

**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	P	P	
BRUCE KRIDER, M.A.	P	P	P	P	P	E	P	P	E	E	
MARCELO RIVERA, M.D.	P	P	P	P	P	E	P <sup>1</sup>	A	P	P	
MICHAEL COVERT, FACHE	P	P	P	P	P	P	E <sup>2</sup>	P	P	E	
BEN KANTER, M.D.	E	P	P	P	P	E	P	P	E	A	
JOHN LILLEY, M.D.	P	E	P	E	A	P	E	A	E	A	
LINDA GREER – ALTERNATE			GUEST			P	P <sup>1</sup>			P	
LINDA BAILEY – 2 <sup>ND</sup> ALTERNATE						E	GUEST		P		
ALAN LARSON, M.D. – 3 <sup>RD</sup> ALTERNATE						E					
NANCY BASSETT, R.N. – 4 <sup>TH</sup> ALTERNATE						P	GUEST				
<b>STAFF ATTENDEES</b>											
BOB HEMKER	P	P	P	P	P	P	P	P	P	P	
GERALD BRACHT	P	P	P	P	P	P	P	P	P	P	
DAVID TAM			P	P	P	E	P	E	P	P	
STEVE GOLD	P	P									
TANYA HOWELL – SECRETARY	P	P	P	P	P	P	P	P	P	P	
<b>INVITED GUESTS</b>	<b>SEE TEXT OF MINUTES FOR NAMES OF GUEST PRESENTERS</b>										

<sup>1</sup> Director Rivera left the meeting following the Plan of Finance update, and was replaced by Linda Greer as the Finance Committee Alternate

<sup>2</sup> Sheila Brown attended as Interim CEO, with full voting privileges

**BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, OCTOBER 28, 2008**

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/ RESPONSIBLE PARTY	FINAL ?
<b>MEETING LOCATION</b>	Meeting Room E, Pomerado Hospital, 15615 Pomerado Road, Poway, CA			
<b>MEETING CALLED TO ORDER</b>	6:07p.m. by Chair Ted Kleiter			
<b>ESTABLISHMENT OF QUORUM</b>	See roster			
<b>PUBLIC COMMENTS</b>	<ul style="list-style-type: none"> <li>• Ronald Feldman, MD – representing PPH Doctors PAC                             <ul style="list-style-type: none"> <li>o Written request Re: Radiology Contract: “Retain Valley Radiology Medical Group. Postpone Board vote until new Board is seated”                                     <ul style="list-style-type: none"> <li>▪ Physicians as a group are concerned about changing radiology groups in the district</li> <li>▪ He depends on them [Valley Radiology] “as a right hand”</li> <li>▪ Knows it is not a quality issue</li> <li>▪ Thinks it’s a mistake that will adversely affect quality of care</li> </ul> </li> </ul> </li> <li>• Robroy Fawcett – representing himself                             <ul style="list-style-type: none"> <li>o Written request Re: “Prop BB Tax Rate Calculations; Radiology Contract”                                     <ul style="list-style-type: none"> <li>▪ Voiced concerns after reading the Fitch rating on the pending \$110M GO Bond issue</li> <li>▪ Believed that tax base vulnerability may cause PPH to exceed the tax levy promised   <ul style="list-style-type: none"> <li>▲ Notes that PPH has said that won’t happen</li> </ul> </li> <li>▪ Distributed a handout to the Committee members containing information from a PPH presentation on the Integrated Plan of Finance (PoF) and a 2004 table from Citigroup that showed a preliminary GO Bond financing analysis   <ul style="list-style-type: none"> <li>▲ Showed GO Bonds would be issued in 2005, 2008, 2011 and 2016   <ul style="list-style-type: none"> <li>(a) Concerned about PPH’s acceleration of 2 years on the issuance of the 3<sup>rd</sup> set of GO Bonds</li> <li>(b) Will PPH be able to keep tax rate given that monies will be spent earlier?</li> </ul> </li> </ul> </li> <li>▪ Noted that in FY2008, there was a loss from operations of \$9.4M   <ul style="list-style-type: none"> <li>▲ PoF requires more than that – how will it affect the construction projects?</li> </ul> </li> </ul> </li> </ul> </li> </ul>			

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	<ul style="list-style-type: none"> <li>▪ Also a paper loss on the derivative on swap/insurance               <ul style="list-style-type: none"> <li>▲ Auction Rate Securities interest rate has doubled and LIBOR has gone below the line                   <ul style="list-style-type: none"> <li>(a) How has that affected the PoF?</li> </ul> </li> </ul> </li> <li>○ Radiology group               <ul style="list-style-type: none"> <li>▪ Only knows what he’s read in papers</li> <li>▪ Something to do with an email containing “salacious” materials that passed through a server at PPH and caused “bad blood”</li> <li>▪ Tried to research the issue and cannot find reasons for why we’re making the change</li> <li>▪ Can’t see justification</li> <li>▪ Now understands discussion has been postponed from this meeting to November’s full Board meeting</li> <li>▪ Recommendation to postpone to December meeting</li> </ul> </li> <li>• Evelyn Madison – representing herself               <ul style="list-style-type: none"> <li>○ Written request re: North County Radiology Medical Group: “Defer approval/review until new Board is seated in December”</li> <li>○ Stated that she had authority to speak for Dr. Donald Brust, who had an emergency and was unable to attend this evening’s meeting</li> </ul> </li> <li>• Andrew Polansky, MD               <ul style="list-style-type: none"> <li>○ Written request re: Money Used to Change Radiology Contract: “Table new contract until more accurate information is obtained and the misinformation is removed”</li> <li>○ Member of the medical community as a physician in the area for over 20 years</li> <li>○ Believes there has been misinformation given to the current Board, as well as inaccurate information by both Administration and vendors                   <ul style="list-style-type: none"> <li>▪ By tabling the issue, then getting accurate information, the new Board can make a more prudent decision</li> </ul> </li> <li>○ Understands there are issues with credentialing for physicians in the new group                   <ul style="list-style-type: none"> <li>▪ Believes it will affect their ability to take over when the old contract expires</li> </ul> </li> <li>○ Does not believe the transition is good for physicians                   <ul style="list-style-type: none"> <li>▪ Stated that an overwhelming majority of the medical staff voted (90 to 1) that the current contract should remain in place</li> <li>▪ Medical staff also disagreed with the way the termination was handled by Administration</li> </ul> </li> </ul> </li> </ul>			

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	<ul style="list-style-type: none"> <li>• Lee Thibadeau                             <ul style="list-style-type: none"> <li>o Written request re: Review/Approval – Item #1: “Request continuance ‘til after new board seated in Dec. I understand Item 1 pulled off agenda ‘til Nov. 10<sup>th</sup> Board meeting. Request item not heard until Dec. meeting”                                     <ul style="list-style-type: none"> <li>▪ Request for the same reasons as stated by others that the item be postponed until the Board meeting in December, when new member(s) of the Board may be seated</li> </ul> </li> </ul> </li> </ul>			
<p><b>NORTH COUNTY RADIOLOGY MEDICAL GROUP, INC.</b></p>	<p>Chair Ted Kleiter noted that this item was being pulled from the agenda and would not be discussed by the Board Finance Committee. It will be put on a later agenda of the full Board.</p>			
<p><b>INFORMATION ITEM(S)</b></p>	<ul style="list-style-type: none"> <li>• Medicare Recovery Audit Contractor (RAC) Program Update                             <ul style="list-style-type: none"> <li>o Status on the ongoing issues with regard to audits</li> <li>o California was part of a demonstration project                                     <ul style="list-style-type: none"> <li>▪ Key focus of audits in demo project was in the acute rehab area</li> <li>▪ 24 of the denials by the RAC were overturned by an Administrative Law Judge after appeal   <ul style="list-style-type: none"> <li>▲ Good indicator that the findings of the California contractor were incorrect   <ul style="list-style-type: none"> <li>(a) That contractor was not awarded the California contract going forward</li> </ul> </li> <li>▲ We should be getting reimbursement on about \$321K for those overturned denials</li> </ul> </li> </ul> </li> <li>o Program rolls out at the national level in March 2009                                     <ul style="list-style-type: none"> <li>▪ Focus will be looking at different types of events to be reviewed</li> </ul> </li> </ul> </li> <li>• Independent Citizens’ Oversight Committee (ICOC) – Posting of Notice of Vacancy                             <ul style="list-style-type: none"> <li>o Notice of the vacancy on the ICOC left by the resignation of a member was posted last week on the PPH web site and in avenues used in the past</li> <li>o Applications are being accepted, with a deadline for application of November 18, 2008</li> <li>o Candidates will be reviewed by Finance Committee                                     <ul style="list-style-type: none"> <li>▪ To confirm qualified based on Procedures, Policies &amp; Guidelines of the ICOC</li> <li>▪ For recommendation to the Board regarding appointment to the ICOC</li> </ul> </li> </ul> </li> <li>• Escrow at 151 Valley Boulevard                             <ul style="list-style-type: none"> <li>o Final property of the five referenced in the MOU with the City of Escondido</li> </ul> </li> </ul>	<p><i>Information Only</i></p>		<p align="center">Y</p>

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	<ul style="list-style-type: none"> <li>o Seller has been working with tenants, as it was their responsibility to vacate the property prior to turning over possession to PPH                             <ul style="list-style-type: none"> <li>▪ Tenancies have for the most part vacated                                     <ul style="list-style-type: none"> <li>▲ One residential tenant remains and is expected to have vacated by the end the of month</li> </ul> </li> </ul> </li> <li>o Should hit targeted close of escrow date                             <ul style="list-style-type: none"> <li>▪ May close sooner if completely vacated</li> </ul> </li> <li>• Capitation for CY2009-2010 as related to risk partner groups and conditions outlined by the Board                             <ul style="list-style-type: none"> <li>o Should be able to make a report out as to which groups will be participating at next meeting</li> </ul> </li> <li>• State budget and the status of projected reductions in per diem reimbursement to hospital-based facilities                             <ul style="list-style-type: none"> <li>o Possibility that reimbursement will be reinstated in March 2009                                     <ul style="list-style-type: none"> <li>▪ If no reinstatement in March 2009—would be negative \$5M   <ul style="list-style-type: none"> <li>▲ \$3.8M reduction was already anticipated in the FY09 budget</li> <li>▲ Would be a negative reduction against budget of about \$1M more</li> </ul> </li> <li>▪ If the State reinstates the reimbursements, it will cause a positive gain by increasing the projected ROI from the Board-approved conversion of beds to sub-acute at Villa POM</li> </ul> </li> </ul> </li> </ul>			
<p><b>DRAFT AUDITED FINANCIAL STATEMENTS FOR YEARS ENDED JUNE 30, 2008 AND 2007</b></p>	<p>Bob Hemker introduced Mark Kawauchi of the auditing firm Deloitte &amp; Touche (D&amp;T). Utilizing the documents listed as Addenda C and C1 in the agenda packet, Mr. Kawauchi reviewed the auditors' findings for years ended June 30, 2008 and 2007 Audited Financial Statements.</p> <ul style="list-style-type: none"> <li>• Mr. Kawauchi handed hard copies of the presentations to Committee members                             <ul style="list-style-type: none"> <li>o No significant changes from those that were previously emailed with the agenda packet</li> </ul> </li> <li>• Both the financials and the auditor's report are in draft form                             <ul style="list-style-type: none"> <li>o Information has already been presented to the Audit Committee of the Board for review &amp; approval</li> <li>o Will be printed in "final" after approval by both the Audit &amp; Finance Committees of the Board</li> <li>o Anticipates that it will then be presented at the November Board meeting for approval</li> </ul> </li> <li>• As the financials are part of the information that accompanies the bond issue, they have been given a very thorough review up through the corporate level at D&amp;T</li> </ul>	<p><b>MOTION:</b> Motion by Director Rivera seconded by Director Greer and carried to recommend approval of the Draft Audited Financial Statements for Years Ended June 30, 2008 and 2007 as presented. All in favor. None opposed.</p>	<p>Forwarded to the November 10, 2008, Board of Directors meeting with a recommendation for approval.</p>	<p>Y</p>

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	<ul style="list-style-type: none"> <li>• This is Mr. Kawauchi’s second year as Partner on the PPH account                             <ul style="list-style-type: none"> <li>◦ Shibani Dogra is in her first year as the new manager on the account                                     <ul style="list-style-type: none"> <li>■ Lisa Biggs was the manager last year (maternity leave this year)</li> </ul> </li> </ul> </li> <li>• One item is still being cleared through D&amp;T’s technical partner                             <ul style="list-style-type: none"> <li>◦ Additional disclosure regarding the subsequent events related to the credit crisis                                     <ul style="list-style-type: none"> <li>■ Need to determine whether there should be a footnote disclosure   <ul style="list-style-type: none"> <li>▲ Anticipate doing so</li> <li>▲ Will ensure the Board Audit &amp; Finance Committees and Management agree</li> <li>▲</li> </ul> </li> <li>■ D&amp;T footnote would be across all industries and all audits – not specific to PPH   <ul style="list-style-type: none"> <li>▲ Want to ensure the disclosure utilized for PPH follows the standard D&amp;T disclosure verbiage</li> </ul> </li> </ul> </li> </ul> </li> <li>• Audit went well, with 100% cooperation from management</li> <li>• Will discuss items identified in the audit that are unusual to PPH                             <ul style="list-style-type: none"> <li>◦ Audit of a healthcare district is more complex than a traditional hospital audit                                     <ul style="list-style-type: none"> <li>■ As a quasi-government entity, a district must follow both GASB (Government Accounting Standards Board) and FASB (Financial Standards Accounting Board ) rules   <ul style="list-style-type: none"> <li>▲ Private sector organizations only follow FASB rules</li> </ul> </li> </ul> </li> </ul> </li> <li>• Pages 1 -10 are the Management’s Discussion and Analysis (MD&amp;A) required by GASB                             <ul style="list-style-type: none"> <li>◦ D&amp;T reviewed this information in conjunction with the audited financial statements                                     <ul style="list-style-type: none"> <li>■ Must confirm that the information provided by Management is consistent and that the explanations make sense</li> </ul> </li> </ul> </li> <li>• Page 11 is the Independent Auditors’ Report                             <ul style="list-style-type: none"> <li>◦ D&amp;T’s opinion on the audit of the consolidated balance sheets of PPH</li> <li>◦ Last paragraph more fully explains GASB Financial Statement reviews</li> <li>◦ “Clean” opinion</li> <li>◦ There were no limitations on procedures D&amp;T performed</li> </ul> </li> <li>• Consolidated balance sheets – notable items:                             <ul style="list-style-type: none"> <li>◦ Page 12 – Assets &amp; Page 13 – Liabilities &amp; Net Assets                                     <ul style="list-style-type: none"> <li>■ Estimated third-party payor settlements were an asset of \$2.6 M in 2007   <ul style="list-style-type: none"> <li>▲ Settlements related to cost reports – what we expect to settle with</li> </ul> </li> </ul> </li> </ul> </li> </ul>			

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	<p align="center">Medicare, based on CMS audits</p> <ul style="list-style-type: none"> <li>▲ Flipped to a liability of \$807K in 2008</li> <li>■ Fair value of interest rate swap was a \$4.4M asset in 2007</li> <li>▲ Flipped to a liability of \$6M in 2008</li> <li>o Page 14 – Consolidated Statements of Activities <ul style="list-style-type: none"> <li>■ Bottom bottom line shows an excess of revenues over expenses of \$7.6M</li> <li>▲ Change in rate swaps was a major loss of \$10.4M</li> </ul> </li> <li>o Pages 17-31 – Footnotes <ul style="list-style-type: none"> <li>■ Consistent with prior years</li> <li>■ Only potential change would be the addition of the standard disclosure by D&amp;T with regard to the credit market conditions</li> </ul> </li> <li>• Shibani Dogra reviewed the Report on the Fiscal 2008 Consolidated Financial Statements <ul style="list-style-type: none"> <li>o D&amp;T tested PPH's internal controls <ul style="list-style-type: none"> <li>■ Performed enough testing to plan for standard procedures</li> <li>■ Enough testing to ensure there are functioning controls in place</li> </ul> </li> <li>o Scope of the audit was not restricted, and the auditors were able to perform all procedures</li> <li>o D&amp; T is required to make certain communications to the District, and those statements are covered on Pages 2&amp;3</li> </ul> </li> <li>• Page 4 – Material Corrected Misstatements <ul style="list-style-type: none"> <li>o Misstatements that were identified and corrected by Management during the audit process</li> <li>o Items 1-4 are miscellaneous <ul style="list-style-type: none"> <li>■ All had to be corrected since the audit will be included in the bond offering</li> </ul> </li> <li>o Items 5-6 – were complex items requiring D&amp;T to work with their national office for resolution of proper reporting methodologies <ul style="list-style-type: none"> <li>■ Neither had an impact on the statement of activities</li> <li>■ Item 5 was related to the booking of the partnership which PPH entered into with PDP <ul style="list-style-type: none"> <li>▲ Ground lease rights for footprinting and parking rights at the POP building</li> <li>▲ No actual cash went out to the partnership <ul style="list-style-type: none"> <li>(a) Interest in the partnership was via the lease of land to the partnership</li> </ul> </li> <li>▲ Actual \$1 value, needed to be book up to an imputed value</li> </ul> </li> </ul> </li> </ul> </li> </ul>			

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	<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>▲ No triggering event to require that the investment be recorded in PPH's books, thus, unusual in processing</li> </ul> </li> <li>■ Item 6 was the elimination of goodwill for acquiring all partnership interests at the Escondido Surgery Center (ESC)                             <ul style="list-style-type: none"> <li>▲ The partnership was dissolved in 2008, and PPH had acquired all partnership interests</li> <li>▲ There was no goodwill</li> <li>▲ Entry allowed a reclass of the hard asset categories and the lack of value for goodwill/intangibles                                     <ul style="list-style-type: none"> <li>(a) Technically didn't acquire ESC as a going concern as it was immediately dissolved into a department of the hospital</li> <li>(b) Now added into the depreciation and amortization schedules</li> </ul> </li> </ul> </li> <li>○ No change to significant accounting policies – followed U.S. Generally Accepted Accounting Principles (GAAP)                             <ul style="list-style-type: none"> <li>■ PPH has stayed conservative in their accounting policies over the years</li> </ul> </li> <li>○ Page 5 – Financial statements will be embedded in bond offering, so D&amp;T was required to review for consistency</li> <li>○ Basically ready to print a final report after receiving standardized D&amp;T footnote regarding market impact                             <ul style="list-style-type: none"> <li>■ Standardized footnote across all industries                                     <ul style="list-style-type: none"> <li>▲ If there is any impact to the readability of our statements, D&amp;T will report that, likely at the November Board meeting</li> </ul> </li> </ul> </li> <li>○ Appendix A – contains uncorrected misstatements                             <ul style="list-style-type: none"> <li>■ Auditors came across information in the current year that impacted the financial statements for FY2007</li> <li>■ Management has corrected all that had impact to the 2008 financial statements                                     <ul style="list-style-type: none"> <li>▲ Those left uncorrected impacted last year but were not material to this year and were effectively self-correcting by June 30, 2008</li> </ul> </li> </ul> </li> <li>● Bob Hemker stated that bond counsel and the financing team have been involved throughout this audit process                             <ul style="list-style-type: none"> <li>○ Bond counsel, the rating agencies and the financing team have all had reports at various stages of the audit, they just didn't have the audit report page</li> <li>○ Have been given notice that D&amp;T anticipated an "unqualified" report                                     <ul style="list-style-type: none"> <li>■ As audited financials were discussed with rating agencies and insurers, the events of FY08 and how we responded to them were discussed, including that the events had been addressed in the FY09 budget approval process</li> </ul> </li> </ul> </li> </ul>			



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	<ul style="list-style-type: none"> <li>o The audit went through another step this year by going to the Audit Committee of the Board prior to review by the Finance Committee of the Board                             <ul style="list-style-type: none"> <li>■ Provided Board members twice the oversight</li> <li>■ Director Greer noted that the Audit Committee members were also provided with and took advantage of an opportunity to meet with the auditors after the Audit Committee meeting, without Management present</li> </ul> </li> <li>• The audited financials will be considered Draft until approval by the Board Finance Committee                             <ul style="list-style-type: none"> <li>o CEO, CFO, Controller and Accounting Manager will sign the representation letter after Board Finance Committee approval, and they will become Final for publication to the full Board</li> </ul> </li> <li>• Bob Hemker highlighted certain entries for the Committee                             <ul style="list-style-type: none"> <li>o The wildfires of 2007 were recorded as an unreimbursed negative impact of \$1.3M                                     <ul style="list-style-type: none"> <li>■ Typically, something like a wildfire would be recorded as an extraordinary event, however, wildfires are not considered extraordinary events in Southern California   <ul style="list-style-type: none"> <li>▲ Considered a potentiality of doing business</li> </ul> </li> </ul> </li> <li>o The \$1.4M reduction in force that included adjustments for severance pay was also disallowed as extraordinary as adjustment of workforce should be considered ordinary to the course of business</li> </ul> </li> <li>• Director Rivera congratulated Management on the information, the unqualified audit, and the continued strong, open and transparent financial picture</li> </ul>			
<p><b>MINUTES – SEPTEMBER 30, 2008</b></p>	<p>No discussion</p>	<p><b>MOTION:</b> By Director Rivera, seconded by Director Greer and carried to approve the minutes of the September 30, 2008, Board Finance Committee meeting as presented. All in favor. None opposed.</p>		<p align="center">Y</p>
<p><b>ESTABLISHMENT OF PALOMAR POMERADO HEALTH RETAIL GROUP, LLC</b></p>	<p>Bob Hemker stated that PPH has encountered challenges as we venture out with retail services (e.g., Weight Solutions, the Women’s Boutique, the gift shops and other retail entities that – taken together – comprise a large book of retail business). Weight Solutions was approved by the Board, but has not yet been implemented due to a lack of ability to house retail operations appropriately. There were income tax and billing issues that made it difficult—if not impossible—for the PPH entity to provide the retail services. It was realized that PPH needed an umbrella – either part of PPH or a separate agency – under which these retail services could be housed. Janine Sarti, General Counsel, reviewed the issues and rationale for establishing a separate entity.</p>	<p><b>MOTION:</b> By Director Rivera, seconded by Director Greer and carried to recommend that the Board establish Palomar Pomerado Health Retail Group, LLC, as a limited liability company under the Beverly-Killea Limited Liability Company Act.. All in favor. None opposed.</p>	<p>Forwarded to the November 10, 2008, Board of Directors meeting with a recommendation for approval.</p>	<p align="center">Y</p>

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	<ul style="list-style-type: none"> <li>• A different vehicle for retail services                             <ul style="list-style-type: none"> <li>◦ Separate identity that needs to be created for billing &amp; recovery for retail operations</li> </ul> </li> <li>• Reviewed possibility of housing the retail operations under the auspices of Health Development                             <ul style="list-style-type: none"> <li>◦ It is a 501(c)(3) organization, created to provide access to organizations looking for a grant entity</li> <li>◦ Could not have income from retail operations and still maintain 501(c)(3) status</li> </ul> </li> <li>• Determined that PPH needed a subsidiary entity that would allow a retail book of business under the structure of an LLC                             <ul style="list-style-type: none"> <li>◦ PPH would be the sole member [shareholder]</li> <li>◦ Revenue would flow to the member                                     <ul style="list-style-type: none"> <li>■ PPH as an untaxable entity would reap the benefits associated thereto</li> </ul> </li> </ul> </li> <li>• LLC is not a corporation                             <ul style="list-style-type: none"> <li>◦ Separate entity from PPH                                     <ul style="list-style-type: none"> <li>■ Articles of incorporation must be filed</li> <li>■ Separate books must be maintained</li> </ul> </li> </ul> </li> <li>• Sole member would be PPH, with the same reporting structure as PPH currently has                             <ul style="list-style-type: none"> <li>◦ Would also have to have an operating agreement, describing the structure and operational purpose of the entity</li> </ul> </li> <li>• Recommendation that an LLC be approved under which to place the retail operations of PPH for billing purposes                             <ul style="list-style-type: none"> <li>◦ Will afford a potential conduit for which we could appropriately send retail services</li> <li>◦ Operations would still need PPH approval</li> <li>◦ If any of the retail programs fail, what happens to the LLC?                                     <ul style="list-style-type: none"> <li>■ Retail operations have no effect on the LLC structure</li> </ul> </li> </ul> </li> <li>• Section 5.5 – the “Company” is the LLC and can have officers                             <ul style="list-style-type: none"> <li>◦ The “Member” is PPH – that’s the distinction</li> <li>◦ If the Company needs other officers to conduct routine business, it can appoint them                                     <ul style="list-style-type: none"> <li>■ Allows flexibility for the future</li> </ul> </li> </ul> </li> <li>• Efficient structure</li> </ul>			

**BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, OCTOBER 28, 2008**

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/ RESPONSIBLE PARTY	FINAL ?
<p>BOND ISSUANCE – UPDATE ON CY2008 GO BOND ISSUE &amp; CONVERSION OF CoPs -2006 ARS</p>	<p>Bob Hemker brought the Committee up to date on actions related to the issuance of GO Bonds and the Conversion of the Certificates of Participation-Auction Rate Securities (CoPs-ARS).</p> <ul style="list-style-type: none"> <li>• Both Board Finance Committee and the Board approved two discreet efforts               <ul style="list-style-type: none"> <li>o The issuance of GO Bonds in an amount not to exceed \$110M</li> <li>o The conversion and/or refunding of the CoPs-ARS of 2006</li> </ul> </li> <li>• The team continues to perform due diligence and make preparations               <ul style="list-style-type: none"> <li>o There are still market uncertainties                   <ul style="list-style-type: none"> <li>■ May have to act quickly OR stop the transaction</li> </ul> </li> <li>o Key drivers to the GO Bond issue                   <ul style="list-style-type: none"> <li>■ Can we sustain the \$17.75/\$100K of assessed value (the \$17.75)?                       <ul style="list-style-type: none"> <li>▲ Has been reviewed with every updated Plan of Finance (PoF) from the first to the present, as well as through each bond issue</li> <li>▲ Have tested where bond issues will be cycled in and their issue dates                           <ul style="list-style-type: none"> <li>(a) Have tested out the sustainability of the \$17.75</li> <li>(b) Reviewed the current challenge issues of the subprime market, assessed values in district due to the wildfires, etc.</li> <li>(c) Have had double-digit increases in assessed values; however, moderation is occurring</li> <li>(d) Used very conservative numbers to allow room for change/error in calculations</li> </ul> </li> </ul> </li> <li>■ Still reviewing our ability to move with the GO Bond issue at this time                       <ul style="list-style-type: none"> <li>▲ Also reviewing options of traditional/current interest rate/capital appreciation rate bonds                           <ul style="list-style-type: none"> <li>(a) Still evaluating which will provide the best structure</li> </ul> </li> </ul> </li> </ul> </li> <li>o Awaiting the Moody's rating agency report</li> <li>o Both Fitch and S&amp;P have reaffirmed their previous ratings from 2007 &amp; 2005 (AA- and A+, respectively)—both of which were insured up at the time—and have applied those ratings on the new issue                   <ul style="list-style-type: none"> <li>■ Both agencies had access to all the above information regarding the audited financials, took it into account and still reaffirmed the rating                       <ul style="list-style-type: none"> <li>▲ Gives us the assurance that moving forward is appropriate</li> </ul> </li> <li>■ Both PPH internally—where it's been, what it's been through and where it's going—combined with current financials</li> </ul> </li> <li>o Still waiting to see if there is economic value to insuring the bonds                   <ul style="list-style-type: none"> <li>■ Would possibly provide ability to maintain a AAA rating</li> </ul> </li> </ul> </li> </ul>	<p><i>Information only</i></p>		<p>N</p>


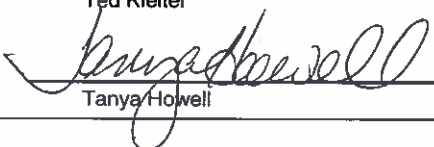
**BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, OCTOBER 28, 2008**

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/ RESPONSIBLE PARTY	FINAL ?
	<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>■ Three insurers still in the market:                             <ul style="list-style-type: none"> <li>▲ FSA is under watch</li> <li>▲ Assured</li> <li>▲ Brookshire – which has not yet entered the healthcare arena</li> </ul> </li> </ul> </li> <li>• Questioned how we compare with other districts, Mr. Hemker stated that he was unsure                     <ul style="list-style-type: none"> <li>○ It has been several years since Tri-City issued bonds, and their last issue was revenue bonds</li> <li>○ Grossmont does have some GO Bonds out, and he believes it's about the same</li> <li>○ As to the local not-for-profits, we exceed one and one of the others is slightly better for Revenue Bonds</li> </ul> </li> <li>• CoPs-ARS                     <ul style="list-style-type: none"> <li>○ Market has declined radically</li> <li>○ Week-on-week resets have gone up and down</li> <li>○ A couple of issues are moving through the market                             <ul style="list-style-type: none"> <li>■ Placements of municipal bonds basically froze</li> <li>■ There is a significant backlog of bonds waiting to be issued</li> <li>■ Slight movement in the market is causing a significant swing in rates</li> <li>■ Market differential in holding vs staying in the market for an additional period of time may not be worth it</li> <li>■ GO Bonds bring new project monies – revenue bonds can be held</li> <li>■ Average of ARS market                                     <ul style="list-style-type: none"> <li>▲ From July 2007 to February 10, 2008 the average was 3.54% across all 3 series in the issue</li> <li>▲ Since February 11, 2008 – when the ARS market changed – resets have averaged 5.15%, or 160 basis points higher</li> </ul> </li> <li>■ Review against SIFMA                                     <ul style="list-style-type: none"> <li>▲ Not keeping the pattern</li> <li>▲ Some extreme highs and lows</li> <li>▲ Not following the previous index change</li> </ul> </li> </ul> </li> </ul> </li> <li>• By action at a previous Board meeting, Management has the authority on all three instruments to either convert or to refund                     <ul style="list-style-type: none"> <li>○ Rescission Notice has until the week of November 10<sup>th</sup> – must make a hard decision whether to “go\no go” by then</li> </ul> </li> <li>• Latest federal action does not affect us                     <ul style="list-style-type: none"> <li>○ Market is not noticeably better or worse this week than last</li> </ul> </li> </ul>			

**BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, OCTOBER 28, 2008**

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/ RESPONSIBLE PARTY	FINAL ?
<p><b>FINANCIAL REPORT SEPTEMBER 2008 &amp; YTD 2009</b></p>	<p>Bob Hemker provided a summary review of the September 2008 &amp; YTD FY2009 financial report, utilizing portions of the presentation distributed as Addendum F in the agenda packet.</p> <ul style="list-style-type: none"> <li>• Slide F-10 is a new slide that provides a snapshot executive summary                             <ul style="list-style-type: none"> <li>o Patient Days                                     <ul style="list-style-type: none"> <li>■ Down to budget and against prior year</li> <li>■ Initial concern is relieved by reviewing discharges, which are up about 2% year on year</li> <li>■ Shorter LOS is positive</li> </ul> </li> <li>o ER Visits                                     <ul style="list-style-type: none"> <li>■ Down slightly against budget, but up about 5% year on year</li> </ul> </li> <li>o Deliveries                                     <ul style="list-style-type: none"> <li>■ Down year on year but up about 4% against budget</li> </ul> </li> <li>o Capitation                                     <ul style="list-style-type: none"> <li>■ Off as expected, due in part to the challenge of a calendar year cycle running through two fiscal years   <ul style="list-style-type: none"> <li>▲ Director Rivera commented that the Board had been responsible for saving PPH from the losses it was incurring before the capitation agreement with Penn Elm was dissolved</li> </ul> </li> </ul> </li> <li>o Net Patient Revenue                                     <ul style="list-style-type: none"> <li>■ Showing about a 5% growth year on year</li> <li>■ Affected by the payor mix with bad debt reserves (i.e., what should mature into realizable cash) included</li> </ul> </li> <li>o Total Revenues are up \$1M against budget</li> <li>o SWB &amp; Contract Labor                                     <ul style="list-style-type: none"> <li>■ Productivity percentages are right on   <ul style="list-style-type: none"> <li>▲ Proof of managing hours</li> </ul> </li> <li>■ Still affected by newly hired RNs being proctored</li> <li>■ If you take the totals of SWB and add Contract Labor for both YTD and Budget, we are right on budget</li> </ul> </li> <li>o Supplies are slightly negative to budget                                     <ul style="list-style-type: none"> <li>■ Due in large part to prosthesis costs</li> <li>■ The new pharmacy contract is expected to provide better-than-anticipated savings</li> </ul> </li> <li>o Net Income from Operations is up \$600K against budget</li> <li>o Bottom bottom line is down \$400K against budget</li> </ul> </li> </ul>	<p><b>MOTION:</b> By Director Rivera, seconded by Director Greer and carried to recommend approval of the September 2008 &amp; YTD FY2009 Financial Report as presented. All in favor. None opposed.</p>	<p>Forwarded to the November 10, 2008, Board of Directors meeting with a recommendation for approval.</p>	<p align="center">Y</p>

**BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, OCTOBER 28, 2008**

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/ RESPONSIBLE PARTY	FINAL ?
	<ul style="list-style-type: none"> <li>■ Unrealized gain/loss in mark to market investments</li> <li>■ Down \$2M year on year in investment income</li> <li>• Slides F-13 &amp; F-14 – Key Variance Explanations                             <ul style="list-style-type: none"> <li>o Weight Solutions shows a negative variance as it has not yet been implemented awaiting the LLC solution</li> <li>o Negative volume variance in Salaries &amp; Wages was more than gained back through the positive variance in workforce rate efficiencies</li> <li>o Negative Prosthesis expenses are almost the entire negative variance in Supplies                                     <ul style="list-style-type: none"> <li>■ We have worked with the surgeons to cap contract with vendors of choice to allow as much leeway for choices in product as possible   <ul style="list-style-type: none"> <li>▲ Contract updates are always going to be slightly behind the constantly evolving medical developments</li> </ul> </li> </ul> </li> <li>o San Diego Radiosurgery is a negative contra to revenue                                     <ul style="list-style-type: none"> <li>■ They will see their first case this Thursday</li> </ul> </li> </ul> </li> <li>• Slide F-16                             <ul style="list-style-type: none"> <li>o Negative variances in September and YTD under non-operating income due to a large mark to market adjustment</li> </ul> </li> <li>• Slide F-24 – Detail of Supplies Expenses YTD                             <ul style="list-style-type: none"> <li>o Negative variance in Employee Apparel                                     <ul style="list-style-type: none"> <li>■ Due in large part to the fact that Patient Access staff have now adopted a uniform, paid for by PPH</li> <li>■ Gerald Bracht stated that scrubs are also a large part of that expense</li> </ul> </li> </ul> </li> </ul>			
ADJOURNMENT	The meeting was adjourned at 7:49 p.m.			
SIGNATURES:	<ul style="list-style-type: none"> <li>• COMMITTEE CHAIR  Ted Kleiter</li> <li>• COMMITTEE SECRETARY  Tanya Howell</li> </ul>			