

PALO VERDE HEALTHCARE DISTRICT

**1273 West Hobson Way
BLYTHE, CA 9225**

(760) 921-3468 FAX (760) 921-3471

6/5/2003

**Riverside Grand Jury
P.O. Box 829
Riverside, CA 92502**

Attn: Jury Foreman

Re: Response by Palo Verde Healthcare District to 2002/2003 Grand Jury Report

The undersigned is the President of the Palo Verde Healthcare District ("District"). This letter responds to the 2002-2003 Grand Jury Report of the Palo Verde Healthcare District and Association.

The Board of Directors on behalf of the citizens of the District sincerely appreciate the hard work and efforts of the Grand Jury and take very seriously the report's findings and recommendations.

The Board concurs with the findings in the report and is moving forward to implement each of the recommendations, which include the following actions:

- 1) An attorney experienced in California Healthcare District Law has been hired as General Counsel and is working with the Board to provide legal guidance to resolve the current issues under contention;
- 2) The Board is reviewing the necessary legal procedures to ensure the 1991 conveyance of the Hospital to the District by the Palo Verde Hospital Association is completed; and
- 3) The Board is taking action to formally establish the District as a viable and responsive public agency in accordance with the California Health

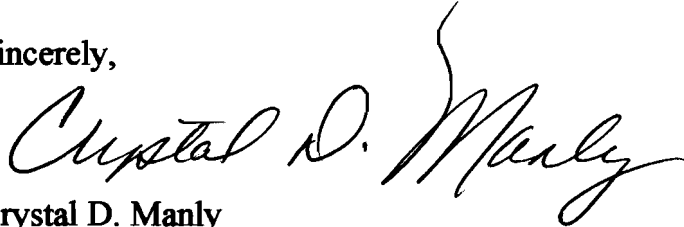
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Care District Law. Formal bylaws have been adopted. Regular monthly meetings in the community are being held and a permanent District office and phone number is being established. In addition measures are being taken to ensure that proper minutes and records of the District are being compiled.

The Board of Directors recognize that the District has a number of significant challenges ahead, but the Board members are committed to working hard to resolve the important issues facing the community and raised by the Grand Jury Report.

Thank you again for the fine efforts of the members of the Grand Jury and the opportunity to respond to the report.

Sincerely,

A handwritten signature in cursive script that reads "Crystal D. Manly". The signature is written in black ink and is positioned above the typed name and title.

Crystal D. Manly
President
Palo Verde Healthcare District

cc: Board of Directors

5th of June 2003

Foreman
Office of The Grand Jury
County of Riverside

Dear Mr. Bowers

Entrusted by our Board to respond to your report dated the 5th of March 2003 regarding our Healthcare District and Association, I offer the following in compliance with the Penal Code regulations. Our legal advisor, Jeffery Scott, had planned to respond to you also on this matter and I am assuming that you are already in receipt of same.

First of all let me thank you on behalf of the Healthcare District Board, and the community we truly represent, for all the time and effort put into your report. Below are our responses to same.

Regarding BACKGROUND, you correctly refer to the Healthcare District as an entity defined in California HSC (section 32000-3212) but should extend to section 32492 as a minor correction. You imply further a limitation not defined therein, i.e. the purpose of the District is to provide funds from property taxes for Healthcare support; whereas the scope of powers according to section 32121 goes far beyond that. Additionally while it is true that the District Board had met annually for the past 10 yrs., we have met at least monthly since the year began in compliance with our Bylaws and state-wide association guidelines. The REMAINDER of the BACKGROUND portion deals with the cumbersome details of 1) the relationship between our Healthcare District Board and the Palo Verde Hospital Association and 2) the dealings of each with corporate management (Brim/Province). As our legal advisor Mr. Scott is far more versed in the legalities governing these items we defer to his commentaries which you have or are about to receive. As you know, complete documentation of events dealing with the above have not been made available and perhaps many have been omitted along the way. While none of our current District Board of Directors were serving in 1992, we are impressed that

- 1) The PVHA did indeed Resign and turned over all assets to the Healthcare District.
- 2) The corporation mgt, from Feb. 1992-Feb. 1993 recognized it was dealing with a Healthcare District and a District Hospital.
- 3) Sometime in Dec. 1992, undisclosed dealings took place, without public notice nor participation that led to 50% of the districts assets being turned over to corporate mgt. (a for-profit entity)
- 4) The lease agreement that emerged in Feb. 1993 seemed to negate any role to be played by the Healthcare District Board and for that matter, any role to be played by the community.
- 5) The lease agreement itself raises many legal questions as does the renewal last year and these we gladly refer to our legal advisor.

In regard to the FINDINGS by the grand jury all 9 points cited appear accurate and lead well to your final offering, i.e. RECOMMENDATIONS- Before reviewing those 5 points it might be wise to review the current make-up of Palo Verde Healthcare District. Since your review began, all 5 directors have been replaced by election or appointment to fill resignations. It is no exaggera-

tion to state the aims of the current Board are vastly different than those held by the former directors; we are unified in seeking:

- 1) that the Palo Verde Hospital Medical Staff be granted self-governance, an entitlement sorely abused by corporate mgt. over the past few years and 2) that the huge profits estimated at between 3 and 4 million yearly remain in the community to address the existing gaps in staffing, resources, supplies, equipment, and programs. We might also add a shared interest in those programs aforementioned in HSC 32121. But our top priority remains establishing whether or we are entitled to provide leadership and governance at our hospital. 3)

Finally, we offer our response to your recommendation:

- 1) our new legal counsel, Mr. Scott has gladly accepted the burden of determining the validity of the renewed lease, including both the lease itself and the renewal. Mr. Scott is free of any conflicts of interest, and has had a great deal of experience in Healthcare District Hospital issues. We are pleased to have his association.
- 2&3) Mr. Scott has suggested that a valid meeting of the hospital Association members convened by the Healthcare District Board would be virtually impossible and we, the HCD Board agree. We have in our possession a roster of PVHA membership dated August 15, 1991 that includes some 600 entries and was used to conduct an election - the legality of which is seriously questioned - in January 1993. (The ballot is attached). 147 responded with a clear affirmation (86%) of entry into the lease with corporate mgt. The following should be considered:
 - A. The 600 names include whole families, toddlers to seniors - signed up as separate entities - sometimes into double figures. (the price of membership was always extremely affordable).
 - B. Many of the 600 entities are businesses such as SCE. Would that be one vote? - Any vote?
 - C. Of the 600, perhaps as many as 50% have moved away or died. How exhaustive would we have to be in reaching all?
 - D. There seems enough in the PVHA Bylaws to cover the Feb. 1992 transaction of conveyance to the PVHCD - and that this - tho' "intended" to be only for a transitional period of time - has never been changed and in affect the PVHCD meeting annually continues to at least represent the PVHA. the legalities are beyond our individual scope of knowledge and are also referred to our legal advisor, Mr. Scott.
- 4&5) The minutes from 1992 - 1997 were not available to us. The annual meetings - which have been "combined" to include a separate meeting of PVHA and PVHCD from 1997 - 2002 are mostly available. The minutes have been kept current since since that time as have the fiscal records. The fiscal records - in particular the tax sheets of PVHA - are not complete: We see that form 990 have been filed yearly with growing "cash assets" that amount to nearly 7 figures. We have been unable to find the location of those assets, and have no record of forms 199 (State of Cal.) filed as required by 501C(3) under which PVHA is organized.

The records are kept at the PVHCD at 123 W. Hobsonway.

The following are also established -

PVHA
P O BOX 2065
BLYTHE, CA. 92225
760 921-6900

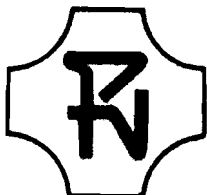
PVHCD
1273 W. Hobsonway
Blythe, Ca. 92225
760 921-6904*

Thank you again for your guidelines.

We remain encouraged that our combined efforts will lead to improved Healthcare in our community and preserve an avenue of expression and direction for that community.

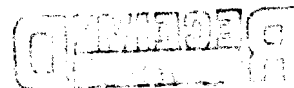
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Sincerely,
David Brooks
David Brooks
Vice President
PVHCD



Palo Verde Hospital

250 North First Street, P.O. Drawer Z, Blythe, California 92226-0766 619-922-4115



WRITTEN BALLOT FOR LEASE AND POSSIBLE SALE OF PALO VERDE HOSPITAL

The Palo Verde Hospital Association was formed for the purposes of operating a Hospital and providing health care services to the residents of Blythe, California and its vicinity. The Association's Board of Directors has determined that the Association is unable to continue to operate the Hospital and provide such health care services; that Brim Hospitals, Inc. has the experience, expertise, and resources to operate the Hospital and provide health care services; and that without assistance from Brim, the Hospital would probably be closed, leaving area residents without a hospital. The Association's Board of Directors has therefore voted to enter into an agreement with Brim under which Brim would lease and operate the Hospital and would have an option to purchase the Hospital. Under the Lease, Brim would commit significant financial resources to upgrade Hospital equipment and facilities and to renovate the building. Brim's rent under the Lease would equal the amounts due on the annual debt service on the Farmers Home Administration Loan ("First Mortgage"), the California Health Facilities Financing Authority Help Program promissory note ("Help Note"), and one dollar per year. Brim would also assume specified liabilities of the Association and would bring the First Mortgage current by paying all past due installments. Brim would purchase the Hospital's working capital. If Brim exercises its option to purchase the Hospital, the purchase price would be the greater of (1) the amounts due on the First Mortgage and the Help Note or (2) the current fair market value of the land and improvements. The Association would have the option to repurchase the Hospital if Brim ceases to operate it as an acute care hospital.

There are 542 members of the Association. The bylaws provide that there is no requirement that a particular number of members constitutes a quorum. In order to ratify the resolution of the Association's Board of Directors, a majority of the votes received by January 28, 1993 must ratify the Board's action.

VOTE FOR ONE:

- YES, I ratify the actions of the Association's Board of Directors to enter into the above-referenced transaction with Brim Hospitals, Inc.
- NO, I do not ratify the actions of the Association's Board of Directors to enter into the above-referenced transaction with Brim Hospitals, Inc.

Date: _____

(Signature)

Name: _____

(Print)