Henry Mayo Newhall Hospital

Financial Statements

Years Ended September 30, 2015 and 2014

Henry Mayo Newhall Hospital

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Henry Mayo Newhall Hospital

Contents

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Independent Auditor's Report

Board of Directors
Henry Mayo Newhall Hospital
Valencia, California

We have audited the accompanying financial statements of Henry Mayo Newhall Hospital, which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Henry Mayo Newhall Hospital as of September 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

December 17, 2015

Financial Statements

Henry Mayo Newhall Hospital

Statements of Financial Position

September 30,	**2015**	2014
Assets		
Current assets		
Cash and cash equivalents	**$ 54,171,507**	$ 35,306,715
Investments	**69,020,924**	56,684,099
Assets limited as to use	**2,202,615**	3,761,331
Patient accounts receivable, less bad debt allowances of $8,552,770 and $9,771,216, respectively	**48,044,915**	39,503,719
Receivable from affiliate	**2,942,427**	3,322,965
Other receivables	**1,026,714**	1,515,539
Inventories	**5,171,106**	4,680,197
Prepaid expenses and other current assets	**3,618,076**	3,033,872
Quality assurance fee receivable	**2,779,694**	-
California Hospital Foundation grant receivable	**1,849,671**	-
Total current assets	**190,827,649**	147,808,437
Assets limited as to use, less current portion	**6,522,490**	28,906,109
Property, plant and equipment, net	**152,844,179**	134,945,439
Pledged lease	**2,470,656**	2,511,265
Deferred financing costs, net	**3,385,911**	3,618,015
Other assets	**1,874,782**	1,644,893
Total assets	**$ 357,925,667**	$ 319,434,158

Henry Mayo Newhall Hospital

Statements of Financial Position

September 30,	**2015**	2014
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	**$ 4,540,000**	$ 4,525,000
Current portion of obligations under capitalized leases	**1,367,013**	1,187,340
Accounts payable	**23,030,976**	14,336,699
Accrued payroll and benefits	**19,499,716**	14,221,460
Accrued expenses	**384,342**	1,300,880
Accrued interest	**3,455,560**	3,545,198
Quality assurance fee payable	**4,140,433**	931,067
Quality assurance fee deferred revenue	**1,453,462**	-
Total current liabilities	**57,871,502**	40,047,644
Long-term debt, less current portion	**151,201,486**	155,780,200
Obligations under capitalized leases, less current portion	**6,507,381**	7,874,394
Deferred contribution revenue	**2,470,656**	2,511,265
Accrued malpractice liability	**3,393,340**	3,303,267
Total liabilities	**221,444,365**	209,516,770
Commitments and contingencies		
Net assets		
Temporarily restricted	**3,133,367**	3,557,059
Unrestricted	**133,347,935**	106,360,329
Total net assets	**136,481,302**	109,917,388
Total liabilities and net assets	**$ 357,925,667**	$ 319,434,158

See accompanying notes to financial statements.

Henry Mayo Newhall Hospital

Statements of Operations

Years Ended September 30,	**2015**	2014
Unrestricted revenues		
Net patient service revenue	**$ 312,266,494**	$ 262,549,901
Provision for bad debts	**(8,622,426)**	(17,009,064)
Net patient service revenue less provision for bad debts	**303,644,068**	245,540,837
Nonpatient revenue	**3,240,739**	3,545,086
California Hospital Foundation grant revenue	**8,023,088**	346,695
Net assets released from restrictions used for operations	**303,136**	263,490
Total unrestricted revenues	**315,211,031**	249,696,108
Expenses		
Salaries and wages	**102,426,213**	93,286,479
Employee benefits	**29,886,436**	28,867,390
Registry	**9,011,686**	7,947,159
Supplies	**44,376,006**	38,472,827
Purchased services	**26,408,177**	22,881,597
Repairs and maintenance	**5,327,709**	4,966,691
Interest	**7,969,937**	7,833,565
Depreciation and amortization	**15,842,735**	15,040,735
Insurance, net	**1,749,634**	1,623,804
Facility costs	**6,673,583**	5,794,406
Quality assurance fee hospital tax	**28,036,921**	2,729,682
Other operating costs	**15,676,587**	15,195,962
Total expenses	**293,385,624**	244,640,297
Operating income	**21,825,407**	5,055,811
Other income (loss)		
Contributions	**166,202**	163,221
Interest income	**400,365**	871,304
Other nonoperating income, net	**864,301**	156,536
Electronic health records grant income	**870,676**	977,759
Equity in income of Joint Venture	**672,331**	806,835
Loss on defeasement	**-**	(16,493,660)
Excess (deficit) of revenues over expenses	**24,799,282**	(8,462,194)
Unrealized loss on investments, net	**(116,676)**	(632,000)
Net assets released from restrictions used for purchases of property, plant and equipment	**2,305,000**	1,026,452
Net increase (decrease) in unrestricted net assets	**$ 26,987,606**	$ (8,067,742)

See accompanying notes to financial statements.

Henry Mayo Newhall Hospital

Statements of Changes in Net Assets

Years Ended September 30,		**2015**		2014
Unrestricted net assets				
Excess (deficit) of revenues over expenses	**$**	**24,799,282**	$	(8,462,194)
Unrealized loss on investments, net		**(116,676)**		(632,000)
Net assets released from restrictions used for purchases of property, plant and equipment		**2,305,000**		1,026,452
Net increase (decrease) in unrestricted net assets		**26,987,606**		(8,067,742)
Temporarily restricted net assets				
Contributions		**2,184,444**		2,037,832
Net assets released from restrictions		**(2,608,136)**		(1,289,942)
Net decrease (increase) in temporarily restricted net assets		**(423,692)**		747,890
Increase (decrease) in net assets		**26,563,914**		(7,319,852)
Net assets, beginning of year		**109,917,388**		117,237,240
Net assets, end of year	**$**	**136,481,302**	$	109,917,388

See accompanying notes to financial statements.

Henry Mayo Newhall Hospital

Statements of Cash Flows

Years Ended September 30,	**2015**	2014
Cash flows from operating activities		
Increase (decrease) in net assets	**$ 26,563,914**	$ (7,319,852)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	**15,842,735**	15,040,735
Provision for bad debts	**8,622,426**	17,009,064
Amortization and write-offs of deferred financing costs and bond premiums, net	**193,390**	6,617,091
Loss on disposal of fixed assets	**-**	72,350
Equity in income of Joint Venture	**(672,331)**	(806,835)
Distribution from Joint Venture	**742,000**	953,000
Realized and unrealized loss (gain) on investments, net	**(747,625)**	32,677
Changes in assets and liabilities:		
Patient accounts receivable	**(17,163,622)**	(10,461,696)
Receivable from affiliate	**380,538**	(589,494)
Other receivables	**488,825**	593,104
Inventories	**(490,909)**	(368,177)
Prepaid expenses and other current assets	**(584,204)**	(300,115)
Quality assurance fee receivable	**(2,779,694)**	3,873,315
California Hospital Foundation grant receivable	**(1,849,671)**	1,093,415
Other assets	**(299,557)**	(446,099)
Accounts payable	**7,145,286**	2,481,499
Accrued payroll and benefits	**5,278,256**	(422,507)
Accrued expenses	**(916,538)**	(81,825)
Accrued interest	**(89,638)**	699,644
Quality assurance fee payable and deferred revenue	**4,662,828**	(2,321,442)
Accrued malpractice liability	**90,073**	(135,733)
Net cash provided by operating activities	**44,416,482**	25,212,119
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(32,192,484)**	(23,387,665)
Proceeds from sale of short-term investments	**58,001,040**	12,018,454
Purchases of short-term investments	**(69,590,240)**	(58,644,210)
Decrease in assets limited as to use	**26,144,949**	95,203,064
Increase in assets limited as to use	**(2,202,615)**	(110,984,031)
Net cash used in investing activities	**(19,839,350)**	(85,794,388)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	**-**	160,330,579
Payments of costs of issuance	**-**	(3,789,868)
Payments on long-term debt	**(4,525,000)**	(113,305,000)
Payments on capital lease obligations	**(1,187,340)**	(1,026,084)
Net cash (used in) provided by financing activities	**(5,712,340)**	42,209,627

Henry Mayo Newhall Hospital

Statements of Cash Flows (Continued)

Years Ended September 30,		**2015**		2014
Net increase (decrease) in cash and cash equivalents		**18,864,792**		(18,372,642)
Cash and cash equivalents, beginning of year		**35,306,715**		53,679,357
Cash and cash equivalents, end of year	**$**	**54,171,507**	$	35,306,715
Supplemental disclosure of cash flow information				
Cash paid for interest during the year	**$**	**7,866,185**	$	6,495,031
Cash paid for loss on defeasement	**$**	**-**	$	10,172,034
Supplemental disclosure of non-cash transactions				
Pledged lease (See Note 12)	**$**	**40,609**	$	(40,005)
Bond premiums write off and amortization (See Note 6)	**$**	**(38,714)**	$	(343,425)

See accompanying notes to financial statements.

1. Organization

Henry Mayo Newhall Hospital (the "Company" or "Hospital") is a California not-for-profit public service benefit acute care hospital providing patient services to individuals in Santa Clarita, California.

The Hospital is affiliated with Santa Clarita Health Care Association, Inc. and its affiliates through common management. Santa Clarita Health Care Association and one of its subsidiaries, Santa Clarita Health Care Management Group, Inc., had no activity during the years ended September 30, 2015 and 2014. In addition, the Hospital is also affiliated with Henry Mayo Newhall Health Foundation (the "Foundation"). The Foundation shares some members of management with the Hospital, however, the Hospital has no control over the Foundation or any ongoing interests in the net assets of the Foundation.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company prepares its financial statements in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 954, *Health Care Entities.* The Company's accounting policies used in the preparation of the accompanying financial statements are in conformity with accounting principles generally accepted in the United States of America and have been consistently applied.

Management's Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The significant estimates made in the preparation of the Company's financial statements relate to the assessment of the carrying value of accounts receivable and bad debt allowances, accruals for malpractice liability and other similar risks, amounts payable or receivable under health insurance plans and amounts payable or receivable from the government. While management believes that these estimates are reasonable, actual results could be materially different from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include certain highly liquid investments with original maturities of three months or less when purchased, that are not held as collateral.

Investments

Investments are accounted for in accordance with FASB ASC 958-320, *Not-for-Profit Entities — Investments — Debt and Equity Securities*. Under FASB ASC 958-320, equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with realized and unrealized gains and losses included in other non-operating income (loss) in the accompanying statements of activities and changes in net assets.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts in the statements of financial position.

Patient Accounts Receivable

Patient accounts receivable are stated at the amounts billed to patients or third-party payors and others less contractual allowances. The carrying amount of patient accounts receivable is reduced by bad debt allowances that reflect management's best estimate of the amounts that will not be collected. Bad debt allowances are based on management's review of the historical collection experience of all balances.

The Company provides for an allowance against patient accounts receivable for an amount that could become uncollectible, whereby such receivables are reduced to their estimated net realizable value. The Company estimates this allowance based on the aging of their accounts receivable, historical collection experience from the payors, and other relevant factors. There are various factors that can impact the collection trends, such as changes in the economy, which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients, volume of patients through the emergency department, the increased burden of co-payments to be made by patients with insurance and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends and the Company's estimation process. These impacts may be material.

The Company's policy is to attempt to collect amounts due from patients, including co-payments and deductibles due from patients with insurance, at the time of service while complying with all federal and state laws and regulations, including, but not limited to, the Emergency Medical Treatment and Labor Act ("EMTALA").

Certain classes of patient accounts receivable are charged off against allowances after a designated period of collection efforts. Subsequent cash recoveries are recognized as income in the period when they occur.

The Company provides outpatient and emergency trauma services ("AB99") for Medi-Cal and other beneficiaries. The Hospital has been designated as a Private Trauma Hospital, as defined by the Centers for Medicare & Medicaid Services ("CMS"), in the County of Los Angeles, and receives supplemental reimbursements for such trauma services that it provides during its fiscal year. Based on agreements entered into and related reimbursements received to date, the Company determined that no reserves were necessary for its receivables relating to the California AB99 payor category as of September 30, 2015 and 2014. There are various factors that can impact the supplemental reimbursements and the changes in these factors can have a material impact on future collection of these amounts.

Inventories

Inventories consist primarily of pharmaceuticals and medical supplies and are stated at the lower of cost, which is determined using the weighted-average method, or market.

Assets Limited as to Use

Assets limited as to use include assets set aside by trustees under indenture agreements. These investments, consisting primarily of cash, money market accounts, corporate bonds, are stated at fair value. Assets limited as to use are classified according to their underlying obligation.

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess (deficit) of revenues over expenses. Unrealized gains and losses on investments are included in the excess (deficit) excess of revenues over expenses in the accompanying statements of changes in net assets unless the investments are trading securities.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less depreciation and amortization. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of the related assets are as follows:

Building and improvements	10 to 40 years
Equipment and furniture	2 to 15 years

Maintenance, repairs and investments in minor equipment are charged to operations. Expenditures which materially increase the value of properties or extend the useful lives are capitalized.

Deferred Financing Costs

Deferred financing costs are amortized using the effective interest method, over the terms of the related bonds or loans.

Deferred financing costs, net, totaled $3,385,911 and $3,618,015 as of September 30, 2015 and 2014, respectively. Of these amounts, $799,401 and $891,750 relate to the issuance of the 2013 Bond Series A, B, & C (see Note 6), as of September 30, 2015 and 2014, respectively. $2,586,510 and $2,726,265 relate to the issuance of the 2014 Bonds (see Note 6), as of September 30, 2015 and 2014, respectively.

In connection with the repayment of the 2001 Bonds and defeasance of the 2007 Bond Series A & B (see Note 6), all deferred financing costs associated with the 2001 Bonds and the 2007 Bond Series A & B were written off and recorded to interest expense during the year ended September 30, 2014. In connection with the issuance of the 2013 Bond Series A, B, & C (see Note 6), the Company capitalized $971,985 of issuance costs, which are being amortized over the life of the bonds. In connection with the issuance of the 2014 Bonds (see Note 6), the Company capitalized $2,817,884 of issuance costs, which are being amortized over the life of the bonds. Amortization expense of approximately $232,000 and $6,961,000 was recorded for the years ended September 30, 2015 and 2014, respectively, and is included in interest expense in the accompanying statements of operations.

Amortization expenses are expected to be approximately $227,000, $221,000, $215,000, $209,000, $203,000 and $2,311,000 for the years ending September 30, 2016, 2017, 2018, 2019, 2020 and thereafter, respectively.

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), provides a framework for measuring fair value and requires enhanced disclosures about fair value measurements. These guidelines clarify that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

ASC 820 requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows: Level 1 quoted prices in active markets for identical assets or liabilities; Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or Level 3 unobservable inputs for the asset or liability, such as discounted cash flow models or valuations. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's Level 1 assets as of September 30, 2014 include the part of the Company's cash equivalents, investments which consist of domestic equities, international equities, mutual funds, money market accounts, and assets limited as to use which consists of cash and money market accounts, U.S. federated treasury obligations, corporate bonds, commercial paper, and U.S. agency securities.

The Company does not have any Level 2 assets as of September 30, 2014.

The Company's Level 3 assets as of September 30, 2014 include investments which consist of investments in hedge funds.

The Company's Level 1 assets as of September 30, 2015 include the part of the Company's cash equivalents, investments which consist of a fixed income mutual fund and assets limited as to use which consists of cash and money market accounts.

The Company does not have any Level 2 or Level 3 assets as of September 30, 2015.

Fixed Income Mutual Fund

The fixed income mutual fund is registered with the Securities and Exchange Commission as a mutual fund under the Investment Company Act of 1940 and is valued based on quoted prices from the applicable exchange, and to the extent valuation adjustments are not applied to this security, is categorized as Level 1.

Corporate Equity Securities (Domestic and International)

Equity securities that are actively traded on a securities exchange are valued based on quoted prices from the applicable exchange. To the extent valuation adjustments are not applied to these securities, the values are categorized as Level 1.

Hedge Funds

Alternative investments are valued based upon the NAV per share (or its equivalent) of the underlying fund as provided by the investment manager. The NAV amounts are based on the fair values of the funds' various underlying investments, which are computed using limited quantitative and qualitative observations of activity for similar companies in the current market. The key inputs utilized in the funds' market modeling include, as applicable, transactions for comparable companies in similar industries and having similar revenue and growth characteristics, similar preferences in the capital structure, discounted cash flows, liquidation values and milestones established at initial funding, and the assumption that the values of the fund's venture capital investments can be inferred from these inputs, and are categorized as Level 3.

Corporate Bonds

Investment grade bonds are valued based on prices provided by third-party vendors that obtain feeds from a number of live data sources, including active market makers and interdealer brokers. To the extent that the values are actively quoted, they are categorized as Level 1.

Government Agency Bond Funds

Government agency bond funds registered with the Securities and Exchange Commission as mutual funds under the Investment Company Act of 1940 are valued based on quoted prices from the applicable exchange, and to the extent valuation adjustments are not applied to these securities, are categorized as Level 1.

U.S. Government and Agency Obligations and Securities

U.S. government and agency obligations and securities include U.S. Treasury notes and government bonds. U.S. Treasury notes are valued based on prices provided by third-party vendors that obtain feeds from a number of live data sources, including active market makers and interdealer brokers. To the extent that the values are actively quoted, they are categorized as Level 1.

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The following table presents the financial instruments carried at fair value as of September 30, 2015 (as described above):

	Level 1	Level 2	Level 3	Total
Investments:				
Mutual fund – fixed income	$ **69,020,924**	**$ -**	**$ -**	**$ 69,020,924**
Assets limited as to use:				
Money market account	**163,303**	**-**	**-**	**163,303**
Cash	**8,561,802**	**-**	**-**	**8,561,802**
Total assets at fair value	**$ 77,746,029**	**$ -**	**$ -**	**$ 77,746,029**

The following table presents the financial instruments carried at fair value as of September 30, 2014 (as described above):

	Level 1	Level 2	Level 3	Total
Investments:				
Equities – domestic	$ 32,985,373	$ -	$ -	$ 32,985,373
Equities - international	8,248,019	-	-	8,248,019
Government agency bond funds	1,011,813	-	-	1,011,813
Hedge funds	-	-	14,438,894	14,438,894
Assets limited as to use:				
Corporate bonds	12,196,660	-	-	12,196,660
Money market account	14,141,538	-	-	14,141,538
Cash	6,329,242	-	-	6,329,242
Total assets at fair value	$ 74,912,645	$ -	$ 14,438,894	$ 89,351,539

The activity relating to Level 3 financial assets measured on a recurring basis are as follows:

September 30,	**2015**	**2014**
Beginning balance	**$ 14,438,894**	**$ -**
Total gains and losses:		
Realized gains – net	**102,213**	**621,741**
Unrealized losses - net	**-**	**(182,847)**
Purchases, sales issuances, and settlements – net	**(14,541,107)**	**14,000,000**
Ending balance	**$ -**	**$ 14,438,894**

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As of September 30, 2015 there were no investments that had fair value measurements that were determined using NAV per share (or its equivalent). The fair value measurements of investments in investment funds that calculate NAV per share (or its equivalent) as of September 30, 2014 are summarized as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds*(a)*	$ 14,438,894	$ -	Monthly	10 to 30 days
Total	**$ 14,438,894**	**$ -**	**-**	**-**

(a) This category includes investments in that invest in multiple forms domestic and foreign equity securities and limited partnerships to generate both capital appreciation and current income. The fair value of this investment has been estimated using the NAV per share of the fund (or its equivalent).

Excess of Revenues over Expenses

The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction are to be used for the purposes of acquiring such assets).

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets are those that must be maintained by the Hospital in perpetuity.

At September 30, 2015 and 2014, the Hospital had $3,133,367 and $3,557,059 of temporarily restricted net assets, respectively. The Hospital did not have any permanently restricted net assets at September 30, 2015 and 2014.

California Quality Assurance Fee Program

The State of California enacted Assembly Bill 1383 (“AB 1383”) effective January 1, 2010, as amended by Assembly Bill 1653 (collectively, the “Program”), to provide one-time supplemental payments to certain medical facilities such as the Hospital that serve a disproportionate share of indigent and low-income patients. The Program requires participating hospitals to pay fee assessments into a pool of funds to which the federal government contributes matching funds. These funds, including the federal matching funds, are then distributed to qualifying hospitals based on a prescribed formula.

In September 2011, the State of California enacted Senate Bill (“SB 335”) which provides a 30-month extension of the Hospital Fee Program for date of service from July 1, 2011 through December 31, 2013. The elements of SB 335 related to the fee for service payments were approved by CMS on June 22, 2012. The payments due under the managed care component are scheduled to be made in three cycles. The first two cycles were previously approved by CMS, and the third cycle was approved by CMS subsequent to September 30, 2014. Implementation of SB 335 was delayed to August 2012 as a result of pending legal advice obtained by the California Hospital Association, although certain technical changes to the legislation required by CMS are included in Senate Bill 920. For the years ended September 30, 2015 and 2014, the Hospital has recognized $0 and $2,729,682, respectively, in fees which are reflected in total expenses in the statements of operations. For the years ended September 30, 2015 and 2014, the Hospital has recognized $0 and $1,765,455, respectively, in supplemental payments to be received related to the program; $0 and $1,418,759, respectively, of which is recorded as a reduction to contractual adjustment in net patient service revenue and $0 and $346,696, respectively, is recorded as California Hospital Foundation and Trust ("CHFT") grant revenue from the CHA in the statements of operations. As of September 30, 2015 and 2014, future programs fees payable of $0 and $931,067, respectively, were accrued for in current liabilities and there were no amounts recorded for supplemental payments receivable nor California Hospital Foundation grants receivable as current assets in the statements of financial position.

Governor Brown signed Senate Bill 239 ("SB 239") in October 2013, which enacted a hospital fee program for the period January 1, 2014 through December 31, 2016. On December 5, 2014, the fee for service portion of the program was approved by CMS. In August of 2015, CMS approved the managed care portion of the SB 239 program for the non-expansion population of Medi-Cal coverage recipients. This non-expansion population equated to approximately 59% of the total Medi-Cal population for California. SB 239 provides that the hospital fee program will continue through December 31, 2022 in three year cycles and will require authorization of each cycle by the California legislature. Because the approvals by CMS occurred subsequent to the Hospital's 2014 fiscal year, no amounts related to the SB 239 program were recognized in the Hospital's 2014 financial statements. For the year ended September 30, 2015, the Hospital recognized $28,036,921 in fees which are reflected in total expenses in the statements of operations; it recognized $20,361,477 in supplemental payments which is recorded as a reduction to contractual adjustment in net patient service revenue; and it recognized $8,023,088 in grant revenue recorded as California Hospital Foundation grant revenue in the statements of operations. As of September 30, 2015, the Hospital recognized $4,629,365 in receivables related to the program; $2,779,694, of which was a supplemental payment from the state and was recorded as a reduction to contractual adjustment in net patient service revenue and $1,849,671 of which was a grant receipt from the CHFT and was recorded as California Hospital Foundation grant revenue in the statements of operations. As of September 30, 2015, future programs fees payable of $4,140,433 was accrued for in current liabilities, while $1,453,462 was recorded as deferred revenue, pending full CMS approval of the managed care portion of the program.

Electronic Health Records Incentive Program

The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology or adopt or implement such technology. The Medicare incentive payments will be paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR "meaningful use" criteria that become more stringent over three stages that have yet to be finalized by CMS.

The Medi-Cal programs require hospitals to register for the program prior to 2016, to engage in efforts to adopt, implement or upgrade certified EHR technology in order to qualify for the initial year of participation, and to demonstrate meaningful use of certified EHR technology in order to qualify for payment for up to three additional years.

For the years ended September 30, 2015 and 2014, the Hospital has recorded $870,676 and $977,759, net of accruals for refunds of overpayments of approximately $0 and $190,000, respectively, related to the Medicare program in other income in the statements of operations. These incentives have been recognized following the gain contingency model, whereby recognition of gain contingencies under FASB ASC 450, *Contingencies*, are not allowed until there is satisfactory resolution of the uncertainty that realization has occurred.

Net Patient Service Revenue

The Hospital recognizes net patient service revenue in the period in which services are performed. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charges. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors (including the Medicare and Medi-Cal programs). Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. These retroactive adjustments may be material.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, are as follows:

Years ended September 30,	**2015**	2014
Medicare	**$ 97,819,997**	$ 85,887,770
Medi-Cal	**28,907,720**	2,567,578
HMO/PPO	**184,056,639**	162,507,250
Self-Pay and others	**1,482,138**	11,587,303
	$ 312,266,494	$ 262,549,901

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. The Hospital's charity care policy includes criteria such as patients with a prior history of bad debt without payments, patients who have expired, homeless patients, incarcerated patients whose services were provided prior to arrest, and patients with a history of unemployment, or a history of ongoing major illness causing multiple hospitalizations. Other types of exceptions to the above categories require management approval on a specific case by case basis. Net patient service revenue is reflected net of the charity care reserves. Charity care reserves are based on gross revenue foregone. The actual costs for charity care in accordance with the Hospitals charity care policy aggregated approximately $12,365,568 and $17,324,000 for the years ended September 30, 2015 and 2014, respectively. The Hospital has estimated the cost of charity care based on a ratio of cost to charges of operating expenses excluding interest expense.

Charity care reserves included in contractual discounts and the provision for bad debts each year are as follows:

Years ended September 30,	**2015**	2014
Provision of bad debt	**$ 8,622,426**	$ 17,009,064
Charity care reserve	**6,193,229**	10,172,239
Total charity care and provision for bad debts	**$ 14,815,655**	$ 27,181,303

Advertising

Advertising costs are expensed as incurred. Advertising expense during the years ended September 30, 2015 and 2014 was approximately $ 1,864,008 and $1,374,000, respectively.

Donated Services

Volunteers perform various services. The services donated are not reflected in the accompanying financial statements as expense and income from donations, as these services do not meet the criteria for recognition.

Interest Expense

Interest expense, which includes amortization of deferred financing costs, during the years ended September 30, 2015 and 2014 was approximately $7,970,000 and $7,834,000, respectively. No interest costs were capitalized during the years ended September 30, 2015 and 2014.

Income Taxes

The Hospital is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501 (c)(3) of the Internal Revenue Code ("IRC"). Under FASB ASC 740, *Uncertainty in Income Taxes*, interest and penalties, if any, are recorded to interest expense and other operating costs, respectively. There were no interest or penalties recorded for the years ended September 30, 2015 and 2014. The tax years subject to examination by major tax jurisdictions include the years 2011 and forward by the U.S. Internal Revenue Service ("IRS"). For California, the tax years subject to examination include the years 2010 and forward.

Impairment of Long-Lived Assets

The Company periodically reviews the carrying values of its long-lived assets for possible impairment. Whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, the Company records an adjustment to reduce the related assets to their net realizable value. The Company believes that no material impairment of its long-lived assets exists at September 30, 2015 and 2014, respectively.

Accrual for General and Professional Liability Risks

The Company records reserves for claims when they are probable and reasonably estimable. The Company maintains reserves, which are based on actuarial estimates by an independent third party, for the portion of their professional liability risks, including incurred but not reported claims. The Company estimates reserves for losses and related expenses using expected loss-reporting patterns. Reserves are not discounted. There can be no assurance that the ultimate liability will not exceed the Company's estimates. Adjustments to the estimated reserves are recorded in the Company's statements of operations in the periods when such amounts are determined. These adjustments may be material.

New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), as amended by ASU 2015-14. The core principle of ASU 2014-09 is built on the contract between a vendor and a customer for the provision of goods and services, and attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2018, including interim periods therein. Three basic transition methods are available — full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application (e.g. January 1, 2019) and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. Early adoption is permitted for fiscal years beginning after December 15, 2016. The Company is currently evaluating the effect of this guidance on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern: Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern.* This ASU provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Specifically, this ASU provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). It also requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The new standard will be effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company will apply the provisions of this standard upon adoption.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* This ASU amends existing guidance to require the presentation of debt issuance cost on the balance sheet as a deduction from the carrying amount of the related debt, instead of an asset. This ASU is effective for reporting periods beginning after December 15, 2015 and early adoption is permitted. The Company is currently evaluating the effect of this guidance on its consolidated financial statements.

Reclassification

Certain amounts for 2014 have been reclassified to conform to the 2015 financial statement presentation with no impact on the previously reported net assets.

Subsequent Events

Management has evaluated events that have occurred subsequent to September 30, 2015 through December 17, 2015, the date on which the financial statements were available to be issued.

3. Net Patient Service Revenue

Gross patient service revenue is recorded on the basis of the Company's usual and customary charges. The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. The difference between charges generated from agreements with third-party payors and the related payment amounts are reflected as contractual discounts as shown below:

Years ended September 30,	**2015**	2014
Gross patient service revenue	**$ 1,272,070,249**	$ 1,060,984,915
Contractual discounts	**(959,803,755)**	(798,435,014)
Net patient service revenue	**$ 312,266,494**	$ 262,549,901

A summary of the payment arrangements with major third party payors is as follows:

Medicare

Inpatient acute services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge ("DRGs"). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services related to Medicare beneficiaries are paid at prospectively determined rates according to Ambulatory Payment Classifications ("APCs"). Other payments, including disproportionate share and Medicare bad debt expense reimbursement, are based on the Hospital's cost reports, and are estimated using historical trends and current factors.

The Hospital is reimbursed at a tentative rate, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare Cost reports have been final settled by the Medicare fiscal intermediary through 2012 and audited by the Medicare fiscal intermediary through 2012. The 2013 and 2014 cost reports have been filed and tentatively settled as of the date of the financial statements. The 2015 cost report has not been filed as of the date of the financial statements. Annual cost reports are generally due five months after the financial year end.

Laws and regulations governing the Medicare program are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

Cost report settlement estimates are recorded based upon as-filed cost reports and are usually not adjusted until a final Notice of Program Reimbursement ("NPR") is issued. The latest updated SSI ratios for 2013 were issued on May 14, 2015. The issuance of final NPRs could result in changes to existing cost reporting estimates and these changes could be material to the Hospital. Additionally, the Company joined a second round of litigation relating to Medicare's recent settlement with providers relating to the manner in which CMS handled the budget neutrality adjustment associated with the rural floor wage index in setting the Medicare inpatient prospective system rates ("Rural Floor"). The Company has not yet recorded any settlement revenue relating to the Rural Floor litigation.

Effective August 29, 2014, CMS provided a simplified process and timely partial payment to settle certain previously denied claims with dates of service prior to October 1, 2013 whereby such claims under appeal that had been retracted by CMS were settled with the provider receiving 68% of the face value. As a result, the Company accrued approximately $0 and $649,000 in revenue during the years ended September 30, 2015 and 2014, respectively, related to claims which were previously subject to ongoing RAC audits and other similar programs. The Company also recorded approximately $1,060,000 and $91,000 of contractual allowance reserves as of September 30, 2015 and 2014, respectively, for those claims that were under audit by Recovery Audit Contractors ("RAC") and other similar programs and that were not subject to the settlement with CMS. These reserves were included in patient accounts receivable in the statement of financial position at September 30, 2015 and 2014.

HMO/PPO

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

Self-Pay and Other

The Hospital offers managed care-style discounts to most uninsured patients, which enables the Hospital to offer lower rates to those patients who historically have been charged standard gross charges. Under this method, the discount offered to uninsured patients is recognized as a contractual allowance instead of provision for bad debts, which reduces net patient revenues at the time the uninsured patient accounts are recorded and reduces provision for bad debts. The uninsured patient accounts, net of contractual allowances recorded, are further reduced to their net realizable value through provision for bad debts or as charity care based on historical collection trends and other factors that affect the estimation process. For the years ended September 30, 2015 and 2014, provisions for bad debts were approximately $8,622,426 and $17,009,000, respectively. See *Charity Care* under Note 2 for further information.

The other payor category is comprised primarily of indemnity, workers' compensation, and other commercial payors. Payment usually occurs on a negotiated settlement basis at some discount to the Hospital's gross charges.

Medi-Cal

Inpatient services rendered to Medi-Cal program beneficiaries are in the process of a three-year transition to payment at prospectively determined rates based on diagnosis related groups from a contracted per diem rate. Outpatient services are paid based on prospectively determined rates per procedure provided. For the years ended September 30, 2015 and 2014, the State of California's Enhanced Medi-Cal Trauma program (AB 99) provided approximately $2,711,016 and $1,876,000, respectively, in additional receipts for this class of net patient service revenues.

4. Assets Limited as to Use and Investments

The composition of assets limited as to use at September 30, 2015 and 2014, is set forth in the following table. Assets limited as to use are held at fair value (see Note 2).

	2015	2014
Under indenture agreement, held by trustees:		
Corporate bonds	**-**	12,196,660
Money market account	**163,303**	14,141,538
Cash	**8,561,802**	6,329,242
Total assets limited as to use	**8,725,105**	32,667,440
Less current portion	**(2,202,615)**	(3,761,331)
Noncurrent portion	**$ 6,522,490**	$ 28,906,109

The composition of investments at September 30, 2015 and 2014, is set forth in the following table. Investments are held at fair value (see Note 2).

	2015	2014
Investments – current		
Equities – domestic	**$ -**	$ 32,985,374
Equities - international	**-**	8,248,019
Government agency bond funds	**-**	1,011,812
Hedge funds	**-**	14,438,894
Mutual fund – fixed income	**69,020,924**	-
Total	**$ 69,020,924**	$ 56,684,099

For the year ended September 30, 2015, net unrealized losses were approximately $116,000 and net realized gains were approximately $864,000. For the year ended September 30, 2014, net unrealized losses were approximately $632,000 and net realized gains were approximately $599,000. Realized gains and losses and investment income were included in other non-operating income (loss), net in the accompanying statements of operations. Investment management fees for both years were de minimis.

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5. Property, Plant and Equipment

A summary of property, plant and equipment at September 30, 2015 and 2014, is as follows:

	2015	2014
Building and improvements	**$ 174,314,503**	$ 162,704,124
Equipment and furniture	**97,899,979**	92,965,612
Building, improvements and equipment under capital leases	**13,379,607**	13,379,607
	285,594,089	269,049,343
Less accumulated depreciation and amortization	**(171,770,724)**	(156,047,518)
	113,823,365	113,001,825
Construction-in-progress	**35,794,054**	18,716,854
Land	**3,226,760**	3,226,760
Property, plant and equipment, net	**$ 152,844,179**	$ 134,945,439

Depreciation expense for the years ended September 30, 2015 and 2014 amounted to approximately $ 15,843,000 and $15,041,000, respectively. At September 30, 2015 and 2014, assets held under capital lease obligations, amounted to $13,379,607 for both years, and related accumulated depreciation amounted to $11,349,000 and $10,881,877, respectively.

6. Long-Term Debt

Long-term debt at September 30, 2015 and 2014 consists of the following:

	2015	2014
2013 Series A Revenue Bonds (1)	**23,525,000**	25,000,000
2013 Series B Revenue Bonds (2)	**32,500,000**	35,000,000
2013 Series C Revenue Bonds (3)	**29,000,000**	29,550,000
2014 Insured Revenue Bonds (4)	**70,000,000**	70,000,000
	155,025,000	159,550,000
Unamortized bond premium	**716,486**	755,200
	155,741,486	160,305,200
Less current maturities	**(4,540,000)**	(4,525,000)
	$ 151,201,486	$ 155,780,200

(1) California Statewide Communities Development Authority Series 2013 A Revenue Bonds in the original amount of $25,000,000 dated December 1, 2013, which bear interest at an annual of 4.19%, payable semi-annually (the “2013 Bonds Series A”). The 2013 Bonds Series A requires annual principal payments ranging from $1,075,000 to $4,500,000 beginning in 2014 through 2028. The 2013 Bonds Series A are secured by a deed of trust on substantially all of the Hospital's property.

(2) California Statewide Communities Development Authority Series 2013 B Revenue Bonds in the original amount of $35,000,000 dated December 1, 2013, which bear interest at an annual of 3.82%, payable semi-annually (the "2013 Bonds Series B"). The 2013 Bonds Series B requires annual principal payments ranging from $1,750,000 to $3,500,000 beginning in 2014 through 2027. The 2013 Bonds Series B are secured by a deed of trust on substantially all of the Hospital's property.

(3) California Statewide Communities Development Authority Series 2013 C Revenue Bonds in the original amount of $29,550,000 dated December 1, 2013, which bear interest at an annual of 3.93%, payable semi-annually (the "2013 Bonds Series C"). The 2013 Bonds Series C requires annual principal payments ranging from $550,000 to $4,125,000 beginning in 2014 through 2038. The 2013 Bonds Series C are secured by a deed of trust on substantially all of the Hospital's property.

(4) California Statewide Communities Development Authority Series 2014 Insured Revenue Bonds in the original amount of $70,000,000 dated January 22, 2014, which bear interest at annual rates ranging from 2.00% to 5.25%, payable semi-annually (the "2014 Bonds"). The 2014 Bonds require annual principal payments ranging from $295,000 to $5,715,000 beginning in 2016 through 2043. The 2014 Bonds are insured by Assured Guarantee Municipal Corp ("AGM") and are secured by a grant of security interest in the gross revenues of the Hospital as well as a deed of trust on substantially all of the Hospital's property. The 2014 Bonds were secured on parity with the 2013 Bonds Series A, B & C.

The California Statewide Communities Development Authority issued the bonds on behalf of the Company. The 2013 Bonds, Series, A, B & C and 2014 Bonds were issued under a new master trust indenture agreement dated December 1, 2013, as most recently amended February 1, 2014.

The new master trust indenture and loan agreements require that certain funds be established with the trustee as defined. Accordingly, these funds are recorded as assets limited as to use in the statements of financial position (see Note 4). The new master trust indenture also requires the Hospital to comply with certain restrictive covenants including maintaining an annual debt service coverage ratio of at least 1.25 to 1, days cash on hand of not less than 60 days, a ratio of funded debt to capitalization as defined of no greater than 0.7 to 1 and restrictions on incurrence of additional debt among other covenants. The Hospital was in compliance with the covenants included in the new master trust indenture at September 30, 2015 and 2014.

The proceeds of the 2013 Series A, B & C Bonds issued in December 2013 were used to current refund all of the outstanding Series 2001 Bonds, advance refund a portion of the Series 2007 A Bonds, finance certain new money projects and pay the cost of issuance. The Series 2013 Bonds were privately placed with three parties and structured with fixed interest rates. The Series 2014 Bonds issued in February 2014 were used to advance refund the remaining portion of Series 2007 A Bonds and all Series 2007 B Bonds, finance new money projects and pay costs of issuance. The 2014 Bonds were publically placed and structured with fixed interest rates. Pursuant to repayment of the 2001 Bonds and the legal defeasement of the Series 2007 A & B Bonds, all unamortized deferred financing costs and bond premiums in the amount of approximately $6,300,000 as well as costs of defeasement in the amount of approximately $10,200,000 were written off as loss on defeasement during the year ended September 30, 2014.

Maturities of long-term debt at September 30, 2015 above are as follows:

Years ending December 31,	Principal Maturities
2016	$ 4,540,000
2017	4,715,000
2018	4,900,000
2019	5,095,000
2020	5,295,000
Thereafter	130,480,000
	155,025,000
Unamortized net bond premium and discounts, net	716,486
	$ 155,741,486

7. Pension Plan

The Hospital maintains a deferred compensation annuity plan (defined as an IRC Section 403(b) plan), which covers employees who elect to participate.

The Hospital provides matching contributions equal to 5% of participants' eligible annual compensation up to the amount allowed by the Internal Revenue Service for the calendar year. Employer matching contributions are funded annually based on the calendar year. For the years ended September 30, 2015 and 2014, the Company's matching contributions were approximately $2,400,000 and $2,000,000, respectively.

8. Receivable from Affiliate

ASC 958-20-15, *Transfers of Assets to a Not-For-Profit Organization or Charitable Remainder Trust That Raises or Holds Contributions for Others,* requires organizations similar to the Hospital and the Foundation to record on the designated organization as a temporarily restricted asset, those funds raised by the Foundation for the benefit of the Hospital.

The amounts raised on behalf of the Hospital by the Foundation or due from the Foundation are recorded as a receivable from affiliate as follows:

September 30,	**2015**	2014
Program receivables	**$ 3,068,022**	$ 3,422,444
Other (payables) receivables, net	**(125,595)**	(99,479)
	$ 2,942,427	$ 3,322,965

9. Related Party Transactions

The Foundation received contributions of approximately $1,921,000 and $1,744,000 for the benefit of Hospital programs such as the new patient tower, the ICU, the cath-lab, the palliative care unit and the NICU for the years ended September 30, 2015 and 2014, respectively (see Note

10). At September 30, 2015 and 2014, the Hospital had a net receivable from the Foundation in the amount of $2,942,427 and $3,322,965, respectively (see Note 8). During the years ended September 30, 2015 and 2014, funds in the amount of approximately $2,305,000 and $1,026,000, respectively, were received from the Foundation and spent by the hospital on these programs. Hospital contributed $543,850 and $540,000 to the Foundation for general operations the fiscal year ended September 30, 2015 and 2014, respectively, which is included in the other operating expenses in the statements of operations.

10. Temporarily Restricted Net Assets

Funds received from the Foundation for the benefit of Hospital programs such as the ICU, NICU and Emergency Room are recorded as temporarily restricted contributions.

For the years ended September 30, 2015 and 2014, approximately $263,000 and $294,000 in grant monies had been received, and approximately $303,000 and $263,000 expenditures had been incurred in accordance with the Bioterrorism grant program, respectively. Various compliance requirements exist surrounding the grants received from the county of Los Angeles. Noncompliance with certain of these requirements may result in repayment of the monies received to the county.

Contributions and grants that were recorded as temporarily restricted contributions and funds relating to these temporarily restricted net assets were transferred to unrestricted net assets when the temporary restriction had lapsed and when used or incurred for the program.

Temporarily restricted net assets are available for the following purposes at September 30, 2015 and 2014:

September 30,	**2015**	2014
Foundation funds:		
Emergency Room	**$ 1,386,587**	$ 1,237,597
Other Equipment	**330,476**	1,029,923
ICU/NICU	**32,527**	184,164
Infusion Center	**77,006**	134,006
Other	**1,212,792**	836,754
	3,039,388	3,422,444
Bio Terrorism	**93,979**	134,615
Total	**$ 3,133,367**	$ 3,557,059

11. Tower Imaging Joint Venture

On December 21, 2005, the Company entered into a 50% joint venture agreement with Tower Imaging Medical Group, Inc., a California professional corporation ("TIMG"), whereby the Company and TIMG (together the "Partners") formed Tower Imaging Valencia, LLC, a California limited liability company (the "Joint Venture"). The Tower Imaging Joint Venture is a for-profit enterprise. The Partners each made initial contributions of $25,000 into the Joint Venture. During the years ended September 30, 2015 and 2014, no contributions were made by the Partners. The Company accounts for the investment in the Joint Venture under the equity method of accounting. Under the equity method, the Company recognizes its share of the earnings or losses in the Joint Venture.

The Joint Venture was formed for the purpose of providing outpatient radiology services outside of the Hospital, and by participating with TIMG to jointly develop the imaging facilities, the Company anticipates to further its charitable healthcare mission by improving access to quality, cost-effective diagnostic imaging services for residents of the Santa Clarita service area. The Partners share the profits and losses of the Joint Venture in a pre-determined ratio of 50% and 50%, in accordance with the Joint Venture agreement. Allocation of cash distributions to the LLC members is to be made in proportion to the respective percentage interests of the Company and TIMG. During the year ended September 30, 2015, the Joint Venture distributed a total of $1,484,000 or $742,000 for each partner from the Joint Venture. During the year ended September 30, 2014, the Joint Venture distributed a total of $1,906,000, or $953,000 for each partner from the Joint Venture. The term of the Joint Venture agreement is ten years, unless terminated sooner or extended as provided in the Joint Venture agreement.

As members of the Joint Venture, TIMG and the Company have the obligation to guarantee, in the form of credit support, to a third-party credit lender pro rata amounts based on that member's percentage interest. In return, each member making such guarantee is to receive an annual credit enhancement fee equal to a fair market value percentage rate of the amount of the liability guaranteed by each member, and the credit enhancement fee is to be paid prior to any distributions to the members. In the event there is a default of the guaranteed obligation, then such member has all of the rights against the Joint Venture including, without limitation, to receive the credit enhancement fee until such member is exonerated from the underlying liability. At September 30, 2015, the Company and TIMG have not guaranteed any debt relating to the Joint Venture.

In accordance with the Joint Venture agreement, the day-to-day business and affairs of the Joint Venture is managed by TIMG, and in return TIMG receives compensation for such management service that is mutually agreed upon between the Company and TIMG. TIMG's management service includes developing and maintaining appropriate quality control programs, preparation of monthly management and financial reports, maintaining the accounting policies and procedures, and providing and training of all non-physician personnel, among others.

The Company agreed to provide certain services to the Joint Venture such as information technology and maintenance services among others. In addition, the Company agreed to allow the Joint Venture to rent certain property from the Company. At September 30, 2015 and 2014, the Company recorded a receivable in the amount of $88,374 and $31,356, respectively, from the Joint Venture related to these services and rent. This receivable is included as part of other assets in the statements of financial position.

The carrying value of the investment in the Joint Venture at September 30, 2015 and 2014 was approximately $844,000 and $914,000, respectively, and is recorded as part of other assets in the statements of financial position.

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The unaudited condensed financial statement information for the Joint Venture as of and for the years ended September 30, 2015 and 2014, respectively, was:

	2015	2014
Condensed financial statement information (unaudited):		
Total assets	**$ 3,967,905**	$ 2,819,388
Total liabilities	**$ 1,717,879**	$ 269,085
Net income	**$ 1,251,709**	$ 1,647,852

12. Commitments and Contingencies

Leases

The Hospital leases various facilities and equipment under operating and capital leases.

The Hospital's most significant capital lease obligation is for the ambulatory care facility and office, which was amended on December 1, 2007. The lease requires monthly minimum payments of approximately $150,000, subject to an annual consumer price index adjustment with a minimum/maximum range through to April 2020. The lease agreement does not have an option for renewal. The facility houses an outpatient surgery program and therapy services. Portions of the facility are sublet to third parties.

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Operating leases consist primarily of medical office space and equipment leases. Total rental expense, including month-to-month rentals, for the years ended September 30, 2015 and 2014, was approximately $3,741,044 and $3,621,000, respectively.

The Hospital has entered into various sublease agreements. The lease termination dates range through to 2072. Rental sublease income generated from these leases totaled approximately $918,000 and $1,529,000 for the years ended September 30, 2015 and 2014, respectively.

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The future minimum lease payments required under capital leases and non-cancelable operating lease agreements with terms of one year or more are as follows:

Years ending September 30,	Capital Leases	Operating Leases
2016	$ 2,102,666	$ 2,103,586
2017	2,155,233	1,906,792
2018	2,209,114	1,581,500
2019	2,264,342	1,427,223
2020	1,146,148	1,166,780
2021 and thereafter	-	17,286,752
Total lease obligation	9,877,503	$ 25,472,633
Less amount representing interest at 10.1% per annum	(2,003,109)	
Present value of future minimum lease payments	7,874,394	
Less current portion	(1,367,013)	
Noncurrent portion	$ 6,507,381	

As of September 30, 2015, the future minimum expected sublease income for these agreements is $1,534,038.

In November 2012, the Hospital (as landlord) entered into a ground lease with an independent third-party (as tenant) to lease approximately 53,870 square feet of the Hospital's land for the construction of a Medical Office Building ("MOB") that the Hospital will occupy and lease upon completion of the MOB. The ground lease term is for 60 years with annual base rent in the amount of $124,575 payable to the Hospital in equal monthly installments. The annual rent increase is 3% for the first twenty years followed by increases using the CPI Index with a floor of 2% and ceiling of 4% compounded as recalculated from the initial base rent assuming the first twenty year period used the CPI Index method.

In connection with the Ground Lease, the Hospital (as tenant) entered into a lease agreement to occupy approximately 38,378 square feet of the MOB. The initial lease term is 20 years with a lessee option to renew for 4 additional 10 year periods with the base rent of $75,886 per month with annual rent increases of 3%. After the initial lease term, assuming options to renew are exercised, the base rent increases using the CPI Index with a floor of 2% and a ceiling of 4%. Rent payments associated with the MOB commence upon the earlier of the Hospital's occupation of the property or 120 calendar days after the premises delivery date as defined in the lease agreement. The lease commenced in March 2014. The Company determined this to be an operating lease and lease rentals were straight-lined over the initial term of the lease.

Litigation

The Hospital is a defendant in various legal actions alleging malpractice and other grievances. Further, the Hospital is a named defendant in employment-related matters, such as alleged discrimination complaints and certain wage-related claims. It is the management's opinion that these actions are covered by insurance, existing accruals, or otherwise will be resolved without a material adverse effect on the financial position or results of operations of the Hospital.

In the normal course of the Hospital's ongoing compliance and review process, the Hospital routinely investigates all allegations of non-compliance or violation of Medicare and Medi-Cal (Medicaid) laws and regulations, including any potential Stark or Anti-Kickback issues. As the result of allegations of non-compliance made by certain members of the medical staff, the Hospital conducted an investigation of issues relating to possible Stark violations in connection with certain physician contracts and is currently evaluating the nature and extent of any resulting financial liability. The Hospital has disclosed the results of this investigation in the appropriate manner as required by Federal law. At this time, it is probable that a settlement will ultimately be entered into with the Federal government with respect to these issues, but it is not possible to estimate the amount of such settlement and accordingly, no liability has been recorded as of September 30, 2015. This settlement may be material to the financial statements.

Golden Valley Pledged Lease Asset

On September 10, 2008, the Hospital entered into a lease Agreement with GMS Golden Valley Ranch, LLC for 50 years at a minimum annual rent of $1.00 plus common area costs, taxes and insurance (the "Golden Valley Lease") for 2,000 sq. ft. of space in a new shopping center nearby to the Hospital, for the purpose of operating a physical therapy facility. The lease of the space is contingent on the continued use by the Hospital for public benefit. Accordingly, the Golden Valley Lease was recorded as a conditional pledge for the present value of the fair value of lease payments and an underlying pledged lease asset was recorded in the amount of $2,742,543. Due to the contingent nature of the lease, a liability for $2,742,543 was recorded as deferred contribution revenue on the statements of financial position. As of September 30, 2015, the pledged lease asset and deferred contribution revenue was $2,470,656 for each account. As of September 30, 2014, the pledged lease asset and deferred contribution revenue was $2,511,265 for each account. The pledged asset and corresponding liability are being amortized using the straight-line method over the life of the lease.

Construction Commitment

At September 30, 2015 and 2014, the Hospital has outstanding construction commitments of approximately $94,543,783 and $6,477,000, respectively.

Management Incentive Plan

The Hospital has a Management Incentive Plan which provides incentive compensation when certain financial goals are met. For the years ended September 30, 2015 and 2014, the Hospital incurred incentive compensation of $1,050,000 and $617,000, respectively.

Physician Guarantee

The Hospital has entered into Practitioner Recruitment Agreements (the "Recruitment Agreements") with four physicians. Pursuant to the Recruitment Agreements, the Hospital is to provide financial assistance in the form of an income guarantee or relocation loan, for the physician to establish a specialty practice in the area. The remaining agreements expire through April 2016, with monthly payments ranging from approximately $14,000 to $25,000 or in incremental amounts not to exceed an aggregate amount ranging from $202,000 to $360,000. As of September 2015, the Company had advanced approximately $357,000 to the physicians pursuant to these Recruitment Agreements. As of September 30, 2015 and 2014, $612,774 and $962,397, respectively, was recorded as a liability in accrued expenses in the statements of financial position in accordance with ASC 460-10, *Guarantees.*

Legislation

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. The Company believes that it is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Affordable Care Act

The Patient Protection and Affordable Care Act ("PPACA") will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

HIPAA

The Health Insurance Portability and Accountability Act ("HIPAA") was enacted on August 21, 1996, to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations are required to be in compliance with HIPAA provisions by April 2005. Effective August 2009, the Health Information Technology for Economic and Clinical Health Act ("HITECH Act") was introduced imposing notification requirements in the event of certain security breaches relating to protected health information. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations.

Earthquake Grant Recovery

The Federal Emergency Management Administration ("FEMA") had approved a $15 million grant to the Hospital to assist the Hospital in repairs to the facilities after the January 1994 Northridge earthquake. Under the terms of the grant, the Hospital was reimbursed for eligible costs of repairing the acute care facilities.

During fiscal year 2006, FEMA commenced an audit as provided for in the original grants. Approximately $2,300,000 of payments are being reviewed for appropriateness as it related to specific projects. The Hospital believes that all payments were appropriate; accordingly, no specific reserve for repayment has been made.

Malpractice Insurance

The Hospital maintains medical malpractice insurance under a claims-made policy. A claims-made policy covers only claims net of the Hospital's self-insured retention ("SIR") of $500,000 per claim that occurs and are filed in the period during which the policy is in force. As of September 30, 2015 and 2014, the Hospital has made provisions for estimated medical malpractice claims including estimates of the ultimate costs for both reported claims and claims incurred but not reported. Management believes that its estimates are sufficient and will not result in any materially adverse adjustments.

In June and November 2005, the Company invested a total of $217,840 for the purchase of 27,230 shares (1.36% ownership in December 31, 2011) of capital stock in California Healthcare Insurance Company, Inc. ("CHI"), a risk retention group domiciled in Hawaii. CHI insures its owners and their affiliated entities for general and professional liability risks. The Company accounts for its investment in CHI under the cost method of accounting. During the years ended September 30, 2015 and 2014, the Company paid approximately $777,000 and $786,000, respectively, in premiums to CHI.

The Company has self-insured retention of $500,000 per claim for medical malpractice claims. CHI covers claims through a combination of risk layers that include, assuming the risk, reinsurance treaties with four A+ rated reinsurers and conventional type insurance with an A+ rated commercial carrier. CHI adjusts risk layers periodically in response to market conditions. The Company believes that CHI will provide the Company with efficient and cost effective management of its medical malpractice and other risks. As of September 30, 2015 and 2014, AM Best, the worldwide insurance rating and information agency, reported CHI's rating at A-. There is no guarantee that CHI will remain a viable insurance company. Excessive claims could have a material adverse effect on CHI's ability to pay claims.

Self-Insurance Program for Employee Healthcare

The Hospital has a self-insured program for employee healthcare for the years ended September 30, 2015 and 2014. An accrual has been made for the estimated liabilities arising from outstanding healthcare claims incurred but not yet reported, as of September 30, 2015 and 2014. Management believes that its estimates are sufficient, however, actual amounts may materially differ from those estimates. For the years ended September 30, 2015 and 2014, these liabilities were approximately $1,602,000 and $1,345,000, respectively, and are recorded in accrued payroll and benefits in the statements of financial position. The hospital also maintains a stop-loss reinsurance policy for its self-insured healthcare program. The stop-loss policy reimburses the Hospital 100% of the costs incurred for a patient incident that exceed $200,000.

Worker's Compensation

The Hospital changed its worker's compensation insurance carrier for the year ended September 30, 2010 from a loss-sensitive premium policy with retrospective adjustments to a guaranteed cost premium policy. An accrual has been made for the liability arising from an audit of the policy for the plan year ended September 30, 2015 and 2014 for approximately $97,000 and $125,000, respectively and is included in accrued payroll and benefits in the statements of financial position. An estimated accrual has been made for the liability arising from the previous policy for the plan years ended September 30, 2009 and prior for approximately $2,405,439 and $1,002,000 is included in accrued payroll and benefits in the statements of financial position for the years ended September 30, 2015 and 2014, respectively. Actual amounts may materially differ from those estimates.

Union Contract

The Hospital has contracts with the California Nurses Association and the United Electrical, Radio & Machine Workers of America for the period January 2012 through January 2019 and February 2014 through January 2017, respectively. Employee benefits provided by the contracts include paid time off and health and retirement benefits. The contracts also specify compensation rates and hours of work and overtime. These compensation rates and benefits could change materially subject to the outcome of collective bargaining agreements.

United WestLab Agreement

In September 2006, the Company entered into an Administrative and Management Services Agreement (the "United WestLab Agreement") with NTI WestLab, Inc. ("UWL") whereby UWL would provide an outreach testing program to perform clinical laboratory testing services for non-registered patients of the Hospital and other patients referred by physicians, medical clinics, and other third parties in the geographic areas as defined. Further, the United WestLab Agreement specifies that UWL is to manage the day-to-day operations of the program as defined. The original term of the United WestLab Agreement expired on September 30, 2012 and was renewed for an additional three years through September 30, 2015, and currently operates on a month to month basis.

In consideration of UWL performing the aforementioned services, the Hospital pays UWL a management fee equal to a fixed amount each month, plus reimbursement of all costs borne by UWL in providing the services. The fixed management fee is $18,900 per month in year one of the agreement, and $21,000 per month in years two and three of the agreement. For the years ended September 30, 2015 and 2014, the Company paid approximately $1,991,000 and $1,920,000, respectively, in management fees and reimbursement of expenses to UWL.

13. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and cash equivalents: The carrying amount reported on the statements of financial position for cash approximates its fair value.

Investments: The carrying amount reported on the statements of financial position for short term investments approximates its fair value.

Assets limited as to Use: The carrying amount reported on the statements of financial position for assets limited as to use approximates its fair value.

Long-term debt: Fair values of the Hospital's 2001 Bonds, 2007 Bonds, and 2014 Bonds are based on current traded value. The fair value of the 2013 Bonds is based on the discounted present value of cash flows.

The carrying amounts and estimated fair values of the Hospital's financial instruments at September 30, 2015 and 2014, are as follows (in thousands):

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 54,172	$ 54,172	$ 35,307	$ 35,307
Investments	69,021	69,021	56,684	56,684
Asset limited as to Use	8,725	8,725	32,667	32,667
Long-term debt	155,741	160,195*	160,306	164,820*

* Level 1 measurement was used to determine the fair value of the 2014 Bonds. Level 2 measurement was used to determine the fair value of the 2013 Series A, B, & C Bonds.

14. Functional Expenses

The Hospital provides general healthcare services to residents within its geographic location. Expenses related to providing these services for the years ended September 30, 2015 and 2014, were as follows:

	2015	2014
Healthcare services	$ 252,146,731	$ 204,946,231
General and administrative	41,238,893	39,694,066
	$ 293,385,624	$ 244,640,297

15. Concentration of Credit Risk

The Hospital maintains cash deposits in financial institutions that exceed the amount insured by the United States government. Nonperformance by these institutions could expose the Hospital to losses for amounts in excess of the insured balances. The Hospital has not experienced, nor does it anticipate, nonperformance by these institutions.

Investments are managed by a board-approved investment policy within guidelines established by the Board of Directors, which, as a matter of policy, limit the amounts that may be invested in any one issuer.

Concentration of credit risk with respect to patient accounts receivable, other than from government programs, is limited due to the large numbers of payors comprising the Hospital's patient base.

The Company is highly dependent upon various third-party payors and government programs for payment.

The Company grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net patient revenues and patient accounts receivable as of and for the year ended September 30, 2015 and 2014, was as follows:

Net patient revenues	**2015**	2014
Medicare	**32%**	33%
Medi-Cal	**8%**	1%
Self-Pay and Other	**0%**	4%
HMO/PPO	**60%**	62%
	100%	100%

Patient accounts receivable	**2015**	2014
Medicare	**15%**	16%
Medi-Cal	**9%**	7%
Self-Pay and Other	**19%**	29%
HMO/PPO	**57%**	48%
	100%	100%