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HUNTINGTON EAST VALLEY HOSPITAL
FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2000

INCOME STATEMENT

CURRENT MONTH						YEAR TO DATE				
DOLLARS			VARIANCE FR BUDGET			DOLLARS			VARIANCE FR BUDGET	
ACTUAL	BUDGET	LAST YEAR	AMOUNT	%		ACTUAL	BUDGET	LAST YEAR	AMOUNT	%
1,878,122	2,003,731	3,548,264	(125,609)	-6.3%	Net Patient Service Revenue	20,524,273	20,000,000	20,613,607	524,273	2.6%
(79,313)	(8,784)	(1,273,403)	(70,529)	802.9%	Net Capitation Revenue	58,801	660,000	494,288	(601,199)	-91.1%
1,798,809	1,994,947	2,274,861	(196,138)	-9.8%	Total Patient Service Revenue	20,583,074	20,660,000	21,107,895	(76,926)	-0.4%
10,616	29,091	(29,897)	(18,475)	-63.5%	Total Other Operating Revenue	31,965	349,100	364,103	(317,135)	-90.8%
1,809,425	**2,024,038**	**2,244,964**	**(214,613)**	**-10.6%**	**TOTAL OPERATING REVENUE**	**20,615,039**	**21,009,100**	**21,471,998**	**(394,061)**	**-1.9%**
					Operating Expenses :					
1,183,289	934,780	909,823	248,509	26.6%	Salaries, Wages & Benefits	11,764,752	10,963,359	11,262,495	801,393	7.3%
341,944	439,418	778,833	(97,474)	-22.2%	Outside Services	4,575,841	5,273,053	6,030,086	(697,212)	-13.2%
232,883	250,857	273,565	(17,974)	-7.2%	Supplies	2,992,852	2,961,731	2,846,775	31,121	1.1%
88,148	68,767	74,684	19,381	28.2%	Depreciation & Amortization	915,399	825,176	818,684	90,223	10.9%
47,905	43,047	43,202	4,858	11.3%	Interest	553,081	516,559	583,929	36,522	7.1%
3,390	33,015	43,990	(29,625)	-89.7%	Rental - Building & Equipment	419,045	396,186	401,942	22,859	5.8%
17,990	17,961	19,000	29	0.2%	Parent Allocation	215,880	215,528	219,658	352	0.2%
(56,857)	22,917	596,699	(79,774)	-348.1%	Provision for Bad Debt	411,169	275,000	983,242	136,169	49.5%
14,725	108,914	125,851	(94,189)	-86.5%	Other	1,098,562	1,306,922	1,430,721	(208,360)	-15.9%
1,873,417	**1,919,676**	**2,865,647**	**(46,259)**	**-2.4%**	**TOTAL OPERATING EXPENSES**	**22,946,581**	**22,733,514**	**24,577,532**	**213,067**	**0.9%**
(63,992)	**104,362**	**(620,683)**	**(168,354)**	**-161.3%**	**SURPLUS (DEFICIT) FROM OPERATIONS**	**(2,331,542)**	**(1,724,414)**	**(3,105,534)**	**(607,128)**	**35.2%**
88,148	68,767	74,684	19,381	28.2%	Add : Depreciation & Amortization	915,399	825,176	818,684	90,223	10.9%
24,156	**173,129**	**(545,999)**	**(148,973)**	**-86.0%**	**CASH FLOW**	**(1,416,143)**	**(899,238)**	**(2,286,850)**	**(516,905)**	**57.5%**

HUNTINGTON EAST VALLEY HOSPITAL
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2000

	CURRENT MONTH	AUDITED 12/31/1999	NET $ CHANGE
CURRENT ASSETS -			
Cash & Cash Equivalents	26,625	483,194	(456,569)
Patient Accounts Receivable	6,029,637	3,794,376	2,235,261
Due From Third Party - Payors	1,319,363	1,267,419	51,944
Due From Methodist - HEVH POD	48,387	813,929	(765,542)
Due From Affliates - Other	1,097	17,415	(16,318)
Current Portion Bond Trust Funds	60,651	45,647	15,004
Other Receivables	186,916	303,759	(116,843)
Supplies at Cost	464,267	506,351	(42,084)
Prepaid Expenses	168,386	280,115	(111,729)
Deposits	122,730	125,502	(2,772)
TOTAL CURRENT ASSETS	8,428,059	7,637,707	790,352
Cash Restricted As To Use	84,414	233,543	(149,129)
Board Designated - Other Assets	-	45,000	(45,000)
Other Investments - Joint Venture	120,227	120,227	-
Investment In Lab - CHSO	(24,884)	181,214	(206,098)
Deferred Refinance Costs (Net Amort)	380,198	394,267	(14,069)
PLANT AND EQUIPMENT -			
Plant Assets	12,921,975	12,592,059	329,916
Allowance for Depreciation	(3,792,352)	(2,957,129)	(835,223)
Construction in Progress	81,798	33,201	48,597
TOTAL PLANT AND EQUIPMENT	9,211,421	9,668,131	(456,710)
TOTAL ASSETS	18,199,435	18,280,089	(80,654)

HUNTINGTON EAST VALLEY HOSPITAL
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2000

	CURRENT MONTH	AUDITED 12/31/1999	NET $ CHANGE
CURRENT LIABILITIES -			
Accounts Payable	3,213,798	3,442,771	(228,973)
Other Current Liabilities	109,513	159,550	(50,037)
Wages & Amounts Withheld	704,307	441,714	262,593
Interest Payable	67,296	60,362	6,934
Due to Third Party Payors	(51,009)	677,473	(728,482)
Due to Affilates - Hunt. Foundation	300,000	453,343	(153,343)
Due to Affilates - Other	1,591,996	42,108	1,549,888
Claims Payable	133,496	2,779,648	(2,646,152)
Current Portion of Long Term Debt	223,506	550,194	(326,688)
TOTAL CURRENT LIABILITIES	6,292,903	8,607,163	(2,314,260)
LONG TERM DEBT -			
1997 Bonds Payable	9,100,000	9,100,000	-
Due to Affiliates - SCHS	1,269,442	1,214,612	54,830
Due to Affilates - Hunt. Foundation	111,748	-	111,748
Due to Affiliates - Other	3,233,888	2,475,399	758,489
GMAC Payable	-	3,142	(3,142)
Sumitomo Payable	7,171	34,007	(26,836)
Leases Payable	115,072	46,174	68,898
TOTAL LONG TERM DEBT	13,837,321	12,873,334	963,987
TOTAL LIABILITIES	20,130,224	21,480,497	(1,350,273)
NET ASSETS (DEFICIT):			
Unrestricted			
Beginning balance (deficit)	(1,466,041)	1,639,493	(3,105,534)
Contributions from/(to) Affiliates	1,866,794	(1,770,289)	3,637,083
Current year surplus (deficit)	(2,331,542)	(3,105,534)	773,992
DECREASE IN UNRESTRICTED NET ASSET	(1,930,789)	(3,236,330)	1,305,541
Temporarily restricted	-	35,922	(35,922)
TOTAL NET ASSETS	(1,930,789)	(3,200,408)	1,269,619
TOTAL LIAB AND NET ASSETS	18,199,435	18,280,089	(80,654)

Assurance and Advisory Business Services

Audited Financial Statements

Huntington East Valley Hospital

Years ended December 31, 1999 and 1998

with Report of Independent Auditors

Ernst & Young

Ernst & Young LLP

AUDITED FINANCIAL STATEMENTS

Huntington East Valley Hospital

Years ended December 31, 1999 and 1998

with Report of Independent Auditors

Huntington East Valley Hospital

Audited Financial Statements

Years ended December 31, 1999 and 1998

Contents

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Report of Independent Auditors

Board of Directors
Huntington East Valley Hospital

We have audited the accompanying balance sheets of Huntington East Valley Hospital as of December 31, 1999 and 1998, and the related statements of operations and changes in net assets (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Huntington East Valley Hospital at December 31, 1999 and 1998, and the results of its operations, changes in net assets (deficit) and cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst + Young LLP

March 14, 2000, except for Note 6
as to which the date is May 24, 2000

Huntington East Valley Hospital

Balance Sheets

	December 31 1999	December 31 1998
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ **483**	$ 244
Patient accounts receivable (less allowance for uncollectible accounts of $945 in 1999 and $540 in 1998)	**3,794**	5,632
Inventories	**506**	512
Current portion of assets limited as to use	**46**	40
Due from third-party payors	**590**	–
Due from affiliate *(Note 2)*	**336**	–
Prepaid expenses and other current assets	**584**	1,332
Total current assets	**6,339**	7,760
Other assets:		
Property, plant and equipment, net of accumulated depreciation and amortization *(Note 3)*	**9,668**	9,560
Assets limited as to use, less current portion	**279**	688
Deferred financing costs	**394**	408
Other assets *(Note 2)*	**427**	415
Total assets	$ **17,107**	$ 18,831
Liabilities and net assets (deficit)		
Current liabilities:		
Accounts payable	$ **3,503**	$ 3,957
Accrued expenses and other liabilities	**3,381**	574
Due to third-party payors	–	532
Current portion of note payable to affiliate *(Note 2)*	–	189
Current portion of due to affiliate *(Note 2)*	–	1,790
Current maturities of long-term debt *(Note 4)*	**550**	859
Total current liabilities	**7,434**	7,901
Due to affiliate, less current portion *(Note 2)*	**3,690**	659
Long-term debt, less current maturities *(Note 4)*	**9,183**	9,645
Commitments and contingencies *(Notes 3 and 4)*		
Net assets (deficit):		
Unrestricted net assets (deficit)	**(3,236)**	618
Temporarily restricted net assets	**36**	8
Total net assets (deficit)	**(3,200)**	626
Total liabilities and net assets (deficit)	$ **17,107**	$ 18,831

See accompanying notes.

Huntington East Valley Hospital

Statements of Operations

	Year ended December 31	
	1999	1998
	(In Thousands)	
Unrestricted revenues, gains and other support:		
Net patient service revenue *(Note 1)*	$ **20,614**	$ 21,135
Other operating revenue	**858**	3,658
Total revenues, gains and other support	**21,472**	24,793
Expenses:		
Salaries and benefits	**10,808**	11,176
Supplies	**2,840**	2,712
Purchased services *(Note 2)*	**8,259**	8,441
Insurance	**285**	236
Depreciation and amortization	**819**	714
Interest *(Note 4)*	**584**	735
Provision for bad debts	**983**	322
Total expenses	**24,578**	24,336
Operating (loss) income	**(3,106)**	457
Contributions to affiliate *(Note 2)*	**(748)**	(593)
Decrease in unrestricted net assets	**$ (3,854)**	$ (136)

See accompanying notes.

Huntington East Valley Hospital

Statements of Changes in Net Assets (Deficit)

	Year ended December 31	
	1999	**1998**
	(In Thousands)	
Unrestricted net assets (deficit)		
Operating (loss) income	**$ (3,106)**	$ 457
Contributions to affiliates, net *(Note 2)*	**(748)**	(593)
Decrease in unrestricted net assets	**(3,854)**	(136)
Temporarily restricted net assets		
Contributions	**28**	8
Increase in temporarily restricted assets	**28**	8
Decrease in net assets	**(3,826)**	(128)
Net assets at beginning of year	**626**	754
Net assets (deficit) at end of year	**$ (3,200)**	$ 626

See accompanying notes.

Huntington East Valley Hospital

Statements of Cash Flows

	Year ended December 31 1999	1998
	(In Thousands)	
Operating activities		
Decrease in net assets	$ **(3,826)**	$ (128)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	**819**	714
Contributions to affiliate	**748**	593
Changes in operating assets and liabilities:		
Patient accounts receivable	**1,838**	(1,570)
Due to/from third-party payors	**(1,122)**	(39)
Inventories	**6**	4
Prepaid expenses and other current assets	**742**	640
Accounts payable and accrued expenses	**2,353**	1,244
Due to affiliates	**(2,126)**	1,470
Net cash (used in) provided by operating activities	**(568)**	2,928
Investing activities		
Purchases of property, plant and equipment	**(913)**	(890)
Decrease (increase) in assets limited as to use	**409**	(31)
Increase in other assets	**(12)**	(202)
Net cash used in investing activities	**(516)**	(1,123)
Financing activities		
Principal payments on long-term debt	**(771)**	(1,016)
Increase (decrease) due to affiliates	**3,031**	(87)
Payment of note payable to affiliate	**(189)**	(359)
Increase in deferred financing costs	**–**	(34)
Contributions to affiliates	**(748)**	(639)
Net cash provided by (used in) financing activities	**1,323**	(2,135)
Net increase (decrease) in cash and cash equivalents	**239**	(330)
Cash and cash equivalents at beginning of period	**244**	574
Cash and cash equivalents at end of period	$ **483**	$ 244
Supplemental cash flow information		
Interest paid	$ **549**	$ 658
Capital leases	$ **–**	$ 175
Supplemental noncash investing and financing activities		
Contribution of interest in affiliate	$ **–**	$ 46

See accompanying notes.

Huntington East Valley Hospital

Notes to Financial Statements

December 31, 1999

(Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies

Organization

The accompanying financial statements include the accounts of Huntington East Valley Hospital (the Hospital). The Hospital is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code to operate as a nonprofit public benefit corporation. The Hospital was purchased by Southern California Healthcare Systems (SCHS or Parent), a nonprofit public benefit corporation, on March 31, 1995 (see Note 2), and was converted to nonprofit status. SCHS is the sole corporate member of the Hospital.

Mission Statement

The Hospital's primary mission is to serve the health care needs of the city of Glendora, California, and surrounding areas. In partnership, the medical staff, allied health professionals, employees, and volunteers of Huntington East Valley Hospital are dedicated to serving the people of the east San Gabriel Valley by providing high quality health care, in a caring, compassionate and friendly environment. As an affiliate of Southern California Healthcare Systems, the Hospital's programs are responsive to the health care and educational needs of the east San Gabriel Valley communities, while also offering access to a full range of services in an integrated health care delivery system.

Liquidity and Capital Resources

The Hospital incurred a significant operating loss for the year ended December 31, 1999, and has a working capital deficit of $1,095 and net asset deficit of $3,200 at December 31, 1999. The Hospital anticipates additional operating losses in fiscal 2000 and has estimated a fiscal 2000 operating cash flow deficiency of $900. Due to the anticipated cash flow deficiency, the Hospital has obtained commitments from Huntington Memorial Hospital and Methodist Hospital of Southern California to fund two-thirds and one-third, respectively, of the cash flow deficiency through January 1, 2001. In consideration of the funding commitments received by the Hospital, it appears that the Hospital will continue as a going concern in the year 2000.

1. Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments 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.

The administrative procedures related to the cost reimbursement programs in effect generally preclude final determination of amounts due the Hospital until cost reports are audited or otherwise reviewed and settled upon with the applicable administrative agencies. Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's net patient service revenue. In the opinion of management, adequate provision has been made for adjustments, if any, that might result from subsequent review.

During 1998, the Hospital adjusted its estimated obligation pertaining to the 1997 Medicare cost report. The effect of the adjustment decreased 1998 net patient service revenue by $838.

The Hospital is reimbursed for services provided to patients under certain programs administered by governmental agencies. Revenues from the Medicare and Medicaid programs accounted for approximately 43% and 24%, respectively, of the Hospital's net patient service revenue in 1999, and 46% and 18% in 1998. Laws and regulations

1. Organization and Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue (continued)

governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Hospital is eligible to receive supplemental payments (SB 855 Funds) for the provision of health care services to low-income patients under the Department of Health and Human Services Disproportionate Share Program (DSH Program). Under the DSH Program, the SB 855 Funds are distributable in a period subsequent to the year the services are provided based on DSH Program available funding. For this reason, the Hospital accounts for the SB 855 Funds when they become distributable. The Hospital recorded increases in net patient service revenue of $2,145 and $2,004 in 1999 and 1998, respectively, for services provided in earlier periods.

Charity Care

The Hospital provides care without charge to patients who meet certain criteria under its charity-care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity-care policy. Charity care provided, based on established rates, totaled approximately $805 and $1,019 for the years ended December 31, 1999 and 1998, respectively.

Cash Equivalents

The Hospital considers all highly liquid debt instruments with maturities, on acquisition date, of three months or less to be cash equivalents.

1. Organization and Summary of Significant Accounting Policies (continued)

Concentrations of Credit Risk

Financial instruments which potentially subject the Hospital to concentrations of credit risk consist primarily of accounts receivable. Concentration of credit risk with respect to accounts receivable is limited due to the large number of payors comprising the Hospital's patient base.

Property, Plant and Equipment

Property, plant and equipment is stated at cost, less accumulated depreciation. Depreciation of property, plant and equipment is computed using the straight-line basis over the estimated useful lives of the respective assets. Leasehold improvements and equipment under capital lease obligations are amortized using the straight-line method over the term of the lease, or over the estimated useful life of the asset, whichever is shorter. Such amortization is included in depreciation and amortization in the financial statements.

Assets Limited as to Use

Assets limited as to use are comprised of money market funds which have been designated by the board of directors for the purpose of replacing or making additions to property, plant and equipment, and cash held in trust for payment of bond principal and interest.

Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of

The Hospital accounts for the impairment and disposition of long-lived assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." In accordance with SFAS No. 121, long-lived assets to be held are reviewed for events or changes in circumstances which indicate that their carrying value may not be recoverable. The Hospital has determined that no long-lived assets are impaired at December 31, 1999.

1. Organization and Summary of Significant Accounting Policies (continued)

Inventories

Inventories are recorded at cost (by the first-in, first-out method) which is not in excess of market.

Fair Value of Financial Instruments

The Hospital's balance sheets include the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and long-term obligations. The Hospital considers the carrying amounts of current assets and liabilities in the balance sheets to approximate the fair value of these financial instruments because of the relatively short period of time between origination of the instruments and their expected realization. The Hospital believes that the carrying value of the long-term obligations approximates the fair value of such obligations.

Deferred Financing Costs

Deferred financing costs are being amortized over the term of the related debt using the interest method.

Professional Liability Insurance

The Hospital maintains claims-made basis insurance for general liability and professional liability insurance coverage of $1,000 per incident and $10,000 in the aggregate on an annual basis. Claims-made coverage covers only those claims reported during the policy period. Accruals for claims incurred but not reported are estimated by an actuary based upon the Hospital's claims experience and are discounted at 4%.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose.

(Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Temporarily Restricted Net Assets (continued)

Unconditional promises to give cash and other assets are reported at fair value at the date the pledge is received, which is then treated as its cost basis. The gifts are reported as temporarily restricted net assets 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, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the statement of operations.

Temporarily restricted net assets are available primarily for capital purposes.

2. Related Party Transactions

SCHS provides management and other administrative services to the Hospital. The charges for these services totaled $220 and $283 for the years ended December 31, 1999 and 1998, respectively, and are included in purchased services.

Amounts due from affiliates are as follows:

	December 31	
	1999	1998
Methodist Hospital of Southern California	$ 814	$ –
Huntington Medical Foundation	(453)	–
Southern California Medical Value Plan	(42)	–
Southern California Medical Management	17	–
	$ 336	$ –

(Dollars in Thousands)

2. Related Party Transactions (continued)

Amounts due to affiliates are as follows:

	December 31	
	1999	**1998**
SCHS	**$ 1,215**	$ 899
SoCal Clini Lab	**1,161**	805
Huntington Memorial Hospital	**989**	317
Methodist Hospital of Southern California	**325**	385
Medical Value Plan	**–**	43
	3,690	2,449
Less current portion	**–**	1,790
	$ 3,690	$ 659

During 1999, the Hospital transferred $628 and $120 to the Huntington Medical Foundation and Huntington Memorial Hospital, respectively, and accounted for the transfers as a decrease in unrestricted net assets.

During 1998, the Hospital transferred $325, $160, $127 and $27 to SCHS, Huntington Medical Foundation, Huntington Memorial Hospital and Southern California Medical Management, affiliates of the Hospital, respectively, and accounted for the transfers as a decrease in unrestricted net assets.

During 1998, SCHS contributed a $46 interest in SoCal Clini Lab to the Hospital. This noncash contribution increased the Hospital's equity interest in SoCal Clini Lab to $173 (6%) and is included in other assets.

The Hospital, Huntington Memorial Hospital (Huntington) and Methodist Hospital of Southern California (Methodist) have entered into separate contracts with various health plans under which each of the hospitals agreed to assume full financial liability for providing hospital services to health plan members (Capitated Members) in return for capitation payments. Effective January 1, 1999, certain Capitated Members were reassigned internally among the hospitals based on the primary care physician group to which the Capitated Members had been assigned. In addition, the hospitals that were assigned the Capitated Members also received an allocation of capitation payments. Under this arrangement, the hospitals intended that Capitated Members internally assigned to a particular hospital would look to such hospital as the primary provider of capitation services.

(Dollars in Thousands)

2. Related Party Transactions (continued)

Subsequent to the January 1, 1999, effective date, the Capitated Members allocated to the Hospital were reallocated to Huntington and Methodist because the Hospital did not have the financial capacity to assume full responsibility for the assigned Capitated Members. Under the revised arrangement, monthly allocated capitation payments made to the Hospital are compared to the amounts owed under fixed payment terms for services actually provided to Huntington's and Methodist's (both allocated and reallocated) Capitated Members to arrive at a settlement. Management believes the settlement adjustment, if any, is not expected to be material.

Note Payable to Affiliate

During 1997, the Hospital entered into a $718 loan agreement with Methodist to provide for repayment of the working capital assistance. The loan requires monthly principal and interest payments of $32 through June 1999. Amounts outstanding under the loan were $0 and $189 at December 31, 1999 and 1998, respectively.

3. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	December 31 1999	December 31 1998
Land	**$ 4,163**	$ 4,163
Buildings	**4,718**	4,328
Equipment	**3,711**	3,144
	12,592	11,635
Accumulated depreciation and amortization	**(2,957)**	(2,139)
Construction in progress	**33**	64
	$ 9,668	$ 9,560

The Hospital has four operating leases for office space. Rent expense for the leases is recognized on a straight-line basis with rental expense of $402 and $513 for the years ended December 31, 1999 and 1998, respectively.

(Dollars in Thousands)

3. Property, Plant and Equipment (continued)

At December 31, 1999 and 1998, the Hospital has capital leases for equipment totaling $584, and $931, respectively. The related accumulated amortization for the leases amounted to $387 and $604 at December 31, 1999 and 1998, respectively.

The following is a schedule, by year, of future minimum lease payments under noncancelable leases (including the present value of minimum lease payments for capital leases) as of December 31, 1999:

	Capitalized Leases	Operating Leases
2000	$ 251	$ 172
2001	81	36
2002	8	–
Minimum lease payments	340	$ 208
Less amount representing interest	45	
Present value of net minimum lease payments	$ 295	

(Dollars in Thousands)

4. Long-Term Borrowings

Long-term debt consists of the following:

	December 31 1999	December 31 1998
California Statewide Communities Development Authority Certificates of Participation, principal payments of $165 to $220 due annually beginning in 2001 through 2008, $500 due 2010, $2,095 due 2017, and $4,950 due 2027, interest payable annually at 4.25% to 5.40%	**$ 9,100**	$ 9,100
Note payable to seller, principal payments of $338 due semiannually plus interest at 6%, through 2000	**338**	1,013
Note payable to investment banker, principal payments of $22 due semiannually plus interest at 8%, through 1999	**–**	22
Capital lease obligations	**295**	369
	9,733	10,504
Less current maturities	**550**	859
	$ 9,183	$ 9,645

During 1997, the Hospital issued $9,100 principal amount of California Statewide Communities Development Authority Certificates of Participation (Certificates). Commencing December 1, 2007, the Certificates are subject to optional redemption prior to their stated maturity at redemption prices ranging from 100% to 102% of the principal amount of the Certificates being redeemed. The Hospital is required to establish a sinking fund with the trustee to pay the principal of the Certificates which mature on December 1, 2010, 2017 and 2027. Deposits with the trustee to satisfy the sinking fund requirements will be made in annual installments of $10 to $340 beginning in 2008.

The Certificates are collateralized by the revenues of the Hospital. Pursuant to the loan agreement for the Certificates, the Hospital must comply with certain restrictive financial and other covenants, including the maintenance of certain required funds, limitations on additional indebtedness and maintenance of service rates and charges so that the operating income available for debt service is at least 110% of annual debt service as

(Dollars in Thousands)

4. Long-Term Borrowings (continued)

defined in the loan agreement. At December 31, 1999, the Hospital was in violation of the operating income available for debt service covenant. The Hospital requested and received a waiver from the insurer of the Certificates through January 2, 2001. The Collis P. and Howard Huntington Trust is a guarantor of the Certificates.

The combined aggregate amounts of annual maturities of long-term debt and capital lease obligations for the years subsequent to December 31, 1998, are as follows:

2000	$ **550**
2001	**240**
2002	**183**
2003	**180**
2004	**190**
Thereafter	**8,390**
	$ **9,733**

5. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	Year ended December 31	
	1999	**1998**
Health care services	$ **13,881**	$ 14,553
General and administrative	**10,697**	9,783
	$ **24,578**	$ 24,336

6. Subsequent Event

On May 24, 2000, the Hospital announced that SCHS was evaluating alternatives for the Hospital for the purpose of focusing the Hospital's strategic direction and to secure the Hospital's financial viability. SCHS's goal is to secure a stable future for the Hospital with new ownership that will allow the Hospital to continue its mission to provide high quality services to patients in communities it serves.

Audited Financial Statements

Huntington East Valley Hospital

Years ended December 31, 1998 and 1997
with Report of Independent Auditors

ERNST & YOUNG LLP

Audited Financial Statements

Huntington East Valley Hospital

Years ended December 31, 1998 and 1997
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Huntington East Valley Hospital

Audited Financial Statements

Years ended December 31, 1998 and 1997

Contents

ERNST & YOUNG LLP
725 South Figueroa Street
Los Angeles, California 90017-5418
Phone: 213 977 3200

Report of Independent Auditors

Board of Directors
Huntington East Valley Hospital

We have audited the accompanying balance sheets of Huntington East Valley Hospital as of December 31, 1998 and 1997, and the related statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Huntington East Valley Hospital at December 31, 1998 and 1997, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst + Young LLP

February 19, 1999

Huntington East Valley Hospital

Balance Sheets

	December 31 1998	1997
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ **244**	$ 574
Patient accounts receivable (less allowance for uncollectible accounts of $540 in 1998 and $1,132 in 1997)	**5,632**	4,062
Inventories	**512**	516
Current portion of assets limited as to use	**40**	453
Prepaid expenses and other current assets	**1,332**	1,559
Total current assets	**7,760**	7,164
Other assets:		
Property, plant and equipment, net of accumulated depreciation and amortization *(Note 3)*	**9,560**	9,201
Assets limited as to use, less current portion	**688**	657
Deferred financing costs	**408**	382
Other assets *(Note 2)*	**415**	167
Total assets	$ **18,831**	$ 17,571
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ **3,957**	$ 2,323
Accrued expenses and other liabilities	**574**	964
Due to third-party payors	**532**	571
Current portion of note payable to affiliate *(Note 2)*	**189**	359
Current portion of due to affiliate *(Note 2)*	**1,790**	320
Current maturities of long-term debt *(Note 4)*	**859**	1,020
Total current liabilities	**7,901**	5,557
Note payable to affiliate, less current portion *(Note 2)*	**–**	189
Due to affiliate, less current portion *(Note 2)*	**659**	746
Long-term debt, less current maturities *(Note 4)*	**9,645**	10,325
Commitments and contingencies *(Notes 3 and 4)*		
Net assets:		
Unrestricted net assets	**618**	754
Temporarily restricted net assets	**8**	–
Total net assets	**626**	754
Total liabilities and net assets	$ **18,831**	$ 17,571

See accompanying notes.

Huntington East Valley Hospital

Statements of Operations and Changes in Net Assets

	Year ended December 31 1998	1997
	(In Thousands)	
Unrestricted revenues, gains and other support:		
Net patient service revenue *(Note 1)*	$ **21,135**	$ 19,881
Other operating revenue	**3,658**	2,087
Total revenues, gains and other support	**24,793**	21,968
Expenses:		
Salaries and benefits	**11,176**	10,391
Supplies	**2,712**	2,455
Purchased services *(Note 2)*	**8,441**	5,588
Insurance	**236**	352
Depreciation and amortization	**714**	612
Interest *(Note 4)*	**735**	809
Provision for bad debts	**322**	849
Total expenses	**24,336**	21,056
Operating income	**457**	912
Contributions to affiliate *(Note 2)*	**(593)**	(429)
(Decrease) increase in unrestricted net assets	$ **(136)**	$ 483

See accompanying notes.

Huntington East Valley Hospital

Statements of Operations and Changes in Net Assets (continued)

	Year ended December 31	
	1998	**1997**
	(In Thousands)	
Unrestricted net assets		
Operating income	**$ 457**	$ 912
Contributions to affiliates, net *(Note 2)*	**(593)**	(429)
(Decrease) increase in unrestricted net assets	**(136)**	483
Temporarily restricted net assets		
Contributions	**8**	–
Increase in temporarily restricted assets	**8**	–
(Decrease) increase in net assets	**(128)**	483
Net assets at beginning of year	**754**	271
Net assets at end of year	**$ 626**	$ 754

See accompanying notes.

Huntington East Valley Hospital

Statements of Cash Flows

	Year ended December 31 1998	1997
	(In Thousands)	
Operating activities		
(Decrease) increase in net assets	$ (128)	$ 483
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	714	612
Contributions to affiliate	593	429
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,570)	(1,692)
Due to third-party payors	(39)	621
Inventories	4	(53)
Prepaid expenses and other current assets	640	(1,347)
Accounts payable and accrued expenses	1,244	708
Due to affiliates	1,470	265
Net cash provided by operating activities	2,928	26
Investing activities		
Purchases of property, plant and equipment	(890)	(587)
Increase in assets limited as to use	(31)	(657)
Increase in other assets	(202)	(126)
Net cash used in investing activities	(1,123)	(1,370)
Financing activities		
Proceeds from issuance of long-term debt	–	10,133
Principal payments on long-term debt	(1,016)	(8,570)
Due to affiliates	(87)	183
Payment of note payable to affiliate	(359)	(170)
Increase in deferred financing costs	(34)	(388)
Contributions to affiliates	(639)	(429)
Net cash (used in) provided by financing activities	(2,135)	759
Net increase (decrease) in cash and cash equivalents	(330)	(585)
Cash and cash equivalents at beginning of period	574	1,159
Cash and cash equivalents at end of period	$ 244	$ 574
Supplemental cash flow information		
Interest paid	$ 658	$ 854
Capital leases	$ 175	$ –
Supplemental noncash investing and financing activities		
Contribution of interest in affiliate	$ 46	$ –

See accompanying notes.

Huntington East Valley Hospital

Notes to Financial Statements

December 31, 1998

(Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies

Organization

The accompanying financial statements include the accounts of Huntington East Valley Hospital (the "Hospital"). The Hospital is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code to operate as a nonprofit public benefit corporation. The Hospital was purchased by Southern California Healthcare Systems ("SCHS" or "Parent"), a nonprofit public benefit corporation, on March 31, 1995 (see Note 2), and was converted to nonprofit status. SCHS is the sole corporate member of the Hospital.

Mission Statement

The Hospital's primary mission is to serve the health care needs of the city of Glendora, California, and surrounding areas. In partnership, the medical staff, allied health professionals, employees, and volunteers of Huntington East Valley Hospital are dedicated to serving the people of the east San Gabriel Valley by providing high quality health care, in a caring, compassionate and friendly environment. As an affiliate of Southern California Healthcare Systems, the Hospital's programs are responsive to the health care and educational needs of the east San Gabriel Valley communities, while also offering access to a full range of services in an integrated health care delivery system.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

1. Organization and Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments 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.

The administrative procedures related to the cost reimbursement programs in effect generally preclude final determination of amounts due the Hospital until cost reports are audited or otherwise reviewed and settled upon with the applicable administrative agencies. Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's net patient service revenue. In the opinion of management, adequate provision has been made for adjustments, if any, that might result from subsequent review.

During 1998, the Hospital adjusted its estimated obligation pertaining to the 1997 Medicare cost report. The effect of the adjustment decreased 1998 net patient service revenue by $838.

During 1997, the Hospital adjusted its estimated obligation pertaining to the 1996 Medicare cost report. The effect of the adjustment increased 1997 net patient service revenue by $445.

The Hospital is reimbursed for services provided to patients under certain programs administered by governmental agencies. Revenues from the Medicare and Medicaid programs accounted for approximately 46% and 16%, respectively, of the Hospital's net patient service revenue in 1998, and 48% and 12% in 1997. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

1. Organization and Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue (continued)

The Hospital is eligible to receive supplemental payments ("SB 855 Funds") for the provision of health care services to low-income patients under the Department of Health and Human Services Disproportionate Share Program ("DSH Program"). Under the DSH Program, the SB 855 Funds are distributable in a period subsequent to the year the services are provided based on DSH Program available funding. For this reason, the Hospital accounts for the SB 855 Funds when they become distributable. The Hospital recorded increases in net patient service revenue of $2,004 and $1,389 in 1998 and 1997, respectively, for services provided in earlier periods.

Charity Care

The Hospital provides care without charge to patients who meet certain criteria under its charity-care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity-care policy. Charity care provided, based on established rates, totaled approximately $1,019 and $576 for the years ended December 31, 1998 and 1997, respectively.

Cash Equivalents

The Hospital considers all highly liquid debt instruments with maturities, on acquisition date, of three months or less to be cash equivalents.

Concentrations of Credit Risk

Financial instruments which potentially subject the Hospital to concentrations of credit risk consist primarily of accounts receivable. Concentration of credit risk with respect to accounts receivable is limited due to the large number of payors comprising the Hospital's patient base.

1. Organization and Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment is stated at cost, less accumulated depreciation. Depreciation of property, plant and equipment is computed using the straight-line basis over the estimated useful lives of the respective assets. Leasehold improvements and equipment under capital lease obligations are amortized using the straight-line method over the term of the lease, or over the estimated useful life of the asset, whichever is shorter. Such amortization is included in depreciation and amortization in the financial statements.

Assets Limited as to Use

Assets limited as to use are comprised of money market funds which have been designated by the board of directors for the purpose of replacing or making additions to property, plant and equipment, and cash held in trust for payment of bond principal and interest.

Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of

The Hospital accounts for the impairment and disposition of long-lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." In accordance with SFAS No. 121, long-lived assets to be held are reviewed for events or changes in circumstances which indicate that their carrying value may not be recoverable. The Hospital has determined that no long-lived assets are impaired at December 31, 1998.

Inventories

Inventories are recorded at cost (by the first-in, first-out method) which is not in excess of market.

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The Hospital's balance sheets include the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and long-term obligations. The Hospital considers the carrying amounts of current assets and liabilities in the balance sheets to approximate the fair value of these financial instruments because of the relatively short period of time between origination of the instruments and their expected realization. The Hospital believes that the carrying value of the long-term obligations approximates the fair value of such obligations.

Deferred Financing Costs

Deferred financing costs are being amortized over the term of the related debt using the interest method.

Professional Liability Insurance

The Hospital maintains claims-made basis insurance for general liability and professional liability insurance coverage of $1,000 per incident and $10,000 in the aggregate on an annual basis. Claims-made coverage covers only those claims reported during the policy period. Accruals for claims incurred but not reported are estimated by an actuary based upon the Hospital's claims experience and are discounted at 4%.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose.

Unconditional promises to give cash and other assets are reported at fair value at the date the pledge is received, which is then treated as its cost basis. The gifts are reported as temporarily restricted net assets 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, temporarily restricted net assets

(Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Temporarily Restricted Net Assets (continued)

are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the statement of operations.

Temporarily restricted net assets are available primarily for capital purposes.

2. Related Party Transactions

SCHS provides management and other administrative services to the Hospital. The charges for these services totaled $283 and $216 for the years ended December 31, 1998 and 1997, respectively, and are included in purchased services.

Amounts due to affiliates are as follows:

	December 31	
	1998	**1997**
SCHS	**$ 899**	$ 746
SoCal Clini Lab	**805**	–
Huntington Memorial Hospital	**317**	195
Methodist Hospital of Southern California	**385**	125
Medical Value Plan	**43**	–
	2,449	1,066
Less current portion	**1,790**	320
	$ 659	$ 746

During 1998, the Hospital transferred $325, $160, $127 and $27 to SCHS, Huntington Medical Foundation, Huntington Memorial Hospital and Southern California Medical Management, affiliates of the Hospital, respectively, and accounted for the transfers as a decrease in unrestricted net assets.

During 1998, SCHS contributed a $46 interest in SoCal Clini Lab to the Hospital. This noncash contribution increased the Hospital's equity interest in SoCal Clini Lab to $173 (6%) and is included in other assets.

(Dollars in Thousands)

2. Related Party Transactions (continued)

During 1997, the Hospital transferred $160, $142, $108 and $19 to Huntington Medical Foundation, SCHS, SoCal Clini Lab and Huntington Memorial Hospital, respectively, and accounted for the transfers as a decrease in unrestricted net assets.

Note Payable to Affiliate

During 1997, the Hospital entered into a $718 loan agreement with MHSC to provide for repayment of the working capital assistance. The loan requires monthly principal and interest payments of $32 through June 1999.

Note payable to an affiliate is due as follows:

	December 31 1998	December 31 1997
Methodist Hospital of Southern California	$ 189	$ 548
Less current portion	189	359
	$ –	$ 189

3. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	December 31 1998	December 31 1997
Land	$ 4,163	$ 4,163
Buildings	4,328	3,763
Equipment	3,144	2,682
	11,635	10,608
Accumulated depreciation and amortization	(2,139)	(1,426)
Construction in progress	64	19
	$ 9,560	$ 9,201

The Hospital has four operating leases for office space. Rent expense for the leases is recognized on a straight-line basis with rental expense of $610 and $459 for the years ended December 31, 1998 and 1997, respectively.

(Dollars in Thousands)

3. Property, Plant and Equipment (continued)

At December 31, 1998 and 1997, the Hospital has capital leases for equipment totaling $931 and $850, respectively. The related accumulated amortization for the leases amounted to $604 and $441 at December 31, 1998 and 1997, respectively.

The following is a schedule, by year, of future minimum lease payments under noncancelable leases (including the present value of minimum lease payments for capital leases) as of December 31, 1998:

	Capitalized Leases	Operating Leases
1999	$ 201	$ 278
2000	140	188
2001	81	36
Thereafter	8	–
Minimum lease payments	430	$ 502
Less amount representing interest	61	
Present value of net minimum lease payments	$ 369	

4. Long-Term Borrowings

Long-term debt consists of the following:

	December 31 1998	1997
California Statewide Communities Development Authority Certificates of Participation, principal payments of $165 to $220 due annually beginning in 2001 through 2008, $500 due 2010, $2,095 due 2017, and $4,950 due 2027, interest payable annually at 4.25% to 5.40%	$ 9,100	$ 9,100
Note payable to seller, principal payments of $338 due semiannually plus interest at 6%, through 2000	1,013	1,688

(Dollars in Thousands)

4. Long-Term Borrowings (continued)

	December 31 1998	December 31 1997
Note payable to investment banker, principal payments of $62 due semiannually plus interest at 8%, through 1999	**$ 22**	$ 147
Capital lease obligations	**369**	410
	10,504	11,345
Less current maturities	**859**	1,020
	$ 9,645	$ 10,325

During 1997, the Hospital issued $9,100 principal amount of California Statewide Communities Development Authority Certificates of Participation (Certificates). Commencing December 1, 2007, the Certificates are subject to optional redemption prior to their stated maturity at redemption prices ranging from 100% to 102% of the principal amount of the Certificates being redeemed. The Hospital is required to establish a sinking fund with the trustee to pay the principal of the Certificates which mature on December 1, 2010, 2017 and 2027. Deposits with the trustee to satisfy the sinking fund requirements will be made in annual installments of $10 to $340 beginning in 2008.

The Certificates are collateralized by the revenues of the Hospital. Pursuant to the loan agreement for the Certificates, the Hospital must comply with certain restrictive financial and other covenants, including the maintenance of certain required funds, limitations on additional indebtedness and maintenance of service rates and charges so that the operating income available for debt service is at least 110% of annual debt service as defined in the loan agreement. The Collis P. and Howard Huntington Trust is a guarantor of the Certificates.

The combined aggregate amounts of annual maturities of long-term debt and capital lease obligations for the years subsequent to December 31, 1998, are as follows:

1999	**$ 859**
2000	**460**
2201	**241**
2202	**184**
2003	**180**
Thereafter	**8,580**
	$ 10,504

(Dollars in Thousands)

5. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	Year ended December 31 1998	1997
Health care services	**$ 14,553**	$ 12,350
General and administrative	**9,783**	8,706
	$ 24,336	$ 21,056

6. Year 2000 Issue (Unaudited)

The Hospital has developed and continues to evolve plans to address Year 2000 issues. All data systems that process patient data and financial data are Year 2000 compliant. Other areas of exposure, including bio-medical, facilities and business relationships are currently under investigation. It is expected that all systems, equipment and processes which have the possibility of disrupting life or business will be evaluated and the risk mitigated by September 30, 1999.

The Hospital has budgeted a total of $153 in operating and capital contingencies for 1999 to address any potential Year 2000 Issues as well as to obtain outside support needed to validate Hospital findings. Prior to 1999, no significant costs were incurred by the Hospital that would be attributable to Year 2000 compliance or mitigation. All updates to the Meditech Healthcare Information System were performed as part of its normal maintenance relationship with Medicare.