Bonds were issued on July 7, 2005 and are currently outstanding in an aggregate principal amount of $[_________]. The 2007 GO Bonds were issued on December 20, 2007 and are currently outstanding in an aggregate principal amount of $[_________].

The following table shows the assessed valuation of real property on the secured tax rolls within the District and the number of parcels by land uses for fiscal year 2008-09.

PALOMAR POMERADO HEALTH
Assessed Valuation and Parcels by Land Use

	2008-09 Assessed Valuation [1]	% of Total	No. of Parcels	% of Totals
Non-Residential:				
Agricultural/Rural	$	%		
Commercial				
Vacant Commercial				
Industrial				
Vacant Industrial				
Recreational/Open Space				
Government/Social/Institutional	$	%		
Subtotal Non-Residential				
Residential:				
Single Family Residence				
Condominium/Townhouse				
Mobile Home				
Mobile Home Park				
2-4 Residential Units				
5+ Residential Units/Apartments				
Miscellaneous Residential Improvements				
Timeshare				
Vacant Residential				
Subtotal Residential	$	%		
Total	$	%		

[1] Local Secured Assessed Valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

The table below shows the fiscal year 2008-09 aggregate, average and median assessed valuations of single family homes within the District and a breakdown of single family homes by assessed valuation range.

PALOMAR POMERADO HEALTH
Per Parcel 2008-09 Assessed Valuation of Single Family Homes

	No. of Parcels	2008-09 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential		$	$	$

2008-09 Assessed Valuation[1]	No. of Parcels (1)	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $24,999		%	%	$	%	%
$25,000 - $49,999						
$50,000 - $74,999						
$75,000 - $99,999						
$100,000 - $124,999						
$125,000 - $149,999						
$150,000 - $174,999						
$175,000 - $199,999						
$200,000 - $224,999						
$225,000 - $249,999						
$250,000 - $274,999						
$275,000 - $299,999						
$300,000 - $324,999						
$325,000 - $349,999						
$350,000 - $374,999						
$375,000 - $399,999						
$400,000 - $424,999						
$425,000 - $449,999						
$450,000 - $474,999						
$475,000 - $499,999						
$500,000 and greater						
Total		%		$	%	

[1] Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.
Source: California Municipal Statistics, Inc.

The following table lists the major real property taxpayers in the District based solely on their 2008-09 secured assessed valuations.

PALOMAR POMERADO HEALTH
Largest 2008-09 Local Secured Taxpayers

Property Owner	Land Use	2008-09 Assessed Valuation	% of Total [1]
		$	%
		$	%

[1] 2007-09 total Local Secured Assessed Valuation: $[___________]
Source: California Municipal Statistics, Inc.

The following table sets forth a typical tax rate for property within the District for fiscal years 20001-01 through 2008-09.

PALOMAR POMERADO HEALTH
Typical Total Tax Rate

2000-01	1.01714%
2001-02	1.01578%
2002-03	1.01456%
2003-04	1.01357%
2004-05	1.01250%
2005-06	1.02940%
2006-07	1.02869%
2007-08	1.03828%
2008-09	_____ %

Source: California Municipal Statistics, Inc.

Real Estate Activity in the District

Over the past five years, growth in assessed valuation in the District has averaged [__]%. Aside from natural disasters and new construction within the District, reassessments of properties within the District impact growth of the assessed valuation. Reassessments of property are triggered by, among other things, (i) requests for temporary reductions by property owners, which may increase as a result of deflation of property values, (ii) change in ownership and (iii) new construction. Effective for fiscal year 2007-08, assessed valuation, covering real estate transactions from January 1, 2006 through December 31, 2006, the County of San Diego Assessor's office conducted 28,705 property reassessments, including 7,396 requests for temporary reductions. The District's assessed valuation grew by 8% over the same time period. Effective for fiscal year 2008-09, assessed valuation, covering real estate transactions from January 1, 2007 through December 31, 2007, the County of San Diego Assessor's office conducted [_____] property reassessments, including [_____] requests for temporary reductions. The District's assessed valuation grew by [___]% over the same time period. ***[Confirm*** **-** The District does not expect reassessments to have any near-term material adverse impact on the District's ability to levy and collect ad valorem taxes necessary to pay the principal of and interest on the Bonds when due.]

Tax Levies, Collections and Delinquencies

Taxes are levied for each fiscal year on taxable real and personal property on the tax rolls as of the preceding January 1. A supplemental tax is levied when property changes hands or new construction is completed which produces additional revenue.

For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and real property having a tax lien which is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted on June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent property taxes and the delinquency penalty, plus a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the County's Treasurer – Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the Clerk of County specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the taxpayer.

There is no information on tax delinquency for the District. The County reports in its Comprehensive Annual Financial Report the following information concerning tax delinquencies related to property taxes administered County-wide. For the fiscal year ended June 30, 2007, the County collected [____]% of the tax levy for such fiscal year.

COUNTY OF SAN DIEGO
Property Tax Levies and Collections
Fiscal Years 2002-03 through 2006-07*
(in thousands)

		Collections within the Fiscal Year of the Levy			Total Collections as of June 30, 2007	
Fiscal Year Ended June 30,	**Total Tax Levy for Fiscal Year[(1)]**	**Amount**	**Percentage of Levy**	**Collections in Subsequent Years**	**Amount**	**Percentage of Levy**
2003	2,328,624	2,304,083	98.95	16,059	2,320,142	99.64
2004	2,549,997	2,525,796	99.05	15,140	2,540,936	99.64
2005	2,808,178	2,777,733	98.92	18,851	2,796,584	99.59
2006	3,179,585	3,146,615	98.96		3,146,615	98.96
2007				N/A		

(1) Includes the Secured, Unsecured and Unitary Tax Levy for the County and school districts, cities and special districts under the supervision of independent governing boards.
Source: County of San Diego, Comprehensive Annual Financial Report for fiscal year ended [June 30, 2008].
*Most current data available ***[Confirm]***.

Overlapping Debt Obligations

Set forth on the following page is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and dated as of [October __, 2008], for debt outstanding as of [_________________, 2008]. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the District in whole or in part; (2) the second column shows the respective percentage of the assessed valuation of the overlapping public agencies identified in column 1 which is represented by property located in the District; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the District, as determined by multiplying the total outstanding debt of each agency by the percentage of the District's assessed valuation represented in column 2.

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PALOMAR POMERADO HEALTH

Statement of Direct and Overlapping Bonded Debt

2008-09 Assessed Valuation: $[___________]
Incremental Assessed Valuation: $[___________]
Adjusted Assessed Valuation: $[___________]

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable [1]	Debt 11/1/08
Metropolitan Water District	%	$
Palomar Pomerado Community College District		
Poway Unified School District School Facilities Improvement District No. 2002-1		
San Diego Unified School District		
San Marcos Unified School District School Facilities Improvement District		
Escondido Union High School District		
Escondido Union School District		
Other School Districts	Various	
City of Escondido		
Other Cities	Various	
City of San Diego Open Space Park Facilities District		
Palomar Pomerado Hospital District	**100.**	[2]
Community Facilities Districts	Various	
1915 Act Bonds (Estimate)	Various	
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		
Less: City of San Diego Open Space Park Facilities District		
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$
OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
San Diego County General Fund Obligations	%	$
San Diego County Pension Obligations		
San Diego County Superintendent of Schools Certificates of Participation		
Poway Unified School District Certificates of Participation		
Ramona Unified School District Certificates of Participation		
Escondido Union School District Certificates of Participation		
Other School District General Fund Obligations	Various	
City of Escondido General Fund Obligations		
City of Poway Certificates of Participation		
City of San Diego General Fund Obligations		
City of San Marcos General Fund Obligation		
Other City General Fund Obligations	Various	
Rainbow Municipal Water District Certificates of Participation		
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		$
GROSS COMBINED TOTAL DEBT		$ [3]
NET COMBINED TOTAL DEBT		$

(1) Based on 2007-08 ratios.
(2) Excludes Bonds to be sold.
(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2008-09 Assessed Valuation:
Direct Debt ($[__________]) .... [___]%
Total Gross Direct and Overlapping Tax and Assessment Debt .....….**[___]**%
Total Net Direct and Overlapping Tax and Assessment Debt.........….**[___]**%

Ratios to Adjusted Assessed Valuation:
Gross Combined Total Debt ....**[___]**%
Net Combined Total Debt...**[___]**%

STATE SCHOOL BUILDING AID REPAYABLE AS OF [_____]: $0

Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The principal of and interest on the Bonds are payable from the proceeds of an ad valorem tax levied by the County for the payment thereof. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein. Articles XIIIA, XIIIB, XIIIC and XIIID of the Constitution, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy ad valorem taxes for payment of the Bonds. The ad valorem tax levied by the County for payment of the Bonds was approved by the District's voters in compliance with Article XIIIA, Article XIIIC, and all applicable laws.

Article XIIIA of the California Constitution

Article XIIIA ("Article XIIIA") of the State Constitution, adopted and known as Proposition 13, limits the amount of ad valorem taxes on real property to 1% of "full cash value" as determined by the county assessor. Article XIIIA defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment," subject to exemptions in certain circumstances of property transfer or reconstruction. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors.

Article XIIIA requires a vote of two-thirds of the qualified electorate of a city, county, special district (such as the District) or other public agency to impose special taxes, while totally precluding the imposition of any additional ad valorem, sales or transaction tax on real property. Article XIIIA exempts from the 1% tax limitation any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, or (b), as the result of an amendment approved by State voters on July 3, 1986, on any bonded indebtedness approved by two-thirds percent of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (c) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% or more of the votes cast on the proposition, but only if certain accountability measures are included in the proposition. The tax for payment of the Bonds falls within the exception described in (b) of the immediately preceding sentence. In addition, Article XIIIA requires the approval of two-thirds of all members of the state legislature to change any state taxes for the purpose of increasing tax revenues.

Both the United States Supreme Court and the California State Supreme Court have upheld the general validity of Article XIIIA.

Legislation Implementing Article XIIIA

Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the annual adjustment not to exceed 2% are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

Unitary Property

Some amount of property tax revenue of the District is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions ("unitary property"). Under the State Constitution, such property is assessed by the State Board of Equalization ("SBE") as part of a "going concern" rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

The California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, nonutility companies may affect how those assets are assessed, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

Article XIIIB of the California Constitution

In addition to the limits Article XIIIA imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual "appropriation limit" imposed by Article XIIIB of the State Constitution which effectively limits the amount of such revenues those entities are permitted to spend. Article XIIIB, as subsequently amended by Propositions 98 and 111, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies.

The appropriations of an entity of local government subject to Article XIIIB limitations include the proceeds of taxes levied by or for that entity and the proceeds of certain state subventions to that entity. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to the entity from (a) regulatory licenses, user charges and user fees (but only to the extent that these proceeds exceed the reasonable costs in providing the regulation, product or service), and (b) the investment of tax revenues.

Appropriations subject to limitation do not include (a) refunds of taxes, (b) appropriations for debt service, such as the Bonds, (c) appropriations required to comply with certain mandates of the courts or the federal government, (d) appropriations of certain special districts, (e) appropriations for all qualified capital outlay projects as defined by the legislature, (f) appropriations derived from certain fuel and vehicle taxes and (g) appropriations derived from certain taxes on tobacco products.

Article XIIIB includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

The State and each local government entity has its own appropriation limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another governmental entity of financial responsibility for providing the services. The District is required to establish an appropriation limit each year. In fiscal year 2008-09, the District had an appropriation limit of $[_________] and appropriation subject to limitation of approximately $[_________].

Article XIIIC and Article XIIID of the California Constitution

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the "Right to Vote on Taxes Act." Proposition 218 added to the California Constitution Articles XIIIC and XIIID (respectively, "Article XIIIC" and "Article XIIID"), which contain a number of provisions affecting the ability of local agencies to levy and collect both existing and future taxes, assessments, fees and charges.

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as hospital districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds percent vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIIC further provides that no tax may be assessed on property other than ad valorem property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds percent vote under Article XIIIA, Section 4. Article XIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does receive a portion of the basic one percent ad valorem property tax levied and collected by the County pursuant to Article XIIIA of the California Constitution.

Future Initiatives

Article XIIIA, Article XIIIB, and Proposition 218 were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

THE DISTRICT

Certain information concerning the District, its operations and revenues derived from its operations is discussed in APPENDIX A. As discussed under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" herein, the Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment of the Bonds.

THE AUTHORITY

The Authority was created by a Joint Exercise of Powers Agreement, dated as of May 27, 2005, between the District and Tri-City Healthcare District ("Tri-City"). Pursuant to a resolution adopted by the Grossmont Healthcare District ("Grossmont") on April 20, 2007 and accepted by the Authority on

May 11, 2007, Grossmont became a member of the Authority. Pursuant to Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "JPA Act"), the Authority has legal authority to exercise any powers common to the District, Tri-City and Grossmont and to exercise additional powers granted to it under the JPA Act. Under the JPA Act, the Authority is authorized to purchase bonds issued by the District at negotiated sale and sell such bonds at negotiated sale to the Underwriter. The Bonds are being issued by the District for sale to the Authority and will be simultaneously resold by the Authority to the Underwriter.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX F hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the

Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, this opinion is not intended to, and may not be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income tax, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

LEGAL MATTERS

Continuing Disclosure

The District has covenanted for the benefit of Bondholders (including Beneficial Owners of the Bonds) to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than six months following the end of the District's fiscal year (which currently ends June 30), commencing with the report for the 2008-09 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report shall be filed by the District with each Nationally Recognized Municipal Securities Information Repository (and with the appropriate State information depository, if any) or may be filed with DisclosureUSA.org. The notices of material events shall also be filed by the District with the Municipal Securities Rulemaking Board (and with the appropriate State information depository, if any), or may be filed with DisclosureUSA.org. The specific nature of the information to be contained in the Annual Report and any notices of material events is included in APPENDIX E—"FORM OF CONTINUING DISCLOSURE UNDERTAKING" attached hereto. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). ***[PPH - Does this failure still fall within past five years?*** Under a continuing disclosure undertaking with respect to certain revenue bonds of the District, the District failed, five years ago, to timely file its annual continuing disclosure, and on three occasions, it failed to timely file a notice regarding certain ratings changes. These filings were eventually made.] [***PPH Confirm***-During the last five years, the District has not failed to comply in any material respect with respect any previous continuing disclosure undertakings]. The District is committed to meeting its disclosure obligations with respect to previous continuing disclosure undertakings and to its Continuing Disclosure Undertaking with respect to the Bonds.

No Litigation

[Confirm - No litigation of any nature is pending or threatened concerning the validity of the Bonds, and a certificate to that effect will be furnished by the District to the Underwriter at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened questioning the existence or powers of the District, the District's ability to receive ad valorem taxes to pay the Bonds or to collect other revenues or the District's ability to issue and retire the Bonds.

From time to time there are lawsuits and claims pending against the District. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims will not materially affect the operations of finances of the District].

Legal Opinions

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Bond Counsel. A complete copy of the proposed form of opinion of Bond Counsel is contained in APPENDIX F hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon by Janine Sarti, Esq., as general counsel for the District, and by Squire, Sanders & Dempsey L.L.P., San Francisco, California, as counsel for the Underwriter. Neither of these law firms undertakes and general counsel to PPH does not undertake responsibility for the accuracy, completeness or fairness of this Official Statement, except as otherwise stated in their respective opinions delivered upon the issuance of the Bonds, and none of such opinions is addressed to or may be relied upon by purchasers of the Bonds.

INDEPENDENT AUDITORS

The financial statements of the District as of and for the years ended June 30, 2008 and 2007 included in this Official Statement in APPENDIX B have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing therein.

RATINGS

[The Bonds are expected to receive ratings of "[_____]" and "[____]" by Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"), respectively.] The Bonds have been assigned [underlying] ratings of "[___]" "[___]" and "[___]" by Moody's, Fitch and Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. ("S&P"), respectively.

The ratings reflect only the views of the respective ratings agency, and any explanation of the significance of such ratings should be obtained from Moody's, Fitch and S&P at the following addresses: Moody's Investors Service, 99 Church Street, New York, NY 10007; Fitch Ratings, One State Street Plaza, New York, NY 10004; and Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., Public Finance Department, 55 Water Street, New York, New York 10041. In order to obtain such ratings, the District furnished certain information and materials to the rating agencies, some of which has not been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and their own investigation, studies and assumptions. There is no assurance that any of the ratings will be maintained for any given period of time or that they will not be revised downward, suspended or withdrawn entirely by a rating agency if, in its judgment, circumstances so warrant. The District undertakes no responsibility to oppose any such revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of the ratings obtained or other actions by a rating agency relating to its rating may have an adverse effect on the market price of the Bonds.

The District expects to furnish to each rating agency such information and materials as it may request. The District, however, assumes no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. The failure to furnish requested information and materials, or the issuance of debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the Bonds.

MISCELLANEOUS

Underwriting

The Bonds are being purchased by the Authority for resale to the Underwriter pursuant to a bond purchase agreement among the Underwriter, the District, and the Authority. The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the Authority at a price of $________ (principal amount of the Bonds of $________, plus a net original issue premium of $________, less underwriter's discount of $________). Under the terms of the bond purchase agreement, the Underwriter will be obligated to purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions to be satisfied by the District and the Authority. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the front inside cover page. The offering prices may be changed from time to time by the Underwriter.

Financial Advisor

Kaufman Hall & Associates, Inc. ("KHA"), Los Angeles, California, was engaged by the District to provide financial advisory services in connection with the execution and delivery of the Bonds. KHA is a national consulting firm which acts as a capital advisor to health care organizations.

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations from and summaries and explanations of the Bonds, the Bond Resolution, the Paying Agent Agreement and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

Certain financial data contained herein has been obtained from California Municipal Statistics, Inc. Appropriate District officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein (excluding the chart entitled "Statement of Direct and Overlapping Bonded Debt") is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading.

This Official Statement and its distribution has been approved by the Board of the District.

PALOMAR POMERADO HEALTH

By:____

Michael H. Covert
President and Chief Executive Officers

APPENDIX C

ECONOMIC AND DEMOGRAPHIC PROFILE OF SAN DIEGO COUNTY

The following information about the County of San Diego (the "County") is presented as general background information because the District is located in the northern part of the County. As discussed under "SECURITY AND SOURCE OF PAYMENT OF THE BONDS," the Bonds are payable from ad valorem taxes, and are not a debt of, nor payable by, the County.

General

The County is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange counties form the northern boundary. The County is approximately the size of the State of Connecticut.

Topography of the County varies from broad coastal plains and fertile inland valleys to mountain ranges in the east which rise to an elevation of 6,500 feet. Eastern slopes of these mountains form the rim of the Anza-Borrego Desert and the Imperial Valley. The Cleveland National Forest occupies much of the interior portion of the County. The climate is equable in the coastal and valley regions where most of the population and resources are located. The average annual rainfall in the coastal areas is approximately 10 inches.

The County possesses a diverse economic base consisting of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence which contributes approximately $12 billion annually to the retail and service businesses of the area.

The County is also growing as a major center for culture and education Over 30 recognized art organizations, including the San Diego Opera, the Old Globe Theatre productions, the La Jolla Chamber Orchestra, as well as museums and art galleries, are located in the County. Higher education is provided through fifteen colleges and universities and nine community colleges.

In addition to the City of San Diego, other principal cities in the County include Carlsbad, Chula Vista, Oceanside, El Cajon, Escondido, La Mesa and National City. Most County residents live within 20 miles of the coast. Farther inland are agricultural areas, principally planted in avocados and tomatoes, while the easternmost portion of the County has a dry, desert-like topography.

Population

There are 18 incorporated cities in the County, and a number of unincorporated communities. For many years the population of the County has grown at a greater rate than that of either California or the nation. The County population as of January 2007 was estimated to be approximately 2,975,000, making it the third largest County by population in California and the seventeenth largest Metropolitan Statistical Area in the United States. The 2007 population increased approximately 2.3% from 2002. As of January 2007, the unincorporated population of the County was 481,216.

The following table shows changes in the population in the County, the State and the United States for the years 1997 to 2007.

POPULATION ESTIMATES[1]
(In Thousands)

Year	San Diego County	Percent Change	State of California	Percent Change	United States	Percent Change
1997	2,653	1.23	32,207	1.16	267,784	0.95
1998	2,703	1.86	32,657	1.40	270,248	0.91
1999	2,751	1.78	33,140	1.48	272,691	0.90
2000	2,826	2.73	34,004	2.61	282,194	3.48
2001	2,870	1.56	34,526	1.51	285,112	1.03
2002	2,908	1.32	34,964	1.27	287,888	0.97
2003	2,933	0.86	35,377	1.18	290,448	0.89
2004	2,939	0.20	35,722	0.98	293,192	0.94
2005	2,942	0.10	35,990	0.75	295,896	0.92
2006	2,948	0.20	36,250	0.72	298,755	0.97
2007	2,975	0.92	36,553	0.84	301,621	0.96

Sources: U.S. Bureau of the Census
(1) As of July 1 of the year shown.

Employment

The County's total labor force, the number of persons who work or are available for work, averaged approximately 1,543,000 in 2007. The number of employed workers in the labor force averaged approximately 1,472,000. The following table sets forth information regarding the size of the labor force, employment and unemployment rates for the County, the State and the United States for the years 2003 through 2007.

LABOR FORCE – EMPLOYMENT AND UNEMPLOYMENT*
ANNUAL AVERAGES 2003-2007
By Place of Residence
(In Thousands)

	2003	2004	2005	2006	2007
County of San Diego					
Labor Force	1,468	1,491	1,506	1,520	1,543
Employment	1,392	1,420	1,441	1,460	1,472
Unemployment Rate	5.2%	4.7%	4.3%	4.0%	4.6%
State of California					
Labor Force	17,391	17,507	17,703	17,907	18,188
Employment	16,200	16,413	16,742	17,030	17,209
Unemployment Rate	6.8%	6.2%	5.4%	4.9%	5.4%
United States					
Labor Force	146,510	147,400	149,320	151,430	153,430
Employment	137,740	139,250	141,730	144,430	146,050
Unemployment Rate	6.0%	5.5%	5.1%	4.6%	4.6%

Sources: State Data - California Employment Development Department; National Data – U.S. Department of Labor, Bureau of Labor Statistics.
***** Data not seasonally adjusted.

The following table sets forth the annual average employment within the County, by employment sector for the Fiscal Years 2001 through 2007. The service sector constitutes the largest non-farm employment sector in the County, representing approximately 51.5% of all non-farm employment.

SAN DIEGO COUNTY
NON-AGRICULTURAL LABOR FORCE AND INDUSTRY EMPLOYMENT
ANNUAL AVERAGES
2001-2007
(In Thousands)

Employment Sector	2001	2002	2003	2004	2005	2006	2007
Mining	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Construction	75.1	76.4	80.2	87.7	90.8	92.6	87.2
Manufacturing	119.0	112.3	105.3	104.3	104.5	103.6	102.1
Wholesale and Retail Trade	177.1	179.3	182.4	186.8	191.0	192.7	194.2
Transportation, Warehousing and Utilities	32.0	29.3	27.3	28.4	28.4	28.3	28.8
Services							
Information	38.8	37.7	36.9	36.6	37.4	37.2	38.0
Financial Activities	72.0	75.0	79.9	81.9	83.2	83.7	80.4
Professional and Business Services	198.2	201.7	201.2	204.5	210.4	213.8	216.5
Educational and Health Services	116.0	119.7	121.8	121.7	122.5	124.7	128.8
Leisure and Hospitality	131.4	133.8	140.7	145.7	149.6	156.2	160.9
Other Services	44.9	45.6	46.8	47.9	48.8	48.9	48.8
Government	213.8	219.7	217.3	214.3	215.1	217.7	221.1
Total, All Non- Farm Industries	**1,218.4**	**1,230.7**	**1,240.1**	**1,260.3**	**1,282.1**	**1,299.9**	**1,308.2**

Source: California Employment Development Department.

Regional Economy

In recent years the County has enjoyed economic stability, out pacing the State economy despite a general recession in the State. Much of this strength was evidenced by and due to employment gains, population growth, personal income increases, and commercial and industrial development.

The Gross Regional Product ("GRP") for 2006 rose to $149.9 billion from $146.3 billion in 2005, and it has been forecasted that when the data for 2007 is compiled, it will show that the GRP for 2007 rose to $153.5 billion. The GRP is an estimate of the value for all goods and services produced in the region. The following table presents the County's GRP from 1997 through 2007.

COUNTY OF SAN DIEGO
GROSS REGIONAL PRODUCT
1997-2007

		Annual Percent Change
Year	Gross Regional Product (In Billions)	Current Dollars San Diego
1997	86.1	8.2
1998	94.4	9.6
1999	103.1	9.2
2000	112.4	9.0
2001	112.4	0.0
2002	120.2	6.9
2003	126.8	5.5
2004	138.2	9.0
2005	146.3	5.9
2006	149.9	2.5
2007[(1)]	153.5	2.4

Sources: Bureau of Economic Analysis; Economic Research Bureau of the Greater San Diego Chamber of Commerce.
[(1)] Forecast.

Economic activity and population growth in the local economy are closely related. Helping to sustain the County's economy is the performance of three basic industries of the region, which consist of manufacturing, the military, and tourism. The U.S. Department of Defense contributes about $12 billion annually to the local economy, through wages paid to the uniformed military and civilian personnel, and for equipment and services purchased from local businesses. San Diego's military presence is anticipated to remain relatively stable and may even increase due to the consolidation of military operations and facilities from elsewhere in California, the West, and throughout the United States. The Department of Defense closed and vacated the Naval Training Center in 1997. However, three procurement agencies have recently relocated to San Diego, including the Naval Space and Warfare Systems Command, the Naval Aviation Engineering Servicing Unit, which hires private contractors to service jets, and the Naval Aviation Technical Service Facility, which stores approximately 10 million jet blueprints.

Building Activity

Building permit valuation for residential construction in the County in 2007 decreased over 2006 levels by more than 25%. Building permit valuation for non-residential construction in the County in 2007 decreased over 2006 levels by more than 12%.

Annual total building permit valuation and the annual unit total of new residential permits from 2003 through 2007 are shown in the following table.

COUNTY OF SAN DIEGO
BUILDING PERMIT ACTIVITY
2003-2007
(In Thousands)

	2003	2004	2005	2006	2007
Valuation:					
Residential	$3,683,807	$3,875,359	$3,562,702	$2,470,685	$1,851,026
Non-Residential	1,169,397	1,288,130	1,381,794	1,621,608	1,416,444
Total	**$4,853,204**	**$5,163,489**	**$4,944,496**	**$4,092,293**	**$3,267,470**
New Housing Units:					
Single Family	$ 9,455	$ 9,555	$ 7,904	$ 4,753	$3,508
Multiple Family	8,859	7,751	7,354	6,024	3,928
Total	**$18,314**	**$17,306**	**$15,258**	**$10,777**	**$7,436**

Source: Construction Industry Research Board.

Commercial Activity

Consumer spending for 2006 resulted in approximately $47,835,514 in taxable sales in the County. The table on the following page sets forth information regarding taxable sales in the County for the years 2001-2006.

County of San Diego
TAXABLE SALES
2001-2006
(In Thousands)

Type of Business	2001	2002	2003	2004	2005	2006*
Apparel Stores	$1,274,552	$1,374,858	$1,466,233	$1,644,428	$1,798,104	$1,909,011
General Merchandise	4,445,352	4,557,457	4,352,937	5,204,962	5,406,091	5,594,621
Specialty Stores	3,718,292	3,803,803	4,144,293	4,541,225	4,728,028	4,926,656
Food Stores	1,595,933	1,650,104	1,685,203	1,736,610	1,858,152	1,928,274
Home Furnishings/ Appliances	1,314,860	1,353,158	1,458,403	1,549,482	1,566,046	1,511,389
Eating and Drinking Establishments	3,366,463	3,505,859	3,757,136	4,047,726	4,267,302	4,521,392
Building Materials and Group	2,343,008	2,510,931	2,757,706	3,341,105	3,376,009	3,331,161
Automotive	7,426,582	7,862,366	8,563,690	9,318,277	9,736,136	9,819,932
All Other Retail Stores	778,296	803,063	855,601	961,645	1,045,927	1,076,631
Business and Personal Services	1,957,109	1,977,606	2,040,077	2,146,781	2,239,304	2,302,057
All Other Outlets	9,478,886	9,196,342	9,303,350	9,978,097	10,655,372	10,914,390
TOTAL ALL OUTLETS	$37,699,333	$38,595,547	$40,863,978	$44,470,338	$46,679,471	$47,835,514

Source: California State Board of Equalization, Taxable Sales in California.

* Data for 2006 is currently the most updated annual information available regarding taxable sales for the County of San Diego.

Personal Income

The following table summarizes the median household income for the County, the State, and the United States between 2002 and 2007.

MEDIAN HOUSEHOLD INCOME
2002 through 2007

	San Diego County	California	United States
2002	50,384	47,437	42,409
2003	49,886	49,300	43,318
2004	51,939	49,222	44,344
2005	56,335	51,755	46,326
2006	59,591	55,319	48,201
2007	61,794	55,734	50,233

Source: U.S. Bureau of the Census Bureau.

APPENDIX E

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") is executed and delivered by Palomar Pomerado Health (the "District") in connection with the issuance of $__________ Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2008A (the "Bonds"). The Bonds are being issued pursuant to a Resolution of the Board of Directors of the District adopted on [October 20], 2008 (the "Bond Resolution"). The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Bond Resolution and that certain Paying Agent Agreement, dated as of June 1, 2005 (as supplemented by the First Supplemental Paying Agent Agreement, dated as of December 1, 2007 and the Second Supplemental Paying Agent Agreement, dated as of November 1, 2008, the "Paying Agent Agreement"), which apply to any capitalized term used in this Disclosure Undertaking unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Undertaking.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Bond Counsel" shall mean a firm of attorneys of national reputation experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds, which is selected by the District.

"Dissemination Agent" shall mean initially the District, or any successor Dissemination Agent designated in writing by the District (which may be the District) and which has filed with the District a written acceptance of such designation.

"Holders" shall mean registered owners of the Bonds.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Undertaking.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission can be found at www.sec.gov/info/municipal/nrmsir.htm.

"Official Statement" shall mean the final Official Statement relating to the Bonds, dated November __, 2008.

"Participating Underwriter" shall mean any of the original Underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Undertaking, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than 6 months after the end of the District's fiscal year (presently ending June 30), commencing with the report for the 2008-09 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Undertaking. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Undertaking; *provided* that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than thirty (30) days (nor more that sixty (60) days) prior to said date the Dissemination Agent shall give notice to the District that the Annual Report shall be required to be filed in accordance with the terms of this Disclosure Undertaking. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report in a format suitable for reporting to the Repositories to the Dissemination Agent (if other than the District). If the District is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the District shall send a notice to each Repository in substantially the form attached as Exhibit A with a copy to the Dissemination Agent. The Dissemination Agent shall not be required to file a Notice to Repositories of Failure to File an Annual Report.

(c) The Dissemination Agent shall file a report with the District stating it has filed the Annual Report in accordance with its obligations hereunder, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Material financial information with respect to the District of the type included in the Official Statement in the following categories (to the extent not included in the District's audited financial statements):

(a) information on the aggregate assessed value of property and the delinquent property taxes, if available, within the District;

(b) outstanding District general obligation bonds; and

(c) receipts of ad valorem taxes pledged to the Bond(s); and

(d) the top ten local secured taxpayers in the District, if the aggregate of their assessed valuation exceeds 10% of the total assessed valuation of the District.

3. The financial information and operating data set forth in Appendix A to the Official Statement in the text and tables under the headings "FACILITIES MASTER PLAN, SERVICE AREA AND COMPETITION—Utilization" and "—Service Area—Acute Care Hospital Discharges;" "HISTORICAL FINANCIAL INFORMATION—Summary of Historical Financial Data," "—Sources of Patient Revenue" and "—Unrestricted Property Tax Revenues;" and "MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE—Outstanding Long-Term Debt," "—Liquidity and Capital Resources," "—Capitalization" and "—Debt Service Coverage of Revenue Obligations."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference. The material required herein may be filed as part of, or concurrently with, any other continuing disclosure undertaking, provided such material is identified as also pertaining to the Bonds.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies.

2. non-payment related defaults.

3. modifications to rights of Holders.

4. optional, contingent or unscheduled bond calls.

5. defeasances.

6. rating changes.

7. adverse tax opinions or events affecting the tax-exempt status of the Bonds.

8. unscheduled draws on the debt service reserves reflecting financial difficulties.

9. unscheduled draws on the credit enhancements reflecting financial difficulties.

10. substitution of the credit or liquidity providers or their failure to perform.

11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly file a notice of such occurrence with the Repositories or provide notice of such reportable event to the Dissemination Agent in format suitable for filing with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Bond Resolution. The Dissemination Agent shall have no duty to independently prepare or file any report of Listed Events. The Dissemination Agent may conclusively rely on the District's determination of materiality pursuant to Section 5(b).

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Undertaking shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(a).

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent (or substitute Dissemination Agent) to assist it in carrying out its obligations under this Disclosure Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. A Dissemination Agent which is not the District may resign upon fifteen (15) days written notice to the District. Upon such resignation, the District shall act as its own Dissemination Agent until it appoints a successor. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Undertaking and shall not be responsible to verify the accuracy, completeness or materiality of any continuing disclosure information provided by the District. The District shall compensate the Dissemination Agent for its fees and expenses hereunder as agreed by the parties. Any entity succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the execution or filing of any paper or further act.

SECTION 8. Alternate Means of Disclosure. Notwithstanding the provisions of Sections 3, 4 and 5 requiring that the District file its Annual Report, notice of any Material Event and notice of any failure to comply with this Undertaking with each of the National Repositories and any State Repository, the District may instead comply with the provisions of this Undertaking by filing the required information with an entity then recognized by the Securities and Exchange Commission as eligible to receive filings and submit such filings to such National Repositories and any State Repository for purposes of the Rule (a "Central Post Office"). As of the date of this Disclosure Undertaking, the Central Post Office that has been so recognized by the Securities and Exchange Commission is:

DisclosureUSA.org
P.O. Box 684667
Austin, Texas 78768-4667
Fax: (512) 476-6403
http://www.disclosureUSA.org

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the District may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, provided that the District first obtain an opinion of Counsel that such amendment or waiver is permitted under the Rule.

In the event of any amendment or waiver of a provision of this Disclosure Undertaking, the District shall describe such amendment in the next Annual Report.

SECTION 10. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Undertaking. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Undertaking, the District shall have no obligation under this Disclosure Undertaking to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Undertaking, the sole remedy hereunder of any Holder or Beneficial Owner of the Bonds shall be any actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an event of default under the Bonds or any agreement entered into by the District in connection with the Bonds.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Undertaking. The Dissemination Agent acts hereunder solely for the benefit of the District; this Disclosure Undertaking shall confer no duties on the Dissemination Agent to the Participating Underwriter, the Holders and the Beneficial Owners. The District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent shall have no liability for the failure to report any event or any financial information as to which the District has not provided an information report in format suitable for filing with the Repositories. The Dissemination Agent shall not be required to monitor or enforce the District's duty to comply with its continuing disclosure requirements hereunder.

SECTION 13. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

* * *

Date: As of November 1, 2008

PALOMAR POMERADO HEALTH

By:____

Its: Chief Financial Officer

EXHIBIT A TO

CONTINUING DISCLOSURE UNDERTAKING

FORM OF NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor:	Palomar Pomerado Health
Name of Bonds:	$___________ Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2008A
Date of Issuance:	November __, 2008

NOTICE IS HEREBY GIVEN that Palomar Pomerado Health (the "District") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Undertaking of the District, dated as of November 1, 2008. [The District anticipates that the Annual Report will be filed by _____________.]

Dated:_______________

By:___________________________________
[Title], Palomar Pomerado Health

$[GO Par]
PALOMAR POMERADO HEALTH
General Obligation Bonds, Election of 2004, Series 2008A

BOND PURCHASE AGREEMENT

[November 13], 2008

North San Diego County Health Facilities Financing Authority
15255 Innovation Drive, Suite 204
San Diego, California 92128

Palomar Pomerado Health
15255 Innovation Drive, Suite 204
San Diego, California 92128

Ladies and Gentlemen:

Citigroup Global Markets Inc., (the "Underwriter"), offers to enter into this Bond Purchase Agreement (this "Purchase Agreement") with Palomar Pomerado Health (the "District") and North San Diego County Health Facilities Financing Authority (the "Authority") which, upon acceptance hereof, will be binding upon the District, the Authority and the Underwriter. This offer is made subject to the written acceptance of this Purchase Agreement by the District and the Authority and delivery of such acceptance to the Underwriter at or prior to 11:59 P.M., California time, on the date hereof.

Capitalized terms used in this Purchase Agreement and not otherwise defined herein shall have the meaning ascribed to such terms as set forth in the District Resolution (defined below).

1. Purchase and Sale of the Bonds. (a) Upon the terms and conditions and upon the basis of the representations, covenants and agreements hereinafter set forth, the Authority hereby agrees to purchase from the District, and the Authority hereby agrees to sell to the Underwriter for offering to the public, and the District hereby agrees to sell to the Authority, and the Underwriter hereby agrees to purchase from the Authority, all (but not less than all) of the $[GO Par] aggregate principal amount of the Palomar Pomerado Health, General Obligation Bonds, Election of 2004, Series 2008A (the "Bonds"). The Bonds maturing on August 1, 20[__] through 20[__] (the "Capital Appreciation Bonds") are being issued as capital appreciation bonds. The Capital Appreciation Bonds shall not be subject to redemption prior to their respective stated maturities and shall accrete interest at the approximate rates and shall mature in the years shown on Exhibit A-1 hereto, which is incorporated herein by this reference. The Bonds maturing on August 1, 20[__] through and including 20[__] (the "Current Interest Bonds") are being issued as current interest bonds. The Current Interest Bonds shall be subject to optional and mandatory redemption, shall bear interest at the rates and shall mature in the years all as set forth on Exhibit A-2 hereto, which is incorporated herein by this reference.

(b) The Underwriter shall purchase the Bonds at a price of $[________] consisting of: the principal amount of the Bonds $[________], [plus/minus] [net] original issue [discount] of

$[________] and less an Underwriter's discount of [________] (the "Purchase Price") [and less $[________], which is the premium for a financial guaranty insurance policy (the "Bond Insurance Policy") to be issued by [BOND INSURER] (the "Bond Insurer"), which amount the Underwriter shall wire transfer directly to the Bond Insurer. When issued, the Bond Insurance Policy will insure all Bonds].

(c) On the business day prior to the mailing of the Preliminary Official Statement (defined below), the District caused Deloitte & Touche LLP to deliver to the Underwriter: (i) an Agreed Upon Procedures Letter in a form acceptable to the Underwriter dated the business day prior to the mailing of the Preliminary Official Statement, addressed to the District and the Underwriter and including a statement to the effect that they are independent certified public accountants as defined in Rule 101 of the Code of Professional Ethics of the American Institute of Certified Public Accountants with respect to the District and (ii) a letter dated the date of the mailing of the Preliminary Official Statement stating they agree to the inclusion of their report dated [________], 2008 on the audited financial statements of PPH in the Preliminary Official Statement..

2. The Bonds. (a) The Bonds shall be dated the date of their delivery. The Bonds shall mature on August 1 in the years shown in Exhibit A-1 and Exhibit A-2 hereto, except as provided herein, and shall otherwise be as described in, and shall be issued and secured under the provisions of the resolution of the District adopted on [October 20], 2008 (the "District Resolution"), that certain Paying Agent Agreement, dated as of June 1, 2005 (the "Original Paying Agent Agreement"), between Wells Fargo Bank, National Association, as Paying Agent (the "Paying Agent"), and the District, as supplemented by the Second Supplemental Paying Agent Agreement, dated as of November 1, 2008 (the "Second Supplement" and the Original Paying Agent Agreement, as so supplemented, the "Paying Agent Agreement"), between the Paying Agent and the District, Measure BB approved by more than two-thirds of votes cast on such ballot measure at an election held in the District on November 2, 2004 (the "Measure BB"), the provisions of Sections 32000 *et seq.* of the Health and Safety Code of the State of California (the "Act") and other applicable provisions of law.

The Bonds are being sold to the Authority for immediate resale to the Underwriter pursuant to the resolution of the Authority adopted on [October 24], 2008 (the "Authority Resolution").

(b) Certain provisions for the optional and mandatory sinking fund redemption of the Current Interest Bonds not otherwise specified in the District Resolution are shown in Exhibit A-2 hereto.

(c) The Bonds shall be executed and delivered under and in accordance with the provisions of the Act, this Purchase Agreement, the District Resolution and the Paying Agent Agreement.

3. Use of Documents. The Authority and the District, as applicable, hereby authorize the Underwriter to use, in connection with the offer and sale of the Bonds, this Purchase Agreement, the Preliminary Official Statement and Official Statement (defined below), the District Resolution, the Authority Resolution, the Paying Agent Agreement and all information contained herein and therein and all of the documents, certificates or statements furnished by the District or the Authority to the Underwriter in connection with the transactions contemplated by this Purchase Agreement (except as such other documents otherwise provide).

4. Public Offering of the Bonds. The Underwriter agrees to make a bona fide public offering of all the Bonds at the initial public offering prices or yields to be set forth on the inside front cover page of the Official Statement and Exhibit A-1 and Exhibit A-2 hereto. The Underwriter also reserves the right (a) to over allot or effect transactions that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market, and (b) to discontinue such stabilizing, if commenced, at any time. A "bona fide public offering" shall include an offering to a representative number of institutional investors or registered investment companies regardless of the number of such investors to which the Bonds are sold.

5. Preliminary and Final Official Statement; Continuing Disclosure. (a) The Underwriter hereby represents that it has received and reviewed the Preliminary Official Statement with respect to the Bonds, dated [October 29], 2008 (the "Preliminary Official Statement"). The District represents that it deemed the Preliminary Official Statement to be final as of its date, except for such terms as may be omitted under Rule 15c2-12 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12").

(b) The Underwriter agrees that prior to the time the final Official Statement (as defined in Section 10(c)) relating to the Bonds is available, the Underwriter will send to any potential purchaser of the Bonds, upon the request of such potential purchaser, a copy of the Preliminary Official Statement. Such Preliminary Official Statement shall be sent by first class mail (or other equally prompt means) not later than the first business day following the date upon which each such request is received.

(c) The Underwriter hereby represents that it will provide, consistent with the requirements of Municipal Securities Rulemaking Board ("MSRB") Rule G-32, for the delivery of a copy of the Official Statement to each customer who purchases any Bonds during the underwriting period (as such term is defined in MSRB Rule G-11), and deliver a copy of the Official Statement to a national repository on or before the Closing Date, and that it will otherwise comply with all applicable statutes and regulations in connection with the offering and sale of the Bonds, including, without limitation, MSRB Rule G-32 and 17 CFR Section 240.15c2-12, promulgated by the Securities and Exchange Commission.

(d) References herein to the Preliminary Official Statement and the final Official Statement include the cover page and all appendices, exhibits, maps, reports and statements included therein or attached thereto.

(e) To assist the Underwriter in complying with Rule 15c2-12(b)(5), the District will undertake, under the District Resolution and a continuing disclosure undertaking (the "Continuing Disclosure Undertaking"), to provide annual reports and notices of certain events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

6. Closing. At 8:00 A.M., California time, on November [20], 2008, or at such other time or on such other date as are mutually agreed upon by the District, the Authority and Underwriter, (the "Closing Date"), the District will deliver or cause to be delivered to the Authority and the Authority shall redeliver to the Underwriter, through the facilities of The Depository Trust Company ("DTC"), the Bonds in fully registered book-entry form, duly executed and registered in the name of Cede & Co., as nominee of DTC, and at the offices of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, the other documents hereinafter mentioned; and the Underwriter will accept such delivery and pay the Purchase Price thereof[, less the premium for the Bond Insurance Policy,] in immediately available funds by wire transfer to the account of the Paying Agent.

7. Representations, Warranties and Agreements of the District. The District hereby represents, warrants and agrees with the Authority and the Underwriter that, as of the date hereof and as of the Closing Date:

(a) Due Organization. The District is a local health care district, duly organized and validly existing under Act, with the power to issue the Bonds under the Act and other applicable law.

(b) Due Authorization; Valid and Binding Obligations. (i) On or before the Closing Date, the District will have taken all action required to be taken by it to authorize the issuance, sale and delivery of the Bonds; (ii) the District had the requisite legal right, power and authority to enter into the Original Paying Agent Agreement and has requisite legal right, power and authority to issue the Bonds, to enter into this Purchase Agreement, the Second Supplement, the Continuing Disclosure Undertaking and the Tax Certificate of the District, dated the Closing Date (the "Tax Certificate") (hereinafter collectively referred to as the "Financing Documents"), to adopt the District Resolution, to execute the Official Statement and to observe, perform and consummate its obligations under the Bonds, the District Resolution and the Financing Documents and to observe, perform and consummate the transactions described in the Official Statement; (iii) the Bonds, the District Resolution and the Financing Documents constitute valid and legally binding obligations of the District enforceable in accordance with their respective terms; (iv) the District has taken all action required to be taken by it to duly authorize the approval, use, execution and delivery of the Official Statement; and (v) the District has the requisite legal right, power and authority to sell the Bonds to the Authority as provided in this Purchase Agreement.

(c) Consents. Except for the action of parties hereto, no consent, approval, authorization, order, filing, registration, qualification, election or referendum of or by any court or governmental agency or public body whatsoever is required in connection with the adoption of the District Resolution, the execution and delivery of the Financing Documents and the Official Statement, the issuance, delivery or sale of the Bonds or the consummation of the other transactions contemplated herein, hereby or by the Paying Agent Agreement, which have not been taken or obtained, except for such actions as may be necessary to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and jurisdictions of the United States as the Underwriter may reasonably request and except for such governmental authorizations, approvals, permits and consents relating to the construction of the improvements to be financed with the Bonds as may be required subsequent to the date hereof, all of which the District reasonably expects to obtain in ordinary course and at the times required.

(d) Internal Revenue Code. The District has covenanted to comply with the Internal Revenue Code of 1986, as amended, with respect to the Bonds.

(e) No Conflicts. The sale and issuance of the Bonds, and the execution, delivery and performance of the Financing Documents, the District Resolution and the Bonds, and the compliance with the provisions hereof and thereof: (i) do not and will not conflict with or constitute a violation of or default under, the Constitution of the State of California (the "State"), the Act, or any other existing law, charter, ordinance, regulation, decree, order or resolution; (ii) do not and will not conflict with or result in a violation or breach of, or constitute a default under, any agreement, indenture, mortgage, lease or other instrument to which the District is a party or by which it is bound or to which it is subject and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default under any such instrument; and (iii) nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon the *ad valorem* taxes to be levied and collected for payment of the Bonds or any such law, administrative regulation, judgment, decree, loan agreement, pledge agreement, indenture, bond, note, resolution, agreement or other instrument, except as expressly provided by the District Resolution.

(f) Approval, Licenses and Authorizations. The District has obtained, or in timely manner, will obtain, all approvals, licenses, permits, franchises or other governmental authorizations necessary in connection with any use to which proceeds from the sale of the Bonds will be applied, including, without limitation, any approvals or authorizations required under the California Environmental Quality Act, California Public Resources Code Sections 210002 to 211787 and the regulations thereunder (collectively, "CEQA").

(g) Litigation. No action, suit, proceeding, hearing or investigation, at law or in equity, is pending, or threatened, against or, to the knowledge of the District, affecting the District:

(i) in any way affecting the existence of the District or in any way challenging the respective powers of the Board of Directors of the District or the several officers of the District required to adopt the District Resolution, to execute the Bonds, the Financing Documents or any other documents or certificates in connection with the delivery of the Bonds or of the titles of the officials of the District to their respective offices; or

(ii) seeking to restrain or enjoin the sale, issuance or delivery of any of the Bonds, the application of the proceeds of the sale of the Bonds, or the levy and collection of *ad valorem* taxes of the District to pay the principal of and interest on the Bonds or the levy of any *ad valorem* taxes contemplated by the District Resolution, or in any way contesting or affecting the validity or enforceability of the Bonds, the Financing Documents or the District Resolution, or contesting in any way its authority to issue, enter into, adopt or perform its obligations under any of the foregoing, or contesting in any way the completeness or accuracy of the Official Statement, or any amendment or supplement thereto; provided however, for the purposes of this representation, performance of obligations does not include any obligation to construct any of the specific projects within the Facilities Master Plan described in the Official Statement; or

(iii) in which a final adverse decision, ruling or finding could (a) have a material adverse effect on the operations or finances of the District or the consummation of the transactions contemplated by the Financing Documents, the Official Statement, or the District Resolution, (b) declare the District Resolution, or the Financing Documents to be invalid or unenforceable in whole or in material part, or (c) adversely affect the exclusion of the interest paid on the Bonds from gross income for federal income tax purposes and the exemption of such interest from California personal income taxation.

(h) No Other Debt. Between the date hereof and the Closing Date, without the prior written consent of the Underwriter, neither the District directly, nor any other governmental agency or other body on behalf of the District, will have issued in the name and on behalf of the District any bonds, notes or other obligations for borrowed money except for such borrowings as may be described in or contemplated by the Official Statement.

(i) Continuing Disclosure**.** Except as disclosed in the Official Statement, the District has never failed to comply in all material respects with any prior undertakings under Rule 15c2-12(b)(5).

(j) Certificates. Any certificates signed by any officer of the District and delivered to the Underwriter shall be deemed a representation by the District to the Underwriter, but not by the person signing the same, as to the statements made therein.

(k) Official Statement Accurate and Complete. The Preliminary Official Statement, as of date thereof, did not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, excepting therefrom the information in the Preliminary Official Statement describing the Authority, The Depository Trust Company and its Book-Entry-Only System and the Debt Report (as defined in the Preliminary Official Statement) (collectively, the "POS Excepted Portions"). At the date hereof and on the Closing Date, the final Official Statement (excluding the POS Excepted Portions [and information in the Official Statement describing the Bond Insurance Policy and the Bond Insurer], such information together [with the POS Excepted Portions] being hereinafter collectively referred to as the "Excepted Portions") did not and will not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided however, the District makes no representation or warranty as to the information contained in or omitted from the Preliminary Official Statement or the final Official Statement in reliance upon and in conformity with information furnished in writing to the District by or on behalf of the Underwriter through a representative of the Underwriter specifically for inclusion therein.

(l) Valid and Binding Agreements. At the Closing Date, the Bonds and the Financing Documents will have been duly authorized, executed and delivered by the District and will constitute valid, binding and enforceable obligations of the District in accordance with their respective terms except as the same may be limited by bankruptcy, insolvency and other laws affecting creditors' rights generally and except as the enforceability of indemnification provisions of this Purchase Agreement may be limited by applicable law.

(m) Audited Financials. The audited financial statements of the District which appear in Appendix B to the Official Statement: (i) fairly present the financial position and results of operations of the District at the respective dates and for the respective periods indicated therein in accordance with the generally accepted accounting principles applicable to health care districts ("GAAP"), (ii) to the best of the District's knowledge, have been prepared in accordance with GAAP consistently applied throughout the periods concerned (except as otherwise disclosed in the notes to such audited financial statements); and the financial statements of the District as of and for the years ending June 30, 2008 and 2007 included in the Official Statement in Appendix B have been audited by Deloitte & Touche LLP, independent auditors, and their report thereon appears in Appendix B to the Official Statement. Since June 30, 2008, the District has not incurred any material liabilities, direct or contingent, nor has there been any material adverse change in the financial position, results of operations, or conditions, financial or otherwise, of the District that is not described in the Official Statement, whether or not arising from transactions in the ordinary course of business.

(n) No Defaults. The District is not now and has never been in default in the payment of principal of, or premium or interest on, or otherwise in default with respect to, any bonds, notes, financing leases or other obligations which it has issued, assumed or guaranteed as to payment of principal, premium or interest. The District has no knowledge of any event which has occurred or is continuing that, with the lapse of time or the giving of notice or both, would constitute an event of default under any such bonds, notes, financing leases or other obligations. No event has occurred or is continuing that, upon the execution and delivery of the Bonds, would constitute an event of default pursuant to the Financing Documents, or which, with the lapse of time or the giving of notice or both, would constitute an event of default.

8. Representations, Warranties and Agreements of the Authority. The Authority hereby represents, warrants and agrees with the District and the Underwriter that, as of the date hereof and as of the Closing Date:

(a) The Authority is a joint exercise of powers authority, duly organized and validly existing under the Sections 6500 et seq. of the Government Code of the State (the "JPA Act") and under a Joint Exercise of Powers Agreement, dated May 27, 2005 (the "JPA Agreement"), between the District and Tri-City Healthcare District. Pursuant to a resolution adopted by the Grossmont Healthcare District ("Grossmont") on April 20, 2007 and accepted by the Authority on May 11, 2007, Grossmont became a member of the Authority.

(b) The Authority is duly authorized and has requisite legal right, power and authority to purchase the Bonds from the District, and to sell and to redeliver the Bonds to the Underwriter as provided in this Purchase Agreement.

(c) The Authority has requisite legal right, power and authority to adopt the Authority Resolution, to enter into this Purchase Agreement, and to observe, perform and consummate the covenants and agreements made in this Purchase Agreement to be observed, performed and consummated by the Authority.

(d) The Authority has duly adopted the Authority Resolution in accordance with its JPA Agreement, its bylaws and applicable law.

(e) The statements and information contained in the Official Statement under the caption "THE AUTHORITY" are true and accurate in all material respects and fairly presents the information purported to be shown or summarized therein.

9. Representations, Warranties and Agreements of the Underwriter. The Underwriter represents to and agrees with the District and the Authority that, as of the date hereof and as of the Closing Date:

(a) The Underwriter is duly authorized to execute this Purchase Agreement and to take any action under this Purchase Agreement required to be taken by it.

(b) The Underwriter is in compliance with MSRB Rule G-37 with respect to the District and the Authority, and is not prohibited thereby from acting as underwriter with respect to the Bonds.

(c) The Underwriter has, and has had, no financial advisory relationship with the District or the Authority with respect to the Bonds, and no investment firm controlling, controlled by or under common control with the Underwriter has or has had any such financial advisory relationship.

10. Covenants of the District. The District covenants and agrees with the Authority and the Underwriter that:

(a) Securities Laws. The District will furnish such information, execute such instruments, and take such other action in cooperation with the Underwriter if and as the Underwriter may reasonably request in order to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and jurisdictions, provided, however, that the District shall not be required to consent to service of process in any jurisdiction in which it is not so subject as of the date hereof.

(b) Application of Proceeds. The District will apply the proceeds from the sale of the Bonds for the purposes for which the Bonds were authorized and as provided in the Paying Agent Agreement.

(c) Official Statement. The District hereby agrees to deliver or cause to be delivered to the Underwriter, not later than the ____ business day following the date this Purchase Agreement is signed, and in sufficient time to accompany any confirmation that requests payment from a customer, copies of a final Official Statement substantially in the form of the Preliminary Official Statement, with only such changes therein as are accepted by the Underwriter and the District (such Official Statement with such changes, if any, and including the cover page and all appendices, exhibits, maps, reports and statements included therein or attached thereto being herein called the "Official Statement") in such quantities (including a representative number of originally executed copies) as may be requested by the Underwriter in order to permit the Underwriter to comply with paragraph (b)(4) of Rule 15c2-12 and with the rules of the Municipal Securities Rulemaking Board. Such Official Statement shall contain all information previously permitted to be omitted by Rule 15c2-12.

(d) If, between the date of this Purchase Agreement and up to and including the 25th day following the "end of the underwriting period" (as such term is defined in Rule 15c2-12(f)(2)) any event occurs, of which the District has knowledge, or information becomes known to the District, which might or would cause the Official Statement, as then supplemented or amended, to contain an untrue statement of the material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, then (i) the District shall promptly notify the Underwriter of such event, and (ii) if in the opinion of the Underwriter, such event requires the preparation and publication of a supplement or amendment to the Official Statement, then the District shall amend or supplement the Official Statement in a form and in a manner approved by the Underwriter, provided all expense thereby incurred will be paid by the District.

For the purposes of subdivisions (d) and (f), the District may assume that the "end of the underwriting period" for the purposes of Rule 15c2-12 will occur on the date of the Closing unless otherwise notified, in writing, by the Underwriter on or prior to the date of Closing.

(e) If the information contained in the Official Statement is amended or supplemented pursuant to subparagraph (d), at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date of the Closing, the portions of the Official Statement so supplemented or amended, excluding the Excepted Portions, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading.

(f) From the date of the final Official Statement through twenty-five (25) days from the date of the end of the underwriting period (as such term is defined in Rule 15c2-12)), (i) the District shall not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter shall reasonably object in writing and (ii) if any event shall occur or information becomes known as a result of which it is necessary, in the opinion of the Underwriter, to amend or supplement the Official Statement in order to make the Official Statement true and correct in all material respects and not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, then the District shall forthwith prepare and furnish to the Underwriter (at the expense of the District for ninety (90) days from the date of Closing, and thereafter at the expense of the Underwriter) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to the Underwriter) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances existing at the time the Official Statement is delivered to a purchaser, not misleading.

(g) Levy of Tax; Payment of Bonds. The District hereby agrees to take any and all actions as may be required by San Diego County (the "County") or otherwise necessary in order to arrange for the levy and collection of *ad valorem* taxes to pay the Bonds when due.

11. Conditions to Closing. The obligation of the Underwriter to accept delivery of and pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations, warranties and agreements on the part of the District and Authority contained herein as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the officers and other officials of the District and Authority made in any certificates or other documents furnished pursuant to the provisions hereof, and to the performance by the District and Authority of its respective obligations to be performed hereunder on or prior to the Closing Date, and to the following additional conditions:

(a) Obligations Performed. As of the Closing Date, (i) the Official Statement, the District Resolution, Authority Resolution, and the Financing Documents must be in full force and effect and may not have been amended, modified or supplemented from the forms thereof previously provided to the Underwriter except as agreed to in writing by the Underwriter, which agreement will not be unreasonably withheld, conditioned or delayed; (ii) all actions under the Act, the JPA Act and other laws which, in the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), are necessary or appropriate in connection with the Bonds and the transactions contemplated by the Financing Documents and the Official Statement prior to the issuance of the Bonds must have been duly taken and must be in full force and effect; (iii) the District must have performed all of its obligations required under or specified in the District Resolution, this Purchase Agreement or the Official Statement to be performed at or prior to the Closing Date, and (iv) the Authority must have performed all of its obligations required under or specified in the Authority Resolution, this Purchase Agreement or the Official Statement to be performed at or prior to the Closing Date.

(b) Official Statement. At the Closing Date, the Official Statement shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter, which agreement will not be unreasonably withheld, conditioned or delayed.

(c) Adverse Rulings. No decision, ruling or finding has been entered by any court or governmental authority since the date of this Purchase Agreement (and not reversed on appeal or otherwise set aside), or to the best knowledge of the District or Authority, pending or threatened which would constitute a ground for termination of this Purchase Agreement by the Underwriter or which contests in any way the completeness or accuracy of the Official Statement.

(d) Delivery of Documents. On or before the Closing Date, sufficient copies of the following documents, in each case dated as of the Closing Date and reasonably satisfactory in form and substance to the Underwriter, shall be provided to the Underwriter:

(i) *Legal Opinion of Bond Counsel*. An approving opinion of Bond Counsel, as to the validity and tax-exempt status of the Bonds, dated the Closing Date, addressed to the District, in substantially the form appended to the Official Statement.

(ii) *Supplemental Opinion of Bond Counsel*. A supplemental opinion of Bond Counsel addressed to the Underwriter, dated the Closing Date substantially in the form attached hereto as Exhibit C.

(iii) *Underwriter's Counsel Opinion*. The opinion of Squire, Sanders & Dempsey L.L.P., as counsel to the Underwriter ("Underwriter's Counsel"), in form and substance satisfactory to the Underwriter, addressed to the Underwriter, dated the Closing Date, to the effect that:

(A) during the course of serving as Underwriter's Counsel in connection with the issuance of the Bonds and without having undertaken to determine independently or assuming any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, no information came to the attention of the attorneys in such firm rendering legal services in connection with the issuance of the Bonds that would lead them to believe that the Official Statement (excluding therefrom any financial statements, statistical data or forecasts, numbers, charts, estimates, projections, real property values, assumptions, expressions of opinion, information regarding [the Bond Insurer], The Depository Trust Company and its book-entry system, and Appendices B, C, D, F [,/and] G [and H] to the Official Statement, as to which no opinion need be expressed), as of the date thereof or the Closing Date, contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(B) the Bonds are exempt from registration under the Securities Act of 1933, as amended, and the District Resolution and the Paying Agent Agreement are exempt from registration under the Trust Indenture Act of 1939, as amended; and

(C) the Continuing Disclosure Undertaking satisfies Section (b)(5)(i) of Rule 15c2-12, which requires an undertaking for the benefit of the holders, including beneficial owners, of the Bonds to provide certain annual financial information and event notices to various information repositories at the time and in the manner required by the Rule.

(iv) *District Counsel Opinions*. The opinion of Janine Sarti, Esq., as general counsel to the District, dated the Closing Date, substantially in the forms attached hereto as Exhibit D.

(v) *Authority Counsel Opinion*. The opinion of Orrick Herrington & Sutcliffe LLP, as counsel to the Authority, dated the Closing Date, substantially in the form attached hereto as Exhibit E.

(vi) *Certificate of the District*. A certificate signed by an appropriate official of the District to the effect that:

(A) each of the Financing Documents, the Official Statement and the Bonds have been duly executed and delivered by an official of the District authorized to execute the Bonds and each such document;

(B) the representations, agreements and warranties of the District in the Financing Documents are true and correct in all material respects as of the date of Closing;

(C) the District has complied with all applicable terms of the Act, the JPA Act and other laws of the State, and of the Financing Documents, which are necessary to be complied with prior to or before the Closing Date and such Financing Documents are in full force and effect;

(D) the District has reviewed the Official Statement and on such basis certifies that the Official Statement, excluding the Excepted Portions, does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading;

(E) the Bonds being delivered on the Closing Date to the Underwriter under this Purchase Agreement substantially conform to the descriptions thereof contained in the District Resolution and Official Statement;

(F) no event has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement thereto, but should be disclosed in order to the make the statements in the Official Statement, in light of the circumstances in which they were made, not misleading;

(G) since June 30, 2008, no material and adverse change has occurred in the financial position or results of operation of the District that is not described in or contemplated by the Official Statement;

(H) since June 30, 2008, the District has not incurred any material liabilities other than in the ordinary course of business which are not described in or contemplated by this Official Statement; and

(I) the District Resolution authorizes the execution and delivery by the District of the Financing Documents and approval of the Official Statement and the execution and distribution thereof.

(vii) *Certificate of the Authority*. A certificate signed by an appropriate official of the Authority to the effect that:

(A) this Purchase Agreement has been duly executed and delivered by an official of the Authority authorized to execute such document;

(B) the representations, agreements and warranties of the Authority herein are true and correct in all material respects as of the Closing Date;

(C) the Authority has complied with all the terms of the JPA Act and other laws of the State and the Authority Resolution and this Purchase Agreement, which are necessary to be complied with prior to the Closing Date and the Purchase Agreement is in full force and effect; and

(D) no event affecting the Authority has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect.

(viii) *Certificate of the Paying Agent.* A certificate signed by an appropriate officer of the Paying Agent to the effect that:

(A) the Paying Agent is duly organized and validly existing as a national banking association in good standing under the laws of the United States, having the full power, including trust powers, and authority to enter into and perform its duties under the Paying Agent Agreement;

(B) the Paying Agent has duly authorized, executed and delivered the Paying Agent Agreement;

(C) the Bonds were examined by the Paying Agent and found to be in the form required by the Paying Agent Agreement and were authenticated in the name of an on behalf of an authorized signatory of the Paying Agent; and

(D) to the best knowledge of the Paying Agent, after due inquiry, there is no action, suit, proceeding or investigation, at law or in equity, before or by any court or governmental agency, public board or body pending against the Paying Agent or threatened against the Paying Agent, which in the reasonable judgment of the Paying Agent would affect the existence of the Paying Agent, or in any way contesting or affecting the validity or enforceability of the Paying Agent Agreement or contesting the powers of the Paying Agent or its authority to enter into and perform its obligations under the Paying Agent Agreement.

(ix) *Tax Certificate and IRS Form 8038*. A Tax Certificate of the District and IRS Form 8038, in a form satisfactory to Bond Counsel.

(x) *District Resolution*. A certificate, together with a fully executed copy of the District Resolution, of the Secretary of the District Board of Directors to the effect that:

(A) such copy is a true and correct copy of the District Resolution; and

(B) the District Resolution was duly adopted and has not been modified, amended, rescinded or revoked and is in full force and effect on the Closing Date.

(xi) *Election Proceedings.* Certificates of:

(A) The Secretary of the District Board of Directors certifying:

(i) Resolution No. 08.04.04(01)-8 adopted by the Board on August 4, 2004, calling and providing for a special election to be held on November 2, 2004 with respect to Measure BB; and

(ii) Acceptance of results therefrom;

(B) The Registrar of Voters, County of San Diego, certifying:

(i) Notice of Date Fixed for Submitting Arguments;

(ii) Excerpt of San Diego County Administrative Code Authorizing Consolidation of Election;

(iii) Sample Ballot and Other Election Materials Mailed to Voters; and

(iv) Certified Statement of Results of Election.

(xii) *Authority Resolution*. A certificate, together with a fully executed copy of the Authority Resolution, of the Secretary of the governing body of the Authority to the effect that:

(A) such copy is a true and correct copy of the Authority Resolution; and

(B) the Authority Resolution was duly adopted and has not been modified, amended, rescinded or revoked and is in full force and effect on the Closing Date.

(xiii) *Official Statement*. Two copies of Official Statement executed by an appropriate official of the District.

(xiv) A certificate, together with a fully executed copy of the Original Paying Agent Agreement, of the Secretary of the District Board of Directors to the effect that:

(A) such copy is a true and correct copy of the Original Paying Agent Agreement; and

(B) the Original Paying Agent Agreement was duly executed and delivered and, other than as supplemented by the First Supplemental Paying Agent Agreement, dated as of December 1, 2007, between the District and the Paying Agent and the Second Supplement, has not been modified, amended, rescinded or revoked and is in full force and effect on the Closing Date.

(xv) A fully executed copy of the Second Supplement.

(xvi) *Continuing Disclosure Undertaking*. A fully executed Continuing Disclosure Undertaking of the District in a form satisfactory to the Underwriter which complies with S.E.C. Rule 15c2-12(b)(5), in substantially the form appended to the Official Statement.

(xvii) *DTC*. The Blanket Issuer Letter of Representations of the District, received and accepted by DTC.

(xviii) *Ratings*. Evidence that [the Bonds have been rated "[___]" by Fitch Ratings ("Fitch"), "[___]" by Moody's Investors Service ("Moody's") and "[___]" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. ("S&P") based on the Bond Insurance Policy; and that] the Bonds have been issued [underlying] ratings of "[___]" by Fitch, "[___]" by Moody's and "[___]" by S&P.

(xix) *Underwriter's Certifications*. At or before Closing, and contemporaneously with the acceptance of delivery of the Bonds and the payment of the Purchase Price thereof, [less the premium for the Bond Insurance Policy, which the Underwriter agrees to pay directly to the Bond Insurer,] the Underwriter will provide (or cause to be provided) to the District and the Authority:

(A) the receipt of the Underwriter, in form satisfactory to the District and the Authority and signed by an authorized officer of the Underwriter, confirming delivery of the Bonds to the Underwriter, receipt of all documents required by the Underwriter, and the satisfaction of all conditions and terms of this Purchase Agreement by the District and the Authority, respectively, and confirming to the District and the Authority that as of the Closing Date all of the representations of the Underwriter contained in this Purchase Agreement are true, complete and correct in all material respects;

(B) the certification of the Underwriter, in form satisfactory to Bond Counsel, regarding the prices at which the Bonds have been reoffered to the public, as described in Section 4 hereof; and

(C) [the certification of the Underwriter, in form satisfactory to Bond Counsel, that the present value of the interest saved as a result of the Bond Insurance Policy exceeds the premium paid for said Bond Insurance Policy, and said premium is not unreasonable.]

(xx) [Copy of fully executed Bond Insurance Policy issued by the Bond Insurer.]

(xxi) A letter of Deloitte & Touche, dated the Closing Date, to the effect that they agree to the inclusion of their report dated [_______], 2008, on the audited financial statements of the District in the final Official Statement; and a bring down of the letter described in Section 1(c)(i) herein, dated the Closing Date;.

(xxii) [A certificate of an authorized representative of the Bond Insurer, in form and substance satisfactory to Bond Counsel and Underwriter, with respect to the information contained in the Official Statement describing the Bond Insurer and its Bond Insurance Policy.]

(xxiii) [An opinion of counsel to the Bond Insurer with respect to its Bond Insurance Policy, addressed to the District and the Underwriter and in form and substance satisfactory to Bond Counsel and Underwriter.]

(xxiv) *Other Documents*. Such additional legal opinions, certificates, proceedings, instruments and other documents as the Underwriter or Bond Counsel may reasonably request to evidence (A) compliance by the District and the Authority with all requirements of the Act, the JPA Act and all other legal requirements, (B) the truth and accuracy, as of the time of Closing, of the representations of the District and the Authority herein contained and of the statements and information contained in the Official Statement, and (C) the due performance or satisfaction by the District and the Authority at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the District and the Authority.

All of the opinions, letters, certificates, instruments and other documents mentioned in this Purchase Agreement shall be deemed to be in compliance with the provisions of this Purchase Contract if, but only if, they are in form and substance reasonably satisfactory to the Underwriter and Underwriter's Counsel.

(e) <u>Cancellation</u>. If the District or the Authority is unable to satisfy the conditions to the Underwriter's obligations contained in this Purchase Agreement or if the Underwriter's obligations are terminated for any reason permitted by this Purchase Agreement, then this Purchase Agreement may be canceled by the

Underwriter at, or at any time prior to, the Closing Date. Notice of cancellation shall be given to the District and the Authority in writing, including by facsimile, or by telephone and confirmed in writing. Notwithstanding any provision herein to the contrary, the performance of any and all obligations of the District and the Authority under this Purchase Agreement and the performance of any and all conditions contained in this Purchase Agreement for the benefit of the Underwriter may be waived by the Underwriter in writing at its sole discretion.

12. Underwriter's Right to Terminate. (a) Notwithstanding anything to the contrary herein contained, if for any reason whatsoever the Bonds have not been delivered by the District to the Authority and re-delivered by the Authority to the Underwriter prior to 10:00 a.m. Pacific Standard Time, on the Closing Date, then the Underwriter shall have the right to terminate its obligation to purchase Bonds hereunder, without liability therefor, by notice to the District and the Authority.

(b) In addition, the Underwriter has the right to terminate this Purchase Agreement, without liability therefor, by notice to the District and the Authority at any time at or prior to the Closing, upon the occurrence of any Termination Event as described in Exhibit B.

13. Conditions to Obligations of the District. The performance by the District of its obligations is conditioned upon (i) the performance by the Authority, [the Bond Insurer,] and the Underwriter of their obligations hereunder; and (ii) receipt by the District of opinions and certificates being delivered on the Closing Date by persons or entities other than the District, District counsel and the Underwriter.

14. Conditions to Obligations of the Authority. The performance by the Authority of its obligations is conditioned upon (i) the performance by the District and the Underwriter of their respective obligations hereunder; and (ii) receipt by the Authority of opinions and certificates being delivered on the Closing Date by persons and entities other than the Authority and the Underwriter.

15. Indemnification Provisions. (a) To the extent permitted by law, the District agrees to indemnify and hold harmless the Authority, the directors, officers, employees and agents of the Authority and the Underwriter, the directors, officers, employees and agents of the Underwriter and each person who controls the Underwriter within the meaning of either the Securities Act of 1933, as amended (the "Securities Act") or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the Securities Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Official Statement or the final Official Statement (or in any supplement or amendment thereto), or arise out of or are based upon the omission or alleged omission to state in the Preliminary Official Statement or the final Official Statement a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and agrees to reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; *provided, however,* that the District will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made in the Preliminary Official Statement or the final Official Statement (or in any supplement or amendment thereto), in reliance upon and in conformity with written information furnished to the District by or on behalf of the Underwriter through a representative of the Underwriter specifically for inclusion therein [or in reliance upon and in conformity with written information furnished to the District by or on behalf of the Bond Insurer specifically for inclusion therein]. This indemnity agreement will be in addition to any liability which the District may otherwise have.

(b) The Underwriter agrees to indemnify and hold harmless the District and the Authority, each of their respective officials, directors, officers and employees, and each person who controls the District or the Authority within the meaning of either the Securities Act or the Exchange Act, to the same extent as the foregoing indemnity from the District and the Authority to the Underwriter, but only with reference to written information relating to the Underwriter furnished to the District or the Authority by or on behalf of the Underwriter through a representative of the Underwriter specifically for inclusion in the Preliminary Official Statement or the final Official Statement (or in any amendment or supplement thereto). This indemnity agreement will be in addition to any liability which the Underwriter may otherwise have. The District and the Authority acknowledge that the statement set forth in the preface of the Preliminary Official Statement and of the final Official Statement regarding the Underwriter's involvement in the preparation of the Official Statement, and the information under the caption "UNDERWRITING," constitute the only information furnished in writing by or on behalf of the Underwriter for inclusion in the Preliminary Official Statement or the final Official Statement (or in any amendment or supplement thereto).

(c) Promptly after receipt by an indemnified party under this Section 15 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 15, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a) or (b) above unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the indemnifying party of substantial rights and defenses; and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. The indemnifying party shall be entitled to appoint counsel of the indemnifying party's choice at the indemnifying party's expense, to represent the indemnified party in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the indemnified party or parties except as set forth below); *provided, however,* that such counsel shall be reasonably satisfactory to the indemnified party. Notwithstanding the indemnifying party's election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel if:

(i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest;

(ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party;

(iii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action; or

(iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party.

An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding.

(d) If the indemnity provided in paragraph (a) or (b) of this Section 15 is unavailable to or insufficient to hold harmless an indemnified party for any reason, the District and the Underwriter agree to contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) (collectively "Losses") to which the District and the Underwriter may be subject in such proportion as is appropriate to reflect the relative benefits received by the District on the one hand and by the Underwriter on the other from the offering of the Bonds. If the allocation provided by the immediately preceding sentence is unavailable for any reason, the District and the Underwriter shall contribute in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the District on the one hand and of the Underwriter on the other in connection with the statements or omissions which resulted in such Losses, as well as any other relevant equitable considerations. In no case shall the Underwriter be responsible for any amount in excess of the purchase discount or commission applicable to the Bonds purchased by the Underwriter hereunder. Benefits received by the District shall be deemed to be equal to the total net proceeds from the offering (before deducting expenses) received by it, and benefits received by the Underwriter shall be deemed to be equal to the Underwriter's discount. Relative fault shall be determined by reference to, among other things, whether any untrue or any alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information provided by the District on the one hand or the Underwriter on the other, the intent of the parties and their relative knowledge, information and opportunity to correct or prevent such untrue statement or omission. The District and the Underwriter agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph (d), no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 15, each person who controls the Underwriter within the meaning of either the Securities Act or the Exchange Act and each director, officer, employee and agent of the Underwriter shall have the same rights to contribution as the Underwriter, and each person who controls the District within the meaning of either the Securities Act or the Exchange Act and each official, director, officer and employee of the District shall have the same rights to contribution as the District, subject in each case to the applicable terms and conditions of this paragraph (d).

16. Expenses.

(a) The District shall pay all expenses of the District and the Authority incident to the performance of their obligations in connection with the authorization, issuance and sale of the Bonds to the Underwriter, including, without limitation: [premiums and cost of the Bond Insurance Policy;] fees and expenses of the District's financial advisor and any other consultants retained by the District or Authority; fees of DTC; fees and expenses of rating agencies; the printing, publishing and electronic distribution costs related to the preparation and distribution of the Preliminary Official Statement and the Official Statement; and fees and expenses of Bond Counsel and of District's Counsel. All fees and expenses to be paid by the District pursuant to this Purchase Agreement may be paid from Bond proceeds to the extent permitted by the District Resolution, the Paying Agent Agreement and the Tax Certificate.

(b) All expenses of selling the Bonds, all out-of-pocket expenses of the Underwriter, including, without limitation, travel and other expenses, fees and expenses of Underwriter's Counsel, CUSIP Service Bureau charges, California Debt and Investment Advisory Commission fees, any fees charged by the Municipal Securities Rulemaking Board and blue sky fees shall be paid by the Underwriter.

(c) The District shall also pay for expenses (included in the expense component of the spread) incurred on behalf of the District's employees which are incidental to implementing this Purchase Agreement, including, but not limited to, meals, transportation, lodging, and entertainment of those employees, and the District shall reimburse the Underwriter if the Underwriter pays for any such expenses on behalf of the District.

17. Notices. Any notice or other communication to be given under this Purchase Agreement (other than the acceptance hereof as specified in the first paragraph hereof) may be given by delivering the same in writing if to the District, to Palomar Pomerado Health, 15255 Innovation Drive, Suite 204, San Diego, California 92128, Attn: Robert Hemker and Janine Sarti; if to the Authority, to North San Diego County Health Facilities Financing Authority, c/o Palomar Pomerado Health, 15255 Innovation Drive, Suite 204, San Diego, California 92128, Attn: Robert Hemker; or if to the Underwriter, to Citigroup Global Markets Inc., 444 South Flower Street, 27th Floor, Los Angeles, California 90071, Attn: Robert Barna.

18. Parties in Interest; Survival of Representations, Agreements and Warranties. This Purchase Agreement when accepted by the District and the Authority in writing as heretofore specified shall constitute the entire agreement between the District, the Authority and the Underwriter. This Purchase Agreement is made solely for the benefit of the District, the Authority and the Underwriter (including the successors or assigns of the Underwriter). No person shall acquire or have any rights hereunder or by virtue hereof. All representations, warranties and agreements of the District and the Authority in this Purchase Agreement shall survive regardless of (a) any investigation or any statement in respect thereof made by or on behalf of the Underwriter, and (b) delivery of and payment by the Underwriter for the Bonds hereunder.

19. Severability. If any provision of this Purchase Agreement is held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision thereof.

20. Non-assignment. Notwithstanding anything stated to the contrary herein, none of the parties hereto may assign or transfer its interest herein, or delegate or transfer any of its obligations hereunder, without the prior consent of the other parties hereto.

21. Entire Agreement. This Purchase Agreement, when executed by the parties hereto, shall constitute the entire agreement of the parties hereto, including their permitted successors and assigns, respectively.

22. Execution in Counterparts. This Purchase Agreement may be executed in several counterparts each of which shall be regarded as an original and all of which shall constitute but one and the same document.

[Reminder of Page Intentionally Left Blank]

23. Applicable Law. This Purchase Agreement shall be interpreted, governed and enforced in accordance with the law of the State applicable to contracts made and performed in such State.

Very truly yours,

CITIGROUP GLOBAL MARKETS INC.

By:______________________________________
Its: Director

The foregoing is hereby agreed to and accepted as of the date first above written:

PALOMAR POMERADO HEALTH

By:_________________________________
Its: Chief Financial Officer

NORTH SAN DIEGO COUNTY
HEALTH FACILITIES FINANCING AUTHORITY

By:_________________________________
Its: Treasurer/Controller

EXHIBIT A-1

ACCRETION RATES AND MATURITY DATES FOR THE CAPITAL APPRECIATION BONDS

$[_____________] CAPITAL APPRECIATION BONDS

Maturity (August 1)	Initial Principal Amount	Accretion Rate (approximate)	Accreted Value at Maturity	Yield to Maturity	Price
	$		$		

EXHIBIT A-2

INTEREST RATES, MATURITIES AND REDEMPTION PROVISIONS FOR THE CURRENT INTEREST BONDS

$[_____________] CURRENT INTEREST BONDS

A. Interest Rates and Maturities

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP(1)

$________ ___% Term Bonds due August 1, ____ – Yield ____%(1) CUSIP

B. Redemption Provisions

Optional Redemption

The Current Interest Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of funds, in whole or in part on August 1, 20[__], or on any date thereafter at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption

The Current Interest Bonds maturing on August 1, 20[__] and bearing interest at a rate of [_____]% are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, beginning August 1, 20[__], at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium. The principal amount represented by such Current Interest Bonds to be so redeemed and the dates therefor and the final principal payment date is as indicated in the following table:

Redemption Date (August 1)	Principal Amount

*Maturity.

C. Terms Specified to be provided pursuant to Section 6589 of the Government Code of the State of California:

Minimum Rate of Interest:	Set forth in Section A above.
Costs of Issuance:	$[___________] [(including the premium for the Bond Insurance Policy)]
Amount of Required Reserve:	No Required Reserve.
Procedure to be used in case of default:	Set forth in Paying Agent Agreement, dated as of June 1, 2005, between Palomar Pomerado Health and Wells Fargo Bank, National Association, as paying agent, as supplemented by the First Supplemental Paying Agent Agreement, dated as of December 1, 2007 and the Second Supplemental Paying Agent Agreement, dated as of November 1, 2008.

EXHIBIT B

TERMINATION EVENTS

The following events are each defined as Termination Events for all purposes of this Purchase Agreement:

(a) any event occurs, or information becomes known, which, in the reasonable opinion of the Underwriter, causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading; or

(b) the marketability of the Bonds or the market price thereof, in the reasonable opinion of the Underwriter, has been materially adversely affected by any of the following:

(i) an amendment to the Constitution of the United States, or by any legislation pending in or enacted by the Congress of the United States, or by any legislation pending in or enacted by the State of California, or

(ii) the amendment of legislation pending as of the date of this Purchase Agreement in the Congress of the United States, or

(iii) the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or

(iv) the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or

(v) any decision of any Federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority,

which materially adversely affects the federal or State tax status of the District, or the interest on bonds or notes or obligations of the general character of the Bonds; or

(c) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State of California, or a decision by any court of competent jurisdiction within the State of California or any court of the United States shall be rendered which, in the opinion of the Underwriter, materially adversely affects the market price of the Bonds; or

(d) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that obligations of the general character of the Bonds, or the Bonds, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the District Resolution or Paying Agent Agreement needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(e) additional material restrictions not in force as of the date hereof are imposed upon trading in securities generally by any governmental authority or by any national securities exchange which restrictions, in the reasonable opinion of the Underwriter, materially adversely affect the Underwriter's ability to trade the Bonds; or

(f) a general banking moratorium has been established by federal or State of California authorities; or

(g) there occurs any outbreak or escalation of hostilities, declaration by the United States of a national emergency or war or other calamity or crisis, the effect of which on financial markets is such as to make it, in the sole yet reasonable judgment of the Underwriter, impractical or inadvisable to proceed with the offering or delivery of the Bonds as contemplated by the final Official Statement (exclusive of any amendment or supplement thereto); or

(h) any rating of the Bonds or other debt obligations of the District **[or the Bond Insurer]** has been downgraded, suspended or withdrawn by a national rating service or a negative qualification (e.g., "credit watch" or "negative outlook" designation) or other announcement made by a national rating service that the Bonds or other debt obligations of the District **[or the Bond Insurer]** are under review without indication of a potentially favorable result, which, in the reasonable opinion of the Underwriter, materially adversely affects the marketability or market price of the Bonds; or

(i) the commencement of any action, suit or proceeding which, in the opinion of the Underwriter, materially adversely affects the market price of the Bonds; or

(j) there is in force a general suspension of trading on the New York Stock Exchange; or

(k) a material disruption in securities settlement, payment or clearance services in the United States has occurred, or

(l) there occurs any other event which, in the reasonable opinion of the Underwriter, materially adversely affects the marketability of the Bonds at the rates set forth in Exhibit A-1 or A-2.

EXHIBIT C

PROPOSED SUPPLEMENTAL OPINION OF BOND COUNSEL

[TO BE PROVIDED BY ORRICK]

EXHIBIT D

PROPOSED OPINION OF DISTRICT COUNSEL

[Form of opinion to be provided by Janine Sarti, Esq. to include the opinions listed herein]

1. The District is a local health care district validly existing under The Local Health Care District Law ("District Act") with local health care district power and authority to adopt the Bond Resolution, issue the Bonds, execute and deliver the Official Statement, and enter into the Financing Documents and perform its obligations thereunder.

2. The Bond Resolution was duly adopted at a meeting of the governing body of the District which was duly called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting at the time of adoption, has not been modified, amended, rescinded or revoked, and is in full force and effect.

3. The issuance of the Bonds, and the execution, delivery and performance of the Financing Documents by the District and the execution and delivery of the Official Statement by the District have been duly authorized by all necessary action of the District. The Financing Documents and the Official Statement have been duly executed and delivered by the District and the Bonds have been duly issued by the District.

4. Each of the Bonds and Financing Documents constitutes a legally valid and binding obligation of the District, enforceable against the District in accordance with its respective terms.

5. The execution and delivery of the Official Statement and the Financing Documents by the District, the performance of the obligations of the District under the Financing Documents, the adoption of the Bond Resolution by the District, and the issuance, delivery, or sale of the Bonds by the District, do not:

(i) violate the provisions of the District Act or the Bylaws of the District,

(ii) result in the breach of or a default under any bond, agreement, indenture, mortgage, lease agreement or other instrument to which the District is a party or by which it is bound or to which it is subject and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default under any such instrument nor result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon the *ad valorem* taxes to be levied and collected for payment of the Bonds or any such law, administrative regulation, judgment, decree, loan agreement, pledge agreement, indenture, bond, note, resolution, agreement or other instrument, except as expressly provided by the Resolution;

(iii) violate any federal or California statute, rule, or regulation applicable to the District; any provision of the California Constitution applicable to the District; or any court or governmental order applicable to the District, or

(iv) require any consents, approvals, or authorizations to be obtained by the District from, or any registrations, declarations or filings to be obtained by the District with, any governmental authority, under any federal or California statute, rule or regulation applicable to the District on or prior to the date hereof that have not been obtained or made.

6. To the best of my knowledge after reasonable investigation, there is no action, suit, proceeding, inquiry or investigation before or by an judicial body or administrative agency, municipal, state or federal, which is pending or threatened against the District or otherwise known to me, which if determined against the District or its interests, could (a) adversely affect the validity or enforceability of the Bonds or the Financing Documents, (b) adversely affect the exclusion of the interest paid on the Bonds from gross income for federal income tax purposes and the exemption of such interest from California personal income taxation, (c) adversely affect the existence of the District or in any way challenge the respective powers of the several officers of the District required to execute any documents or certificates in connection with the delivery of the Bonds or of the titles of the officials of the District to their respective offices, (d) restrain or enjoin the sale, issuance or delivery of the Bonds, or the levy and collection of *ad valorem* taxes of the District to pay the principal of and interest on the Bonds or contesting the completeness or accuracy of the Official Statement, or (e) have a material adverse effect on the operations or finances of the District or the consummation of the transactions contemplated by the Financing Documents, the Official Statement, or the Resolution.

7. In connection with the preparation of the Official Statement dated November ___, 2008 (together with the appendices thereto, the "Official Statement"), I have participated in conferences with officers and other representatives of the District, the financial advisor to the District, the Underwriter, special counsel to the Authority, bond counsel, counsel to the Underwriter, and representatives of the independent public accountants of the District, at which the contents of the Official Statement and related matters were discussed. Based upon the information available to me as general counsel to the District and the information available to me in the course of my participation in the preparation of the Official Statement, and without having undertaken to determine independently or assuming any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to my attention which would lead me to believe that the statements and information contained in the Official Statement as of the date thereof or hereof (except for the financial and statistical data included in the Official Statement and the information under the captions "THE AUTHORITY", "TAX MATTERS", "UNDERWRITING" and Appendix D—"BOOK-ENTRY ONLY SYSTEM," as to which I express no opinion), contained or contain any untrue statement of a material fact or omitted or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

EXHIBIT E

PROPOSED OPINION OF AUTHORITY COUNSEL

[Date of Closing]

North San Diego Health Facilities Financing Authority
San Diego, California

Citigroup Global Markets Inc.
Los Angeles, California

Palomar Pomerado Health
General Obligation Bonds, Election of 2004, Series 2008A

Ladies and Gentlemen:

We have acted as special counsel to the North San Diego County Health Facilities Financing Authority (the "Authority") in connection with the purchase and sale of $[GO Par] aggregate principal amount of Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2008A (the "Bonds") pursuant to a Bond Purchase Agreement, dated [November 13], 2008 (the "Bond Purchase Agreement"), among you, Palomar Pomerado Health (the "District") and the Authority. In such connection, we have reviewed Resolution No. [_________], adopted by the Authority on [October 24], 2008 (the "Resolution"); the Bond Purchase Agreement; certificates of the Authority and others as to certain factual matters; and such documents and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings, and court decisions. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. With the delivery of this letter, our engagement with respect to the Bonds has concluded, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the first paragraph hereof. We express no opinion herein as to the validity or enforceability of the Bonds or as to the tax status of interest on the Bonds. We call attention to the fact that the rights and obligations under the Resolution and the Bond Purchase Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the Bond Purchase Agreement. We also undertake no responsibility of any kind for the Official Statement, dated [November 13], 2008, or other offering material relating to the Bonds.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Authority is a joint powers agency organized and existing under the laws of the State of California.

2. The Resolution was duly adopted at a meeting of the governing body of the Authority which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout. The Resolution is in full force and effect and has not been amended, modified or rescinded.

3. The Bond Purchase Agreement has been duly executed and delivered by the Authority and is a valid and binding agreement of the Authority.

This letter is furnished by us as special counsel to the Authority. No attorney-client relationship has existed or exists between our firm and the addressees hereto (other than the Authority) in connection with the Bonds or by virtue of this letter. This letter is solely for the benefit of the addressees hereof, and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any person other than the addressees to this letter. This letter is not intended to, and may not, be relied upon by the owners of any Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

PALOMAR POMERADO HEALTH

RESOLUTION NO. 10.20.08 (__) – __

RESOLUTION OF THE BOARD OF DIRECTORS OF PALOMAR POMERADO HEALTH AUTHORIZING CONVERSION OF THE INTEREST RATE PERIOD FOR CERTAIN CERTIFICATES OF PARTICIPATION EXECUTED AND DELIVERED FOR THE BENEFIT OF PALOMAR POMERADO HEALTH AND/ OR THE REFUNDING OF ALL OR A PORTION OF SAID CERTIFICATES AND THE AMENDMENT OR TERMINATION OF A HEDGING AGREEMENT ENTERED INTO IN CONNECTION WITH SAID CERTIFICATES, AUTHORIZING THE UNDERTAKING OF A FINANCING IN SUCH AMOUNT AS IS NECESSARY TO FINANCE ANY TERMINATION PAYMENT DUE IN CONNECTION WITH TERMINATION OF THE HEDGING AGREEMENT AND COSTS OF SAID CONVERSION, APPROVING THE FORM OF, AND AUTHORIZING THE EXECUTION AND DELIVERY AND/OR APPROVAL OF THE DOCUMENTS AND AGREEMENTS TO BE DELIVERED IN CONNECTION THEREWITH, AND AUTHORIZING THE TAKING OF CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH.

WHEREAS, Palomar Pomerado Health (the "District") is a local health care district duly organized and existing under The Local Health Care District Law, constituting Division 23 of the Health and Safety Code of the State of California (the "District Law");

WHEREAS, certain certificates of participation were executed and delivered in three series (each, a "Series of Certificates," and, hereinafter collectively referred to as the "Certificates") for the benefit of the District pursuant to a Trust Agreement, dated as of December 1, 2006 (as heretofore amended, the "Trust Agreement"), between the North San Diego County Health Facilities Financing Authority (the "Authority") and U.S. Bank National Association ("U.S. Bank"), as trustee;

WHEREAS, in connection with the execution and delivery of the Certificates, the District entered into a hedging agreement, comprised of an International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreement (the "ISDA Master Agreement"), a Schedule to the ISDA Master Agreement, an ISDA Credit Support Annex and three confirmations thereto (hereinafter collectively referred to as the "Hedging Agreement"), with Citibank, N. A., New York (the "Swap Counterparty");

WHEREAS, on October 31, 2006, there was published in a newspaper of general circulation in the District, a notice of public hearing concerning a plan of financing the facilities described in such notice, including a description of the facilities to be financed or financed through the execution and delivery of the Certificates;

WHEREAS, on November 20, 2006, the Board of Directors held a public hearing for purposes of Section 147(f) of the Internal Revenue Code of 1986 (the "Code") at which interested persons were given an opportunity to express their views concerning the execution and delivery of the Certificates and other obligations of the District and on the nature and location of the facilities proposed to be financed or refinanced from the proceeds of the Certificates and such other obligations;

WHEREAS, the District proposes to take such action as is necessary in order to stabilize its debt service with respect to the Certificates, which has fluctuated as a result of disruption in the financial markets, which action may include (i) adjustment of the interest rate period with respect to one or more Series of Certificates from the auction rate to fixed rates to maturity (such adjustment being hereinafter referred to as the "Conversion") and/or (ii) refunding all or a portion of the Certificates;

WHEREAS, pursuant to the provisions of the Trust Agreement, each Series of Certificates is subject to mandatory tender for purchase on the date of its Conversion;

WHEREAS, in connection with a Conversion, the District proposes that certain terms and provisions related to the Certificates set forth in the Trust Agreement be modified as set forth in a Second Supplemental Trust Agreement (the "Second Supplemental Trust Agreement") to be entered into by the Authority and U.S. Bank, as trustee;

WHEREAS, in order to provide for the remarketing of each Series of Certificates on the date of its Conversion, Citigroup Global Markets Inc. ("Citi") proposes to remarket the Certificates pursuant to a Remarketing Agreement (the "Remarketing Agreement"), executed and delivered by Citi, as remarketing agent, and agreed to and accepted by the District and the Authority;

WHEREAS, in order to facilitate the remarketing of the Certificates by Citi, the District proposes to approve, execute and deliver a Remarketing Memorandum (the "Remarketing Memorandum"), describing the Certificates, the Conversion and related matters, which shall include an appendix providing certain information relating to the District;

WHEREAS, in order to accomplish a Conversion, it will be necessary for the District to approve and/or execute and deliver the following documents and agreements (each a "Conversion Obligations Document," and hereinafter collectively referred to as the "Conversion Obligations Documents"), forms of which have been prepared and presented to this meeting:

(1) the Second Supplemental Trust Agreement;

(2) the Remarketing Agreement; and

(3) the Remarketing Memorandum; and

WHEREAS, in order to accomplish a refunding of all or a portion of the Certificates, it will be necessary for the District to approve and/or execute and deliver such documents and agreements as shall be necessary to issue and/or execute and deliver refunding obligations secured by the revenues of the District (hereinafter referred to as the "Refunding Obligations"), such Refunding Obligations to be in such form as shall be determined by the President and Chief Executive Officer of the District (the "President") or the Chief Financial Officer of the District (the "Chief Financial Officer") and to be in such aggregate principal amount as shall be necessary to refund all or a portion of the Certificates;

WHEREAS, the documents and agreements necessary to issue and/or execute and deliver Refunding Obligations may include, without limitation, an indenture or trust agreement (hereinafter referred to as the "Refunding Issuance Document") with a corporate trustee to be selected by the President or the Chief Financial Officer (each, an "Authorized Officer of the District"), a purchase agreement with the Authority, pursuant to which the District will convey certain real property (the "Real Property") to the Authority, an installment sale agreement with the Authority, pursuant to which the Authority will convey the Real Property back to the District, one or more supplements to the Master Trust Indenture, dated as of December 1, 2006 (as supplemented, the "Master Indenture"), between the District and U.S. Bank, as master trustee, one or more master indenture obligations issued by the District pursuant to the Master Indenture, an escrow agreement with U.S. Bank, as escrow agent and as trustee for the Certificates, a certificate purchase agreement or a bond purchase agreement (hereinafter referred to as the "Refunding Obligations Purchase Agreement") to be entered into with Citi, as purchaser of the Refunding Obligations, a continuing disclosure undertaking to assist Citi to comply with the terms and provisions of Securities and Exchange Commission Rule 15(c)2-12(b)(5), and an official statement (the "Refunding Official Statement"), describing the terms and provisions of the Refunding Obligations and related matters, which shall include an appendix providing certain information relating to the District (each such document or agreement being hereinafter referred to as a "Refunding Document," and hereinafter collectively referred to as the "Refunding Documents");

WHEREAS, in order to provide credit support for all or a portion of the Refunding Obligations, it may be desirable for management of the District to secure a commitment for bond insurance from a provider of municipal bond insurance or other third party surety;

WHEREAS, in order to fund a reserve for all or a portion of the Refunding Obligations, if required, it may be desirable for management of the District to secure a commitment for a surety bond, an irrevocable letter of credit or an insurance policy to fund all or a portion of such reserve fund;

WHEREAS, also in connection with the Conversion and/or the refunding, it may be desirable for the District to amend or terminate the Hedging Agreement prior to, concurrently with, or subsequent to the Conversion or the refunding;

WHEREAS, it is anticipated that termination of the Hedging Agreement will result in a payment due from the District to the Swap Counterparty;

WHEREAS, the District proposes to finance such payment (hereinafter referred to as the "Termination Payment") and, to the extent necessary, costs of Conversion;

WHEREAS, in order to accomplish such financing (hereinafter referred to as the "Conversion Financing"), it will be necessary for the District to approve and/or execute and deliver such documents and agreements as shall be necessary to issue and/or execute and deliver obligations secured by the revenues of the District (hereinafter referred to as the "Conversion Obligations"), such Conversion Obligations to be in such form as shall be determined by either Authorized Officer of the District and to be in such aggregate principal amount as such Authorized Officer of the District shall determine is necessary to pay the Termination Payment and, to the extent necessary, costs of Conversion;

WHEREAS, the documents and agreements necessary to issue and/or execute and deliver Conversion Obligations may include, without limitation, an indenture or trust agreement (hereinafter referred to as the "Refunding Issuance Document") with a corporate trustee to be selected by either Authorized Officer of the District, a purchase agreement with the Authority, pursuant to which the District will convey certain real property (the "Conversion Real Property") to the Authority, an installment sale agreement with the Authority, pursuant to which the Authority will convey the Conversion Real Property back to the District, one or more supplements to the Master Indenture, one or more master indenture obligations issued by the District pursuant to the Master Indenture, a certificate purchase agreement or a bond purchase agreement (hereinafter referred to as the "Conversion Obligations Purchase Agreement") to be entered into with Citi, as purchaser of the Conversion Obligations, a continuing disclosure undertaking to assist Citi to comply with the terms and provisions of Securities and Exchange Commission Rule 15(c)2-12(b)(5), and an official statement (the "Conversion Official Statement"), describing the terms and provisions of the Conversion Obligations and related matters, which shall include an appendix providing certain information relating to the District (each such document or agreement being hereinafter referred to as a "Conversion Financing Document," and hereinafter collectively referred to as the "Conversion Financing Documents");

WHEREAS, in order to provide credit support for all or a portion of the Conversion Obligations, it may be desirable for management of the District to secure a commitment for bond insurance from a provider of municipal bond insurance or other third party surety;

WHEREAS, in order to fund a reserve for all or a portion of the Conversion Obligations, if required, it may be desirable for management of the District to secure a commitment for a surety bond, an irrevocable letter of credit or an insurance policy to fund all or a portion of such reserve fund;

WHEREAS, the Board of Directors desires (i) to approve the Conversion, the refunding and the Conversion Financing and to authorize each Authorized Officer of the District, with the advice of general counsel to the District ("District Counsel") and Kaufman Hall & Associates, Inc., acting as Financial Advisor to the District (the "District Financial Advisor"), to determine (a) whether to convert and/or refund all or a portion of the Certificates and (b) whether to undertake the Conversion Financing, such determinations to be based on market conditions and such other factors as such Authorized Officer of the District, with the advice of District Counsel and the District Financial Advisor, shall determine are appropriate; (ii) to approve the refunding and the Conversion Financing for purposes of Section 147(f) of the Code; (iii) to authorize the securing of a commitment for bond insurance for all or a portion of the Refunding Obligations and/or the Conversion Obligations; (iv) to authorize the securing of a commitment for a surety bond, an irrevocable letter of credit, or an insurance policy to fund all or a portion of a reserve fund for the Refunding Obligations, if required, or the Conversion Obligations, if required; (v) to approve the amendment or termination of the Hedging Agreement, (vi) to approve and/or authorize and direct the execution and delivery of each of the above-identified Conversion Obligations Documents, Refunding Documents and Conversion Financing Documents (hereinafter collectively referred to as the "Restructuring Documents"), and (vii) to authorize the taking of such other actions as shall be necessary to consummate the Conversion, the refunding, the amendment or termination of the Hedging Agreement and the Conversion Financing (hereinafter collectively referred to as the "Restructuring Transactions") as referred to and described in the Restructuring Documents and herein;

NOW, THEREFORE, BE IT RESOLVED THAT:

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

Section 2. Authorization and Approval of Conversion, Issuance or Execution and Delivery of Refunding Obligations and Issuance or Execution and Delivery of Conversion Obligations; Approval for Purposes of Section 147(f) of the Internal Revenue Code. The Conversion, the issuance or execution and delivery of Refunding Obligations, in one or more series, by or for the benefit of the District, bearing interest at fixed rates, in such aggregate principal amount as is necessary to refund all or a portion of the Certificates, and the issuance or execution and delivery of Conversion Obligations, in one or more series, by or for the benefit of the District, bearing interest at fixed rates, in such aggregate principal amount as is necessary to pay the Termination Payment and, to the extent necessary, costs of Conversion are hereby authorized and approved.

It is the purpose and intent of the Board of Directors that this Resolution constitute (i) approval of the refunding and the issuance or execution and delivery of Refunding Obligations and (ii) approval of the Conversion Financing and the issuance or execution and delivery of Conversion Obligations for purposes of Section 147(f) of the Code.

Section 3. **Second Supplemental Trust Agreement**. The proposed form of Second Supplemental Trust Agreement to be executed and delivered by the Authority and the Trustee presented to this meeting is hereby approved. Each Authorized Officer of the District is hereby authorized to approve the final form of Second Supplemental Trust Agreement, with such changes therein as the officer approving the same, with the advice of District Counsel, may require or approve.

Section 4. Remarketing Agreement. The proposed form of Remarketing Agreement presented to this meeting is hereby approved. Each Authorized Officer of the District is hereby authorized and directed to execute and deliver the Remarketing Agreement in substantially said form, with such changes therein as the officer executing the same, with the advice of District Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, which Remarketing Agreement shall provide for the payment of a remarketing fee to Citi in an amount not to exceed 0.975% of the aggregate principal amount of the Certificates being remarketed.

Section 5. **Remarketing Memorandum**. The proposed form of Remarketing Memorandum presented to this meeting is hereby approved. Each Authorized Officer of the District is hereby authorized and directed to approve and deliver a final Remarketing Memorandum in substantially said form, with such changes therein as the officer executing the same, with the advice of District Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof. Citi is hereby authorized and directed to distribute a copy of the Remarketing Memorandum, as finally executed, to all actual purchasers of Certificates.

Section 6. **Refunding Documents**. Each Authorized Officer of the District is hereby authorized and directed to approve and/or execute and deliver each Refunding Document, each of which shall be in such form as shall be deemed acceptable to the Authorized Officer of the District executing the same, with the advice of District Counsel and the District Financial Advisor.

Section 7. **Terms of Refunding Obligations.** The Refunding Obligations shall be dated their date of delivery, or such other date as shall be set forth in the Refunding Obligations Issuance Document pursuant to which the Refunding Obligations are issued or executed and delivered, as finally executed and delivered. The Refunding Obligations shall mature on such date or dates, in each of the years, not exceeding thirty (30) years from the date of issuance or execution and delivery, and in such principal amounts and bearing interest at such interest rates not exceeding twelve percent (12%) as shall be set forth in the Refunding Obligations Issuance Document, as finally executed and delivered. The Refunding Obligations shall be subject to redemption or prepayment prior to their respective stated maturity dates at the option of the District as set forth in the Refunding Obligations Issuance Document, as finally executed and delivered, and may also be subject to mandatory sinking fund redemption or prepayment as specified in the Refunding Obligations Issuance Document, as finally executed and delivered. The Refunding Obligations Issuance Document may provide that the Refunding Obligations of any maturity shall not be subject to optional or mandatory sinking fund redemption or prepayment as further set forth therein. If issued in the form of bonds, the Refunding Obligations shall be signed by the manual or facsimile signature of the Chair of the Board of Directors of the District, under seal attested by the manual or facsimile signature of the Secretary of the Board of Directors of the District. The time, manner and place or places of payment of the Refunding Obligations, the registration provisions and other terms of the Refunding Obligations shall be as set forth in the Refunding Obligations Issuance Document, as finally executed and delivered.

Section 8. **Refunding Official Statement**. Citi is hereby authorized and directed to distribute a copy of the Refunding Official Statement, as finally executed, to all actual purchasers of Refunding Obligations.

Section 9. Sale of the Refunding Obligations. The sale of the Refunding Obligations to Citi at the purchase price set forth in the Refunding Purchase Agreement is hereby approved; provided that: (i) the true interest cost for the Refunding Obligations shall not exceed nine percent (9.0%); (ii) Citi's compensation as purchaser shall not exceed 0.975% of the aggregate principal amount of the Refunding Obligations, plus any original issue premium, less any original issue discount, and excluding any costs of issuance or execution and delivery of the Refunding Obligations which Citi agrees to pay pursuant to the Refunding Purchase Agreement; and (iii) the Refunding Obligations shall otherwise conform to the limitations specified herein.

Section 10. **Conversion Obligations Documents**. Each Authorized Officer of the District is hereby authorized and directed to approve and/or execute and deliver each Conversion Obligations Document, each of which shall be in such form as shall be deemed acceptable to the Authorized Officer of the District executing the same, with the advice of District Counsel and the District Financial Advisor.

Section 11. Terms of Conversion Obligations. The Conversion Obligations shall be dated their date of delivery, or such other date as shall be set forth in the Conversion Obligations Issuance Document pursuant to which the Conversion Obligations are issued or executed and delivered, as finally executed and delivered. The Conversion Obligations shall mature on such date or dates, in each of the years, not exceeding thirty (30) years from the date of issuance or execution and delivery, and in such principal amounts and bearing interest at such interest rates not exceeding twelve percent (12%) as shall be set forth in the Conversion Obligations Issuance Document, as finally executed and delivered. The Conversion Obligations shall be subject to redemption or prepayment prior to their respective stated maturity dates at the option of the District as set forth in the Conversion Obligations Issuance Document, as finally executed and delivered, and may also be subject to mandatory sinking fund redemption or prepayment as specified in the Conversion Obligations Issuance Document, as finally executed and delivered. The Conversion Obligations Issuance Document may provide that the Conversion Obligations of any maturity shall not be subject to optional or mandatory sinking fund redemption or prepayment as further set forth therein. If issued in the form of bonds, the Conversion Obligations shall be signed by the manual or facsimile signature of the Chair of the Board of Directors of the District, under seal attested by the manual or facsimile signature of the Secretary of the Board of Directors of the District. The time, manner and place or places of payment of the Conversion Obligations, the registration provisions and other terms of the Conversion Obligations shall be as set forth in the Conversion Obligations Issuance Document, as finally executed and delivered.

Section 12. Conversion Official Statement. Citi is hereby authorized and directed to distribute a copy of the Conversion Official Statement, as finally executed, to all actual purchasers of Conversion Obligations.

Section 13. Sale of the Conversion Obligations. The sale of the Conversion Obligations to Citi at the purchase price set forth in the Conversion Purchase Agreement is hereby approved; provided that: (i) the true interest cost for the Conversion Obligations shall not exceed nine percent (9.0%); (ii) Citi's compensation as purchaser shall not exceed 0.975% of the aggregate principal amount of the Conversion Obligations, plus any original issue premium, less any original issue discount, and excluding any costs of costs of issuance or execution and delivery of the Conversion Obligations which Citi agrees to pay pursuant to the Conversion Purchase Agreement; and (iii) the Conversion Obligations shall otherwise conform to the limitations specified herein.

Section 14. Selection of Refunding Obligations Trustee and Conversion Obligations Trustee. The selection of a corporate trustee for the Refunding Obligations and a corporate trustee for the Conversion Obligations by either Authorized Officer of the District are hereby authorized and approved.

Section 15. Insurance. Each Authorized Officer of the District is hereby authorized and directed to negotiate with municipal bond insurers and, if such Authorized Officer of the District determines that it is in the best interest of the District, to commit to purchase municipal bond insurance for one or more maturities of the Refunding Obligations and/or for one or more maturities of the Conversion Obligations, in each instance on such terms as such Authorized Officer of the District, with the advice of District Counsel and the District Financial Advisor, determines are appropriate, and to execute and deliver any and all commitments (hereinafter collectively referred to as a "Bond Insurance Commitment"), agreements, documents and certificates necessary in connection with securing such municipal bond insurance for the Refunding Obligations and/or the Conversion Obligations.

Section 16. Reserve Fund Instruments. Each Authorized Officer of the District is hereby authorized and directed to negotiate with financial institutions and/or insurance companies, as applicable, and, if such Authorized Officer of the District determines that it is in the best interest of the District, to secure a surety bond, an irrevocable letter of credit, or an insurance policy on such terms as such Authorized Officer of the District, with the advice of District Counsel and the District Financial Advisor, determines are appropriate in order to fund a reserve fund for the Refunding Obligations and/or the Conversion Obligations, and to execute and deliver all commitments (hereinafter collectively referred to as a "Reserve Fund Instrument Commitment"), agreements, documents and certificates necessary in connection with securing such surety bond, letter of credit or insurance policy to fund a reserve fund, if required, for the Refunding Obligations and/or the Conversion Obligations.

Section 17. Additional Actions. Each Authorized Officer of the District and any other appropriate officer of the District, acting singly, is, and each of them hereby is, authorized and directed, for and in the name and on behalf of the District, (i) to do any and all things and to execute and deliver any and all documents, certificates, including certificates deeming the Remarketing Memorandum, the Refunding Official Statement or Conversion Official Statement in preliminary form final for purposes of Securities and Exchange Commission Rule 15(c)2-12, consents, directions or requests and to enter into any and all agreements necessary or advisable in order to carry out, give effect to and comply with the terms and intent of this Resolution and the Restructuring Transactions contemplated by any of the documents and agreements authorized to be executed and delivered pursuant to this Resolution, including, without limitation, any of the foregoing which may be necessary or desirable in connection with the Conversion, the issuance and/or execution and delivery of Refunding Obligations, the issuance and/or execution and delivery of the Conversion Obligations, the Bond

Insurance Commitment, the Reserve Fund Instrument Commitment and/or the amendment or termination of the Hedging Agreement, including any amendment of the Hedging Agreement authorizing the posting of collateral to the extent permitted by District Law, and any amendment of any of the documents authorized to be executed and delivered in connection with the Certificates, the Refunding Obligations or the Conversion Obligations, (ii) to authorize payment of the Termination Payment, and (iii) to authorize payment of all reasonable fees and expenses incurred or to be incurred by the District in connection with the transactions contemplated by any of the documents and agreements authorized to be executed and delivered pursuant to this Resolution.

Section 18. **Ratification of Actions**. All actions heretofore taken by the officers and agents of the District with respect to the Restructuring Transactions are hereby ratified, confirmed and approved.

Section 19. **Inconsistent Actions**. All previous resolutions of the Board of Directors which are inconsistent with this Resolution be, and the same hereby are repealed, revoked and rescinded to the extent of such inconsistency.

Section 20. **Effective Date**. This Resolution shall take effect from and after its adoption.

PASSED AND ADOPTED by the Board of Directors of Palomar Pomerado Health on the 20th day of October, 2008, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAINING:

Dated: October 20, 2008.

By: ____________________________
Bruce G. Krider
Chair, Board of Directors
Palomar Pomerado Health

Attested:

____
Linda Bailey
Secretary, Board of Directors

NORTH SAN DIEGO COUNTY HEALTH FACILITIES FINANCING AUTHORITY

AND

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

SECOND SUPPLEMENTAL TRUST AGREEMENT

Dated as of November 1, 2008

Supplementing and Amending Trust Agreement, dated as of December 1, 2006

$180,000,000

Principal Amount of Certificates of Participation
Evidencing Proportionate Undivided Interests
In Installment Payments to be made by
Palomar Pomerado Health

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THIS **SECOND SUPPLEMENTAL TRUST AGREEMENT,** made and entered into as of November 1, 2008 (this "Second Supplemental Trust Agreement"), is between the **NORTH SAN DIEGO COUNTY HEALTH FACILITIES FINANCING AUTHORITY**, a joint powers authority duly organized and existing under the laws of the State of California (the "Authority"), and **U.S. BANK NATIONAL ASSOCIATION**, a national banking association organized and existing under and by virtue of the laws of the United States of America, being qualified to accept and administer the trusts hereby created (the "Trustee");

WITNESSETH:

WHEREAS, the Authority and the Trustee entered into a Trust Agreement, dated as of December 1, 2006 (as heretofore amended, the "Existing Trust Agreement"), pursuant to which certain certificates of participation (as more fully defined in Section 1.01 of the Existing Trust Agreement, the "Certificates") were executed and delivered for the benefit of Palomar Pomerado Health (the "District");

WHEREAS, in connection with the conversion of the above-referenced Certificates from an ARS Interest Rate Period (as such term is defined in the Trust Agreement) to a Long-Term Interest Rate Period (as such term is defined in the Trust Agreement), the District has requested that the Existing Trust Agreement be amended as hereinafter set forth;

WHEREAS, pursuant to Section 9.01(A) of the Existing Trust Agreement, the Existing Trust Agreement may be modified or amended at any time by a Supplemental Trust Agreement (as such term is defined in the Existing Trust Agreement) which the Authority and the Trustee may enter into with the written consent of Financial Security Assurance Inc., as insurer (the "Insurer"); and

WHEREAS, the District has secured the written consent of the Insurer;

NOW, THEREFORE, the Authority and the Trustee hereby agree as follows:

ARTICLE XVII
DEFINITIONS

Section 17.01. Definitions. Unless otherwise specifically provided herein to the contrary, all capitalized terms used herein shall have the meanings assigned to such terms in Section 1.01 of the Existing Trust Agreement.

Section 17.02. Addition of Certain Definitions. The following additional definitions are hereby inserted between the definition of "Series" and the definition of "Short-Term Interest Rate Period" appearing in Section 1.01 of the Existing Trust Agreement:

"Series 2006A Fixed Rate Conversion Date" means November 18, 2008.

"Series 2006B Fixed Rate Conversion Date" means November 19, 2008.

"Series 2006C Fixed Rate Conversion Date" means November 20, 2008.

Section 17.03. Amendment of Certain Definitions. The definition of "Authorized Representative" set forth in Section 1.01 of the Existing Trust Agreement is hereby amended and restated to read in its entirety as follows:

> "Authorized Representative" means, with respect to the Authority, its Chair or its Treasurer/Controller and means, with respect to the District, its President and Chief Executive Officer or its Chief Financial Officer.

ARTICLE XVIII
AMENDMENTS

Section 18.01. Amendment of Section 2.02 - Terms of the Certificates; Registration, Denominations, Payments with Respect to Certificates. Section 2.02(C)(2) of the Existing Trust Agreement is hereby amended and restated to read in its entirety as follows:

(a) **Certificate Payment Dates for Series 2006A Certificates; Payment of Principal and Interest with Respect to the Series 2006A Certificates**. The Mandatory Sinking Account Payments established for the Series 2006A Certificates pursuant to Section 5.03(E) of the Existing Trust Agreement shall be redesignated as Certificate Payment Dates for the Series 2006A Certificates on the Series 2006A Fixed Rate Conversion Date in accordance with the schedule set forth below, principal represented by the Series 2006A Certificates to be payable on November 1 in the years and in the amounts, with an interest component calculated at the rates, as follows:

Certificate Payment Date (November 1)	Principal Components	Interest Rate on Principal Components
2009	$ ______	_.__%
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		
2026		
2027		
2028		
2029		
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(b) **Certificate Payment Dates for Series 2006B Certificates; Payment of Principal and Interest with Respect to the Series 2006B Certificates**. The Mandatory Sinking Account Payments established for the Series 2006B Certificates pursuant to Section 5.03(F) of the Existing Trust Agreement shall be redesignated as Certificate Payment Dates and Mandatory Sinking Account Payments for the Series 2006B Certificates on the Series 2006B Fixed Rate Conversion Date in accordance with the schedule set forth below, principal represented by the Series 2006B Certificates to be payable on November 1 in the years and in the amounts, with an interest component calculated at the rates, as follows:

Certificate Payment Date (November 1)	Principal Components	Interest Rate on Principal Components
2009	$ ______	_.__%
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		
2026		
2027		
2028		
2029		
2030		
2031		
2032		
2033		
2034		
2035		
2036		

(C) **Certificate Payment Dates for Series 2006C Certificates; Payment of Principal and Interest with Respect to the Series 2006C Certificates**. The Mandatory Sinking Account Payments established for the Series 2006C Certificates pursuant to Section 5.03(G) of the Existing Trust Agreement shall be redesignated as Certificate Payment Dates and Mandatory Sinking Account Payments for the Series 2006C Certificates on the Series 2006C Fixed Rate Conversion Date in accordance with the schedule set forth below, principal represented by the Series 2006C Certificates to be payable on November 1 in the years and in the amounts, with an interest component calculated at the rates, as follows:

Certificate Payment Date (November 1)	Principal Components	Interest Rate on Principal Components
2009	$ ______	_.__%
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		
2026		
2027		
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2036		

Section 18.02. Amendment of Section 2.05 - Long-Term Interest Rate. Section 2.05(D)(4) of the Existing Trust Agreement is hereby amended and restated to read in its entirety as follows:

> "In the case of Certificates to be sold at a premium, the Remarketing Agent shall transfer to the Trustee an amount equal to such premium, which amount shall be applied by the Trustee in accordance with the written direction of the District either (i) to pay costs incurred in connection with the Conversion of Certificates or (ii) to pay the termination payment (hereinafter referred to as the "Swap

Termination Payment") due in connection with the termination of an interest rate swap transaction entered into by the District in connection with the Certificates pursuant to an International Swaps and Derivatives Association, Inc. Master Agreement (the "ISDA Master Agreement"), a Schedule to the ISDA Master Agreement, a Credit Support Annex to the Schedule to the ISDA Master Agreement, and three transactions entered into pursuant thereto, each dated as of November 17, 2006, and each between Citibank, N.A., New York, and the District."

Section 18.03. Amendment of Section 3.03 - Establishment and Application of Costs of Delivery Fund. The following paragraph shall be added as the second paragraph of Section 3.03:

"Upon the receipt of funds resulting from the sale of Certificates at a premium in accordance with Section 2.05(D) of the Existing Trust Agreement to be applied to pay costs incurred in connection with the Conversion of Certificates, the Trustee shall establish, maintain and hold in trust a separate fund to be designated as the "Conversion Costs of Delivery Fund." Moneys deposited in the Conversion Costs of Delivery Fund shall be used to pay the costs of conversion of the Certificates upon receipt by the Trustee of a Requisition of the District, such Requisition of the District to be in substantially the form attached hereto as Attachment I."

Section 18.04. Amendment of Section 3.04 - Establishment and Application of Project Fund. The following subsection (F) shall be added as the final subsection Section 3.04 of the Existing Trust Agreement:

"Notwithstanding any other provision of the Existing Trust Agreement to the contrary, in the event that it is necessary to increase the amount on deposit in the Reserve Fund on the effective date of this Second Supplemental Trust Agreement with respect to any Series of Certificates, which effective date is specified in Section 20.05, so that the amount on deposit in the Reserve Fund is equal to the then applicable Reserve Fund Requirement, the District may withdraw cash in an amount sufficient to increase the balance on deposit in the Reserve Fund (such amount being hereinafter referred to as the "Conversion Reserve Fund Deposit Amount") to an amount equal to the Reserve Fund Requirement from the Project Fund, which Conversion Reserve Fund Deposit Amount shall immediately be deposited by the Trustee in the Reserve Fund. In addition, the District may withdraw cash from the Project Fund in order to pay or reimburse itself for its prior payment of all or a portion of the Swap Termination Payment and to pay costs incurred in connection with the Conversion of Certificates to the extent the amount of the premium received from the sale of the Certificates in accordance with Section 2.05(D) of the Existing Trust Agreement is insufficient to pay the total amount of the Swap Termination Payment and the costs of Conversion. No Requisition of the District shall be required to be filed with the Trustee in connection with the withdrawals and transfers authorized pursuant to this Section 3.04(F), which withdrawals and transfers shall be made in accordance with a written request of the District delivered to the Trustee.

Section 18.05. Amendment of Section 5.03 - Principal Fund. Section 5.03(E), Section 5.03(F) and Section 5.03(G) of the Existing Trust Agreement are hereby amended and restated to read in their entirety as set forth below.

(a) **Amendment of Section 5.03(E)**. Subject to the terms and conditions set forth in this Section and in Section 4.01(E), the Series 2006A Certificates shall be prepaid (or paid on their stated Certificate Payment Date, as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Mandatory Sinking Account Payment Dates (November 1)	Mandatory Sinking Account Payments
2009	$ 925,000
2015	1,775,000
2016	1,850,000
2017	1,875,000
2018	1,925,000
2019	2,000,000
2020	2,125,000
2021	2,175,000
2022	2,225,000
2023	2,325,000
2024	2,375,000
2025	2,475,000
2026	2,550,000
2027	2,650,000
2028	2,800,000
2029	2,825,000
2030	2,925,000
2031	3,050,000
2032	3,175,000
2033	3,250,000
2034	3,375,000
2035	3,500,000
2036*	4,100,000

* Stated Certificate Payment Date

Note: Series 2006A Mandatory Sinking Account Payment Schedule to be Revised At Pricing.

(b) **Amendment of Section 5.03(F)**. Subject to the terms and conditions set forth in this Section and in Section 4.01(E), the Series 2006B Certificates shall be prepaid (or paid on their stated Certificate Payment Date, as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Mandatory Sinking Account Payment Dates (November 1)	Mandatory Sinking Account Payments
2009	$ 925,000
2015	1,775,000
2016	1,825,000
2017	1,875,000
2018	1,975,000
2019	2,000,000
2020	2,075,000
2021	2,150,000
2022	2,250,000
2023	2,300,000
2024	2,375,000
2025	2,500,000
2026	2,575,000
2027	2,675,000
2028	2,725,000
2029	2,875,000
2030	2,925,000
2031	3,050,000
2032	3,150,000
2033	3,300,000
2034	3,375,000
2035	3,525,000
2036*	4,100,000

* Stated Certificate Payment Date

Note: Series 2006B Mandatory Sinking Account Payment Schedule to be Revised At Pricing.

(c) **Amendment of Section 5.03(G)**. Subject to the terms and conditions set forth in this Section and in Section 4.01(E), the Series 2006C Certificates shall be prepaid (or paid on their stated Certificate Payment Date, as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Mandatory Sinking Account Payment Dates (November 1)	Mandatory Sinking Account Payments
2009	$ 925,000
2015	1,750,000
2016	1,825,000
2017	1,875,000
2018	1,925,000
2019	2,050,000
2020	2,075,000
2021	2,175,000
2022	2,250,000
2023	2,300,000
2024	2,400,000
2025	2,475,000
2026	2,575,000
2027	2,650,000
2028	2,725,000
2029	2,825,000
2030	2,975,000
2031	3,050,000
2032	3,150,000
2033	3,250,000
2034	3,375,000
2035	3,475,000
2036*	4,150,000

Note: Series 2006C Mandatory Sinking Account Payment Schedule to be Revised At Pricing.

* Stated Certificate Payment Date

ARTICLE XIX
ADDITIONAL PROVISIONS

Section 19.01. Delivery of Notice of Alternative Prepayment Schedule. Pursuant to Section 4.01(B) of the Existing Trust Agreement, the District has determined to deliver an alternative prepayment schedule in connection with the Conversion. Set forth below is the alternative prepayment schedule:

Certificates payable as to principal on or prior to November 1, 2016 shall not be prepayable prior to their stated Certificate Payment Date. Certificates payable as to principal on or after November 1, 2017 are subject to prepayment in whole or in part on any date on or after November 1, 2016 at a Prepayment Price equal to 100% of the principal component thereof, plus accrued interest with respect thereto to the prepayment date, without premium.

The alternative prepayment schedule set forth above shall take effect (i) with respect to the Series 2006A Certificates upon the Series 2006A Fixed Rate Conversion Date, (ii) with respect to the Series 2006B Certificates upon the Series 2006B Fixed Rate Conversion Date and (iii) with respect to the Series 2006C Certificates upon the Series 2006C Fixed Rate Conversion Date.

The provisions set forth in this Section 19.01 shall constitute such notice of an alternative prepayment schedule as is required to be delivered pursuant to Section 4.01(B) of the Existing Trust Agreement.

Section 19.02. Form of Certificate of Participation. Effective on the applicable Fixed Rate Conversion Date**,** the Certificates and the form of assignment to appear thereon shall be in substantially the form attached as Exhibit A hereto.

ARTICLE XX
MISCELLANEOUS

Section 20.01. Provisions of Existing Trust Agreement Not Otherwise Modified. Except as specifically amended and modified as set forth in this Second Supplemental Trust Agreement, the Existing Trust Agreement is hereby ratified, approved and confirmed and remains in full force and effect.

Section 20.02. Severability of Invalid Provisions. If any one or more of the provisions contained in this Second Supplemental Trust Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Second Supplemental Trust Agreement and such invalidity, illegality or unenforceability shall not affect any other provision of this Second Supplemental Trust Agreement, and this Second Supplemental Trust Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority and the Trustee each hereby declares that it would have entered into this Second Supplemental Trust Agreement and each and every other Section, paragraph, sentence, clause or phrase hereof irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Second Supplemental Trust Agreement may be held illegal, invalid or unenforceable.

Section 20.03. Governing Law. This Second Supplemental Trust Agreement shall be construed in accordance with and governed by the Constitution and the laws of the State of California.

Section 20.04. Execution in Several Counterparts. This Second Supplemental Trust Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original; and all of which shall together constitute but one and the same instrument.

Section 20.05. Effective Date. This Second Supplemental Trust Agreement shall become effective (i) with respect to the Series 2006A Certificates upon the Series 2006A Fixed Rate Conversion Date, (ii) with respect to the Series 2006B Certificates upon the Series 2006B Fixed Rate Conversion Date and (iii) with respect to the Series 2006C Certificates upon the Series 2006C Fixed Rate Conversion Date.

IN WITNESS WHEREOF, the **NORTH SAN DIEGO COUNTY HEALTH FACILITIES FINANCING AUTHORITY** has caused this Second Supplemental Trust Agreement to be executed in its name by one of its duly authorized officers and **U.S**. **BANK NATIONAL ASSOCIATION** has caused this Second Supplemental Trust Agreement to be signed in its corporate name by one of its duly authorized officers, all as of the day and year first above written.

NORTH SAN DIEGO COUNTY HEALTH FACILITIES FINANCING AUTHORITY

By__________________________________
Treasurer/Controller

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By__________________________________
Authorized Officer

EXHIBIT A

FORM OF CERTIFICATE OF PARTICIPATION

R-[A/B/C]-__ $_________

CERTIFICATE OF PARTICIPATION
Evidencing a Proportionate Interest of the Holder Hereof
in Installment Payments to be Paid
by
PALOMAR POMERADO HEALTH
To
NORTH SAN DIEGO COUNTY HEALTH FACILITIES FINANCING AUTHORITY

CERTIFICATE PAYMENT DATE	INTEREST RATE	DATED	CUSIP NUMBER
November 1, ____	_____%	December 7, 2006	

REGISTERED HOLDER: CEDE & CO.

PRINCIPAL AMOUNT: DOLLARS

THIS IS TO CERTIFY that the above-identified Registered Holder of this Certificate of Participation (herein called the "Certificate"), is the owner of an undivided proportionate interest in the right to receive certain Installment Payments (the "Installment Payments") to be made by Palomar Pomerado Health, a local health care district and political subdivision of the State of California (the "District"), under that certain Installment Sale Agreement, dated as of December 1, 2006 (the "Installment Sale Agreement"), between the District and North San Diego County Health Facilities Financing Authority, a joint powers authority duly organized and existing under the laws of the State of California (the "Authority"), which Installment Payments have been assigned by the Authority without recourse to U.S. Bank National Association, as trustee (together with any successor trustee, the "Trustee"), under that certain Trust Agreement, dated as of December 1, 2006 (as amended and supplemented, the "Trust Agreement"), between the Authority and the Trustee. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Trust Agreement.

The Registered Holder of this Certificate is entitled to receive, subject to the terms of the Trust Agreement, on the certificate payment date stated above (the "Certificate Payment Date"), or upon prepayment in accordance with the provisions of the Trust Agreement, the principal amount specified above, representing a portion of the Installment Payments designated as principal coming due on the Certificate Payment Date or the prepayment date, as applicable. The Registered Holder of this Certificate is also entitled to receive on each Interest Payment Date the Registered Holder's proportionate share of the Installment Payments designated as the interest component (herein defined as the "interest component" or "interest") until the principal hereof shall have become due, whether at the stated Certificate Payment Date hereof, by prepayment or acceleration, at the rates and on the dates determined as provided in the Trust Agreement, the Purchase Agreement and the Installment Sale Agreement.

The principal with respect to this Certificate is payable by check in lawful money of the United States of America upon surrender at the Principal Office of the Trustee. Interest with respect to this Certificate (except as is otherwise provided in the Trust Agreement with respect to defaulted interest) is payable by check mailed on each Interest Payment Date to the Person whose name appears on the registration books of the Trustee as the Registered Holder hereof as of the close of business on Record Date applicable to such Interest Payment Date, at the address appearing on the registration books maintained by the Trustee, or by wire transfer within the United States to any Registered Holder of at least $1,000,000 in aggregate principal amount of Certificates if such Registered Holder has submitted a written request for such wire transfer to the Trustee prior to the applicable Record Date next preceding any Interest Payment Date.

This Certificate is one of the certificates of participation additionally designated as a Series 2006_ Certificate, which has been executed by the Trustee pursuant to the terms of the Trust Agreement. Copies of the Trust Agreement are on file at the Principal Office of the Trustee, and reference is made to the Trust Agreement and any and all amendments thereof for a description of the pledges and covenants securing the obligations represented by the Certificates, the nature, extent and manner of enforcement of such pledges and covenants, the rights and remedies of the Registered Holders of the Certificates with respect thereto and the other terms and conditions upon which the Certificates are delivered thereunder. The Authority has assigned, without recourse, all its rights to the Installment Payments to the Trustee pursuant to the Trust Agreement. Copies of the Installment Sale Agreement are also on file at the Principal Office of the Trustee.

The Certificates are subject to prepayment prior to the stated Certificate Payment Date at the times, in the amounts, under the circumstances, with the notice, at the prepayment prices, upon the other terms and conditions and with the effect set forth in the Trust Agreement.

If an Event of Default shall occur, the principal amount of all Certificates then Outstanding may be declared due and payable upon the conditions, in the manner and with the effect provided in the Trust Agreement. The Trust Agreement provides that under certain circumstances such declaration and its consequences may be rescinded by the Trustee.

The Registered Holder of this Certificate shall have no right to enforce the provisions of the Trust Agreement or to institute action to enforce the covenants therein, or to take any action with respect to any event of default under the Trust Agreement, or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Trust Agreement.

The Certificates shall be executed as fully registered Certificates in Authorized Denominations. This Certificate is transferable and may be exchanged by the Registered Holder hereof in person or by its attorney duly authorized in writing, but only in the manner, subject to the limitations and upon payment of the charges provided in the Trust Agreement, and upon surrender and cancellation of this Certificate. Upon such transfer or exchange a new fully registered Certificate or Certificates of Authorized Denominations, for the same aggregate principal amount, will be issued in exchange therefor.

The Trustee, the Authority and the District may treat the Registered Holder hereof as the absolute owner hereof for all purposes, and neither the Trustee, the Authority nor the District shall be affected by any notice to the contrary.

To the extent and in the manner permitted by the terms of the Trust Agreement, the provisions of the Trust Agreement may be amended or supplemented by the parties thereto.

The Certificates evidence a proportionate interest in the Installment Payments in an amount equal to the aggregate principal amount represented by Certificates originally executed and delivered by the Trustee pursuant to the Trust Agreement and enjoy the benefits of the security interest in the moneys held in the funds and accounts established pursuant to the Trust Agreement (except moneys held on deposit in the Rebate Fund and certain amounts paid by the District pursuant to the Installment Sale Agreement for Administrative Fees and Expenses or as indemnification), subject to the provisions of the Trust Agreement permitting the application thereof for or to the purposes and on the terms and conditions set forth therein.

The Trustee has no obligation or liability to the Registered Holders of the Certificates to make payments with respect to the Certificates except from amounts on deposit for such purposes with the Trustee. The sole obligations of the Trustee are to administer the various funds and accounts established under the Trust Agreement and to perform the other duties expressly imposed upon it under the Trust Agreement.

IN WITNESS WHEREOF, this Certificate has been executed by the manual signature of an authorized signatory of the Trustee.

Date of Execution: ___________________.

U.S. BANK NATIONAL ASSOCIATION,
as trustee

By: ____
Authorized Signatory

STATEMENT OF INSURANCE

Financial Security Assurance Inc. ("Financial Security"), New York, New York, has delivered its municipal bond insurance policy (the "Policy") with respect to the scheduled payments due of principal of and interest on this Certificate to U. S. Bank National Association, Los Angeles, California, or its successor, as paying agent for the Certificates (the "Paying Agent"). Said Policy is on file and available for inspection at the principal office of the Paying Agent and a copy thereof may be obtained from Financial Security or the Paying Agent.

DTC LEGEND

Unless this Certificate is presented by an authorized representative of The Depository Trust Company to U. S Bank National Association or its successor as trustee under the Trust Agreement, for registration of transfer, exchange or payment, and any Certificate executed is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the Registered Holder hereof, Cede & Co., has an interest herein.

FORM OF ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto ______________________ (print or type name, address, taxpayer identification number and zip code of assignee) the within-mentioned Certificate and hereby irrevocably constitute(s) and appoint(s) __________________, attorney, to transfer the same on the books of the Trustee with full power of substitution in the premises.

Dated: _________________________

____

Note: The signature(s) to this Assignment must correspond with the name(s) as written on the face of the within Certificate in every particular, without alteration or enlargement or any change whatsoever.

Signature Guaranteed By:

____

Note: Signature(s) must be guaranteed by a member firm of the New York stock exchange or a commercial bank or trust company.

ATTACHMENT I

FORM OF REQUISITION - CONVERSION COSTS OF DELIVERY FUND

REQUISITION NO. ___

Conversion Costs of Delivery Fund

The undersigned, Robert Hemker, hereby certifies as follows:

1. I am the Chief Financial Officer of Palomar Pomerado Health, a local health care district duly organized and existing under and pursuant to the laws of the State of California (the "District").

2. Pursuant to the provisions of that certain Trust Agreement, dated as of December 1, 2006 (as amended and supplemented, the "Trust Agreement"), between the North San Diego County Health Facilities Financing Authority and U.S. Bank, National Association, as trustee (the "Trustee"), I am an Authorized Representative of the District (as such term is defined in the Trust Agreement) and I am delivering this Requisition on behalf of the District. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Trust Agreement.

3. The undersigned hereby requests that the Trustee pay from the Conversion Costs of Delivery Fund created pursuant to Section 3.03 of the Trust Agreement the amounts specified in Schedule I hereto to the persons identified in Schedule I.

4. The undersigned, acting on behalf of the District, hereby certifies that: (a) obligations in the amounts set forth in Schedule I attached hereto have been incurred by the District and are presently due and payable; (b) each item is a proper charge against the Conversion Costs of Delivery Fund; and (c) each item has not been previously paid from the Conversion Costs of Delivery Fund.

Dated: _____________.

PALOMAR POMERADO HEALTH

By:________________________________
Chief Financial Officer

Schedule I
To
Requisition No. __

Conversion Costs of Delivery Fund

Party to be Paid	Payment Amount	Nature of Expenditure	Payment Instructions

PRELIMINARY REMARKETING MEMORANDUM DATED [OCTOBER 29], 2008

REMARKETING
NOT A NEW ISSUE—BOOK-ENTRY ONLY **Ratings†**

On December 7, 2006, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the North San Diego County Health Facilities Financing Authority ("Bond Counsel"), delivered its opinion that, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the interest portion of the Installment Payments paid by Palomar Pomerado Health under the Installment Sale Agreement and received by the Holders of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Bond Counsel's opinion also stated that the interest portion of such Installment Payments paid by Palomar Pomerado Health and received by the Holders of the Certificates was not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observed that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expressed no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates. In the opinion of Bond Counsel to be delivered on the date of conversion for each Series of Certificates, the conversion described herein will not, in and of itself, impair the exclusion of the interest component represented by the Certificates from gross income for purposes of federal income taxation. Bond Counsel is not rendering any opinion on the current tax status of the interest portion of the Installment Payments. See "TAX MATTERS" herein.

$[174,775,000]∗
CERTIFICATES OF PARTICIPATION
Evidencing Proportionate Interests of the Holders Thereof
in Installment Payments to be Paid by

PALOMAR POMERADO HEALTH

	$[58,250,000]* Series 2006A	$[58,300,000]* Series 2006B	$[58,225,000]* Series 2006C
Conversion Dates:	November [18], 2008	November [19], 2008	November 20, 2008

Dated Date of Original Issuance: December 7, 2006 **Due: November 1, as shown on the inside front cover hereto**

This Remarketing Memorandum has been prepared to provide information in connection with conversion of $[58,250,000]* Series 2006A Certificates (the "Series 2006A Certificates"), $[58,300,000]* Series 2006B Certificates (the "Series 2006B Certificates") and $[58,225,000]* Series 2006C Certificates (the "Series 2006C Certificates," together with the Series 2006A Certificates and the Series 2006B Certificates, collectively, the "Certificates" and each, a "Series of Certificates") to Certificates accruing interest at fixed interest rates to their respective maturities following the mandatory tender thereof on the applicable Conversion Date set forth above and on the inside front cover hereto.

The Certificates evidence undivided ownership interests in Installment Payments being paid by Palomar Pomerado Health, a local health care district located in north San Diego County, California ("PPH"), under an Installment Sale Agreement, dated as of December 1, 2006 (the "Sale Agreement"), between the North San Diego County Health Facilities Financing Authority (the "Authority") and PPH. The obligation of PPH to make Installment Payments is a limited obligation of PPH, and is payable solely from its Gross Revenues (defined herein). The Authority has assigned its rights to receive the Installment Payments to U.S. Bank National Association, as trustee (the "Trustee"), pursuant to a Trust Agreement, dated as of December 1, 2006, as supplemented and amended from time to time, including by the Second Supplemental Trust Agreement, dated as of November 1, 2008 (as so supplemented and amended, the "Trust Agreement"), between the Authority and the Trustee. The obligations of PPH to make Installment Payments are further secured by Obligation No. 2 issued pursuant to the provisions of the Master Trust Indenture, dated as of December 1, 2006, as supplemented, between PPH and U.S. Bank National Association, as master trustee.

Assuming satisfaction of certain conditions, each Series of Certificates will be converted on the applicable Conversion Date. Commencing on the applicable Conversion Date, the principal evidenced and represented by each Series of Certificates will become due and payable on the dates and in the amounts and each Series of Certificates will accrue interest at the rates, all as set for on the inside front cover hereto. Also commencing on the applicable Conversion Date, interest evidenced and represented by each Series of Certificates will become payable on May 1 and November 1 of each year, commencing May 1, 2009.

Upon conversion the Certificates will be delivered in fully registered form only and initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will continue to act as the securities depository. The Certificates will be in book-entry-only form (without physical certificates) in denominations of $5,000 and any integral multiple thereof, as more fully described herein. For so long as DTC or its nominee, Cede & Co., is the registered owner of the Certificates, (i) payments of the principal and interest with respect to such Certificates will be made directly to Cede & Co. for payment to its participants for subsequent disbursement to the beneficial owners, and (ii) all notices, including any notice of prepayment shall be mailed only to Cede & Co. See APPENDIX F – "BOOK-ENTRY ONLY SYSTEM" hereto.

PPH's obligations under the Sale Agreement, including its obligation to make Installment Payments, are limited obligations of PPH and are payable by PPH solely from its Gross Revenues (defined herein).

The Certificates are be subject to optional, extraordinary and mandatory prepayment prior to maturity, as described herein.

The scheduled payment of principal and interest with respect to the Certificates when due is guaranteed under an insurance policy issued in connection with the delivery of the Certificates on December 7, 2006 (the "Insurance Policy") by FINANCIAL SECURITY ASSURANCE INC. (the "Insurer").

[FSA Logo]

PPH IS NOT OBLIGATED TO PAY INSTALLMENT PAYMENTS EXCEPT FROM ITS GROSS REVENUES. THE CERTIFICATES DO NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATE PPH TO LEVY OR TO PLEDGE ANY TAXES THEREFOR OR TO PAY THE INSTALLMENT PAYMENTS, EXCEPT FROM ITS GROSS REVENUES.

This cover page contains certain information for quick reference only. It is not intended to be a summary of the security or terms of the Certificates. Investors are instructed to read the entire Remarketing Memorandum to obtain information essential to the making of an informed investment decision.

The Certificates will be remarketed by Citigroup Global Markets Inc., as Remarketing Agent, subject to the approval of certain legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, and the approval of certain matters for PPH by general counsel to PPH, Janine Sarti, Esq. Certain legal matters will be passed upon for the Remarketing Agent by Squire, Sanders & Dempsey L.L.P. It is expected that upon conversion, the Series 2006A Certificates, the Series 2006B Certificate and the Series

† For an explanation of the ratings, see "RATINGS" herein.

∗ Preliminary, subject to change.

2006C Certificates, in book-entry form will be available for delivery through the facilities of DTC on or about November 18, 2008, November 19, 2008 and November 20, 2008, respectively.

CITI

Date: _________, 2008

MATURITY SCHEDULE*

$[174,775,000]
CERTIFICATES OF PARTICIPATION
Evidencing Proportionate Interests of the Holders Thereof
in Installment Payments to be Paid by

PALOMAR POMERADO HEALTH

$[58,250,000] Series 2006A Certificates
Conversion Date: November 18, 2008

$___________ Series 2006A Serial Certificates

Certificate Payment Date November 1	Principal Amount	Interest Rate	Yield	CUSIP©

$___________ ____% Series 2006A Term Certificates due November 1, ____ Yield ____% CUSIP© ____

$[58,300,000] Series 2006B Certificates
Conversion Date: November 19, 2008

$___________ Series 2006B Serial Certificates

Certificate Payment Date November 1	Principal Amount	Interest Rate	Yield	CUSIP©

$___________ ____% Series 2006B Term Certificates due November 1, ____ Yield ____% CUSIP© ____

$[58,225,000] Series 2006C Certificates
Conversion Date: November 20, 2008

$___________ Series 2006C Serial Certificates

Certificate Payment Date November 1	Principal Amount	Interest Rate	Yield	CUSIP©

* Preliminary, subject to change.

$___________ ____% Series 2006C Term Certificates due November 1, ____ Yield ____% CUSIP© ____

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This Remarketing Memorandum does not constitute an offer to sell the Certificates or the solicitation of an offer to buy, nor shall there be any sale of the Certificates by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, broker, salesperson or any other person has been authorized to give any information or to make any representation other than those contained herein in connection with the offering of the Certificates, and, if given or made, such information or representation must not be relied upon. The Remarketing Agent has provided the following sentence for inclusion in this Remarketing Memorandum. The Remarketing Agent has reviewed the information in this Remarketing Memorandum in accordance with and as part of its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

The information relating to the Authority set forth herein under the captions "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION—The Authority" has been furnished by the Authority, the information relating to the Insurer and the Insurance Policy set forth herein under the caption "CERTIFICATE INSURANCE" herein and APPENDIX G – "SPECIMEN MUNICIPAL BOND INSURANCE POLICY" hereto has been furnished by the Insurer and the information relating to DTC and the book-entry system set forth herein under the caption "THE CERTIFICATES—General" and in APPENDIX F – "BOOK-ENTRY ONLY SYSTEM" hereto has been furnished by DTC. Such information is believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Remarketing Agent or PPH. All other information set forth herein has been obtained from PPH and other sources (other than the Authority) that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority or the Remarketing Agent. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Remarketing Memorandum nor any sale of the remarketed Certificates made hereunder shall create under any circumstances any indication that there has been no change in the affairs of the Authority, PPH, the Insurer or DTC since the date hereof. This Remarketing Memorandum is submitted in connection with the conversion of securities referred to herein and may not be used, in whole or in part, for any other purpose.

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING THE INSURER CONTAINED UNDER THE CAPTION "CERTIFICATE INSURANCE" AND APPENDIX G – "SPECIMEN MUNICIPAL BOND INSURANCE POLICY" HEREIN, NONE OF THE INFORMATION IN THIS REMARKETING MEMORANDUM HAS BEEN SUPPLIED OR VERIFIED BY THE INSURER, AND THE INSURER MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE CERTIFICATES; OR (III) THE TAX EXEMPT STATUS OF THE INTEREST WITH RESPECT TO THE CERTIFICATES.

IN CONNECTION WITH THE REMARKETING OF THE CERTIFICATES, THE REMARKETING AGENT MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES REMARKETED HEREBY AT LEVELS ABOVE THAT WHICH OTHERWISE MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS REMARKETING MEMORANDUM

Certain statements included or incorporated by reference in this Remarketing Memorandum constitute "forward-looking statements." Such statements generally are identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include but are not limited to certain statements contained in the information under the captions "INTRODUCTION—Plan of Financing" and "PLAN OF FINANCING" in the forepart of this Remarketing Memorandum and the statements contained under the caption "INFORMATION CONCERNING PALOMAR POMERADO HEALTH – MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE" in APPENDIX A.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. PPH does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

REMARKETING MEMORANDUM

$[174,775,000]∗
CERTIFICATES OF PARTICIPATION
Evidencing Proportionate Interests of the Holders Thereof
in Installment Payments to be Paid by

PALOMAR POMERADO HEALTH

$[58,250,000]* Series 2006A $[58,300,000]* Series 2006B $[58,225,000]* Series 2006C

INTRODUCTION

The following introductory statement is subject in all respects to the more complete information set forth in this Remarketing Memorandum. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each document. All capitalized terms used in this Remarketing Memorandum and not otherwise defined herein, in APPENDIX C have the same meaning as in the Master Indenture or the Trust Agreement (each as defined below). See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS—DEFINITIONS OF CERTAIN TERMS."

Purpose of this Remarketing Memorandum

This Remarketing Memorandum, including the cover page, the inside front cover page and the appendices hereto, is provided to furnish information in connection with the conversion and remarketing of $[58,250,000]* aggregate principal amount of Certificates of Participation Series 2006A (the "Series 2006A Certificates"), $[58,300,000]* aggregate principal amount of Certificates of Participation Series 2006B (the "Series 2006B Certificates") and $[58,225,000]* aggregate principal amount of Certificates of Participation Series 2006C (the "Series 2006C Certificates," together with the Series 2006A Certificates and Series 2006B Certificates, collectively, the "Certificates" or individually a "Series of Certificates").

Citigroup Global Markets Inc. will serve as the Remarketing Agent for the Certificates on their respective Conversion Dates.

When originally executed and delivered, each Series of Certificates accrued interest at auction rates. Upon satisfaction of certain conditions, each Series of Certificates will be converted to accrue interest at fixed interest rates to their respective maturities on the applicable conversion date set forth below (each, a "Conversion Date"). The Conversion Date for the Series 2006A Certificates is November 18, 2008. The Conversion Date for the Series 2006B Certificates is November 19, 2008 and the Conversion Date for the Series 2006C Certificates is November 20, 2008.

The Certificates were originally executed and delivered on December 7, 2006 pursuant to a Trust Agreement, dated as of December 1, 2006 (the "Original Trust Agreement"), between the North San Diego County Health Facilities Financing Authority (the "Authority") and U.S. Bank National Association, as trustee (the "Trustee"), which has heretofore been amended and supplemented by a First Supplemental Trust Agreement, dated as of July 1, 2008 (the "First Supplement"), between the Authority and the Trustee. In conjunction with and in order to facilitate the conversion, the Original Trust Agreement, as heretofore supplemented and amended by the First Supplement, is being further amended and supplemented as set forth in the Second Supplemental Trust Agreement, dated as of November 1, 2008 (the "Second Supplement," and, together with the Original Trust Agreement and the First Supplement, hereinafter collectively referred to as the "Trust Agreement"), between the Authority and the Trustee.

The Certificates evidence an undivided proportionate interest of the registered holders thereof (the "Holders") in certain installment payments (the "Installment Payments") being made by Palomar Pomerado Health,

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∗ Preliminary, subject to change.

a local health care district and political subdivision duly organized and existing under the laws of the State of California ("PPH"), under an Installment Sale Agreement, dated as of December 1, 2006 (the "Sale Agreement"), between PPH and the Authority. In conjunction with the original execution and delivery of the Certificates, PPH sold the Authority an interest in certain real property (the "Real Property") in consideration for the payment of a purchase price equal to the proceeds derived from the sale of the Certificates. Simultaneously, the Authority sold the Real Property back to PPH pursuant to the Sale Agreement in consideration for which PPH is required to make the Installment Payments. Under the Trust Agreement, the Authority assigned to the Trustee, without recourse, all of its rights to the Installment Payments.

PPH IS NOT OBLIGATED TO PAY THE INSTALLMENT PAYMENTS EXCEPT FROM ITS GROSS REVENUES. THE CERTIFICATES DO NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY, OBLIGATE PPH TO LEVY OR TO PLEDGE ANY TAXES THEREFOR, OR TO PAY THE INSTALLMENT PAYMENTS EXCEPT FROM ITS GROSS REVENUES.

The Certificates were executed and delivered for the benefit of PPH to finance certain costs relating to the construction, renovation, expansion and equipping of its hospital and medical facilities (See "Facilities Master Plan" and APPENDIX A - "Facilities Master Plan, Service Area and Competition"). Proceeds of the Certificates were also applied to refund certain revenue bonds previously issued by PPH, to pay the premiums for a municipal bond insurance policy and a municipal bond debt service reserve insurance policy, each issued by Financial Security Assurance Inc., and to pay the costs of conversion associated with the Certificates.

Commencing on the applicable Conversion Date, the principal evidenced and represented by each Series of Certificates will become due and payable on the dates and in the amounts, and each Series of Certificates will accrue interest at the rates, all as set forth on the inside front cover hereto. Also commencing on the applicable Conversion Date, interest evidenced and represented by each Series of Certificates will become payable on May 1 and November 1 of each year, commencing May 1, 2009.

PPH and the Obligated Group

PPH owns and operates two acute care hospital facilities, the 324-bed Palomar Medical Center ("PMC") in Escondido that opened in 1950, and the 107-bed Pomerado Hospital ("Pomerado") in Poway that opened in 1977. PPH also owns and operates: two skilled nursing facilities, the [96]-bed Palomar Continuing Care Center in Escondido and the 129-bed Villa Pomerado in Poway; an ambulatory care center in San Marcos; and home health services.

PPH is currently the only member of the Obligated Group created under that certain Master Indenture of Trust, dated as of December 1, 2006, as supplemented (the "Master Indenture"), between PPH and U.S. Bank National Association, as master trustee (the "Master Trustee"). PPH is also referred to herein as the "Obligated Group" or "Obligated Group Member." See APPENDIX A – "INFORMATION CONCERNING PALOMAR POMERADO HEALTH" for additional information about PPH.

The audited financial statements of PPH for the fiscal years ended June 30, 2007 and June 30, 2008 are included in APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF PALOMAR POMERADO HEALTH."

Master Indenture

In order to secure the obligation of PPH to make Installment Payments under the Sale Agreement, PPH has executed and delivered to the Trustee its Master Indenture Obligation No. 2 ("Obligation No. 2") under and pursuant to the Supplemental Master Indenture for Master Indenture Obligation No. 2, dated as of December 1, 2006 ("Supplement No. 2"), between PPH, as sole Obligated Group Member, and the Master Trustee. PPH and any future Obligated Group Members are jointly and severally obligated to make payments on all Master Indenture Obligations issued under the Master Indenture, including Obligation No. 2. Payments on Obligation No. 2 are required to be sufficient to pay, when due, the Installment Payments due from PPH under the Sale Agreement. Obligation No. 2 entitles the Trustee, as the holder of Obligation No. 2, to the protection of the covenants, restrictions and other obligations imposed upon the Obligated Group under the Master Indenture. Pursuant to the

Master Indenture, additional Members may join the Obligated Group and Members may withdraw from the Obligated Group upon compliance with the terms of the Master Indenture. For additional information regarding the Master Indenture, Supplement No. 2 and Obligation No. 2, see "SECURITY FOR THE CERTIFICATES — The Master Indenture" herein and APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS — MASTER INDENTURE."

Certificate Insurance

The scheduled payment of principal and interest with respect to the Certificates, when due, is guaranteed under a municipal bond insurance policy which was issued concurrently with the original delivery of the Certificates (the "Insurance Policy") by Financial Security Assurance Inc. (the "Insurer"). See "CERTIFICATE INSURANCE" herein and a specimen of the Insurance Policy in APPENDIX G hereto.

THE AUTHORITY

The Authority was created by a Joint Exercise of Powers Agreement, dated as of May 27, 2005, between PPH and Tri-City Health Care District (the "Tri-City"). Pursuant to a resolution adopted by the Grossmont Healthcare District ("Grossmont") on April 20, 2007 and accepted by the Authority on May 11, 2007, Grossmont became a member of the Authority. Pursuant to Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "JPA Act"), the Authority has legal authority to exercise any powers common to PPH, Tri-City and Grossmont and to exercise additional powers granted to it under the JPA Act, including entering into the transactions and agreements being entered into in connection with the conversion and remarketing of the Certificates.

THE CERTIFICATES

The following is a summary of certain provisions of the Certificates. Reference is made to the Certificates for the complete text thereof and to the Trust Agreement for all of the provisions relating to the Certificates. The discussion herein is qualified by such reference. The provisions described herein apply to each Series of Certificates upon conversion and reference the provisions of the Original Trust Agreement, as supplemented and amended by the First Supplement and the Second Supplement.

General

On the applicable Conversion Date, each Series of Certificates will accrue interest at the rates and will be payable on the Certificate Payment Dates as set forth on the inside front cover of this Remarketing Memorandum. The Certificates are subject to prepayment, as described under "-Prepayment" below. Interest with respect to the Certificates will be payable semiannually on May 1 and November 1 of each year (each, an "Interest Payment Date"), commencing May 1, 2009.

The Certificates will be remarketed in fully registered form in denominations of $5,000 or any integral multiple thereof. The Certificates will be remarketed and delivered only in book-entry form and, when delivered, will be registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC, as nominee of DTC. DTC will act as securities depository for the Certificates. See APPENDIX F – "BOOK-ENTRY ONLY SYSTEM." Except as described in APPENDIX F – "BOOK-ENTRY ONLY SYSTEM," Beneficial Owners (as defined in APPENDIX F) of the Certificates will not receive or have the right to receive physical delivery of certificates representing their ownership interests in the Certificates. For so long as any purchaser is the Beneficial Owner of a Certificate, such purchaser must maintain an account with a broker or dealer who is or acts through a Direct Participant (as defined in APPENDIX F) to receive payment of the principal and interest with respect to such Certificates and all notices, including any notice of prepayment, shall be mailed only to Cede & Co. (See Appendix F).

Interest payable on any Interest Payment Date will be payable to the registered Holder of the Certificates as of the Record Date for such payment. So long as the Certificates are held in the book-entry system, the principal and interest with respect to the Certificates will be paid to Cede & Co., as the registered Holder, through the facilities of DTC (or a successor Securities Depository). Otherwise, the principal and purchase price with respect to the Certificates is payable upon presentation and surrender thereof at the designated corporate trust office of the Trustee, and interest with respect to the Certificates is payable by check mailed on each Interest Payment Date to the Holders of the Certificates at the close of business on the Record Date in respect of such Interest Payment Date at the addresses of Holders as shall appear on the registration books of the Trustee. In the case of any Holder of Certificates in an aggregate principal amount in excess of $1,000,000 as shown on the registration books of the Trustee who, prior to the Record Date next preceding any Interest Payment Date, shall have provided the Trustee with wire transfer instructions, interest payable with respect to such Certificates shall be paid in accordance with the wire transfer instructions provided by the Holder of such Certificates and at the Holder's risk and expense.

Except as provided in the Trust Agreement, the Trustee will not be required to register the transfer or exchange of any Certificate during the 15 days before any mailing of a notice of prepayment of such Certificates or after such Certificate has been called for prepayment. The Trustee shall require the Certificateholder requesting such transfer or exchange to pay any tax or other charge required to be paid with respect to such transfer or exchange, and the Trustee also may require the Certificateholder requesting such transfer or exchange to pay a reasonable sum to cover expenses incurred by the Trustee or the Authority in connection with such transfer or exchange.

Prepayment*

Optional Prepayment. The Certificates payable as to principal on or prior to November 1, 2016 shall not be prepayable prior to their stated Certificate Payment Date. Certificates payable as to principal on or after November 1, 2017 are subject to prepayment prior to their respective stated Certificate Payment Dates, on after November 1, 2016 at the option of the Authority, which option shall be exercised upon request of PPH given to the Trustee (unless waived by the Trustee) at least 45 days prior to the date fixed for prepayment, in whole or in part, on any date, at a price equal to 100% of the principal component thereof, plus accrued interest with respect thereto to the prepayment date, without premium.

Mandatory Prepayment. Each Series of the Certificates are subject to prepayment prior to their stated Certificate Payment Date, in part, by lot from Mandatory Sinking Account Payments in the amounts and on each November 1 in the years set forth below, at a prepayment price equal to the principal amount thereof plus interest accrued with respect thereto to the date fixed for prepayment, without premium.

Series 2006A Certificates with a Certificate Payment Date of November 1, ____

Mandatory Sinking Account Payment Dates November 1,	Mandatory Sinking Account Payments
†	

† Final Maturity.

Series 2006A Certificates with a Certificate Payment Date of November 1, ____

Mandatory Sinking Account Payment Dates	Mandatory Sinking Account

* Preliminary, subject to change.

November 1,	Payments
†	

† Final Maturity.

Series 2006B Certificates with a Certificate Payment Date of November 1, ____

Mandatory Sinking Account Payment Dates November 1,	Mandatory Sinking Account Payments

† Final Maturity.

Series 2006B Certificates with a Certificate Payment Date of November 1, ____

Mandatory Sinking Account Payment Dates November 1,	Mandatory Sinking Account Payments

† Final Maturity.

Series 2006C Certificates with a Certificate Payment Date of November 1, ____

Mandatory Sinking Account Payment Dates November 1,	Mandatory Sinking Account Payments

† Final Maturity.

Series 2006C Certificates with a Certificate Payment Date of November 1, ____

Mandatory Sinking Account Payment Dates November 1,	Mandatory Sinking Account Payments

† Final Maturity.

Extraordinary Prepayment. The Certificates are also subject to prepayment prior to their stated Certificate Payment Date on any date, in whole or in part, in such amounts as may be specified by PPH, at the option of the Authority, which option shall be exercised upon written request by PPH given to the Trustee (unless waived by the Trustee) at least 45 days prior to the date fixed for prepayment, from hazard insurance and condemnation proceeds received with respect to the facilities of any Member of the Obligated Group and deposited in the Special Prepayment Account, at the principal amount and interest accrued with respect thereto to the date fixed for prepayment, without premium.

Notice of Prepayment; Effect of Prepayment. The Trustee is required to mail notice of prepayment by first-class mail not less than 15 days and not more than 60 days prior to the prepayment date, to the respective Holders of any Certificates designated for prepayment at their addresses appearing on the certificate registration books of the Trustee. The Certificates (or portions thereof) so called for prepayment shall become due and payable at the Prepayment Price specified in such notice, together with the interest accrued with respect to such Certificates to the prepayment date. Interest with respect to Certificates so called for prepayment shall cease to accrue from and after the prepayment date, such Certificates (or portions thereof) shall cease to be entitled to any benefit or security under the Trust Agreement, and the Holders of such Certificates shall have no rights in respect thereof except to receive payment of the Prepayment Price and accrued interest to the prepayment date specified in such notice. The failure by the Trustee to mail notice of prepayment to any one or more of the Holders of any Certificates designated for prepayment shall not affect the sufficiency of the proceedings for the prepayment of the Certificates with respect to the Holder or Holders to whom such notice was mailed.

Any notice of prepayment (other than notice of Mandatory Sinking Account prepayment) given pursuant to the Trust Agreement may be rescinded by written notice given to the Trustee by PPH no later than five Business Days prior to the date specified for prepayment. The Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner and to the same Persons as notice of such prepayment was given pursuant to the Trust Agreement.

Annual Payment Requirements

The following table sets forth for each Certificate Year ending November 1, the total payments with respect to the Certificates and total debt service on $[1999 Par Outstanding] aggregate principal amount of the Palomar Pomerado Health System Insured Refunding Revenue Bonds, Series 1999 (the "1999 Bonds") of PPH that will be outstanding after delivery of the remarketed Certificates.

	The Certificates				
Year Ending November 1,	Principal Component[(1)]	Interest Component	Total Payment Requirements on the Certificates	Total Payment Requirements on 1999 Bonds[[(1)]]	Total Payment Requirements
2009				$8,255,475.00	
2010				8,247,325.00	
2011				8,249,937.50	
2012				8,254,006.26	
2013				8,248,456.26	
2014				8,247,750.00	
2015				-	
2016				-	
2017				-	
2018				-	
2019				-	
2020				-	
2021				-	
2022				-	
2023				-	
2024				-	
2025				-	
2026				-	
2027				-	
2028				-	
2029				-	
2030				-	
2031				-	
2032				-	
2033				-	
2034				-	
2035				-	
2036				-	
Total				**$49,502,950.02**	

(1) Reflects mandatory sinking account redemptions.

SECURITY FOR THE CERTIFICATES

General

The Certificates represent undivided proportionate ownership interests in the Installment Payments required to be made by PPH under the Sale Agreement to the Trustee, as the assignee of all of the Authority's rights to such Installment Payments. PPH's obligations under the Sale Agreement, including its obligation to make Installment Payments, are limited obligations of PPH and are payable by PPH solely from its Gross Revenues (defined below). For a description of the provisions of the Trust Agreement, the Sale Agreement, and the Master Indenture, including covenants of PPH, see APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS."

PPH IS NOT OBLIGATED TO PAY THE INSTALLMENT PAYMENTS EXCEPT FROM ITS GROSS REVENUES. THE CERTIFICATES DO NOT DIRECTLY OR

INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATE PPH TO LEVY OR TO PLEDGE ANY TAXES THEREFOR OR TO PAY THE INSTALLMENT PAYMENTS, EXCEPT FROM ITS GROSS REVENUES.

Installment Payments

Under the Sale Agreement, PPH is obligated to make Installment Payments, which have separately designated principal components and the interest components. The Authority has assigned the Installment Payments to the Trustee for the benefit of the Holders of the Certificates.

PPH is also required in the Sale Agreement to make Supplemental Payments to pay: fees of the Trustee, accountants, management consultants, attorneys and other experts required to perform services required under the Sale Agreement, the Trust Agreement or the Purchase Agreement; reasonable fees and expenses of the Authority associated with the financing; amounts payable to the Insurer under the Trust Agreement; and all other reasonable and necessary fees and expenses attributable to the Sale Agreement. PPH is not obligated to pay Installment Payments, Supplemental Payments or any other payments under the Sale Agreement except from Gross Revenues (defined under "SECURITY FOR THE CERTIFICATES — The Master Indenture – Pledge of Gross Revenues" below).

Trust Agreement

Generally. Pursuant to the Trust Agreement, the Authority appointed the Trustee: to hold and disburse Installment Payments paid to the Trustee under the Sale Agreement; to execute, deliver and administer the Certificates; to apply and disburse Installment Payments to the Holders of the Certificates; to hold and disburse certain other funds held under the Trust Agreement; and to perform certain other duties. The Trustee in turn accepted such appointment pursuant to the terms of the Trust Agreement.

In order to secure the payment of the principal and interest components of the Certificates under the Trust Agreement, the Authority pledged to the Trustee all of the Authority's rights to any amounts (including proceeds of the original sale of the Certificates) held in any fund or account established pursuant to the Trust Agreement (excepting only moneys in the Rebate Fund); all of the Authority's rights under the Sale Agreement (except for the Authority's rights to payment of its expenses and indemnification); all of the Authority's rights under Obligation No. 2; and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Trust Agreement (excluding the Rebate Fund).

Reserve Fund. A separate fund designated the "Reserve Fund" was established under the Trust Agreement. Upon the original execution and delivery of the Certificates, PPH funded the Reserve Fund by depositing a municipal bond debt service reserve insurance policy issued by the Insurer (the "Surety Bond") and by depositing cash. In July 2008, pursuant to the terms of the Sale Agreement, PPH was required to fund the remaining portion of the Reserve Fund with cash. The cash deposit was funded from a withdrawal from the Project Fund and the Surety Bond was returned to the Insurer. "Reserve Fund Requirement" means, as of any date of calculation, the least of (1) 10% of the principal amount of the Certificates, (2) Maximum Annual Certificate Service on the Certificates and (3) 125% of the average annual payments of (a) interest falling due with respect to then Outstanding Certificates (assuming that all then Outstanding Certificates are retired at the times of and in amounts provided for by Mandatory Sinking Account Payments, and (b) the aggregate amount of Mandatory Sinking Account Payments required to be paid.

The Master Indenture

Joint and Several Obligations. Under the Master Indenture, PPH, may issue or incur, for itself and on behalf of any future Obligated Group Members, Master Indenture Obligations to evidence or secure indebtedness and other obligations. All Obligated Group Members are jointly and severally liable with respect to the payment of each Master Indenture Obligation issued under the Master Indenture. For a discussion of admission to or withdrawal from the Obligated Group, see APPENDIX C –" SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE – Membership in Obligated Group" and "—Withdrawal from Obligated Group."

Obligation Nos. 1, 2, 3, 4 and 5 were issued by PPH pursuant to the Master Indenture at the time of the original delivery of the Certificates. All Obligated Group Members are required to make payments: on Obligation No. 1, in an amount sufficient to pay the principal of and premium, if any, and interest on the 1999 Bonds, when due which are currently outstanding in an aggregate principal amount of $[_______]; on Obligation No. 2, in an amount sufficient to pay the principal components and interest components of the Certificates, when due[; and on Obligation Nos. 3, 4 and 5 in an amount sufficient to pay all amounts required to be paid by the Obligated Group under the Swaps, when due. See "PLAN OF FINANCING—The Swap Transaction" herein.]

Pledge of Gross Revenues. Under the Master Indenture, the Obligated Group: (a) established and maintains a fund designated as the "Gross Revenue Fund" in an account or accounts at such banking institution or institutions as the Obligated Group shall from time to time designate, in writing to the Master Trustee for such purpose (herein called the "Depository Bank(s)"); and, (b) to the extent permitted by law, granted a security interest to the Master Trustee in the Gross Revenue Fund and all of Gross Revenues (defined below) of the Obligated Group to secure the payment of the Required Payments under all Master Indenture Obligations on a parity basis, including payments under Obligation No. 2 sufficient to pay the principal components and interest components of the Certificates. The Obligated Group further agreed that, as long as any Master Indenture Obligations remain unpaid, all of its Gross Revenues will be deposited, as soon as practicable upon receipt, in the Gross Revenue Fund. Amounts in the Gross Revenue Fund may be used and withdrawn by any Obligated Group Member at any time for any lawful purpose except, as provided under the Master Indenture, if any Member of the Obligated Group is delinquent for more than one business day in the payment of any Required Payment and the Master Trustee directs otherwise, as described under "SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE – Gross Revenue Fund" in APPENDIX C.

The term "Gross Revenues" is defined in the Master Indenture to mean all revenues, income, moneys, fees, rates, receipts, rentals, charges, issues and income received by or on behalf of the Obligated Group Members from all sources, including without limitation gifts, bequests, grants, devises and contributions (exclusive of (a) proceeds of ad valorem or other taxes, (b) those gifts, bequests, grants, devises and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of debt service or any Indebtedness or operating expenses of the Obligated Group Members, (c) research grants, the proceeds of which are limited to the direct and indirect costs of specific research or clinical trials, and (d) gifts, bequests, grants, devises and contributions received by any foundation controlled by an Obligated Group Member and not transferred to an Obligated Group Member), moneys received from the operation of the Obligated Group Members' business or the possession of its properties, rentals received from the lease of office space, and proceeds derived from (i) insurance or condemnation awards (except to the extent such proceeds are required by the terms of the applicable insurance policy or the Master Indenture (or other agreements with respect to the Indebtedness which the Obligated Group Members are permitted to incur pursuant to the terms of the Master Indenture) to be used for purposes inconsistent with their use for the payment of Master Indenture Obligation Payments), (ii) accounts receivable, (iii) securities and other interests, (iv) inventory and other tangible and intangible property, (v) medical reimbursement/payment program and agreements (vi) insurance and (vii) contract rights and other rights and assets now or hereafter owned by the Obligated Group Members.

No assets of PPH, other than its Gross Revenues, are pledged to secure Obligations, including Obligation No. 2 securing payment of principal or interest with respect to the Certificates. For information regarding the enforceability of the pledge of Gross Revenues, see "SECURITY FOR THE CERTIFICATES—Limitations on Enforceability—Pledge of Gross Revenues" herein.

Additional Obligations. The Master Indenture permits any Members of the Obligated Group to issue additional Master Indenture Obligations under the Master Indenture to be secured by the provisions of the Master Indenture. All Master Indenture Obligations, regardless of the dates of issuance or maturity, will be of equal rank without preference, priority or distinction of any Master Indenture Obligations issued under the Master Indenture over any other such Master Indenture Obligations, except as expressly provided or permitted in the Master Indenture. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE—Authorization and Issuance of Obligations."

Additional Indebtedness and Liens. Members of the Obligated Group may incur additional Indebtedness and other obligations which may, but need not, be evidenced or secured by additional Master Indenture Obligations.

See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE – Particular Covenants of the Members – Limitation on Indebtedness" herein. Members of the Obligated Group may not create, assume or permit to exist, any Lien on their Property (including Gross Revenues), except Permitted Liens. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE – Particular Covenants of the Members – Limitation on Liens."

Certain Indebtedness and other obligations of the Obligated Group are and may be secured by liens on certain of the Obligated Group's personal property. All such liens are Permitted Liens. See APPENDIX C –" SUMMARY OF PRINCIPAL DOCUMENTS – DEFINITIONS OF CERTAIN TERMS—Permitted Liens."

Additional Covenants. There are additional covenants and restrictions imposed on the Members of the Obligated Group by the Master Indenture, described in APPENDIX C-"SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE." The Insurer has imposed additional covenants on PPH in Supplement No. 2 for the sole benefit of the Insurer. Because these additional covenants may be waived or amended only by the Insurer (so long as the Insurer is not in default under the Insurance Policy), such additional covenants for the sole benefit of the Insurer are not summarized herein or in APPENDIX C.

Limitations on Enforceability

Enforceability of Joint and Several Obligations. Currently, PPH is the only Obligated Group Member. In the future, there may be more than one Obligated Group Member, and in such event, it is possible that the joint and several obligations of an Obligated Group Member to make payments under a Master Indenture Obligation in respect of moneys used by another Obligated Group Member may be avoided in an action brought by creditors of the first Obligated Group Member pursuant to the California fraudulent conveyance statutes or may be avoided for the benefit of other creditors by a debtor or trustee in bankruptcy in the event of the bankruptcy of such Obligated Group Member. Depending upon whether the federal Bankruptcy Code or California fraudulent conveyance statutes are applicable, an obligation may be avoided if (a) the obligation was incurred without receipt by such first Obligated Group Member of "fair consideration" or "reasonably equivalent value," and (b) the obligation renders such first Obligated Group Member "insolvent," as such terms are defined under the applicable statute. Interpretation by the courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. For example, joint and several obligation under the Master Indenture to pay all Obligations issued thereunder, including payments in respect of funds used for the benefit of other Obligated Group Members, may be held to be a "transfer" which makes such Obligated Group Members "insolvent," in the sense that the total amount due under all Obligations could be considered as causing liabilities to exceed its assets. Also, an Obligated Group Member may be deemed to have received less than "fair consideration" for its joint and several obligation because only a portion of the proceeds of the Certificates are to be used to finance facilities occupied or used by such Obligated Group Member. While an Obligated Group Member may benefit generally from facilities financed with an obligation of another Obligated Group Members, the actual cash value of this benefit may be less that the value of the Obligated Group Member's joint and several obligation.

In addition, Obligated Group Members that are nonprofit corporations may be held by a court to be subject to a charitable trust which prohibits payments in respect of obligations incurred by or for the benefit of others. Such a determination may be made if the Obligated Group Member making the payments has insufficient assets remaining to carry out its own charitable functions or, under certain circumstances, if the obligation paid was incurred for purposes inconsistent with or beyond the scope of the charitable purposes of the Obligated Group Member which made the payment. In addition, in the case of governmental bodies, such as PPH, State law imposes limitations on the use of governmental revenues and assets for the benefit of non-governmental entities.

Enforceability of the Sale Agreement, Trust Agreement and Master Indenture. The legal right and practical ability of the Trustee to enforce rights and remedies under the Sale Agreement and the Trust Agreement, and of the Master Trustee to enforce remedies under the Master Indenture, may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors' rights and by application of equitable principles. In addition, enforcement of such rights and remedies will depend upon the exercise of various remedies specified by such documents, which, in many instances, may require judicial actions that are subject to discretion and delay, that otherwise may not be readily available or that may be limited by certain legal principles.

The various legal opinions delivered concurrently with the original delivery of the Certificates were qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings, policy and decisions affecting remedies and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights or the enforceability of certain remedies or document provisions.

Pledge of Gross Revenues. The pledge of Gross Revenues is perfected to the extent that such security interest can be perfected under the law of the State and may, in several instances, be subordinated to the interest and claims of others. Some examples of cases of subordination or prior claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or State bankruptcy or insolvency laws that may affect the enforceability of the Master Indenture or of the pledge of Gross Revenues and (vi) rights of third parties, and in some instances PPH, in Gross Revenues constituting cash or instruments and not in the possession of the Master Trustee or the Depository Bank(s). In addition, it may not he possible to perfect a pledge in any manner whatsoever in certain types of Gross Revenues (e.g., gifts, donations, certain insurance proceeds and Medicare or Medi-Cal payments) prior to actual receipt by PPH for deposit in the Gross Revenue Fund. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE—Gross Revenue Fund."

Bankruptcy. In the event PPH commences a bankruptcy case under chapter 9 of the federal Bankruptcy Code (the "Bankruptcy Code"), the rights and remedies of the Holders would be subject to various provisions of the Bankruptcy Code. An involuntary chapter 9 case cannot be commenced against PPH; only voluntary chapter 9 cases are permitted under the Bankruptcy Code. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against PPH and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over such property, as well as various other actions to enforce, maintain or enhance the rights of the Trustee, other than the right to apply pledged Gross Revenues to payment of the Master Indenture Obligations.

PPH can use the Gross Revenues and proceeds thereof to pay the necessary operating expenses of the project or system from which such Gross Revenues or proceeds are derived, despite any security interest of the Master Trustee therein, but such funds might not be available to PPH to pay other creditors and for the financial rehabilitation of PPH. The rights of the Trustee and Master Trustee to enforce their respective interests and liens could be delayed during the pendency of the rehabilitation proceeding.

PPH could file a plan for the adjustment of its debts in any such proceeding, which could include provisions modifying or altering the rights of creditors generally or any class of them, secured or unsecured. In a case under chapter 9 of the Bankruptcy Code, creditors are not authorized to file a plan for the reorganization of the debtor. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which conditions are that the plan shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if (with certain exceptions) creditors holding at least two-thirds in dollar amount and more than one-half in number of the claims in the class which vote to accept or reject the plan cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

In addition, the obligation of PPH to pay principal and interest with respect to the Certificates is not secured by a lien on or security interest in any assets or revenues of PPH, other than the pledge under the Master Indenture on Gross Revenues, the funds on deposit in the Gross Revenue Fund and the lien on certain funds held by Trustee under the Trust Agreement, as described in APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – TRUST AGREEMENT – Pledge and Assignment." Except with respect to such pledge of Gross Revenues, the Gross Revenue Fund and such funds held under the Trust Agreement, in the event of a bankruptcy of PPH, Holders would not have a claim against PPH or be unsecured creditors of PPH. For discussion of limitations on pledge on Gross Revenues, see "-Pledge of Gross Revenues" above.

In the event of bankruptcy of PPH, there is no assurance that certain covenants, including tax covenants, contained in the Sale Agreement or other documents would survive. Accordingly, PPH could take action that would adversely affect the exclusion of interest on the Certificates from gross income for federal income tax purposes.

CERTIFICATE INSURANCE

Insurance Policy

Concurrently with the original execution and delivery of the Certificates, the Insurer issued its Insurance Policy for the Certificates. The Insurance Policy guarantees the scheduled payment of principal and interest with respect to the Certificates when due, as set forth in the form of the Insurance Policy included as APPENDIX G to this Remarketing Memorandum.

The Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

[***FSA to provide updates***]

The Insurer is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or the Insurer is liable for the obligations of the Insurer.

At September 30, 2006, Financial Security's combined policyholders' surplus and contingency reserves were approximately $2,581,107,000 and its total net unearned premium reserve was approximately $1,992,163,000 in accordance with statutory accounting principles. At September 30, 2006, Financial Security's consolidated shareholder's equity was approximately $3,058,987,000 and its total net unearned premium reserve was approximately $1,590,538,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of the Insurer included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Remarketing Memorandum. All financial statements of the Insurer included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Remarketing Memorandum and before the termination of the offering of the Certificates shall be deemed incorporated by reference into this Remarketing Memorandum. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Insurance Policy does not protect investors against changes in market value of the Certificates, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. The Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates. The Insurer makes no representation regarding the Remarketing Memorandum, nor has it participated in the preparation thereof, except that the Insurer has provided to the Authority and PPH the information presented under this caption for inclusion in this Remarketing Memorandum.

FACILITIES MASTER PLAN

As indicated above, the Certificates were executed and delivered to finance certain costs of the construction, renovation, expansion and equipping of its hospital and medical facilities included in PPH's Facilities Master Plan (discussed in APPENDIX A under the heading "FACILITIES MASTER PLAN, SERVICE AREA AND COMPETITION-Facilities Master Plan"). Funding sources for the Facilities Master Plan include: (i) a total of $496 million of general obligation bonds ("GO Bonds") to be issued by PPH in several series; (ii) the Certificates and additional revenue obligations to be executed and delivered or issued, as applicable, by PPH in one or more series; and (iii) cash reserves and philanthropy. The voters of PPH approved $496 million of GO Bonds at a November 2, 2004 election by more than a two-thirds majority. As of the date of this Remarketing Memorandum, PPH will have issued $321,083,819 aggregate principal amount of GO Bonds in two series (the "2005 GO Bonds" and the "2007 GO Bonds") of which $[________] remains outstanding. PPH anticipates issuing a third series of GO Bonds in the principal amount of $[110,000,000] on November 20, 2008 (the "2008 GO Bonds"). The 2005 GO Bonds, the 2007 GO Bonds and the 2008 GO Bonds and all subsequent series of GO Bonds are payable from and secured by a pledge of ad valorem taxes required to be levied by the County of San Diego (the "County") upon all property subject to taxation by PPH for the payment of the principal of and interest on such GO Bonds, without limitation as to rate or amount (except certain personal property, which is taxable at limited rates). Neither the 2005 GO Bonds nor the 2007 GO Bonds is secured and the 2008 GO Bonds, when and if issued will not be, by a pledge of PPH's Gross Revenues. See "CERTIFICATEHOLDERS' RISKS – Significant Risk Areas Highlighted – GO Bonds" below and APPENDIX A – "INFORMATION CONCERNING PALOMAR POMERADO HEALTH – HISTORIC FINANCIAL INFORMATION – Summary of Historical Financial Data."

ESTIMATED SOURCES AND USES

General

Proceeds of the remarketing of the Certificates will be used to (i) pay the purchase price for the Certificates of each Series on the respective Conversion Date; [and] (ii) pay the costs of conversion associated with the Certificates[; and (iii) pay the costs associated with the termination of the Swaps, as described under "—Swap Termination" below and APPENDIX A—"MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE-Outstanding Swap Transactions].

The following table sets forth the estimated sources and uses of proceeds of the remarketed Certificates:

Sources	
Par Amount of the Certificates	**$[174,775,000]**
Net Reoffering Premium	
Total Sources	**$**
Uses	
Payment of the Purchase Price	**$**
Conversion [and Other] Costs[(3)]	
Total Uses	**$**

(1) (3) Includes Remarketing Agent's discount, certain legal fees, printing costs, [costs related to the termination of the Swaps,] rating agency fees and miscellaneous expenses of conversion.

Swap Termination

[In connection with the original execution and delivery of the Certificates, PPH, as the sole Obligated Group Member, entered into the Swaps with Citibank, N.A., New York (the "Swap Provider"). The terms of the Swaps are substantially identical to one another and are secured by Obligation Nos. 3, 4 and 5, which secure the Swaps, relating to the Series 2006A Certificates, the Series 2006B Certificates and the Series 2006C Certificates, respectively. PPH currently anticipates that it will terminate the Swaps pursuant to the terms thereof concurrently with the conversion and remarketing of the Certificates. Upon termination of the Swaps, PPH will be required to make a termination payment to the Swap Provider. PPH anticipations satisfying the termination payment obligation from the following sources in the following order: (1) from net reoffering premium, if any, derived from the remarketing of the Certificates, (2) with proceeds from the original execution and delivery of the Certificates currently on deposit in the Project Fund established under the Trust Agreement or (3) from PPH working capital reserves. See APPENDIX A—"MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE—Outstanding Swap Transactions."]

CERTIFICATEHOLDERS' RISKS

The purchase of the Certificates involves investment risks that are discussed throughout this Remarketing Memorandum. Prospective purchasers of the Certificates should evaluate all of the information presented in this Remarketing Memorandum. This section on Certificateholders' Risks focuses primarily on the general risks associated with the operations and activities of hospitals and health care systems; whereas APPENDIX A describes PPH specifically and APPENDIX B contains financial statements of PPH. These should be read together. This discussion is not intended to be comprehensive or definitive, but rather is to summarize certain matters which could affect payment of the Certificates.

General

The principal component and interest component of the Installment Payments represented by the Certificates are payable solely from the Gross Revenues of PPH. No representation or assurance can be made that Gross Revenues will be realized by PPH in amounts sufficient to make the Installment Payments and thus to pay the principal and interest components of the Certificates. Any of the risk factors described in the Remarketing Memorandum may affect PPH's Gross Revenues and impair its ability to make Installment Payments. There can be no assurance that the financial condition or operations of PPH will not be adversely affected by any of these or other factors.

PPH is a local health care district and political subdivision of the State and as such its powers and the methods of exercising its powers are governed by the laws of the State, which can be, and have been, amended by the State legislature from time to time. PPH and its affiliates are subject to a wide variety of federal and State regulatory actions and legislative and policy changes by those governmental agencies and private entities that administer the Medicare and Medi-Cal (Medicaid) programs and by private entities that administer other payment arrangements. PPH and its affiliates are subject to actions by, among others, the Centers for Medicare and Medicaid Services ("CMS"), the U.S. Department of Health and Human Services ("DHHS"), the National Labor Relations Board, The Joint Commission, and other federal, state and local governmental agencies.

The future financial condition of PPH and its affiliates could be adversely affected by, among other things: changes in the method and amount of payments to PPH and its affiliates by governmental payors, nongovernmental payors, the financial viability of these payors, increased competition from other health care entities, the costs associated with responding to governmental inquiries and investigations, demand for health and medical care, changes in the methods by which employers purchase health care for employees, capability of management, future changes in the economy, demographic changes, availability of physicians and nurses, malpractice claims and other litigation, and changes in the State laws governing local health care districts, hospital operations (including nursing ratios) and licensure, among other factors. These factors and others may adversely affect payment by PPH under the Sale Agreement and Obligation No. 2 and, consequently, on the Certificates.

Set forth below is a limited discussion of certain of the risks affecting the PPH and its ability to make the Installment Payments and thus to pay the Certificates. The discussion below does not cover all such risks and the order of discussion does not indicate importance. Payment provisions for, and regulations and restrictions on, hospitals change frequently and additional material payment limitations and regulations or restrictions may be created, implemented or expanded while the Certificates are Outstanding.

Significant Risk Areas Highlighted

Certain of the primary risks associated with the operations of PPH are briefly summarized in general terms below and are explained in greater detail in subsequent sections. The occurrence of one or more of these and other risks could have a material adverse effect on the financial conditions and results of operations of PPH, and in turn, the ability of PPH to make the Installment Payments.

Reliance on Government Payors. Hospitals and health care systems rely to a high degree on revenues from Medicare and Medicaid. Medicare and Medicaid are the commonly used names for reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Future changes in the underlying law and regulations, as well as in payment policy and timing, creates uncertainty and could have a material adverse impact on hospitals' payments from Medicare and Medicaid. With health care and hospital spending reported to be increasing faster than the rate of general inflation, Congress and/or CMS may take action in the future to decrease or restrain Medicare and Medicaid outlays for hospitals.

Costs and Restrictions from Governmental Regulation. Nearly every aspect of hospital operations is regulated, in some cases by multiple agencies of government. The level and complexity of regulation are increasing, bringing with it operational limitations, enforcement and liability risks, and significant and sometimes unanticipated cost impacts.

Health Care Reform. Federal and State officials have proposed various health care reform plans that, if enacted, would make significant changes in the way health care services are delivered and reimbursed. It is anticipated that more health care reform proposals will be forthcoming. Some proposals are sweeping and would require conforming and complex changes to both federal and State laws addressing many aspects of hospital operations, health care delivery and reimbursement. These changes could result in lower hospital reimbursement, utilization changes, increased government enforcement and other impacts.

Managed Care Exposure. Certain hospital markets, including the communities served by PPH, are strongly impacted by managed care. In these areas, managed care companies have significant bargaining power over hospital rates, utilization and competition. Rate pressure imposed by managed care payors may have a material adverse impact on hospitals, particularly if employer groups and other major purchasers put increasing pressure on payors to restrain rate increases.

Capital Needs vs. Capital Capacity. Hospital and other health care operations are capital intensive. Regulation, technology and physician/patient expectations require constant and often significant capital investment. In California, seismic requirements mandated by the State of California may require that many hospital facilities be substantially modified, replaced or closed. Nearly all hospitals in California are affected. Estimated construction costs are substantial and actual costs of construction may exceed estimates. Total capital needs may exceed capital capacity.

Construction Risks. Construction projects are subject to a variety of risks, including but not limited to delays in issuance of required building permits or other necessary approvals or permits, including environmental approvals, strikes, shortages of materials and adverse weather conditions. Such events could delay occupancy. Cost overruns may occur due to change orders, delays in the construction schedule, scarcity of skilled trade labor, scarcity of building materials and other factors. Cost overruns could cause the costs to exceed available funds. See APPENDIX A – "INFORMATION CONCERNING PALOMAR PERADO HEALTH – MASTER FACILITIES PLAN, SERVICE AREA AND COMPETITION – Master Facilities Plan" and "– OTHER INFORMATION – PMC Site Concerns."

PPH's Status as Local Health Care District. As a local health care district and political subdivision of the State, the powers of PPH and the method of exercising its powers are governed by the laws of the State, which have been, and may in the future be, amended by the State legislature and interpreted by State courts. Such amendments and interpretations could be adverse to PPH. There can often be a tension between the law and rules designed to regulate governmental entities, such as PPH, and the day-to-day operations of a complex health care organization. In addition, as a local health care district, PPH is subject to laws that non-governmental competitors are not, including restrictions on the use of public funds, the Brown Act (which generally requires the PPH Board of Directors to take action only at public meetings), local health care district law (which has been interpreted as, among other things, prohibiting local health care districts from granting indemnities in certain circumstances), and various laws prohibiting conflicts of interest and laws permitting the County's grand jury to investigate complaints made to the grand jury about PPH and to issue reports concerning such investigations. These laws impose additional operational burdens on hospitals run by local health care districts that do not apply to other hospitals, and may result in prosecution or other sanctions, if violated.

GO Bonds. The 2005 GO Bonds and the 2007 GO Bonds issued by PPH to pay a portion of the costs of its Facilities Master Plan are not, and the 2008 GO Bonds and any additional series of GO Bonds will not be, secured by any pledge of or security interest in Gross Revenues. Rather, the 2005 GO Bonds and the 2007 GO Bonds are, and the 2008 GO Bonds and any future series of GO Bonds will not be, secured by a pledge of ad valorem property taxes which the County of San Diego is obligated to levy upon all property subject to taxation by PPH for the payment of principal of and interest on such GO Bonds, without limitation as to rate or amount, (except certain personal property which is taxable at limited rates). In the event the ad valorem property taxes that are pledged by PPH to the payment of its 2005 GO Bonds, the 2007 GO Bonds, the 2008 GO Bonds, if issued, and any future series of GO Bonds are insufficient to pay such GO Bonds, PPH is required by Section 37127 of the Local Health Care District Law to use money in its maintenance and operating fund to make up such insufficiency in such ad valorem taxes to pay such GO Bonds. PPH's Gross Revenues are a part of its maintenance and operation fund which must be used to make up such an insufficiency. PPH anticipates that the ad valorem taxes pledged to pay its GO Bonds will be sufficient to pay the GO Bonds, when due. See APPENDIX A – "INFORMATION CONCERNING PALOMAR POMERADO HEALTH – HISTORICAL FINANCIAL INFORMATION – Summary of Historical Financial Data."

General Economic Conditions; Bad Debt and Indigent Care. Economic downturns and lower funding of the Medicare and Medi-Cal programs may increase the number of patients treated by hospitals who are uninsured or otherwise unable to pay for some or all of their care. These conditions may give rise to increased bad debt and higher indigent care utilization. These factors may have a material adverse impact on hospitals.

Government "Fraud" Enforcement. "Fraud" in government funded health care programs is a significant concern of DHHS, CMS and many states and is one of the federal government's prime law enforcement priorities. The federal government and, to a lesser degree, state governments impose a wide variety of extraordinarily complex and technical requirements intended to prevent over-utilization based on economic inducements, misallocation of expenses, overcharging and other forms of "fraud" in the Medicare and Medicaid programs, as well as other state and federally-funded health care programs. This body of regulation impacts a broad spectrum of hospital commercial activity, including billing, accounting, recordkeeping, medical staff oversight, physician contracting and recruiting, cost allocation, clinical trials, discounts and other functions and transactions.

Violations and alleged violations may be deliberate, but also frequently occur in circumstances where management is unaware of the conduct in question, as a result of mistake, or where the individual participants do not know that their conduct is in violation of law. Violations may occur and be prosecuted in circumstances that do not have the traditional elements of fraud, and enforcement actions may extend to conduct that occurred in the past. The government periodically conducts widespread investigations covering categories of services or certain accounting or billing practices. The government and/or private "whistleblowers" often pursue aggressive investigative and enforcement actions. The government may impose a wide array of civil, criminal and monetary penalties, including withholding essential hospital payments from the Medicare or Medicaid programs, or exclusion from those programs. Aggressive investigation tactics, negative publicity and threatened penalties can be, and often are, used to force settlements, payment of fines and prospective restrictions that may have a materially adverse impact on hospital operations, financial condition and reputation. Multi-million dollar fines and settlements are common. These risks are generally uninsured. Government enforcement and private whistleblower suits may increase in the hospital sector.

Proliferation of Competition. Hospitals increasingly face competition from specialty providers of care and free-standing outpatient facilities, such as diagnostic imaging centers and ambulatory surgery centers. This may cause hospitals to lose essential inpatient or outpatient market share. Competition may be focused on services or payor classifications where hospitals realize their highest margins, thus negatively affecting programs that are economically important to hospitals. These new sources of competition may have material adverse impact on hospitals, particularly where a group of a hospital's principal physician admitters may curtail their use of a hospital service in favor of competitor facilities. The growing consumer movement for pricing transparency may also adversely impact hospitals' charging structure.

Personnel Shortage. Currently, a shortage of physicians and nursing and other technical personnel exists which may have its primary impact on hospitals. Various studies have predicted that this shortage will become more acute over time and grow to significant proportions. In California, State regulation of nurse staff ratios will likely intensify the shortage of nursing personnel. Hospital operations, patient and physician satisfaction, financial condition and future growth could be negatively affected by physician and nursing and other technical personnel shortages, resulting in material adverse impact to hospitals.

Labor Costs and Disruption. Hospitals are labor intensive. Labor costs, including salary, benefits and other liabilities associated with the workforce, have significant impact on hospital operations and financial condition. Hospital employees are increasingly organized in collective bargaining units and may be involved in work actions of various kinds, including work stoppages and strikes. Overall costs of the hospital workforce are high, and turnover is high. Pressure to recruit, train and retain qualified employees is expected to accelerate. These factors may materially increase hospital costs of operation. Workforce disruption may negatively impact hospital revenues and reputation.

Technical and Clinical Developments. New clinical techniques and technology, as well as new pharmaceutical and genetic developments and products, may alter the course of medical diagnosis and treatment in ways that are currently unanticipated, and that may dramatically change medical and hospital care. These could result in higher hospital costs, reductions in patient populations and/or new sources of competition for hospitals.

Pension and Benefit Funds. As large employers, hospitals may incur significant expenses to fund pension and benefit plans for employees and former employees, and to fund required workers' compensation benefits. Funding obligations in some cases may be erratic or unanticipated and may require significant commitments of available cash needed for other purposes.

Medical Liability Litigation and Insurance. Medical liability litigation is subject to public policy determinations and legal procedural rules that may be altered from time to time, with the result that the frequency and cost of such litigation, and resultant liabilities, may increase in the future. Hospitals may be affected by negative financial and liability impacts on physicians. Costs of insurance, including self-insurance, may increase dramatically.

Facility Damage. Hospitals are highly dependent on the condition and functionality of their physical facilities. Damage from earthquake, fires, other natural causes, deliberate acts of destruction, or various facilities system failures may have a material adverse impact on hospital operations and financial status.

Patient Service Revenues

The Medicare Program. Medicare is the federal health insurance system under which hospitals and other health care providers are paid for services provided to eligible elderly and disabled persons. Medicare is administered by CMS, which delegates to the states the process for certifying hospitals to which CMS will make payment. In order to achieve and maintain Medicare certification, hospitals must meet CMS's "Conditions of Participation" on an ongoing basis. Compliance is determined by the state, but hospitals with The Joint Commission accreditation are deemed compliant. The requirements for Medicare certification are subject to change, and, therefore, it may be necessary for hospitals to effect changes from time to time in their facilities, equipment, personnel, billing, policies and services to address such changing requirements.

[PPH TO PROVIDE] PPH's hospitals are Medicare-certified and for the fiscal years ended June 30, 2007 and June 30, 2008, Medicare, inclusive of regular Medicare, Medicare Managed Care and Senior Capitation, represented approximately [____]% and [____]%, respectively, of PPH's gross patient service revenue for such year. See APPENDIX A - "INFORMATION CONCERNING PALOMAR POMERADO HEALTH – HISTORIC FINANCIAL INFORMATION - Sources of Patient Revenue."

In December of 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("MPDIM") was enacted. MPDIM significant changes included, without limitation, the expansion of outpatient prescription drug coverage through the creation of a voluntary prescription drug benefit, the replacement of the Medicare Plus Choice managed care program with a new program, Medicare Advantage, that offers additional health plan options, modifications to coverage and payment for various providers under traditional fee-for-service Medicare, changes to combat waste, fraud and abuse, and reforms to regulatory procedures.

Hospital Inpatient Payments. Hospitals are generally paid a pre-determined payment amount for inpatient services provided to Medicare beneficiaries based on diagnosis-related groups ("DRGs"). The principal diagnosis and principal procedure determine DRG assignment. The DRG rate covers all care provided to a beneficiary during an inpatient stay. The actual cost of providing care, including capital costs, may be more or less than the DRG reimbursement rate. DRG rates are subject to adjustments by CMS and are subject to federal budget considerations. There is no guarantee that DRG rates, as they change from time to time, will cover actual costs of providing services to Medicare patients.

The individual or collective impact of these changes cannot be determined at this time. Additional actions by the federal government in future years affecting Medicare coverage and payment may occur.

Hospital Outpatient and Other Services. Hospitals are also paid a pre-determined payment amount for most outpatient services based upon ambulatory payment classification ("APC") groups. An APC group includes various services and procedures determined to be similar. The APC payment, which bases payment on APC groups rather than on individual services, may not be sufficient to cover the actual costs of the outpatient services. Medicare payment for skilled nursing services, psychiatric services, inpatient rehabilitation services, and home health services are based on regulatory formulas or pre-determined rates.

Part D Drug Benefit. Beginning January 1, 2006, the Medicare Modernization Act of December 2003 ("MMA") implemented a major expansion of the Medicare program through the introduction of a prescription drug benefit under new Medicare Part D. Medicare beneficiaries, who elect Part D coverage and are dual eligible, will be enrolled automatically in Part D and will have their outpatient prescription drug costs covered by this new Medicare benefit, subject to certain limitations. Accordingly, Medicaid will no longer be a significant payor for the prescription pharmacy services provided to these residents. Medicaid will continue as a significant payor for over-the-counter medications.

Ambulatory Surgery Centers ("ASC"). An ASC is a distinct entity that operates exclusively for the purpose of furnishing outpatient surgical services to patients. There are two elements in the total charge for a covered surgical procedure – a charge for the "facility" services (such as use of an operating room) and a charge for the physician's professional services for performing the procedure. Each ASC covered service is assigned to one of the payment groups. ASC facilities are paid according to the rates established in list of covered ASC services. Each covered service is assigned to a "group." Each group has a specified payment rate that applies to all services assigned to that group. These rates, as they may change from time to time, may not be adequate to cover the actual cost of providing these services to Medicare patients.

Inpatient Rehabilitation Facilities ("IRFs"). IRFs are free standing rehabilitation hospitals and rehabilitation units in acute care hospitals. They provide an intensive rehabilitation program and patients who are admitted must be able to tolerate three hours of intense rehabilitation services per day. These facilities are exempt from the Medicare Hospital PPS and are paid under the IRF Prospective Payment System ("IRF PPS"). In order to be paid under the IRF PPS, the facility must submit the IRF-PAI (patient assessment instrument). There is no guarantee that these rates, as they may change from time to time, will be adequate to cover the actual cost of providing these services to Medicare patients.

Skilled Nursing Facilities ("SNFs"). Medicare reimburses SNFs for long-term care services at a predetermined rate, based on the anticipated costs of treating patients. Under this system, reimbursement rates are determined by classifying each patient into a resource utilization group ("RUG"), a category that is based upon each patient's acuity level.

Medi-Cal, the state-administered medical assistance program for the indigent reimburses SNFs for long-term care services for individuals who are Medicaid eligible and qualify for institutional care. Medi-Cal reimbursement rates are generally lower than reimbursement provided by Medicare. There is no guarantee that these rates, as they may change from time to time, will be adequate to cover the actual cost of providing these services to Medicare patients. Given that Medi-Cal outlays are a significant component of state budgets, we expect continuing cost containment pressures on Medicaid outlays for SNF services are expected.

Medicare Advantage. The MMA renamed the Medicare Plus choice program "Medicare Advantage" ("MA") and created new regional PPOs, "special needs plans" for dual eligibles, the institutionalized, or those with severe and disabling conditions, and new private drug plans that went into effect in January 2006. MA plans are generally required to provide all Medicare-covered benefits. Plans with costs below their Medicare payments must distribute savings to beneficiaries as lower plan premiums and co-payments, additional benefits, or a reduction in Part B premiums; or plans can contribute to a reserve fund.

Medi-Cal Program. Medicaid is the joint state-federal assistance program for certain qualifying individuals and their dependants operated by individual states with the financial participation of the federal Government. Medi-Cal is the California Medicaid program. The federal government provides substantial funding to the Medi-Cal program, so long as it meets federal standards. Attempts to balance or reduce the federal budget and/or California's budget will likely negatively impact Medi-Cal spending.

[PPH TO PROVIDE] For the fiscal years ended June 30, 2007 and June 30, 2008, PPH received approximately [____]% and [____]%, respectively, of gross patient service revenues from Medi-Cal programs for such year. See APPENDIX A - "INFORMATION CONCERNING PALOMAR POMERADO HEALTH – HISTORIC FINANCIAL INFORMATION-Sources of Patient Revenue."

Under a five-year federal Medicaid waiver most recently approved by CMS in 2005, the State selectively contracts with hospitals to provide acute inpatient services to Medi-Cal patients. The financial impact of selective contracting on a particular hospital depends upon a variety of factors, such as the base contract rates, whether a hospital qualifies as a disproportionate share hospital, the availability of supplemental payments for disproportionate share hospitals and an individual hospital's ability to control costs.

Generally, such selective inpatient contracting is made on a negotiated per diem payment basis, and such payment rates historically have not increased in direct relation to inflation or provider costs. Medi-Cal payments for inpatient hospital services are also subject to an aggregate statewide upper payment limit, under which aggregate payments to non-public hospitals may not exceed the aggregate amount which would have been paid if Medicare payment principles were utilized. Additionally, the total Medi-Cal payments to an individual hospital for inpatient hospital services for any fiscal period may not exceed that hospital's customary charges for the services. Medi-Cal payments for outpatient hospital services are based on fee schedules set by the State.

Generally, the State or the contracting hospitals may terminate Medi-Cal contracts upon 120 days' prior written notice. The State also may terminate these contracts without notice under certain circumstances and is obligated to make contractual payments only to the extent the State legislature appropriates adequate funding therefor.

Disproportionate Share Payments. The federal Medicare and the California Medi-Cal programs provide additional payment for hospitals that serve a disproportionate share of certain low income patients. PPH does qualify as a disproportionate share hospital under the Medicare program, but does not qualify as a disproportionate share hospital under the Medicaid program and does not expect to qualify in future years.

State Budget. ***[PPH to describe impact of new State budget]*** The State of California faces severe financial challenges that have resulted in a shortfall between revenue and spending demands. The financial challenges facing the State of California may negatively affect hospitals in a number of ways, including, but not limited to, reductions in Medi-Cal payment rates, a greater number of indigent patients who are unable to pay for their care and/or a greater number of individuals who qualify for Medi-Cal.

California Universal Health Care Proposal. Recently, several proposals have emerged that would, if enacted, expand health care coverage for individuals in California. Early in 2007, Governor Schwarzenegger proposed a plan that would expand health care coverage through various methods, including a mandate that all California residents maintain health coverage and that employers with 10 or more employees offer coverage or contribute 4% of payroll toward the cost of employees' coverage. This plan would be financed through increased federal funding, a 2% fee on physician revenue, a 4% fee on hospital revenue and a sliding scale individual/family contributions of between 3% and 6% of income. Late in 2006, Assembly Speaker Nunez introduced Assembly Bill 8 ("AB 8") that would expand health care coverage through various methods, including expansion of eligibility for the State's Medi-Cal and Healthy Family Programs, creation of a statewide health care purchasing program and modification to the rules governing private individual and group health insurance. AB 8 would be financed through employer and employee contributions and new federal matching dollars associated with public program expansion. As of September 2007, the Assembly and Senate passed AB 8. Governor Schwarzenegger announced his intent to veto AB 8 and called a special legislative session to continue negotiations related to the expansion of health care coverage. ***[UPDATE]*** One or more proposals for financing a compromise measure may be submitted to voters as a ballot measure in 2008.

It is not clear whether, or in what form, any healthcare reform legislation will be enacted in California, nor what impact such legislation would have on the healthcare industry or PPH. If legislation similar to that summarized in the above paragraph is enacted, California hospitals may potentially receive higher reimbursement from Medi-Cal and for indigent care but any net revenue increases may be offset by potentially significant "taxes" on revenues, employers' fees and increased cost of complying with additional regulatory requirements. It is not possible to gauge at this time whether the overall impact would be positive or negative to PPH, but the effects could be material.

[PPH TO PROVIDE] Private Health Care Plans and Managed Care. PPH contracts with several third party payors. For the fiscal year ended June 30, 2007 and June 30, 2008, non-governmental payors, including non-senior capitated managed care, managed care, insurance, and workers' compensation, accounted for approximately [____]% and [____]%, respectively, of the gross patient service revenues of PPH. See APPENDIX A – "HISTORIC FINANCIAL INFORMATION – Sources of Patient Revenue."

Most private health insurance coverage is provided by various types of "managed care" plans, including health maintenance organizations, or HMOs, and preferred provider organizations, or PPOs. To control costs, managed care plans typically contract with hospitals and other providers for discounted prices, review medical services for medical necessity, require members to pay co-payments and deductibles, and channel patients to contracted providers of health care services. Medicare and Medi-Cal also purchase hospital care using managed care options. Payments to hospitals from managed care plans typically are lower than those received from traditional indemnity or commercial insurers.

[PPH TO PROVIDE] For the fiscal years ended June 30, 2007 and June 30, 2008, managed care constituted approximately [____]% and [____]%, respectively, of gross patient service revenues of PPH. See APPENDIX A – "INFORMATION CONCERNING PALOMAR POMERADO HEALTH – HISTORIC FINANCIAL INFORMATION - Sources of Patient Revenue."

In California, managed care plans have replaced indemnity insurance as the prime source of non-governmental payment for hospital services, and hospitals must be capable of attracting and maintaining managed care business. Many HMOs and PPOs currently pay providers on a negotiated fee-for-service basis or, for institutional care, on a fixed rate per day of care, which, in each case, usually is discounted from the typical charges for the care provided. As a result, the discounts offered to HMOs and PPOs may result in payment to a provider that is less than its actual cost. Additionally, the volume of patients directed to a provider may vary significantly from projections, and/or changes in the utilization may be dramatic and unexpected, thus jeopardizing the provider's ability to manage this component of revenue and cost.

Some HMOs employ a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" or otherwise directed to receive care at a particular hospital. A hospital may assume financial risk for the cost and scope of institutional care given. If payment is insufficient to meet a hospital's actual costs of care, or if utilization by such enrollees materially exceeds projections, the financial condition of a hospital could erode rapidly and significantly.

[PPH TO PROVIDE] For the fiscal years ended June 30, 2007 and June 30, 2008, capitated payments constituted approximately [____]% and [____]%, respectively, of gross patient service revenues of PPH. See APPENDIX A – "INFORMATION CONCERNING PALOMAR POMERADO HEALTH – HISTORIC FINANCIAL INFORMATION - Sources of Patient Revenue."

Often, HMO contracts are enforceable for a stated term, regardless of hospital losses and may require hospitals to care for enrollees for a certain time period, regardless of whether the HMO is able to pay a hospital. Hospitals from time to time have disputes with managed care payors concerning payment and contract interpretation issues.

Failure to maintain contracts could have the effect of reducing PPH's market share and net patient services revenues. Conversely, participation may result in lower net income if participating hospitals are unable to adequately contain their costs.

Actions by Purchasers of Hospital Services and Consumers. Major purchasers of hospital services also could take action to restrain hospital charges or charge increases. In California, the California Public Employees' Retirement System, the nation's third largest purchaser of employee health benefits, has pledged to take action to restrain the rate of growth of hospital charges and has excluded certain California hospitals from serving its covered members. As a result of increased public scrutiny, it is also possible that the pricing strategies of hospitals may be perceived negatively by consumers, and hospitals may be forced to reduce fees for their services. Decreased utilization could result, and hospitals' revenues may be negatively impacted.

Negative Rankings Based on Clinical Outcomes and Other Performance Measures

Health plans, Medicare, Medi-Cal, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and physicians. Published rankings such as "score cards," tiered hospital networks with higher co-payments and deductibles for non-emergent use of lower-ranked providers, "pay for performance" and other financial and non-financial incentive programs are being introduced to affect the reputation and revenue of hospitals and the members of their medical staffs and to influence the behavior of consumers and providers such as PPH. Prevalent currently are measures of quality based on clinical outcomes of patient care, reduction in costs, patient satisfaction, and investment in health information technology. Measures of performance set by others that characterize a hospital negatively may adversely affect its reputation and financial condition.

Regulatory Environment

"Fraud" and "False Claims." Health care "fraud and abuse" laws have been enacted at the federal and state levels to broadly regulate the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to the beneficiaries. Under these laws, hospitals and other health care providers can be penalized for a wide variety of conduct, including submitting claims for services that are not provided, billing in a manner that does not comply with government requirements or including inaccurate billing information, billing for services deemed to be medically unnecessary, or billings accompanied by an illegal inducement to utilize or refrain from utilizing a service or product.

Federal and state governments have a broad range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud, including the exclusion of a hospital or other health care provider from participation in the Medicare/Medi-Cal programs, civil monetary penalties, and suspension of Medicare/Medi-Cal payments. Fraud and abuse cases may be prosecuted by one or more government entities and/or private individuals, and more than one of the available sanctions may be, and often are, imposed for each violation.

Laws governing fraud and abuse may apply to hospitals and other health care providers, and to nearly all individuals and entities with which a hospital or other health care provider does business. Fraud investigations, settlements, prosecutions and related publicity can have a catastrophic effect on hospitals and other health care providers. See "-Enforcement Activity" below. Major elements of these often highly technical laws and regulations are generally summarized below.

Criminal Fraud and Abuse Liability. Both individuals and organizations are subject to prosecution under the criminal fraud and abuse statutes. Criminal conviction for an offense may result in substantial fines and/or the provider's exclusion and debarment from all government programs.

Criminal False Claims Act. The criminal False Claims Act or Criminal FCA prohibits anyone from knowingly submitting a false, fictitious or fraudulent claim to the federal government. There are numerous specific rules that a health care provider must follow with respect to the submission of claims. Violation of the Criminal FCA can result in imprisonment of five years and a fine of up to $250,000 for an individual or $500,000 for an organization.

Anti-Kickback Law. The federal "Anti-Kickback Law" is a criminal statute that prohibits anyone from soliciting, receiving, offering or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in return for a referral (or to induce a referral) for any item or service that may be paid by any federal or state health care program. The Anti-Kickback Law applies to many common health care transactions between persons and entities with which a hospital or health care system does business, including hospital-physician joint ventures, hospital-physician integration vehicles (such as a medical foundation), medical director agreements, physician recruitment agreements, physician office leases, purchases from vendors, and other transactions.

Violation or alleged violation of the Anti-Kickback Law can result in settlements that require multi-million dollar payments and compliance agreements. The Anti-Kickback Law can be prosecuted either criminally or civilly. Each violation is a felony, subject to a fine of up to $25,000 for each act (which may be each item or each bill sent to a federal program), imprisonment and/or exclusion from the Medicare and Medi-Cal programs. This fine may be increased to $250,000 for individuals and $500,000 for organizations. In addition, civil monetary penalties of $10,000 per item or service in noncompliance (which may be each item or each bill sent to a federal program) or an "assessment" of three times the amount claimed may be imposed.

Civil Fraud and Abuse Liability. Unlike criminal statutes, which require the government to prove that the health care provider intended to violate the law, civil statutes may be violated simply by the provider's participation in a prohibited financial arrangement or the provider having knowledge that its claims procedures are not in full compliance with the law.

Civil False Claims Act. The civil False Claims Act, or Civil FCA makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government, and may include claims that are simply erroneous. Civil FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the Civil FCA can result in settlements that require multi-million dollar payments and compliance agreements. The Civil FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called "qui tam" actions. Qui tam plaintiffs, or "whistleblowers," can share in the damages recovered by the government or recover independently if the government does not participate. The Civil FCA has become one of the government's primary weapons against health care fraud. Civil FCA violations or alleged violations could lead to settlements, fines, exclusion or reputation damage that could have a material adverse impact on a hospital or other health care provider.

Medicare Recovery Audit Contractor Reviews ("RAC Audits"). ***[TO BE UPDATED]*** On March 28, 2005, CMS announced a three year demonstration project using recovery audit contractors to audit claims made by hospitals in California, Florida and New York. Since that time, hospitals in each of these states, including the hospitals operated by PPH, have received RAC Audit requests on an on-going basis and in the normal course of business. In some cases, the audits may lead to repayment demands, while in other cases the audit results may indicate additional moneys due to the hospitals being audited. PPH has responded directly to the RAC Audit requests and, as of the date hereof, has made repayments to the Medicare program to the extent claims were determined to be valid. As of the date hereof, the amount of repayments has not been material.

Stark Referral Law. The federal "Stark" statute prohibits the referral by a physician of Medicare and Medi-Cal patients for certain designated health services (including inpatient and outpatient hospital services, clinical laboratory services, and various diagnostic imaging services) to entities with which the referring physician has a financial relationship. It also prohibits a hospital or other health care provider furnishing the designated services from billing Medicare, or any other payor or individual, for services performed pursuant to a prohibited referral. The government does not need to prove that the entity knew that the referral was prohibited to establish a Stark violation. Many ordinary business practices and economically desirable arrangements between physicians and hospitals or other health care providers arguably constitute "financial relationships" within the meaning of the Stark statute. The prohibition on referrals and billing would be triggered by the financial relationship unless the relationship fully complied with one of several exceptions. Most providers of the designated health services with physician relationships have some exposure to liability under the Stark statute.

Medicare may deny payment for all services related to a prohibited referral and a hospital or other health care provider that has billed for prohibited services may be obligated to refund the amounts collected from the Medicare program. For example, if an office lease between a hospital and a large group of heart surgeons is found to violate Stark, a hospital could be obligated to repay CMS for the payments received from Medicare for all of the heart surgeries performed by all of the physicians in the group for the duration of the lease; a potentially significant amount. The government may also seek substantial civil monetary penalties, and in some cases, a hospital or other health care provider may be liable for fines up to three times the amount of any monetary penalty, and/or be excluded from the Medicare and Medi-Cal programs. Potential repayments to CMS, settlements, fines or exclusion for a Stark violation or alleged violation could have a material adverse impact on a hospital or other health care provider.

On September 5, 2007, CMS published the final "Phase III" rules to the Stark Law. These new regulations include modifications to the exceptions for recruitment agreements, indirect compensation arrangements, nonmonetary compensation and personal services arrangements, among others. The Phase III rules are effective December 4, 2007 and may affect the manner in which PPH contracts with physicians and/or physician groups going forward. On November 15, 2007, CMS published a rule that delays until December 4, 2008, some of the new regulations as applied to academic medical centers and not-for-profit integrated health systems. Separate from the final Phase III rules, CMS also released proposed revisions to the Stark Law as part of its proposed revisions to the Medicare Physician Fee Schedule for 2008. If enacted, these proposed revisions could also affect a number of PPH's relationships with physicians and/or physician groups.

Civil Monetary Penalties Law. The federal Civil Monetary Penalties Law ("CMPL") provides for administrative sanctions against health care providers for a broad range of billing and other abuses. A health care provider is liable under the CMPL if it knowingly presents, or causes to be presented, improper claims for reimbursement to a federal or state agency, such as those that administer the Medicare and Medicaid programs. A hospital that participates in arrangements known as "gainsharing," through which the hospital pays physicians to limit or reduce services to Medicare fee-for-service beneficiaries also may be subject to substantial civil monetary penalties.

A health care provider may be found liable under the CMPL even if it did not have actual knowledge of the impropriety of the claim. It is sufficient that the provider "should have known" that the claim was false. Ignorance of the Medicare regulations is no defense. The Secretary of DHHS, acting through the OIG, also has both mandatory and permissive authority to exclude individuals and entities from participation in federal health care programs pursuant to this statute.

HIPAA. The Health Insurance Portability and Accountability Act of 1996, or HIPAA, adds additional criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds or other assets of a health care benefit program. A health care provider convicted of health care fraud could be excluded from Medicare. In addition, HIPAA includes administrative simplification provisions that require standardization of electronic transactions, specific security protections for medical information and processes, privacy protections for patient medical records, and establishment of national employer and provider identifiers. DHHS and CMS have promulgated rules related to electronic transactions, national employer identifiers, national provider identifiers, security, and medical records privacy. Rules regarding national health plan identifiers, claims attachments standards and first report of injury standards have been published in proposed form or are under development.

Exclusions from Medicare or Medi-Cal Participation. The government may exclude a hospital or other health care provider from Medicare/Medi-Cal program participation that is convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, felony fraud against any federal, state or locally financed health care program or a felony offense relating to the illegal manufacture, distribution, prescription or dispensing of a controlled substance. The government also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. Exclusion from the Medicare/Medi-Cal program means that a hospital or other health care provider would be terminated from participation and no program payments can be made. Any hospital exclusion could be a materially adverse event, even within a large hospital system.

Compliance with Conditions of Participation. CMS, in its role of monitoring participating providers' compliance with conditions of participation in the Medicare program, may determine that a provider is not in compliance with its conditions of participation. In that event, a notice of termination of participation may be issued or other sanctions potentially could be imposed.

Enforcement Activity. Enforcement activity against hospitals and health care providers has increased and enforcement authorities have adopted aggressive approaches. Hospitals and other health care providers are frequently subject to audits, investigations or other enforcement actions regarding the health care fraud laws mentioned above. In addition, enforcement agencies increasingly pursue sanctions for violations of health care fraud and abuse laws through civil administrative actions. Administrative regulations may require less proof of a violation than do criminal laws and, thus, health care providers may have a higher risk of imposition of monetary penalties as a result of administrative enforcement actions.

Enforcement authorities are often in a position to compel settlements by providers charged with or being investigated for false claims violations by withholding or threatening to withhold Medicare, Medi-Cal and/or similar payments and/or by instituting criminal action. In addition, the cost of defending such an action, the time and management attention consumed, and the facts of a case may dictate settlement. Therefore, regardless of the merits of a particular case, a hospital or other health care provider could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of any settlement agreement. Prolonged and publicized investigations could be damaging to the reputation and business of a hospital or other health care provider, regardless of outcome. The U.S. Attorney's office for the Southern District of California in particular has shown an aggressive approach to enforcement activity against hospitals and health care providers. In U.S. v. Weinbaum, the federal prosecutors alleged that Tenet Healthsystem, Alvarado Hospital Medical Center ("Alvarado") and former Alvarado CEO Barry Weinbaum paid more than $100 million in illegal kickbacks to physicians through relocation agreements in exchange for patient referrals. While two trials ended in mistrials, in May 2006, the OIG announced plans to exclude Alvarado from participation in Medicare, Medicaid and other federal health care programs. Tenet Healthcare eventually resolved the matter by agreeing to sell or close Alvarado and pay $21 million in civil damages.

Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described above and, therefore, penalties or settlement amounts can be compounded. Generally these risks are not covered by insurance. Enforcement actions may involve multiple hospitals or health care providers in a health system, as the government often extends enforcement actions regarding health care fraud to other hospitals or health care providers in the same organization. Therefore, Medicare fraud related risks identified as being materially adverse as to a hospital or other health care provider could have materially adverse consequences to a health system taken as a whole.

Liability Under State "Fraud" and "False Claims" Laws. Hospitals and other health care providers in California also are subject to state laws related to false claims, anti-kickback, and physician referrals, which pose the possibility of material adverse impact for the same reasons as the federal statutes. In addition, in contrast to federal laws which typically apply only to services rendered to beneficiaries covered under federal or state health care financing programs, these state laws typically apply to services rendered to any patients, regardless of the source of payment for such services.

EMTALA. The Emergency Medical Treatment and Active Labor Act, or EMTALA, is a federal civil statute that requires hospitals to conduct a medical screening for emergency conditions and to stabilize a patient's emergency medical condition before releasing, discharging or transferring the patient. Over the last few years, the federal government has increased its enforcement of EMTALA. A hospital that violates EMTALA is subject to civil penalties of up to $50,000 per offense and exclusion from Medicare and Medi-Cal programs. In addition, a hospital may be liable for any claim by an individual who has suffered harm as a result of a violation of EMTALA.

Licensing, Surveys, Investigations and Audits. Health facilities are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements of state licensing agencies and The Joint Commission. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections or other reviews generally conducted in the normal course of business of health facilities. Loss of, or limitations imposed on, hospital licenses, certifications or accreditations could reduce hospital utilization or revenues, or a hospital's ability to operate all or a portion of its facilities.

Renewal and continuance of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by PPH. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could result in a loss or reduction in PPH's scope of licensure, certification or accreditation, or could reduce the payment received or require repayment of amounts previously remitted.

Environmental Laws and Regulations. Hospitals are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These include but are not limited to: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at a hospital; and requirements for training employees in the proper handling and management of hazardous materials and wastes.

Hospitals may be subject to requirements related to investigating and remedying hazardous substances located on their property, including such substances that may have migrated off the property. Typical hospital operations include the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with the environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance.

Business Relationships and Other Business Matters

Integrated Physician Groups. Hospitals and health care systems often own, control or have affiliations with relatively large physician groups. Generally, the sponsoring hospital or health care system will be the primary capital and funding source for such alliances and may have an ongoing financial commitment to provide growth capital and support operating deficits.

These types of alliances are generally designed to respond to trends in the delivery of medicine to better integrate hospital and physician care, to increase physician availability to the community and/or to enhance the managed care capability of the affiliated hospitals and physicians. These goals may not be achieved, however, and an unsuccessful alliance may be costly and counterproductive to all of the above-stated goals.

Integrated delivery systems carry with them the potential for legal or regulatory risks in varying degrees. The ability of hospitals or health care systems to conduct integrated physician operations may be altered or eliminated in the future by legal or regulatory interpretation or changes, or by health care fraud enforcement. In addition, participating physicians may seek their independence for a variety of reasons, thus putting a hospital or health care system's investment at risk, and potentially reducing its managed care leverage and/or overall utilization.

Indigent Care, Underinsured and Uninsured Patients. PPH may be susceptible to economic and political changes that could increase the number of indigents or their responsibility for caring for this population. General economic conditions that affect the number of employed individuals who have health coverage affects the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, state and federal health care programs (including Medicare and Medi-Cal) may increase the frequency and severity of indigent treatment by such hospitals and other providers. It also is possible that future legislation could require that hospital districts and other providers maintain minimum levels of indigent care.

Physician Medical Staff. The primary relationship between a hospital and physicians who practice in it is through a hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may obtain medical staff membership and clinical privileges, and criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges or who have such membership or privileges curtailed or revoked often file legal actions against hospitals and medical staffs. Such actions may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of a hospital's governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties.

An emerging area of potential risk for all hospitals surrounds the appropriate management of physician conflicts of interest with hospitals that grant practice privileges. Described as "economic credentialing" by physicians who oppose efforts of hospitals to manage the presence of direct competitors within the leadership or boardroom, the issue requires all hospitals to thoughtfully manage these potential conflicts to maintain a healthy, collegial and professional relationship required with the independent medical staff, while ensuring the organization is not suffering irreversible harm from a competitor gaining specific or specialized information not available to the public regarding PPH's plans. In the worst circumstances, such efforts have led to litigation and potentially material impacts on the practice patterns of physicians at a specific facility. It is not possible to predict the course of such decisions or make any assurances that PPH will be successful in managing such conflicts without causing some changes in physician practice patterns, which could have a material effect on PPH.

Competition Among Health Care Providers. Increased competition from a wide variety of sources, including specialty hospitals, other hospitals and health care systems, inpatient and outpatient health care facilities, long-term care and skilled nursing services facilities, clinics, physicians and others, may adversely affect the utilization and revenues of hospitals. Existing and potential competitors may not be subject to various restrictions applicable to hospitals, and competition, in the future, may arise from new sources not currently anticipated or prevalent.

Specialty hospital developments that attract away an important segment of an existing hospital's admitting specialists may be particularly damaging. For example, some large hospitals may have significant dependence on cardiovascular and/or orthopedic surgery programs, as revenue streams from those programs may cover significant fixed overhead costs. If a significant component of such a hospital's cardiovascular or orthopedic surgeons develop their own specialty hospital (alone or in conjunction with a growing number of specialty hospital operators and promoters) taking with them their patient base, a hospital could experience a rapid and dramatic decline in net revenues that is not proportionate to the number of patient admissions or patient days lost. It is also possible that the competing specialty hospital, as a for-profit venture, would not accept indigent patients or other payors and government programs, leaving low-pay patient populations in the full-service hospital. In certain cases, such an event could be materially adverse to a hospital.

Likewise, freestanding ambulatory surgery centers may attract away significant commercial outpatient services traditionally performed at hospitals. Commercial outpatient services, currently among the most profitable for hospitals, may be lost to competitors who can provide these services in an alternative, less costly setting. Full-service hospitals rely upon the revenues generated from commercial outpatient services to fund other less profitable services, and the decline of such business may result in the significant reduction of profitable income. Competing ambulatory surgery centers, more likely a for-profit business, may not accept indigent patients or low paying programs and would leave these populations to receive services in the hospital setting. Consequently, hospitals are vulnerable to competition from ambulatory surgery centers.

Additionally, scientific and technological advances, new procedures, drugs and devices, preventive medicine and outpatient health care delivery may reduce utilization and revenues of a hospital in the future or otherwise lead the way to new avenues of competition. In some cases, hospital investment in facilities and equipment for capital-intensive services may be lost as a result of rapid changes in diagnosis, treatment or clinical practice brought about by new technology or new pharmacology.

Growth of E-Commerce. The growth of e-commerce also may result in a shift in the way that health care is delivered. Persons residing in PPH's service areas may be able to receive certain health services from remote providers. For example, physicians will be able to provide certain services over the internet (e.g., teleradiology and second opinions). Pharmaceuticals and other health services may also now be ordered on-line. Additionally, other service providers in competition with PPH may now compete through this new medium by advertising their services and providing easy registration for competing services over the internet. Also, alternative forms of health care payment including managed care organizations and consumer-driven care, as well as expanded preventive medicine and outpatient treatment, could affect PPH's ability to maintain their market share at current levels.

Technology. Scientific and technological advances, new procedures, drugs and devices, preventive medicine, occupational health and safety, and outpatient health care delivery may reduce utilization and revenues of PPH in the future. Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated and costly equipment and services, and hospitals may have to incur significant costs to acquire the equipment needed to maintain or enhance their competitive position. President Bush has called for the establishment of a nationwide electronic medical records system and created a national health information technology office within DHHS to lead the effort. The costs to acquire and implement an electronic medical records system are significant but it is widely believed that such systems will lead to greater efficiencies in the provision of patient care and improved quality of care. The acquisition and operation of certain equipment and services may continue to be a significant factor in hospital utilization, but the ability of PPH to offer such equipment or services may be subject to the availability of equipment and specialists, governmental approval and the ability to finance such acquisitions and operations.

Antitrust. Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, certain pricing or salary setting activities, and anticompetitive business conduct or practices. The application of the federal and state antitrust laws to health care is evolving, and therefore not always clear. Currently, the most common areas of potential liability for hospitals and other health care providers are joint action among providers with respect to payor contracting, medical staff credentialing disputes and anticompetitive business conduct or practices by hospitals and other health care providers with sufficiently large market share.

Violation of the antitrust laws could result in criminal and/or civil enforcement proceedings by federal and state agencies, as well as actions by private litigants. In certain actions, private litigants may be entitled to treble damages, and in others, governmental entities may be able to assess substantial monetary fines. Moreover, successful private or governmental litigants may obtain injunctive relief that can affect the defendant's ability to conduct or continue certain business practices or activities.

Labor Relations and Collective Bargaining. Hospitals are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to hospitals. Employee strikes or other adverse labor actions may have an adverse impact on operations, revenue and hospital reputation. Approximately two thirds of employees of PPH currently are covered by collective bargaining agreements. See APPENDIX A – "INFORMATION CONCERNING PALOMAR POMERADO HEALTH – OTHER INFORMATION – Employees and Labor Relations."

Health Care Worker Classification. Health care providers, like all businesses, are required to withhold income taxes from amounts paid to employees. If the employer fails to withhold the tax, the employer becomes liable for payment of the tax imposed on the employee. On the other hand, businesses are not required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The Internal Revenue Services (the "IRS") has established criteria for determining whether a worker is an employee or an independent contractor for tax purposes. If the IRS were to reclassify a significant number of hospital independent contractors (e.g., physicians) as employees, back taxes and penalties could be material.

Staffing. In recent years, the health care industry has suffered from a scarcity of nursing personnel, respiratory therapists, pharmacists and other trained health care technicians. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital-specific shortages. Competition for employees, coupled with increased recruiting and retention costs will increase hospital operating costs, possibly significantly, and growth may be constrained. This trend could have a material adverse impact on hospitals.

Effective January 1, 2004, California implemented mandatory nurse staffing ratios for all patient care areas. The impact on California hospitals varies by facility. The required staffing, in aggregate, has proven more costly than prior staffing patterns. The mandatory nurse staffing ratios have been, and continue to be, the subject of legislative actions and judicial challenges seeking to alter the proscribed ratios.

Professional Liability Claims and General Liability Insurance. In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased in health care nationwide, resulting in substantial increases in malpractice insurance premiums, higher deductibles and generally less coverage. Professional liability and other actions alleging wrongful conduct and seeking punitive damages are often filed against hospitals and other health care providers. Insurance does not provide coverage for judgments for punitive damages.

Litigation also arises from the corporate and business activities of hospitals, from a hospital's status as an employer or as a result of medical staff or provider network peer review or the denial of medical staff or provider network privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims or business disputes are not covered by insurance or other sources and may, in whole or in part, be a liability of the hospital or other health care provider if determined or settled adversely.

There is no assurance that PPH will be able to maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover malpractice judgments rendered against PPH or that such coverage will be available at a reasonable cost in the future. For a description of insurance coverage maintained by PPH, see APPENDIX A – "INFORMATION CONCERNING PALOMAR POMERADO HEALTH – OTHER INFORMATION– Insurance and Risk Management."

Certain Risks Relating to the Insurer and the Insurance Policy

The Insurer. In the event that the PPH fails to provide funds to make payment of the principal and interest components with respect to the Certificates when the same shall become due, any Holder of such Certificates shall have a claim on the Insurance Policy for such payments. However, in the event of any acceleration of the due date of such principal component by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking account payment, the payments guarantied under the Insurance Policy shall be made in such amounts and at such times as such payments of the principal component would have been due had there not been any such acceleration. The Insurance Policy does not insure the payment of any prepayment premium payable upon the prepayment of the Certificates.

Purchasers of the Certificates should also note that, while the Insurance Policy will insure payment of the principal component with respect to the Certificates (but not any premium) paid to any Holder of the Certificates in connection with the mandatory or optional prepayment of any Certificate which is recovered from such Holder as a voidable preference under applicable bankruptcy law, such amounts will be repaid by the Insurer to the Holder only at the times and in the amounts as would have been due absent such prepayment unless the Insurer chooses to pay such amount at an earlier date or dates.

Under no circumstances, including the situation in which the interest component with respect to the Certificates becomes subject to federal taxation for any reason, can the maturities of the Certificates be accelerated without the consent of the Insurer, so long as the Insurer performs its obligations under the Insurance Policy. Furthermore, so long as the Insurer performs its obligations under the Insurance Policy, the Insurer may direct, and must consent to, any remedies that the Trustee exercises under the Trust Agreement and the Insurer's consent may be required in connection with amendments to the Trust Agreement in addition to the consent of any Holders of the Certificates.

In the event that the Insurer is unable to make payments of the principal and interest components with respect to the Certificates as such payments become due, the Certificates are payable solely from moneys received by the Trustee pursuant to the Trust Agreement.

In the event that the Insurer is required to pay the principal or interest component with respect to the Certificates, no representation or assurance is given or can be made that such event will not adversely affect the market price for or marketability of the Certificates.

The long-term ratings on the Certificates are dependent, in part, on the claims paying ability or financial strength ratings, as applicable, of the Insurer. The Insurer's current claims paying ability or financial strength ratings are predicated upon a number of factors which could change over time and could result in downgrading of the ratings on the Certificates insured by the Insurer. Such a downgrade could adversely affect the market price for, and marketability of, the Certificates. The Insurer is not contractually bound to maintain its present claims paying ability or financial strength ratings in the future. See "RATINGS" herein.

Creditworthiness of the Insurer. The Insurer's obligations under the Insurer Policy are general obligations of the Insurer. Default by the Insurer may result in insufficient funds being available to pay the principal and interest components with respect to the Certificates. In such event, the remedies available to the Trustee may be limited by, among other things, certain risks related to bankruptcy proceedings, and may also have been altered prior to a default by the Insurer, which has the right, acting with the Trustee, without Holder consent, to amend the applicable provisions of the Trust Agreement governing defaults and remedies and to direct the Trustee to direct remedies with respect to such obligations. The Insurance Policy does not insure the payment of redemption premiums.

Recent Developments Concerning Municipal Bond Insurers. Payment of the principal and interest components with respect to the Certificates when due is insured by the Insurance Policy issued by the Insurer. However, recent developments which have been the subject of substantial discussion in the financial press and which affect the bond insurance business, including that of the Insurer, have had a serious adverse effect on the financial condition of a number of bond insurers, weakening their credit status as reflected in their credit ratings. Therefore, when making an investment decision on the Certificates a prospective Holder should look principally to the ability of PPH to pay the principal and interest components with respect to the Certificates and not simply to the Insurer's ability to pay claims under the Insurance Policy.

No review of the business or affairs of the Insurer has been conducted in connection with the remarketing of the Certificates. No assurance can be given by PPH or the Remarketing Agent as to the Insurer's ability to pay claims under the Insurance Policy. See "CERTIFICATE INSURANCE" herein and APPENDIX G hereto for further information concerning the Insurer and the Insurance Policy, including instructions for obtaining certain financial information concerning the Insurer.

Ratings. The Certificates are rated by Moody's Investors Service ("Moody's") and by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. ("S&P") (see "RATINGS" herein), and payment when due of the principal and interest components with respect to the Certificates is insured by a policy of insurance issued by the Insurer. There is no assurance that any rating will be maintained for any given period of time or that it will not be revised downward, suspended or withdrawn entirely by Moody's or S&P if, in such rating agency's judgment, circumstances so warrant. PPH undertakes no responsibility to oppose any such revision, suspension or withdrawal.

Each of Moody's, S&P and Fitch Ratings (collectively referred to hereinafter as the "Rating Agencies") has recently released statements on the potential effects of downturns in the market for structured finance instruments, including collateralized debt obligations and residential mortgage backed securities, on the claims-paying ability of the bond insurance companies, including the Insurer. On July 21, 2008, Moody's issued a press release stating that it may downgrade the Insurer below Aaa citing concerns about the securities they guarantee and the decreased demand for bond insurance. On August 6, 2008, S&P reaffirmed its AAA rating of the Insurer but revised its outlook to negative. [See "CERTIFICATE INSURANCE–Recent Developments" herein.] Any downward revision, suspension or withdrawal of the ratings or other actions by a Rating Agency may have an adverse effect on the market price of the Certificates. Investors are directed to the Rating Agencies for additional information on their respective evaluations of the financial guaranty industry and individual financial guarantors, including the Insurer

Tax-Exempt Status of Interest on the Certificates

The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Certificates, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds of such obligations, limitations on the investment earnings of such proceeds prior to expenditure, a requirement that certain investment earnings on such proceeds be paid periodically to the United States Treasury, and a requirement that the issuer of the obligations file an information report with the IRS. PPH has covenanted in the Sale Agreement that it will comply with such requirements. Future failure by PPH to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest with respect to the Certificates as taxable, retroactively to the original date of execution and delivery thereof. The Authority has covenanted in the Trust Agreement that it will not take any action or refrain from taking any action that would cause interest on the Certificates to be included in gross income for federal income tax purposes.

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt obligations. The Certificates may be, from time to time, subject to audits by the IRS. On the date of the original execution and delivery of the Certificates, Bond Counsel rendered an opinion with respect to the tax exempt status of the interest portion of the Installment Payments. Bond Counsel is not rendering any opinion on the current tax status of the interest portion of the Installment Payments. See "TAX MATTERS." PPH has not sought to obtain a private letter ruling from the IRS with respect to the Certificates, and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that an IRS examination of the Certificates will not adversely affect the market value of the Certificates. See "TAX MATTERS" herein.

Construction Risks

The development and construction of new or renovated hospital facilities are susceptible to various risks and uncertainties, such as:

- inflation of construction costs;
- general construction risks, including cost overruns, change orders and plan or specification modification, shortages of equipment, materials or skilled labor, labor disputes, unforeseen environmental, engineering or geological problems, work stoppages, fire and other natural disasters, construction scheduling problems and weather interferences;
- changes and concessions required by governmental or regulatory authorities;
- delays in obtaining, or inability to obtain, all licenses, permits and authorizations required to complete and/or operate the project; and
- disruption of existing operations and facilities.

Hospitals and health systems in California are experiencing significant escalation in the estimated costs of hospital facility construction and costs. The anticipated costs and construction period for projects comprising PPH's Facilities Master Plan are based upon budgets, some conceptual design documents and construction schedule estimates prepared by PPH in consultation with PPH's architects and contractors. The cost of any project may vary significantly from initial expectations, and there may be a limited amount of capital resources to fund cost overruns. If cost overruns cannot be financed on a timely basis, the completion of one or more projects may be delayed until adequate funding is available. The completion dates of any of the projects could also differ significantly from expectations for construction-related or other reasons. Assurances cannot be given that any project will be completed, if at all, on time or within established budgets, or that any project will result in increased earnings. Significant delays, cost overruns, or failures of the construction or renovation projects to achieve market acceptance could have a material adverse effect on the hospitals' business, financial condition and results of operations. Furthermore, the projects, including the projects funded by the Certificates, may not help PPH compete with new or increased competition. See APPENDIX A - "INFORMATION CONCERNING PALOMAR POMERADO HEALTH – FACILITIES MASTER PLAN, SERVICE AREA AND COMPETITION - Facilities Master Plan."

Certain permits, licenses and approvals necessary for some of PPH's current or anticipated projects have not yet been obtained. The scope of the approvals required for expansion, development or renovation projects can be extensive and may include state and local land-use permits and building and zoning permits. Unexpected changes or concessions required by local, state or federal regulatory authorities could involve significant additional costs and delay the scheduled openings of the facilities. PPH may not receive the necessary permits, licenses and approvals or obtain the necessary permits, licenses and approvals within the anticipated time frame.

The failure to complete any construction or renovation project as planned, on schedule, within budget or in a manner that generates anticipated profits, could have an adverse effect on the hospitals' business, financial condition and results of operations. Further, the magnitude and scope of construction and renovation projects, and the management of multiple construction and renovation projects at the same time, may divert management resources from ongoing operations and/or construction and/or opening of any one project. Management's inability to devote sufficient time and attention to ongoing operations and/or any one project may have an adverse affect on the ongoing operations of the hospitals or delay the construction or opening of any or all of the projects. Any delay caused by such circumstances could have a negative effect on business and operations.

In addition, although hospital construction and renovation is generally planned to have minimal impact on ongoing operations, no assurances can be given that the construction and renovation at PPH's hospital facilities will not disrupt the ongoing operations of its hospitals or that it will be implemented as planned. Therefore, the construction and renovation of hospital facilities may adversely impact the business, operations and revenues of PPH.

Other Risk Factors

Earthquakes. Many hospitals in California are in close proximity to active earthquake faults. A significant earthquake in southern California could destroy or disable the hospitals of PPH or otherwise severely disrupt their operations and the regional economy.

California requires each acute care hospital in the state to either comply with new hospital seismic safety standards or cease acute care operations by January 1, 2008. Three types of extensions to the January 1, 2008 deadline are permitted. First, delays in compliance with the January 1, 2008 deadline will be permitted if a hospital shows that capacity lost in the closure of a facility cannot be provided by another facility in the area or if a hospital agrees that, on or before January 1, 2013, designated services will be provided by moving into an existing conforming building, relocating to a newly built building or continuing in the building as retrofitted to comply with the standards. Second, the 2013 deadline may be extended up to an additional two years to January 1, 2015 if the hospital demonstrates compliance with certain requirements, including that it is under construction at the time of the request for the extension, has submitted building plans, permits, timelines and status reports to the Office of Statewide Health Planning and Development ("OSHPD) by the requisite deadlines and that it is making reasonable progress in meeting its timeline. Third, an acute care hospital that serves an otherwise underserved community and that qualified for the 2013 extension may further delay compliance upon satisfaction of the stated progress timelines set out in the California law. In addition, OSHPD has been directed to review the previously established seismic performance categories for hospital buildings using a software program, "HAZUS." Re-evaluation under HAZUS may result in buildings being re-categorized so that they will not be required to meet seismic standards until 2030. Management of PPH believes that their facilities that are subject to the seismic requirements will be in compliance with such seismic requirements within the prescribed guidelines; however, no assurance can be given at this time that the deadline will be met. See APPENDIX A – "INFORMATION CONCERNING PALOMAR POMERADO HEALTH – OTHER INFORMATION – Seismic Compliance."

Investments. PPH has significant holdings in a broad range of investments. Market fluctuations may affect the value of those investments and those fluctuations may be and historically have been at times material. For a discussion of PPH's investments, see APPENDIX A – "INFORMATION CONCERNING PALOMAR POMERADO HEALTH – HISTORIC FINANCIAL INFORMATION - Liquidity and Capital Resources."

Risks Related to Outstanding Variable Rate Obligations and Interest Rate Swap Transactions. The Certificates are variable rate obligations, the interest rates on which could rise. Such interest rates vary on a periodic basis and may be converted to a fixed interest rate. However, conversion is a limited protection against rising interest rates because PPH would be required to continue to pay interest at the variable rate until it is able to convert the Certificates to a fixed rate and would be subject to the fixed interest rates then available in the market for credit similar to PPH.

[PPH has entered into the Swaps. The Swaps are subject to periodic "mark-to-market" valuations and at any time may have a negative value to PPH. The Swap counterparty may terminate a Swap upon the occurrence of certain "termination events" or "events of default." PPH may terminate a Swap at any time upon the satisfaction of certain conditions. If either the counterparty to a Swap or PPH terminates such Swap during a negative value situation, PPH may be required to make a termination payment to such Swap counterparty, and such payment could be material.]

Pursuant to the Swaps, the counterparty is obligated to make payments to PPH based on a floating rate index and the applicable notional amount, which payments may be more or less than the variable rates PPH is required to pay with respect to a comparable principal amount of the related series of Certificates, as the case may be. No determination can be made at this time as to the potential exposure to PPH relating to the difference in variable rate payments.

Other Future Risks. In the future, the following factors, among others, may adversely affect the operations of hospitals and other health care providers, including PPH, or the market value of the Certificates, to an extent that cannot be determined at this time.

(a) Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates applicable to hospitals and other health care providers.

(b) Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.

(c) Efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities.

(d) The occurrence of a pandemic or a natural or man-made disaster that could damage PPH's facilities, interrupt utility service to the facilities, result in an abnormally high demand for health care services or workforce loss or otherwise impair PPH's operations and the generation of revenues from the facilities.

(e) Limitations on the availability of, and increased compensation necessary to secure and retain, nursing, technical and other professional personnel.

(f) Reduced demand for PPH management services that might result from decreases in population.

CONTINUING DISCLOSURE

PPH has covenanted for the benefit of Holders and Beneficial Owners of the Certificates to provide certain financial information and operating data by not later than six months following the end of PPH's fiscal year (which currently is June 30) (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed on behalf of PPH with each Nationally Recognized Municipal Securities Information Repository ("NRMSIRs") or the Central Post Office and with a repository designated by the State of California, if any, as the state depository (the "State Repository"). The specific nature of the information to be contained in the Annual Report or the notices of material events is described in the

Continuing Disclosure Undertaking, the form of which is included as APPENDIX E hereto. These covenants have been made by PPH as its written undertaking under SEC Rule 15c2-12. [***PPH CONFIRM***-During the last five years, PPH has complied with its previous continuing disclosure undertakings in all material respects.]

ABSENCE OF MATERIAL LITIGATION

The Authority

[***AUTHORITY TO CONFIRM]*** There is no controversy or litigation of any nature now pending or, to the knowledge of its officers, threatened against the Authority restraining or enjoining the conversion, remarketing or delivery of the Certificates, or in any way contesting or affecting the validity of the Certificates, any proceedings of the Authority taken concerning the execution, sale or delivery or conversion thereof, the pledge or application of any moneys or security provided for the payment of the Certificates, or existence or powers of the Authority relating to the execution or delivery or conversion of the Certificates.]

PPH

[***PPH TO CONFIRM]*** There is no action, suit, proceeding, or investigation at law or in equity before or by any court, public board or body pending or, to PPH's knowledge, threatened against or affecting PPH: restraining or enjoining the conversion, remarketing or delivery of the Certificates; in any way contesting or affecting the validity of the Certificates, any proceedings of PPH taken concerning the execution, sale or delivery thereof, the pledge or application of any moneys or security provided for the payment of the Certificates, existence or powers of PPH relating to the execution or delivery of the Certificates, the Remarketing Agreement, among the Remarketing Agent, PPH and the Authority (the "Remarketing Agreement"), this Remarketing Memorandum, the Purchase Agreement, the Sale Agreement, the Trust Agreement or the Master Indenture or Obligation No. 2 (collectively, the "Certificate Documents"); or wherein an unfavorable decision, ruling or finding would have a materially adverse effect on the business, properties or financial condition of PPH, or the transactions contemplated by this Remarketing Memorandum, the Certificates or the Certificate Documents.]

TAX MATTERS

On December 7, 2006, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("Bond Counsel") delivered its opinion that, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the interest portion of the Installment Payments paid by PPH under the Sale Agreement and received by the Holders of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State personal income taxes. Bond Counsel's opinion also stated that the interest portion of the Installment Payments paid by PPH under the Sale Agreement and received by the Holders of the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observed that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expressed no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates.

In the opinion of Bond Counsel, the conversion of the Certificates to accrue interest at fixed rates to maturity as described herein will not, in and of itself, impair the exclusion of the interest component represented by the Certificates from gross income for purposes of federal income taxation or the exemption of the interest component represented by the Certificates from personal income taxation under the laws of the State of California. A complete copy of the proposed form of conversion opinion of Bond Counsel, to be dated the Conversion Date for each Series of Certificates, is set forth in Appendix D hereto. Bond Counsel is not rendering any opinion on the current tax status of the interest portion of the Installment Payments.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Certificates. PPH has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that the interest portion of the Installment Payments paid by PPH under the Sale Agreement and received by the Holders of the Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in the interest portion of the Installment Payments paid by PPH under the Sale Agreement and received by the Holders of the Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the Certificates. The opinion of Bond Counsel rendered on December 7, 2006 assumed the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of execution and delivery of the Certificates may adversely affect the value of, or the tax status of interest with respect to, the Certificates. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although the opinion of Bond Counsel rendered on December 7, 2006 in connection with the original execution and delivery of the Certificates stated that the interest portion of the Installment Payments paid by PPH under the Sale Agreement and received by the Holders of the Certificates is excluded from gross income for federal income tax purposes and is exempt from the State personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the portion of the Installment Payments paid by PPH under the Sale Agreement and received by the Holders of the Certificates may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, or clarification of the Code or court decisions, may cause interest on the interest portion of the Installment Payments paid by PPH under the Sale Agreement and received by the Holders of the Certificates to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Certificates. Prospective purchasers of the Certificates should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel rendered on December 7, 2006 in connection with the original execution and delivery of the Certificates was based on current legal authority, covered certain matters not directly addressed by such authorities, and represented Bond Counsel's judgment as to the proper treatment of the interest portion of the Installment Payments paid by PPH under the Sale Agreement and received by the Holders of the Certificates for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of PPH, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. PPH has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Certificates ended with their execution and delivery on December 7, 2006, and, unless separately engaged, Bond Counsel is not obligated to defend PPH or the Beneficial Owners regarding the tax-exempt status of the interest portion of the Installment Payments paid by PPH under the Sale Agreement and received by the Holders of the Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than PPH and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which PPH legitimately disagrees, may not be practicable. Any action of the IRS, including, but not limited to, selection of the Certificates for audit, or the course or result of such audit, or an audit of certificates or bonds presenting similar tax issues may affect the market price for, or the marketability of, the Certificates, and may cause PPH or the Beneficial Owners to incur significant expense.

APPROVAL OF LEGALITY

Certain legal matters incident to the conversion and remarketing of the Certificates are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. A complete copy of the proposed form of conversion opinion of Bond Counsel is set forth as APPENDIX D. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Remarketing Memorandum. Certain legal matters will be passed upon for PPH by general counsel to PPH, Janine Sarti, Esq., and for the Remarketing Agent by Squire, Sanders & Dempsey L.L.P. Neither of these law firms undertake and general counsel to PPH does not undertake responsibility for the accuracy, completeness or fairness of this Remarketing Memorandum, except as otherwise stated in their respective opinions delivered upon the conversion and remarketing of the Certificates, and none of such opinions is addressed to or may be relied upon by purchasers upon delivery of the Reoffered Certificates.

REMARKETING

The Certificates are being purchased by Citigroup Global Markets Inc. (the "Remarketing Agent") at an aggregate purchase price of $______________ (which represents the par amount of the Certificates, less the compensation for the Remarketing Agent's services in connection with the remarketing of the Certificates of $__________, plus net reoffering premium of $__________. The fees of the Remarketing Agent are expected to be paid out of the net reoffering premium received in connection with the remarketing of the Certificates. The Remarketing Agreement, which the Remarketing Agent anticipates will be executed on November [__], 2008, provides that the Remarketing Agent will be obligated to purchase all of the Certificates, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions to be satisfied by PPH and the Authority. The Remarketing Agreement contains the agreement of PPH to indemnify the Remarketing Agent and the Authority against certain liabilities to the extent permitted by law. The Remarketing Agent may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the cover page. The offering prices may be changed from time to time by the Remarketing Agent.

INDEPENDENT AUDITORS

The financial statements of Palomar Pomerado Health as of and for the years ended June 30, 2008 and 2007 included in this Remarketing Memorandum in APPENDIX B have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing therein.

FINANCIAL ADVISOR

Kaufman, Hall & Associates, Inc. ("Kaufman Hall"), Los Angeles, California, was engaged by PPH to provide financial advisory services in connection with the conversion of the Certificates. Kaufman Hall is a national consulting firm which acts as capital advisor to health care organizations.

RATINGS

[DISCUSS FSA AND RATINGS]

The Certificates received ratings of "Aaa" and "AAA" by Moody's and by S&P, respectively, based on the Insurance Policy issued by the Insurer concurrently with the original execution and delivery of the Certificates, which Insurance Policy will remain in effect. The Certificates have also been assigned a rating of "[A3]" by Moody's based solely on the credit of PPH.

The ratings reflect only the views of the respective ratings agency, and any explanation of the significance of such ratings should be obtained from S&P and Moody's at the following addresses: Moody's Investor Service, 99 Church Street, New York, NY 10007; and Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc., Public Finance Department, 55 Water Street, New York, NY 10041. In order to obtain Moody's rating, PPH furnished Moody's certain information and materials, some of which has not bee included in this Remarketing Memorandum. Generally, rating agencies base their ratings on such information and materials and their own investigation, studies and assumptions.

There is no assurance that the ratings will be maintained for any given period of time or that they will not be revised downward or suspended or withdrawn entirely by a rating agency, if, in its judgment, circumstances so warrant. PPH undertakes no responsibility to oppose any such revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of the ratings obtained or other actions by a rating agency relating to its ratings may have an adverse effect on the market price of the Certificate. See "CERTIFICATEHOLDERS RISKS—Certain Risks Relating to the Insurer and the Insurance Policy—Ratings" herein.

PPH expects to furnish to each rating agency such information and materials as it may request. PPH, however, assumes no obligation to furnish requested information and materials, and may issue debt for which a rating in not requested. The failure to furnish requested information and materials, or the issuance of debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the Certificates.

MISCELLANEOUS

The references to and the descriptions of the Certificates, the Purchase Agreement, the Sale Agreement, the Trust Agreement, the Master Indenture, Obligation Nos. 1, 2, 3, 4 and 5, the Remarketing Agreement and the Swaps contained herein and in APPENDIX C are brief outlines of certain provisions thereof. Such outlines, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statues for full and complete statements of their provisions. Copies of the documents mentioned under this heading are on file with the Remarketing Agent and following conversion of the Certificates will be on file at the corporate trust office of the Trustee in Los Angeles, California.

The attached Appendices are integral parts of this Remarketing Memorandum and should be read together with the balance of this Remarketing Memorandum. All estimates and other statements in this Remarketing Memorandum involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

This Remarketing Memorandum and its distribution has been approved by the Board of PPH. This Remarketing Memorandum is not to be construed as a contract or agreement between PPH and the purchasers or Holders of any Certificates.

PALOMAR POMERADO HEALTH

By:______________________________________
President and Chief Executive Officer

$[174,775,000]
Certificates of Participation
Evidencing a Proportionate Undivided Interests in
Payments to be Made by Palomar Pomerado Health

$[58,250,000] Series 2006A $[58,300,000] Series 2006B $[58,225,000] Series 2006C

REMARKETING AGREEMENT

November [13], 2008

North San Diego County Health Facilities Financing Authority
c/o Palomar Pomerado Health
15255 Innovation Drive, Suite 204
San Diego, California 92128

Palomar Pomerado Health
15255 Innovation Drive, Suite 204
San Diego, California 92128

Ladies and Gentlemen:

The $[58,250,000] Series 2006A (the "Series 2006A Certificates"), $[58,300,000] Series 2006B (the "Series 2006B Certificates) and the $[58,225,000] Series 2006C (the "Series 2006C Certificates," and together with the Series 2006A Certificates and Series 2006B Certificates, the "Certificates" and individually, a "Series of Certificates") were originally executed and delivered on December 7, 2006 as auction rate securities pursuant to the terms of the Trust Agreement, dated as of December 1, 2006 (as heretofore supplemented and amended, the "Existing Trust Agreement"), between U.S. Bank National Association, as trustee (the "Trustee") and the North San Diego County Health Facilities Financing Authority (the "Authority"), the Installment Sale Agreement, between Palomar Pomerado Health ("PPH") and the Authority, dated as of December 1, 2006 (the "Sale Agreement") and the Installment Purchase Agreement, dated as of December 1, 2006 (the "Purchase Agreement"). At direction of Palomar Pomerado Health ("PPH") the Series 2006A Certificates, the Series 2006B Certificates and the Series 2006C Certificates will be subject to mandatory tender for purchase on November 18, 19 and 20, respectively (each, a "Conversion Date"). Immediately following such mandatory tender on the applicable Conversion Date, each Series of Certificates will be converted to bear interest at fixed interest rates that extend to the final maturity date for such Series of Certificates (the "Reoffered Certificates") pursuant to the Trust Agreement (defined below). Capitalized terms used in this Remarketing Agreement and not otherwise defined herein shall have the meanings ascribed to such terms as set forth in Remarketing Memorandum (as defined herein) or if not defined therein, shall have the meanings ascribed to such terms as set forth in the Trust Agreement (as defined herein).

1. **Reoffering of the Reoffered Certificates.**

(a) Upon the terms and conditions and upon the basis of the representations, covenants and agreements hereinafter set forth, Citigroup Global Markets Inc., as remarketing Agent (the "Remarketing Agent"), hereby agrees to purchase, upon mandatory tender, the Series 2006A Certificates, the Series 2006B Certificates and the Series 2006C Certificates on the applicable Conversion Date, and to remarket the Certificates at an aggregate purchase price of $[_______] (which equals 100% of the principal amount of such Reoffered Certificates, plus a reoffering premium of $[________], less the amount of $[________] as Remarketing Agent's compensation. The purchase price of each Series individually is set forth on Exhibit A hereto. Reoffered Certificates will mature on the dates, bear interest at the rates and will be subject to redemption as set forth in Exhibit A hereto, which is incorporated herein by this reference and as set forth in the Existing Trust Agreement, as supplemented and amended by the Supplemental Trust Agreement, dated as of November 1, 2008 (the "Second Supplement", and, together with the Existing Trust Agreement, collectively, the "Trust Agreement"), between the Authority and the Trustee.

The Reoffered Certificates are insured by a municipal bond insurance policy (the "Insurance Policy") previously issued by Financial Security Assurance Inc. ("FSA") in connection with the original execution and delivery of the Certificates, which will remain in effect.

This offer is made subject to acceptance by delivery of an executed counterpart hereof at or prior to 3:00 p.m., Pacific time, on this date or on such later date as shall have been consented to by the parties hereto.

(b) On the business day prior to the mailing of the Preliminary Remarketing Memorandum (as defined herein), PPH caused Deloitte & Touche LLP to deliver to the Remarketing Agent: (i) an Agreed Upon Procedures Letter in a form acceptable to the Remarketing Agent dated the business day prior to the mailing of the Remarketing Memorandum, addressed to PPH and the Remarketing Agent and including a statement to the effect that they are independent certified public accountants as defined in Rule 101 of the Code of Professional Ethics of the American Institute of Certified Public Accountants with respect to PPH and (ii) a letter dated the date of the mailing of the Preliminary Remarketing Memorandum stating they agree to the inclusion of their report dated [_______], 2008 on the audited financial statements of PPH included as an appendix to the Remarketing Memorandum.

2. **The Reoffered Certificates and Documents.** (a) Each Series of Reoffered Certificates shall have the terms and provisions described in the Remarketing Memorandum and in Exhibit A hereto.

(b) The Authority will execute and deliver the Second Supplement, pursuant to its resolution adopted on [October 24], 2008 (the "Authority Resolution").

(c) PPH previously executed and delivered to the Trustee that certain Master Indenture Obligation No. 2 ("Obligation No. 2") issued under the Master Trust Indenture, dated as of December 1, 2006 (as supplemented and amended to the date hereof, the "Master

Indenture"), between PPH and U.S. Bank National Association, as master trustee. PPH is the sole member of an Obligated Group (the "Obligated Group") created pursuant to the Master Indenture. PPH and any future Member(s) of the Obligated Group are referred to herein as the "Members" and each as a "Member." Obligation No. 2 secures PPH's obligations under the Sale Agreement to pay Installment Payments, when due. Each Member of the Obligated Group is jointly and severally obligated to make payments on Obligation No. 2.

(d) Proceeds of the remarketing of each Series of Certificates will be used to (i) pay the purchase price for the Certificates of such Series on the applicable Conversion Date; [and] (ii) pay the costs of conversion associated with the related Series of Reoffered Certificates[; and (iii) pay the costs associated with the termination of the Swaps (as defined in the Remarketing Memorandum)].

3. **Use of Documents.** The Authority and PPH, as applicable, hereby authorize the Remarketing Agent to use, in connection with the remarketing of the Certificates, copies of this Remarketing Agreement, the Preliminary Remarketing Memorandum, the Remarketing Memorandum, the resolution adopted by the governing body of PPH on [October 20], 2008 (the "PPH Resolution"), the Authority Resolution, the Trust Agreement, the Purchase Agreement, the Sale Agreement, the Master Indenture, Obligation No. 2, the Insurance Policy, and all information contained herein and therein and all of the documents, certificates or statements furnished by PPH or the Authority to the Remarketing Agent in connection with the transactions contemplated by this Remarketing Agreement (except as such other documents otherwise provide).

4. **Public Reoffering of the Certificates.** The Remarketing Agent agrees to make a bona fide public reoffering of all the Certificates at the initial public offering prices or yields to be set forth on the inside front cover page of the final Remarketing Memorandum and Exhibit A hereto. The Remarketing Agent also reserves the right (a) to over allot or effect transactions that stabilize or maintain the market price of the Reoffered Certificates at a level above that which might otherwise prevail in the open market, and (b) to discontinue such stabilizing, if commenced, at any time. A "bona fide public offering" shall include an offering to a representative number of institutional investors or registered investment companies regardless of the number of such investors to which the Reoffered Certificates are remarketed.

5. **Remarketing Memorandum; Continuing Disclosure.** (a) The Remarketing Agent hereby represents that it has received and reviewed the Preliminary Remarketing Memorandum, dated as of [October 29], 2008 (the "Preliminary Remarketing Memorandum"). PPH represents that it deemed the Preliminary Remarketing Memorandum to be final as of its date, except for either revision or addition of the offering price(s), yield(s) to maturity, selling compensation, aggregate principal amount and maturity value, denominational amount and maturity value per maturity, delivery date, rating(s) and other terms of the Reoffered Certificates which depend upon the foregoing, as provided in and under Rule 15c2-12 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12").

(b) The Remarketing Agent agrees that prior to the time the Remarketing Memorandum is available, the Remarketing Agent will send to any potential purchaser of the

Reoffered Certificates, upon the request of such potential purchaser, a copy of the Preliminary Remarketing Memorandum. Such Preliminary Remarketing Memorandum shall be sent by first class mail (or other equally prompt means) not later than the first business day following the date upon which each such request is received.

(c) The Remarketing Agent hereby represents that it will provide, consistent with the requirements of Municipal Securities Rulemaking Board ("MSRB") Rule G-32, for the delivery of a copy of the Remarketing Memorandum to each customer who purchases any Reoffered Certificates during the underwriting period (as such term is defined in MSRB Rule G-11), and deliver a copy of the Remarketing Memorandum to a national repository on or before the applicable Conversion Date, and that it will otherwise comply with all applicable statutes and regulations in connection with the remarketing of the Certificates, including, without limitation, MSRB Rule G-32 and 17 CFR Section 240.15c2-12, promulgated by the Securities and Exchange Commission.

(d) References herein to the Preliminary Remarketing Memorandum and the final Remarketing Memorandum include the cover page and all appendices, exhibits, maps, reports and statements included therein or attached thereto.

6. **Conversion Dates.** (a) At 8:00 A.M., California time, on [November 18], 2008, or at such other time or on such other date as are mutually agreed upon by PPH, the Authority and Remarketing Agent: (i) PPH will deliver or cause to be delivered to the Remarketing Agent, through the facilities of The Depository Trust Company ("DTC"), the remarketed Series 2006A Certificates in fully registered book-entry form, duly executed and registered in the name of Cede & Co., as nominee of DTC, at the offices of Orrick, Herrington & Sutcliffe LLP, San Francisco, California ("Orrick"), and the other documents hereinafter mentioned; and (ii) the Remarketing Agent will accept such delivery and pay, in immediately available funds by wire transfer to the account of the Trustee, the purchase price for the Series 2006A Certificates set forth on Exhibit A hereto.

(b) At 8:00 A.M., California time, on [November 19], 2008, or at such other time or on such other date as are mutually agreed upon by PPH, the Authority and Remarketing Agent: (i) PPH will deliver or cause to be delivered to the Remarketing Agent, through the facilities of The Depository Trust Company ("DTC"), the remarketed Series 2006B Certificates in fully registered book-entry form, duly executed and registered in the name of Cede & Co., as nominee of DTC, at the offices of Orrick, and the other documents hereinafter mentioned; and (ii) the Remarketing Agent will accept such delivery and pay, in immediately available funds by wire transfer to the account of the Trustee, the purchase price for the Series 2006A Certificates set forth on Exhibit A hereto.

(c) At 8:00 A.M., California time, on [November 20], 2008, or at such other time or on such other date as are mutually agreed upon by PPH, the Authority and Remarketing Agent: (i) PPH will deliver or cause to be delivered to the Remarketing Agent, through the facilities of The Depository Trust Company ("DTC"), the remarketed Series 2006C Certificates in fully registered book-entry form, duly executed and registered in the name of Cede & Co., as nominee of DTC, at the offices of Orrick, and the other documents hereinafter mentioned; and (ii) the Remarketing Agent will accept such delivery and pay, in immediately available funds by wire transfer to the account of the Trustee, the purchase price for the Series 2006C Certificates set forth on Exhibit A hereto.

7. **Representations, Warranties and Agreements of PPH.** PPH hereby represents, warrants and agrees with the Authority and the Remarketing Agent that, as of the date hereof and as of each applicable Conversion Date:

(a) Due Organization. PPH is a local health care district, duly organized and validly existing under the provisions of Section 32000 et seq. of the Health and Safety Code of the State of California (the "Act"), with the power to direct the Trustee to execute and deliver the Reoffered Certificates pursuant to the terms of the Trust Agreement, as herein described, under the Act and other applicable law.

(b) Due Authorization; Valid and Binding Obligations. (i) On or before each Conversion Date, PPH will have taken all action required to be taken by it to authorize the remarketing of the related Series of Certificates and delivery of the related Series of Reoffered Certificates; (ii) PPH had the requisite legal right, power and authority: to enter into (or issue, in the case of Obligation No. 2) the Existing Trust Agreement, the Master Indenture, Obligation No. 2, the Purchase Agreement, the Sale Agreement, the Continuing Disclosure Undertaking, dated as of December 1, 2006 (the "Continuing Disclosure Undertaking"), the Tax Certificate of PPH, dated the date of the original execution and delivery of the Certificates (collectively, the "Existing PPH Financing Documents"); (iii) PPH has requisite legal right, power and authority enter into this Remarketing Agreement and to approve the Second Supplement (hereinafter collectively referred to as the "Reoffering Documents"), to adopt the PPH Resolution, to execute and deliver the Remarketing Memorandum and to continue to perform and to observe, perform and consummate, as applicable, its obligations under the Reoffered Certificates, the PPH Resolution, the Existing PPH Financing Documents and the Reoffering Documents and to observe, perform and consummate the transactions contemplated in the Remarketing Memorandum; (iv) PPH has taken all action required to be taken by it to duly authorize the approval, use, execution and delivery of the Remarketing Memorandum; and (v) PPH had the requisite legal right, power and authority to sell the real property described in the Purchase Agreement to the Authority as provided in the Purchase Agreement and to purchase such real property from the Authority as provided in the Sale Agreement; and (vi) each of the Existing PPH Financing Documents constitutes and each of the Reoffering Documents will constitute valid, binding and enforceable obligations of PPH in accordance with their respective terms except as the same may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and except as to the enforceability of indemnification provisions of this Remarketing Agreement, the Existing PPH Financing Documents and the other Reoffering Document.

(c) Consents. Except for the action of parties hereto, no consent, approval, authorization, order, filing, registration, qualification, election or referendum of or by any court or governmental agency or public body whatsoever is required in connection with the adoption of PPH Resolution, the execution and delivery of the Reoffering Documents and the Remarketing Memorandum, the remarketing of the Certificates or delivery of the Reoffered Certificates or the consummation of the other transactions contemplated herein, or by the Existing PPH Financing Documents and by the Reoffering Documents, which have not been taken or obtained, except for such actions as may be necessary to qualify the Reoffered Certificates for remarketing under the Blue Sky or other securities laws and regulations of such states and jurisdictions of the United States as the Remarketing Agent may reasonably request and except for such governmental authorizations, approvals, permits and consents relating to the construction of the improvements to be financed with the Reoffered Certificates as may be required subsequent to the date hereof, all of which PPH reasonably expects to obtain in ordinary course and at the times required.

(d) Internal Revenue Code. PPH has covenanted to comply with the Internal Revenue Code of 1986, as amended, with respect to the Certificates.

(e) No Conflicts. The remarketing of the Certificates, and the execution, delivery and performance of the Reoffering Documents, the PPH Resolution and the Reoffered Certificates, and the compliance with the provisions hereof and thereof and with the provisions of the Existing PPH Financing Documents and the Reoffering Documents: (i) do not and will not conflict with or constitute a violation of or default under, the Constitution of the State of California, the Act, or any other existing law, charter, ordinance, regulation, decree, order or resolution; (ii) do not and will not conflict with or result in a violation or breach of, or constitute a default under, any agreement, indenture, mortgage, lease or other instrument to which PPH is a party or by which it is bound or to which it is subject and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default under any such instrument; and (iii) nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon the revenues and property of PPH, except as expressly provided by the Existing PPH Financing Documents and by the Reoffering Documents.

(f) Approval, Licenses and Authorizations. PPH has obtained, or in timely manner, will obtain, all approvals, licenses, permits, franchises or other governmental authorizations necessary in connection with any use to which proceeds from the original sale of the Certificates and the reoffering of the Certificates are being and will be applied, including, without limitation, any approvals or authorizations required under the California Environmental Quality Act, California Public Resources Code Sections 210002 to 211787 and the regulations thereunder.

(g) Litigation. No action, suit, proceeding, hearing or investigation, at law or in equity before or by any court, public board or public body, is pending, or threatened, against or, to the knowledge of PPH, affecting PPH:

(i) in any way affecting the existence of PPH or in any way challenging the respective powers of the Board of Directors of PPH or the several officers of PPH required to adopt the PPH Resolution, to execute the Reoffering Documents and the Remarketing Memorandum and any other documents or certificates in connection with the execution and delivery of the Reoffered Certificates or of the titles of the officials of PPH to their respective offices; or

(ii) seeking to restrain or enjoin the remarketing of the Certificates or the execution or delivery of any of the Reoffered Certificates or the Reoffering Documents, the application of the proceeds of the remarketing of the Certificates, or the use by PPH of its Gross Revenues to pay Installment Payments, or in any way contesting or affecting the validity or enforceability of the Certificates, the Reoffered Certificates, the Reoffering Documents, the Existing PPH Financing Documents or the PPH Resolution, or contesting in any way its authority to execute, enter into, adopt or perform its obligations, as applicable, under the Reoffering Documents or the Existing PPH Financing Documents, or contesting in any way the completeness or accuracy of the Remarketing Memorandum, or any amendment or supplement thereto; provided however, for the purposes of this representation, performance of obligations does not include any obligation to construct any of the specific projects within the Facilities Master Plan described in the Remarketing Memorandum; or

(iii) in which a final adverse decision, ruling or finding could (a) have a material adverse effect on the operations or finances of PPH or the consummation of the transactions contemplated by the Reoffering Documents, the Existing PPH Financing Documents, or the PPH Resolution, (b) declare the PPH Resolution, the Existing PPH Financing Documents or the Reoffering Documents to be invalid or unenforceable in whole or in material part, or (c) adversely affect the exclusion of the interest paid on the Certificates or the Reoffered Certificates from gross income for federal income tax purposes and the exemption of such interest from California personal income taxation.

(h) <u>No Other Debt</u>. Between the date hereof and the final Conversion Date, without the prior written consent of the Remarketing Agent, neither PPH directly, nor any other governmental agency or other body on behalf of PPH, will have issued in the name and on behalf of PPH any bonds, notes or other obligations for borrowed money except for such borrowings as may be described in or contemplated by the Remarketing Memorandum.

(i) <u>Continuing Disclosure</u>. During the last five years, except as disclosed in the Remarketing Memorandum, PPH has not failed to comply in any material respect with any prior undertakings pursuant to Rule 15c2-12.

(j) Liens. Except as otherwise disclosed in the Remarketing Memorandum, PPH has good and marketable title to its health facilities free and clear from all liens and encumbrances other than Permitted Liens (as defined in the Master Indenture).

(k) Certificates. Any certificates signed by any officer of PPH and delivered to the Remarketing Agent shall be deemed a representation by PPH to the Remarketing Agent, but not by the person signing the same, as to the statements made therein.

(l) Remarketing Memorandum Accurate and Complete. The Preliminary Remarketing Memorandum, as of date thereof, did not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, excepting therefrom the information in the Preliminary Remarketing Memorandum describing the Authority, The Depository Trust Company and its Book-Entry-Only System, information describing the Insurance Policy and FSA, such information being hereinafter collectively referred to as the "Excepted Portions." At the date hereof and on each Conversion Date, the Remarketing Memorandum (excluding the Excepted Portions and) will not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided however, PPH makes no representation or warranty as to the information contained in or omitted from the Preliminary Remarketing Memorandum or the final Remarketing Memorandum in reliance upon and in conformity with information furnished in writing to PPH by or on behalf of the Remarketing Agent through a representative of the Remarketing Agent specifically for inclusion therein.

(m) Valid and Enforceable Agreements. On each Conversion Date, the Reoffered Certificates and the Reoffering Documents will have been duly authorized, executed and delivered by PPH, and the Existing PPH Financing Documents, the Reoffering Documents and the Reoffered Certificates will constitute valid, binding and enforceable obligations of PPH in accordance with their respective terms except as the same may be limited by bankruptcy, insolvency and other laws affecting creditors' rights generally and except as the enforceability of indemnification provisions of this Remarketing Agreement may be limited by applicable law.

(n) Audited Financials. The audited financial statements of PPH which appear in Appendix B to the Remarketing Memorandum: (i) fairly present the financial position and results of operations of PPH at the respective dates and for the respective periods indicated therein in accordance with the generally accepted accounting principles applicable to health care districts ("GAAP"), (ii) to the best of PPH's knowledge, have been prepared in accordance with GAAP consistently applied throughout the periods concerned (except as otherwise disclosed in the notes to such audited financial statements); and the financial statements of PPH as of and for the years ending June 30, 2008 and 2007 included in the Remarketing Memorandum in Appendix B have been audited by Deloitte & Touche LLP, independent auditors, and their report thereon appears in Appendix B to the Remarketing Memorandum. Since June 30, 2008, PPH has not incurred any material liabilities, direct or contingent, nor has there been any material adverse change in the financial position, results of operations, or conditions, financial or otherwise, of PPH that is not described in the Remarketing Memorandum, whether or not arising from transactions in the ordinary course of business.

(o) No Defaults. PPH is not now and has never been in default in the payment of principal of, or premium or interest on, or otherwise in default with respect to, any bonds, notes, financing leases or other obligations which it has issued, assumed or guaranteed as to payment of principal, premium or interest. PPH has no knowledge of any event which has occurred or is continuing that, with the lapse of time or the giving of notice or both, would constitute an event of default under any such bonds, notes, financing leases or other obligations. No event has occurred or is continuing that, upon the execution and delivery of the Reoffered Certificates, would constitute an event of default pursuant to the Master Indenture, the Existing PPH Financing Documents or the Reoffering Documents, or which, with the lapse of time or the giving of notice or both, would constitute an event of default pursuant to such documents.

8. **Representations, Warranties and Agreements of the Authority**. The Authority hereby represents, warrants and agrees with PPH and the Remarketing Agent that, as of the date hereof and as of each Conversion Date:

(a) The Authority is a joint exercise of powers authority, duly organized and validly existing under the Sections 6500 et seq. of the Government Code of the State (the "JPA Act") and under a Joint Exercise of Powers Agreement, dated May 27, 2005 (the "JPA Agreement"), between PPH and Tri-City Healthcare District. Pursuant to a resolution adopted by the Grossmont Healthcare District ("Grossmont") on April 20, 2007 and accepted by the Authority on May 11, 2007, Grossmont became a member of the Authority.

(b) The Authority was duly authorized and had requisite legal right, power and authority to purchase the real property set forth in the Purchase Agreement from PPH, and to sell it to PPH as provided in the Sale Agreement.

(c) The Authority had the requisite legal right, power and authority to enter into the Existing Trust Agreement, the First Supplement, the Sale Agreement and the Purchase Agreement (collectively, the "Existing Authority Documents"). The Authority has requisite legal right, power and authority to adopt the Authority Resolution, to enter into this Remarketing Agreement and the Second Supplement, and to observe, perform and consummate the covenants and agreements in this Remarketing Agreement, the Second Supplement and the Existing Authority Documents, to be observed, performed and consummated by the Authority.

(d) The Authority has duly adopted the Authority Resolution in accordance with its JPA Agreement, its bylaws and applicable law.

(e) The statements and information contained in the Remarketing Memorandum under the captions "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION – The Authority" are true and accurate in all material respects and fairly present the information purported to be shown or summarized therein.

9. **Representations, Warranties and Agreements of the Remarketing Agent.** The Remarketing Agent represents to and agrees with PPH and the Authority that, as of the date hereof and as of each Conversion Date:

(a) The Remarketing Agent is duly authorized to execute this Remarketing Agreement and to take any action under this Remarketing Agreement required to be taken by it.

(b) The Remarketing Agent is in compliance with MSRB Rule G-37 with respect to PPH and the Authority, and is not prohibited thereby from acting as underwriter with respect to the Reoffered Certificates.

(c) The Remarketing Agent has, and has had, no financial advisory relationship with PPH or the Authority with respect to the Reoffered Certificates, and no investment firm controlling, controlled by or under common control with the Remarketing Agent has or has had any such financial advisory relationship.

10. **Covenants of PPH.** PPH covenants and agrees with the Authority and the Remarketing Agent that:

(a) Securities Laws. PPH will furnish such information, execute such instruments, and take such other action in cooperation with the Remarketing Agent if and as the Remarketing Agent may reasonably request in order to qualify the Reoffered Certificates for remarketing under the Blue Sky or other securities laws and regulations of such states and jurisdictions, provided, however, that PPH shall not be required to consent to service of process in any jurisdiction in which it is not so subject as of the date hereof.

(b) Application of Proceeds. The proceeds from the remarketing of the Reoffered Certificates will be applied to pay the purchase price of the Certificates, as provided in the Trust Agreement and as otherwise provided in the Trust Agreement and described in Section 2(d) hereof.

(c) Remarketing Memorandum. PPH hereby agrees to deliver or cause to be delivered to the Remarketing Agent, not later than the _______ business day following the date this Remarketing Agreement is signed, and in sufficient time to accompany any confirmation that requests payment from a customer, copies of a final Remarketing Memorandum substantially in the form of the Preliminary Remarketing Memorandum, with only such changes therein as are accepted by the Remarketing Agent and PPH (such Remarketing Memorandum with such changes, if any, and including the cover page and all appendices, exhibits, maps, reports and statements included therein or attached thereto being herein called the "Remarketing Memorandum") in such quantities (including a representative number of originally executed copies) as may be requested by the Remarketing Agent in order to permit the Remarketing Agent to comply with paragraph (b)(4) of Rule 15c2-12 and with the rules of the Municipal Securities Rulemaking Board. Such Remarketing Memorandum shall contain all information previously permitted to be omitted by Rule 15c2-12.

(d) If, between the date of this Remarketing Agreement and up to and including the 25th day following the "end of the underwriting period" (as such term is defined in Rule 15c2-12(f)(2)) any event occurs, of which PPH has knowledge, or information becomes known to PPH, which might or would cause the Remarketing Memorandum, as then supplemented or amended, to contain an untrue statement of the material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, then (i) PPH shall promptly notify the Remarketing Agent of such event, and (ii) if in the opinion of the Remarketing Agent, such event requires the preparation and publication of a supplement or amendment to the Remarketing Memorandum, then PPH shall amend or supplement the Remarketing Memorandum in a form and in a manner approved by the Remarketing Agent, provided all expense thereby incurred will be paid by PPH.

For the purposes of subdivisions (d) and (f), PPH may assume that the "end of the underwriting period" for the purposes of Rule 15c2 12 will occur on the date of the final Conversion Date unless otherwise notified, in writing, by the Remarketing Agent on or prior to such date.

(e) If the information contained in the Remarketing Memorandum is amended or supplemented pursuant to subparagraph (d), at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the "end of the underwriting period," the portions of the Remarketing Memorandum so supplemented or amended, excluding the Excepted Portions, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading.

(f) From the date of the final Remarketing Memorandum through twenty-five (25) days from the date of the end of the underwriting period (as such term is defined in Rule 15c2-12)), (i) PPH shall not participate in the issuance of any amendment of or supplement to the Remarketing Memorandum to which, after being furnished with a copy, the Remarketing Agent shall reasonably object in writing and (ii) if any event shall occur or information becomes known as a result of which it is necessary, in the opinion of the Remarketing Agent, to amend or supplement the Remarketing Memorandum in order to make the Remarketing

Memorandum true and correct in all material respects and not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, then PPH shall forthwith prepare and furnish to the Remarketing Agent (at the expense of PPH for ninety (90) days from the final Conversion Date, and thereafter at the expense of the Remarketing Agent) a reasonable number of copies of an amendment of or supplement to the Remarketing Memorandum (in form and substance satisfactory to the Remarketing Agent) which will amend or supplement the Remarketing Memorandum so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances existing at the time the Remarketing Memorandum is delivered to a purchaser, not misleading.

11. **Conditions to Remarketing**. The obligation of the Remarketing Agent to accept delivery of and pay for each Series of Reoffered Certificates on the applicable Conversion Date shall be subject, at the option of the Remarketing Agent, to the accuracy in all material respects of the representations, warranties and agreements on the part of PPH and the Authority contained herein as of the date hereof and as of the applicable Conversion Date, to the accuracy in all material respects of the statements of the officers and other officials of PPH and the Authority made in any certificates or other documents furnished pursuant to the provisions hereof, and to the performance by PPH and the Authority of its respective obligations to be performed hereunder on or prior to the applicable Conversion Date, and to the following additional conditions:

(a) Obligations Performed. As of the each Conversion Date, (i) the PPH Resolution, Authority Resolution, the Existing PPH Financing Documents, Reoffering Documents must be in full force and effect and may not have been amended, modified or supplemented from the forms thereof previously provided the Remarketing Agent except as agreed to in writing by the Remarketing Agent, which agreement will not be unreasonably withheld, conditioned or delayed; (ii) all actions under the Act, the JPA Act and other laws which, in the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), are necessary or appropriate in connection with the Reoffered Certificates and the transactions contemplated by the Existing PPH Financing Documents, the Reoffering Documents and the Remarketing Memorandum must have been duly taken and must be in full force and effect prior to the execution and delivery of the Reoffered Certificates; (iii) PPH must have performed all of its obligations required under or specified in PPH Resolution, the Existing PPH Financing Documents, the Reoffering Documents and the Remarketing Memorandum to be performed at or prior to each Conversion Date, and (iv) the Authority must have performed all of its obligations required under or specified in the Authority Resolution, the Existing PPH Financing Documents, the Reoffering Documents and the Remarketing Memorandum to be performed at or prior to the each Conversion Date.

(b) Remarketing Memorandum. On each Conversion Date, the Remarketing Memorandum shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Remarketing Agent.

(c) Adverse Rulings. No decision, ruling or finding has been entered by any court or governmental authority since the date of this Remarketing Agreement (and not reversed on appeal or otherwise set aside), or to the best knowledge of PPH or Authority, pending or threatened which would constitute a ground for termination of this Remarketing Agreement by the Remarketing Agent or which contests in any way the completeness or accuracy of the Remarketing Memorandum.

(d) Delivery of Documents. On or before each Conversion Date, sufficient copies of the following documents in reasonably satisfactory in form and substance to the Remarketing Agent, shall be provided to the Remarketing Agent, in each case as they relate to each of the related Series of Reoffered Certificates:

(i) *Legal Opinion of Bond Counsel*. An approving opinion of Bond Counsel, dated the applicable Conversion Date, addressed to PPH, in substantially the form appended to the Remarketing Memorandum;

(ii) *Supplemental Opinion of Bond Counsel*. A supplemental opinion of Bond Counsel addressed to the Remarketing Agent, dated the applicable Conversion Date, substantially in the form attached hereto as Exhibit C;

(iii) *Remarketing Agent's Counsel Opinion*. The opinion of Squire, Sanders & Dempsey L.L.P., as counsel to the Remarketing Agent ("Remarketing Agent's Counsel"), in form and substance satisfactory to the Remarketing Agent, addressed to the Remarketing Agent, dated the applicable Conversion Date to the effect that:

(A) during the course of serving as Remarketing Agent's Counsel in connection with the execution and delivery of the Reoffered Certificates and without having undertaken to determine independently or assuming any responsibility for the accuracy, completeness or fairness of the statements contained in the Remarketing Memorandum, no information came to the attention of the attorneys in such firm rendering legal services in connection with the remarketing of the Certificates that would lead them to believe that the Remarketing Memorandum (excluding therefrom any financial statements, statistical data or forecasts, numbers, charts, estimates, projections, real property values, assumptions, expressions of opinion, information regarding FSA, The Depository Trust Company and its book-entry system, and Appendices B through G to the Remarketing Memorandum, as to which no opinion need be expressed), as of the date thereof or as of the applicable Conversion Date, contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(B) the Reoffered Certificates are exempt from registration under the Securities Act of 1933, as amended, and the PPH Resolution and the Trust Agreement are exempt from registration under the Trust Indenture Act of 1939, as amended; and

(C) the Continuing Disclosure Undertaking satisfies Section (b)(5)(i) of Rule 15c2-12, which requires an undertaking for the benefit of the holders, including beneficial owners, of the Reoffered Certificates to provide certain annual financial information and event notices to various information repositories at the time and in the manner required by Rule 15c2-12.

(iv) *PPH Counsel Opinions*. The opinion of Janine Sarti, Esq., as general counsel to PPH, dated the applicable Conversion Date, substantially in the form attached hereto as Exhibit D;

(v) *Authority Counsel Opinion*. The opinion of Orrick Herrington & Sutcliffe LLP, as counsel to the Authority, dated the applicable Conversion Date, substantially in the form attached hereto as Exhibit E;

(vi) *[Trustee Counsel Opinion.* An opinion, dated the applicable Conversion Date of counsel to the Trustee, in form and substance satisfactory to counsels for the Remarketing Agent and PPH and to Bond Counsel addressing the due authorization, execution and delivery of the Second Supplement;]

(vii) *Certificate of PPH*. A certificate signed by an appropriate official of PPH to the effect that:

(A) each of the Reoffering Documents and the Remarketing Memorandum have been duly executed and delivered by an official of PPH authorized to execute each such document;

(B) the representations, agreements and warranties of PPH in the Reoffering Documents [and the Existing PPH Financing Documents] are true and correct in all material respects as of each Conversion Date;

(C) PPH has complied with all applicable terms of the Act, the JPA Act and other laws of the State, and of the Existing PPH Financing Documents and the Reoffering Documents, which are necessary to be complied with prior to or before each Conversion Date and the Existing PPH Financing Documents and the Reoffering Documents are in full force and effect;

(D) PPH has reviewed the Remarketing Memorandum and certifies that the Remarketing Memorandum, excluding the Excepted Portions, does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading;

(E) the Reoffered Certificates being delivered on each Conversion Date to the Remarketing Agent under this Remarketing Agreement substantially conform to the descriptions thereof contained in the PPH Resolution, the Trust Agreement and the Remarketing Memorandum; and

(F) no event has occurred since the date of the Remarketing Memorandum which has not been disclosed therein or in any supplement thereto, but should be disclosed in order to the make the statements in the Remarketing Memorandum, in light of the circumstances in which they were made, not misleading;

(G) since June 30, 2008, no material and adverse change has occurred in the financial position or results of operation of PPH that is not described in or contemplated by the Remarketing Memorandum;

(H) since June 30, 2008, PPH has not incurred any material liabilities other than in the ordinary course of business which are not described in or contemplated by this Remarketing Memorandum; and

(I) the PPH Resolution authorizes the execution and delivery by PPH of the Remarketing Agreement and approving the Second Supplement and the Remarketing Memorandum (and distribution thereof);

(viii) *Certificate of the Authority*. A certificate signed by an appropriate official of the Authority to the effect that:

(A) this Remarketing Agreement and the Second Supplement have been duly executed and delivered by an official of the Authority authorized to execute such document;

(B) the representations, agreements and warranties of the Authority in this Remarketing Agreement, the Second Supplement[, the Sale Agreement, the Purchase Agreement, and the Existing Trust Agreement] are true and correct in all material respects as of each Conversion Date;

(C) the Authority has complied with all the terms of the JPA Act and other laws of the State and the Authority Resolution, this Remarketing Agreement, the Sale Agreement, the Purchase Agreement, and the Trust Agreement which are necessary to be complied with prior to each Conversion Date, and the Remarketing Agreement is in full force and effect; and

(D) no event affecting the Authority has occurred since the date of the Remarketing Memorandum which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Remarketing Memorandum in order to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect;

(ix) *Certificate of Trustee.* A certificate signed by an appropriate officer of the Trustee to the effect that:

(A) Existence. The Trustee is a national banking association duly organized and validly existing under the laws of the United States;

(B) Valid Obligations. When executed by the respective party thereto, the Second Supplement will constitute legal, valid and binding obligations of the Trustee in accordance with its respective terms, subject as to enforcement of remedies to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws in effect from time to time affecting the rights of creditors generally and to the availability of equitable relief, assuming that the Second Supplement is a legal, valid and binding obligation of the other party thereto;

(C) Trustee Authority. The Trustee has the requisite power and authority to (i) exercise corporate trust powers in the State, (ii) to execute and deliver the Reoffered Certificates, and (iii) execute and deliver, and to perform its obligations in accordance with the Reoffered Certificates and the Trust Agreement (hereinafter collectively referred to as the "Trustee Documents");

(D) Due Execution and Delivery. The Trustee has by proper corporation action duly authorized (i) the execution and delivery of, and the due performance of its obligations pursuant to the Trustee Documents, and (ii) the taking of any and all other actions as may be required on the part of the Trustee to carry out, give effect to and consummate the transactions contemplated by the Trustee Documents;

(E) No Defaults. The Trustee's execution and delivery of the Trustee Documents and its compliance with the terms thereof and with the Trust Agreement does not contravene any provision of any order, decree, writ or injunction known to the Trustee, or Trustee's Articles of Incorporation or Bylaws, or result in breach of or default under, or require consent pursuant to any agreement, indenture or other instrument to which the Trustee is a party or by which it is bound; and

(F) No Litigation. To the best of the knowledge of the Trustee after due investigation, there is no action, suit or proceeding, and there is no inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or threatened against, the Trustee affecting the existence of the Trustee or the titles of its officers to their respective offices or in any way contesting or affecting the validity or enforceability of the Trustee Documents, or contesting the corporate trust powers of the Trustee or any authority for the execution and delivery of the Trustee Documents;

(x) *PPH Resolution*. A certificate, together with a fully executed copy of PPH Resolution, of the Secretary of PPH Board of Directors to the effect that:

(A) such copy is a true and correct copy of PPH Resolution; and

(B) PPH Resolution was duly adopted and has not been modified, amended, rescinded or revoked and is in full force and effect on each Conversion Date;

(xi) *Authority Resolution*. A certificate, together with a fully executed copy of the Authority Resolution, of the Secretary of the governing body of the Authority to the effect that:

(A) such copy is a true and correct copy of the Authority Resolution; and

(B) the Authority Resolution was duly adopted and has not been modified, amended, rescinded or revoked and is in full force and effect on each Conversion Date;

(xii) *Remarketing Memorandum*. Two copies of Remarketing Memorandum executed by the President and Chief Executive Officer of PPH;

(xiii) *Existing PPH Financing Documents.* Certified copies of the Existing PPH Financing Documents;

(xiv) *Second Supplement and Reoffered Certificates.* A fully executed counterpart of the Second Supplement and specimen copies of the Reoffered Certificates;

(xv) *DTC*. The Blanket Issuer Letter of Representations of PPH, addressed to DTC;

(xvi) *Ratings*. Evidence that the Reoffered Certificates have been rated "[AAA]" by Standard & Poor's Ratings Services ("S&P") and "[Aaa]" by

Moody's, based on the Reoffered Certificate Insurance Policy, and that the Reoffered Certificates have been issued an underlying rating of "[A3]" by Moody's;

(xvii) *Remarketing Agent's Certificates*. At or before each Conversion Date, and contemporaneously with the acceptance of delivery of each Series of Reoffered Certificates and the payment of the applicable purchase price thereof, as set forth on Exhibit A hereto, the Remarketing Agent will provide to PPH and the Authority:

(A) the receipt of the Remarketing Agent, in form satisfactory to PPH and the Authority and signed by an authorized officer of the Remarketing Agent, confirming delivery of the Reoffered Certificates to the Remarketing Agent, receipt of all documents required by the Remarketing Agent, and the satisfaction of all conditions and terms of this Remarketing Agreement by PPH and the Authority, respectively, and confirming to PPH and the Authority that as of each Conversion Date all of the representations of the Remarketing Agent contained in this Remarketing Agreement are true, complete and correct in all material respects.

(B) the certification of the Remarketing Agent, in form satisfactory to Bond Counsel, regarding the prices at which the related Series of Reoffered Certificates have been remarketed, as described in Section 4 hereof.

(xviii) A letter of Deloitte & Touche, dated the initial Conversion Date, to the effect that they agree to the inclusion of their report dated [________], 2008, on the audited financial statements of PPH in the final Remarketing Memorandum; and a bring down of the letter described in Section 1(b)(i) herein, dated the initial Conversion Date.

[Items relating to conversion to be added by Orrick]

(xix) *Other Documents*. Such additional legal opinions, certificates, proceedings, instruments and other documents as the Remarketing Agent or Bond Counsel may reasonably request to evidence (A) compliance by PPH and the Authority with all requirements of the Act, the JPA Act and all other legal requirements, (B) the truth and accuracy, as of any Conversion Date, of the representations of PPH and the Authority herein contained and of the statements and information contained in the Remarketing Memorandum, and (C) the due performance or satisfaction by PPH and the Authority at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by PPH and the Authority.

All of the opinions, letters, certificates, instruments and other documents mentioned in this Remarketing Agreement shall be deemed to be in compliance with the provisions of this Remarketing Agreement if, but only if, they are in form and substance reasonably satisfactory to the Remarketing Agent and Remarketing Agent's Counsel.

(e) Cancellation. If PPH or the Authority is unable to satisfy the conditions to the Remarketing Agent's obligations contained in this Remarketing Agreement or if the Remarketing Agent's obligations are terminated for any reason permitted by this Remarketing Agreement, then this Remarketing Agreement may be canceled by the Remarketing Agent at or at any time prior to any Conversion Date. Notice of cancellation shall be given to PPH and the Authority in writing, including by facsimile, or by telephone and confirmed in writing. Notwithstanding any provision herein to the contrary, the performance of any and all obligations of PPH and the Authority under this Remarketing Agreement and the performance of any and all conditions contained in this Remarketing Agreement for the benefit of the Remarketing Agent may be waived by the Remarketing Agent in writing at its sole discretion.

12. **Remarketing Agent's Right to Terminate.** (a) Notwithstanding anything to the contrary herein contained, if for any reason whatsoever a Series of Reoffered Certificates have not been delivered by Trustee to the Remarketing Agent prior to 10:00 a.m. Pacific Standard Time, on the applicable Conversion Date, then the Remarketing Agent shall have the right to terminate its obligation to purchase such Series of Reoffered Certificates hereunder, without liability therefor, by notice to PPH and the Authority.

(b) In addition, the Remarketing Agent has the right to terminate this Remarketing Agreement, without liability therefor, by notice to PPH and the Authority at any time at or prior to any Conversion Date, upon the occurrence of any Termination Event as described in Exhibit B.

13. **Conditions to Obligations of PPH.** The performance by PPH of its obligations is conditioned upon (i) the performance by the Authority, and the Remarketing Agent of their obligations hereunder; and (ii) receipt by PPH of opinions and certificates being delivered on each Conversion Date by persons and entities other than PPH, PPH's Counsel and the Remarketing Agent.

14. **Conditions to Obligations of the Authority.** The performance by the Authority of its obligations is conditioned upon (i) the performance by PPH and the Remarketing Agent of their obligation hereunder; and (ii) receipt by the Authority of opinions and certificates being delivered on each Conversion Date by person and entities other than the Authority and the Remarketing Agent.

15. **Indemnification Provisions.** (a) To the extent permitted by law, PPH agrees to indemnify and hold harmless the Authority, the directors, officers, employees and agents of the Authority and the Remarketing Agent, the directors, officers, employees and agents of the Remarketing Agent and each person who controls the Remarketing Agent within the meaning of either the Securities Act or the Exchange Act, against any and all losses, claims, damages or

liabilities, joint or several, to which they or any of them may become subject under the Securities Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the final Remarketing Memorandum (or in any supplement or amendment thereto), or arise out of or are based upon the omission or alleged omission to state in final Remarketing Memorandum a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and agrees to reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; *provided, however*, that PPH will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made in the final Remarketing Memorandum (or in any supplement or amendment thereto), in reliance upon and in conformity with written information furnished to PPH by or on behalf of the Remarketing Agent through a representative of the Remarketing Agent specifically for inclusion therein or in reliance upon and in conformity with written information furnished to PPH by or on behalf of FSA specifically for inclusion therein. This indemnity agreement will be in addition to any liability which PPH may otherwise have.

(b) The Remarketing Agent agrees to indemnify and hold harmless PPH and the Authority, each of their respective officials, directors, officers and employees, and each person who controls PPH or the Authority within the meaning of either the Securities Act or the Exchange Act, to the same extent as the foregoing indemnity from PPH and the Authority to the Remarketing Agent, but only with reference to written information relating to the Remarketing Agent furnished to PPH or the Authority by or on behalf of the Remarketing Agent through a representative of the Remarketing Agent specifically for inclusion in the final Remarketing Memorandum (or in any amendment or supplement thereto). This indemnity agreement will be in addition to any liability which the Remarketing Agent may otherwise have. PPH and the Authority acknowledge that the statement set forth in the preface of the final Remarketing Memorandum regarding the Remarketing Agent's involvement in the preparation of the Remarketing Memorandum, and the information under the caption "REMARKETING" constitute the only information furnished in writing by or on behalf of the Remarketing Agent for inclusion in the final Remarketing Memorandum (or in any amendment or supplement thereto).

(c) Promptly after receipt by an indemnified party under this Section 15 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 15, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a) or (b) above unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the indemnifying party of substantial rights and defenses; and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. The indemnifying party shall be entitled to appoint counsel of the indemnifying party's choice at the indemnifying party's expense, to represent the indemnified party in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the indemnified party or parties except as set forth below); *provided, however,* that such counsel shall be reasonably satisfactory to the indemnified party. Notwithstanding the indemnifying party's election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel if:

(i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest;

(ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party;

(iii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action; or

(iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party.

An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding.

(d) If the indemnity provided in paragraph (a) or (b) of this Section 15 is unavailable to or insufficient to hold harmless an indemnified party for any reason, PPH and the Remarketing Agent agree to contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) (collectively "Losses") to which PPH and the Remarketing Agent may be subject in such proportion as is appropriate to reflect the relative benefits received by PPH on the one hand and by the Remarketing Agent on the other from the offering of the Reoffered Certificates. If the allocation provided by the immediately preceding sentence is unavailable for any reason, PPH and the Remarketing Agent shall contribute in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of PPH on the one hand and of the Remarketing Agent on the other in connection with the statements or omissions which resulted in such Losses, as well as any other relevant equitable considerations. In no case shall the Remarketing Agent be responsible for any amount in excess of the purchase discount or commission applicable to the Reoffered Certificates purchased by the Remarketing Agent hereunder. Benefits received by PPH shall be deemed to be equal to the total net proceeds from the offering (before deducting expenses) received by it, and benefits received by the

Remarketing Agent shall be deemed to be equal to the Remarketing Agent's discount. Relative fault shall be determined by reference to, among other things, whether any untrue or any alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information provided by PPH on the one hand or the Remarketing Agent on the other, the intent of the parties and their relative knowledge, information and opportunity to correct or prevent such untrue statement or omission. PPH and the Remarketing Agent agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph (d), no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 15, each person who controls the Remarketing Agent within the meaning of either the Securities Act or the Exchange Act and each director, officer, employee and agent of the Remarketing Agent shall have the same rights to contribution as the Remarketing Agent, and each person who controls PPH within the meaning of either the Securities Act or the Exchange Act and each official, director, officer and employee of PPH shall have the same rights to contribution as PPH, subject in each case to the applicable terms and conditions of this paragraph (d).

16. **Expenses.**

(a) PPH shall pay all expenses of PPH and the Authority incident to the performance of their obligations in connection with the reoffering, execution and delivery of the Reoffered Certificates to the Remarketing Agent, including without limitation: fees and expenses of PPH's financial advisor, auditors, FSA and any other consultants retained by PPH or by Authority, fees and expenses of the Trustee, fees of DTC, fees and expenses of rating agencies, and fees and expenses of Bond Counsel, and of Squire, Sanders & Dempsey L.L.P., as Remarketing Agent's Counsel. All fees and expenses to be paid by PPH pursuant to this Remarketing Agreement may be paid from the premium received in connection with the remarketing of the Reoffered Certificates.

(b) All expenses of selling the Reoffered Certificates, all out-of-pocket expenses of the Remarketing Agent, including travel and other expenses, CUSIP Service Bureau charges, any fees charged by the MSRB and printing, publishing and electronic distribution costs related to the preparation and distribution of the Remarketing Memorandum shall be paid by the Remarketing Agent.

(c) PPH shall also pay for expenses (included in the expense component of the spread) incurred on behalf of PPH's employees which are incidental to implementing this Remarketing Agreement, including, but not limited to, meals, transportation, lodging, and entertainment of those employees, and PPH shall reimburse the Remarketing Agent if the Remarketing Agent pays for any such expenses on behalf of PPH.

17. **Notices.** Any notice or other communication to be given under this Remarketing Agreement (other than the acceptance hereof as specified in the first paragraph hereof) may be given by delivering the same in writing if to PPH, to Palomar Pomerado Health, 15255 Innovation Drive, Suite 204, San Diego, California 92128, Attn: Robert Hemker and

Janine Sarti, Esq., if to the Authority, to North San Diego County Health Facilities Financing Authority, c/o Palomar Pomerado Health, 15255 Innovation Drive, Suite 204, San Diego, California 92128, Attn: Robert Hemker; or if to the Remarketing Agent, to Citigroup Global Markets Inc., 444 South Flower Street, Citi Building, 27th Floor, Attn: Robert Barna.

18. **Parties in Interest; Survival of Representations, Agreements and Warranties.** This Remarketing Agreement when accepted by PPH and the Authority in writing as heretofore specified shall constitute the entire agreement between PPH, the Authority and the Remarketing Agent. This Remarketing Agreement is made solely for the benefit of PPH, the Authority and the Remarketing Agent (including the successors or assigns of the Remarketing Agent). No person shall acquire or have any rights hereunder or by virtue hereof. All representations, warranties and agreements of PPH and the Authority in this Remarketing Agreement shall survive regardless of (a) any investigation or any statement in respect thereof made by or on behalf of the Remarketing Agent, and (b) delivery of and payment by the Remarketing Agent for the Reoffered Certificates hereunder.

19. **Severability.** If any provision of this Remarketing Agreement is held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision thereof.

20. **Non-assignment.** Notwithstanding anything stated to the contrary herein, none of the parties hereto may assign or transfer its interest herein, or delegate or transfer any of its obligations hereunder, without the prior consent of the other parties hereto.

21. **Entire Agreement**. This Remarketing Agreement, when executed by the parties hereto, shall constitute the entire agreement of the parties hereto, including their permitted successors and assigns, respectively.

22. **Execution in Counterparts.** This Remarketing Agreement may be executed in several counterparts each of which shall be regarded as an original and all of which shall constitute but one and the same document.

[Reminder of Page Intentionally Left Blank]

23. **Applicable Law.** This Remarketing Agreement shall be interpreted, governed and enforced in accordance with the law of the State applicable to contracts made and performed in such State.

Very truly yours,

CITIGROUP GLOBAL MARKETS INC.

By:_______________________________________

Its: _______________________________________

The foregoing is hereby agreed to and accepted as

of the date first above written:

PALOMAR POMERADO HEALTH

By:__________________________________

Its: Chief Financial Officer

NORTH SAN DIEGO COUNTY
HEALTH FACILITIES FINANCING AUTHORITY

By:__________________________________

Its: Treasurer/Controller

EXHIBIT A

INTEREST RATES AND MATURITIES; REDEMPTION

$[174,775,000]

Reoffered Certificates of Participation
Evidencing a Proportionate Undivided Interests in
Payments to be Made by Palomar Pomerado Health

$[58,250,000] Series 2006A $[58,225,000] Series 2006B $[58,225,000] Series 2006C

A. Purchase Price of Reoffered Certificates

	Series 2006A Certificates	**Series 2006B Certificates**	**Series 2006C Certificates**	**Total**
Principal	$[58,250,000]	$[58,225,000]	$[58,225,000]	$[174,775,000]
Plus Net Reoffering Premium	[_________]	[_________]	[_________]	[_________]
Less Remarketing Agent Compensation	[_________]	[_________]	[_________]	[_________]
Purchase Price	**$[_________]**	**$[_________]**	**$[_________]**	**$[_________]**

B. Terms of Reoffered Certificates

$[58,250,000] Series 2006A Certificates
Conversion Date: November 18, 2008

$____________ Series 2006A Serial Certificates

Certificate Payment Date November 1	Principal Amount	Interest Rate	Yield

$____________ ____% Series 2006A Term Certificates due November 1, ____ Yield ____%

$[58,300,000] Series 2006B Certificates
Conversion Date: November 19, 2008

$____________ Series 2006B Serial Certificates

Certificate Payment Date November 1	Principal Amount	Interest Rate	Yield

$____________ ____% Series 2006B Term Certificates due November 1, ____ Yield ____%

$[58,225,000] Series 2006C Certificates
Conversion Date: November 20, 2008

$___________ Series 2006C Serial Certificates

Certificate Payment Date November 1	Principal Amount	Interest Rate	Yield

$___________ ____% Series 2006C Term Certificates due November 1, ____ Yield ____%

C. Optional Redemption and Mandatory Sinking Fund Redemption

Optional Prepayment. The Certificates payable as to principal prior to November 1, 2017 shall not be prepayable prior to their stated Certificate Payment Date. Certificates payable as to principal on or after November 1, 2017 are subject to prepayment prior to their respective stated Certificate Payment Dates on or after November 1, 2016 at the option of the Authority, which option shall be exercised upon request of PPH given to the Trustee (unless waived by the Trustee) at least 45 days prior to the date fixed for prepayment, in whole or in part, on any date, at a price equal to 100% of the principal component thereof, plus accrued interest with respect thereto to the prepayment date, without premium.

Mandatory Prepayment. Each Series of the Certificates are subject to prepayment prior to their stated Certificate Payment Date, in part, by lot from Mandatory Sinking Account Payments in the amounts and on each November 1 in the years set forth below, at a prepayment price equal to the principal amount thereof plus interest accrued with respect thereto to the date fixed for prepayment, without premium.

Series 2006A Certificates with a Certificate Payment Date of November 1, ____

Mandatory Sinking Account Payment Dates November 1,	Mandatory Sinking Account Payments
†	

† Final Maturity.

Series 2006A Certificates with a Certificate Payment Date of November 1, ____

Mandatory Sinking Account Payment Dates November 1,	Mandatory Sinking Account Payments
†	

† Final Maturity.

Series 2006B Certificates with a Certificate Payment Date of November 1, ____

Mandatory Sinking Account Payment Dates November 1,	Mandatory Sinking Account Payments

† Final Maturity.

Series 2006B Certificates with a Certificate Payment Date of November 1, ____

Mandatory Sinking Account Payment Dates November 1,	Mandatory Sinking Account Payments

† Final Maturity.

Series 2006C Certificates with a Certificate Payment Date of November 1, ____

Mandatory Sinking Account Payment Dates November 1,	Mandatory Sinking Account Payments

† Final Maturity.

Series 2006C Certificates with a Certificate Payment Date of November 1, ____

Mandatory Sinking Account Payment Dates November 1,	Mandatory Sinking Account Payments

† Final Maturity.

D. <u>Terms Specified to be provided pursuant to Section 6589 of the Government Code of the State of California</u>:

Minimum Rate of Interest:	Set forth in the Trust Agreement.
Costs of Remarketing:	$[________] (excluding Remarketing Agent's compensation).
Amount of Required Reserve:	Set forth in the Trust Agreement.
Procedure to be used in case of default:	Set forth in the Trust Agreement.

EXHIBIT B

TERMINATION EVENTS

The following events are each defined as Termination Events for all purposes of this Remarketing Agreement:

(a) any event occurs, or information becomes known, which, in the reasonable opinion of the Remarketing Agent, causes any statement contained in the Remarketing Memorandum to be materially misleading or results in a failure of the Remarketing Memorandum to state a material fact necessary to make the statements in the Remarketing Memorandum, in the light of the circumstances under which they were made, not misleading; or

(b) the marketability of the Reoffered Certificates or the market price thereof, in the reasonable opinion of the Remarketing Agent, has been materially adversely affected by any of the following:

(i) an amendment to the Constitution of the United States, or by any legislation pending in or enacted by the Congress of the United States, or by any legislation pending in or enacted by the State of California, or

(ii) the amendment of legislation pending as of the date of this Remarketing Agreement in the Congress of the United States, or

(iii) the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or

(iv) the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or

(v) any decision of any Federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority, which materially adversely affects the federal or State tax status of PPH, or the interest on bonds, certificates of participation or notes or obligations of the general character of the Reoffered Certificates; or

(c) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State of California, or a decision by any court of competent jurisdiction within the State of California or any court of the United States shall be rendered which, in the opinion of the Remarketing Agent, materially adversely affects the market price of the Reoffered Certificates; or

(d) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the reoffering or sale of obligations of the general character of the Reoffered Certificates, or the remarketing of the Certificates, including all underlying obligations, as contemplated hereby or by the Remarketing Memorandum, is in violation or would be in violation of, or that obligations of the general character of the Reoffered Certificates, or the Reoffered Certificates, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that PPH Resolution or Trust Agreement needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(e) additional material restrictions not in force as of the date hereof are imposed upon trading in securities generally by any governmental authority or by any national securities exchange which restrictions, in the reasonable opinion of the Remarketing Agent, materially adversely affect the Remarketing Agent's ability to trade the Reoffered Certificates; or

(f) a general banking moratorium has been established by federal or State of California authorities; or

(g) there occurs any outbreak or escalation of hostilities, declaration by the United States of a national emergency or war or other calamity or crisis, the effect of which on financial markets is such as to make it, in the sole yet reasonable judgment of the Remarketing Agent, impractical or inadvisable to proceed with the reoffering or delivery of the Reoffered Certificates as contemplated by the final Remarketing Memorandum (exclusive of any amendment or supplement thereto); or

(h) any rating of the Reoffered Certificates or other debt obligations of PPH or FSA has been downgraded, suspended or withdrawn by a national rating service or a negative qualification (e.g., "credit watch" or "negative outlook" designation) or other announcement made by a national rating service that the Reoffered Certificates or other debt obligations of PPH or FSA are under review without indication of a potentially favorable result, which, in the reasonable opinion of the Remarketing Agent, materially adversely affects the marketability or market price of the Reoffered Certificates; or

(i) the commencement of any action, suit or proceeding which, in the opinion of the Remarketing Agent, materially adversely affects the market price of the Reoffered Certificates; or

(j) there is in force a general suspension of trading on the New York Stock Exchange; or

(k) a material disruption in securities settlement, payment or clearance services in the United States has occurred, or

(l) there occurs any other event which, in the reasonable opinion of the Remarketing Agent, materially adversely affects the marketability of the Reoffered Certificates at the rates set forth in Exhibit A.

EXHIBIT C

PROPOSED SUPPLEMENTAL OPINION OF BOND COUNSEL

[TO BE PROVIDED BY ORRICK]

EXHIBIT D

PROPOSED OPINION OF PPH COUNSEL

[*Form of opinion to be provided by Janine Sarti, Esq. to include the opinions listed herein*]

1. PPH is a local health care district validly existing under the Division 23 of the California Health and Safety Code (the "Local Health Care District Law"), with local health care district power and authority to adopt the PPH Resolution, execute and deliver the Remarketing Memorandum and the Remarketing Agreement, and enter into the Documents and perform its obligations thereunder.

2. The PPH Resolution was duly adopted at the meeting of the governing body of PPH which was duly called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting at the time of adoption, and has not been modified, amended, rescinded or revoked, and is in full force and effect.

3. The execution, delivery and performance of the Remarketing Agreement by PPH, the approval and distribution of the Remarketing Memorandum and the approval of the Second Supplement and Reoffered Certificates by PPH, have been duly authorized by all necessary action of PPH, and the Remarketing Agreement and the Remarketing Memorandum have been duly executed and delivered by PPH.

4. Each of the Reoffering Documents to which PPH is a party and the Existing PPH Financing Documents to which PPH is a party constitutes a legally valid and binding obligation of PPH, enforceable against PPH in accordance with its terms.

5. The execution and delivery of the Existing PPH Financing Documents to which PPH is a party did not and the execution and delivery of the Remarketing Agreement by PPH, the approval and distribution of the Remarketing Memorandum and the approval of the Second Supplement and the Reoffered Certificates by PPH, the adoption of the PPH Resolution and the consummation by PPH of the transactions contemplated by the Reoffering Documents, the Existing PPH Financing Documents and the PPH Resolution, do not:

(i) violate the provisions of the Health Care District Law or the Bylaws of PPH;

(ii) result in the breach of or a default under any bond, agreement, indenture, mortgage, lease agreement or other instrument to which PPH is a party or by which it is bound or to which it is subject and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default under any such instrument nor result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon the revenues or property of PPH or any such law, administrative regulation, judgment, decree, loan agreement, pledge agreement, indenture, bond, note, resolution, agreement or other instrument, except as expressly provided by the PPH Resolution;

(iii) violate any federal or California statute, rule, regulation applicable to PPH; any provision of the California Constitution applicable to PPH, or, to the best of our knowledge, Court Orders applicable to PPH; or

(iv) require any consents, approvals, or authorizations to be obtained by PPH from, or any registrations, declarations or filings to be made by PPH with, any governmental authority, under any federal or California statute, rule or regulation applicable to PPH, except for governmental authorizations, approvals, permits and consents that are required in the ordinary course of development of the projects being financing with the proceeds of the original sale and delivery of the Certificates.

6. To the best of my knowledge after reasonable investigation, there is no action, suit, proceeding, inquiry or investigation before or by any judicial body or administrative agency, municipal, state or federal, which is pending or threatened against PPH or otherwise known to me, which if determined against PPH, could (a) materially adversely affect the consummation of the transactions contemplated by the Reoffered Certificates, the Reoffering Documents, the Existing PPH Financing Documents, the PPH Resolution or the Remarketing Memorandum, (b) adversely affect the validity or enforceability of the Reoffered Certificates, the Existing PPH Financing Documents or the Reoffering Documents; (c) adversely affect the exclusion of the interest paid on the Reoffered Certificates from gross income for federal income tax purposes and the exemption of such interest from California personal income taxation, (d) adversely affect the existence of PPH or in any way challenge the respective powers of the several officers of PPH required to execute any documents or certificates in connection with the delivery of the Reoffered Certificates or of the titles of the officials of PPH to their respective offices, or (e) restrain or enjoin the remarketing of the Certificates or the execution or delivery of the Reoffered Certificates, the application of the proceeds of the remarketing of the Certificates or (e) have a material adverse effect on the operations or finances of PPH.

7. In connection with the preparation of the Remarketing Memorandum, dated November ___, 2008 (together with the appendices thereto, the “Remarketing Memorandum”), I have participated in conferences with officers and other representatives of PPH, the financial advisor to PPH, the Remarketing Agent, special counsel to the Authority, bond counsel, counsel to the Remarketing Agent, and representatives of the independent public accountants of PPH, at which the contents of the Remarketing Memorandum and related matters were discussed. Based upon the information available to me as general counsel to PPH and the information available to me in the course of my participation in the preparation of the Remarketing Memorandum, and without having undertaken to determine independently or assuming any responsibility for the accuracy, completeness or fairness of the statements contained in the Remarketing Memorandum, nothing has come to my attention which would lead me to believe that the statements and information contained in the Remarketing Memorandum as of the date thereof or hereof (except for the financial and statistical data included in the Remarketing Memorandum and the information under the captions “THE AUTHORITY”, “TAX MATTERS,” “REMARKETING” and Appendix F—“BOOK-ENTRY ONLY SYSTEM,” as to which I express no opinion), contained or contain any untrue statement of a material fact or omitted or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

EXHIBIT E

PROPOSED OPINION OF AUTHORITY COUNSEL

[Orrick to Revise]

[Orrick, Herrington & Sutcliffe LLP Letterhead]

__________, 2008

North San Diego Health Facilities Financing Authority
San Diego, California

Citigroup Global Markets Inc.
San Francisco, California

$[174,775,000]
Certificates of Participation
Evidencing Proportionate Interests of the Holders Thereof
in Installment Payments to be Paid by
Palomar Pomerado Health
in Accordance with the Installment Sale Agreement with
North San Diego County Health Facilities Financing Authority

Ladies and Gentlemen:

We have acted as special counsel to the North San Diego County Health Facilities Financing Authority (the "Authority") in connection with the execution and delivery of $[174,775,000] aggregate principal amount of certificates of participation (the "Reoffered Certificates"), each evidencing undivided ownership interests of the registered holders thereof in the rights to receive certain installment payments (the "Installment Payments") made by Palomar Pomerado Health (the "District"), pursuant to an Installment Sale Agreement, dated as of December 1, 2006 (the "Sale Agreement"), between the Authority and the District, such rights to receive Installment Payments having been assigned without recourse by the Authority to U.S. Bank National Association, as trustee (the "Trustee"). The Reoffered Certificates have been executed by the Trustee pursuant to the terms of a Trust Agreement, dated as of December 1, 2006, as supplemented and amended by the First Supplemental Trust Agreement, dated as of July 1, 2008 and the Second Supplemental Trust Agreement, dated as of November 1, 2008 (as supplemented and amended, the "Trust Agreement"), between the Authority and the Trustee. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed Resolution No. _____, adopted by the Authority on [October 24], 2008 (the "Resolution"), certificates of the Authority and others as to certain factual matters, and such documents and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings, and court decisions. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. With the delivery of this letter, our engagement with respect to the Sale Agreement and the Reoffered Certificates has concluded, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify independently, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the first paragraph hereof. We express no opinion as to the validity or enforceability of the Installment Payments or as to the tax status of interest components on the Installment Payments. We also undertake no responsibility of any kind for the Remarketing Memorandum, dated [November __], 2008, or other offering material relating to the Reoffered Certificates.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Authority is a joint powers agency organized and existing under the laws of the State of California.

2. The Resolution was duly adopted at a meeting of the governing body of the Authority which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout. The Resolution is in full force and effect and has not been amended, modified or rescinded.

This letter is furnished by us as special counsel to the Authority. No attorney-client relationship has existed or exists between our firm and the addressees hereto (other than the Authority) in connection with the Reoffered Certificates or by virtue of this letter. This letter is solely for the benefit of the addressees hereof, and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any person other than the addressees to this letter. This letter is not intended to, and may not, be relied upon by the owners of any Reoffered Certificates or by any other party to whom it is not specifically addressed.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

EXHIBIT F

PROPOSED OPINION OF TRUSTEE COUNSEL

December __, 2006

North San Diego County Health Facilities Financing Authority
San Diego, California

Palomar Pomerado Health
San Diego, California

Citigroup Global Markets Inc.
Los Angeles, California

Financial Security Assurance Inc.
New York, New York

Re: Certificates of Participation Evidencing Proportionate Undivided Interests In Installment Payments To Be Made by Palomar Pomerado Health Series 2006A, 2006B and 2006C
(the "Reoffered Certificates")

Ladies and Gentlemen:

We have acted as counsel for U.S. Bank National Association, a national banking association (the "Trustee") in connection with the Trustee's execution of: (i) Second Supplemental Trust Agreement, made and entered into as of November 1, 2008 (the "Second Supplement"), between the North San Diego County Health Facilities Financing Authority (the "Authority), and the Trustee, as trustee, which supplements and amends the Trust Agreement dated as of December 1, 2006 as supplemented and amended by the First Supplemental Trust Agreement, dated as of July 1, 2008 (the "Existing Trust Agreement" and together with the Second Supplement, the "Trust Agreement"), between the Trustee and the Authority, each relating to the above-captioned Reoffered Certificates, and are generally familiar with the Articles of Association and the Bylaws of the Trustee and are also familiar with the corporate proceedings of the Trustee with regard to its authorization, execution and delivery of the Second Supplement. Capitalized terms used herein shall have the respective meanings ascribed to them in the Trust Agreement, except as otherwise defined herein.

We have examined such documents and have reviewed such questions of law as we have considered necessary and appropriate for the purposes of this opinion. In such review, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, and the conformity with originals of all documents submitted to us as copies. Where questions of fact material to our opinions expressed below were not established independently, we have relied upon statements of officers of the Trustee as contained in their certificates.

Based upon the foregoing, we are of the opinion that:

1. The Trustee is a national banking association duly organized, validly existing and in good standing under the laws of the United States of America with trust powers.

2. The Trustee has all requisite corporate power, authority and legal right and has taken all necessary corporate action to execute and deliver the Second Supplement and to accept the duties and obligations of the Trustee under the Second Supplement and to perform its duties and obligations under the Second Supplement.

3. The Trustee has duly authorized, executed and delivered the Second Supplement. Assuming the due authorization, execution and delivery thereof by the other parties thereto, the Agreements are the legal, valid and binding agreements of the Trustee, enforceable in accordance with their terms against the Trustee. The Trustee has duly executed the Reoffered Certificates in its capacity as Trustee under the Trust Agreement.

The opinions set forth above are subject to the following qualifications and exceptions:

(a) the opinions are subject to the effect of any applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws of general application affecting creditors' rights; and

(b) the opinions are subject to the effect of general principles of equity, including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing, and other similar doctrines affecting the enforceability of agreements generally (regardless of whether considered in a proceeding in equity or at law).

Our opinions expressed above are limited to the laws of the State of California and the federal laws of the United States of America.

The foregoing opinions are being furnished to you solely for your benefit and may not be relied upon by, nor may copies be delivered to, any other person without our prior written consent.

Very truly yours,

ADDENDUM C

**PALOMAR POMERADO HEALTH
HOSPITAL, EMERGENCY CARE, TRAUMA CENTER IMPROVEMENT
AND REPAIR MEASURE BONDS**

INDEPENDENT CITIZENS' OVERSIGHT COMMITTEE

ANNUAL REPORT FOR DISTRICT FISCAL YEAR 2007-2008

Background

Measure BB

On November 2, 2004, voters passed Measure BB, the Palomar Pomerado Health Hospital, Emergency Care, Trauma Center Improvement and Repair Measure. Measure BB authorized the issuance by Palomar Pomerado Health ["PPH"/"District"] of General Obligation ["GO"] Bonds to acquire and improve real property for hospital and health care purposes, including the acquisition and construction of new health care facilities and the renovation of existing health care facilities within the District. Pursuant to Measure BB, all proceeds of GO Bonds issued by PPH are required to be used for costs incurred in connection with the acquisition and construction of medical facilities and costs of issuance of the GO Bonds and no proceeds may be used for any other purpose, including staff and administrative salaries and other operating expenses. Measure BB was passed by the voters with a 69.84% vote, which exceeded the two-thirds minimum required. In accordance with Measure BB, the PPH Board of Directors ["the Board"] established a nine-member, unpaid, Independent Citizens' Oversight Committee ["ICOC"], the members of which are appointed by the PPH Board of Directors ["the Board"].

Responsibilities

As provided in Measure BB, the ICOC is composed of community leaders with experience in finance, accounting, construction, and healthcare. To carry out its stated purpose of assuring voters that GO Bond proceeds are expended solely for the purposes permitted by Measure BB, the ICOC has reviewed each annual expenditure report produced by the District in accordance with Measure BB to ensure that (a) GO Bond proceeds were expended only for purposes permitted by Measure BB; and (b) that no GO Bond proceeds had been used for staff or administrator salaries or other operating expenses.

In furtherance of these responsibilities, the ICOC has met at least once annually since first being seated in July 2005. ICOC meetings are open to the public and regulated by the Brown Act. The meetings are held at the Administrative Offices of the District, located at 15255 Innovation Drive, San Diego, CA 92128, or other District facilities, or such other public space as designated by the ICOC, provided, however, that all meetings shall be held within the District. Meeting dates, agendas and minutes are posted on the PPH web site [http://www.pph.org/default.aspx?nd=2144].

The first Annual Report of the ICOC for the District's Fiscal Year 2005-2006 was contained within the minutes of the ICOC's December 19, 2006, Annual Meeting, which were presented to the Board for review and approval on February 12, 2007, and are posted on the ICOC page of the PPH web site.

The second Annual Report of the ICOC for the District's Fiscal Year 2006-2007 was presented to and approved by the Board at its February 11, 2008, meeting. That report is also posted on the ICOC page of the PPH web site.

Reconciliation of Funds and Uses

SEE ADDENDUM

Accountability

The ICOC is actively executing its mission of monitoring and overseeing Measure BB expenditures. ICOC members have:

1. Reviewed project expenditures to ensure that proceeds of GO Bonds issued pursuant to Measure BB funds were expended only for purposes permitted by Measure BB;

2. Reviewed the reconciliation of sources and uses for the first two series of GO Bonds, which were issued in July 2005 ["the Series 2005A Bonds"] and in December 2007 ["the Series 2007A Bonds"], against the Statement of Funds provided by Wells Fargo Bank, National Association, as paying agent for both the Series 2005A and Series 2007A Bonds;

3. Reviewed that requisitions were properly documented and authorized; and

4. Reviewed specific expenditure invoices, as necessary, to assure expenditures were made pursuant to Measure BB authority;

Our review indicated that PPH is in compliance with the requirements of Measure BB as follows:

1. Proceeds of both the Series 2005A and Series 2007A Bonds have been used only for the construction of facilities or the acquisition of real property for facilities as authorized by Measure BB.

2. Projects funded were included in Measure BB.

3. No funds have been used for staff or administrator salaries or other operating expenses.

There were no issues of current concern to the ICOC, unless specified below:

1.

2.

Membership

The ICOC shall consist of not less than nine (9) members, the exact number to be determined from time to time by the Board, appointed by the Board from a list of candidates who have submitted written applications.

To be a qualified member of the ICOC, a person must:

1. Be at least 18 years of age and a citizen of the State of California and reside within the boundaries of the District;

2. Not be an employee, official, vendor, contractor or consultant of the District; and

3. Not have an immediate family member who is an employee, official, vendor, contractor or consultant of the District.

The ICOC shall at all times, except during the period of a vacancy, include the following members (collectively, the "Required Members"):

1. One member who is active in a business organization

2. One member who is active in a senior citizens' organization

3. One member who is active in a bona fide taxpayers' organization; and

4. One member who is a nurse or physician.

The current members of the ICOC are:

William C. Bonner, At Large

William L. Corwin, At Large

Marguerite Jackson Dill, PHD, RN, FAAN, At Large

Edward R. Lehman, Senior Citizens' Org.

John McIver, **Secretary,** Business Org.

Margaret Moir, At Large

H. Scott Peck, At Large

Bob Wells, **Vice-Chair,** Taxpayers' Org.

Stephen P. Yerxa, **Chair,** At Large

Officers

Pursuant to the ICOC Procedures, Policies and Guidelines, the Board shall annually appoint a Committee Chair, Committee Vice-Chair and Committee Secretary. The following individuals were appointed by the Board to fill the positions indicated for the July 1, 2007 through June 30, 2008, terms of office, and they have continued in those positions pending nomination of Officers by the ICOC membership and formal appointments by the Chairs of the Board and Board Finance Committee for the July 1, 2008 through June 30, 2009, terms of office:

1. Chair Steve Yerxa

2. Vice-Chair Bob Wells

3. Secretary John McIver

Submitted to the Palomar Pomerado Health Board of Directors on behalf of the Palomar Pomerado Health Hospital, Emergency Care, Trauma Center Improvement and Repair Measure Bonds Independent Citizens' Oversight Committee,

BY: ___________________________
Stephen P. Yerxa, Acting Chair

ADDENDUM TO THE ANNUAL REPORT OF THE ICOC TO THE PPH BOARD

PALOMAR
POMERADO
HEALTH
SPECIALIZING IN YOU

August 29, 2007

Dania D. Samai, Trust Officer
Wells Fargo Bank
707 Wilshire Blvd., 17th Floor
Los Angeles, CA 90017

RE: Palomar Pomerado Health Project Draw #17 of May 31, 2007

Attached find Palomar Pomerado Health's ("PPH") request for reimbursement of $950,597.47 from the 2005 G.O. Bond Project fund account #1804-0501. Please send these funds to the same bank account previously used to send funds to PPH. To reconfirm, our account number at Bank of America is 14504-50006.

Attached please find a:

- Signed Measure BB project Fund Requisition form
- List of amounts paid by PPH to vendors sorted alphabetically
- Copies (same as order list) of the vendor invoices and checks supporting the expenses.

Please call me at (760) 480-7995, if you have any questions.

Regards,

Tim Nguyen
Corporate Controller
Palomar Pomerado Health

ADD C-7

Exhibit B

[Form of Series 2005A Measure BB Project Fund Requisition]

Requisition No. 17

Series 2005A Measure BB Project Fund

The undersigned, Robert A. Hemker, hereby certifies as follows:

1. I am Chief Financial Officer of Palomar Pomerado Health, a local health care district duly organized and existing under the laws of the State of California (the "District").

2. Pursuant to the provisions of that certain Paying Agent Agreement, dated as of [June 1], 2005 (the "Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"), I am an Authorized District Representative (as such term is defined in the Paying Agent Agreement) and I am delivering this Requisition on behalf of the District. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Paying Agent Agreement.

3. The undersigned, acting on behalf of the District, does hereby authorize disbursement of funds from the Series 2005A Measure BB Project Fund created pursuant to Section 3.04 of the Paying Agent Agreement to the parties, in the amounts and for the purposes set forth in Schedule I hereto.

TOTAL DISBURSEMENT AMOUNT AUTHORIZED: **$950,597.47**

The undersigned, acting on behalf of the District, hereby certifies that: (a) each item relates to a Project for which CEQA Compliance has been achieved; (b) obligations in the amounts set forth in Schedule I attached hereto have been incurred by the District and are presently due and payable; (c) each item is a proper charge against the Series 2005A Measure BB Project Fund; (d) each item has not been previously paid from the Series 2005A Measure BB Project Fund; and (e) there has not been filed with or served upon the District notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the persons named in such Requisition, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law.

Dated: 8-29-07

Palomar Pomerado Health

By: for Robert A Hemker.
Authorized District Representative

Schedule I To Requisition No. 17

Name and Address of Party To Be Paid	Payment Amount	Nature of Expenditure	Payment Instructions
Palomar Pomerado Health	$950,597.47	Reimburse PPH for expenses incurred through May 31, 2007	Pay direct to Palomar Pomerado Health using same wire instructions provided at closing

PALOMAR POMERADO HEALTH
BLDG EXPANSION EXPENDITURES

Draw #17

Series 2005A Measure BB Project Fund

For Period May 1, 2007 to May 31, 2007

VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION
BERGELECTRIC CORPORATI	14082	5/21/2007	85601	10621-3	13,500.00	CONSTRUCTION
SUM — BERGELECTRIC CORPORATION (1 detail record)					13,500.00	
CHILDS MASCARI WARNER A	15514	5/7/2007	84770	010756	21,275.42	A & E and CONSULTING
		5/7/2007	84770	120662	30,306.25	A & E and CONSULTING
		5/21/2007	85623	010725	10,866.75	A & E and CONSULTING
		5/21/2007	85623	020728	7,424.53	A & E and CONSULTING
		5/21/2007	85623	020758	13,200.08	A & E and CONSULTING
SUM — CHILDS MASCARI WARNER ARCH (5 detail records)					83,073.03	
CITY OF POWAY	14859	5/29/2007	86311	WATER LINE ANALYS	1,500.00	PERMIT & INSPECT
SUM — CITY OF POWAY (1 detail record)					1,500.00	
CO ARCHITECTS	16122	5/21/2007	85641	2703033	6,050.00	A & E and CONSULTING
		5/21/2007	85641	2703035	53,874.50	A & E and CONSULTING
		5/21/2007	85641	2703036	351,092.84	A & E and CONSULTING
		5/21/2007	85641	2703038	4,299.51	A & E and CONSULTING
		5/21/2007	85641	2703039	460.00	A & E and CONSULTING
		5/21/2007	85641	2703040	4,325.00	A & E and CONSULTING
		5/21/2007	85641	2703041	625.00	A & E and CONSULTING
		5/21/2007	85641	2703042	51,662.90	A & E and CONSULTING
		5/21/2007	85641	2703043	5,972.04	A & E and CONSULTING
		5/21/2007	85641	2703044	18,286.52	A & E and CONSULTING
		5/21/2007	85641	2703048	589.91	A & E and CONSULTING
		5/21/2007	85641	2703049	192,447.90	A & E and CONSULTING
		5/21/2007	85641	2703051	12,492.82	A & E and CONSULTING
		5/21/2007	85641	2703052	5,436.00	A & E and CONSULTING
		5/21/2007	85641	2703053	714.46	A & E and CONSULTING
		5/21/2007	85641	2703054	41,018.30	A & E and CONSULTING

PALOMAR POMERADO HEALTH
BLDG EXPANSION EXPENDITURES

Draw #17

Series 2005A Measure BB Project Fund

For Period May 1, 2007 to May 31, 2007

VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION
CO ARCHITECTS	16122	5/21/2007	85641	2703056	9,832.52	A & E and CONSULTING
		5/21/2007	85641	2703058	1,424.00	A & E and CONSULTING
		5/21/2007	85641	2703064	31,812.40	A & E and CONSULTING
		5/21/2007	85641	2703065	123.29	A & E and CONSULTING
SUM --- CO ARCHITECTS (20 detail records)					792,539.91	
E CUBE, INC	17597	5/21/2007	85898	604564	2,193.97	A & E and CONSULTING
		5/21/2007	85898	604566	888.36	A & E and CONSULTING
		6/11/2007	86968	604565	118.00	A & E and CONSULTING
SUM --- E CUBE, INC (3 detail records)					3,200.33	
JRMC REAL ESTATE, INC	17732	5/14/2007	85334	100606	23,744.59	A & E and CONSULTING
SUM --- JRMC REAL ESTATE, INC (1 detail record)					23,744.59	
MC COY DESIGN & CONSTR	12483	6/4/2007	86506	22 (Mockup)	469.55	CONSTRUCTION
		6/4/2007	86506	931	750.00	CONSTRUCTION
SUM --- MC COY DESIGN & CONSTRUCTION (2 detail records)					1,219.55	
METROPLAN LLC	15003	5/21/2007	85995	12-122	2,632.50	A & E and CONSULTING
		5/21/2007	85995	7-129.0	2,025.00	A & E and CONSULTING
SUM --- METROPLAN LLC (2 detail records)					4,657.50	
PBS&J	15446	5/21/2007	85800	325083	894.55	A & E and CONSULTING
		5/21/2007	85800	325085	92.98	A & E and CONSULTING
SUM --- PBS&J (2 detail records)					987.53	
RICK ENGINEERING	16982	5/21/2007	86042	129349	1,689.50	A & E and CONSULTING
		5/21/2007	86042	1334	1,076.00	A & E and CONSULTING
		5/21/2007	86042	287	213.00	A & E and CONSULTING
		5/21/2007	86042	974	688.00	A & E and CONSULTING
SUM --- RICK ENGINEERING (4 detail records)					3,666.50	
SAN DIEGO EROSION CONT	17517	5/21/2007	85807	3000011332	252.00	LAND

PALOMAR POMERADO HEALTH
BLDG EXPANSION EXPENDITURES

Draw #17

Series 2005A Measure BB Project Fund

For Period May 1, 2007 to May 31, 2007

VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION
SAN DIEGO EROSION CONT	17517	5/21/2007	85807	3000011739	1,202.53	LAND
SUM --- SAN DIEGO EROSION CONTROL (2 detail records)					1,454.53	
SIDEPLATE SYSTEMS INC	17170	5/21/2007	85566	2665	11,600.00	A & E and CONSULTING
SUM --- SIDEPLATE SYSTEMS INC (1 detail record)					11,600.00	
STATE WATER RESOURCES	16031	5/21/2007	85812	632170	1,114.00	PERMIT & INSPECT
SUM --- STATE WATER RESOURCES CONTROL (1 detail record)					1,114.00	
STONE, DANIEL M	13157	5/14/2007	85482	2615	3,480.00	PERMIT & INSPECT
SUM --- STONE, DANIEL M (1 detail record)					3,480.00	
URS CORPORATION	11122	5/21/2007	86101	2768849	4,860.00	A & E and CONSULTING
SUM --- URS CORPORATION (1 detail record)					4,860.00	
Grand Total					950,597.47	

PALOMAR
POMERADO
HEALTH
SPECIALIZING IN YOU

10/15/2007

Dania D. Samai, Trust Officer
Wells Fargo Bank
707 Wilshire Blvd., 17th Floor
Los Angeles, CA 90017

RE: Palomar Pomerado Health Project Draw #18 of October 15, 2007

Attached find Palomar Pomerado Health's ("PPH") request for reimbursement of $4,023,887.14 from the 2005 G.O. Bond Project fund account #1804-0501. Please send these funds to the same bank account previously used to send funds to PPH. To reconfirm, our account number at Bank of America is 14504-50006.

Attached please find a:

- Signed Measure BB project Fund Requisition form
- List of amounts paid by PPH to vendors sorted alphabetically
- Copies (same as order list) of the vendor invoices and checks supporting the expenses.

Please call me at (760) 480-7995, if you have any questions.

Regards,

Tim Nguyen
Corporate Controller
Palomar Pomerado Health

Exhibit B

[Form of Series 2005A Measure BB Project Fund Requisition]

Requisition No. 18

Series 2005A Measure BB Project Fund

The undersigned, Robert A. Hemker, hereby certifies as follows:

1. I am Chief Financial Officer of Palomar Pomerado Health, a local health care district duly organized and existing under the laws of the State of California (the "District").

2. Pursuant to the provisions of that certain Paying Agent Agreement, dated as of [June 1], 2005 (the "Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"), I am an Authorized District Representative (as such term is defined in the Paying Agent Agreement) and I am delivering this Requisition on behalf of the District. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Paying Agent Agreement.

3. The undersigned, acting on behalf of the District, does hereby authorize disbursement of funds from the Series 2005A Measure BB Project Fund created pursuant to Section 3.04 of the Paying Agent Agreement to the parties, in the amounts and for the purposes set forth in Schedule I hereto.

TOTAL DISBURSEMENT AMOUNT AUTHORIZED: **$4,023,887.14**

The undersigned, acting on behalf of the District, hereby certifies that: (a) each item relates to a Project for which CEQA Compliance has been achieved; (b) obligations in the amounts set forth in Schedule I attached hereto have been incurred by the District and are presently due and payable; (c) each item is a proper charge against the Series 2005A Measure BB Project Fund; (d) each item has not been previously paid from the Series 2005A Measure BB Project Fund; and (e) there has not been filed with or served upon the District notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the persons named in such Requisition, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law.

Dated: 10-16-07.

Palomar Pomerado Health

By:_______________ for Robert Hemker
Authorized District Representative

Schedule I To Requisition No. 18

Name and Address of Party To Be Paid	Payment Amount	Nature of Expenditure	Payment Instructions
Palomar Pomerado Health	$4,023,887.14	Reimburse PPH for expenses incurred through June 30, 2007	Pay direct to Palomar Pomerado Health using same wire instructions provided at closing

PALOMAR POMERADO HEALTH
BLDG EXPANSION EXPENDITURES

Draw #18

Series 2005A Measure BB Project Fund

For Period June 1, 2007 to June 30, 2007

VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION
BUREAU VERITAS COMPANY	17004	7/9/2007	88518	POM EXP PHS II APP	44,832.27	CONSTRUCTION
SUM --- BUREAU VERITAS COMPANY (1 detail record)					44,832.27	
CARLSON, RICK J	16346	2/21/2006	57236	EXPERT ADVISORY P	-2,962.00	HONORARIUM REVERSAL
		7/24/2006	67419	REIMB.ADV.PANEL M	-3,020.37	HONORARIUM REVERSAL
		10/2/2006	71362	HONORARIUM, 9-21	-2,733.69	HONORARIUM REVERSAL
		2/20/2007	80122	HONORARIUM 02/02/0	-2,717.47	HONORARIUM REVERSAL
SUM --- CARLSON, RICK J (4 detail records)					-11,433.53	
CHA - CA. HOSPITAL ASSOCI	16282	2/21/2006	57237	DUANE DAUNER, EXP	-377.06	HONORARIUM REVERSAL
		7/31/2006	67684	REIMB.DAUNER DUA	-756.65	HONORARIUM REVERSAL
SUM --- CHA - CA. HOSPITAL ASSOCIATION (2 detail records)					-1,133.71	
CHILDS MASCARI WARNER A	15514	7/9/2007	88527	030754	20,400.84	A & E and CONSULTING
		7/9/2007	88527	050670	17,184.00	A & E and CONSULTING
		7/23/2007	89195	010720	8,387.50	A & E and CONSULTING
		7/23/2007	89195	010721	7,050.00	A & E and CONSULTING
		7/23/2007	89195	010722	560.00	A & E and CONSULTING
		7/23/2007	89195	020724	3,125.00	A & E and CONSULTING
		7/23/2007	89195	020725	1,650.00	A & E and CONSULTING
		7/23/2007	89195	030721	4,078.77	A & E and CONSULTING
		7/23/2007	89195	040714	7,005.77	A & E and CONSULTING
		7/23/2007	89195	120626	2,632.50	A & E and CONSULTING
		7/23/2007	89195	120627	4,365.00	A & E and CONSULTING
		7/23/2007	89195	120628	260.00	A & E and CONSULTING
SUM --- CHILDS MASCARI WARNER ARCH (12 detail records)					76,699.38	
CITY OF ESCONDIDO	12719	6/28/2007	88203	UTILITIES PLAN CHE	32,249.00	PERMIT & INSPECT
SUM --- CITY OF ESCONDIDO (1 detail record)					32,249.00	
CO ARCHITECTS	16122	6/25/2007	87639	2703037	59,831.05	A & E and CONSULTING

PALOMAR POMERADO HEALTH
BLDG EXPANSION EXPENDITURES

Draw #18

Series 2005A Measure BB Project Fund

For Period June 1, 2007 to June 30, 2007

VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION
CO ARCHITECTS	16122	6/25/2007	87639	2704018	51,260.88	A & E and CONSULTING
		6/25/2007	87639	2704020	702,185.68	A & E and CONSULTING
		6/25/2007	87639	2704021	117,879.90	A & E and CONSULTING
		6/25/2007	87639	2704022	360,263.00	A & E and CONSULTING
		6/25/2007	87639	2704023	112,500.00	A & E and CONSULTING
		6/25/2007	87639	2704026	82,660.64	A & E and CONSULTING
		6/25/2007	87639	2704027	160,606.00	A & E and CONSULTING
		6/25/2007	87639	2704028	12,500.00	A & E and CONSULTING
		6/25/2007	87639	2704029	11,944.08	A & E and CONSULTING
		6/25/2007	87639	2704030	36,573.04	A & E and CONSULTING
		6/25/2007	87639	2704056	22,684.00	A & E and CONSULTING
		7/9/2007	88526	2703047	5,662.40	A & E and CONSULTING
		7/9/2007	88526	2703050	25,975.58	A & E and CONSULTING
		7/9/2007	88526	2703057	370.18	A & E and CONSULTING
		7/9/2007	88526	2704032	7,875.00	A & E and CONSULTING
		7/9/2007	88526	2704038	12,082.79	A & E and CONSULTING
		7/9/2007	88526	2704041	3,330.00	A & E and CONSULTING
		7/9/2007	88526	2704042	592.22	A & E and CONSULTING
		7/9/2007	88526	2704044	41,018.30	A & E and CONSULTING
		7/9/2007	88526	2704045	4,400.18	A & E and CONSULTING
		7/9/2007	88526	2704047	812.50	A & E and CONSULTING
		7/9/2007	88526	2704051	10,256.00	A & E and CONSULTING
		7/9/2007	88526	2704057	245.28	A & E and CONSULTING
		7/9/2007	88526	2704058	15,906.20	A & E and CONSULTING
SUM --- CO ARCHITECTS (25 detail records)					1,859,414.90	
CSI	13464	6/25/2007	87603	1567	11,562.20	A & E and CONSULTING

ADD C-17

PALOMAR POMERADO HEALTH
BLDG EXPANSION EXPENDITURES

Draw #18

Series 2005A Measure BB Project Fund

For Period June 1, 2007 to June 30, 2007

VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION
CSI	13464	6/25/2007	87603	1603	2,175.00	A & E and CONSULTING
		6/25/2007	87603	1604	435.00	A & E and CONSULTING
		6/25/2007	87603	1605	8,700.00	A & E and CONSULTING
		6/25/2007	87603	1606	10,585.00	A & E and CONSULTING
		6/25/2007	87603	1608	4,350.00	A & E and CONSULTING
		6/25/2007	87603	1609	1,885.00	A & E and CONSULTING
		6/25/2007	87603	1612	725.00	A & E and CONSULTING
		6/25/2007	87603	1613	2,175.00	A & E and CONSULTING
		7/2/2007	88214	1556	6,380.00	A & E and CONSULTING
SUM --- CSI (10 detail records)					48,972.20	
DAUNER, DAUNE	16347	2/21/2006	57243	EXPERT ADVISORY P	-2,000.00	HONORARIUM REVERSAL
		7/31/2006	67687	HONORARIUM 6/26	-2,000.00	HONORARIUM REVERSAL
SUM --- DAUNER, DAUNE (2 detail records)					-4,000.00	
E CUBE, INC	17597	6/25/2007	87884	604601	88.50	A & E and CONSULTING
SUM --- E CUBE, INC (1 detail record)					88.50	
EDWARD BRAINARD HORTIC	17847	6/25/2007	87887	10 HOLES	900.00	A & E and CONSULTING
		6/25/2007	87887	70383 & 70384	1,800.00	A & E and CONSULTING
SUM --- EDWARD BRAINARD HORTICULTURAL (2 detail records)					2,700.00	
GALLANT, DENNIS	17161	10/30/2006	73162	HONORARIUM - 9/21/	-2,000.00	HONORARIUM REVERSAL
SUM --- GALLANT, DENNIS (1 detail record)					-2,000.00	
JONES, DONALD	15780	2/21/2006	57259	EXPERT ADVISORY P	-2,000.00	HONORARIUM REVERSAL
		7/31/2006	67434	ADVISORY PANEL	-2,000.00	HONORARIUM REVERSAL
		10/2/2006	71375	HONORAU, 9-21	-2,000.00	HONORARIUM REVERSAL
		2/20/2007	80138	ADVISORY PANEL-2/2	-2,000.00	HONORARIUM REVERSAL
SUM --- JONES, DONALD (4 detail records)					-8,000.00	
KELLEY, BILL	16395	3/6/2006	58112	1/30/6 - HONORARIU	-2,000.00	HONORARIUM REVERSAL

PALOMAR POMERADO HEALTH
BLDG EXPANSION EXPENDITURES

Draw #18

Series 2005A Measure BB Project Fund

For Period June 1, 2007 to June 30, 2007

VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION
SUM — KELLEY, BILL (1 detail record)					-2,000.00	
LYTH, DAVID M.	16415	3/13/2006	58544	EXPENSE REIMBURS	-915.23	HONORARIUM REVERSAL
		3/13/2006	58544	EXPERT ADVISORY P	-2,000.00	HONORARIUM REVERSAL
		8/21/2006	68954	6/26/6 - MEETING	-2,861.28	HONORARIUM REVERSAL
		10/16/2006	72230	ADEVISORY PANEL-9	-2,755.95	HONORARIUM REVERSAL
SUM — LYTH, DAVID M. (4 detail records)					-8,532.46	
METROPLAN LLC	15003	6/25/2007	87531	6-131	4,792.50	A & E and CONSULTING
		6/25/2007	87531	7-131	2,700.00	A & E and CONSULTING
SUM — METROPLAN LLC (2 detail records)					7,492.50	
OFFICE OF STATEWIDE HEA	13083	6/11/2007	86676	2006-01702	68,880.00	PERMIT & INSPECT
		6/11/2007	86676	2006-02260	796.98	PERMIT & INSPECT
		6/11/2007	86676	2006-02784	250.00	PERMIT & INSPECT
	11174	6/18/2007	87435	2006-01702A	3,955.21	PERMIT & INSPECT
SUM — OFFICE OF STATEWIDE HEALTH PLA (4 detail records)					73,882.19	
PARK WEST LANDSCAPE	17528	6/11/2007	86694	POM EXP PHS II APP	82,769.67	CONSTRUCTION
		7/9/2007	88498	POM EXP PHS II APP	18,600.12	CONSTRUCTION
SUM — PARK WEST LANDSCAPE (2 detail records)					101,369.79	
PAUL HANSEN EQUIPMENT	16437	7/9/2007	88496	APP# 22406-A	18,164.00	CONSTRUCTION
SUM — PAUL HANSEN EQUIPMENT (1 detail record)					18,164.00	
PBS&J	15446	6/11/2007	86867	331303	1,210.00	A & E and CONSULTING
		6/25/2007	87553	327224	1,076.00	A & E and CONSULTING
		6/25/2007	87553	327230	880.00	A & E and CONSULTING
SUM — PBS&J (3 detail records)					3,166.00	
RICK ENGINEERING	16982	7/9/2007	88737	1988	207.00	A & E and CONSULTING
SUM — RICK ENGINEERING (1 detail record)					207.00	
RUDOLPH AND SLETTEN	13787	6/4/2007	86407	04-182	227,500.00	PROJ MGMT

PALOMAR POMERADO HEALTH
BLDG EXPANSION EXPENDITURES

Draw #18

Series 2005A Measure BB Project Fund

For Period June 1, 2007 to June 30, 2007

VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION
RUDOLPH AND SLETTEN	13787	6/18/2007	87301	04-163	7,821.44	PROJ MGMT
		6/18/2007	87301	04-0162	263,312.50	PROJ MGMT
		6/25/2007	87635	05-047	62,645.00	PROJ MGMT
		6/25/2007	87635	05-048	8,737.69	PROJ MGMT
		6/25/2007	87635	05-049	244,843.00	PROJ MGMT
		6/25/2007	87635	05-147	34,067.42	PROJ MGMT
		6/25/2007	87635	05-148	11,578.98	PROJ MGMT
		7/2/2007	88231	05-146	325,528.00	PROJ MGMT
SUM — RUDOLPH AND SLETTEN (9 detail records)					1,186,034.03	
SATAVA, RICHARD	15704	2/21/2006	57083	EXPERT ADVISORY P	-2,967.43	HONORARIUM REVERSAL
		7/31/2006	67634	HONOR & EXP 06/26/0	-2,787.15	HONORARIUM REVERSAL
		10/23/2006	72460	REIMB 9/21/6 PARTICI	-2,394.64	HONORARIUM REVERSAL
SUM — SATAVA, RICHARD (3 detail records)					-8,149.22	
STONE, DANIEL M	13157	7/2/2007	88412	2589 A	240.00	PERMIT & INSPECT
		7/2/2007	88412	2642	1,200.00	PERMIT & INSPECT
		7/2/2007	88412	2646	2,400.00	PERMIT & INSPECT
		7/2/2007	88412	2648	240.00	PERMIT & INSPECT
SUM — STONE, DANIEL M (4 detail records)					4,080.00	
UNIVERSITY MECHANICAL	15442	6/25/2007	87636	6242-001 A	299,447.27	CONSTRUCTION
		6/25/2007	87636	6242-002 A	317,158.03	CONSTRUCTION
SUM — UNIVERSITY MECHANICAL (2 detail records)					616,605.30	
VANDERVEEN, TIM	16348	2/21/2006	57298	EXPERT ADVISORY P	-2,000.00	HONORARIUM REVERSAL
		7/24/2006	67462	HONORARIUM 06/26/0	-2,000.00	HONORARIUM REVERSAL
		11/13/2006	73854	HONORARIUM, 9-21	-2,000.00	HONORARIUM REVERSAL
		2/20/2007	80166	HONORARIUM 0/02/07	-2,000.00	HONORARIUM REVERSAL
SUM — VANDERVEEN, TIM (4 detail records)					-8,000.00	

PALOMAR POMERADO HEALTH
BLDG EXPANSION EXPENDITURES

Draw #18

Series 2005A Measure BB Project Fund

For Period June 1, 2007 to June 30, 2007

VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION
VILLALOBOS LANDSCAPING	11106	6/18/2007	87459	POM.BRUSH	1,179.00	CONSTRUCTION
SUM --- VILLALOBOS LANDSCAPING (1 detail record)					1,179.00	
Grand Total					4,023,887.14	

This report contains Honorarium reversals - ($53,248.92).

PALOMAR
POMERADO
HEALTH
SPECIALIZING IN YOU

March 27, 2008

Dania D. Samai, Trust Officer
Wells Fargo Bank
707 Wilshire Blvd., 17th Floor
Los Angeles, CA 90017

RE: Palomar Pomerado Health Project Draw #19 of March 27, 2008

Attached find Palomar Pomerado Health's ("PPH") request for reimbursement of $7,570.27 from the 2005 G.O. Bond Project fund account #1804-0501. Please send these funds to the same bank account previously used to send funds to PPH. To reconfirm, our account number at Bank of America is 14504-50006.

Attached please find a:

- Signed Measure BB project Fund Requisition form
- List of amounts paid by PPH to vendors sorted alphabetically
- Copies (same as order list) of the vendor invoices and checks supporting the expenses.

Please call me at (760) 480-7995, if you have any questions.

Regards,

Tim Nguyen
Corporate Controller
Palomar Pomerado Health

Exhibit B

[Form of Series 2005A Measure BB Project Fund Requisition]

Requisition No. 19

Series 2005A Measure BB Project Fund

The undersigned, Robert A. Hemker, hereby certifies as follows:

1. I am Chief Financial Officer of Palomar Pomerado Health, a local health care district duly organized and existing under the laws of the State of California (the "District").

2. Pursuant to the provisions of that certain Paying Agent Agreement, dated as of [June 1], 2005 (the "Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"), I am an Authorized District Representative (as such term is defined in the Paying Agent Agreement) and I am delivering this Requisition on behalf of the District. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Paying Agent Agreement.

3. The undersigned, acting on behalf of the District, does hereby authorize disbursement of funds from the Series 2005A Measure BB Project Fund created pursuant to Section 3.04 of the Paying Agent Agreement to the parties, in the amounts and for the purposes set forth in Schedule I hereto.

TOTAL DISBURSEMENT AMOUNT AUTHORIZED: **$7,570.27**

The undersigned, acting on behalf of the District, hereby certifies that: (a) each item relates to a Project for which CEQA Compliance has been achieved; (b) obligations in the amounts set forth in Schedule I attached hereto have been incurred by the District and are presently due and payable; (c) each item is a proper charge against the Series 2005A Measure BB Project Fund; (d) each item has not been previously paid from the Series 2005A Measure BB Project Fund; and (e) there has not been filed with or served upon the District notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the persons named in such Requisition, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law.

Dated: March 27, 2008

Palomar Pomerado Health

By: 3/27/08

Authorized District Representative

Schedule I To Requisition No. 19

Name and Address of Party To Be Paid	Payment Amount	Nature of Expenditure	Payment Instructions
Palomar Pomerado Health	$7,570.27	Reimburse PPH for expenses incurred through January 31, 2008	Pay direct to Palomar Pomerado Health using same wire instructions provided at closing

PALOMAR POMERADO HEALTH
BLDG EXPANSION EXPENDITURES
Series 2005A Measure BB Project Fund
2005 GO Project Fund Draw #19
1/31/2008

VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION	CAMPUS
ADAMS, JIM	999005549	10/9/2006	72028	EXPERT PANEL/MTG 92106	-705.02	HONORARIUM REVERSAL	PALOMAR-WEST
		3/5/2007	81009	REIMB-MTG 2/2/07	-593.41	HONORARIUM REVERSAL	PALOMAR-WEST
SUM — ADAMS, JIM (2 detail records)					-1,298.43		
CLARK STEEL FABRICATORS	18344	1/28/2008	101884	2709-2	17,212.39	CONSTRUCTION	PALOMAR-WEST
SUM — CLARK STEEL FABRICATORS INC (1 detail record)					17,212.39		
DE CRESCENZO, NEIL E.	16403	3/6/2006	58090	EXPERT PANEL 1/30/06	-2,356.91	HONORARIUM REVERSAL	PALOMAR-WEST
SUM — DE CRESCENZO, NEIL E. (1 detail record)					-2,356.91		
SAFE BY DESIGN	16926	8/7/2006	68003	PPHC20060721	-3,062.64	HONORARIUM REVERSAL	PALOMAR-WEST
		10/30/2006	73200	PPHC20061010	-2,924.14	HONORARIUM REVERSAL	PALOMAR-WEST
SUM — SAFE BY DESIGN (2 detail records)					-5,986.78		
Grand Total (8 detail records)					7,570.27		

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

April 28, 2008

Dania D. Samai, Trust Officer
Wells Fargo Bank
707 Wilshire Blvd., 17th Floor
Los Angeles, CA 90017

RE: Palomar Pomerado Health Project Draw #001 of April 28, 2008

Attached find Palomar Pomerado Health's ("PPH") request for reimbursement of $5,784,057.57 from the 2007 G.O. Bond Project fund account #22676001. Please send these funds to the same bank account previously used to send funds to PPH. To reconfirm, our account number at Bank of America is 14504-50006.

Attached please find a:

- Signed Measure BB project Fund Requisition form
- List of amounts paid by PPH to vendors sorted alphabetically
- Copies (same as order list) of the vendor invoices and checks supporting the expenses.

Please call me at (760) 480-7995, if you have any questions.

Regards,

Tim Nguyen
Corporate Controller
Palomar Pomerado Health

ADD C-26

REQUISITION NO. 001

Series 2007A Measure BB Project Fund

The undersigned, Robert A. Hemker, hereby certifies as follows:

1. I am the Chief Financial Officer of Palomar Pomerado Health, a local health care district duly organized and existing under the laws of the State of California (the "District").

2. Pursuant to the provisions of that certain Paying Agent Agreement, dated as of June 1, 2005, as supplemented and amended by that certain First Supplemental Paying Agent Agreement, dated as of December 1, 2007 (hereinafter collectively referred to as the "Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent, I am an Authorized District Representative (as such term is defined in the Paying Agent Agreement) and I am delivering this Requisition on behalf of the District. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Paying Agent Agreement.

3. The undersigned, acting on behalf of the District, does hereby authorize disbursement of funds from the Series 2007A Measure BB Project Fund created pursuant to Section 12.03 of the Paying Agent Agreement to the parties, in the amounts and for the purposes set forth in Schedule I hereto.

TOTAL DISBURSEMENT AMOUNT AUTHORIZED: **$ 5,784,057.57**

4. The undersigned, acting on behalf of the District, hereby certifies that: (a) each item relates to a Project for which CEQA Compliance has been achieved; (b) obligations in the amounts set forth in Schedule I attached hereto have been incurred by the District and are presently due and payable; (c) each item is a proper charge against the Series 2007A Measure BB Project Fund; (d) each item has not been previously paid from the Series 2007A Measure BB Project Fund; and (e) there has not been filed with or served upon the District notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the persons named in such Requisition, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law.

Dated: April 28, 2008

PALOMAR POMERADO HEALTH

By: 4/23/08

Robert A. Hemker
Chief Financial Officer

Schedule I
To
Requisition No. 001

Name and Address of Party To Be Paid	Payment Amount	Nature of Expenditure	Payment Instructions
Palomar Pomerado Health	$5,784,057.57	Reimburse PPH for expenses incurred February 29, 2008	Payment via wire transfer as instructed below:

<u>Wire transfer instructions</u>

Bank Name:	Bank of America
Bank Address	450 "B" Street, Suite 100 San Diego, CA 92101
Telex No.:	67652 SFO
Account No.:	1450450006
Acct Name:	Palomar Pomerado Health General Checking Account
Routing #:	0260-0959-3

PALOMAR POMERADO HEALTH
BLDG EXPANSION EXPENDITURES
Series 2007A Measure BB Project Fund
2007 GO Project Fund Draw #001
2/29/2008

VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION	CAMPUS
A O REED & COMPANY	13223	2/19/2008	103486	NC9354*RETA	78,233.55	CONSTRUCTION	POMERADO
SUM --- A O REED & COMPANY (1 detail record)					78,233.55		
AMERICAN FENCE CO	15281	3/10/2008	104777	RETENTION	619.00	CONSTRUCTION	POMERADO
SUM --- AMERICAN FENCE CO (1 detail record)					619.00		
BRICKMAN GROUP LTD	18259	3/10/2008	104806	4622013721	6,037.43	CONSTRUCTION	PALOMAR-WEST
SUM --- BRICKMAN GROUP LTD (1 detail record)					6,037.43		
BUREAU VERITAS COMPANY	17004	2/25/2008	103879	0977807	4,053.51	CONSTRUCTION	POMERADO
SUM --- BUREAU VERITAS COMPANY (1 detail record)					4,053.51		
CALIFORNIA CONSTRUCTION	13157	3/3/2008	104354	80001	170.00	CONSTRUCTION	POMERADO
		3/3/2008	104354	80002	340.00	CONSTRUCTION	POMERADO
		3/3/2008	104354	80004	2,231.25	CONSTRUCTION	POMERADO
		3/3/2008	104354	80005	170.00	CONSTRUCTION	POMERADO
SUM --- CALIFORNIA CONSTRUCTION (4 detail records)					2,911.25		
CEMENT CUTTING	18336	2/19/2008	103503	89703	4,500.00	CONSTRUCTION	POMERADO
		3/3/2008	104355	89996	9,450.00	CONSTRUCTION	POMERADO
SUM --- CEMENT CUTTING (2 detail records)					13,950.00		
CHILDS MASCARI WARNER A	15514	2/11/2008	102897	100742	19,225.76	A & E and CONSULTING	PALOMAR-EAST
		3/10/2008	104743	040747	1,980.00	A & E and CONSULTING	PALOMAR-EAST
		3/10/2008	104743	070755	9,218.41	A & E and CONSULTING	PALOMAR-EAST
		3/10/2008	104743	080749	350.00	A & E and CONSULTING	PALOMAR-EAST
		3/10/2008	104743	090777	27,020.71	A & E and CONSULTING	PALOMAR-EAST
		3/10/2008	104743	090789	1,137.50	A & E and CONSULTING	PALOMAR-EAST
		3/10/2008	104743	090792	525.00	A & E and CONSULTING	PALOMAR-EAST
		3/10/2008	104743	100749	390.00	A & E and CONSULTING	PALOMAR-EAST
		3/10/2008	104743	110734	14,425.02	A & E and CONSULTING	PALOMAR-EAST
		3/10/2008	104743	110739	2,384.00	A & E and CONSULTING	PALOMAR-EAST
SUM --- CHILDS MASCARI WARNER ARCH (10 detail records)					76,656.40		
CITY OF ESCONDIDO	12719	2/25/2008	103688	GRADING FEE/BOND FEES	7,664.00	PERMIT & INSPECT	PALOMAR-WEST

PALOMAR POMERADO HEALTH
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VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION	CAMPUS
CITY OF ESCONDIDO	12010	3/3/2008	104250	RF0000011147	15.00	CONSTRUCTION	PALOMAR-WEST
SUM --- CITY OF ESCONDIDO (2 detail records)					7,679.00		
CO ARCHITECTS	16122	12/26/2007	99661	2710090	11,540.00	A & E and CONSULTING	POMERADO
		1/28/2008	101907	2711051	37,315.00	A & E and CONSULTING	POMERADO
		2/11/2008	102863	2711039	7,523.76	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2612045	2,185.19	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2707064	1,036.26	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2709028	460.00	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2710080	332,486.00	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2710087	1,662.89	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2710088	116,160.00	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712032	15,000.00	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712034	6,942.00	A & E and CONSULTING	PALOMAR-EAST
		2/25/2008	103827	2712036	980.00	A & E and CONSULTING	PALOMAR-EAST
		2/25/2008	103827	2712037	17,013.00	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712038	3,500.00	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712039	60,656.96	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712040	11,250.00	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712041	1,250.65	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712042	14,000.00	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712043	21,615.78	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712044	490.00	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712045	190.00	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712046	263,319.63	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712047	2,573.49	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712048	43,512.84	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712049	9,636.36	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712050	500.00	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712051	6,365.61	A & E and CONSULTING	PALOMAR-WEST

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VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION	CAMPUS
CO ARCHITECTS	16122	2/25/2008	103827	2712052	19,799.03	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712053	5,250.00	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712054	7,507.76	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712057	22,131.50	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712058	7,000.00	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712069	2,435.00	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712070	47,053.04	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712072	25,245.00	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712074	42,216.20	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712075	199.78	A & E and CONSULTING	PALOMAR-WEST
		2/25/2008	103827	2712076	29,245.81	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712078	1,793.50	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712079	41,018.30	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712080	3,124.83	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712081	17,867.40	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712082	8,092.50	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712083	69,379.04	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712084	155.20	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712087	575.00	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712088	694.19	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712089	804.32	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712092	7,345.00	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712097	26,123.10	A & E and CONSULTING	POMERADO
		2/25/2008	103827	2712098	360.00	A & E and CONSULTING	POMERADO
		3/10/2008	104748	2704037	232.30	A & E and CONSULTING	POMERADO
		3/10/2008	104748	2704081	210.50	A & E and CONSULTING	POMERADO
		3/10/2008	104748	2705049	230.00	A & E and CONSULTING	POMERADO
		3/10/2008	104748	2707060	1,328.80	A & E and CONSULTING	PALOMAR-WEST
		3/10/2008	104748	2708053	320.75	A & E and CONSULTING	POMERADO
		3/10/2008	104748	2710085	3,862.48	A & E and CONSULTING	POMERADO

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VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION	CAMPUS
CO ARCHITECTS	16122	3/10/2008	104748	2712056	654.00	A & E and CONSULTING	POMERADO
		3/10/2008	104748	2712073	898.35	A & E and CONSULTING	POMERADO
		3/10/2008	104748	2712094	27,650.00	A & E and CONSULTING	POMERADO
SUM --- CO ARCHITECTS (60 detail records)					1,409,968.10		
CONCRETE CONTRACTORS I	17059	2/19/2008	103490	5	494,739.00	CONSTRUCTION	POMERADO
SUM --- CONCRETE CONTRACTORS INTERSTAT (1 detail record)					494,739.00		
CONDON-JOHNSON & ASSOC	17665	3/10/2008	104733	654.2	76,500.00	CONSTRUCTION	PALOMAR-WEST
SUM --- CONDON-JOHNSON & ASSOC (1 detail record)					76,500.00		
COSCO FIRE PROTECTION	15284	2/19/2008	103507	3	9,426.42	CONSTRUCTION	POMERADO
		3/3/2008	104335	JC111773	32,877.68	CONSTRUCTION	POMERADO
SUM --- COSCO FIRE PROTECTION (2 detail records)					42,304.10		
CSI	13464	3/3/2008	104340	1696	435.00	A & E and CONSULTING	POMERADO
		3/3/2008	104340	1731	77.50	A & E and CONSULTING	POMERADO
		3/3/2008	104340	1732	465.00	A & E and CONSULTING	PALOMAR-WEST
		3/3/2008	104340	1743	542.50	A & E and CONSULTING	POMERADO
		3/3/2008	104340	1744	775.00	A & E and CONSULTING	PALOMAR-WEST
		3/3/2008	104340	1749	8,060.00	A & E and CONSULTING	PALOMAR-WEST
		3/3/2008	104340	1750	1,550.00	A & E and CONSULTING	POMERADO
		3/3/2008	104340	1751	1,550.00	A & E and CONSULTING	POMERADO
		3/3/2008	104340	1752	3,100.00	A & E and CONSULTING	PALOMAR-WEST
		3/10/2008	104731	1698	1,595.00	A & E and CONSULTING	PALOMAR-EAST
		3/10/2008	104731	1730	2,790.00	A & E and CONSULTING	PALOMAR-EAST
		3/10/2008	104731	1746	2,945.00	A & E and CONSULTING	PALOMAR-EAST
		3/10/2008	104731	1757	775.00	A & E and CONSULTING	PALOMAR-EAST
		3/10/2008	104731	1758	620.00	A & E and CONSULTING	PALOMAR-EAST
		3/10/2008	104731	1759	310.00	A & E and CONSULTING	PALOMAR-EAST
		3/10/2008	104731	1760	2,635.00	A & E and CONSULTING	PALOMAR-EAST
SUM --- CSI (16 detail records)					28,225.00		
DIAMOND ENVIRONMENTAL	18341	3/10/2008	104857	81S00846	172.84	CONSTRUCTION	PALOMAR-WEST

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VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION	CAMPUS
DIAMOND ENVIRONMENTAL	18341	3/10/2008	104857	81S00847	172.84	CONSTRUCTION	PALOMAR-WEST
SUM --- DIAMOND ENVIRONMENTAL SERVICES (2 detail records)					345.68		
ESCONDIDO DISPOSAL INC	12015	2/11/2008	102628	33228 010108	134.44	CONSTRUCTION	PALOMAR-WEST
		2/11/2008	102628	33228 100107	132.87	CONSTRUCTION	PALOMAR-WEST
		2/11/2008	102628	33228 120107	265.74	CONSTRUCTION	PALOMAR-WEST
SUM --- ESCONDIDO DISPOSAL INC (3 detail records)					533.05		
GLOBAL INSIGHT (USA) INC	18776	3/3/2008	104369	32377	6,210.00	CONSTRUCTION	PALOMAR-WEST
SUM --- GLOBAL INSIGHT (USA) INC (1 detail record)					6,210.00		
JB CONSULTING & ASSOC., I	16627	3/3/2008	104331	1PMCW	5,440.00	PERMIT & INSPECT	PALOMAR-WEST
		3/3/2008	104331	2PMCW	7,200.00	PERMIT & INSPECT	PALOMAR-WEST
		3/3/2008	104331	3PMCW	8,480.00	PERMIT & INSPECT	PALOMAR-WEST
SUM --- JB CONSULTING & ASSOC., INC (3 detail records)					21,120.00		
JOHNSON CONTROLS INC.	12436	3/10/2008	104927	16564251	7,191.00	CONSTRUCTION	POMERADO
SUM --- JOHNSON CONTROLS INC. (1 detail record)					7,191.00		
JONES LANG LASALLE AMERI	17711	2/11/2008	102892	14001P107,207,307,407	10,000.00	PROJ MGMT	PALOMAR-WEST
		2/11/2008	102892	14001P107,207,307,407	7,500.00	PROJ MGMT	PALOMAR-EAST
SUM --- JONES LANG LASALLE AMERICAS (2 detail records)					17,500.00		
KNIGHT SECURITY	13138	3/10/2008	104938	417990	1,044.00	A & E and CONSULTING	PALOMAR-WEST
		3/10/2008	104938	417991	1,380.00	A & E and CONSULTING	PALOMAR-WEST
SUM --- KNIGHT SECURITY (2 detail records)					2,424.00		
LLOYD PEST CONTROL	18696	2/11/2008	103095	1504677	157.00	A & E and CONSULTING	PALOMAR-WEST
SUM --- LLOYD PEST CONTROL (1 detail record)					157.00		
MASSON & ASSOCIATES	17985	3/10/2008	104678	24794	12,121.00	CONSTRUCTION	PALOMAR-WEST
SUM --- MASSON & ASSOCIATES (1 detail record)					12,121.00		
MCGRAW-HILL CONSTRUCTI	18452	2/11/2008	103109	78399	2,717.12	CONSTRUCTION	PALOMAR-WEST
SUM --- MCGRAW-HILL CONSTRUCTION (1 detail record)					2,717.12		
METROPLAN LLC	15003	3/10/2008	104971	11-131	3,307.50	A & E and CONSULTING	PALOMAR-WEST
		3/10/2008	104971	12-131	1,012.50	A & E and CONSULTING	PALOMAR-WEST

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VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION	CAMPUS
SUM --- METROPLAN LLC (2 detail records)					4,320.00		
MODULAR SPACE CORP	18340	3/10/2008	104978	104460225	2,435.38	CONSTRUCTION	PALOMAR-WEST
SUM --- MODULAR SPACE CORP (1 detail record)					2,435.38		
NATIONAL CONSTRUCTION R	16440	2/19/2008	103536	2144495	3,870.00	CONSTRUCTION	POMERADO
		2/19/2008	103536	RI2139194	539.50	CONSTRUCTION	POMERADO
		3/3/2008	104388	2071907	742.00	CONSTRUCTION	POMERADO
SUM --- NATIONAL CONSTRUCTION RENTALS (3 detail records)					5,151.50		
NEAL ELECTRIC CORP	15936	3/3/2008	104339	4 NEW PATIENT TOWER	52,487.10	CONSTRUCTION	POMERADO
SUM --- NEAL ELECTRIC CORP (1 detail record)					52,487.10		
OFFICE OF STATEWIDE HEA	13083	2/19/2008	103480	2007-02061	26,530.67	PERMIT & INSPECT	POMERADO
		2/19/2008	103541	2007-01127	500.00	PERMIT & INSPECT	POMERADO
		2/19/2008	103542	2007-01474	812.72	PERMIT & INSPECT	POMERADO
		2/19/2008	103543	2007-01676	1,629.50	PERMIT & INSPECT	POMERADO
SUM --- OFFICE OF STATEWIDE HEALTH PLA (4 detail records)					29,472.89		
PACIFIC RIM MECHANICAL	14054	2/25/2008	103817	POM EXP APP#2	120,905.10	CONSTRUCTION	POMERADO
SUM --- PACIFIC RIM MECHANICAL (1 detail record)					120,905.10		
PAUL HANSEN EQUIPMENT	16437	2/25/2008	103811	APP# 16505-24	48,408.75	CONSTRUCTION	POMERADO
SUM --- PAUL HANSEN EQUIPMENT (1 detail record)					48,408.75		
PINNICK INC	18265	3/10/2008	104751	20300	853,503.19	CONSTRUCTION	PALOMAR-WEST
SUM --- PINNICK INC (1 detail record)					853,503.19		
RTKL ASSOCIATES INC	18755	3/10/2008	104711	76892	1,305.00	A & E and CONSULTING	PALOMAR-WEST
		3/10/2008	104711	76893	23,093.50	A & E and CONSULTING	PALOMAR-WEST
		3/10/2008	104711	76894	807.50	A & E and CONSULTING	POMERADO
SUM --- RTKL ASSOCIATES INC (3 detail records)					25,206.00		
RUDOLPH AND SLETTEN	13787	2/11/2008	102834	99-091 REVISED	11,941.74	PROJ MGMT	POMERADO
		2/19/2008	103477	12-164	14,491.08	PROJ MGMT	PALOMAR-WEST
		2/19/2008	103477	99-089	4,751.46	PROJ MGMT	POMERADO
		3/3/2008	104348	01-117	197,813.00	PROJ MGMT	POMERADO

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VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION	CAMPUS
RUDOLPH AND SLETTEN	13787	3/3/2008	104348	01-118	5,695.00	PROJ MGMT	POMERADO
		3/3/2008	104348	01-119	4,298.00	PROJ MGMT	POMERADO
		3/3/2008	104348	01-151	168,658.00	PROJ MGMT	POMERADO
		3/3/2008	104348	01-153	24,493.00	PROJ MGMT	POMERADO
		3/3/2008	104348	01-164	57,016.00	PROJ MGMT	PALOMAR-WEST
		3/3/2008	104348	01-166	444,799.00	PROJ MGMT	PALOMAR-WEST
		3/3/2008	104348	01-168	13,210.00	PROJ MGMT	PALOMAR-WEST
		3/3/2008	104348	01-169	356.85	PROJ MGMT	PALOMAR-WEST
		3/3/2008	104348	12-166 APP# 9	110,315.64	PROJ MGMT	PALOMAR-WEST
		3/3/2008	104348	99-097	937.88	PROJ MGMT	POMERADO
SUM --- RUDOLPH AND SLETTEN (14 detail records)					1,058,776.65		
SAN DIEGO EROSION CONTR	17517	3/3/2008	104341	PMC WEST APP# 2	68,524.83	CONSTRUCTION	PALOMAR-WEST
SUM --- SAN DIEGO EROSION CONTROL (1 detail record)					68,524.83		
SCS ENGINEERS	17865	3/10/2008	105040	113787	704.00	A & E and CONSULTING	PALOMAR-WEST
SUM --- SCS ENGINEERS (1 detail record)					704.00		
SHENGXING GLASS AND CLA	18413	3/10/2008	104747	15	222,391.50	CONSTRUCTION	PALOMAR-WEST
SUM --- SHENGXING GLASS AND CLADDINGS (1 detail record)					222,391.50		
SOUTHLAND ELECTRIC	13183	2/25/2008	103785	1100	17,939.29	CONSTRUCTION	POMERADO
SUM --- SOUTHLAND ELECTRIC (1 detail record)					17,939.29		
SOUTHLAND ELECTRIC/CALI	18729	2/25/2008	103772	1033 ESCROW	4,657.33	CONSTRUCTION	POMERADO
		2/25/2008	103772	1048 ESCROW	1,632.02	CONSTRUCTION	POMERADO
		2/25/2008	103772	1077 ESCROW	4,678.25	CONSTRUCTION	POMERADO
		2/25/2008	103772	1100 ESCROW	1,993.25	CONSTRUCTION	POMERADO
SUM --- SOUTHLAND ELECTRIC/CALIFORNIA (4 detail records)					12,960.85		
TOWER GLASS INC	18774	3/3/2008	104347	POM TOWER APP# 1	659,443.68	CONSTRUCTION	POMERADO
SUM --- TOWER GLASS INC (1 detail record)					659,443.68		
TRACTEL LTD, SWINGSTATE	18775	3/3/2008	104334	POM TOWER APP# 1	32,413.50	CONSTRUCTION	POMERADO
SUM --- TRACTEL LTD, SWINGSTATE DIV (1 detail record)					32,413.50		

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VENDOR NAME	VENDOR #	CHECK-DATE	CK #	INVOICE	BANK CHK AMT	DESCRIPTION	CAMPUS
UNIVERSITY MECHANICAL	15442	3/3/2008	104346	14247	195,165.00	CONSTRUCTION	PALOMAR-WEST
		3/3/2008	104346	POM TOWER APP# 4	47,525.63	CONSTRUCTION	POMERADO
SUM --- UNIVERSITY MECHANICAL (2 detail records)					242,690.63		
URS CORPORATION	11122	3/10/2008	105092	3168058	1,408.14	A & E and CONSULTING	POMERADO
SUM --- URS CORPORATION (1 detail record)					1,408.14		
VIEW BY VIEW, INC	17646	2/11/2008	103254	93761	6,450.00	A & E and CONSULTING	PALOMAR-WEST
SUM --- VIEW BY VIEW, INC (1 detail record)					6,450.00		
WHITMORE STEEL, INC.	17695	2/11/2008	103268	POM EXP PHS 1 APP# 6	6,269.40	CONSTRUCTION	POMERADO
SUM --- WHITMORE STEEL, INC. (1 detail record)					6,269.40		
Grand Total (165 detail records)					5,784,057.57		

ADDENDUM D

PALOMAR POMERADO HEALTH

Legal Services Department

Strategic Plan

Janine Sarti
General Counsel
September, 2008

ADD D-2

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

Legal Services Department Vision Statement

- To have an unwavering focus on quality, cost and access to legal services.

ADD D-3

Legal Services Department Mission Statement

We believe:

- our customers are our most valued assets.
- the relationships we develop are integral to our work.
- honesty and integrity are the cornerstones of this department.

We promise:

- quality legal advice that is responsive to your needs and sets the standard of excellence for legal services;
- to demonstrate respect and compassion to all persons;
- to work with you as part of a team to achieve our mutual goals of quality care, creating healthy communities, and being a leader in the professions we serve.

ADD D-4

Trusted Advisor

- Knows the law
- Excellent communicator
- Has a confident style with high emotional intelligence
- Sound knowledge of the business and strategy
- Has excellent judgment
- Willing to put skin in the game
- Has a strong work ethic and sense of urgency

......Every minute of every day

ADD D-5

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

Legal Services Department Goals

Reduce reliance on outside legal counsel

- Cost savings
- Improved service and response time to legal issues

Create, develop and implement a successful contract management process

- Improve communication and process
- Eliminate unnecessary payments
- Assure compliance with regulations and policies

Legal Services Department Goals (continued)

Review and enhance Best Governance Practices

- Ensure compliance with good governance and ethical practices.

Develop guide book for specific recurring legal issues

- Brown Act, HIPAA, witness preparation
- Reduce liability and increase awareness of issues
- Reduce outside counsel legal fees

Legal Services Department Goals (continued)

Improve process for response to public records requests

- Ensure an organized and timely response to requests

Develop a Legal Department webpage on PPH Intranet

- Provide informational updates to customers
- Increase awareness of educational opportunities
- Access to Legal Department forms

Legal Services Department Goals (continued)

Develop policies and agreement templates regarding physician relationships

- Reduce liability through education on legal matters
- Ensure compliance with state and federal laws

Raise Medical Staff awareness of Legal Department and available resources

- Reduce outside legal counsel fees
- Provide timely response to legal questions

Legal Services Department Goals (continued)

Create and organize a repository for key organizational documents

- Provide clear understanding of PPH entities
- Provide unified resource and location

Develop Intellectual Property portfolio

- Protect the ideas and creations of PPH
- Reduce outside counsel fees

Legal Services Department Goals (continued)

Develop Legal Department customer satisfaction survey

- Increase awareness of improved delivery of legal services
- Opportunity for customers to provide input

Develop Independent Contractor guide and checklist

- Assure compliance with IRS regulations
- Reduce PPH risk and liability
- Clarify contractual requirements

Legal Services Department Goals (continued)

Develop Legal Department operations manual

- Concise resource for day-to-day legal operations
- Maintain continuity of Legal Department workflow

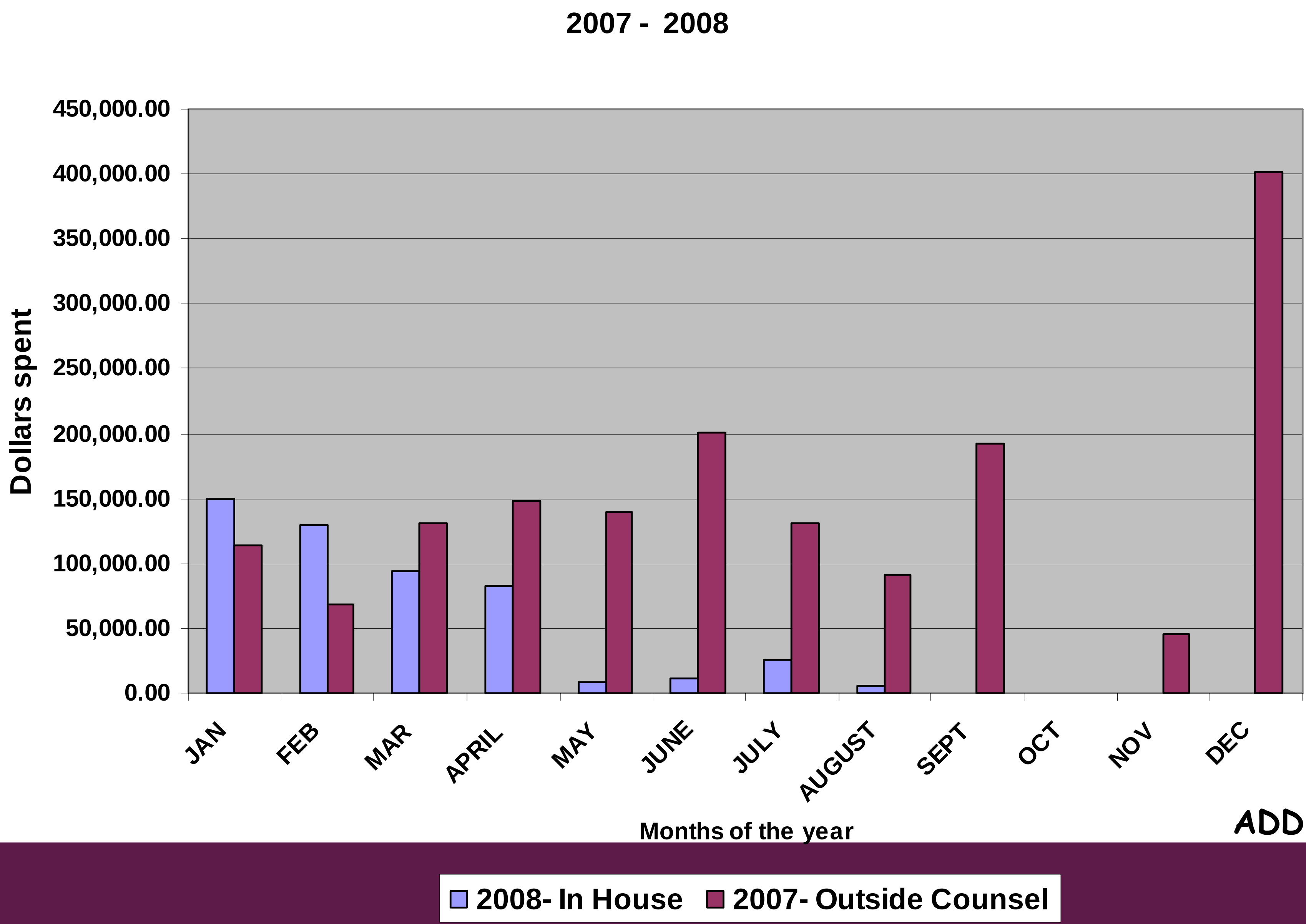
Identify volunteer and professional development opportunities

- Enhance community awareness of PPH
- Demonstrate involvement in CBISA standards

Legal Services Department Day-to-Day Responsibilities

- Major Transactions
- Litigation
- General Legal Advice and Counsel regarding matters such as the Brown Act, RAC Audits, peer review, district law, human resources and eminent domain
- Governance
- Compliance
- Contracts
- Community outreach

Legal Fees Cost Comparison



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PALOMAR POMERADO HEALTH
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Legal Services Department Team

- Janine Sarti – General Counsel
- Kate Philbin – Asst. General Counsel
- Michele Gilmore – Executive Assistant

Legal Services Department Strategic Plan

- QUESTIONS?

Legal Services Department

- THANK YOU!

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ADDENDUM E

ADD E-2

Financial Statements

August 2009

PALOMAR
POMERADO
HEALTH

SPECIALIZING IN YOU

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PALOMAR POMERADO HEALTH
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Balanced Scorecard
Financial Indicators

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PALOMAR POMERADO HEALTH
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July	August					YTD 2009			
Actual	Actual	Budget	Variance	% Actual to Budget		Actual	Budget	Variance	% Actual to Budget
					PPH Indicators:				
10.7%	10.8%	10.0%	0.8%	108.2%	OEBITDA Margin w/Prop Tax	10.7%	10.0%	0.7%	107.0%
$ 10,018.94	$ 10,407.25	$ 10,683.25	$ 276.00	97.4%	Expenses/Adj Discharge	$ 10,211.29	$ 10,678.65	$ 467.36	95.6%
$ 6,123.13	$ 6,206.92	$ 6,418.83	$ 211.91	96.7%	SWB/Adj Discharge	$ 6,165.19	$ 6,417.53	$ 252.34	96.1%
6.29	6.43	6.63	0.20	97.0%	Prod FTE's/Adj Occupied Bed	6.35	6.63	0.28	95.8%
3,600	3,481	3,408	73	102.1%	Adjusted Discharges	7,080	6,817	263	106.6%
					PPH North Indicators:				
6.1%	13.8%	10.9%	2.9%	126.7%	OEBITDA Margin w/Prop Tax	10.1%	10.9%	(0.8%)	92.6%
$ 9,483.12	$ 9,612.09	$ 9,950.09	$ 338.00	96.6%	Expenses/Adj Discharge	$ 9,490.59	$ 9,947.71	$ 457.12	95.4%
$ 5,098.18	$ 4,840.46	$ 5,264.56	$ 424.10	91.9%	SWB/Adj Discharge	$ 5,072.94	$ 5,264.57	$ 191.63	96.4%
5.12	5.34	5.43	0.09	98.3%	Prod FTE's/Adj Occupied Bed	5.23	5.43	0.20	96.3%
2,582	2,528	2,462	66	102.7%	Adjusted Discharges	5,110	4,924	186	108.6%
					PPH South Indicators:				
19.3%	3.3%	6.4%	(3.1%)	51.6%	OEBITDA Margin w/Prop Tax	12.0%	6.4%	5.6%	186.9%
$ 10,610.53	$ 11,342.11	$ 11,543.50	$ 201.38	98.3%	Expenses/Adj Discharge	$ 10,969.51	$ 11,540.37	$ 570.86	95.1%
$ 5,470.52	$ 5,529.79	$ 5,957.77	$ 427.98	92.8%	SWB/Adj Discharge	$ 5,501.99	$ 5,957.77	$ 455.78	92.3%
6.12	6.17	6.42	0.25	96.1%	Prod FTE's/Adj Occupied Bed	6.14	6.40	0.26	95.9%
999	933	926	7	100.8%	Adjusted Discharges	1,931	1,852	79	108.3%

Financial Results
Executive Summary of Key Indicators

ADD E-5

PALOMAR POMERADO HEALTH
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	August 2008			FY 09 Y-T-D @ August 2008			
	Actual	Budget	Variance	Actual	Budget	Variance	Moody Benchmark
Statistics:							
Acute Admissions	2,454	2,502	(48)	4,994	5,004	(10)	
Acute Patient Days	9,491	9,654	(163)	19,078	19,308	(230)	
Acute ALOS	3.81	3.86	(0.05)	3.77	3.86	(0.09)	
Case Mix Index (w/o Births)	1.40	1.40	-	1.39	1.40	(0.01)	
Total Surgeries	1,327	1,658	(331)	3,082	3,316	(234)	
Births	471	454	17	971	908	63	
E/R Visits & Admissions	7,203	7,698	(495)	14,767	15,396	(629)	
ER to Admit Rate	17.7%	16.5%	1.2%	17.8%	16.5%	1.3%	
Productivity %	99.1%	100%	0.3%	100.0%	100.0%	0.0%	
Income Statement:							
Net Patient Revenue	36,840,008	36,469,229	370,779	73,293,033	72,935,771	357,262	
Total Net Revenue	37,171,024	37,076,048	94,976	74,105,410	74,149,409	(43,999)	
Sal., Wages, Cont. Lbr	17,429,247	17,593,654	164,407	34,976,424	35,185,109	208,685	
Supplies	5,656,890	5,639,175	(17,715)	11,193,788	11,278,348	84,560	
Total Expenses	36,227,639	36,408,512	180,873	72,295,909	72,796,349	500,440	
Net Inc. (Loss) before Non-Op	**943,385**	**667,536**	**275,849**	**1,809,501**	**1,353,060**	**456,441**	
Net Income (Loss)	**2,257,935**	**2,009,486**	**248,449**	**4,360,093**	**4,036,960**	**323,133**	
Cash Flow:							
Cash Collections	27,300,000	36,000,000	(8,700,000)	60,100,000	72,000,000	(11,900,000)	
Days in A/R - Gross				51.4	52.40	51.4	
Days Cash on Hand				81	80	1	
Ratios:							
OEBITDA w/ Prop. Tax	10.8%	10.0%	0.8%	10.7%	10.0%	0.7%	
Net Income Margin	5.0%	5.0%	0.0%	5.1%	5.0%	0.1%	
Bad Debt % of Net Revenue	22.0%	10.2%	(11.8%)	16.1%	10.2%	(5.9%)	6.6%
Return On Assets				3.7%	3.5%	(0.2%)	4.7%
Annual Debt Service Coverage				3.2			4.5
Cushion Ratio				5.3			15.5

ADD E-6

PALOMAR POMERADO HEALTH
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Statistics

CONSOLIDATED	Jul	Aug	Jul vs Aug % Change	Aug Budget	Act vs Bud % Variance
Patient Days Acute	9,587	9,491	(1.0%)	9,654	(1.7%)
Patient Days SNF	6,572	6,497	(1.1%)	6,533	(0.6%)
ADC Acute	309.26	306.16	(1.0%)	311.42	(1.7%)
ADC SNF	212.00	209.58	(1.1%)	210.74	(0.6%)
Surgeries CVS Cases	10	10	0.0%	13	(23.1%)
Surgeries Total	1,755	1,327	(24.4%)	1,658	(20.0%)
Number of Births	500	471	(5.8%)	454	3.7%
NORTH					
Patient Days Acute	7,138	6,920	(3.1%)	7,155	(3.3%)
Patient Days SNF	2,723	2,698	(0.9%)	2,720	(0.8%)
ADC Acute	230.25	223.24	(3.0%)	230.80	(3.3%)
ADC SNF	87.84	87.03	(0.9%)	87.74	(0.8%)
SOUTH					
Patient Days Acute	2,449	2,571	5.0%	2,499	2.9%
Patient Days SNF	3,849	3,799	(1.3%)	3,813	(0.4%)
ADC Acute	79.00	82.95	5.0%	80.61	2.9%
ADC SNF	124.16	122.55	(1.3%)	123.00	(0.4%)

ADD E-7

PALOMAR POMERADO HEALTH
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Balance Sheet

Current Cash & Cash Equivalents increased $10.3 million from $67.9 million in July to $78.2 million in August. Total Cash and Investments are $89.8 million, compared to $80.0 million at July 31, 2008. Days Cash on Hand went from 73 days in July to 81 days in August.

Net Accounts Receivable increased $9.3 million from $87.9 million in July to $97.2 million in August. Gross A/R days increased from 47.6 days in July to 51.4 days in August.

August YTD collections including capitation are $60.1 million compared to budget of $72.0 million.

Construction in Progress increased $9.7 million from $221.5 million in July to $231.2 million in August. The increase is attributed to Building Expansion A & E Services and construction costs of $9.1 million, Cerner Optimization project $0.4 million and Other at $0.2 million.

Accrued Interest Payable decreased $5.5 million due to the payment of interest to Bondholders of $7.0 million which was partially offset by the interest accrual for August.

Bonds and Contracts Payable decreased $1.0 million due to the payment of Principal to the Bondholders. This payment dictated an increase in the Current Portion of Bonds of $0.7 million.

Income Statement

Gross Patient Revenue reflects a YTD favorable budget variance of $8.1 million. The variance breakdown is as follows.

	North	South	Outreach	Total
Consolidated	2,927,165	5,397,243	(216,616)	8,107,792
Routine	(589,443)	53,832	-	(535,611)
IP Ancillary	(2,169,043)	3,550,947	-	1,381,904
OP	5,685,651	1,792,464	(216,616)	7,261,499

Deductions from Revenue reflect a YTD unfavorable budget variance of $7.8 million. Total Deductions from Revenue is 72.08% of gross revenue compared to a budget of 71.33%. Deductions from Revenue (excluding Bad Debt/Charity/Undocumented expenses) are 66.68% of YTD Gross Revenue compared to budget of 66.97%.

Net Capitation reflects a YTD unfavorable budget variance of $0.2 million. Cap Premium shows a favorable budget variance of $4.4 million. This favorable variance is due to retro 2007 premium adjustments in July and August. Cap Valuation and Out of Network Claim Expense both show an unfavorable budget variance of $1.1 million and $3.5 million, respectively.

Other Operating Revenue reflects a YTD unfavorable budget variance of $0.4 million. This is comprised of a $0.1 million unfavorable budget variance from a new department, Weight Solutions, and Other unfavorable of $0.3 million.

Income Statement (cont'd)

Salaries, Wages & Contract Labor has a YTD favorable budget variance of $0.2 million. The breakdown is as follows:

	YTD Actual	YTD Budget	Variance
Consolidated	34,976,424	35,185,109	208,685
North	20,355,681	20,981,903	626,222
South	8,571,731	9,004,550	432,819
Central	4,880,799	4,162,702	(718,097)
Outreach	1,168,213	1,035,954	(132,259)

Employee Benefits Expense has a YTD unfavorable budget variance of $0.1 million. This variance can be broken down into the following categories: Work Comp Insurance – unfavorable by $0.08 million and Other - unfavorable by $0.02 million.

Supplies Expense reflects a YTD favorable budget variance of $0.1 million. The breakdown is Prosthesis Supplies – unfavorable $0.2 million and Other Supplies favorable at $0.3 million.

Professional Fees & Purchased Services reflect a YTD favorable budget variance of $0.22 million. The favorable variance of $.04 million in Professional Fees is due to physician income guarantees not realized. Purchased Services has a favorable variance of $0.18 million.

Non-Operating Income reflects a YTD unfavorable variance of $0.1 million. This is due to an unfavorable investment income variance of $0.3 million partially offset by a favorable $0.2 million variance of interest expense.

Ratios & Margins

All required Bond Covenant Ratios were achieved in August, 2008.

ADD E-10

PALOMAR POMERADO HEALTH
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	Actual	Budget	Variance Detail	Variance
Net Income From Operations	**943,385**	**667,536**		**275,849**
Total Net Revenue				**370,779**
Net Patient Revenue			370,779	
Other Operating Revenue				**(275,803)**
Weight Solutions			(60,309)	
PPNC Health Development and Research Institute			(36,801)	
Other			(178,693)	
Salaries & Wages				**556,367**
Volume Variance			(369,015)	
Rate & Efficiency (Nursing & Non-Nursing)			925,382	
Benefits				**104,688**
Work Comp Insurance			32,282	
Other			72,406	
Contract Labor				**(391,960)**
Volume Variance			(7,844)	
Rate & Efficiency (Nursing & Non-Nursing)			(384,116)	

Key Variance Explanations Month-To-Date (cont'd)

ADD E-11

	Actual	Budget	Variance Detail	Variance
Professional Fees				**(20,150)**
Consulting			(46,036)	
Dr. Recruitment Income Guarantee			(11,165)	
Other			37,051	
Supplies				**(17,715)**
Volume Variance			(120,792)	
Rate & Efficiency (Nursing & Non-Nursing)			103,077	
Prosthesis 631000	(36,263)			
Other	18,548			
Purchased Services				**25,721**
No Significant Variances			25,721	
Depreciation				**(40,876)**
Depreciation			(40,876)	
Other Direct Expenses				**(35,202)**
207642 - San Diego Radiosurgery - contra to revenue			(115,500)	
Other			80,298	
Total Actual to Budget MTD Variance for August 2008			**275,849**	**275,849**

Key Variance Explanations Year-To-Date

ADD E-12

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	Actual	Budget	Variance Detail	Variance
Net Income From Operations	**1,809,501**	**1,353,060**		**456,441**
Total Net Revenue				**357,262**
Net Patient Revenue			357,262	
Other Operating Revenue				**(401,261)**
Weight Solutions			(120,618)	
PPNC Health Development and Research Institute			(73,602)	
Other			(207,041)	
Salaries & Wages				**949,579**
Volume Variance			(1,329,186)	
Rate & Efficiency (Nursing & Non-Nursing)			2,278,765	
Benefits				**(109,940)**
Work Comp Insurance			(86,974)	
Other			(22,966)	
Contract Labor				**(740,894)**
Volume Variance			(28,257)	
Rate & Efficiency (Nursing & Non-Nursing)			(712,637)	

Key Variance Explanations Year-To-Date (cont'd)

ADD E-13

PALOMAR POMERADO HEALTH
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	Actual	Budget	Variance Detail	Variance
Professional Fees				**40,593**
Consulting			(42,152)	
Dr. Recruitment Income Guarantee			76,316	
Other			6,429	
Supplies				**84,560**
Volume Variance			(435,119)	
Rate & Efficiency (Nursing & Non-Nursing)			519,679	
Prosthesis 631000	(188,521)			
Other	273,081			
Purchased Services				**181,138**
No Significant Variances			181,138	
Depreciation				**(92,469)**
Depreciation			(92,469)	
Other Direct Expenses				**187,873**
207642 - San Diego Radiosurgery - contra to revenue			(231,000)	
Insurance			143,544	
Other			275,329	
Total Actual to Budget YTD Variance at August 2008			**456,441**	**456,441**

Balance Sheet
Consolidated

ADD E-14

PALOMAR POMERADO HEALTH
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Assets	Current Month	Prior Month	Prior Fiscal Year End
Current Assets			
Cash on Hand	$9,565,202	$5,114,254	$12,423,039
Cash Marketable Securities	68,634,989	62,811,503	73,699,656
Total Cash & Cash Equivalents	78,200,191	67,925,757	86,122,695
Patient Accounts Receivable	212,944,418	189,384,721	172,638,382
Allowance on Accounts	(115,732,167)	(101,447,716)	(87,408,726)
Net Accounts Receivable	97,212,251	87,937,005	85,229,656
Inventories	6,778,056	6,863,755	6,826,298
Prepaid Expenses	3,726,476	3,893,270	3,790,644
Other	20,696,613	20,037,005	4,967,021
Total Current Assets	206,613,587	186,656,792	186,936,314
Non-Current Assets			
Restricted Assets	316,955,457	339,977,547	343,067,128
Restricted by Donor	305,309	305,309	303,600
Board Designated	11,268,120	11,755,913	12,117,325
Total Restricted Assets	328,528,886	352,038,769	355,488,053
Property Plant & Equipment	386,387,672	386,412,560	385,775,695
Accumulated Depreciation	(230,981,213)	(229,076,059)	(227,160,186)
Construction in Process	231,244,698	221,522,709	218,294,773
Net Property Plant & Equipment	386,651,157	378,859,210	376,910,282
Investment in Related Companies	(254,952)	(200,952)	(200,952)
Deferred Financing Costs	15,605,255	15,569,952	15,644,785
Other Non-Current Assets	6,988,449	6,835,147	6,930,722
Total Non-Current Assets	737,518,795	753,102,126	754,772,890
Total Assets	$944,132,382	$939,758,918	$941,709,204

Liabilities	Current Month	Prior Month	Prior Fiscal Year End
Current Liabilities			
Accounts Payable	$27,701,216	$21,019,742	$43,549,404
Accrued Payroll	14,513,465	13,699,047	11,811,084
Accrued PTO	13,537,166	13,514,417	13,977,901
Accrued Interest Payable	3,559,743	9,052,173	7,505,024
Current Portion of Bonds	9,730,000	9,660,000	9,660,000
Est Third Party Settlements	1,597,534	1,372,150	807,165
Other Current Liabilities	26,250,426	26,505,760	12,458,703
Total Current Liabilities	96,889,550	94,823,289	99,769,281
Long Term Liabilities			
Bonds & Contracts Payable	537,022,691	537,973,424	537,979,367
General Fund Balance			
Unrestricted	298,646,723	294,900,994	291,539,633
Restricted for Other Purpose	305,309	305,309	303,600
Board Designated	11,268,120	11,755,913	12,117,325
Total Fund Balance	310,220,152	306,962,216	303,960,558
Total Liabilities / Fund Balance	$944,132,382	$939,758,918	$941,709,204

Income Statement: Monthly Trend
Consolidated

ADD E-15

PALOMAR POMERADO HEALTH
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	Jul	Aug	YTD
Statistics:			
Admissions - Acute	2540	2,454	4,994
Admissions - SNF	95	107	202
Patient Days - Acute	9587	9,491	19,078
Patient Days - SNF	6572	6,497	13,069
LOS - Acute	3.74	3.81	3.77
LOS - SNF	67.75	60.16	63.75
Adjusted Discharges	3600	3,481	7,080
Revenue:			
Gross Revenue	$ 131,046,951	$ 131,438,267	$ 262,485,217
Deductions from Rev	(94,593,925)	(94,598,259)	(189,192,184)
Net Patient Revenue	36,453,026	36,840,008	73,293,033
Other Oper Revenue	481,361	331,016	812,377
Total Net Revenue	36,934,387	37,171,024	74,105,410
Expenses:			
Salaries, Wages & Contr Labor	17,547,177	17,429,247	34,976,424
Benefits	4,496,086	4,177,042	8,673,128
Supplies	5,536,898	5,656,890	11,193,787
Prof Fees & Purch Svc	4,597,010	4,825,802	9,422,812
Depreciation	1,915,873	1,905,155	3,821,027
Other	1,975,226	2,233,503	4,208,730
Total Expenses	36,068,270	36,227,639	72,295,909
Net Inc Before Non-Oper Income	866,117	943,385	1,809,501
Property Tax Revenue	1,166,666	1,166,666	2,333,332
Non-Operating Income	69,375	147,884	217,260
Net Income (Loss)	$ 2,102,158	$ 2,257,935	$ 4,360,093
Net Income Margin	5.2%	5.0%	5.1%
OEBITDA Margin w/o Prop Tax	7.5%	7.7%	7.6%
OEBITDA Margin with Prop Tax	10.7%	10.8%	10.7%

Income Statement: Fiscal Year-to-Date
Consolidated – Adjusted Discharges

ADD E-16

PALOMAR POMERADO HEALTH
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	Actual	Budget	Variance		Variance: Volume	Variance: Rate/Eff	$/Adjusted Discharges: Actual	$/Adjusted Discharges: Budget	$/Adjusted Discharges: Variance
Statistics:									
Admissions - Acute	4,994	5,004	(10)						
Admissions - SNF	202	200	2						
Patient Days - Acute	19,078	19,308	(230)						
Patient Days - SNF	13,069	13,066	3						
ALOS - Acute	3.77	3.86	(0.09)						
ALOS - SNF	63.75	65.99	(2.24)						
Adjusted Discharges	7,080	6,817	263						
Revenue:									
Gross Revenue	$ 262,485,217	$ 254,377,425	$ 8,107,792	F	$ 9,813,886	$ (1,706,094)	$ 37,074.18	$ 37,315.16	$ (240.97)
Deductions from Rev	(189,192,184)	(181,441,654)	(7,750,530)	U	(7,000,023)	(750,507)	(26,722.06)	(26,616.06)	(106.00)
Net Patient Revenue	73,293,033	72,935,771	357,262	F	2,813,864	(2,456,602)	10,352.12	10,699.10	(346.98)
Other Oper Revenue	812,377	1,213,638	(401,261)	U	46,822	(448,083)	114.74	178.03	(63.29)
Total Net Revenue	74,105,410	74,149,409	(43,999)	U	2,860,686	(2,904,685)	10,466.87	10,877.13	(410.27)
Expenses:									
Salaries, Wages & Contr Labor	34,976,424	35,185,109	208,685	F	(1,357,442)	1,566,127	4,940.17	5,161.38	221.20
Benefits	8,673,128	8,563,188	(109,940)	U	(330,368)	220,428	1,225.02	1,256.15	31.13
Supplies	11,193,788	11,278,348	84,560	F	(435,119)	519,679	1,581.04	1,654.44	73.40
Prof Fees & Purch Svc	9,422,812	9,644,543	221,731	F	(372,087)	593,818	1,330.91	1,414.78	83.87
Depreciation	3,821,027	3,728,558	(92,469)	U	(143,848)	51,379	539.69	546.95	7.26
Other	4,208,730	4,396,604	187,874	F	(169,621)	357,495	594.45	644.95	50.49
Total Expenses	72,295,909	72,796,349	500,440	F	(2,808,485)	3,308,926	10,211.29	10,678.65	467.36
Net Inc Before Non-Oper Income	1,809,501	1,353,060	456,441	F	52,201	404,241	255.58	198.48	57.10
Property Tax Revenue	2,333,332	2,333,332	-	-	90,020	(90,020)	329.57	342.28	(12.71)
Non-Operating Income	217,260	350,568	(133,308)	U	13,525	(146,833)	30.69	51.43	(20.74)
Net Income (Loss)	$ 4,360,093	$ 4,036,960	$ 323,133	F	$ 155,746	$ 167,388	$ 615.83	$ 592.19	$ 23.64
Net Income Margin	5.1%	5.0%	0.1%						
OEBITDA Margin w/o Prop Tax	7.6%	6.9%	0.7%						
OEBITDA Margin with Prop Tax	10.7%	10.0%	0.7%						

F= Favorable variance
U= Unfavorable variance

PALOMAR POMERADO HEALTH

SPECIALIZING IN YOU

Income Statement: Month-to-Date
Consolidated – Adjusted Discharges

ADD E-17

	Actual	Budget	Variance		Variance: Volume	Variance: Rate/Eff	$/Adjusted Discharges: Actual	$/Adjusted Discharges: Budget	$/Adjusted Discharges: Variance
Statistics:									
Admissions - Acute	2,454	2,502	(48)						
Admissions - SNF	107	100	7						
Patient Days - Acute	9,491	9,654	(163)						
Patient Days - SNF	6,497	6,533	(36)						
ALOS - Acute	3.81	3.86	(0.05)						
ALOS - SNF	60.16	65.99	(5.83)						
Adjusted Discharges	3,481	3,408	73						
Revenue:									
Gross Revenue	$ 131,438,267	$ 127,190,056	$ 4,248,211	F	$ 2,724,435	$ 1,523,776	$37,758.77	$ 37,321.03	$ 437.74
Deductions from Rev	(94,598,259)	$ (90,720,827)	(3,877,432)	U	(1,943,257)	(1,934,175)	(27,175.60)	(26,619.96)	(555.64)
Net Patient Revenue	36,840,008	36,469,229	370,779	F	781,178	(410,399)	10,583.17	10,701.06	(117.90)
Other Oper Revenue	331,016	606,819	(275,803)	U	12,998	(288,801)	95.09	178.06	(82.97)
Total Net Revenue	37,171,024	37,076,048	94,976	F	794,176	(699,200)	10,678.26	10,879.12	(200.86)
Expenses:									
Salaries, Wages & Contr Labor	17,429,247	17,593,654	164,407	F	(376,859)	541,266	5,006.97	5,162.46	155.49
Benefits	4,177,042	4,281,730	104,688	F	(91,715)	196,403	1,199.95	1,256.38	56.42
Supplies	5,656,890	5,639,175	(17,715)	U	(120,792)	103,077	1,625.08	1,654.69	29.61
Prof Fees & Purch Svc	4,825,802	4,831,373	5,571	F	(103,489)	109,060	1,386.33	1,417.66	31.33
Depreciation	1,905,155	1,864,279	(40,876)	U	(39,933)	(943)	547.30	547.03	(0.27)
Other	2,233,503	2,198,302	(35,201)	U	(47,088)	11,887	641.63	645.04	3.41
Total Expenses	36,227,639	36,408,512	180,873	F	(779,877)	960,751	10,407.25	10,683.25	276.00
Net Inc Before Non-Oper Income	943,385	667,536	275,849	F	14,299	261,551	271.01	195.87	75.14
Property Tax Revenue	1,166,666	1,166,666	-	-	24,990	(24,990)	335.15	342.33	(7.18)
Non-Operating Income	147,884	175,284	(27,400)	U	3,755	(31,155)	42.48	51.43	(8.95)
Net Income (Loss)	$ 2,257,935	$ 2,009,486	$ 248,449	F	$ 43,044	$ 205,406	$ 648.65	$ 589.64	$ 59.01
Net Income Margin	5.0%	5.0%	0.0%						
OEBITDA Margin w/o Prop Tax	7.7%	6.8%	0.9%						
OEBITDA Margin with Prop Tax	10.8%	10.0%	0.8%						

F= Favorable variance
U= Unfavorable variance

Income Statement: Current vs. Prior Year-to-date
Consolidated – Adjusted Discharges

ADD E-18

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

					Variance		$/Adjusted Discharges		
	August 08	August 07	Variance		Volume	Rate/Eff	Actual	Budget	Variance
Statistics:									
Admissions - Acute	4,994	4,858	136						
Admissions - SNF	202	181	21						
Patient Days - Acute	19,078	18,910	168						
Patient Days - SNF	13,069	13,156	(87)						
ALOS - Acute	3.77	3.90	(0.13)						
ALOS - SNF	63.75	76.05	(12.30)						
Adjusted Discharges	7,080	6,639	441						
Revenue:									
Gross Revenue	$ 262,485,217	$ 234,177,273	$ 28,307,944	F	$ 15,555,381	$ 12,752,563	$ 37,074.18	$ 35,272.97	$ 1,801.21
Deductions from Rev	(189,192,184)	(164,980,276)	(24,211,908)	U	(10,958,925)	(13,252,983)	(26,722.06)	(24,850.17)	(1,871.89)
Net Patient Revenue	73,293,033	69,196,997	4,096,036	F	4,596,457	(500,421)	10,352.12	10,422.80	(70.68)
Other Oper Revenue	812,377	1,688,152	(875,775)	U	112,137	(987,912)	114.74	254.28	(139.54)
Total Net Revenue	74,105,410	70,885,149	3,220,261	F	4,708,593	(1,488,332)	10,466.87	10,677.08	(210.22)
Expenses:									
Salaries, Wages & Contr Labor	34,976,424	32,623,147	(2,353,277)	U	(2,167,014)	(186,263)	4,940.17	4,913.86	(26.31)
Benefits	8,673,128	8,605,356	(67,772)	U	(571,617)	503,845	1,225.02	1,296.18	71.16
Supplies	11,193,788	10,663,560	(530,228)	U	(708,334)	178,106	1,581.04	1,606.20	25.16
Prof Fees & Purch Svc	9,422,812	9,526,849	104,037	F	(632,827)	736,864	1,330.91	1,434.98	104.08
Depreciation	3,821,027	3,573,609	(247,418)	U	(237,379)	(10,039)	539.69	538.28	(1.42)
Other	4,208,730	4,399,661	190,931	F	(292,250)	483,181	594.45	662.70	68.25
Total Expenses	72,295,909	69,392,182	(2,903,727)	U	(4,609,422)	1,705,695	10,211.29	10,452.20	240.92
Net Inc Before Non-Oper Income	1,809,501	1,492,967	316,534	F	99,171	217,363	255.58	224.88	30.70
Property Tax Revenue	2,333,332	2,250,000	83,332	F	149,458	(66,126)	329.57	338.91	(9.34)
Non-Operating Income	217,260	849,329	(632,069)	U	56,417	(688,486)	30.69	127.93	(97.24)
Net Income (Loss)	$ 4,360,093	$ 4,592,296	$ (232,203)	U	$ 305,046	$ (537,249)	$ 615.83	$ 691.72	$ (75.88)
Net Income Margin	5.1%	5.8%	(0.7%)						
OEBITDA Margin w/o Prop Tax	7.6%	7.1%	0.5%						
OEBITDA Margin with Prop Tax	10.7%	10.3%	0.4%						

F= Favorable variance
U= Unfavorable variance

ADD E-19

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

Palomar Pomerado Health

STATEMENTS OF CASH FLOWS

Fiscal Year 2009	August	YTD
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income (Loss) from operations	943,385	1,809,501
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation Expense	1,905,155	3,821,027
Provision for bad debts	8,098,959	11,808,481
Changes in operating assets and liabilities:		
Patient accounts receivable	(17,374,206)	(23,791,077)
Property Tax and other receivables	(1,423,319)	(16,820,649)
Inventories	85,699	48,242
Prepaid expenses and Other Non-Current assets	220,794	118,168
Accounts payable	6,681,554	(15,848,188)
Accrued compensation	837,167	2,261,646
Estimated settlement amounts due third-party payors	225,384	790,369
Other current liabilities	1,911,332	18,125,055
Net cash provided by operating activities	2,111,904	(17,677,423)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (purchases) sales of investments	17,686,397	32,023,834
Interest (Loss) received on investments	399,123	724,122
Investment in affiliates	0	243,524
Net cash used in investing activities	18,085,520	32,991,479
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipt of G.O. Bond Taxes	178,885	264,844
Receipt of District Taxes	264,264	357,702
Net cash used in non-capital financing activities	443,149	622,546
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of property plant and equipment	(8,241,930)	(10,921,577)
Proceeds from sale of asset	0	0
Deferred Financing Costs	(35,303)	39,530
G.O. Bond Interest paid	(7,037,392)	(7,037,392)
Revenue Bond Interest paid	0	0
Proceeds from issuance of debt	0	0
Payments of Long Term Debt	(875,000)	(875,000)
Net cash used in activities	(16,189,625)	(18,794,440)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,450,948	(2,857,838)
CASH AND CASH EQUIVALENTS - Beginning of period	5,114,254	12,423,039
CASH AND CASH EQUIVALENTS - End of period	9,565,202	9,565,202

Summary of Key Indicators & Results
Fiscal Year-to-Date

ADD E-20

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	ACTUAL	BUDGET	VARIANCE	FY 2008
ADMISSIONS - Acute:				
Palomar Medical Center	3,743	3,748	(5)	3,655
Pomerado Hospital	1,251	1,256	(5)	1,203
Total:	4,994	5,004	(10)	4,858
ADMISSIONS - SNF:				
Palomar Medical Center	82	100	(18)	92
Pomerado Hospital	120	100	20	89
Total:	202	200	2	181
PATIENT DAYS - Acute:				
Palomar Medical Center	14,058	14,310	(252)	13,771
Pomerado Hospital	5,020	4,998	22	5,139
Total:	19,078	19,308	(230)	18,910
PATIENT DAYS- SNF:				
Palomar Medical Center	5,421	5,440	(19)	5,524
Pomerado Hospital	7,648	7,626	22	7,632
Total:	13,069	13,066	3	13,156

Summary of Key Indicators & Results
Fiscal Year-to-Date

ADD E-21

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	ACTUAL	BUDGET	VARIANCE	FY 2008
ADJUSTED DISCHARGES				
Palomar Medical Center	5,110	4,924	186	4,704
Pomerado Hospital	1,931	1,852	79	1,783
Other Activities	39	41	(2)	152
Total:	7,080	6,817	263	6,639
AVERAGE LENGTH OF STAY- Acute:				
Palomar Medical Center	3.73	3.82	(0.09)	3.80
Pomerado Hospital	3.92	3.98	(0.06)	4.22
Total:	3.77	3.86	(0.09)	3.90
AVERAGE LENGTH OF STAY - SNF:				
Palomar Medical Center	66.11	55.51	10.60	65.76
Pomerado Hospital	62.18	76.26	(14.08)	85.75
Total:	63.75	65.99	(2.24)	76.05

Summary of Key Indicators & Results
Fiscal Year-to-Date

ADD E-22

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	ACTUAL	BUDGET	VARIANCE	FY 2008
EMERGENCY ROOM VISITS & TRAUMA CASES:				
Palomar Medical Center	8,169	8,644	(475)	8,101
Pomerado Hospital	3,976	4,210	(234)	4,100
Total:	12,145	12,854	(709)	12,201
EMERGENCY & TRAUMA ADMISSIONS:				
Palomar Medical Center	1,907	1,890	17	1,899
Pomerado Hospital	715	652	63	708
Total:	2,622	2,542	80	2,607
SURGERIES:	*- Escondido Surgery Center started in Dec-07.*			
Palomar Medical Center	1,867	2,180	(313)	1,449
Pomerado Hospital	1,215	1,136	79	1,148
Total:	3,082	3,316	(234)	2,597
BIRTHS:				
Palomar Medical Center	759	704	55	717
Pomerado Hospital	212	204	8	216
Total:	971	908	63	933

Supplies Expense
Year-to-Date

ADD E-23

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

Account	Description	Actual	Budget	Variance
631000	Prosthesis	2,640,493	2,451,972	(188,521)
641000	Supplies Other Medical	2,576,826	2,457,742	(119,084)
632000	Sutures/Surgical Needles	356,889	262,368	(94,521)
634000	Supplies Surgery General	917,909	828,222	(89,687)
648000	Instruments/Minor Equipment	121,002	64,606	(56,396)
647000	Supplies Employee Apparel	31,292	25,174	(6,118)
635000	Supplies Anesthesia Material	3,353	2,072	(1,281)
637000	Supplies IV Solutions	83,077	83,402	325
645000	Supplies Cleaning	69,369	70,454	1,085
644000	Supplies Linen	5,224	6,536	1,312
639000	Supplies Radioactive	132,033	136,186	4,153
636000	Supplies Oxygen/Gas	38,165	48,804	10,639
642000	Supplies Food/Meat	80,924	92,384	11,460
633000	Supplies Surgical Pack	315,872	332,174	16,302
640000	Supplies X-ray Material	(14,956)	4,630	19,586
646100	Supplies Forms	70,431	103,138	32,707
643000	Supplies Food Other	384,904	448,770	63,866
638000	Supplies Pharmaceutical	2,193,980	2,269,866	75,886
649000	Other Minor Equipment	88,406	208,924	120,518
650000	Other Non Medical	1,033,788	1,168,308	134,520
646000	Supplies Office/Administration	64,807	212,616	147,809
	TOTAL	**11,193,788**	**11,278,348**	**84,560**

ADD E-24

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

PALOMAR POMERADO HEALTH
BOND COVENANT RATIOS

Cushion Ratio	Jun-07	Jun-08	Aug-08
Cash and Cash Equivalents	109,213,349	86,122,696	78,200,191
Board Designated Reserves	-	12,117,325	11,268,120
Trustee-held Funds (Revenue Fund only)	249,531	185,981	217,208
Total	109,462,880	98,426,002	89,685,519
Divided by:			
Annual Debt Service (excludes GO Bonds)	16,972,692	16,972,692	16,972,692
(Bond Year 11/1/2008)			
Cushion Ratio	**6.4**	**5.8**	**5.3**
REQUIREMENT	**1.5**	**1.5**	**1.5**
	Achieved	**Achieved**	**Achieved**

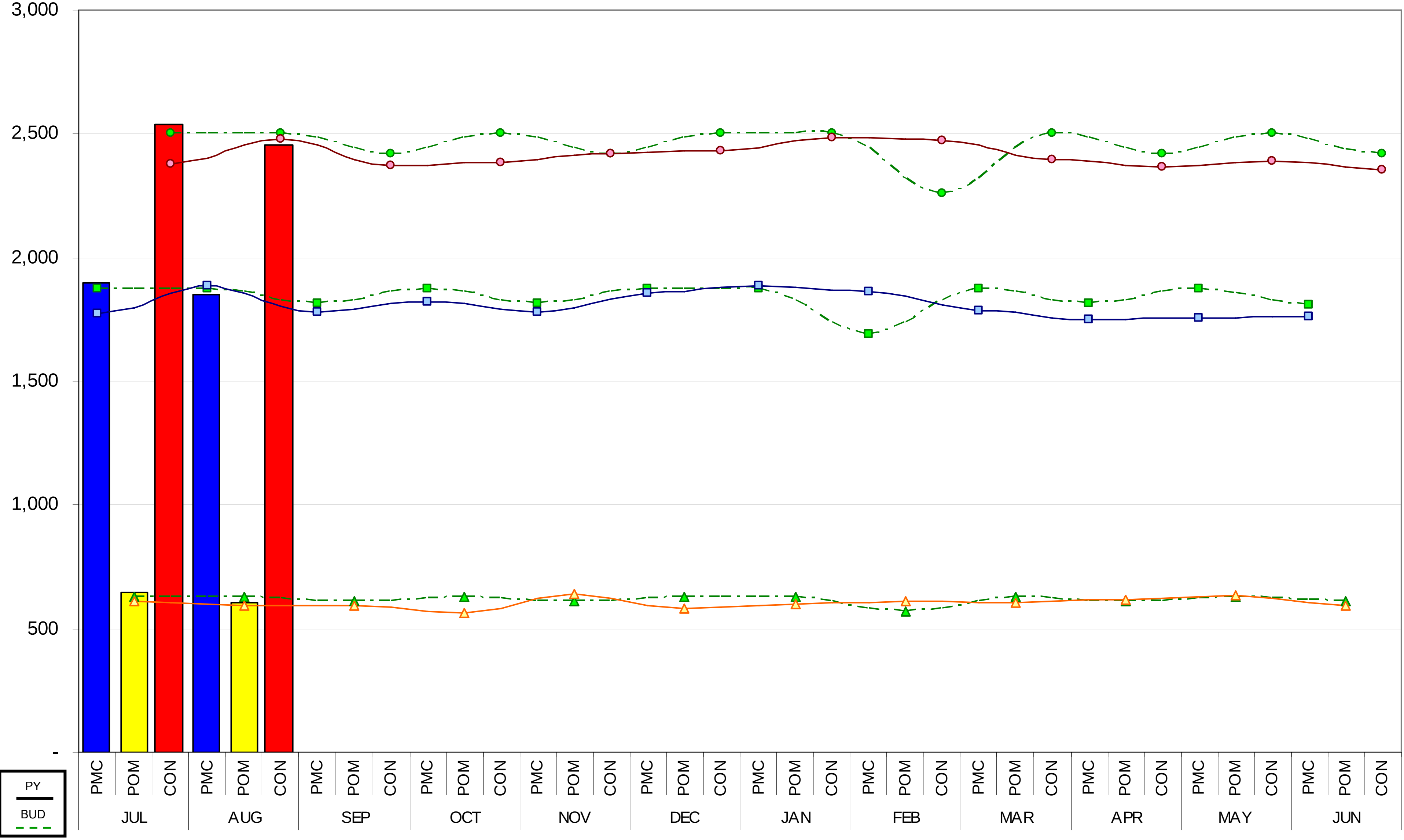
Days Cash on Hand	Jun-07	Jun-08	Aug-08
Cash and Cash Equivalents	109,213,349	86,122,696	78,200,191
Board Designated Reserves	-	12,117,325	11,268,120
Trustee-held Funds (Revenue Fund only)	249,531	185,981	217,208
Total	109,462,880	98,426,002	89,685,519
Divide Total by Average Adjusted Expenses per Day			
Total Expenses	385,355,509	428,153,444	72,295,909
Less: Depreciation	19,453,013	21,572,031	3,821,027
Adjusted Expenses	365,902,496	406,581,413	68,474,882
Number of days in period	365	366	62
Average Adjusted Expenses per Day	1,002,473	1,110,878	1,104,434
Days Cash on Hand	**109**	**89**	**81**
REQUIREMENT	**80**	**80**	**80**
	Achieved	**Achieved**	**Achieved**

Net Income Available for Debt Service	Jun-07	Jun-08	Aug-08
Excess of revenue over expenses Cur Mo.	2,963,446	(13,859,525)	2,257,935
Excess of revenues over expenses YTD	21,974,509	(5,472,030)	4,360,093
(General Funds)			
ADD:			
Depreciation and Amortization	19,453,013	21,572,031	3,821,027
Interest Expense	3,343,683	14,912,181	758,084
Net Income Available for Debt Service	44,771,205	31,012,182	8,939,204
Aggregate Debt Service			
1999 Insured Refunding Revenue Bonds	8,249,916	8,248,018	1,374,431
2006 Certificates of Participation	4,373,342	8,316,457	1,454,351
Aggregate Debt Service	12,623,258	16,564,475	2,828,782
Net Income Available for Debt Service	**3.55**	**1.87**	**3.16**
Required Coverage	**1.15**	**1.15**	**1.15**
	Achieved	**Achieved**	**Achieved**

Statistical Indicators
Admissions – Acute

ADD E-25

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

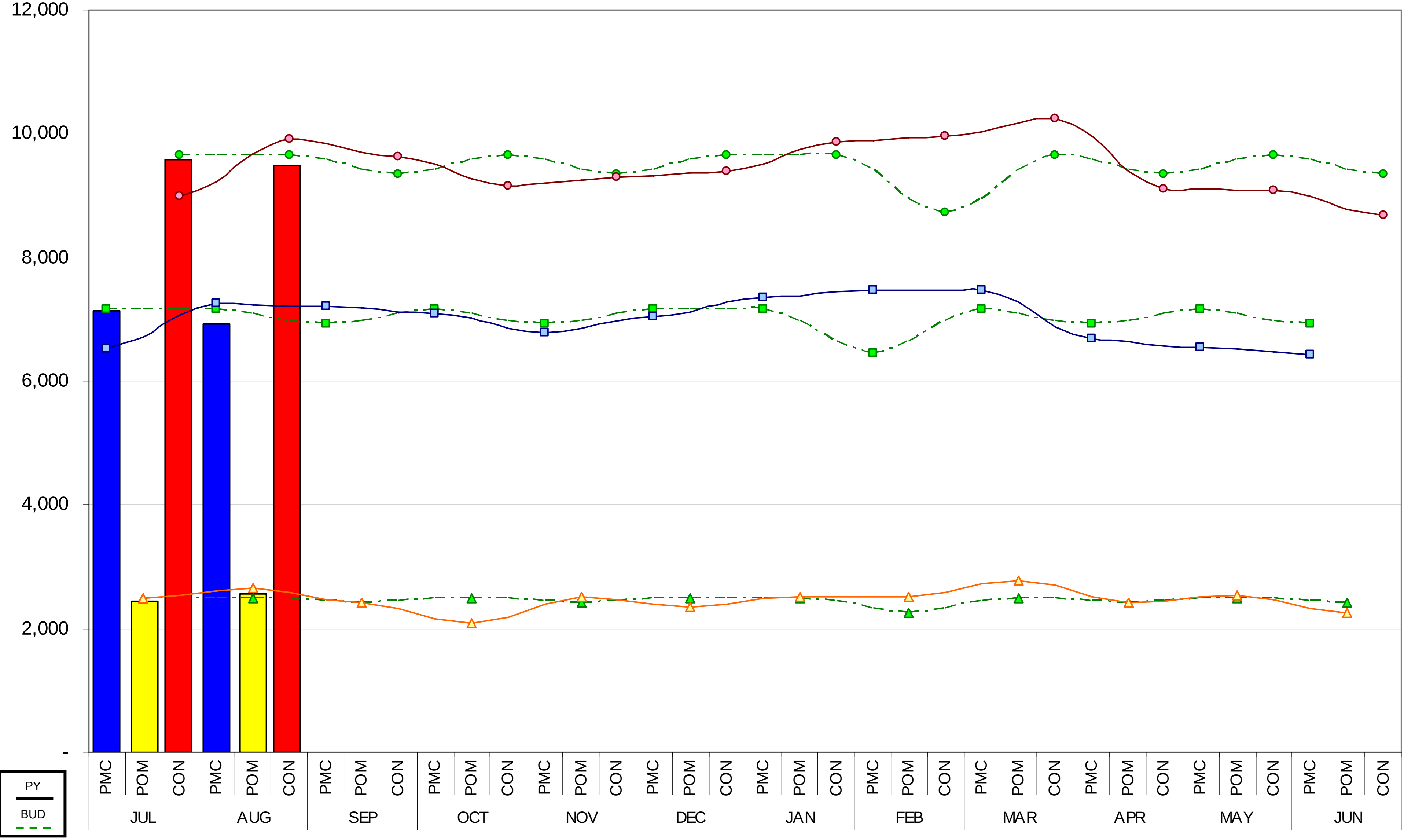


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	1,895	1,848	-	-	-	-	-	-	-	-	-	-	3,743	3,748
POM	645	606	-	-	-	-	-	-	-	-	-	-	1,251	1,256
CON	2,540	2,454	-	-	-	-	-	-	-	-	-	-	4,994	5,004

Statistical Indicators
Patient Days – Acute

ADD E-26

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	7,138	6,920	-	-	-	-	-	-	-	-	-	-	14,058	14,310
POM	2,449	2,571	-	-	-	-	-	-	-	-	-	-	5,020	4,998
CON	9,587	9,491	-	-	-	-	-	-	-	-	-	-	19,078	19,308

Statistical Indicators
Average Daily Census – Acute

ADD E-27

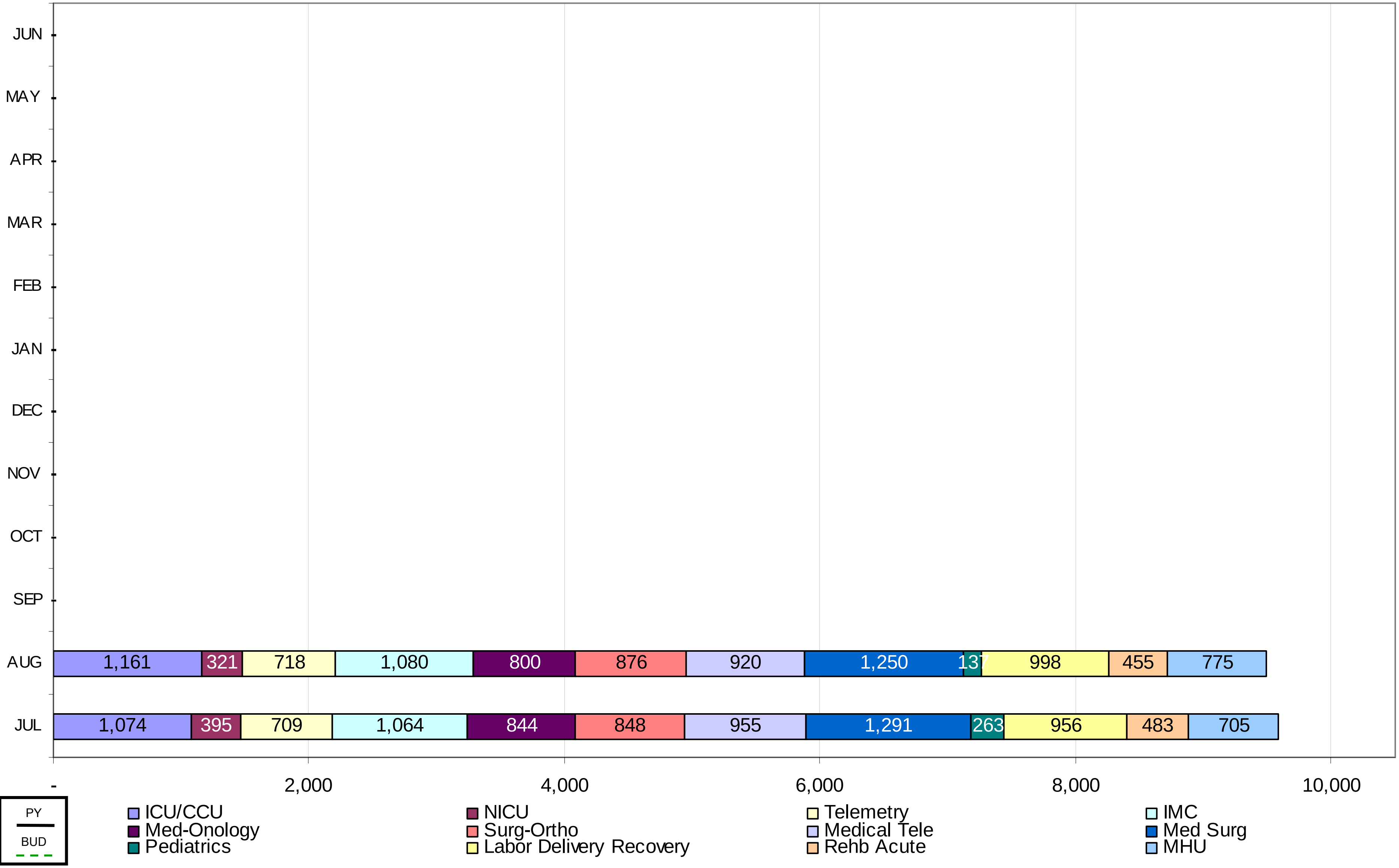
PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	230	223	-	-	-	-	-	-	-	-	-	-	227	231
POM	79	83	-	-	-	-	-	-	-	-	-	-	81	81
CON	309	306	-	-	-	-	-	-	-	-	-	-	308	312

Statistical Indicators
Patient Days

ADD E-28

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

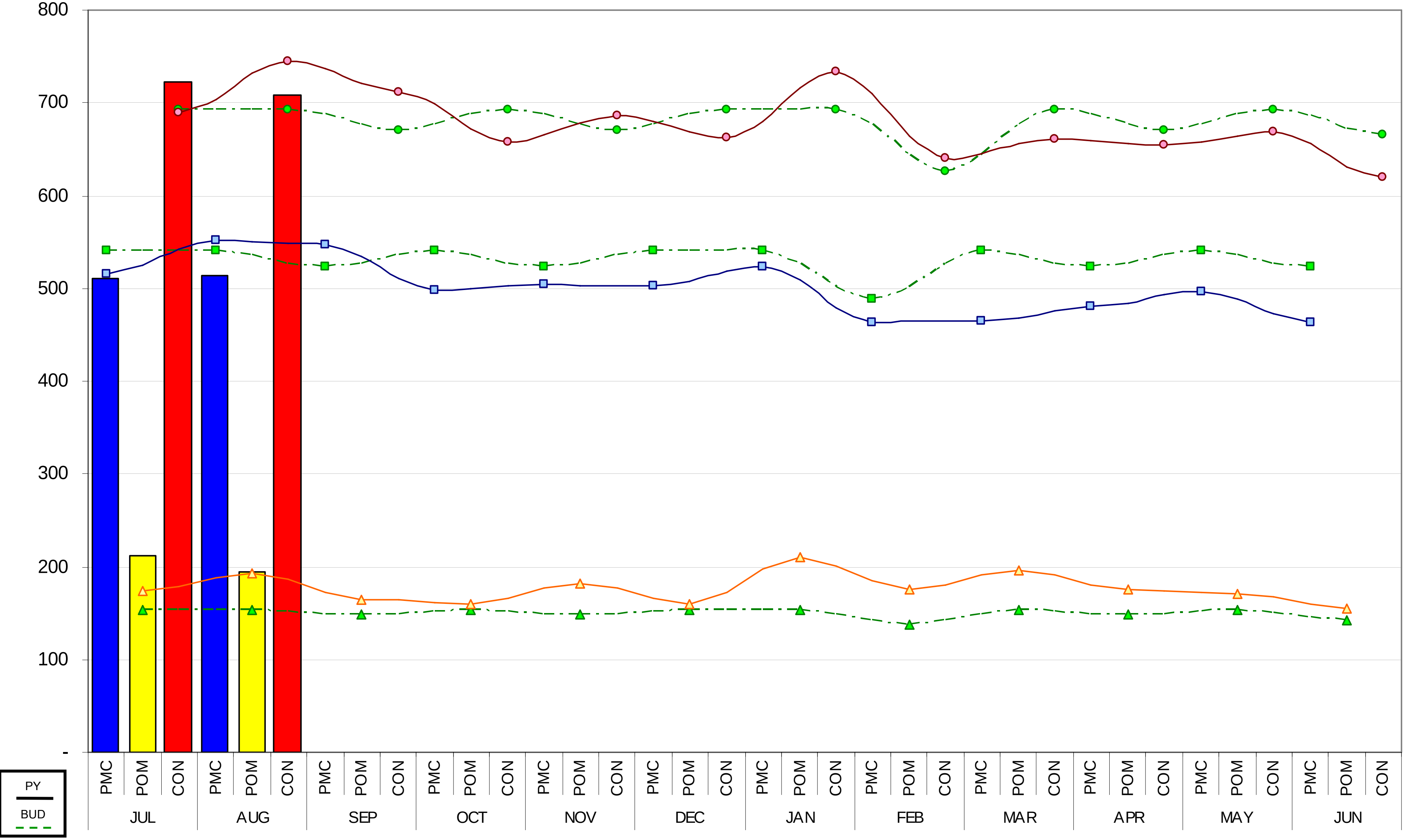


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	7,138	6,920	-	-	-	-	-	-	-	-	-	-	14,058	14,310
POM	2,449	2,571	-	-	-	-	-	-	-	-	-	-	5,020	4,998
CON	9,587	9,491	-	-	-	-	-	-	-	-	-	-	19,078	19,308

Statistical Indicators
Surgeries *(Inpatient only)*

ADD E-29

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



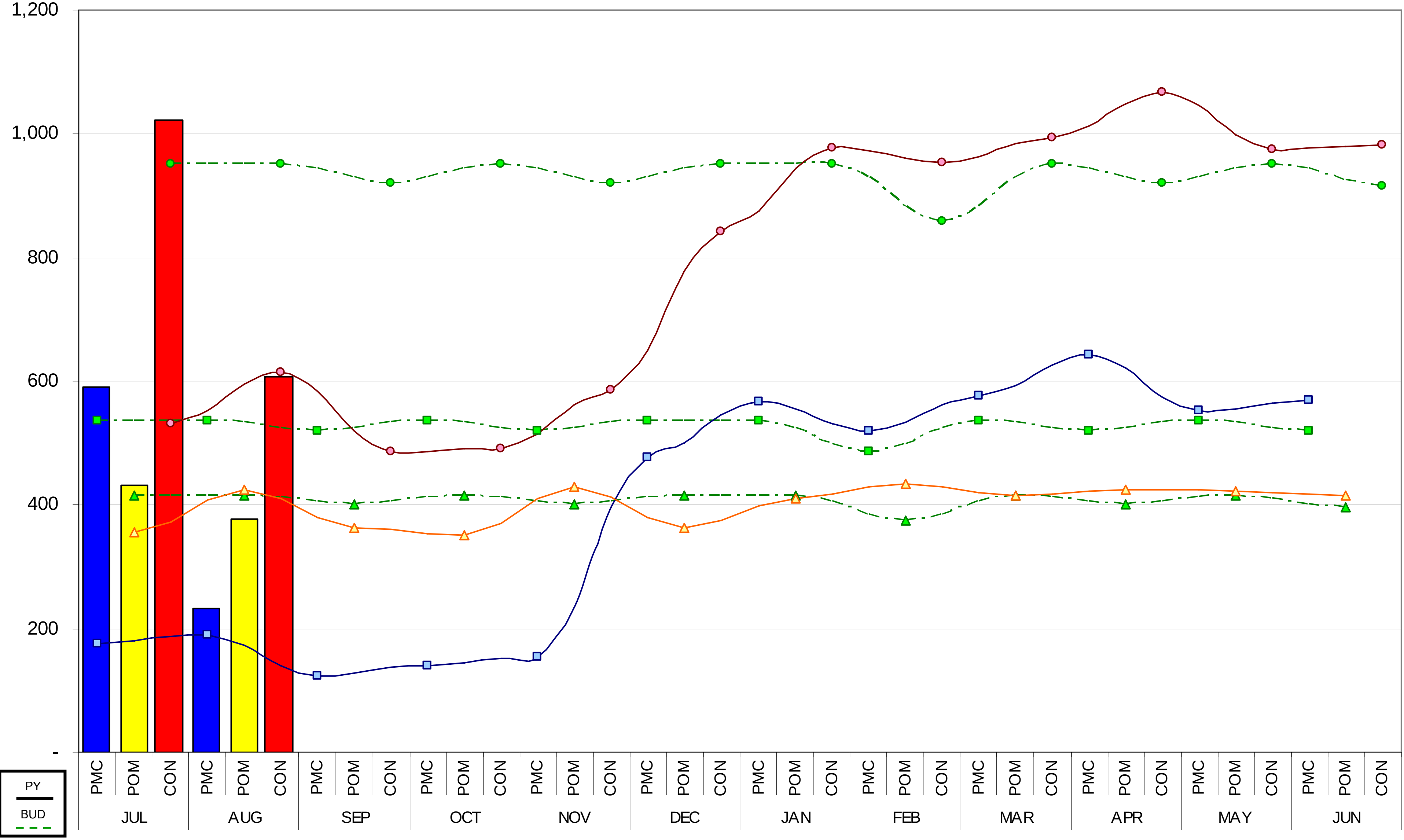
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	510	514	-	-	-	-	-	-	-	-	-	-	1,024	1,080
POM	212	195	-	-	-	-	-	-	-	-	-	-	407	306
CON	722	709	-	-	-	-	-	-	-	-	-	-	1,431	1,386

Statistical Indicators

Surgeries *(Outpatient only)*

ADD E-30

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

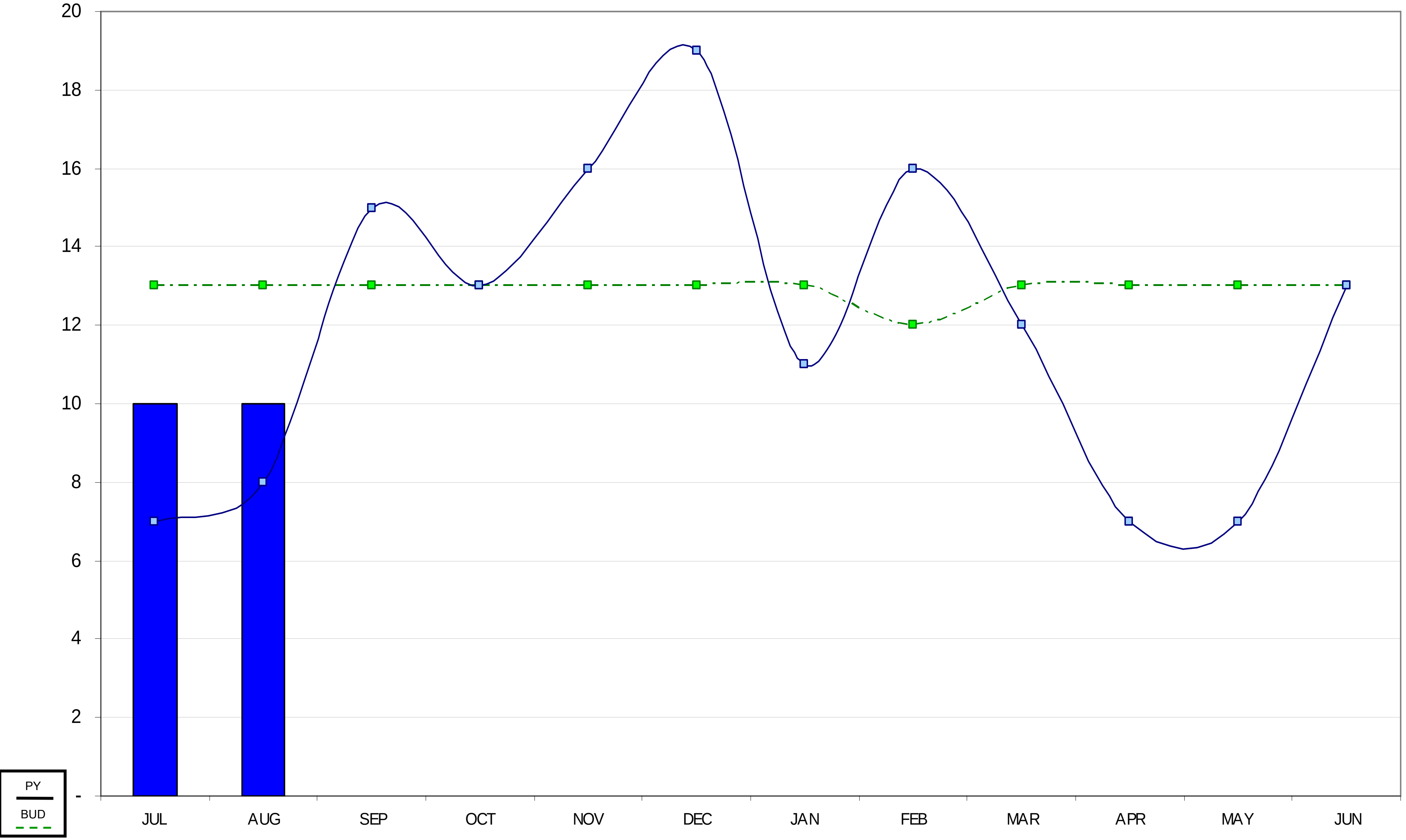


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	591	232	-	-	-	-	-	-	-	-	-	-	823	1,074
POM	432	376	-	-	-	-	-	-	-	-	-	-	808	830
CON	1,023	608	-	-	-	-	-	-	-	-	-	-	1,631	1,904

Statistical Indicators
Surgeries – CVS *(PMC only)*

ADD E-31

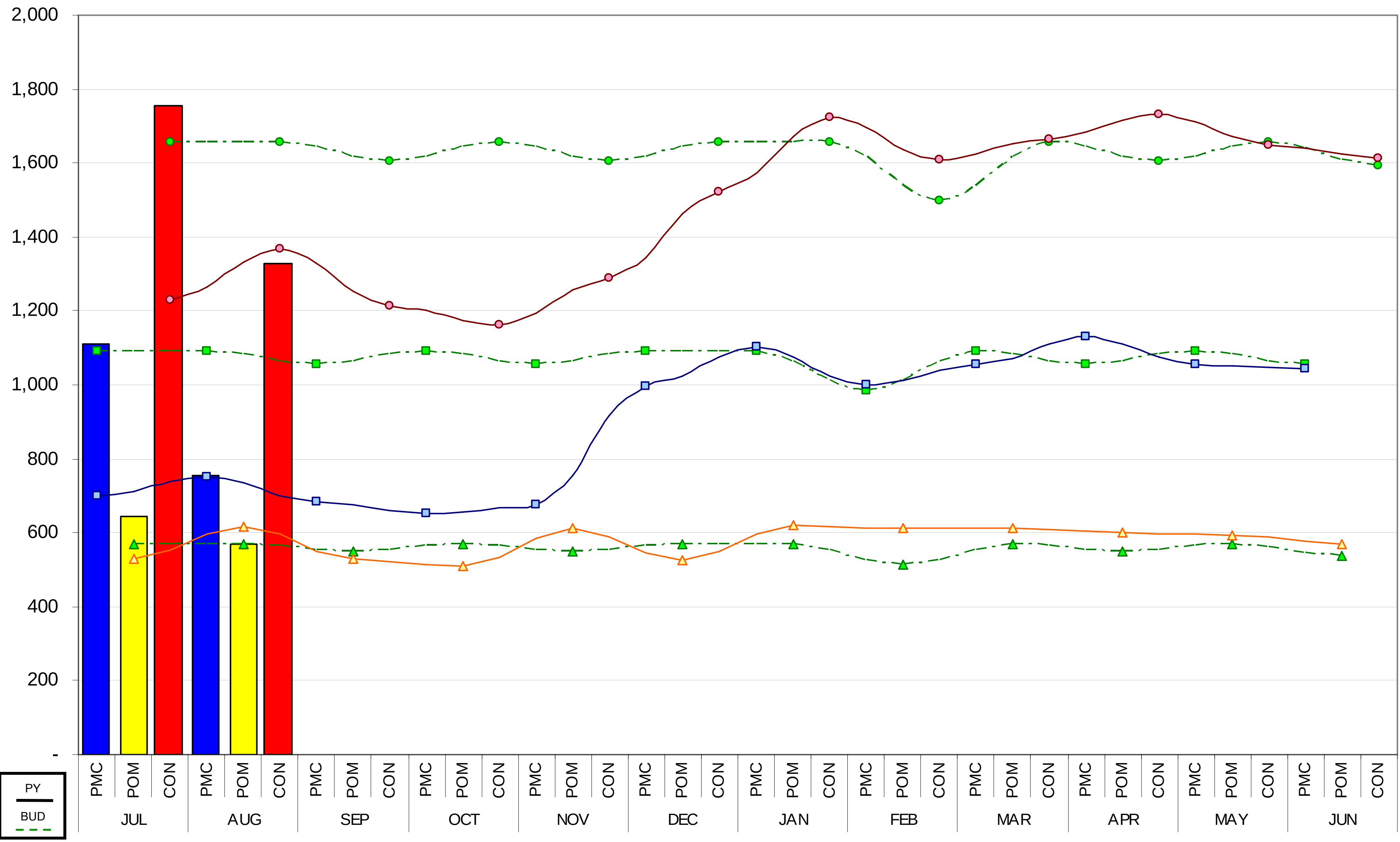
PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	10	10	-	-	-	-	-	-	-	-	-	-	20	26
POM	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CON	10	10	-	-	-	-	-	-	-	-	-	-	20	26

Statistical Indicators
Total Surgeries

ADD E-32

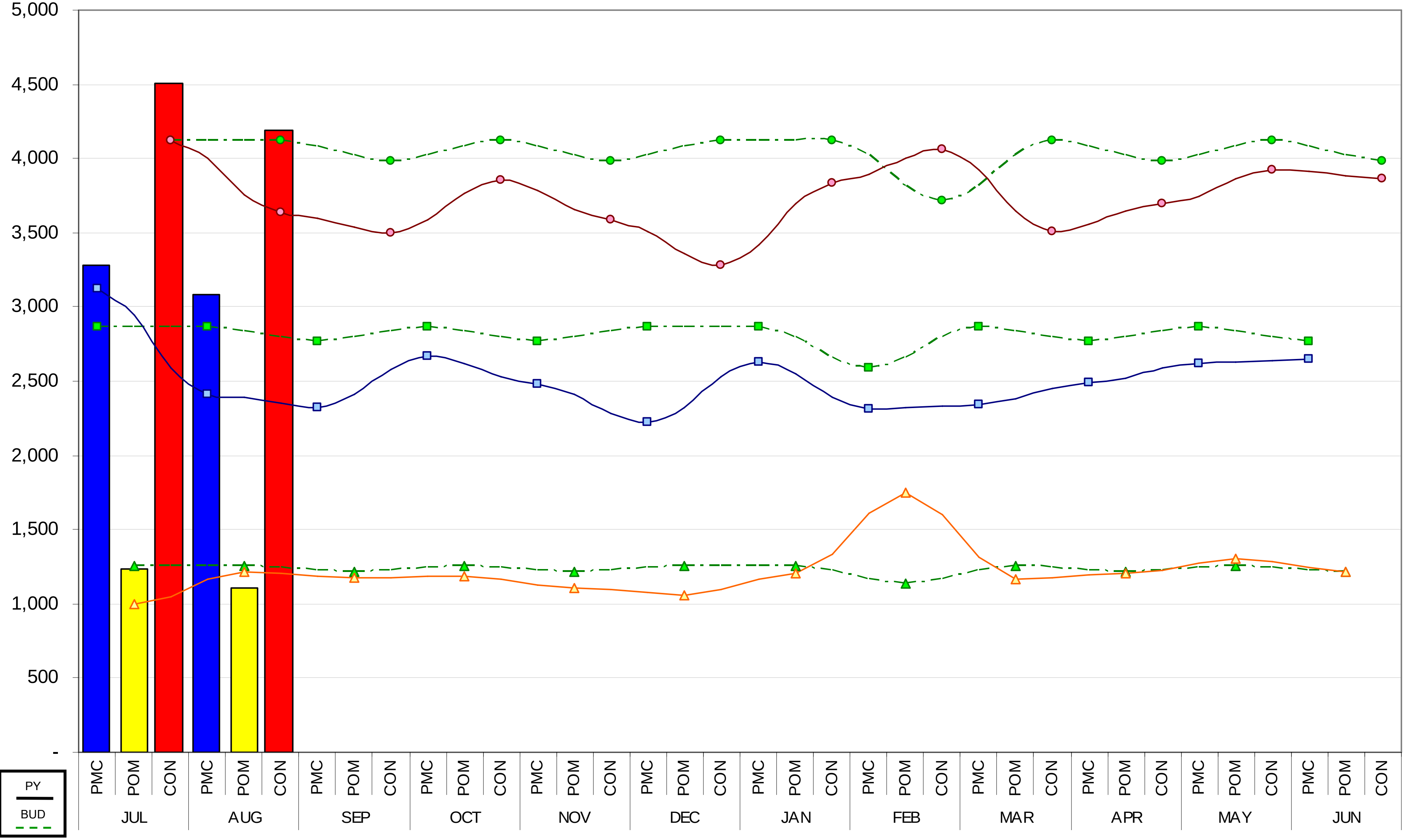


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	1,111	756	-	-	-	-	-	-	-	-	-	-	1,867	2,180
POM	644	571	-	-	-	-	-	-	-	-	-	-	1,215	1,136
CON	1,755	1,327	-	-	-	-	-	-	-	-	-	-	3,082	3,316

Statistical Indicators
Outpatient Registrations *(excludes Lab)*

ADD E-33

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



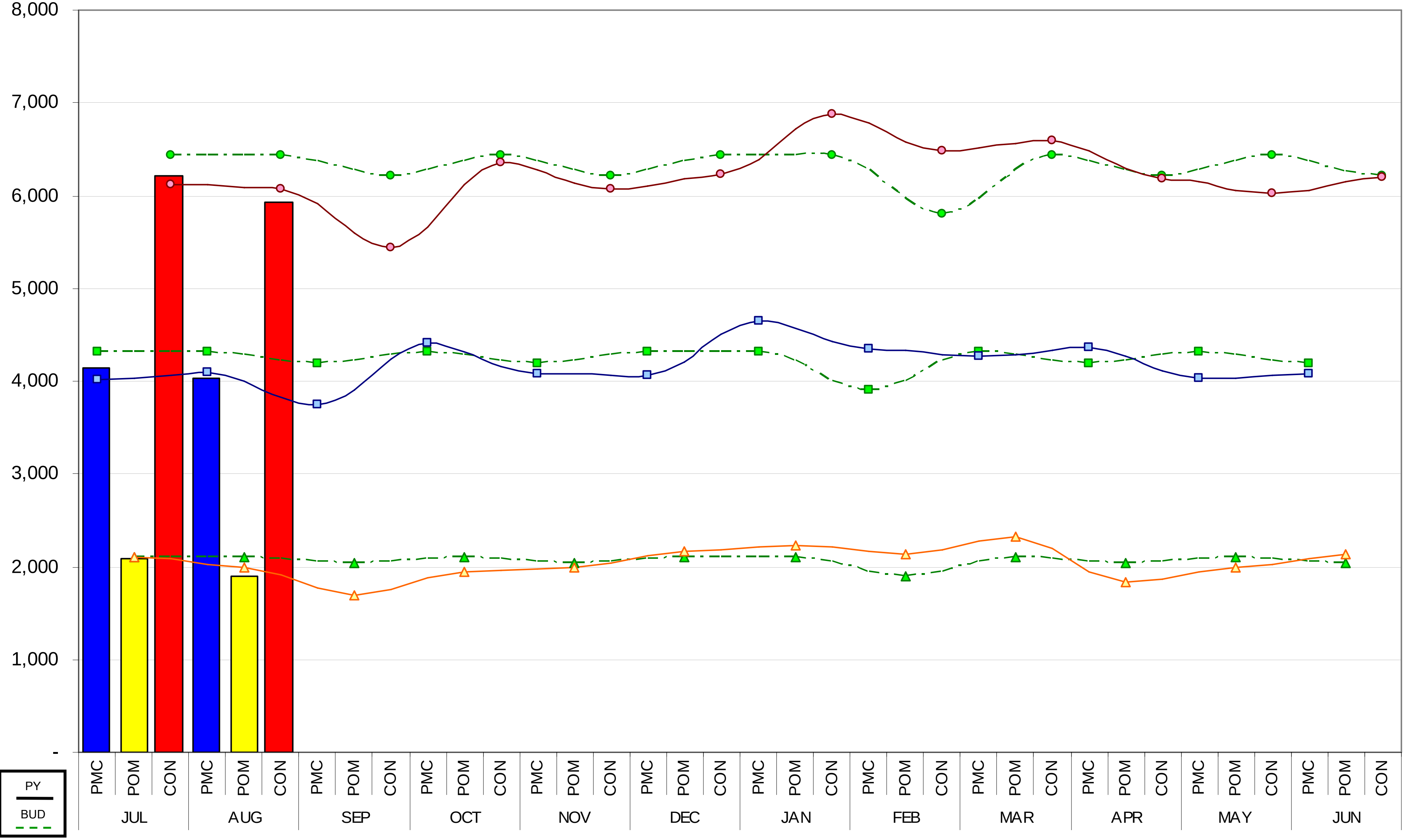
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	3,276	3,085	-	-	-	-	-	-	-	-	-	-	6,361	5,726
POM	1,231	1,108	-	-	-	-	-	-	-	-	-	-	2,339	2,512
CON	4,507	4,193	-	-	-	-	-	-	-	-	-	-	8,700	8,238

Statistical Indicators

ER Visits (*includes Trauma, Outpatient only*)

ADD E-34

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



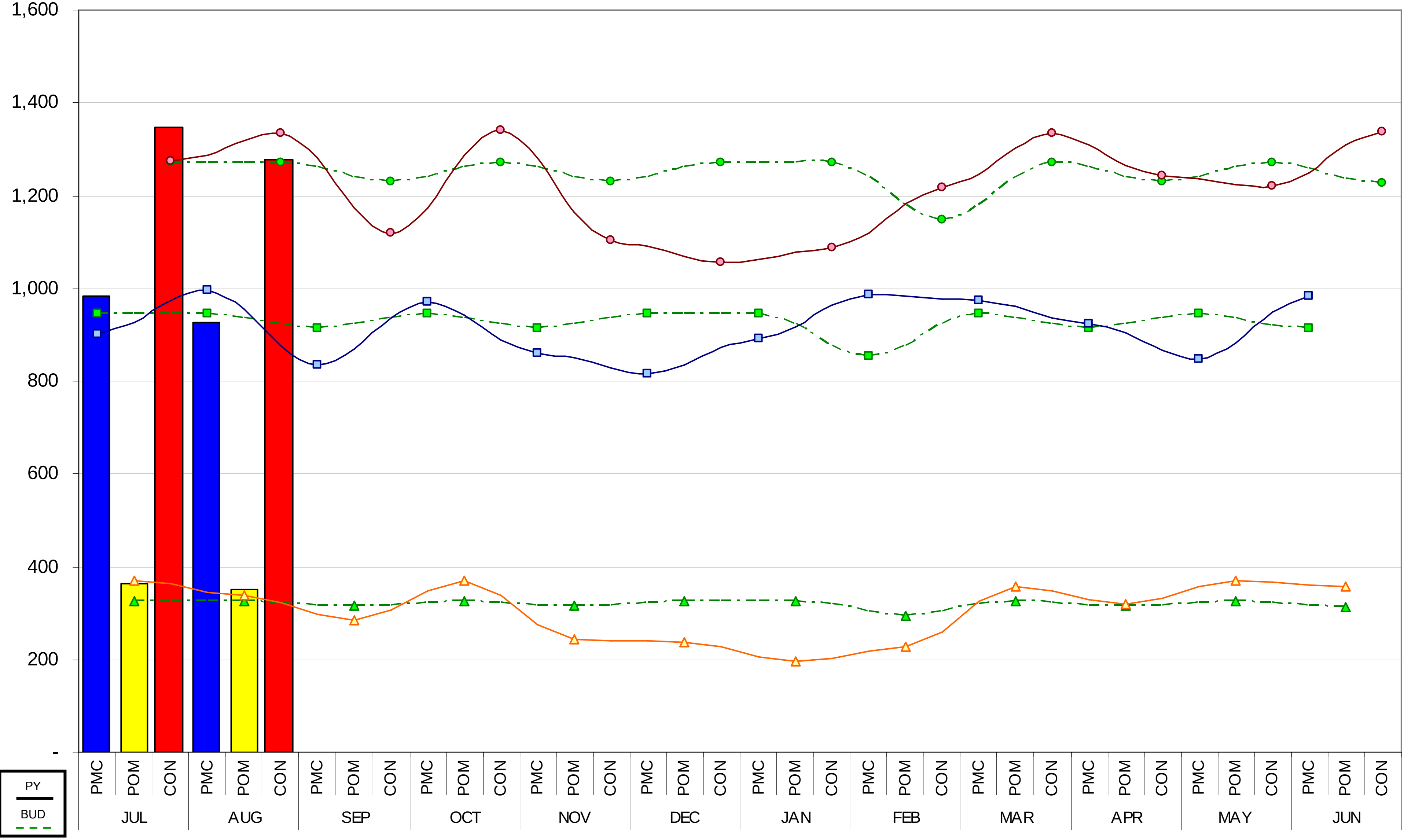
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	4,137	4,032	-	-	-	-	-	-	-	-	-	-	8,169	8,644
POM	2,081	1,895	-	-	-	-	-	-	-	-	-	-	3,976	4,210
CON	6,218	5,927	-	-	-	-	-	-	-	-	-	-	12,145	12,854
CON/DAY	201	191	-	-	-	-	-	-	-	-	-	-	392	415

Statistical Indicators

ADD E-35

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

ER Admissions *(includes Trauma, Inpatient only)*



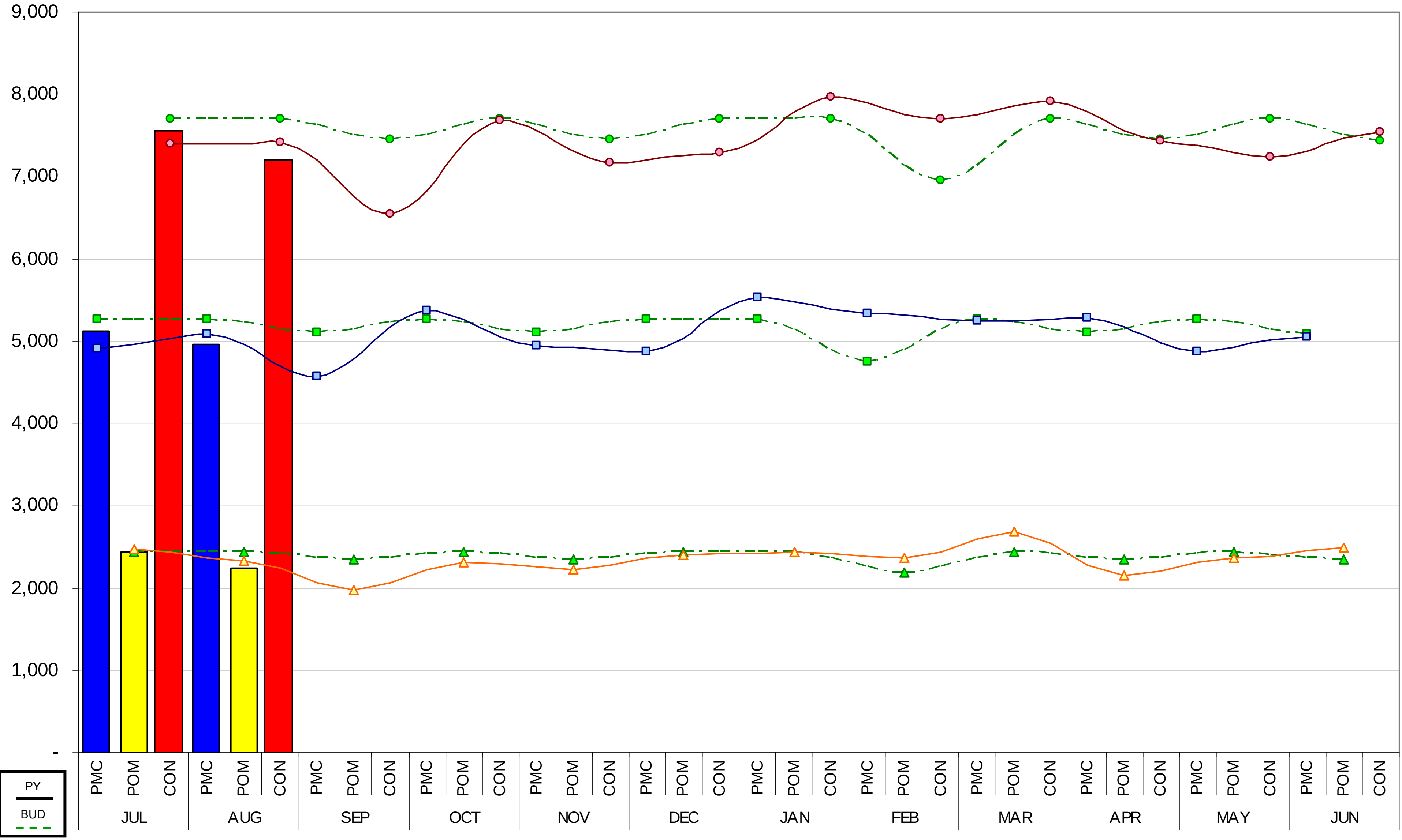
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	982	925	-	-	-	-	-	-	-	-	-	-	1,907	1,890
POM	364	351	-	-	-	-	-	-	-	-	-	-	715	652
CON	1,346	1,276	-	-	-	-	-	-	-	-	-	-	2,622	2,542

Statistical Indicators

Total ER Visits *(includes Trauma & Admissions)*

ADD E-36

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

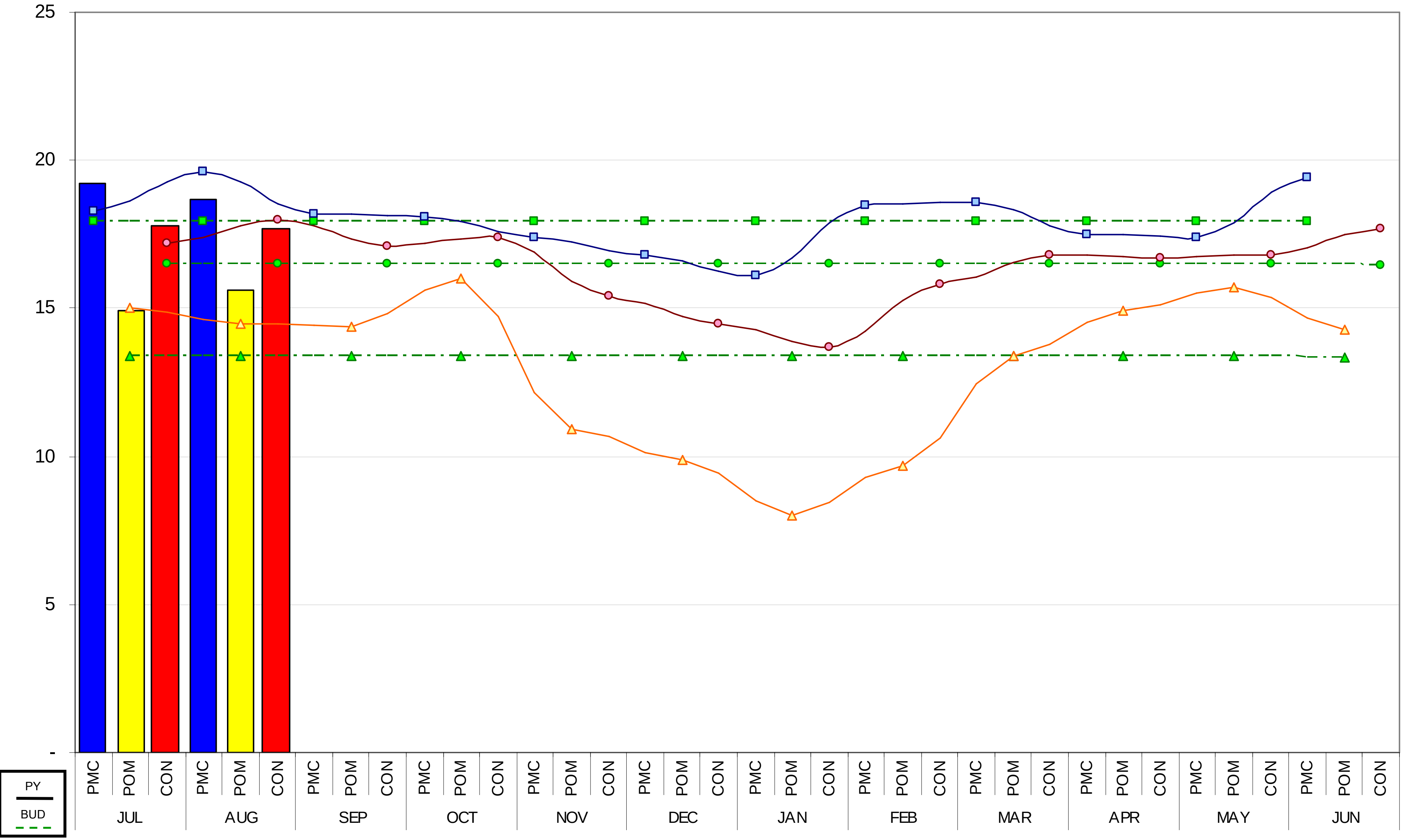


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	5,119	4,957	-	-	-	-	-	-	-	-	-	-	10,076	10,534
POM	2,445	2,246	-	-	-	-	-	-	-	-	-	-	4,691	4,862
CON	7,564	7,203	-	-	-	-	-	-	-	-	-	-	14,767	15,396

Statistical Indicators

ADD E-37

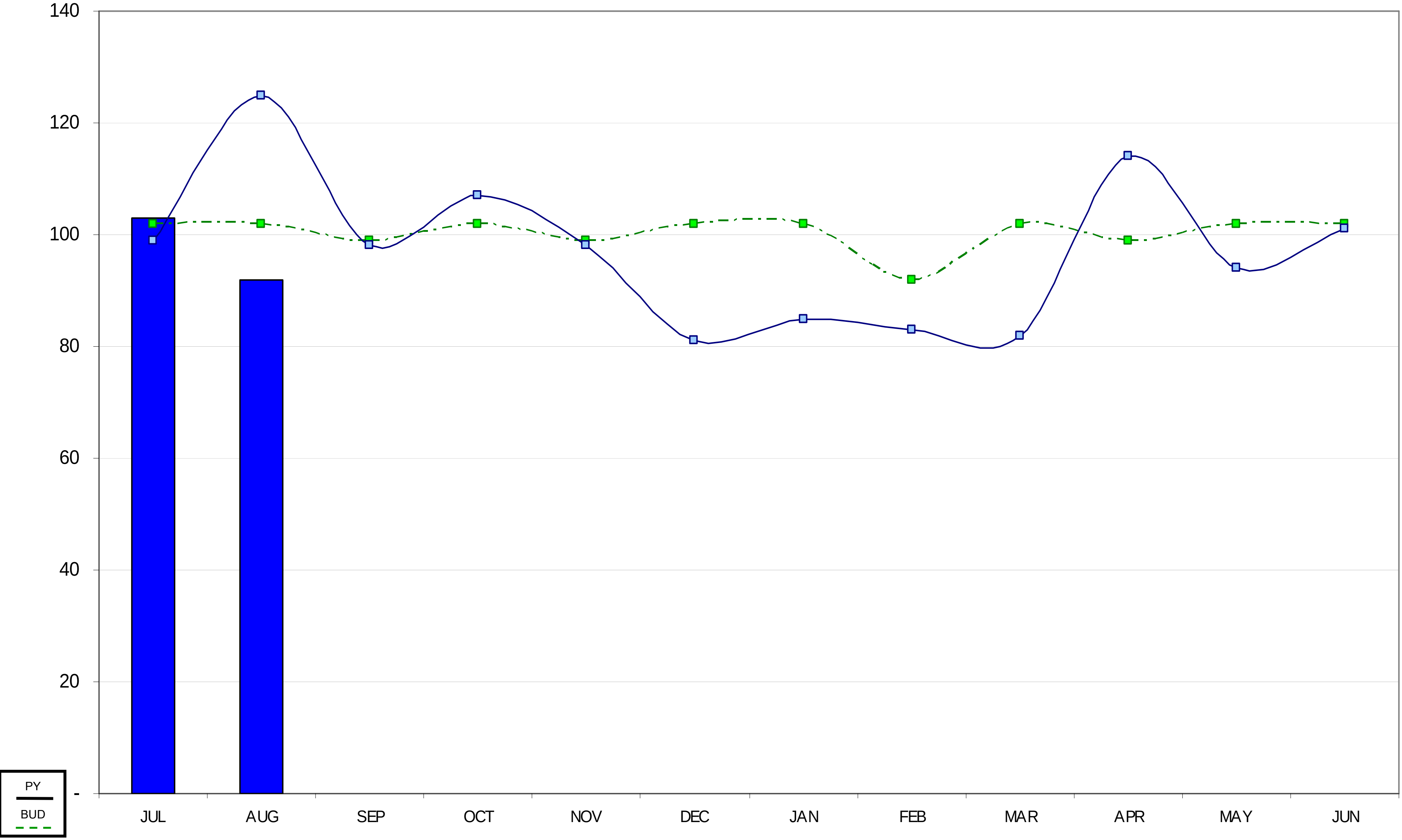
ER Conversion *(ER Admits as % of ER Visits)*



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	19.2	18.7	-	-	-	-	-	-	-	-	-	-	18.9	17.9
POM	14.9	15.6	-	-	-	-	-	-	-	-	-	-	15.2	13.4
CON	17.8	17.7	-	-	-	-	-	-	-	-	-	-	17.8	16.5

Statistical Indicators
Trauma Cases *(PMC only)*

ADD E-38

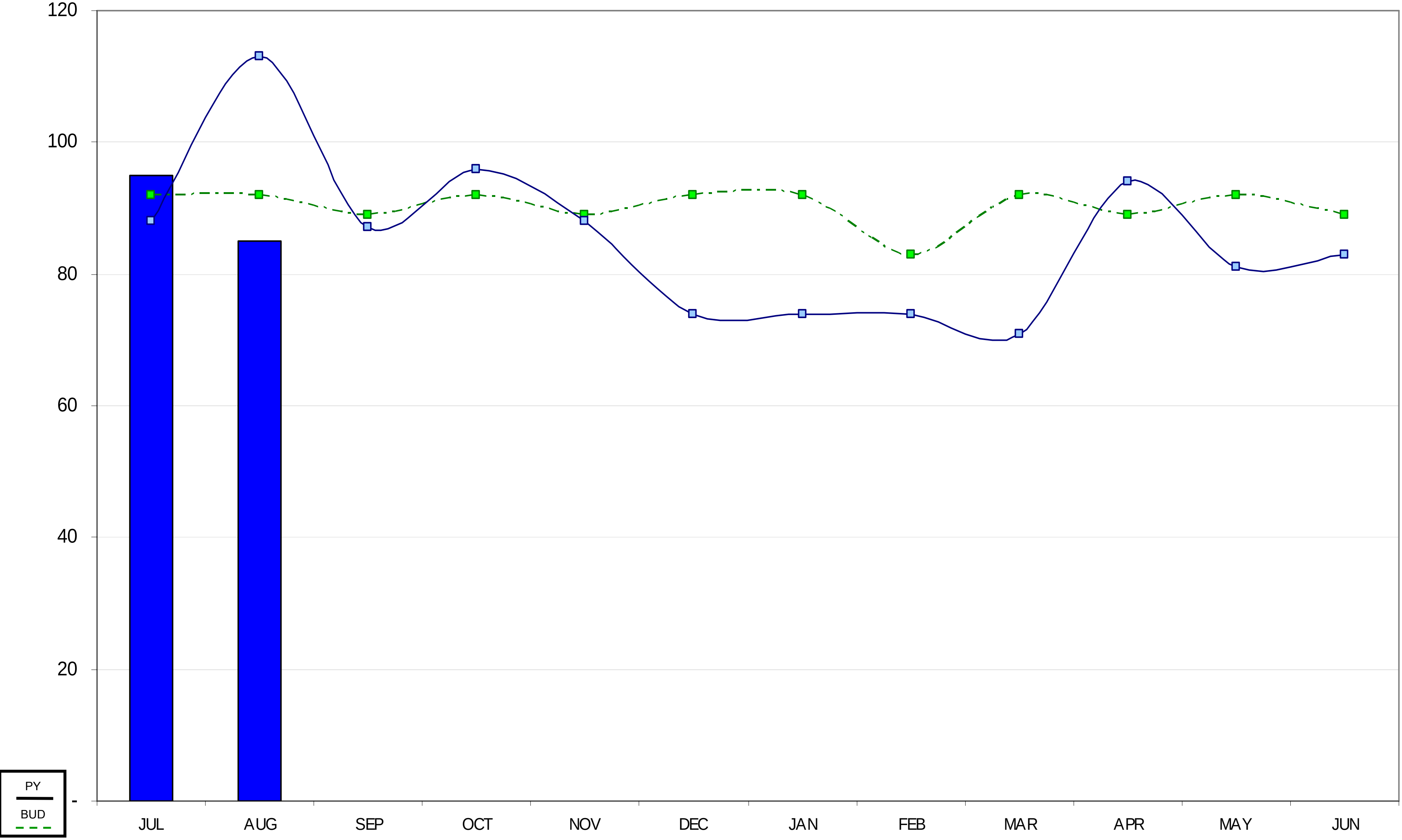


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	103	92	-	-	-	-	-	-	-	-	-	-	195	204
POM	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CON	103	92	-	-	-	-	-	-	-	-	-	-	195	204

Statistical Indicators
Trauma Admissions *(PMC only)*

ADD E-39

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

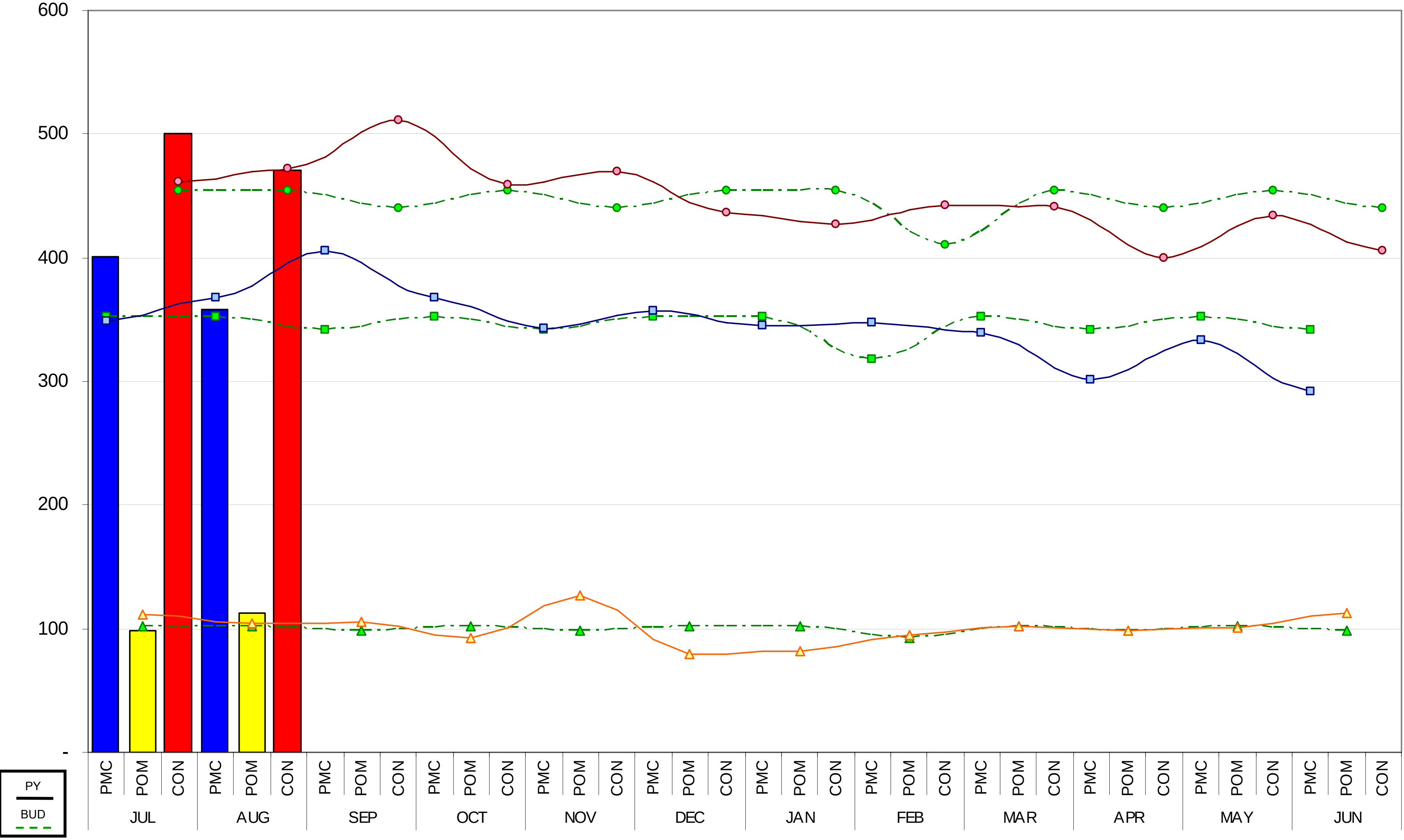


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	95	85	-	-	-	-	-	-	-	-	-	-	180	184
POM	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CON	95	85	-	-	-	-	-	-	-	-	-	-	180	184

Statistical Indicators
Deliveries

ADD E-40

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

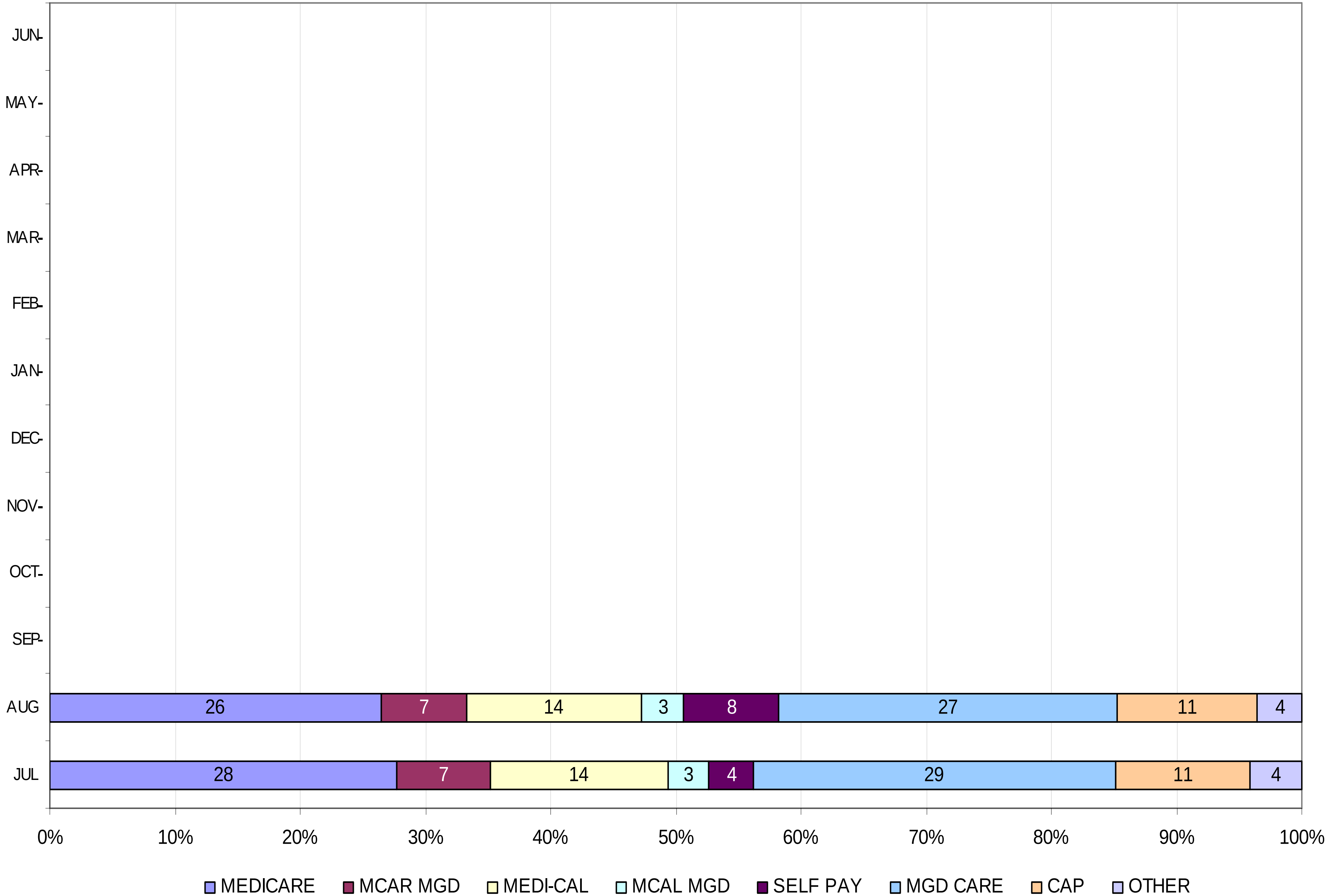


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	401	358	-	-	-	-	-	-	-	-	-	-	759	704
POM	99	113	-	-	-	-	-	-	-	-	-	-	212	204
CON	500	471	-	-	-	-	-	-	-	-	-	-	971	908

Payor Mix
Based on Gross Revenue

ADD E-41

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



Case Mix Index

ADD E-42

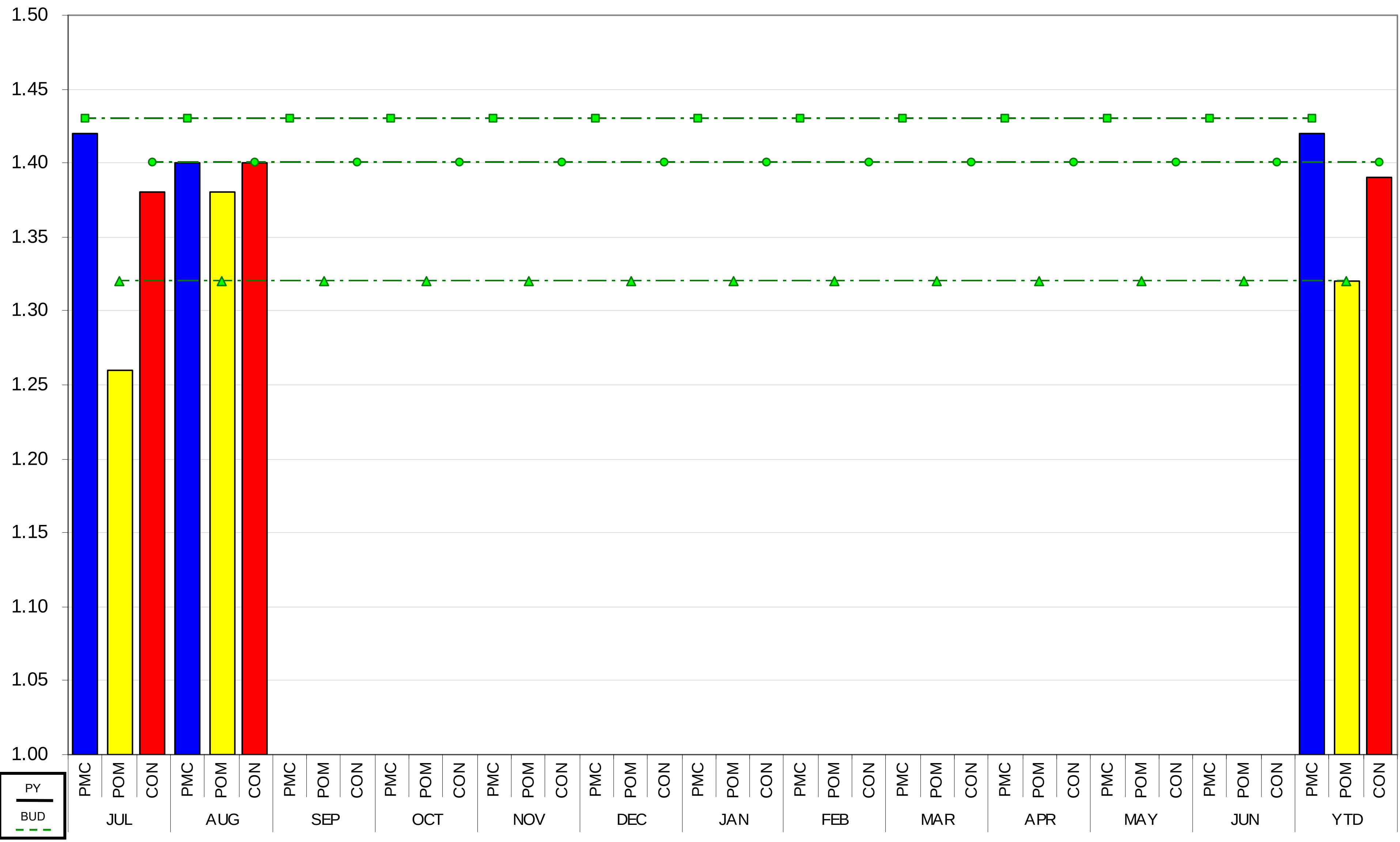
PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
PMC	1.21	1.21	-	-	-	-	-	-	-	-	-	-	1.21
POM	1.13	1.22	-	-	-	-	-	-	-	-	-	-	1.17
CON	1.19	1.21	-	-	-	-	-	-	-	-	-	-	1.20

Case Mix Index by Region
(excludes Deliveries)

ADD E-43

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

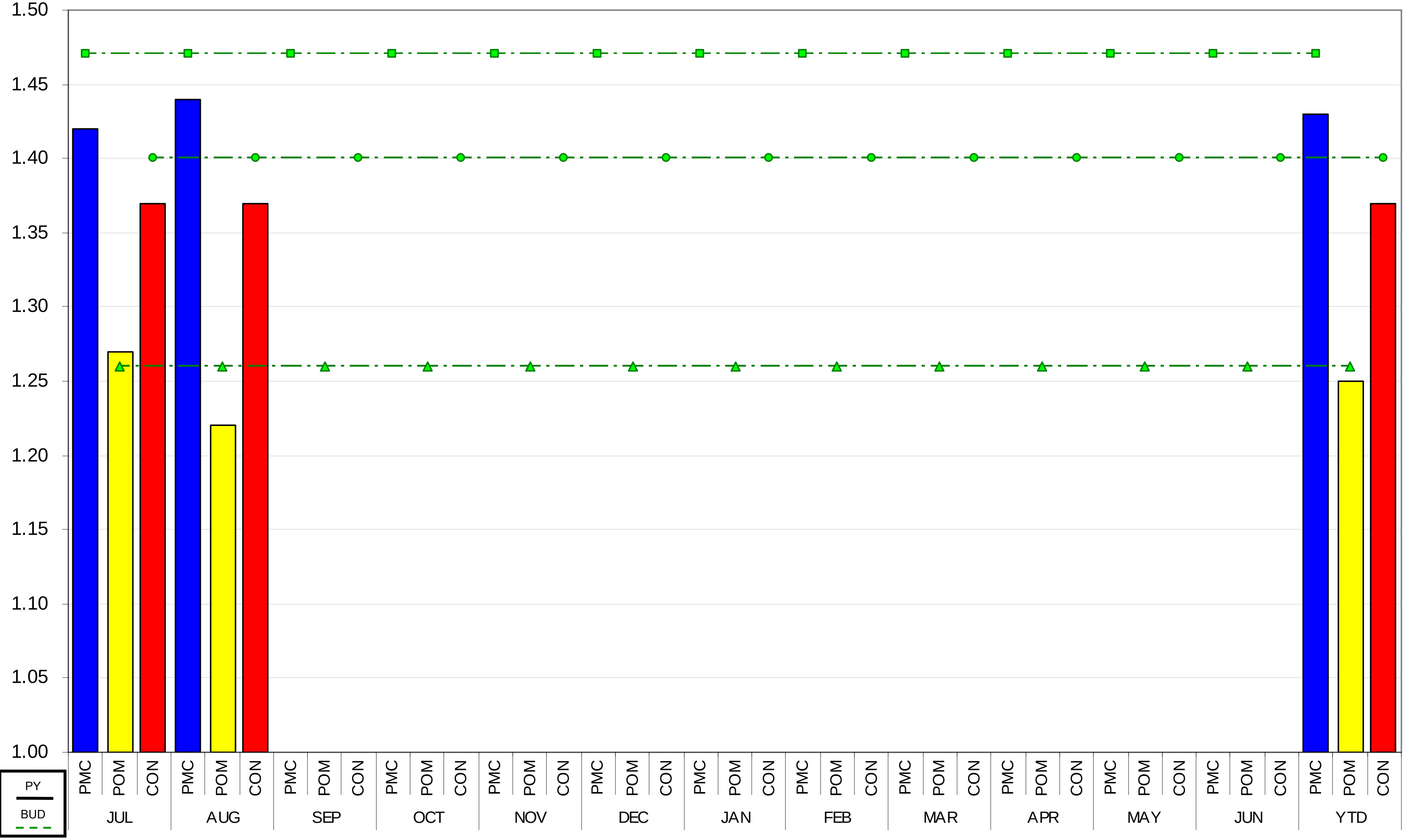


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
PMC	1.42	1.40	-	-	-	-	-	-	-	-	-	-	1.42
POM	1.26	1.38	-	-	-	-	-	-	-	-	-	-	1.32
CON	1.38	1.40	-	-	-	-	-	-	-	-	-	-	1.39

Case Mix Index by Region
Medicare

ADD E-44

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

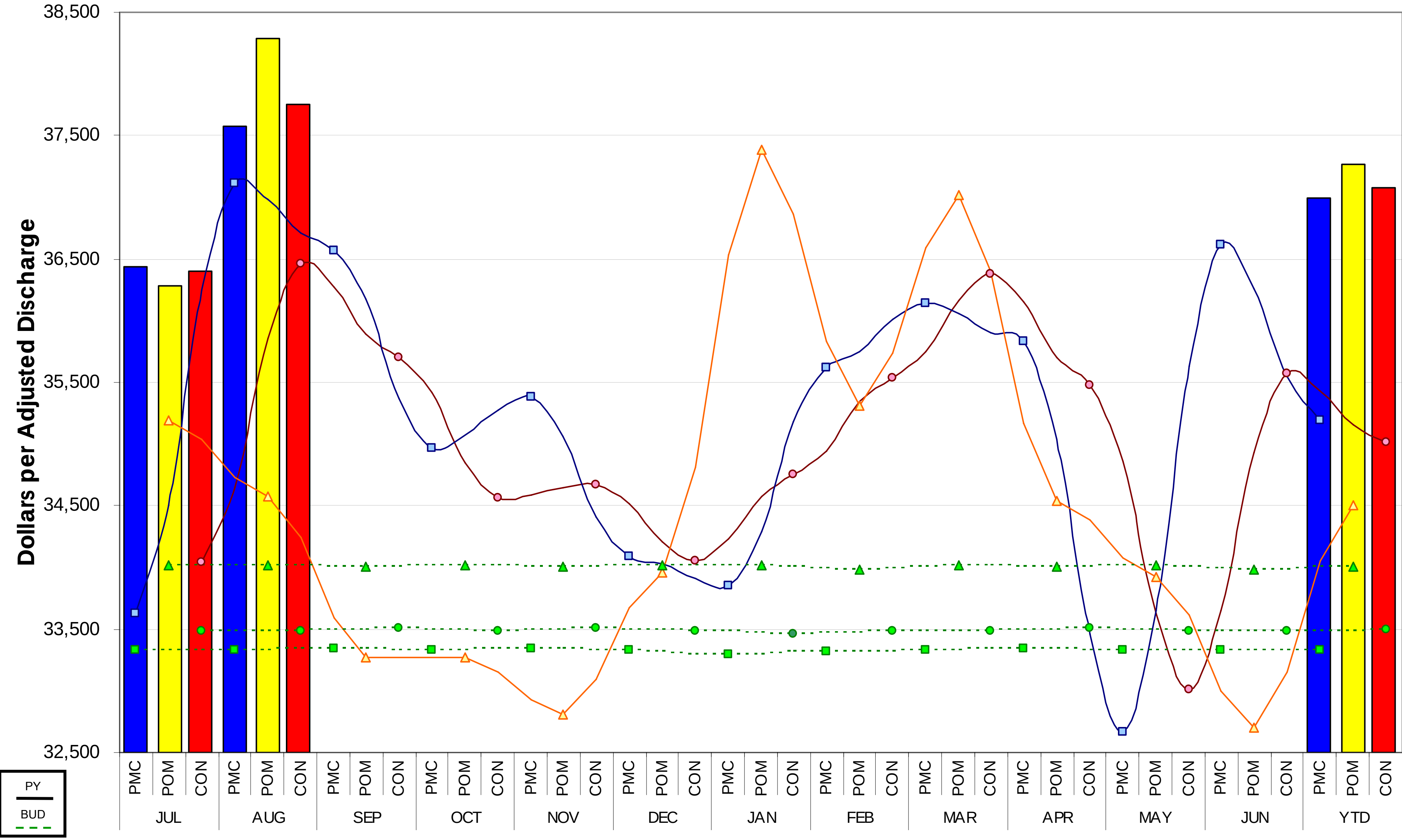


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
PMC	1.42	1.44	-	-	-	-	-	-	-	-	-	-	1.43
POM	1.27	1.22	-	-	-	-	-	-	-	-	-	-	1.25
CON	1.37	1.37	-	-	-	-	-	-	-	-	-	-	1.37

Adjusted Discharges
Gross Patient Revenue per Adjusted Discharges

ADD E-45

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

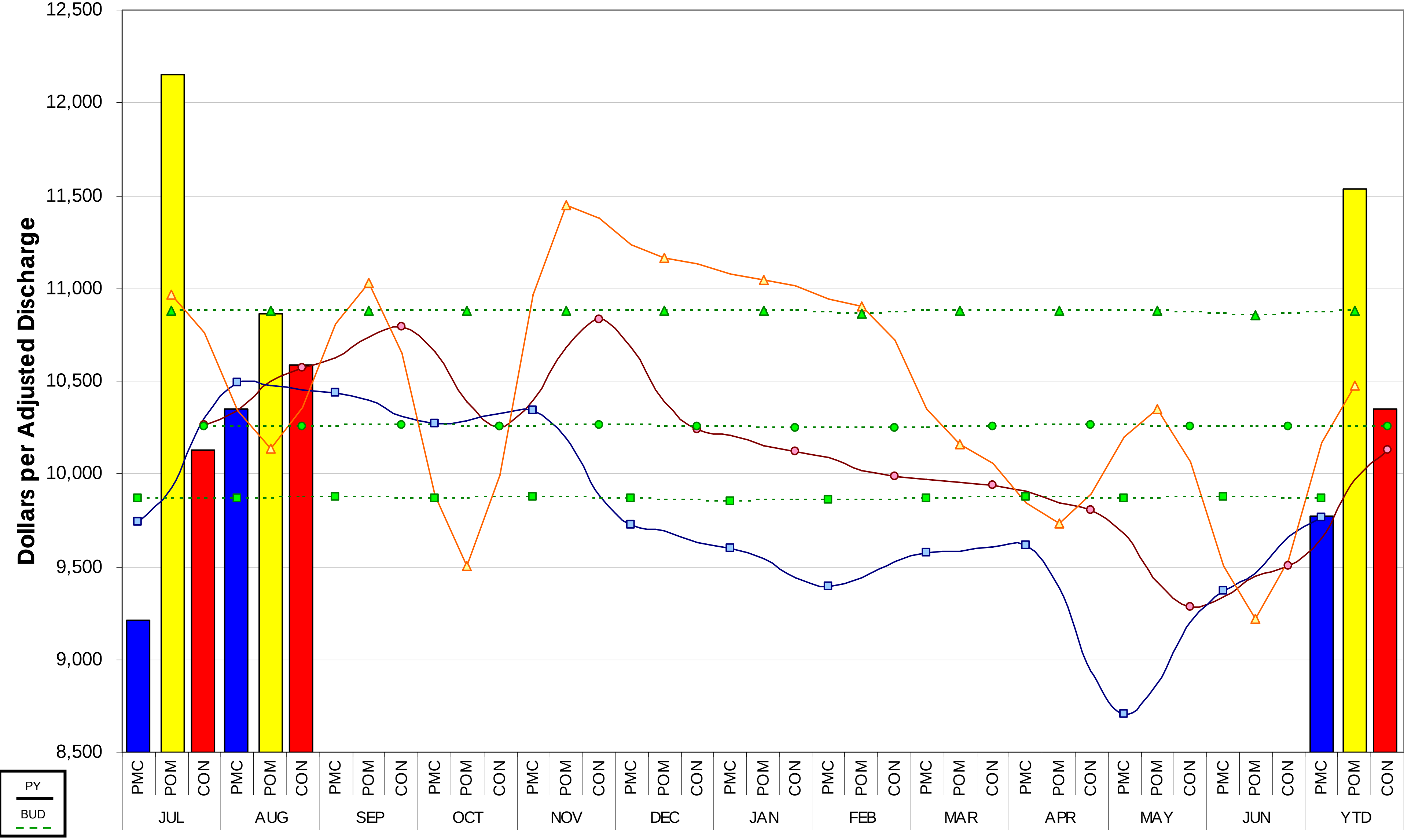


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	36,434	37,574	-	-	-	-	-	-	-	-	-	-	36,998	37,801
POM	36,286	38,286	-	-	-	-	-	-	-	-	-	-	37,271	35,947
CON	36,402	37,759	-	-	-	-	-	-	-	-	-	-	37,074	37,315

Adjusted Discharges
Net Patient Revenue per Adjusted Discharges

ADD E-46

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



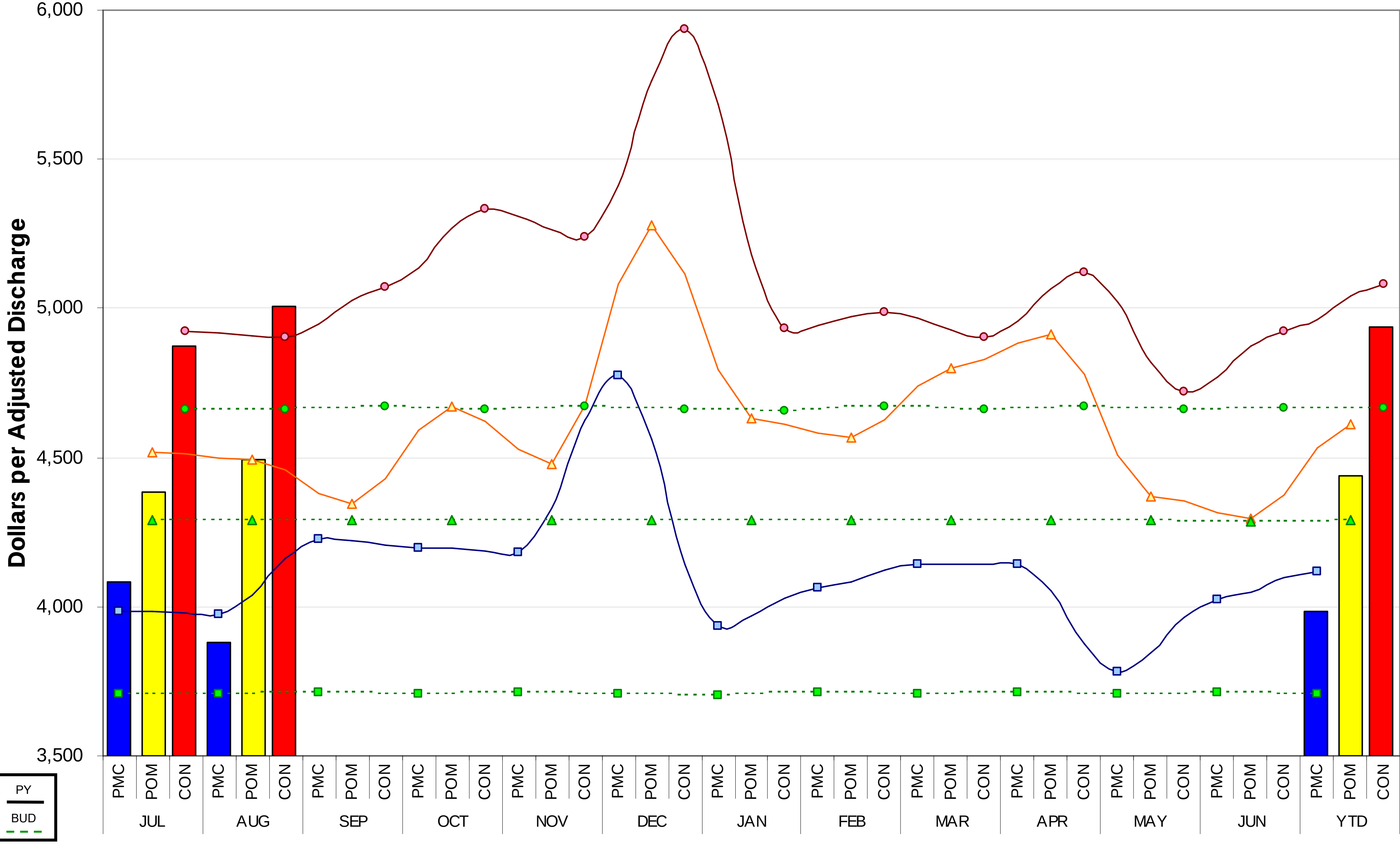
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	9,214	10,346	-	-	-	-	-	-	-	-	-	-	9,774	10,312
POM	12,150	10,864	-	-	-	-	-	-	-	-	-	-	11,535	11,302
CON	10,126	10,583	-	-	-	-	-	-	-	-	-	-	10,352	10,699

Adjusted Discharges

Salaries per Adjusted Discharges

ADD E-47

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

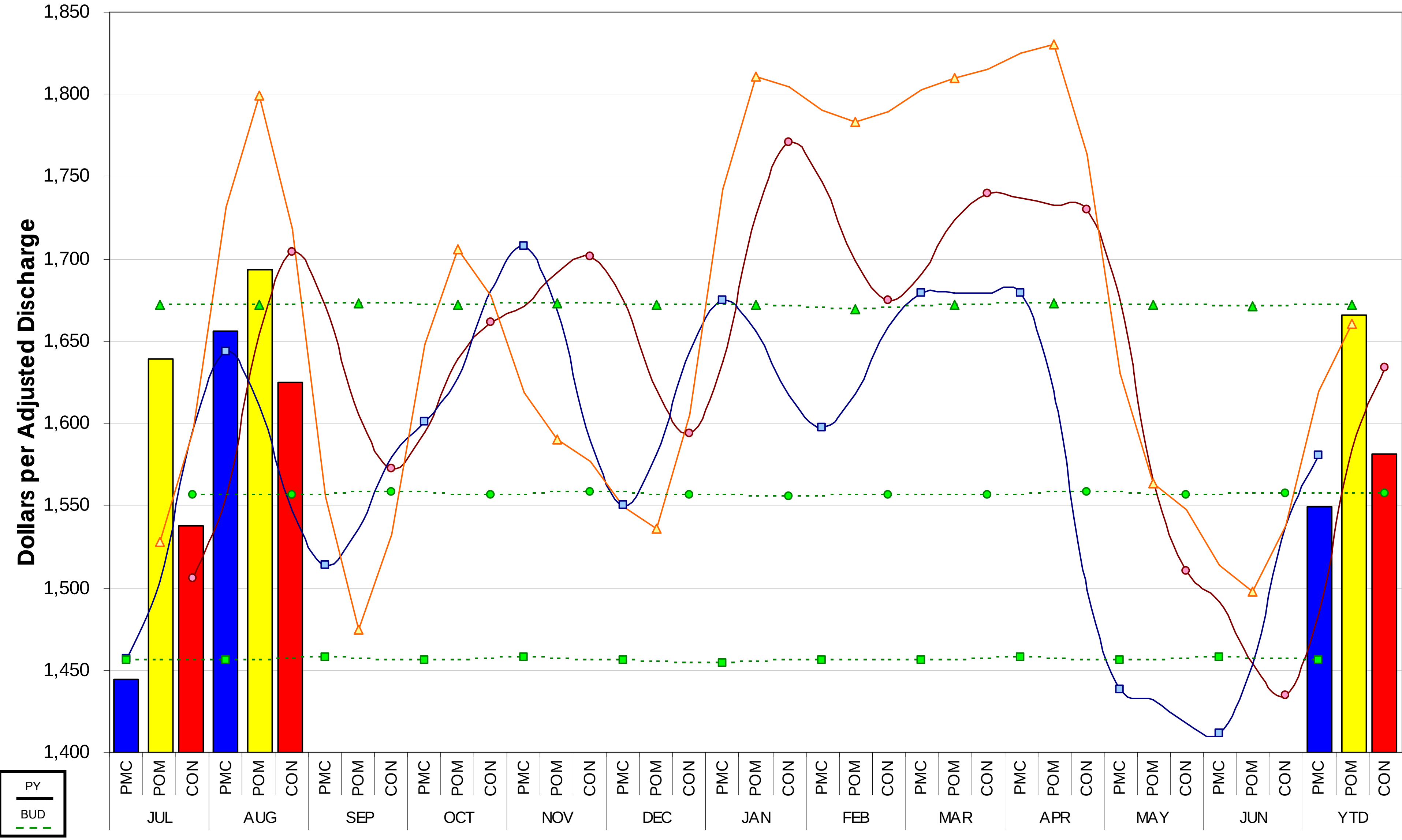


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	4,083	3,882	-	-	-	-	-	-	-	-	-	-	3,983	4,261
POM	4,386	4,491	-	-	-	-	-	-	-	-	-	-	4,439	4,862
CON	4,874	5,007	-	-	-	-	-	-	-	-	-	-	4,940	5,161

Adjusted Discharges
Supplies per Adjusted Discharges

ADD E-48

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

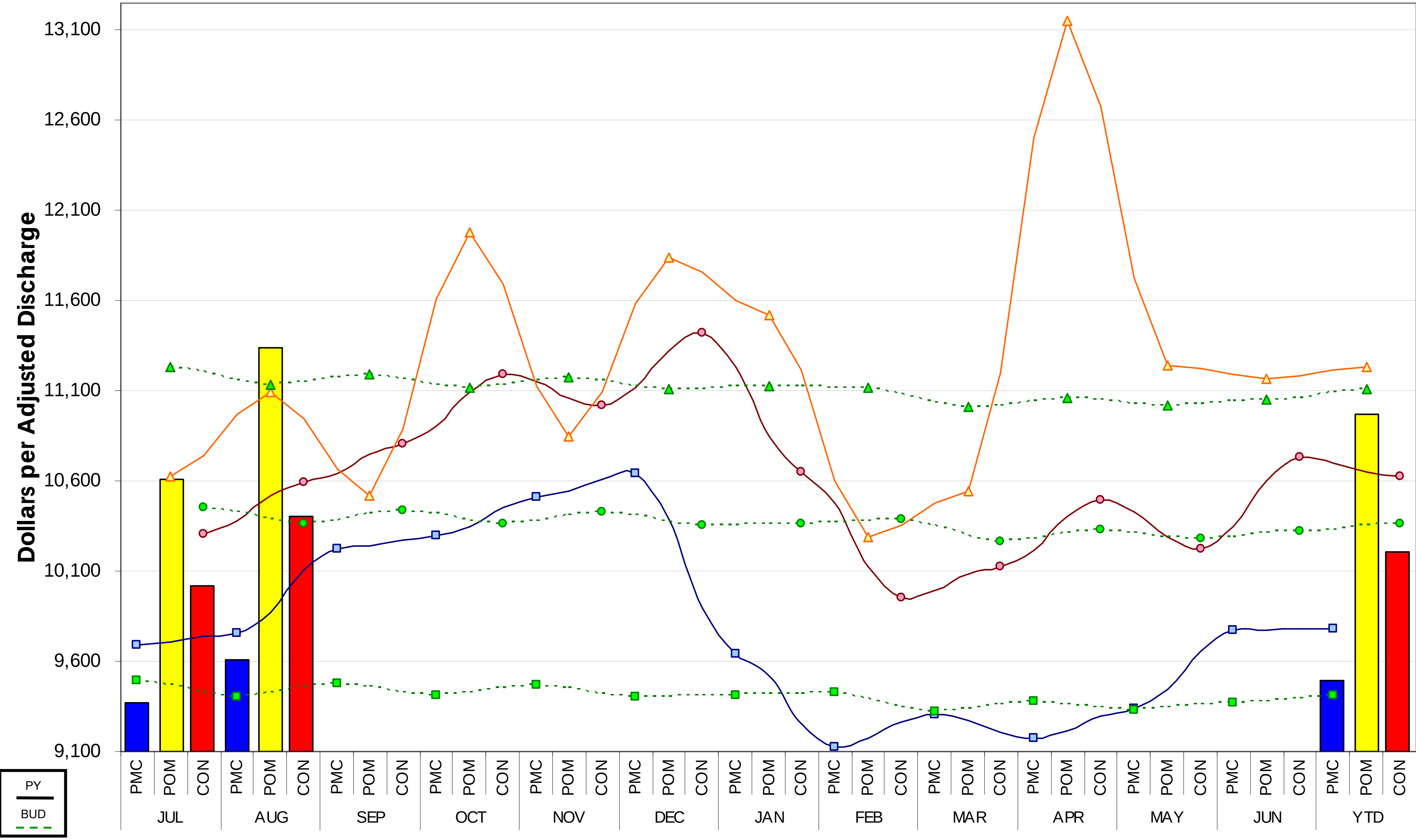


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	1,445	1,656	-	-	-	-	-	-	-	-	-	-	1,549	1,593
POM	1,639	1,693	-	-	-	-	-	-	-	-	-	-	1,666	1,674
CON	1,538	1,625	-	-	-	-	-	-	-	-	-	-	1,581	1,654

Adjusted Discharges
Total Expenses per Adjusted Discharges

ADD E-49

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



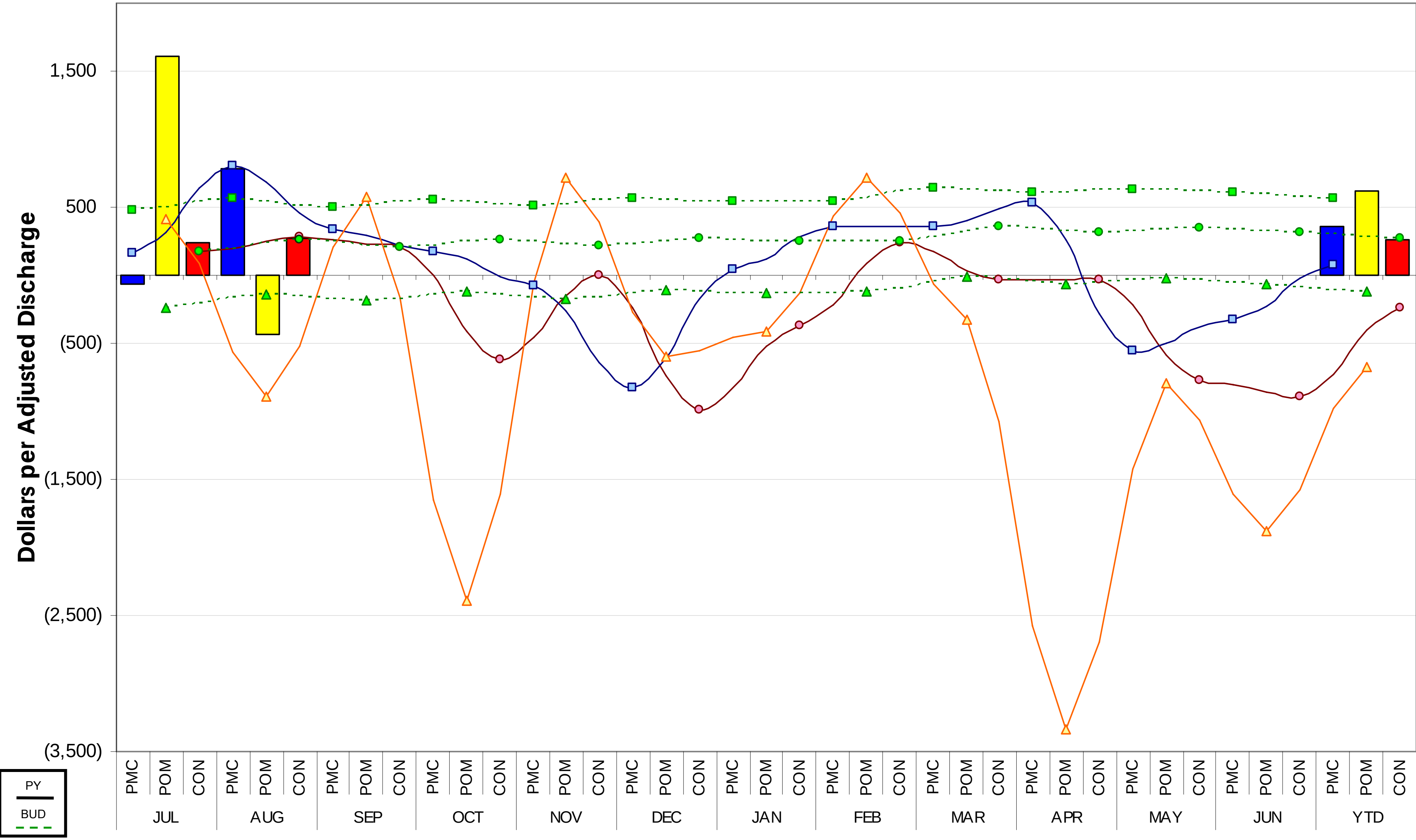
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	9,372	9,612	-	-	-	-	-	-	-	-	-	-	9,491	9,948
POM	10,611	11,342	-	-	-	-	-	-	-	-	-	-	10,970	11,540
CON	10,019	10,407	-	-	-	-	-	-	-	-	-	-	10,211	10,679

Adjusted Discharges

Net Operating Income per Adjusted Discharges

ADD E-50

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

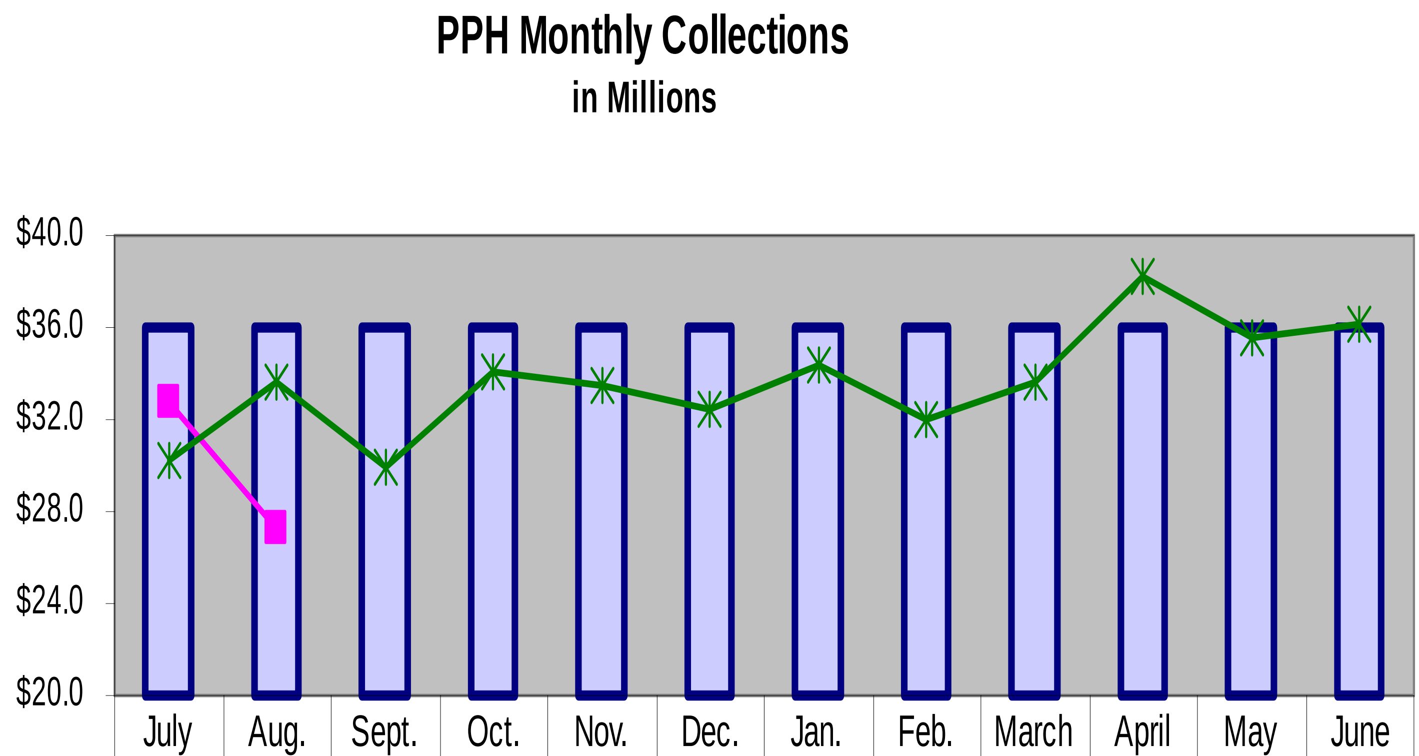


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	(67)	785	-	-	-	-	-	-	-	-	-	-	354	451
POM	1,610	(436)	-	-	-	-	-	-	-	-	-	-	623	(97)
CON	241	271	-	-	-	-	-	-	-	-	-	-	256	198

PBS Monthly Cash Collections

ADD E-51

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June
FY09 Goal	$36.0	$36.0	$36.0	$36.0	$36.0	$36.0	$36.0	$36.0	$36.0	$36.0	$36.0	$36.0
Pr. Yr Actual	$30.2	$33.6	$30.0	$34.1	$33.4	$32.4	$34.4	$32.0	$33.6	$38.2	$35.5	$36.2
Curr. Yr Actual	$32.8	$27.3										

Revenue Cycle Key Indicators Trend Report

ADD E-52

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

HEALTHWORX
THE PPH PRESCRIPTION FOR EXCELLENCE

	Source	Current Month End	Current Month End	Most Recent Month End	Current Fiscal Year Year-to-Date	Most Recent Year End	Prior YTD	Change from Prior Month
Period Ending		8/31/2008	7/31/2008	6/30/2008	8/31/2008	6/30/2008	8/31/2007	
Days in Period		31	31	30	61	366	62	
Revenue								
Gross for Month - North & South		130,706,961	130,322,021	114,654,340	$ 261,028,982	$ 1,384,127,824	$ 119,574,558	$ 384,940
Net Revenue - North & South	Financials	36,289,739	35,928,601	30,108,171	$ 72,218,340	$ 398,939,675	$ 36,111,517	$ 361,138
Net:Gross %	Financials	27.8%	27.6%	26.3%	27.7%	28.8%	30.2%	0.2%
Last 3 Month Daily Average (Gross)	Financials	4,083,514	3,913,967	3,809,305	$ 4,279,164	$ 3,781,770	$ 3,535,333	$ 169,547
Last 3 Month Daily Average (Net)	Financials	1,112,245	1,062,581	1,067,338	1,183,907	1,089,999	1,034,452	49,663
Cash Collections								
Month to Date	Cash Rpt	27,339,450	32,750,655	36,193,132	$ 60,090,105	$ 403,728,413	$ 33,603,517	$ (5,411,205)
Month to Date Goal	Cash Rpt	35,998,045	35,998,045	35,017,131	71,996,090	411,670,610	31,374,144	$ -
Over (under) Goal		(8,658,595)	(3,247,390)	1,176,001	$ (11,905,985)	$ (7,942,197)	$ 2,229,373	$ (5,411,205)
% of Goal	Calc	76%	91%	103%	83.5%	98.1%	107.1%	-15.0%
Point of Service Collections	Cash 15 days	431,925	393,943	286,510	$ 825,868	$ 3,387,302	$ 322,273	$ 37,982
Month to Date Goal	Cash 15 days	328,800	328,800	328,000	657,600	3,843,000	297,000	$ -
Over (under) Goal		$ 103,125	$ 65,143	$ (41,490)	$ 168,268	$ (455,698)	$ 25,273	$ 37,982
% of Goal	Calc	131.4%	119.8%	87.4%	125.6%	88.1%	108.5%	11.6%
Accounts Receivable								
0-30	AR Comp	97,586,631	93,803,057	83,266,551		$ 82,995,765	$ 110,082,206	$ 3,783,574
31-60	AR Comp	41,452,186	29,189,957	25,895,259		25,895,259	18,201,606	12,262,229
61-90	AR Comp	21,011,517	17,733,598	14,408,929		14,408,929	10,752,921	3,277,919
91-180	AR Comp	26,237,085	23,200,921	23,299,340		23,299,340	21,262,246	3,036,164
Over 180	AR Comp	20,247,593	19,299,986	19,271,702		19,271,702	18,795,543	947,607
Total	Calc	$ 206,535,012	$ 183,227,519	$ 166,141,781		$ 165,870,995	$ 179,094,522	$ 23,307,493
A/R Days (Gross)	Calc	50.58	46.81	43.61		43.54	50.66	3.76
% of AR aged over 180 days	calc	9.8%	10.5%	11.6%		12%	10%	-0.01
Number of Accounts	ATB	66,295	64,652	61,570		61,570	60,396	1,643
Credit Balance Accounts:								
Dollars	ATB	$ (3,678,701)	$ (3,353,734)	$ (3,144,574)		$ (3,144,574)	$ (2,546,487)	$ (324,967)
Number of Accounts	ATB	5,206	4,741	4,136		4,136	1,843	465

Revenue Cycle Key Indicators
Trend Report

ADD E-53

PALOMAR POMERADO HEALTH
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THE PPH PRESCRIPTION FOR EXCELLENCE

	Source	Current Month End	Current Month End	Most Recent Month End	Current Fiscal Year Year-to-Date	Most Recent Year End	Prior YTD	Change from Prior Month
Period Ending		8/31/2008	7/31/2008	6/30/2008	8/31/2008	6/30/2008	8/31/2007	
Days in Period		31	31	30	61	366	62	
Accounts Receivable by Major Payer								
Medicare	AR Comp	**40,013,579**	**37,530,731**	**32,549,770**		$ **32,549,770**	$ **37,807,359**	$ **2,482,848**
Last 3 months daily average revenue	Lawson	**1,094,889**	**1,085,151**	**1,066,927**		**1,066,927**	**954,009**	$ **9,738**
Gross Days revenue outstanding	Calc	**36.55**	**34.59**	**30.51**		**30.51**	**39.63**	1.96
MediCal (Includes M-Cal HMO)	AR Comp	**39,225,336**	**30,952,435**	**27,638,700**		**27,638,700**	**25,218,261**	**8,272,901**
Last 3 months daily average revenue	Lawson	**695,581**	**662,580**	**660,788**		**660,788**	**590,817**	**33,001**
Gross Days revenue outstanding	Calc	**56.39**	**46.72**	**41.83**		**41.83**	**42.68**	9.68
Comm/Managed Care (Incl Mcare HMO)	AR Comp	**93,134,540**	**87,030,201**	**79,011,334**		**78,740,548**	**81,589,051**	**6,104,339**
Last 3 months daily average revenue	Lawson	**2,135,206**	**1,995,072**	**1,908,593**		**1,908,593**	**1,784,240**	**140,134**
Gross Days revenue outstanding	Calc	**43.62**	**43.62**	**41.40**		**41.26**		(0.00)
Self-Pay	AR Comp	**34,161,557**	**27,714,151**	**26,941,976**		**26,941,976**	**34,479,851**	**6,447,406**
Last 3 months daily average revenue	Lawson	**157,873**	**171,198**	**172,970**		**172,970**	**179,365**	**(13,325)**
Gross Days revenue outstanding	Calc	**216.39**	**161.88**	**155.76**		**155.76**	**192.23**	54.50
Accounts to Collections								
M-T-D Amount of BD to Collections	Adj Rpt	**2,285,516**	**3,239,902**	**9,805,788**	**5,525,418**	**9,805,788**	**2,941,465**	$ **(954,386)**
% of Gross Revenue (Target < 2%)		1.7%	2.5%	8.6%	0.02	8.6%	2.5%	-0.7%
Charity & Undocumented Write-offs	Adj Rpt							
M-T-D Amount		**1,175,696**	**1,479,367**	**2,847,359**	**2,655,063**	**2,847,359**	**1,273,118**	$ **(303,671)**
% of Gross Revenue (Target < 2%)		0.9%	1.1%	2.5%	1.0%	2.5%	1.1%	-0.2%
Administration Adjustments	Adj Rpt							
M-T-D Amount		**91,814**	**176,256**	**624,358**	**268,070**	**624,358**	**643,626**	$ **(84,442)**
% of Gross Revenue (Target < 1%)		0.1%	0.1%	0.5%	0.1%	0.5%	0.5%	-0.1%

ADD E-54

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

HEALTHWORX™
THE PPH PRESCRIPTION FOR EXCELLENCE

	Source	Current Month End	Current Month End	Most Recent Month End	Current Fiscal Year Year-to-Date	Most Recent Year End	Prior YTD	Change from Prior Month
Period Ending		8/31/2008	7/31/2008	6/30/2008	8/31/2008	6/30/2008	8/31/2007	
Days in Period		31	31	30	61	366	62	
Discharged Not Final Billed (DNFB)								
DNFB Action Required								
HIM (Waiting for Coding)	DNFB Rpt	$ 4,929,977	$ 8,532,373	$ 5,423,822		5,423,822	5,195,217	$ (3,602,396)
PBS (Correction required)	DNFB Rpt	1,229,060	775,767	100,312		100,312	161,705	$ 453,293
Other holds requiring correction	DNFB Rpt			-			-	$ -
Total Action Required		6,159,037	9,308,140	5,524,134		5,524,134	5,356,922	(3,149,103)
# of AR Days action Required		1.51	2.38	1.45		1.45	1.52	(0.87)
DNFB No Action Required								
4 Day Standard Delay	DNFB Rpt	$ 19,781,424	$ 15,004,930	$ 18,224,428		18,224,428	24,448,655	$ 4,776,494
Other	DNFB Rpt	2,246,400	2,005,116	1,918,384		1,918,384	1,053,805	241,284
Total No Action Required		22,027,824	17,010,046	20,142,812		20,142,812	25,502,460	5,017,778
Total DNFB		$ 28,186,861	$ 26,318,186	$ 25,666,946		25,666,946	30,859,382	1,868,675
Total Days in DNFB		6.90	6.72	6.74		6.74	8.73	0.18
Late Charges								
Late Charges from Date of Service 5 to 20 Days								
Number of line items		14,642	8,188	8,261	22,830	8,261	16,201	6,454
Dollar amount of Charges		1,576,679	1,230,162	949,778	2,806,841	949,778	1,620,077	$ 346,517
Dollar amount of Credits		(1,528,785)	(1,008,136)	(660,172)	(2,536,921)	(660,172)	(958,292)	$ (520,649)
Net Dollar Amount		47,894	222,026	289,606	269,920	289,606	661,785	$ (174,132)
Absolute Dollar Amount		$ 1,576,679	$ 1,230,162	$ 949,778	$ 2,806,841	$ 949,778	$ 2,578,369	$ 346,517
Late Charges from Date of Service > 21 Days								
Number of line items		16,377	7,400	95,068	23,777	95,068	55,471	8,977
Dollar amount of Charges		1,986,513	832,617	1,987,236	2,819,130	1,987,236	966,133	1,153,896
Dollar amount of Credits		(2,705,300)	(983,240)	(1,321,540)	(3,688,540)	(1,321,540)	(2,743,784)	(1,722,060)
Net Dollar Amount		(718,787)	(150,623)	665,696	(869,410)	665,696	(1,777,651)	(568,164)
Absolute Dollar Amount		$ 4,691,813	$ 1,815,857	$ 3,308,776	$ 6,507,670	$ 3,308,776	$ 3,709,916	$ 2,875,956

SUPPLEMENTAL INFORMATION

ADD E-56

PALOMAR POMERADO HEALTH
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September 08	Aug 29- Sep4	Sep 5-11	Sep 12-18		MTD Total	MTD Budget	% Variance
ADC (Acute)	294	307	294	0	298	311	(4.23)
PMC	222	228	217	0	222	231	(3.72)
POM	72	79	77	0	76	81	(5.71)
PCCC	89	90	90	0	89	85	4.99
VP	118	120	123	0	120	123	(2.36)
Patient Days (Acute)	2,060	2,146	2,056	0	6,262	6,539	(4.23)
PMC	1,554	1,593	1,519		4,666	4,846	(3.72)
POM	506	553	537		1,596	1,693	(5.71)
PCCC	621	627	629		1,877	1,788	4.99
VP	823	841	858		2,522	2,583	(2.36)
Discharges	559	551	528	0	1,638	1,695	(3.35)
PMC	424	428	380		1,232	1,269	(2.92)
POM	135	123	148		406	426	(4.61)
Number of Surgeries	264	246	231	0	741	701	5.75
PMC	171	168	146		485	483	0.41
POM	93	78	85		256	218	17.59
Number of Births	111	97	101	0	309	309	0.10
PMC	88	77	71		236	239	(1.42)
POM	23	20	30		73	69	5.34

Weekly Flash Report

ADD E-57

PALOMAR POMERADO HEALTH
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September 08	Aug 29- Sep4	Sep 5-11	Sep 12-18		MTD Total	MTD Budget	% Variance
Outpatient Visits (inc.	2,240	1,911	1,913	0	6,064	6,168	(1.68)
PMC	1,519	1,203	1,252		3,974	4,208	(5.57)
POM	721	708	661		2,090	1,959	6.67
ER Visits	1,810	1,789	1,800	0	5,399	5,214	3.54
PMC	1,245	1,237	1,212		3,694	3,568	3.53
POM	565	552	588		1,705	1,646	3.56
Trauma Visits	22	31	20	0	73	69	5.34
IP	20	30	20		70	62	12.36
OP	2	1	-		3	7	(57.14)
Gross IP Revenue	21,516,894	23,162,134	21,092,812		65,771,840	65,793,074	(0.03)
Gross OP Revenue	6,408,262	7,616,605	7,908,411		21,933,278	20,423,924	7.39
Cash Collection	5,991,058	6,565,422	6,776,336		19,332,816	23,998,697	(19.44)
Days cash on hand	98	102	102		102	80	
Prod Hrs (PP 5 & 6)	214,927		210,850		425,777	425,167	(0.14)
PMC - North	129,620		127,962		257,582	253,334	(1.68)
POM - South	56,214		55,232		111,446	114,906	3.01
Others	29,093	-	27,656	-	56,749	56,927	0.31
Prod $ (PP 5 & 6)	6,865,801		6,883,586		13,749,387	13,947,010	1.42
PMC - North	4,137,114		4,216,419		8,353,533	8,350,305	(0.04)
POM - South	1,729,999		1,730,086		3,460,085	3,648,179	5.16
Others	998,688	-	937,081	-	1,935,769	1,948,526	0.65