HENRY MAYO NEWHALL HOSPITAL AND SUBSIDIARIES

Valencia, California

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended September 30, 2018 and 2017

HENRY MAYO NEWHALL HOSPITAL AND SUBSIDIARIES

TABLE OF CONTENTS
As of and for the Years Ended September 30, 2018 and 2017

INDEPENDENT AUDITORS' REPORT

Board of Directors
Henry Mayo Newhall Hospital and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Henry Mayo Newhall Hospital and Subsidiaries (the "Organization"), which comprise the consolidated statement of financial position as of September 30, 2018, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2018, and the results of their operations, changes in net assets, and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter Paragraph

As discussed in Note 2 to the consolidated financial statements, a change in the organizational structure of Henry Mayo Newhall Hospital Foundation, Inc. (the "Foundation"), an entity that was affiliated with the Henry Mayo Newhall Hospital (the "Hospital") but not controlled by the Hospital prior to the change, and is now a wholly-owned subsidiary of the Hospital, resulted in a change in reporting entity. This change has been applied retrospectively, by including all the accounts of the Foundation in these consolidated financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Prior Period Financial Statements

The financial statements of the Organization as of and for the year ended September 30, 2017 were audited by other auditors whose reports dated December 22, 2017 and February 9, 2018 for the standalone reports of the Hospital and the Foundation, respectively, expressed unmodified opinions on those statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Baker Tilly Virchow Krause, LLP

New York, New York
February 19, 2019

HENRY MAYO NEWHALL HOSPITAL AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION
As of September 30, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 46,011,172	$ 37,189,033
Investments	95,371,751	98,949,891
Pledges receivable, net	7,500	1,180,687
Assets limited as to use	-	46,511,785
Patient accounts receivable, less allowance of doubtful accounts of approximately $15,300,000 and $10,773,000, respectively	53,193,930	54,221,954
Inventories	5,990,170	5,944,383
Prepaid expense and other current assets	3,819,970	3,122,545
Quality assurance fee receivable	-	2,550,480
Total current assets	204,394,493	249,670,758
PLEDGES RECEIVABLE, NET	1,925,132	1,746,242
PROPERTY, PLANT AND EQUIPMENT, NET	311,611,613	229,632,334
PLEDGED LEASE	2,345,110	2,387,587
RECEIVABLES UNDER TRUST AGREEMENTS	3,126,463	2,801,929
OTHER ASSETS	2,376,688	2,206,898
TOTAL ASSETS	$ 525,779,499	$ 488,445,748

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Current portion of long-term debt	$ 4,759,168	$ 4,900,000
Current portion of capital leases obligations	-	1,789,766
Accounts payable and accrued liabilities	41,118,526	38,855,051
Accrued payroll and benefits	18,236,630	17,766,201
Accrued interest	5,382,986	5,477,962
Quality assurance fee deferred revenue	8,980,966	1,323,700
Estimated third party liabilities	1,180,783	1,193,523
Total current liabilities	79,659,059	71,306,203
LONG-TERM DEBT, NET	243,232,433	225,219,412
CAPITAL LEASE OBLIGATIONS	-	3,150,526
DEFERRED RENT LIABILITY	1,161,279	947,169
DEFERRED CONTRIBUTION REVENUE	2,345,110	2,387,587
ACCRUED MALPRACTICE LIABILITY	4,904,029	4,668,156
Total Liabilities	331,301,910	307,679,053
NET ASSETS		
Unrestricted	185,335,557	171,686,554
Temporarily restricted	9,142,032	9,080,141
Total net assets	194,477,589	180,766,695
TOTAL LIABILITIES AND NET ASSETS	$ 525,779,499	$ 488,445,748

See accompanying notes to consolidated financial statements.

HENRY MAYO NEWHALL HOSPITAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended September 30, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Patient service revenue, net of contractual discounts and allowances	$ 355,923,887	$ 323,742,549
Provision for bad debts	(21,642,387)	(9,093,471)
Net patient service revenue	334,281,500	314,649,078
Other revenue	6,165,848	5,164,546
California Hospital Foundation grant revenue	6,430,096	-
Net assets released from restrictions used for operations	788,146	170,912
Total operating revenues	347,665,590	319,984,536
OPERATING EXPENSES		
Salaries and wages	134,598,915	128,103,578
Employee benefits	30,885,504	28,795,526
Registry	10,233,765	12,024,787
Supplies	49,512,939	48,224,760
Purchased services	34,776,825	32,847,795
Repairs and maintenance	6,768,855	6,441,805
Interest	4,227,725	5,726,131
Depreciation and amortization	17,374,685	15,051,115
Insurance	2,747,157	3,609,109
Rent	5,748,362	6,016,207
Utilities	2,573,210	2,344,101
Quality assurance fee hospital tax	23,343,858	15,047,062
Other operating expenses	17,996,748	15,779,150
Software development costs write-off	5,850,830	-
Total operating expenses	346,639,378	320,011,126
OPERATING INCOME (LOSS)	1,026,212	(26,590)
NON-OPERATING INCOME (LOSS)		
Contributions	900,438	223,391
Interest and dividends	2,673,422	2,140,860
Realized gain on investments, net	3,022,033	268,547
Other non-operating income, net	2,495,256	47,513
Equity in income of joint venture	926,276	732,681
Loss on bond defeasance	-	(1,359,163)
EXCESS OF REVENUES OVER EXPENSES	11,043,637	2,027,239
UNREALIZED GAIN ON INVESTMENTS, NET	981,876	8,100,391
NET ASSETS RELEASED FROM RESTRICTED USED FOR PURCHASES OF PROPERTY, PLANT AND EQUIPMENT	1,623,568	1,365,699
INCREASE IN UNRESTRICTED NET ASSETS	$ 13,649,081	$ 11,493,329

See accompanying notes to consolidated financial statements.

HENRY MAYO NEWHALL HOSPITAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the Years Ended September 30, 2018 and 2017

	2018	2017
UNRESTRICTED NET ASSETS		
Excess of revenues over expenses	$ 11,043,637	$ 2,027,237
Unrealized gain on investments, net	981,876	8,100,391
Net assets released from restricted use for purchases of property, plant and equipment	1,623,568	1,365,699
Increase in unrestricted net assets	13,649,081	11,493,327
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	2,148,993	3,016,607
Change in value of receivables under trust agreements	324,534	456,031
Net assets released from restrictions	(2,411,714)	(1,536,611)
Increase in temporarily restricted net assets	61,813	1,936,027
CHANGE IN NET ASSETS	13,710,894	13,429,354
NET ASSETS - BEGINNING OF YEAR	180,766,695	167,337,341
NET ASSETS - END OF YEAR	$194,477,589	$180,766,695

See accompanying notes to consolidated financial statements.

HENRY MAYO NEWHALL HOSPITAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 13,710,894	$ 13,429,354
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	17,374,685	15,051,115
Provision for bad debts	21,642,387	9,093,471
Amortization of deferred financing costs and bond premiums, net	(380,000)	409,367
Net loss on disposal of assets	3,356,177	-
Equity in income of joint venture	(926,276)	(732,681)
Realized and unrealized gain on investments, net	(4,004,513)	(8,100,391)
Change in value of receivables under trust agreements	(324,534)	(456,031)
Change in provision for uncollectible pledges	70,715	167,177
Contributions restricted for capital	(813,696)	-
Changes in assets and liabilities		
Patient accounts receivables	(20,614,363)	(10,555,408)
Pledges receivable	229,276	(232,171)
Inventories	(45,787)	23,875
Prepaid expenses and other current assets	(478,149)	117,633
Quality assurance fee receivable	2,550,480	1,233,941
California Hospital Foundation grant receivable	-	1,509,872
Other assets	(169,790)	(79,881)
Accounts payable and accrued expenses	(10,147,358)	7,824,387
Accrued payroll and benefits	470,429	(63,832)
Accrued interest	(94,976)	2,108,093
Deferred rent	214,110	243,450
Quality assurance fee payable	-	(4,612,636)
Quality assurance fee deferred revenue	7,657,266	1,323,700
Accrued malpractice liability	235,873	1,247,164
Net Cash and Cash Equivalents Provided by Operating Activities	29,512,850	28,949,568
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(74,367,372)	(50,036,357)
Proceeds from sale of short-term investments	24,245,829	-
Purchases of short-term investments	(16,663,176)	(17,098,880)
Decrease (increase) in assets limited as to use	46,511,785	(44,313,150)
Capitalization of financing interest	(6,926,531)	(4,642,251)
Capitalization of labor costs for internal use software	-	(302,026)
Distribution from joint venture	707,000	490,000
Net Cash and Cash Equivalents Used in Investing Activities	(26,492,465)	(115,902,664)

See accompanying notes to consolidated financial statements.

HENRY MAYO NEWHALL HOSPITAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2018 and 2017 (cont.)

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt, net of issuance cost	$ 10,395,889	$ 113,621,292
Payments on long-term debt	(4,480,817)	(31,915,000)
Payments on capital lease obligations	(1,621,320)	(1,567,090)
Cash received restricted for capital	1,508,002	-
Net Cash and Cash Equivalents Provided by Financing Activities	5,801,754	80,139,202
Net Increase (Decrease) in Cash and Cash Equivalents	8,822,139	(6,813,894)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	37,189,033	44,002,927
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 46,011,172	$ 37,189,033
Supplemental cash flow disclosures		
Cash paid for interest	$ 4,812,579	$ 3,208,671
Noncash investing and financing activities		
Aquisition of property and equipment financed through accounts payable	$ 12,398,093	$ 7,451,284
Cancellation of capital lease	3,318,972	-
Loan assumed	12,337,117	-

See accompanying notes to consolidated financial statements.

NOTE 1 - Organization

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

Henry Mayo Newhall Hospital Foundation, Inc. (the "Foundation") is a California not-for-profit public benefit corporation formed to support and assist the Hospital so long as the Hospital remains tax exempt. Effective May 30, 2018, the Hospital became the sole member of the Foundation.

Henry Mayo Care Network, LLC (the "Network") is a California limited liability Company formed during 2018. The Hospital is the sole member of the Network. The Hospital and Network work jointly to develop processes necessary to facilitate the evolution to a value based care delivery and contracting model. Furthermore, the Hospital and Network intend to develop a regional physician driven provider network that will enhance patient care by developing, implementing and operating programs designed to create a partnership for the mutual benefit of patients and a network of independent providers based on the principles of clinical interaction. There was no activity in this entity during fiscal year 2018.

The Hospital established the Henry Mayo Management Service Organization ("MSO") for the purposes of offering administrative services for local health care facilities and the Clinic. The MSO is a not-for-profit mutual benefit company and the Hospital is the sole member.

NOTE 2 - Summary of Significant Accounting Policies

Principles of Consolidation

The net assets and results of operations of the Hospital, the Foundation, the Network, and the MSO (collectively, the "Organization") are included in the consolidated financial statements. All significant intercompany transactions have been eliminated.

Effective May 30, 2018, the Foundation's organizational structure was amended and restated so that the Hospital is the sole member of the Foundation. The change was made to formalize the existing relationship between the Hospital and the Foundation. Effective on that date, the parent reporting entity for the Foundation became the Hospital rather than Santa Clarita Health Care Association. To reflect the change in the organizational structure and change in reporting entity, the accompanying consolidated financial statements include the accounts of the Foundation. The change in reporting entity was retrospectively applied to the consolidated financial statements of Henry Mayo Newhall Hospital and Subsidiaries for all prior periods presented, which caused net assets of the Hospital to increase by approximately $438,000 at September 30, 2017. The change also caused excess of revenues over expenses to decrease by approximately $903,000 for the year ended September 30, 2017.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTE 2 - Summary of Significant Accounting Policies (cont.)

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less when purchased, that are not held as collateral to be cash equivalents. The Organization's cash balances exceed amounts insured by the Federal Deposits Insurance Corporation.

Charitable Remainder Trusts

The Foundation is the beneficiary under two irrevocable charitable remainder trusts (the "trusts"). The charitable remainder trusts are managed by an independent trustee, who was appointed by the donor, and the investment portfolio is comprised of money market mutual funds, fixed income, equity securities, alternative investments and real asset fund as of September 30, 2018 and 2017.

Changes in value of the receivable under the charitable remainder trust agreements are excluded from excess of revenues over expenses. For the years ended September 30, 2018 and 2017, the changes in value of the receivables under charitable remainder trust agreements were approximately $325,000 and $456,000, respectively.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value; these fair values are estimates and are subject to change. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Investment returns are reflected in the consolidated statements of operations and consolidated statements of changes in net assets as unrestricted, temporarily restricted or permanently restricted, based on the existence and nature of any donor or legally imposed restrictions. Investments that are available for the operations of the Hospital and can be converted to cash within one year are classified as current.

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations and consolidated statements of changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Patients 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 also 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.

NOTE 2 - Summary of Significant Accounting Policies (cont.)

The Organization 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 Organization 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 Organization's estimation process. These impacts may be material.

The Organization'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").

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Organization's allowance for doubtful accounts for self-pay patients was 90% and 87% of self-pay accounts receivable for the years ended September 30, 2018 and 2017, respectively. The Organization does not maintain significant allowance for doubtful accounts for third party payors. In addition, the Organization's bad debt write-off's increased approximately $8,400,000 from approximately $11,700,000 for the year ended September 30, 2017, to approximately $20,100,000 for the year ended October 31, 2018. The increase of $8,000,000 is due to a change in policy largely eliminating the contractual discount for self-pay accounts and increasing the estimated allowance for doubtful accounts on self-pay balances.

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 Organization 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 and 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 Organization determined that no reserves were necessary for its receivables relating to the California AB99 payor category as of September 30, 2018 and 2017. 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. At September 30, 2018 and 2017, the Hospital recorded AB99 receivable balances of approximately $0 and $1,686,000, respectively.

NOTE 2 - Summary of Significant Accounting Policies (cont.)

Pledges Receivable

Pledges that are expected to be collected within one year are recorded as current assets at net realizable value unless restricted for long-lived assets. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the pledged amounts are to be received. Amortization of the discounts is included in the contribution revenue.

At September 30, 2018 and 2017, certain pledges not restricted for long-lived assets were to be received in future periods greater than a year. At September 30, 2018 and 2017, the discounts on such pledges were immaterial. Further, as of September 30, 2018 and 2017, allowances for uncollectible amounts were $40,000 and $111,000, respectively.

Inventories

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

Assets Limited as to Use

Assets limited as to use include assets held by trustees in connection with the master trust indentures and loan agreements, which are limited to financing the construction and equipping of a new hospital tower. These investments, consisting primarily of cash, money market accounts, and debt securities, are stated at fair value. Assets limited as to use are classified according to their underlying obligation.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost when purchased or at fair value when received by donation. The provision for depreciation is calculated using the straight-line method, which allocates the cost equally over their estimated useful lives.

The Organization uses depreciable lives recommended by the American Hospital Association. Equipment and facilities under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment or facilities. Such amortization is included in depreciation and amortization in the consolidated financial statements. The estimated useful lives of the related assets are as follows:

	Years
Building and improvements	10 - 40
Equipment and furniture	2 - 15

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.

Donations of property and equipment are recorded at fair value as an increase in unrestricted net assets, unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restriction is reported as an increase in unrestricted net assets when the donor restrictions are met.

NOTE 2 - Summary of Significant Accounting Policies (cont.)

The Organization capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the period, net of interest earned on investments acquired with the proceeds of the borrowings. Total capitalized interest in construction in progress as of September 30, 2018 and 2017 was approximately $13,156,000 and $6,230,000, respectively.

In accordance with the ASC 350-40, Internal-Use Software, the Organization capitalizes certain external direct costs of materials and services consumed in developing or obtaining internal-use computer software. Additionally, the Organization capitalizes certain payroll costs for employees who are directly associated with and who devote time to the internal-use computer software project, to the extent of the time spent directly on the project during the application development stage.

Impairment of Property, Plant and Equipment

Property, plant and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets. Impairment losses for writeoff of software development costs of approximately $5,851,000 was recognized for the year ended September 30, 2018. There were no impairment costs recognized for the year ended September 30, 2017.

Deferred Financing Costs

In connection with the issuance of the 2013 Bond Series A, B, C, 2014 Bonds, 2017 Bonds, and 2018 Bonds, as well as an assumption of a loan in connection with the organization of a property adjacent to the Hospital's main campus in Valencia, California, (see Note 6), the Organization capitalized $5,765,000 of issuance costs, which are being amortized over the term of the bonds and loan using the effective interest method. Amortization expenses of approximately $648,000 and $811,000 were recorded for the years ended September 30, 2018 and 2017, respectively, and are included in interest expense in the accompanying consolidated statements of operations.

Excess of Revenues Over Expenses

The consolidated 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 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 Organization has been limited by donors to a specific time period or purpose.

Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity. The income, including gains and losses, earned on these funds is primarily temporarily restricted.

NOTE 2 - Summary of Significant Accounting Policies (cont.)

At September 30, 2018 and 2017, the Organization had approximately $9,142,000 and $9,080,000 of temporarily restricted net assets, respectively. The Organization did not have any permanently restricted net assets at September 30, 2018 and 2017.

California Quality Assurance Fee Program

The California Quality Assurance Fee Program (the "Program") is comprised of certain laws enacted by the state of California to provide supplemental payments to certain medical facilities that serve a disproportionate share of indigent and low-income patients. The Program and all of its statutory provisions were made permanent through the passage of Proposition 52 in November 2016. The program is administered in cycles not to exceed three years with the terms of each cycle requiring approval from the CMS. The program covering the period from January 1, 2014 through December 31, 2016 (the "2016 Program"), was complete as of September 17, 2018, with the exception of final CMS approval of managed care plan methodology. The current program being administered covers the period from January 1, 2017 through December 31, 2019 (the "2019 Program").

The Program requires a Quality Assurance Fee ("QA Fee") to be paid by certain hospitals to a State fund established to accumulate the assessed QA Fees and receive matching federal funds. QA Fees and corresponding matching federal funds are then paid to participating hospitals in two supplemental payment methodologies: a fee-for-service methodology and a managed care plan methodology. CMS has approved California's State Plan Amendment and Waivers as of December 5, 2014, allowing the State to implement the QA Fee and the fee-for-service Supplement Payment methodology of the legislation for the 2016 Program. During the year ended September 30, 2017, the managed care plan methodology for the 2016 Program was approved by CMS through June 30, 2015 and the fee for service payment methodology was approved through December 31, 2016. During the year ended September 30, 2018, the fee for service payment methodology for the 2019 Program was approved by CMS.

Based on estimates provided to the Organization, revenues earned by the Organization under the 2016 Program and 2019 Program are expected to approximate the costs the Organization pays into the Program. Due to the fact that CMS approves portions of the program at different times, the Organization's results of operations and cash flows associated with the program are subject to material variability from year to year.

Based on formulas contained in the legislation as well as modeling done by the California Hospital Association, the Organization recognized approximately $16,930,000 and $9,304,000 in net patient service revenue and $23,344,000 and $15,047,000 in quality assurance fee hospital tax in the accompanying consolidated statements of operations for the years ended September 30, 2018 and 2017, respectively. The Hospital recognized approximately $6,430,000 and $0 in California Hospital Foundation and Trust ("CHFT") grant revenue in the statement of operations. As of September 30, 2018 and 2017, respectively the Organization recognized approximately $0 and $2,550,000 in receivables related to the Program. As of September 30, 2018 and 2017, quality assurance fees payable of $0 was accrued in current liabilities, and approximately $8,981,000 and $1,324,000, respectively, was recognized as quality assurance fee deferred revenue pending full CMS approval of the managed care portion of the current program period.

NOTE 2 - Summary of Significant Accounting Policies (cont.)

In March 2017, the California Hospital Association submitted the Quality Assurance Fee Program package for the 2019 Program to CMS for approval. The fee-for-service and tax waiver components of the 2019 Program were approved by CMS effective December 18, 2018 and December 14, 2017, respectively. The Organization will continue to recognize revenue for the 2019 Program during the year ended September 30, 2019.

Net Patient Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third party 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.

Charity Care and Community Benefit (unaudited)

The Organization provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. The Organization'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. The actual costs for charity care in accordance with the Organization's charity care policy aggregated approximately $576,000 and $1,012,000 for the years ended September 30, 2018 and 2017, respectively. The Organization has estimated the cost of charity care using its cost accounting system.

In furtherance of their charitable purpose, the Organization provides a wide variety of benefits to the community. A large number of prevention and wellness programs are provided by the Organization including low cost immunizations, wellness fairs, health screening, health education classes and the donation of space for use by community groups. The amount of community benefit provided by the Organization during the year ended September 30, 2017 was $5,862,200. The amount of community benefit provided during the year ended September 30, 2018 has not been determined as of the report date.

Donated Services

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

NOTE 2 - Summary of Significant Accounting Policies (cont.)

Interest Expense

Interest expense, which includes amortization of deferred financing costs, during the years ended September 30, 2018 and 2017 was approximately $4,228,000 and $5,726,000, respectively. The Organization capitalized approximately $6,927,000 and $4,642,000 of interest expense related to assets under construction during the years ended September 30, 2018 and 2017, respectively.

Income Taxes

The Hospital and the Foundation are exempt from income taxes pursuant to Section 501 (c)(3) of the Internal Revenue Code ("IRC") and a similar provision of state law. Accordingly, no provisions for income taxes for these entities has been made in the accompanying consolidated financial statements. The MSO does not qualify for and has not applied for 501(c)(3) exemption; as such, the MSO and Network are taxable corporations under provisions of the Internal Revenue Code and a similar section of the state income tax law. The Network is treated as a partnership for tax purposes. The Organization is subject to federal income tax on any unrelated business taxable income. The Organization has no uncertain tax positions at September 30, 2018 and 2017.

Accrual for General and Professional Liability Risks

The Organization records reserves for claims when they are probable and reasonably estimable. The Organization 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 Organization estimates reserves for losses and related expenses using expected loss-reporting patterns. Reserves are discounted at 3.0% as of September 30, 2018 and 2017. There can be no assurance that the ultimate liability will not exceed the Organization's estimates. Anticipated insurance recoveries associated with reported claims are reported in the Organization's consolidated balance sheets at net realizable value, and are included in other assets. Adjustments to the estimated reserves are recorded in the Organization's consolidated statements of operations in the periods when such amounts are determined. These adjustments may be material.

Reclassification

For comparability, certain amounts for 2017 have been reclassified to conform with classifications adopted in 2018. These reclassifications have no effect on the reported amounts of total net assets, excess of revenues over expenses, or change in total net assets.

New Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in *Topic 605, Revenue Recognitio*n, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Organization will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2017; early application is not permitted. The Organization has not yet determined the impact of adoption of ASU No. 2014-09 on its consolidated financial statements.

NOTE 2 - Summary of Significant Accounting Policies (cont.)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (ASU 2016-02)*. The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The standard is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. Early application of the amendment is permitted. The Organization is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - Presentation of Financial Statements of Not-for-Profit Entities*. This ASU is aimed to improve the presentation of financial statements of not-for-profit entities. ASU No. 2016-14 replaces the current presentation of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two classes of net assets - net assets with donor restrictions and net assets without donor restrictions. In addition, the ASU requires investment return to be presented net of all related external and direct internal expenses and introduces a requirement to present expenses by nature and function, as well as an analysis of these expenses in a single location. ASU No. 2016-14 also requires additional disclosures regarding qualitative information on how a nonprofit entity manages its liquid available resources to meet cash needs for general expenditures within one year of the balance sheet date and quantitative information that communicates the availability of a nonprofit's financial assets to meet cash needs for general expenditures within one year of the balance sheet date. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. Management has determined the ASU will not have a significant impact on the consolidated financial statements.

NOTE 3 - Net Patient Service Revenue

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Organization recognizes revenue on the basis of its standard rates for services provided or as otherwise determined by policy. On the basis of historical experience, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statements of operations as a component of net patient service revenue.

NOTE 3 - Net Patient Service Revenue (cont.)

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare

Revenue from the Medicare program accounted for approximately 28% and 30% of the Organization's net patient service revenue for the years ended September 30, 2018 and 2017, respectively. Inpatient acute services rendered to Medicare program beneficiaries are paid at prospectively determined diagnosis related groups ("DRGs") and case mix groups ("CMGs") and prospective per diem rates, depending on the services they receive. 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 Organization's cost reports, and are estimated using historical trends and current factors. The Organization is reimbursed for certain services at tentative rates for these other payments, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The Organization's Medicare Cost reports have been audited and final settled by the Medicare fiscal intermediary through 2014. The 2015 through 2017 cost reports have been filed and tentatively settled as of the date of the financial statements. The 2018 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.

Medi-Cal

Revenue from the Med-Cal program accounted for approximately 10% of the Organization's net patient service revenue for the years ended September 30, 2018 and 2017, respectively. Inpatient services rendered to Medi-Cal program beneficiaries are reimbursed at prospectively determined rates based on diagnosis related groups. Outpatient services are paid based on prospectively determined rates per procedure provided. For the years ended September 30, 2018 and 2017, the AB99 program provided approximately $3,563,000 and $3,447,000, respectively, in additional revenue for this class of net patient service revenues.

HMO/PPO

The Organization 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 Organization under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE 3 - Net Patient Service Revenue (cont.)

Self-Pay and Other

The Organization offers certain discounts to uninsured patients in accordance with its policies, which enables the Organization 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. 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, 2018 and 2017, provisions for bad debts were approximately $21,642,000 and $9,093,000, respectively. See Patient Accounts Receivable 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 Organization's gross charges.

Laws and regulations governing the Medicare and Medi-Cal programs 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. Medi-Cal net patient revenues include California Quality Assurance Fee Program tax revenues and revenues associated with the Los Angeles County Trauma Hospital Program.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), from these major payor sources, are as follows for the years ended September 30 (approximate):

	2018	2017
Medicare	$ 97,690,000	$ 96,700,000
Medi-Cal	36,557,000	32,753,000
HMO/PPO	189,951,000	183,840,000
Self-Pay and others	31,726,000	10,450,000
Total	$ 355,924,000	$ 323,743,000

NOTE 4 - Investments, Assets Limited as to Use and Investments Returns

Assets limited as to use consist of the following as of September 30, 2018 and 2017 (approximate):

	2018	2017
Under indenture agreement, held by trustees:		
Money market account	$ -	$ 12,018,000
Cash	-	6,972,000
Debt securities:		
US treasuries	-	8,988,000
Agency securities	-	13,546,000
Corporate bonds	-	4,988,000
Total assets limited as to use	-	46,512,000
Less current portion	-	(46,512,000)
Noncurrent portion	$ -	$ -

The Organization is required to maintain certain funds held by trustees in connection with the master trust indentures and loan agreements (see Note 6). As of September 30, 2017, these funds are limited to financing the construction and equipping of a new hospital tower. During 2018, all funds were used for construction of the new hospital tower.

Investments consist of the following as of September 30 (approximate):

	2018	2017
Short-tem investments		
Mutual funds - equities (international and domestic)	$ 62,138,000	$ 65,193,000
Mutual fund - fixed income	33,234,000	33,757,000
Total	$ 95,372,000	$ 98,950,000

For the year ended September 30, 2018, net unrealized gains were approximately $982,000 and net realized gains were approximately $3,022,000. For the year ended September 30, 2017, net unrealized gains were approximately $8,100,000 and net realized gains were approximately $269,000. Realized gains and losses and investment income were included as non-operating income (loss), net in the accompanying statements of operations.

NOTE 5 - Property, Plant and Equipment

Property, plant and equipment consist of the following as of September 30 (approximate):

	2018	2017
Building and improvements	$ 229,153,000	$ 199,430,000
Equipment and furniture	119,132,000	123,671,000
Building, improvements and equipment under capital leases	-	13,380,000
	348,285,000	336,481,000
Less accumulated depreciation and amortization	(190,079,000)	(200,694,000)
	158,206,000	135,787,000
Construction-in-progress	150,180,000	90,618,000
Land and land improvements	3,226,000	3,227,000
Property, plant and equipment, net	$ 311,612,000	$ 229,632,000

Depreciation expense for the years ended September 30, 2018 and 2017 amounted to approximately $17,375,000 and $15,051,000, respectively. At September 30, 2018 and 2017, assets held under capital lease obligations, amounted to $0 and $13,380,000, respectively, and related accumulated amortization amounted to approximately $0 and $12,283,000, respectively.

Construction-in-progress consists primarily of the costs associated with construction of the Patient Tower as well as other construction projects on campus. The new Patient Tower is expected to be placed in service by early summer 2019.

NOTE 6 - Long-Term Debt

Long-term debt at September 30, 2018 and 2017 consists of the following (approximate):

	2018	2017
2013 Series A Revenue Bonds (1)	$ 19,350,000	$ 20,800,000
2013 Series B Revenue Bonds (2)	25,650,000	28,025,000
2013 Series C Revenue Bonds (3)	-	625,000
2014 Insured Revenue Bonds (4)	68,670,000	69,120,000
2017 California Public Finance Authority Revenue Bonds (5)	109,625,000	109,625,000
2018 Series Taxable Bond (6)	10,500,000	-
Mortgage Loan Payable (7)	12,490,000	-
	246,285,000	228,195,000
Deferred financing costs, net of accumulated amortization	(4,066,000)	(4,117,000)
Unamortized bond premium	5,773,000	6,041,000
	247,992,000	230,119,000
Less current maturities	(4,759,000)	(4,900,000)
	$ 243,233,000	$ 225,219,000

NOTE 6 - Long-Term Debt (cont.)

(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 rate 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 rate 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 rate 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 Care secured by a deed of trust on substantially all of the Hospital's property. During the year ended September 30, 2017, the 2013 Bonds Series C was redeemed with the proceeds from the 2017 Bonds.

(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, and C.

(5) California Public Finance Authority Revenue Bonds (Henry Mayo Newhall Hospital), Series 2017 in the original amount of $109,625,000 dated January 30, 2017, which bear interest at annual rates ranging from 1.25% to 5.00%, payable semi-annually (the "2017 Bonds"). Net proceeds from the issuance of approximately $28,618,000 were used to redeem the outstanding principal balance of the 2013 Bonds Series C. Net proceeds in the amount of $85,000,000 are restricted to finance the construction and equipping of a new patient tower. The 2017 Bonds require annual principal payments ranging from $780,000 to $12,360,000 beginning in 2021 through 2048. The 2017 Bonds 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.

(6) Henry Mayo Newhall Hospital Taxable Bond, Series 2018 in the original amount of $10,500,000, which bears interest at an annual rate of 4.75%, payable monthly (the "2018 Bonds"). Interest only payments are required from October 2018 through August 2020 and principal and interest payments are required thereafter through August 2028. Annual payments range from $503,000 to $750,000, with a balloon payment of $8,063,011 due in August 2028. The 2018 Bonds are held by a bank. Net proceeds from the issuance of approximately $10,500,000 were used to acquire a property immediately adjacent to the Hospital's main campus in Valencia, California. The 2018 Bonds 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.

NOTE 6 - Long-Term Debt (cont.)

(7) Mortgage Loan Payable assumed in August 2018 in the amount of $12,519,000 which bears interest at an annual rate of 3.94%, payable monthly (the "Loan Payable"). The Loan Payable requires annual principal and interest payments of $850,000, with a balloon payment of $9,683,000 due in September 2025. The net proceeds from the Loan Payable of approximately $12,337,000 were used to acquire a property immediately adjacent to the Hospital main campus in Valencia, California. The Loan Payable is secured by lease payments under a master lease for the acquired property whereby the Foundation is the lessor and the Hospital is the lessee. The Hospital is the guarantor of the Loan Payable, for which the Foundation is the primary obligor.

The master trust indentures 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 consolidated statements of financial position (see Note 4). The master trust indentures also require 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 financial covenants included in the master trust indenture at September 30, 2018 and 2017.

Maturities of long-term debt at September 30, 2018 above are as follows:

	Principal Maturities
2019	$ 4,759,000
2020	4,996,000
2021	6,141,000
2022	6,410,000
2023	6,704,000
Thereafter	217,275,000
	246,285,000
Deferred financing costs, net of accumulated amortization	(4,066,000)
Unamortized net bond premium and discounts, net	5,773,000
	$ 247,992,000

NOTE 7 - Pension Plan

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

The Organization 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, 2018 and 2017, the Organization's matching contributions were approximately $3,439,000 and $3,100,000, respectively, in employee benefits on the consolidated statements of operations.

NOTE 8 - Pledges Receivable

Pledges receivable consist of the following as of September 30 (approximate):

	2018	2017
Less than one year	$ 724,000	$ 1,292,000
One to five years	1,249,000	1,746,000
Less: Allowance for uncollectible pledges	40,000	111,000
Net pledges receivable	$ 1,933,000	$ 2,927,000

Pledges receivable are not discounted.

NOTE 9 - Charitable Remainder Trusts

The Foundation is the beneficiary under two irrevocable charitable remainder trusts (the "trusts"). These trusts pay a stipulated annuity to the donor and provide the donor with a life income interest in the assets contributed. At a stipulated time (upon death of the donor or donor's designee), the remaining assets are generally available for the Foundation's use. The present value of the estimated future distributions expected to be received by the Foundation over the term of the arrangements of $3,126,000 and $2,802,000 as of September 30, 2018 and 2017, respectively were recorded as receivables under trust agreements. As of September 30, 2018 and 2017, the fair market values of the assets were estimated at $7,028,000 and $7,055,000, respectively. Annually, the amounts payable to annuitants and the contributions receivable are revised based on an actuarial calculation using discount rates, mortality factors, and current fair values of trust assets. The changes in contributions receivable from remainder trusts are reported as changes in value of receivables under charitable remainder trust agreements.

NOTE 10 - Temporarily Restricted Net Assets

Contributions received that are restricted for specific Organization programs or capital projects are recorded as temporarily restricted contributions.

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 their intended purpose.

NOTE 10 - Temporarily Restricted Net Assets (cont.)

Temporarily restricted net assets are available for the following purposes at September 30 (approximate):

	2018	2017
New patient tower	$ 4,904,000	$ 4,983,000
Emergency room	2,366,000	2,058,000
Other equipment	1,030,000	884,000
ICU / NICU	49,000	51,000
Infusion center	79,000	79,000
Bio terrorism	121,000	98,000
Other	593,000	927,000
Total	$ 9,142,000	$ 9,080,000

NOTE 11 - Tower Imaging Joint Venture

The Organization has a 50% joint venture agreement with Tower Imaging Medical Group, Inc., a California professional corporation ("TIMG"), whereby the Organization and TIMG (together the "Partners") own Tower Imaging Valencia, LLC, a California limited liability company (the "Joint Venture"). The Tower Imaging Joint Venture, which provides radiology services outside of the Organization, is a for-profit enterprise. The Organization accounts for the investment in the Joint Venture under the equity method of accounting. Under the equity method, the Organization recognizes its share of the earnings or losses in the Joint Venture.

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 Organization and TIMG. During the year ended September 30, 2018, the Joint Venture distributed a total of $1,414,000 or $707,000 for each partner from the Joint Venture. During the year ended September 30, 2017, the Joint Venture distributed a total of $980,000 or $490,000 for each partner from the Joint Venture. The term of the Joint Venture agreement is until 2021.

As members of the Joint Venture, TIMG and the Organization 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, 2018, the Organization and TIMG have not guaranteed any debt relating to the Joint Venture.

The carrying value of the investment in the Joint Venture at September 30, 2018 and 2017 was approximately $1,090,000 and $1,026,000, respectively, and is recorded as part of other assets in the consolidated statements of financial position.

NOTE 11 - Tower Imaging Joint Venture (cont.)

The unaudited condensed financial statement information for the Joint Venture as of and for the years ended September 30, 2018 and 2017, respectively, was approximately:

	2018	2017
Condensed financial statement information (unaudited):		
Program receivables	$ 339,000	$ 3,088,000
Other receivables (payables), net	275,000	933,000
Net income	1,314,000	1,469,000

NOTE 12 - Capital Lease Obligations

The Organization had capital lease obligation for the ambulatory care facility and office, which was amended on December 1, 2007. The lease required 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 facility houses an outpatient surgery program and certain other functions that support the Organization. Portions of the facility are sublet to third parties. In August 2018 the Organization terminated the ambulatory care facility capital lease in connection with acquiring the property.

NOTE 13 - Operating Leases

In November 2012, the Organization (as landlord) entered into a ground lease with an independent third party (as tenant) to lease approximately 53,870 square feet of the Organization's land for the construction of a Medical Office Building ("MOB") that the Organization occupied and leased upon completion of the MOB. The ground lease term is for 60 years with annual base rent in the amount of $125,000 payable to the Organization 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 Organization (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 $76,000 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%. The lease commenced in March 2014. The Organization determined this to be an operating lease and lease rentals were straightlined over the initial term of the lease.

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, 2018 and 2017, respectively, was approximately $5,267,000 and $5,175,000, respectively.

The Organization (as landlord) has entered into various operating lease agreements. The lease termination dates range through 2072. Rental income generated from these leases totaled approximately $1,180,000 and $1,153,000 for the years ended September 30, 2018 and 2017, respectively.

NOTE 13 - Operating Leases (cont.)

Future minimum annual rental commitments under noncancelable operating leases, principally for office space, are as follows (approximate):

2019	$ 3,389,000
2020	3,053,000
2021	2,902,000
2022	2,451,000
2023	2,358,000
Thereafter	18,810,000
Total	$ 32,963,000

Future minimum expected annual rental income under noncancelable operating leases, principally for office space, are as follows (approximate):

2019	$ 928,000
2020	480,000
2021	336,000
2022	345,000
2023	355,000
Thereafter	37,614,000
Total	$ 40,058,000

NOTE 14 - Commitments and Contingencies

Golden Valley Pledged Lease Asset

On September 10, 2008, the Organization 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 Organization, for the purpose of operating a physical therapy facility. The lease of the space is contingent on the continued use by the Organization 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 $2,743,000. Due to the contingent nature of the lease, a liability for $2,743,000 was recorded as deferred contribution revenue on the statements of financial position. As of September 30, 2018 and 2017, the pledged lease asset and deferred contribution revenue were $2,345,000 and $2,388,000, respectively. 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, 2018 and 2017, the Organization has outstanding construction commitments of approximately $24,524,000 and $48,809,000, respectively, related to the construction of the new Patient Tower as well as other construction projects in progress on campus.

NOTE 14 - Commitments and Contingencies (cont.)

Management Incentive Plan

The Organization has a Management Incentive Plan which provides incentive compensation when certain performance goals are met. For the years ended September 30, 2018 and 2017, the Organization incurred incentive compensation of $1,861,000 and $1,819,000, respectively, in salaries and wages on the consolidated statements of operations.

Malpractice Insurance

The Organization maintains medical malpractice insurance under a claims-made policy. A claims-made policy covers only claims net of the Organization'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. The primary policy provides coverage with an annual aggregate of $15,000,000 with $500,000 limited per claim and an additional umbrella policy with a $10,000,000 aggregate. The Organization also purchases excess umbrella liability coverage, which provided additional coverage above the basic policy limits up to the specified in umbrella policy. The Organization has obtained coverage through July 1, 2019.

Based on the Organization's claim experience, an accrual has been made for the Organization's estimated medical malpractice costs, including costs associated with litigating or settling claims, under its malpractice insurance policy, in the amounts of approximately $4,904,000 and $4,668,000, as of September 30, 2018 and 2017, respectively. It is reasonably possible that this estimate could change materially in the near term.

In June and November 2005, the Organization invested a total of $218,000 for the purchase of 27,230 shares (1.65% ownership as of September 30, 2018) 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 Organization accounts for its investment in CHI under the cost method of accounting. During the years ended September 30, 2018 and 2017, the Organization paid approximately $762,000 and $748,000, respectively, in premiums to CHI.

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 Organization believes that CHI will provide the Organization with efficient and cost effective management of its medical malpractice and other risks. As of September 30, 2018 and 2017, 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.

NOTE 14 - Commitments and Contingencies (cont.)

Self-Insurance Program for Employee Healthcare

The Organization has a self-insured program for employee healthcare for the years ended September 30, 2018 and 2017. An accrual has been made for the estimated liabilities arising from outstanding healthcare claims incurred but not yet reported, as of September 30, 2018 and 2017. Management believes that its estimates are sufficient, however, actual amounts may materially differ from those estimates. For the years ended September 30, 2018 and 2017, these liabilities were approximately $1,791,000 and $1,954,000, respectively, and are recorded in accrued payroll and benefits in the accompanying consolidated statements of financial position. The Organization also maintains a stop-loss reinsurance policy for its self-insured healthcare program. The stop-loss policy reimburses the Organization 100% of the costs incurred for a patient incident that exceeds certain thresholds of $200,000 if it occurred prior to May 2016 and $250,000 if it occurred subsequent to May 2016.

Worker's Compensation

The Organization has a guaranteed cost premium policy. Accruals have been made for the liabilities arising from audits of the policy for the plan years ended September 30, 2018 and 2017 for approximately $786,000 and $165,000, respectively, and are included in accrued payroll and benefits in the accompanying consolidated statements of financial position. An estimated accrual has been made for the liabilities arising from the previous policies for the plan years ended September 30, 2017 and prior for approximately $1,633,000 and $2,565,000 which are included in accrued payroll and benefits in the accompanying consolidated statements of financial position for the years ended September 30, 2018 and 2017, respectively. Actual amounts may materially differ from those estimates.

Union Contract

The Organization 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 2017 through January 2020, 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. As of September 30, 2018 and 2017, respectively, 77.4% and 76.7% of the Organization's employees were covered by union contracts. The Organization is currently under negotiations related to the California Nurses Association contract.

Litigation

The Organization is involved in litigation arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these maters are expected to be resolved without a material adverse effect on the Organization's consolidated financial position. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

NOTE 14 - Commitments and Contingencies (cont.)

Regulatory Environment

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations are not limited to matters such as licensure, accreditation, government healthcare program participating requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased 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. 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.

In November 2018, the Organization submitted a request to be entered into the Centers for Medicare and Medicaid Services voluntary self-disclosure protocol, which is a process for self-disclosing actual or potential violations of the federal physician self-referral statute. The potential violations disclosed involve multiple physician arrangements, and primarily concern possible overpayments by the Organization. At this time the Organization cannot estimate the amount of any repayment, if any, that may result from the voluntary self-disclosure.

NOTE 15 - Fair Value Measurements

Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance a three level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities, that the reporting entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market corroborated inputs.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

NOTE 15 - Fair Value Measurements (cont.)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the techniques and inputs used as of September 30, 2018 and 2017.

The carrying amounts of cash and cash equivalents approximate fair value because of the short maturity of these investments.

U.S. treasuries, fixed income mutual funds and equity mutual funds are valued based on quoted market prices.

Corporate bonds are valued using recently executed transactions, market price quotations (where observable), bond spreads or credit default swap spreads.

Agency securities and money market funds are measured at fair value using multiple sources of information that are corroborated by market data.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level input that is significant to the fair value measurement.

While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial statements could result in a different estimate of fair value at the reporting date.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurement falls at September 30, 2018 and 2017 (approximate):

2018				
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds - fixed income	$ 33,234,000	$ -	$ -	$ 33,234,000
Mutual funds - domestic equity	43,345,000	-	-	43,345,000
Mutual funds - international equity	18,793,000	-	-	18,793,000
Total investments	$ 95,372,000	$ -	$ -	$ 95,372,000
Assets disclosed at fair value:				
Cash and cash equivalents	46,011,000	-	-	46,011,000
Patients accounts receivable, net	53,194,000	-	-	53,194,000
Receivable under charitable remainder trust agreements	-	-	3,126,000	3,126,000
Liabilities disclosed at fair value:				
Long-term debt, with a carrying value of $252,058,000	184,068	67,990	-	252,058

NOTE 15 - Fair Value Measurements (cont.)

2017

	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds - fixed income	33,757,000	$ -	$ -	$ 33,757,000
Mutual funds - domestic equity	44,702,000	-	-	44,702,000
Mutual funds - international equity	20,491,000	-	-	20,491,000
Total investments	$ 98,950,000	$ -	$ -	$ 98,950,000
Assets limited as to use:				
Cash	$ 6,972,000	$ -	$ -	$ 6,972,000
Money market funds	-	12,018,000	-	12,018,000
US treasuries	8,988,000	-	-	8,988,000
Agency securities	-	13,546,000	-	13,546,000
Corporate bonds	-	4,988,000	-	4,988,000
Total assets limited as to use	$ 15,960,000	$ 30,552,000	$ -	$ 46,512,000
Assets disclosed at fair value:				
Cash and cash equivalents	37,189,000	-	-	37,189,000
Patients accounts receivable, net	54,222,000	-	-	54,222,000
Receivable under charitable remainder trust agreements	-	-	2,802,000	2,802,000
Liabilities disclosed at fair value:				
Long-term debt, with a carrying value of $234,236,000	196,809	49,450	-	246,259

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets (approximate):

	Level 3
Balance, September 30, 2016	$ 2,346,000
Total change in value of receivables under charitable remainder trust agreements	456,000
Balance, September 30, 2017	$ 2,802,000
Total change in value of receivables under charitable remainder trust agreements	324,000
Balance, September 30, 2018	$ 3,126,000

NOTE 15 - Fair Value Measurements (cont.)

Significant Unobservable Inputs for Level 3 Investments

The following table provides quantitative information related to the significant unobservable inputs for Level 3 investments, which are carried at fair value as of September 30, 2018 (approximate):

Fair Value of Level 3 investments	Valuation Technique	Unobservable Input	Rate
$ 3,126,000	Present value approach	Discount Rate	3.09 %
		Mortality Factor (Number of Years)	14.7

The following table provides quantitative information related to the significant unobservable inputs for Level 3 investments which are carried at fair value as of September 30, 2017:

Fair Value of Level 3 investments	Valuation Technique	Unobservable Input	Rate
$ 2,802,000	Present value approach	Discount Rate	2.48 %
		Mortality Factor (Number of Years)	15.3

Under the present value approach, the significant unobservable inputs used in the fair value measurement of the Foundation's receivables under charitable remainder trust agreements are the discount rate and the mortality factor (number of years). Significant increases or decreases in the discount rate in isolation may result in a significantly higher or lower fair value measurement, respectively. Significant increases or decreases in the mortality factor (number of years) may result in a significantly lower or higher fair value measurement, respectively.

NOTE 16 - Functional Expenses

The Organization provides general healthcare services to residents within its geographic location. Expenses related to providing these services are as follows (approximate):

	2018	2017
Health care services	$ 302,665,000	$ 278,969,000
General and administrative	42,808,000	40,360,000
Fundraising	1,166,000	682,000
	$ 346,639,000	$ 320,011,000

NOTE 17 - Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The composition of net patient accounts receivable and third-party payors was as follows as of September 30:

	2018	2017
Patient accounts receivable:		
Medicare	30 %	33 %
Medi-Cal	13	12
Self-Pay and Other	18	14
HMO/PPO	39	41
	100 %	100 %

The composition of patient services revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended September 30, was as follows:

	2018	2017
Net patient revenues:		
Medicare	28 %	30 %
Medi-Cal	10	10
Self-Pay and Other	9	3
HMO/PPO	53	57
	100 %	100 %

NOTE 18 - Subsequent Events

Subsequent events have been evaluated through February 1, 2019, which is the date of the consolidated financial statements were issued.

SUPPLEMENTAL INFORMATION

HENRY MAYO NEWHALL HOSPITAL AND SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION - CONSOLIDATING INFORMATION
As of September 30, 2018

ASSETS

	Hospital	Foundation	MSO	Total Before Eliminations	Eliminations	Consolidated
CURRENT ASSETS						
Cash and cash equivalents	$ 41,764,196	$ 4,176,644	$ 70,332	$ 46,011,172	$ -	$ 46,011,172
Pledges receivable, net	-	7,500	-	7,500	-	7,500
Investments	95,371,751	-	-	95,371,751	-	95,371,751
Patient accounts receivable, less bad debt allowances of $15,300,000	53,193,930	-	-	53,193,930	-	53,193,930
Receivables from affiliates	9,896,170	-	-	9,896,170	(9,896,170)	-
Inventories	5,990,170	-	-	5,990,170	-	5,990,170
Prepaid expenses and other current assets	3,051,232	377,023	391,715	3,819,970	-	3,819,970
Total current assets	209,267,449	4,561,167	462,047	214,290,663	(9,896,170)	204,394,493
Pledges receivable, less current portion	-	1,925,132	-	1,925,132	-	1,925,132
Property, plant and equipment, net	283,514,635	28,096,978	-	311,611,613	-	311,611,613
Pledged lease	2,345,110	-	-	2,345,110	-	2,345,110
Receivable under trust agreement	-	3,126,463	-	3,126,463	-	3,126,463
Other assets	2,099,099	277,589	-	2,376,688	-	2,376,688
Total assets	$ 497,226,293	$ 37,987,329	$ 462,047	$ 535,675,669	$ (9,896,170)	$ 525,779,499

HENRY MAYO NEWHALL HOSPITAL AND SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION - CONSOLIDATING INFORMATION
As of September 30, 2018 (continued)

LIABILITIES AND NET ASSETS

	Hospital	Foundation	MSO	Total Before Eliminations	Eliminations	Consolidated
Current Liabilities						
Current portion of long-term debt	$ 4,395,000	$ 364,168	$ -	$ 4,759,168	$ -	$ 4,759,168
Accounts payable and accrued liabilities	41,091,436	27,090	-	41,118,526	-	41,118,526
Accrued payroll and benefits	18,181,165	55,338	127	18,236,630	-	18,236,630
Accrued interest	5,382,986	-	-	5,382,986	-	5,382,986
Quality assurance fee deferred revenue	8,980,966	-	-	8,980,966	-	8,980,966
Estimated third party liabilities	1,180,783	-	-	1,180,783	-	1,180,783
Payable to affiliate, net	-	9,015,558	880,612	9,896,170	(9,896,170)	-
Total current liabilities	79,212,336	9,462,154	880,739	89,555,229	(9,896,170)	79,659,059
Long-term debt, net	231,106,900	12,125,533	-	243,232,433	-	243,232,433
Deferred rent liability	1,161,279	-	-	1,161,279	-	1,161,279
Deferred contribution revenue	2,345,110	-	-	2,345,110	-	2,345,110
Accrued malpractice liability	4,904,029	-	-	4,904,029	-	4,904,029
Total liabilities	318,729,654	21,587,687	880,739	341,198,080	(9,896,170)	331,301,910
Net Assets						
Unrestricted	169,354,607	16,399,642	(418,692)	185,335,557	-	185,335,557
Temporarily restricted	9,142,032	-	-	9,142,032	-	9,142,032
Total net assets	178,496,639	16,399,642	(418,692)	194,477,589	-	194,477,589
Total liabilities and net assets	$ 497,226,293	$ 37,987,329	$ 462,047	$ 535,675,669	$ (9,896,170)	$ 525,779,499

HENRY MAYO NEWHALL HOSPITAL AND SUBSIDIARIES

STATEMENT OF OPERATIONS - CONSOLIDATING INFORMATION
For the Year Ended September 30, 2018

	Hospital	Foundation	MSO	Total Before Eliminations	Eliminations	Consolidated
Operating Revenues						
Patient service revenue net of contractual discounts and allowances	$ 355,923,887	$ -	$ -	$ 355,923,887	$ -	$ 355,923,887
Provision for bad debts	(21,642,387)	-	-	(21,642,387)	-	(21,642,387)
Net patient service revenue less provision for bad debts	334,281,500	-	-	334,281,500	-	334,281,500
Nonpatient revenue	6,165,848	185,214	-	6,351,062	(185,214)	6,165,848
California Hospital Foundation grant revenue	6,430,096	-	-	6,430,096	-	6,430,096
Net assets released from restrictions used for operations	509,615	278,531	-	788,146	-	788,146
Total operating revenues	347,387,059	463,745	-	347,850,804	(185,214)	347,665,590
Operating Expenses						
Salaries and wages	134,021,215	571,670	6,030	134,598,915	-	134,598,915
Employee benefits	30,670,780	214,164	560	30,885,504	-	30,885,504
Registry	10,233,765	-	-	10,233,765	-	10,233,765
Supplies	49,477,375	35,564	-	49,512,939	-	49,512,939
Purchased services	34,730,512	46,313	-	34,776,825	-	34,776,825
Repairs and maintenance	6,768,855	-	-	6,768,855	-	6,768,855
Interest	4,218,921	8,804	-	4,227,725	-	4,227,725
Depreciation and amortization	17,245,743	128,942	-	17,374,685	-	17,374,685
Insurance, net	2,741,916	5,241	-	2,747,157	-	2,747,157
Rent	5,767,624	45,906	120,046	5,933,576	(185,214)	5,748,362
Utilities	2,573,210	-	-	2,573,210	-	2,573,210
Quality assurance fee hospital tax	23,343,858	-	-	23,343,858	-	23,343,858
Other operating costs	17,189,287	415,405	392,056	17,996,748	-	17,996,748
Software development costs write-off	5,850,830	-	-	5,850,830	-	5,850,830
Total operating expenses	344,833,891	1,472,009	518,692	346,824,592	(185,214)	346,639,378
Operating income (loss)	$ 2,553,168	$ (1,008,264)	$ (518,692)	$ 1,026,212	$ -	$ 1,026,212

HENRY MAYO NEWHALL HOSPITAL AND SUBSIDIARIES

STATEMENT OF OPERATIONS - CONSOLIDATING INFORMATION
For the Year Ended September 30, 2018 (continued)

	Hospital	Foundation	MSO	Total Before Eliminations	Eliminations	Consolidated
Non-operating income (loss)						
Contributions	$ 383,981	$ 516,457	$ -	$ 900,438	$ -	$ 900,438
Interest and dividends	2,670,714	2,708	-	2,673,422	-	2,673,422
Realized gain on investments, net	3,022,033	-	-	3,022,033	-	3,022,033
Other non-operating income, net	2,495,256	-	-	2,495,256	-	2,495,256
Equity in income of joint venture	926,276	-	-	926,276	-	926,276
Excess (deficiency) of revenues over expenses	12,051,428	(489,099)	(518,692)	11,043,637	-	11,043,637
Unrealized gain on investments, net	981,876	-	-	981,876	-	981,876
Contributions from subsidiary	777,002	16,871,534	100,000	17,748,536	(17,748,536)	-
Contributions to subsidiary	(16,971,534)	-	(777,002)	(17,748,536)	17,748,536	-
Net assets released from restrictions - used for purchases of property, plant and equipment	1,623,568	-	-	1,623,568	-	1,623,568
Net increase (decrease) in unrestricted net assets	$ (1,537,660)	$ 16,382,435	$ (1,195,694)	$ 13,649,081	$ -	$ 13,649,081

HENRY MAYO NEWHALL HOSPITAL AND SUBSIDIARIES

STATEMENT OF CHANGES IN NET ASSETS - CONSOLIDATING INFORMATION
For the Year Ended September 30, 2018

	Hospital	Foundation	MSO	Total Before Eliminations	Eliminations	Consolidated September 30, 2018
Unrestricted Net Assets						
Excess (deficiency) of revenues over expenses	$ 12,051,428	$ (489,099)	$ (518,692)	$ 11,043,637	$ -	$ 11,043,637
Unrealized gain on investments, net	981,876	-	-	981,876	-	981,876
Contributions from subsidiary	777,002	16,871,534	100,000	17,748,536	(17,748,536)	-
Contributions to subsidiary	(16,971,534)	-	(777,002)	(17,748,536)	17,748,536	-
Net assets released from restrictions - used for purchase of property, plant and equipment	1,623,568	-	-	1,623,568	-	1,623,568
Net increase (decrease) in unrestricted net assets	(1,537,660)	16,382,435	(1,195,694)	13,649,081	-	13,649,081
Temporarily Restricted Net Assets						
Contributions	2,148,994	-	-	2,148,994	-	2,148,994
Change in value of receivables under charitable remainder trust agreements	-	324,533	-	324,533	-	324,533
Contributions from subsidiary	467,143	-	-	467,143	(467,143)	-
Contributions to subsidiary	-	(467,143)	-	(467,143)	467,143	-
Net assets released from restrictions	(2,133,183)	(278,531)	-	(2,411,714)	-	(2,411,714)
Net Increase (decrease) in temporarily restricted net assets	482,954	(421,141)	-	61,813	-	61,813
Increase (Decrease) in Net Assets	(1,054,706)	15,961,294	(1,195,694)	13,710,894	-	13,710,894
Net Assets, Beginning of Year	179,551,345	438,348	777,002	180,766,695	-	180,766,695
Net Assets, End of Year	$ 178,496,639	$ 16,399,642	$ (418,692)	$ 194,477,589	$ -	$ 194,477,589

HENRY MAYO NEWHALL HOSPITAL AND SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION - OBLIGATED GROUP INFORMATION
As of September 30, 2018

ASSETS

	Hospital
Current Assets	
Cash and cash equivalents	$ 41,764,196
Investments	95,371,751
Patient accounts receivable, less bad debt allowances of $15,300,000	53,193,930
Receivables from affiliates	9,896,170
Inventories	5,990,170
Prepaid expenses and other current assets	3,051,232
Total current assets	209,267,449
Property, plant and equipment, net	283,514,635
Pledged lease	2,345,110
Other assets	2,099,099
Total assets	$ 497,226,293

LIABILITIES AND NET ASSETS

	Hospital
Current Liabilities	
Current portion of long-term debt	$ 4,395,000
Accounts payable and accrued liabilities	41,091,436
Accrued payroll and benefits	18,181,165
Accrued interest	5,382,986
Quality assurance fee deferred revenue	8,980,966
Estimated third party liabilities	1,180,783
Total current liabilities	79,212,336
Long-term debt, net	231,106,900
Deferred rent liability	1,161,279
Deferred contribution revenue	2,345,110
Accrued malpractice liability	4,904,029
Total liabilities	318,729,654
Net Assets	
Unrestricted	169,354,607
Temporarily restricted	9,142,032
Total net assets	178,496,639
Total liabilities and net assets	$ 497,226,293

HENRY MAYO NEWHALL HOSPITAL AND SUBSIDIARIES

STATEMENT OF OPERATIONS - OBLIGATED GROUP INFORMATION
For the Year Ended September 30, 2018

	Hospital
Operating Revenues	
Patient service revenue, net of contractual discounts and allowances	$ 355,923,887
Provision for bad debts	(21,642,387)
Net patient service revenue less provision for bad debts	334,281,500
Nonpatient revenue	6,165,848
California Hospital Foundation grant revenue	6,430,096
Net assets released from restrictions used for operations	509,615
Total operating revenues	347,387,059
Operating Expenses	
Salaries and wages	134,021,215
Employee benefits	30,670,780
Registry	10,233,765
Supplies	49,477,375
Purchased services	34,730,512
Repairs and maintenance	6,768,855
Interest	4,218,921
Depreciation and amortization	17,245,743
Insurance, net	2,741,916
Rent	5,767,624
Utilities	2,573,210
Quality assurance fee hospital tax	23,343,858
Other operating costs	17,189,287
Software development costs write-off	5,850,830
Total operating expenses	344,833,891
Operating income	2,553,168
Non-operating income	
Contributions	383,981
Interest and dividends	2,670,714
Realized gain on investments, net	3,022,033
Other non-operating income, net	2,495,256
Equity in income of joint venture	926,276
Excess of revenues over expenses	12,051,428
Unrealized gain in investments, net	981,876
Contributions to subsidiaries, net	(16,194,532)
Net assets released from restrictions used for purchases of property, plant and equipment	1,623,568
Net decrease in unrestricted net assets	$ (1,537,660)

HENRY MAYO NEWHALL HOSPITAL AND SUBSIDIARIES

STATEMENT OF CHANGES IN NET ASSETS - OBLIGATED GROUP INFORMATION
For the Years Ended September 30, 2018

	Hospital
Unrestricted Net Assets	
Excess of revenues over expenses	$ 12,051,428
Unrealized gain on investments, net	981,876
Contributions to subsidiaries, net	(16,194,532)
Net assets released from restrictions used for purchases of property, plant and equipment	1,623,568
Decrease in unrestricted net assets	(1,537,660)
Temporarily Restricted Net Assets	
Contributions	2,148,994
Contributions from subsidiary	467,143
Net assets released from restrictions	(2,133,183)
Net increase in temporarily restricted net assets	482,954
Decrease in net assets	(1,054,706)
Net assets, beginning of year	179,551,345
Net assets, end of year	$ 178,496,639