Audited Combined Financial Statements

SAN GORGONIO
HEALTH CARE SYSTEM

June 30, 2019

JWT & Associates, LLP
Certified Public Accountants
Report of Independent Auditors

The Board of Directors
San Gorgonio Health Care System
Banning, California

We have audited the accompanying combined financial statements of the San Gorgonio Health Care System (the Hospital) which comprise the combined balance sheets as of June 30, 2019 and 2018, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management’s Responsibility for the Combined Financial Statements

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital’s preparation and fair presentation of the combined 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 Hospital’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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital at June 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the Hospital has adopted Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements for Not-for-Profit Entities for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining balance sheet and the combining statement of operations and changes in net assets, the schedule of earnings before interest, depreciation and amortization, and the schedule of property tax receipts and disbursements are presented for purposes of additional analysis and are not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

JMT & Associates, LLP

Fresno, California
October 30, 2019
Combined Balance Sheets

SAN GORGONIO HEALTH CARE SYSTEM

<table>
<thead>
<tr>
<th>Assets</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$4,175,262</td>
<td>$6,308,962</td>
</tr>
<tr>
<td>Assets limited as to use available for current debt service</td>
<td>4,150,146</td>
<td>4,124,741</td>
</tr>
<tr>
<td>Patient accounts receivable, net of allowances</td>
<td>8,449,937</td>
<td>7,589,734</td>
</tr>
<tr>
<td>Other receivables</td>
<td>12,227,995</td>
<td>7,504,289</td>
</tr>
<tr>
<td>Estimated third party payor settlements</td>
<td>554,344</td>
<td>1,419,614</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,668,855</td>
<td>1,603,696</td>
</tr>
<tr>
<td>Prepaid expenses and deposits</td>
<td>353,247</td>
<td>836,752</td>
</tr>
<tr>
<td>Total current assets</td>
<td>31,579,786</td>
<td>29,387,788</td>
</tr>
<tr>
<td>Assets limited as to use</td>
<td>4,520,934</td>
<td>2,940,956</td>
</tr>
<tr>
<td>Capital assets, net of accumulated depreciation</td>
<td>97,000,465</td>
<td>102,497,060</td>
</tr>
<tr>
<td>Interest in the net assets of the System foundation</td>
<td>646,319</td>
<td>636,346</td>
</tr>
<tr>
<td>Other assets</td>
<td>1,474,000</td>
<td>1,562,257</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$135,221,504</strong></td>
<td><strong>$137,024,407</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Net Assets</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current maturities of debt borrowings</td>
<td>$2,095,000</td>
<td>$2,603,449</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>5,057,334</td>
<td>4,670,778</td>
</tr>
<tr>
<td>Accrued payroll and related liabilities</td>
<td>3,051,669</td>
<td>3,290,142</td>
</tr>
<tr>
<td>Estimated third party payor settlements</td>
<td>732,545</td>
<td>412,114</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>2,055,146</td>
<td>2,084,354</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>12,991,694</td>
<td>13,060,837</td>
</tr>
<tr>
<td>Debt borrowings, net of current maturities</td>
<td>110,739,214</td>
<td>112,910,579</td>
</tr>
<tr>
<td>123,730,908</td>
<td>125,971,416</td>
<td></td>
</tr>
<tr>
<td>Net Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets without donor restrictions</td>
<td>11,251,512</td>
<td>10,825,347</td>
</tr>
<tr>
<td>Net assets with donor restrictions</td>
<td>239,084</td>
<td>227,644</td>
</tr>
<tr>
<td>Total net assets</td>
<td>11,490,596</td>
<td>11,052,991</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$135,221,504</strong></td>
<td><strong>$137,024,407</strong></td>
</tr>
</tbody>
</table>

See accompanying notes and auditor’s report
Combined Statements of Operations and Changes in Net Assets

SAN GORGONIO HEALTH CARE SYSTEM

<table>
<thead>
<tr>
<th>Unrestricted revenues, gains and other support</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net patient service revenue</td>
<td>$ 65,262,529</td>
<td>$ 64,937,087</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant revenues used for operations</td>
<td>319,282</td>
<td>481,417</td>
</tr>
<tr>
<td>District taxes used for operations</td>
<td>3,937,861</td>
<td>3,565,041</td>
</tr>
<tr>
<td>Other revenues</td>
<td>2,147,797</td>
<td>1,840,667</td>
</tr>
<tr>
<td>Total unrestricted revenues, gains and other support</td>
<td>71,667,469</td>
<td>70,824,212</td>
</tr>
</tbody>
</table>

| Operating expenses                            |            |            |
| Salaries and wages                            | 35,294,707 | 36,005,815 |
| Employee benefits                             | 8,429,724  | 9,410,452  |
| Professional fees                             | 2,959,573  | 2,539,562  |
| Contract labor                                | 1,279,534  | 1,567,502  |
| Supplies                                      | 8,226,210  | 8,390,006  |
| Purchased services                            | 6,166,280  | 6,974,869  |
| Utilities                                     | 905,646    | 890,459    |
| Building and equipment rent                   | 913,805    | 690,087    |
| Insurance                                     | 1,023,205  | 1,038,443  |
| Interest                                      | 5,018,312  | 5,189,883  |
| Depreciation and amortization                 | 5,973,693  | 6,149,586  |
| Intergovernmental transfer program            | 704,910    | 2,606,991  |
| Other operating expenses                      | 2,736,684  | 2,431,840  |
| Total operating expenses                      | 79,632,283 | 83,885,495 |
| Operating income (loss)                       | (7,964,814)| (13,061,283)|

| Nonoperating revenues (expenses)              |            |            |
| District tax revenues                         | 8,309,482  | 7,829,842  |
| Capital contributions and other changes in net assets | 92,937    | 172,250    |
| Total nonoperating revenues (expenses)        | 8,402,419  | 8,002,092  |

| Increase (decrease) in net assets             | 437,605    | (5,059,191)|
| Net assets at beginning of the year           | 11,052,991 | 16,112,182 |
| Net assets at end of the year                 | $ 11,490,596| $ 11,052,991|

See accompanying notes and auditor's report
Combined Statements of Cash Flows

SAN GORGONIO HEALTH CARE SYSTEM

<table>
<thead>
<tr>
<th>Year Ended June 30</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash received from patients and third-parties on behalf of patients</td>
<td>$65,588,027</td>
<td>$66,182,742</td>
</tr>
<tr>
<td>Cash received from operations, other than patient services</td>
<td>1,681,234</td>
<td>11,173,552</td>
</tr>
<tr>
<td>Cash payments to suppliers, contractors and other</td>
<td>(29,158,465)</td>
<td>(32,545,478)</td>
</tr>
<tr>
<td>Cash payments to employees and benefit programs</td>
<td>(43,962,904)</td>
<td>(44,928,047)</td>
</tr>
<tr>
<td>Net cash (used in) operating activities</td>
<td>(5,852,108)</td>
<td>(117,231)</td>
</tr>
<tr>
<td><strong>Cash flows from capital and related financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>District tax used for debt service</td>
<td>8,309,482</td>
<td>7,829,842</td>
</tr>
<tr>
<td>Net purchases of capital assets, disposals and other</td>
<td>(517,242)</td>
<td>(367,999)</td>
</tr>
<tr>
<td>Proceeds from debt borrowings</td>
<td>8,000,000</td>
<td></td>
</tr>
<tr>
<td>Payments on debt borrowings, accretions and loss on financing</td>
<td>(10,468,449)</td>
<td>(2,718,349)</td>
</tr>
<tr>
<td>Net cash provided by capital financing activities</td>
<td>5,323,791</td>
<td>4,743,494</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net (purchase) or sale of investments and deferred outflows</td>
<td>(1,605,383)</td>
<td>(1,305,275)</td>
</tr>
<tr>
<td>Net cash (used in) investing activities</td>
<td>(1,605,383)</td>
<td>(1,305,275)</td>
</tr>
<tr>
<td>Net increase (decrease) in cash and cash equivalents</td>
<td>(2,133,700)</td>
<td>3,320,988</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>6,308,962</td>
<td>2,987,974</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>$4,175,262</td>
<td>$6,308,962</td>
</tr>
</tbody>
</table>

Reconciliation of operating income (loss) to net cash provided by operating activities:

- Operating income (loss) | $ (7,964,814) | $(13,061,283) |
- Adjustments to reconcile operating income (loss) to net cash provided by operating activities:
  - Depreciation and amortization | 5,973,693  | 6,149,586 |
  - Provision for uncollectible accounts | 10,296,276 | 9,672,028 |
- Changes in operating assets and liabilities:
  - Patient accounts receivables | (11,156,479) | (7,882,603) |
  - Other receivables and estimated third party payor settlements | (3,538,005) | 4,742,657 |
  - Inventories, prepaid expenses and other | 418,346   | (189,772) |
  - Accounts payable and accrued expenses | 357,348   | (36,064) |
  - Accrued payroll and related liabilities | (278,473) | 488,220 |
- Net cash (used in) operating activities | $ (5,852,108) | $(117,231) |

See accompanying notes and auditor’s report
NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The combined financial statements of the San Gorgonio Health Care System are comprised of the San Gorgonio Memorial Health Care District (the District) and the San Gorgonio Memorial Hospital (the Hospital). Collectively, the two entities combine to function as the San Gorgonio Health Care System (the System).

The District is a public entity healthcare district organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The District is a political subdivision of the State of California and is generally not subject to federal or state income taxes. It is governed by a five-member Board of Directors, elected from within the district boundaries to specified terms of office. The District is located in Banning, California and owns a 79-bed acute care hospital which it leases to the Hospital for healthcare operations.

The Hospital is a tax-exempt 501 (c) (3) California non-profit corporation and provides health care services primarily to individuals who reside in the local geographic area. The Hospital is governed by the five elected District Board members and by eight additional appointed Board members for a combined System Board (the Board). Combining statements of both the Hospital and the District are presented in the supplementary information to these combined financial statements. Significant inter-related transactions have been eliminated upon combination.

Basis of Accounting and Presentation: The accounting policies and financial statements of the Hospital generally conform with the recommendations of the audit and accounting guide, Health Care Organizations, published by the American Institute of Certified Public Accountants (AICPA). For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operational revenues and expenses. Net assets of the Hospital are described below.

- **Net assets without donor restrictions** - Net assets without donor restrictions represent those resources of the Hospital that are not subject to donor-imposed stipulations. The only limits on these net assets are broad limits resulting from the nature of the Hospital and the purposes specified in its articles of incorporation and bylaws, if any.

- **Net assets with donor restrictions** - Net assets with donor restrictions represent contributions that are subject to donor-imposed restrictions that can be fulfilled by actions of the Hospital pursuant to those stipulations or by the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of operations as net assets released from donor restrictions. Donor restricted contributions whose restrictions expire during the same fiscal year are recognized as revenue without donor restrictions. Net assets with donor restrictions as of December 31, 2018 and 2017 relate to the Hospital’s foundation fund raising activities to secure contributions for Hospital capital improvements and equipment.
Notes to Combined Financial Statements (continued)

SAN GORGONIO HEALTH CARE SYSTEM

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates: The preparation of the combined 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 disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: The System considers cash and cash equivalents to include certain investments in highly liquid debt instruments, when present, with an original maturity of a short-term nature or subject to withdrawal upon request. Exceptions are for those investments which are intended to be continuously invested. Investments in debt securities are reported at market value. Interest, dividends and realized gains and losses on investments are included as investment income in operating revenues when earned.

Patient Accounts Receivable: Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. The System manages its receivables by regularly reviewing the accounts, inquiring with respective payors as to collectibility and providing for allowances on their accounting records for estimated contractual adjustments and uncollectible accounts. Significant concentrations of patient accounts receivable are discussed further in the footnotes.

Inventories: Inventories are consistently reported from year to year at replacement cost, which approximates market value. Inventories consist of medical supplies sold to patients, pharmaceuticals sold to patients, and other minor supply and dietary items.

Assets Limited as to Use: Assets limited as to use include contributor restricted funds, amounts designated by the Board for replacement or purchases of capital assets, and other specific purposes, and amounts held by trustees under specified agreements. Assets limited as to use consist primarily of deposits on hand with local banking and investment institutions, and bond trustees.

Capital Assets: Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 5 to 40 years for land improvements and buildings and building improvements, and 3 to 20 years for equipment.
NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Long-Lived Assets: As required by the Statement of Financial Accounting Standards (SFAS) no. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, the System reviews long-lived assets for impairment whenever the circumstances or events indicate that the carrying amount of the asset may not be fully recoverable. If the sum of the expected future cash flows (undiscounted and without interest charges) from an asset to be held and used in operations is less than the carrying value of the asset, an impairment loss is recognized. Based upon this analysis, there were no adjustments to the carrying value of long-lived assets in 2019 or 2018.

Other Assets: Other assets consist of capitalized debt borrowing issuance costs. Amortization of these costs is computed by the straight-line method over the life of the repayment agreements. The combined amortization expense of these costs was $88,256 and $91,734 for the years ended June 30, 2019 and 2018, respectively.

Compensated Absences: The System’s employees earn paid-time-off (PTO) benefits at varying rates depending on years of service. PTO benefits can accumulate up to specified maximum levels. Employees are paid for PTO accumulated benefits if they leave either upon termination or separation. Accrued PTO liabilities as of June 30, 2019 and 2018 were $1,615,932 and $1,557,620, respectively.

Net Patient Service Revenues: Net patient service revenues are reported in the period at the estimated net realized amounts from patients, third-party payors and others including estimated retroactive adjustments under reimbursement agreements with third-party programs. Normal estimation differences between final reimbursement and amounts accrued in previous years are reported as adjustments of current year’s net patient service revenues.

Charity Care: The System accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the System. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues. Services provided are recorded as gross patient revenues and then written off entirely as an adjustment to net patient service revenues.

Donor-Restricted Gifts and Contributions: Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are generally reported as net assets with donor restrictions 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 restriction is accomplished, the amount originally set aside as a net assets with donor restrictions is transferred to the net assets without donor restrictions and recorded in the proper manner to reflect the donor’s intention. In the absence of donor restrictions, contributions are considered to be available for unrestricted use. All revenue is recognized in the period when the contribution, pledge or unconditional promise to give is received. The Hospital considers contributions as non-operating revenues and are a component of the statement of operations.
NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Grant Revenues: From time to time, the System receives grants from various governmental agencies and private organizations and from individuals. Revenues from grants are recognized when all eligibility requirements, including time requirements are met. Grants may be restricted for either specific operating purposes or capital acquisitions. Operating grants, when recognized upon meeting all requirements, are reported as components of unrestricted revenues, gains and other support.

District Tax Revenues: The System receives substantial revenues of its financial support from property taxes. These funds are used to support operations and meet required debt service agreements. Taxes used for operations are classified under unrestricted revenues, gains and other support while taxes used to service debt borrowings are classified as non-operating revenue as the revenue is not directly linked to the operation of patient care. Property taxes are levied by the County on the System’s behalf during the year, and are intended to help finance the System’s activities during the same year. Amounts are levied on the basis of the most current property values on record with the County. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each due date.

Statements of Cash Flows: For purposes of the combined statements of cash flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents. Cash paid for interest expense during the year ended June 30, 2019 and 2018 was $5,188,291 and $5,050,780, respectively.

Income Taxes - The Hospital is a not-for-profit organization formed under the laws of the State of California. The Hospital has been determined to be exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code by the United States of America’s Internal Revenue Service (IRS) and under similar codes by the State of California. Accordingly, no provision for income taxes is included in the accompanying financial statements. The tax years of 2016 through 2019 remain open and subject to examination by the appropriate government agencies of the United States and the State of California.

Recently Adopted Accounting Pronouncement: In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities regarding the reporting and disclosure requirements for not-for-profit organizations, effective for periods beginning after December 31, 2017. The pronouncement replaces three classes of net assets with two new classes, requires the reporting of expenses by function and natural classification, enhances disclosures on liquidity and availability of resources, and includes several other less significant reporting enhancements. The Hospital has adopted this new pronouncement for the year ended June 30, 2019, and the prior year presentation is conforming except where not required. As a result of adopting this pronouncement, no material changes within the Hospital classifications have occurred.

Reclassifications: Certain reclassifications have been made in the 2018 combined financial statements in order to conform to the classifications used in the 2019 combined financial statements with no effect on the previously reported changes in net assets.
NOTE B - NET PATIENT SERVICE REVENUES

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

*Medicare:* Payments for inpatient acute care services rendered to Medicare program beneficiaries are based on prospectively determined rates, which vary accordingly to the patient diagnostic classification system. Outpatient services are generally paid under an outpatient classification system subject to certain limitations. The System is, generally, no longer subject to cost reimbursement methodologies. Certain reimbursement matters are still subject to final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. At June 30, 2019, cost reports through June 30, 2017 have been audited or otherwise final settled.

*Medi-Cal:* Payments for inpatient services rendered to Medi-Cal patients are made based on reasonable costs through December 31, 2013. Effective January 1, 2014, the State of California’s Medi-Cal program changed inpatient reimbursement to state defined Diagnosis-Related Groups (DRG), similar to the Medicare inpatient payment methodology, as is, generally, no longer subject to cost reimbursement methodologies. Outpatient payments continue to be paid on pre-determined charge screens. The System, through December 31, 2013, is paid for cost-based inpatient services at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by Medi-Cal. At June 30, 2019, cost reports through June 30, 2017, have been audited or otherwise final settled.

*Other:* Payments for services rendered to other than Medicare and Medi-Cal patients are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations which provide for various discounts from established rates. The System has no capitated arrangements with any health plans as of June 30, 2019 and 2018.

Net patient service revenues summarized by payor are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inpatient services</td>
<td>$ 91,695,311</td>
<td>$103,346,483</td>
</tr>
<tr>
<td>Outpatient services</td>
<td>201,227,001</td>
<td>188,760,825</td>
</tr>
<tr>
<td></td>
<td>292,922,312</td>
<td>292,107,308</td>
</tr>
<tr>
<td>Less deductions from revenue</td>
<td>(227,659,783)</td>
<td>(227,170,221)</td>
</tr>
<tr>
<td>Net patient service revenues</td>
<td>$ 65,262,529</td>
<td>$ 64,937,087</td>
</tr>
</tbody>
</table>

Medicare and Medi-Cal revenue accounts for approximately 75% of the System’s gross patient revenues for each year. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.
NOTE C - RISK CONCENTRATIONS

Cash and Cash Equivalents: The System invests its excess cash in deposits with a local bank. At various times during the year, the System had deposits in excess of Federal Deposit Insurance Corporation (FDIC) coverage. The System does not have a policy for managing credit risk for cash and cash equivalents.

Patient Accounts Receivable: The System grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the System and management does not believe that there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the System. Concentration of patient accounts receivable at June 30, 2019 and 2018 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>$21,615,097</td>
<td>$18,612,311</td>
</tr>
<tr>
<td>Medi-Cal</td>
<td>8,026,144</td>
<td>7,966,490</td>
</tr>
<tr>
<td>Other third party payors</td>
<td>12,909,710</td>
<td>11,109,322</td>
</tr>
<tr>
<td>Self pay and other</td>
<td>6,898,387</td>
<td>6,636,992</td>
</tr>
<tr>
<td>Patient accounts receivable, before allowances</td>
<td>49,449,338</td>
<td>44,325,115</td>
</tr>
<tr>
<td>Less allowances for deductions from revenue</td>
<td>(40,999,401)</td>
<td>(36,735,381)</td>
</tr>
<tr>
<td>Patient accounts receivable, net of allowances</td>
<td>$8,449,937</td>
<td>$7,589,734</td>
</tr>
</tbody>
</table>

NOTE D - OTHER RECEIVABLES

Other receivables as of June 30, 2019 and 2018 were comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property taxes receivable</td>
<td>$939,341</td>
<td>$662,398</td>
</tr>
<tr>
<td>Receivable from government supplemental programs, net</td>
<td>10,058,792</td>
<td>5,968,226</td>
</tr>
<tr>
<td>Other various receivables</td>
<td>1,229,862</td>
<td>873,665</td>
</tr>
<tr>
<td></td>
<td>$12,227,995</td>
<td>$7,504,289</td>
</tr>
</tbody>
</table>

From time-to-time, hospitals may have certain physician income guarantee agreements to provide the physicians with a specified level of income for a period of time. Typically, the physician is then expected to practice in the area for a specified period of time, during which the amounts paid to the physicians are generally forgiven in a ratable fashion over time such as the time of service. When such transactions take place, accounting guidelines require the hospital to establish both an asset and a liability for the estimated fair value of its physician income guarantees at the inception of contracts entered into. As of June 30, 2019 and 2018, the System has no material agreements of this nature.
Notes to Combined Financial Statements (continued)

SAN GORGONIO HEALTH CARE SYSTEM

NOTE E - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2019 and 2018 were comprised of the following:

<table>
<thead>
<tr>
<th>Restricted for the following various purposes:</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Held under bond indenture agreements for capital additions</td>
<td>$294,818</td>
<td>$427,714</td>
</tr>
<tr>
<td>Held under bond indenture agreements for future debt service</td>
<td>7,941,756</td>
<td>6,495,789</td>
</tr>
<tr>
<td>Held as collateral for loan and other</td>
<td>434,506</td>
<td>142,194</td>
</tr>
<tr>
<td></td>
<td>8,671,080</td>
<td>7,065,697</td>
</tr>
<tr>
<td>Less assets limited as to use available for current debt service</td>
<td>(4,150,146)</td>
<td>(4,124,741)</td>
</tr>
<tr>
<td></td>
<td>$4,520,934</td>
<td>$2,940,956</td>
</tr>
</tbody>
</table>

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2019 and 2018 were comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and land improvements</td>
<td>$3,648,366</td>
<td>$3,648,366</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>122,338,070</td>
<td>122,338,070</td>
</tr>
<tr>
<td>Equipment</td>
<td>33,704,995</td>
<td>33,247,249</td>
</tr>
<tr>
<td>Construction-in-progress</td>
<td>8,390,249</td>
<td>8,370,896</td>
</tr>
<tr>
<td></td>
<td>168,081,680</td>
<td>167,604,581</td>
</tr>
<tr>
<td>Less accumulated depreciation and amortization</td>
<td>(71,081,215)</td>
<td>(65,107,521)</td>
</tr>
<tr>
<td></td>
<td>$97,000,465</td>
<td>$102,497,060</td>
</tr>
</tbody>
</table>

NOTE G - EMPLOYEES’ RETIREMENT PLAN

The System offers a tax sheltered annuity (TSA) program covering substantially all employees with at least 90 days of service. Matching contributions are given at the discretion of the System’s management based on percentage of gross salary. Expense under the TSA program amounted to approximately $1,166,003 and $1,140,840 for the years ended June 30, 2019 and 2018, respectively.
Notes to Combined Financial Statements (continued)

SAN GORGONIO HEALTH CARE SYSTEM

NOTE H - DEBT BORROWINGS

As of June 30, 2019 and 2018, debt borrowings were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Gorgonio Memorial Health Care District General Obligation Refunding Bonds, Series 2013; principal due each August 1st at various amounts through August 1, 2036; interest charged at 3% to 5% due semi-annually each August 1st and February 1st; collateralized by System property tax revenues:</td>
<td>$22,955,000</td>
<td>$23,465,000</td>
</tr>
<tr>
<td>San Gorgonio Memorial Healthcare District 2014 General Obligation Refunding Bonds, principal payment due each August 1st at various amounts through August 1, 2039; interest charged at 3% to 5.5% due semi-annually each August 1st and February 1st; secured by System property tax revenues:</td>
<td>61,275,000</td>
<td>62,290,000</td>
</tr>
<tr>
<td>San Gorgonio Memorial Healthcare District 2015 General Obligation Refunding Bonds, principal payment due each August 1st at various amounts through August 1, 2038; interest charged at 3% to 5% due semi-annually each August 1st and February 1st; secured by System property tax revenues:</td>
<td>24,430,000</td>
<td>24,785,000</td>
</tr>
<tr>
<td>Siemens loan; payable in monthly installments of $65,345 plus interest at 4.3%; due March, 2019; collateralized by System equipment, net patient accounts receivable, and unspent Proposition 13 funds:</td>
<td></td>
<td>577,709</td>
</tr>
<tr>
<td>Capital lease obligations, line of credit, premiums and other:</td>
<td>4,174,214</td>
<td>4,396,319</td>
</tr>
<tr>
<td></td>
<td>112,834,214</td>
<td>115,514,028</td>
</tr>
<tr>
<td>Less current maturities of debt borrowings</td>
<td>(2,095,000)</td>
<td>(2,603,449)</td>
</tr>
<tr>
<td></td>
<td>$110,739,214</td>
<td>$112,910,579</td>
</tr>
</tbody>
</table>

Future principal maturities for debt borrowings for the next five succeeding years are: $2,095,000 in 2020; $2,335,000 in 2021; $2,590,000 in 2022; $2,875,000 in 2023; and $3,180,000 in 2024.
NOTE II - DEBT BORROWINGS (continued)

Line of Credit: During the year the System renewed a revolving line of credit with a bank in the maximum amount of $10,000,000. Monthly payments of interest are required, charged at the bank’s current rate for this line stated at 4.25%. The line of credit is collateralized by System receivables and other property. The outstanding balance as of June 30, 2019 and 2018 was $-0- and $-0-, respectively.

American Express: Effective June 19, 2013, the System was able to secure $1,250,000 in unsecured and interest-free monthly credit. The limit on this line of credit is refreshable, so the System can always charge more than the amount awarded by sending payment to American Express to “buy down” the System’s outstanding balance. This line of credit had a balance of $31,065 and $28,011 as of June 30, 2019 and 2018, respectively. These outstanding balances are imbedded within the accounts payable line presented on the balance sheets.

Siemens Loan: The Siemens loan required that Proposition 13 tax revenue be held in a separate bank account. This bank account had a balance of $-0- and $25,387 at June 30, 2019 and 2018, respectively. The loan also required the System to maintain certain financial ratios and other financial covenants and to obtain approval from Siemens before entering into certain types of additional indebtedness. The System was in compliance with all related Siemens loan covenants as of June 30, 2018.

Bonds Payable: In March, 2013, the System issued $25,015,000 of aggregate principal amount of the San Gorgonio Memorial Health Care District (Riverside County, California) 2013 General Obligation Refunding Bonds (the 2013 bonds). Principal and interest payments are payable semiannually. Principal payments began August, 2014, and interest payments began in August, 2013. Bonds maturing on or after August 1, 2021 are subject to optional early redemption beginning August 1, 2020. Bonds maturing on August 1, 2036 are subject to mandatory redemption. The proceeds were used to advance refund the 2006 bonds that became subject to early redemption on August 1, 2013. Proceeds from the 2013 bonds were held in trust with a trustee under an escrow agreement dated March 12, 2013, and were used to pay in full the 2006 bonds during the year ended June 30, 2014.

In June, 2014, the System issued $64,425,000 of aggregate principal amount of the San Gorgonio Memorial Health Care District (Riverside County, California) 2014 General Obligation Refunding Bonds (the 2014 bonds). Principal and interest payments are payable annually and semiannually, respectively. Principal payments began August 1, 2015 and interest payments began February 1, 2015. The proceeds from the 2014 bonds were used to advance refund the 2009 bonds. A portion of the proceeds from the 2014 bonds are held in escrow with a trustee. These escrow funds will be used to fully redeem the 2009 bonds on August 1, 2017.
Notes to Combined Financial Statements (continued)

SAN GORGONIO HEALTH CARE SYSTEM

NOTE II - DEBT BORROWINGS (continued)

In December, 2015, the System issued $25,780,000 of aggregate principal amount of the San Gorgonio Memorial Health Care District (Riverside County, California) 2015 General Obligation Refunding Bonds, Series 2015 (the 2015 bonds). Principal and interest payments are payable annually and semiannually, respectively. Principal payments begin August 1, 2016 and interest payments began February 1, 2016. The majority of the proceeds from this issuance were used to advance refund all the outstanding bonds issued under the San Gorgonio Memorial Health Care District (Riverside County, California) General Obligation Bonds, Election of 2006, Series B (the 2006 bonds) which at the time showed principal outstanding of $24,775,000. During the year ended June 30, 2016, the System entered into an escrow agreement whereby the proceeds from the issuance of the 2015 bonds are held in trust with a trustee until such future time when the 2006 bonds will be paid in full due to an early redemption agreement.

The 2013, 2014 and 2015 bonds represent the remaining general obligation of the System as of June 30, 2019 and 2018. The District is empowered and obligated to levy ad valorem property taxes on all property with the District’s legal boundaries and subject to taxation by the District. These taxes are collected by the treasurer’s office of the Riverside County of California and used to service all debt payments required by these bond agreements. Funds held by the District in this regard are required to be deposited into separate and distinct accounts and are presented within the assets limited as use category with the combined financial statements of the System.

NOTE I - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2019, the System has recorded $8,390,249 as construction-in-progress representing cost capitalized for various remodeling and expansion projects on the System’s premises. The System’s most significant remodeling and expansion project involves the construction of a patient care facility extension to the newly constructed Emergency Department and Intensive Care Unit (ED/ICU). Processed construction costs related to this project were $6,973,717 and $6,973,717 as of June 30, 2019 and 2018, respectively.

Interest costs on borrowed funds, net of interest earnings, was being capitalized during the period of construction of the ED/ICU, as the interest expense was a component of constructing this asset which was funded by debt borrowings. No net interest amount was capitalized during the years ended June 30, 2019 and 2018 on the patient care facility as construction of the patient care facility is on hold until funding sources are determined and it is deemed ready to proceed with construction. Once funding sources are obtained, construction will commence. Future costs to complete all other projects as of June 30, 2019 are considered minor.

Operating Leases: The System leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the years ended June 30, 2019 and 2018, was $913,805 and $690,087, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2019, that have initial or remaining lease terms in excess of one year are not considered material.
NOTE I - COMMITMENTS AND CONTINGENCIES (continued)

Litigation: The System may from time-to-time be involved in litigation and regulatory investigations which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2019 will be resolved without material adverse effect on the System’s future financial position, results from operations or cash flows.

Medical Malpractice Insurance: The System maintains commercial malpractice liability insurance coverage through the Beta Risk Management Authority (Beta) under a claims made and reported policy covering losses up to $20 million per claim and $30 million in the annual aggregate, with a per claim deductible of $25,000. The System plans to maintain this same insurance coverage by renewing its current policy. During the year ended June 30, 2019 estimated claim receivables from program Beta approximated estimated claims payable for claims made.

Workers Compensation Program: The System is a participant in the Beta Risk Management Authority (the Fund) which administers a self-insured worker’s compensation plan for participating hospital employees of its member hospitals. The System pays premiums to the Fund which are adjusted annually. If participation in the Fund is terminated by the System, the System would be liable for its share of any additional premiums necessary for final disposition of all claims and losses covered by the Fund.

Regulatory Environment: The System is subject to several laws and regulations. These laws and regulations include matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has increased with respect to possible violations of statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the System is in compliance with all applicable government laws and regulations and is not aware of any future actions or unasserted claims at this time.

Health Care Reform: As a result of recently enacted federal and state healthcare reform legislation, substantial changes are anticipated both in the United States of America’s and the State of California’s healthcare delivery systems. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. The provisions are currently slated to take effect at specified times over the next decade. The federal and state healthcare reform legislation does not materially affect the 2019 and 2018 combined financial statement presentation.
Notes to Combined Financial Statements (continued)

SAN GORGONIO HEALTH CARE SYSTEM

NOTE I - COMMITMENTS AND CONTINGENCIES (continued)

Grants: During the years ended June 30, 2019 and 2018, the System received grants in the amount of $319,282 and $481,417 for various operational programs as designated by the Grantors. Often, grant awards from governmental agencies can be subject to audits. Such audits could result in claims against the System for disallowed costs or noncompliance with grantor restrictions. The amount, if any, of expenditures that may be disallowed by grantors cannot be determined at this time, however the System would anticipate that any such amounts would be not be considered to be material to the combined financial statement presentation.

NOTE J - PROPERTY TAXES

The Riverside County Treasurer’s office acts as an agent for the System to levy and collect a variety of property taxes and assessments from within District boundaries. Taxes are levied annually each July 1st on property values listed as of the prior January 1st. Assessed values are established by the Riverside County Assessor’s office at 100% of approximate fair market values. Reevaluations of all properties within the District boundaries are performed annually by the Assessor’s office. Taxes are due to the County in two equal installments each November 1st and February 1st. The assessed property is subject to lien on the levy date and taxes are considered delinquent after each December 10th and April 10th. For the years ended June 30, 2019 and 2018, combined property taxes for various System purposes were $12,247,343 and $11,394,883, respectively. Details of the various System’s property tax receipt and disbursement programs are detailed in a supplemental schedule to these combined financial statements.

NOTE K - RELATED PARTY TRANSACTIONS

The System conducts business with the Desert Anesthesia Consultants (DAC). A partner of the DAC is also a System’s Board member. In addition, the System has a long-term agreement with the DAC, of which the System is committed to pay a minimum of $1,100,000 upon early cancellation of the agreement between the two parties. During the years ended June 30, 2019 and 2018, the System incurred expenses of $460,444 and $1,172,843, respectively, for professional services rendered by the DAC. This agreement terminated in October, 2018.

NOTE L - INTERGOVERNMENTAL TRANSFER PROGRAM

The System participates in the intergovernmental transfer (IGT) program and other related supplemental programs sponsored by the State of California for the State’s health care districts. These programs are an integral part of the overall State’s Quality Assurance Fee programs, supported by funding from the federal government. IGT and related program revenues for the years ended June 30 2019 and 2018 were $18,378,195 and $16,224,154, respectively. These amounts are recorded as contra-deductions within the System’s deductions from revenue accounts which combine with gross patient revenues to arrive at net patient service revenues within the combined financial statements of the System. Related IGT expenses for the years ended June 30, 2019 and 2018 were $704,910 and $2,606,991, respectively, and are recorded as operating expenses within the System’s combined financial statements.
Notes to Combined Financial Statements (continued)

SAN GORGONIO HEALTH CARE SYSTEM

NOTE M - SAN GORGONIO HOSPITAL FOUNDATION, INC.

The San Gorgonio Hospital Foundation, Inc. (the Foundation) was established to solicit contributions for the System and to support healthcare services in the geographical area of Banning, California. The Foundation has a separate Board of Directors from the System, but exists primarily to support the System. The Foundation contributed approximately $82,964 and $94,385 to the System during the years ended June 30, 2019 and 2018, respectively.

The System records its interest in the net assets of the Foundation, assets that have been collected by the Foundation, but not yet distributed to the System by the Foundation as of the end of each fiscal year. For the years ended June 30, 2019 and 2018, the System has recorded assets of $646,319 and $636,346, respectively, as interest in the net assets of the System foundation within the System’s combined financial statements. Corresponding temporarily restricted and permanently restricted assets have also been recorded within the net asset categories of the System’s combined financial statements.

NOTE N - CHARITY CARE AND COMMUNITY BENEFIT EXPENSE

The System monitors the level of charity care and community service it provides. The amount of charges foregone, (based on established rates), for services and supplies furnished under its charity care policies are presented in the following summary which is a compilation of the System’s charity care and community benefit expense for the years ended June 30, 2019 and 2018, in terms of services to the poor and benefits to the broader community:

<table>
<thead>
<tr>
<th>Benefits for the poor:</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional charity care</td>
<td>$674,019</td>
<td>$964,919</td>
</tr>
<tr>
<td>Administrative write-offs</td>
<td>466,669</td>
<td>760,145</td>
</tr>
<tr>
<td>Total net charity and uncompensated care</td>
<td>1,140,688</td>
<td>1,725,064</td>
</tr>
<tr>
<td>Unpaid Medi-Cal program charges</td>
<td>81,609,109</td>
<td>96,924,579</td>
</tr>
<tr>
<td>Total quantifiable benefits for the poor</td>
<td>82,749,797</td>
<td>98,649,643</td>
</tr>
</tbody>
</table>

Benefits for the broader community:

<table>
<thead>
<tr>
<th>Benefits for the broader community:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unpaid Medicare program charges</td>
<td>51,371,677</td>
<td>47,613,567</td>
</tr>
<tr>
<td>Total quantifiable benefits for the broader community</td>
<td>51,371,677</td>
<td>47,613,567</td>
</tr>
<tr>
<td>Total quantifiable community benefits</td>
<td>$134,121,474</td>
<td>$146,263,210</td>
</tr>
</tbody>
</table>

18
NOTE O - FUNCTIONAL EXPENSES

The System provides general health care services to residents within its geographic location. The method used to arrive at the functional expense allocation is derived from Medicare cost reporting principles which basically serves to categorize expenses as those directly related to patient care and those considered to be general and administrative in support of patient care services. Functional expenses as of June 30, 2019 are as follows:

<table>
<thead>
<tr>
<th>Healthcare Services</th>
<th>General and Administrative</th>
<th>Fundraising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>$18,074,419</td>
<td>$ 17,148,123</td>
<td>$ 72,165</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>4,316,862</td>
<td>4,107,379</td>
<td>5,483</td>
</tr>
<tr>
<td>Professional/contract labor</td>
<td>2,170,846</td>
<td>2,068,261</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>4,212,642</td>
<td>4,008,931</td>
<td>4,637</td>
</tr>
<tr>
<td>Purchased services</td>
<td>3,157,752</td>
<td>3,008,528</td>
<td></td>
</tr>
<tr>
<td>Utilities/rents</td>
<td>931,741</td>
<td>887,710</td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>523,983</td>
<td>499,222</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>2,569,878</td>
<td>2,448,434</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>3,059,128</td>
<td>2,914,565</td>
<td></td>
</tr>
<tr>
<td>Other operating expenses/IGTs</td>
<td>1,762,440</td>
<td>1,631,559</td>
<td>47,595</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>$40,779,692</strong></td>
<td><strong>$38,722,711</strong></td>
<td><strong>$129,880</strong></td>
</tr>
</tbody>
</table>

Functional expenses as of June 30, 2018 are as follows:

<table>
<thead>
<tr>
<th>Healthcare Services</th>
<th>General and Administrative</th>
<th>Fundraising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>$18,438,578</td>
<td>$17,480,866</td>
<td>$ 86,371</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>4,819,092</td>
<td>4,584,991</td>
<td>6,369</td>
</tr>
<tr>
<td>Professional/contract labor</td>
<td>2,103,228</td>
<td>2,003,836</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>4,296,522</td>
<td>4,085,757</td>
<td>7,727</td>
</tr>
<tr>
<td>Purchased services</td>
<td>3,571,830</td>
<td>3,403,039</td>
<td></td>
</tr>
<tr>
<td>Utilities/rents</td>
<td>809,398</td>
<td>771,148</td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>531,787</td>
<td>506,656</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>2,657,739</td>
<td>2,532,144</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>3,149,203</td>
<td>3,000,383</td>
<td></td>
</tr>
<tr>
<td>Other operating expenses/IGTs</td>
<td>2,580,385</td>
<td>2,443,512</td>
<td>14,934</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>$42,957,762</strong></td>
<td><strong>$40,812,332</strong></td>
<td><strong>$115,401</strong></td>
</tr>
</tbody>
</table>
NOTE P - INFORMATION REGARDING LIQUIDITY AND AVAILABILITY OF RESOURCES

The System regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while striving to maximize the investment of its available funds. The System has various sources of liquidity at its disposal as itemized in the table presented below. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the System considers all expenditures related to its ongoing activities of providing health care services as well as the conduct of services undertaken to support those activities, to be general expenditures.

The System strives to maintain liquid financial assets sufficient to cover at least 30 days of expenditures. The System’s policy is that excess cash on hand is invested in investment instruments with liquidity requirements to enable System usage of those assets within a short time period. The following table reflects the System’s financial assets as of June 30, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the balance sheet date.

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$4,175,262</td>
<td>$6,308,962</td>
</tr>
<tr>
<td>Assets limited as to use</td>
<td>8,671,079</td>
<td>7,065,697</td>
</tr>
<tr>
<td>Patient accounts receivable, net of allowances</td>
<td>8,449,937</td>
<td>7,589,734</td>
</tr>
<tr>
<td>Other receivables</td>
<td>12,227,995</td>
<td>7,504,289</td>
</tr>
<tr>
<td><strong>Total financial assets</strong></td>
<td>33,524,273</td>
<td>28,468,682</td>
</tr>
<tr>
<td>Less reduction of financial assets not available for general expenses</td>
<td>(7,941,756)</td>
<td>(6,495,789)</td>
</tr>
<tr>
<td><strong>Total financial assets available for one year of general expenses</strong></td>
<td>$25,582,517</td>
<td>$21,972,893</td>
</tr>
</tbody>
</table>

In addition to financial assets available to meet general expenditures over the next 12-month period, the System operates a balanced budget and anticipates collecting sufficient patient service revenue to cover general expenditures not covered by assets limited as to use and donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the System’s cash flow and shows the cash generated and used in operations for fiscal years 2019 and 2018.
Notes to Combined Financial Statements (continued)

SAN GORGONIO HEALTH CARE SYSTEM

NOTE Q - FAIR VALUE OF ASSETS AND LIABILITIES

The System has adopted Statement of Financial Accounting standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 fair value establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. FAS 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1:** Quoted prices in active markets for identical assets or liabilities;

**Level 2:** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;

**Level 3:** Unobservable inputs for the assets or liabilities that are supported by little or no market activity and that are significant to the fair value of the underlying assets or liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the System's balance sheets, as well as the classification pursuant to the valuation hierarchy.

**Financial Instruments:** Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 instruments include a variety of financial instruments as listed below. There are no Level 2 or Level 3 types within the balance sheet of the System. The following table summarizes the financial instruments measured at fair value on a recurring basis in accordance with FAS 157 as of June 30, 2019:

<table>
<thead>
<tr>
<th>Financial Instrument</th>
<th>Quoted Prices in Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Other Unobservable Inputs (Level 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term money market</td>
<td>$8,759,655</td>
<td>-0-</td>
<td>-0-</td>
</tr>
<tr>
<td>Local agency investment fund</td>
<td>4,717</td>
<td>4,717</td>
<td>-0-</td>
</tr>
<tr>
<td>Totals of financial instruments</td>
<td>$8,764,372</td>
<td>-0-</td>
<td>-0-</td>
</tr>
</tbody>
</table>
Notes to Combined Financial Statements (continued)

SAN GORGONIO HEALTH CARE SYSTEM

NOTE Q - FAIR VALUE OF ASSETS AND LIABILITIES (continued)

The following table summarizes the financial instruments measured at fair value on a recurring basis in accordance with FAS 157 as of June 30, 2018:

<table>
<thead>
<tr>
<th>Financial Instrument</th>
<th>Fair Value</th>
<th>Quoted Prices in Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Other Unobservable Inputs (Level 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term money market</td>
<td>$ 7,510,432</td>
<td>$ 7,510,432</td>
<td>-0-</td>
<td>-0-</td>
</tr>
<tr>
<td>Local agency investment fund</td>
<td>4,613</td>
<td>4,613</td>
<td>-0-</td>
<td>-0-</td>
</tr>
<tr>
<td>Totals of financial instruments</td>
<td>$ 7,515,045</td>
<td>$ 7,515,045</td>
<td>-0-</td>
<td>-0-</td>
</tr>
</tbody>
</table>

NOTE R - SUBSEQUENT EVENTS

The System’s management has evaluated the effect of other significant subsequent events on the combined financial statements through October 30, 2019, the date the combined financial statements are issued, and determined that there are no other material subsequent events that have not been disclosed.
SUPPLEMENTARY SCHEDULES
Combining Balance Sheet

SAN GORCONIO HEALTH CARE SYSTEM

June 30, 2019

<table>
<thead>
<tr>
<th></th>
<th>Hospital</th>
<th>District</th>
<th>Eliminations</th>
<th>Combined Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 1,049,179</td>
<td>$ 3,126,083</td>
<td></td>
<td>$ 4,175,262</td>
</tr>
<tr>
<td>Assets limited as to use</td>
<td>4,150,146</td>
<td></td>
<td></td>
<td>4,150,146</td>
</tr>
<tr>
<td>Patient accounts receivable</td>
<td>8,329,763</td>
<td>120,174</td>
<td></td>
<td>8,449,937</td>
</tr>
<tr>
<td>Other receivables</td>
<td>11,283,511</td>
<td>11,841,161</td>
<td>(10,896,677)</td>
<td>12,227,995</td>
</tr>
<tr>
<td>Estimated settlements receivable</td>
<td>554,344</td>
<td></td>
<td></td>
<td>554,344</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,668,855</td>
<td></td>
<td></td>
<td>1,668,855</td>
</tr>
<tr>
<td>Prepaid expenses and deposits</td>
<td>280,427</td>
<td>72,820</td>
<td></td>
<td>353,247</td>
</tr>
<tr>
<td>Total current assets</td>
<td>23,166,079</td>
<td>19,310,384</td>
<td>(10,896,677)</td>
<td>31,579,786</td>
</tr>
<tr>
<td>Assets limited as to use</td>
<td>12,787</td>
<td>4,508,147</td>
<td></td>
<td>4,520,934</td>
</tr>
<tr>
<td>Capital assets, net</td>
<td></td>
<td>97,000,465</td>
<td></td>
<td>97,000,465</td>
</tr>
<tr>
<td>Interest in Foundation</td>
<td></td>
<td>646,319</td>
<td></td>
<td>646,319</td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
<td></td>
<td>1,474,000</td>
<td>1,474,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 23,825,185</td>
<td>$122,292,996</td>
<td>(10,896,677)</td>
<td>$135,221,504</td>
</tr>
</tbody>
</table>

| **Liabilities and Net Assets** |       |         |              |                |
| Current liabilities:       |       |         |              |                |
| Current debt maturities    |       |         |              | $  2,095,000   |
| Accounts payable           | $ 15,864,022 | 89,989  | (10,896,677) | 5,057,334      |
| Accrued payroll            | 3,051,669   |         |              | 3,051,669      |
| Estimated settlements payable | 732,545 |         |              | 732,545        |
| Accrued interest payable   |         |         | 2,055,146    | 2,055,146      |
| Total current liabilities  | 19,648,236 | 4,240,135 | (10,896,677) | 12,991,694     |
| Debt borrowings, less current |     |         | 110,739,214  | 110,739,214    |
|                           | 19,648,236 | 114,979,349 | (10,896,677) | 123,730,908    |
| Net Assets:               |       |         |              |                |
| Net assets without restriction | 3,937,865 | 7,313,647 |              | 11,251,512     |
| Net assets with restriction | 239,084  |         |              | 239,084        |
|                           | 4,176,949 | 7,313,647 |              | 11,490,596     |
| **Total**                 | $ 23,825,185 | $122,292,996 | (10,896,677) | $135,221,504   |
## Combining Statement of Operations and Changes in Net Assets

**SAN GORONIO HEALTH CARE SYSTEM**

Year Ended June 30, 2019

<table>
<thead>
<tr>
<th></th>
<th>Hospital</th>
<th>District</th>
<th>Eliminations</th>
<th>Combined Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted revenues, gains, etc.</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net patient service revenues</td>
<td>$ 64,951,314</td>
<td>$ 311,215</td>
<td></td>
<td>$ 65,262,529</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant revenues</td>
<td>319,282</td>
<td></td>
<td></td>
<td>319,282</td>
</tr>
<tr>
<td>District taxes</td>
<td></td>
<td>3,937,861</td>
<td></td>
<td>3,937,861</td>
</tr>
<tr>
<td>Other revenues</td>
<td>2,099,783</td>
<td>701,479</td>
<td>(653,465)</td>
<td>2,147,797</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>67,370,379</td>
<td>4,950,555</td>
<td>(653,465)</td>
<td>71,667,469</td>
</tr>
</tbody>
</table>

### Operating expenses

<table>
<thead>
<tr>
<th></th>
<th>Hospital</th>
<th>District</th>
<th>Eliminations</th>
<th>Combined Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>35,294,707</td>
<td></td>
<td></td>
<td>35,294,707</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>8,429,724</td>
<td></td>
<td></td>
<td>8,429,724</td>
</tr>
<tr>
<td>Professional and other fees</td>
<td>2,731,074</td>
<td>228,499</td>
<td></td>
<td>2,959,573</td>
</tr>
<tr>
<td>Contract labor</td>
<td>1,279,534</td>
<td></td>
<td></td>
<td>1,279,534</td>
</tr>
<tr>
<td>Supplies</td>
<td>8,225,546</td>
<td></td>
<td></td>
<td>8,226,210</td>
</tr>
<tr>
<td>Purchased services</td>
<td>6,062,843</td>
<td>103,437</td>
<td></td>
<td>6,166,280</td>
</tr>
<tr>
<td>Utilities</td>
<td>905,646</td>
<td></td>
<td></td>
<td>905,646</td>
</tr>
<tr>
<td>Building and equipment rent</td>
<td>1,567,270</td>
<td></td>
<td>(653,465)</td>
<td>913,805</td>
</tr>
<tr>
<td>Insurance</td>
<td>1,023,205</td>
<td></td>
<td></td>
<td>1,023,205</td>
</tr>
<tr>
<td>Interest</td>
<td>192,915</td>
<td>4,825,397</td>
<td></td>
<td>4,982,736</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td></td>
<td>5,973,693</td>
<td></td>
<td>5,973,693</td>
</tr>
<tr>
<td>Intergovernmental transfers</td>
<td>704,910</td>
<td></td>
<td></td>
<td>704,910</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>1,585,703</td>
<td>1,150,981</td>
<td></td>
<td>2,732,684</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>68,003,077</td>
<td>12,282,671</td>
<td>(653,465)</td>
<td>79,632,283</td>
</tr>
</tbody>
</table>

Operating income (loss) | (632,698) | (7,332,116) |              | (7,964,814)     |

### Nonoperating revenues (expenses)

<table>
<thead>
<tr>
<th></th>
<th>Hospital</th>
<th>District</th>
<th>Eliminations</th>
<th>Combined Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>District tax revenues</td>
<td></td>
<td>8,309,482</td>
<td></td>
<td>8,309,482</td>
</tr>
<tr>
<td>Capital contributions and other</td>
<td>92,937</td>
<td></td>
<td></td>
<td>92,937</td>
</tr>
<tr>
<td>Total nonoperating</td>
<td>92,937</td>
<td>8,309,482</td>
<td></td>
<td>8,402,419</td>
</tr>
</tbody>
</table>

Increase (decrease) in net assets | (539,761) | 977,366 |              | 437,605        |

Net assets at beginning of year | 4,716,710 | 6,336,281 |              | 11,052,991     |

Net assets at end of year | $4,176,949 | $7,313,647 |              | $11,490,596    |
## Earnings Before Interest, Depreciation and Amortization (EBIDA)

**SAN GORGONIO HEALTH CARE SYSTEM**

### Unrestricted revenues, gains and other support

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net patient service revenue</td>
<td>$ 65,262,529</td>
<td>$ 64,937,087</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant revenues used for operations</td>
<td>319,282</td>
<td>481,417</td>
</tr>
<tr>
<td>District taxes used for operations</td>
<td>3,937,861</td>
<td>3,565,041</td>
</tr>
<tr>
<td>Other revenues</td>
<td>2,147,797</td>
<td>1,840,667</td>
</tr>
<tr>
<td><strong>Total unrestricted revenues, gains and other support</strong></td>
<td><strong>71,667,469</strong></td>
<td><strong>70,824,212</strong></td>
</tr>
</tbody>
</table>

### Operating expenses

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>35,294,707</td>
<td>36,005,815</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>8,429,724</td>
<td>9,410,452</td>
</tr>
<tr>
<td>Professional fees</td>
<td>2,959,573</td>
<td>2,539,562</td>
</tr>
<tr>
<td>Contract labor</td>
<td>1,279,534</td>
<td>1,567,502</td>
</tr>
<tr>
<td>Supplies</td>
<td>8,226,210</td>
<td>8,390,066</td>
</tr>
<tr>
<td>Purchased services</td>
<td>6,166,280</td>
<td>6,974,869</td>
</tr>
<tr>
<td>Utilities</td>
<td>905,646</td>
<td>890,459</td>
</tr>
<tr>
<td>Building and equipment rent</td>
<td>913,805</td>
<td>690,087</td>
</tr>
<tr>
<td>Insurance</td>
<td>1,023,205</td>
<td>1,038,443</td>
</tr>
<tr>
<td>Intergovernmental transfer program</td>
<td>704,910</td>
<td>2,606,991</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>2,736,684</td>
<td>2,431,840</td>
</tr>
<tr>
<td><strong>Total operating expenses w/o interest, depreciation &amp; amortization</strong></td>
<td><strong>68,640,278</strong></td>
<td><strong>72,546,026</strong></td>
</tr>
</tbody>
</table>

**Earnings (loss) before interest, depreciation and amortization**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>$ 3,027,191</strong></td>
<td><strong>$(1,721,814)</strong></td>
</tr>
</tbody>
</table>

The earnings before interest, depreciation and amortization schedule is derived from the combined statements of operations and changes in net assets. However, it excludes the following line items:

- **Interest**
- **Depreciation and amortization**
- **District tax revenues used for capital expenditures**
- **Loss on refinancing**
- **Capital contributions and other changes in net assets**
Property Tax Receipts and Disbursements

SAN GORGONIO HEALTH CARE SYSTEM

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Measure A Debt Service Cash</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Measure A debt service receipts:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax receipts</td>
<td>$ 8,282,972</td>
<td>$ 8,149,241</td>
</tr>
<tr>
<td>Interest income</td>
<td>$ 10,394</td>
<td>$ 5,229</td>
</tr>
<tr>
<td>Total Measure A debt service receipts</td>
<td>$ 8,293,366</td>
<td>$ 8,154,470</td>
</tr>
<tr>
<td><strong>Measure A debt service disbursements:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bond principal payments</td>
<td>$ 1,880,000</td>
<td>$ 1,680,000</td>
</tr>
<tr>
<td>Bond interest payments</td>
<td>$ 4,967,400</td>
<td>$ 5,256,560</td>
</tr>
<tr>
<td>Funds deposited in escrow to defease 2009 bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Measure A debt service disbursements</td>
<td>$ 6,847,400</td>
<td>$ 6,936,560</td>
</tr>
<tr>
<td><strong>Ending Measure A Debt Service Cash</strong></td>
<td>$ 7,941,756</td>
<td>$ 6,495,790</td>
</tr>
</tbody>
</table>

| **Beginning Measure D Cash**           |                 |                 |
| Measure D receipts:                   | $ 978,774       | $ 884,951       |
|   Tax receipts                        | $ 2,265,438     | $ 2,199,003     |
|   Interest income                    | $ 2,736         | $ 453           |
| Total Measure D receipts             | $ 2,268,174     | $ 2,199,456     |
| **Measure D disbursements:**          |                 |                 |
|   Emergency room salaries             | $ 2,464,964     | $ 2,105,633     |
| Total Measure D disbursements         | $ 2,464,964     | $ 2,105,633     |
| **Ending Measure D Cash**             | $ 781,984       | $ 978,774       |

| **Beginning Proposition 13 and ABX 126 Cash** | $ -0-     | $ -0-          |
| Proposition 13 and ABX 126 receipts:        |           |                 |
|   Tax receipts                              | $ 1,569,395  | $ 1,518,049     |
| Total Proposition 13 and ABX 126 receipts   | $ 1,569,395  | $ 1,518,049     |
| Proposition 13 and ABX 126 disbursements:   |           |                 |
|   Capital purchases and other related purchases | $ 1,569,395  | $ 1,518,049     |
| Total Proposition 13 and ABX 126 disbursements | $ 1,569,395  | $ 1,518,049     |
| **Ending Proposition 13 and ABX 126 Cash**  | $ -0-       | $ -0-          |